JSC OPIN

International Financial Reporting Standards
Consolidated Financial Statements
Independent Auditor's Report

31 December 2012

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Independent Auditor's Report

To the Shareholders and Board of Directors of JSC OPIN

We have audited the accompanying consolidated financial statements of JSC OPIN and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

31 March 2013

Moscow, Russian Federation

E.I. Kopanyova, Director (licence no. 01-000398), ZAO PricewaterhouseCoopers Audit

Audited entity: JSC OPIN

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 September 2002 under registration № 1027702002943

13/1 Tverskoy Boulevard, Moscow, Russia, 123104

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

JSC OPIN
Consolidated Statement of Financial Position

(in thousands of Russian Roubles)	Note	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Non-current assets				
Property, plant and equipment	5	230 281	556 892	730 529
Investment property	6	28 455 244	30 010 976	26 645 772
Investment property under development	7	-	-	1 523 845
Deferred tax assets	17	5 721 732	5 834 346	5 969 891
Investments held to maturity	9	337 007	306 588	-
Other non-current assets		15 157	72 274	109 501
Total non-current assets		**34 759 421**	**36 781 076**	**34 979 538**
Current assets				
Inventories	8	10 352 870	11 770 334	15 654 983
Prepayments	10	1 800 061	508 806	566 980
Receivables	11	880 416	707 056	1 144 048
Loans issued	12	363 854	285 493	-
Short term bank deposits	14	456 426	-	-
Cash and cash equivalents	13	576 933	691 318	368 999
Total current assets		**14 430 560**	**13 963 007**	**17 735 010**
TOTAL ASSETS		**49 189 981**	**50 744 083**	**52 714 548**
EQUITY AND LIABILITIES				
Equity				
Share capital	15	15 220 793	15 220 793	15 280 221
Additional paid-in capital	16	44 680 787	44 680 787	44 678 151
Uncovered loss		(29 804 983)	(26 974 044)	(27 927 268)
Translation difference		(12 070)	(141 612)	(44 856)
TOTAL EQUITY		**30 084 527**	**32 785 924**	**31 986 248**
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	17	2 711 006	3 585 671	3 168 318
Long-term loans and borrowings	18	5 471 676	1 000 348	532 137
Long-term payables	19	366 995	-	-
Total non-current liabilities		**8 549 677**	**4 586 019**	**3 700 455**
Current liabilities				
Short-term loans and borrowings	18	6 744 816	9 217 278	9 995 580
Short-term payables	19	2 018 624	1 380 255	1 441 863
Current tax liabilities	22	283 594	297 643	290 312
Provisions for other liabilities and charges	20	286 064	296 602	220 853
Advances received from customers	21	1 222 679	2 180 362	5 079 237
Total current liabilities		**10 555 777**	**13 372 140**	**17 027 845**
TOTAL LIABILITIES		**19 105 454**	**17 958 159**	**20 728 300**
TOTAL EQUITY AND LIABILITIES		**49 189 981**	**50 744 083**	**52 714 548**

These consolidated financial statements have been approved by the management and signed on 31 March 2013.

General Director _______________ A.S. Krylov

Financial Director _______________ I.M. Sheremetiev

Notes on pp. 7 to 60 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)	Note	2012	2011
Continuing operations			
Revenue			
Revenue from sales of residential property and land plots	25	3 874 134	6 573 608
Revenue from construction contracts	24	373 204	1 750
Revenue from other services		86 906	68 047
Total revenue		**4 334 244**	**6 643 405**
Cost of sales			
Cost of sales of residential property and land plots	25	(2 738 190)	(4 325 869)
Cost of construction contracts	24	(524 635)	(609 525)
Cost of other services		(32 032)	(13 600)
Inventory write-down		(1 491 118)	(1 171 104)
Total cost of sales		**(4 785 975)**	**(6 120 098)**
Gross (loss)/profit		**(451 731)**	**523 307**
Selling, administrative and general expenses	26	(1 100 885)	(767 711)
Net (loss)/gain from change in fair value of investment property	6	(509 336)	3 245 675
Loss on disposal of investment property and investment property under development	6,7	(418 330)	(72 506)
Impairment of property, plant and equipment	5	(146 701)	-
Provision for impairment of prepayments and accounts receivable	10,11	181 352	(211 456)
Provision for other liabilities and charges	20	(17 373)	4 955
Finance income		77 558	13 662
Finance costs	27	(877 808)	(605 543)
Foreign exchange translation gains less losses/(losses less gains)		129 500	(86 372)
Other income		23 404	24 185
Other expenses	28	(90 998)	(49 570)
(Loss)/profit before income tax		**(3 201 348)**	**2 018 626**
Income tax credit/(expense)	17	516 599	(963 838)
(Loss)/profit for the year from continuing operations		**(2 684 749)**	**1 054 788**
Discontinued operations			
Loss for the year from discontinued operations	30	(146 190)	(101 564)
(Loss)/profit for the year		**(2 830 939)**	**953 224**

(in thousands of Russian Roubles)	Note	2012	2011
Other comprehensive income/(loss)			
Exchange differences on translation to presentation currency		57 097	(96 756)
Transfer of cumulative amount of the exchange differences relating to disposed foreign operations to profit and loss		72 445	-
Total other comprehensive income/(loss)		**129 542**	**(96 756)**
Total comprehensive (loss)/income for the year		**(2 701 397)**	**856 468**
(Loss)/earnings per share from continuing and discontinued operations attributable to the owners of the Company (expressed in Russian Roubles per share):			
Basic and diluted (loss)/earnings, for (loss)/profit from continuing operations	29	(176,39)	69,06
Basic and diluted loss for loss from discontinued operations	29	(9,60)	(6,65)

(*in thousands of Russian Roubles)*	Share capital	Additional paid-in capital	Uncovered loss	Translation difference	Total equity
Balance at 1 January 2011	**15 280 221**	**44 678 151**	**(27 927 268)**	**(44 856)**	**31 986 248**
Repurchase of treasury shares (Note15,16)	(59 428)	2 636	-	-	(56 792)
Comprehensive income/(loss)					
Profit for the year	-	-	953 224	-	953 224
Other comprehensive loss for the year	-	-	-	(96 756)	(96 756)
Total comprehensive income/(loss) for the year	-	-	953 224	(96 756)	856 468
Balance at 31 December 2011	**15 220 793**	**44 680 787**	**(26 974 044)**	**(141 612)**	**32 785 924**
Comprehensive income/ (loss)					
Loss for the year	-	-	(2 830 939)	-	(2 830 939)
Other comprehensive income for the year	-	-	-	129 542	129 542
Total comprehensive income / (loss) for the year	-	-	(2 830 939)	129 542	(2 701 397)
Balance at 31 December 2012	**15 220 793**	**44 680 787**	**(29 804 983)**	**(12 070)**	**30 084 527**

(in thousands of Russian Roubles)	Note	2012	2011
Cash flows from operating activities			
Loss/(profit) before income tax from continuing operations		(3 201 348)	2 018 626
Loss before income tax from discontinued operations		(149 199)	(103 370)
Adjustments:			
Depreciation of property, plant and equipment and amortisation of intangible assets		41 789	56 256
Loss from disposal of property, plant and equipment		4 834	26 093
Pre-tax loss recognised on the disposal of the group constituting the discontinued operation	30	19 706	-
Foreign exchange translation (gains less losses)/losses less gains		(129 261)	86 655
Loss on disposal of investment property and investment property under development	6,7	418 330	72 506
Inventory write-down	8	1 491 118	1 171 104
Finance income		(77 558)	(13 751)
Change in provision for prepayments and accounts receivable	10,11	(181 352)	211 456
Change in provisions for other liabilities and charges	20	64 109	112 362
Non-recoverable VAT write off	28	-	11 556
Loss/(gain) from change in fair value of investment property	6	509 336	(3 245 675)
Impairment of property, plant and equipment	5	146 701	-
Finance costs		877 808	605 611
Cash flows from operating activities before working capital changes		**(164 987)**	**1 009 429**
Decrease in inventories		984 213	3 299 427
Decrease in other non-current assets		18 630	24 254
(Increase)/decrease in receivables		(123 747)	329 731
Increase in prepayments		(1 110 589)	(148 998)
Increase/(decrease) in payables		132 777	(105 298)
Decrease in advances received from customers		(957 683)	(2 914 307)
Increase/(decrease) in current tax liabilities other than on income tax		6 280	(105 147)
Cash (used in)/ from operating activities		**(1 215 106)**	**1 389 091**
Interest paid		(1 223 666)	(1 067 846)
Income tax paid		(306 232)	(209 200)
Net cash (used in)/ from operating activities		**(2 745 004)**	**112 045**

(in thousands of Russian Roubles)	Note	2012	2011
Cash flows from investing activities			
Loans issued		(1 965 883)	(336 571)
Proceeds from loans repayments		1 877 830	62 012
Proceeds from disposal of discontinued operations net of disposed cash and selling costs	30	277 771	-
Short-term bank deposits		(472 878)	-
Acquisition of investments held to maturity		-	(300 000)
Interest received		41 950	2 651
Proceeds from sale of investment property and investment property under development		66 131	1 516 829
Expenses related to investment property		(43 776)	(1 315)
Proceeds from sale of property, plant and equipment		77 362	90 750
Acquisition of property, plant and equipment and other non-current assets		(186 760)	(93 028)
Net cash (used in)/ from investing activities		**(328 253)**	**941 328**
Cash flows from financing activities			
Decrease in finance lease payables		(5 867)	(3 811)
Repurchase of treasury shares	15,16	-	(56 792)
Loans and borrowings received		13 066 959	2 718 505
Loans and borrowings repaid		(10 110 534)	(3 524 856)
Net cash from/ (used in) financing activities		**2 950 558**	**(866 954)**
Effect of exchange rate changes on cash and cash equivalents		8 314	135 900
Net (decrease)/ increase in cash and cash equivalents		(114 385)	322 319
Cash and cash equivalents at the beginning of the year	13	691 318	368 999
Cash and cash equivalents at the end of the year	13	576 933	691 318

Investing transactions that did not involve the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are disclosed in Notes 6 and 31.

1 Nature of Business

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for JSC OPIN ("the Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2012.

The Group's main activities include development and investment operations in the Russian real estate market. The Company was incorporated in Moscow, Russian Federation, on 4 September 2002 as an open joint-stock company under the laws of the Russian Federation. The Company is listed on the Moscow exchange. The principal operating office of the Company is located at 13/1 Tverskoy blvd., Moscow, 123104, Russian Federation.

The ultimate controlling party of the Company is Onexim Holdings Limited. The ultimate beneficiary of Onexim Holdings Limited is Mikhail D. Prokhorov.

Brief description of principal activities

Land bank

At 31 December 2012, the Group held 37 998 hectares of land located in Moscow, Tver and Vladimir Regions of Russian Federation (31 December 2011: 38 373 hectares) (Refer to Note 6).

Residential property

In 2012, the Group was engaged in development of the following residential communities and a residential complex in the Moscow Region:

<u>Pavlovo-2 Cottage Community</u>

Pavlovo-2 cottage community is located 14 km from Moscow following Novorizhskoye Highway and includes three types of development: cottage development consisting of 146 single-family houses, 71 townhouses with 290 apartments and 8 low-height multi-family houses with 380 apartments.

<u>Pestovo Cottage Community</u>

Pestovo Cottage Community is located 22 km from Moscow following Dmitrovskoye Highway. The community is located on the shore of the Pestovo Water Reservoir and consists of 415 single-family houses.

<u>Martemianovo Cottage Community</u>

Martemianovo Cottage Community is located 27 km from Moscow following Kievskoe Highway. In the reporting period the Group offered for sale land plots without cottages as well as cottages under construction in this cottage community. The total area of the land in this cottage community is 128 hectares as at 31 December 2012 and 2011.

<u>Pestovo Life Cottage Community</u>

Pestovo Life Cottage Community is located 27 km away from Moscow following Dmitrovskoye highway.The project offers for sale 101 land plots without cottages with connection to common utility services.

<u>Solnechny Bereg Countryside Community</u>

In 2012 the Group commenced development of countryside community "Solnechny Bereg" in Klinsky district of Moscow region. The project offers for sale 334 land plots without cottages with connection to common utility services.

1 Nature of Business (Continued)

Multi-apartment residential complex

Residential complex Vesna

This residential complex is located 25 km away from Moscow following Kievskoye Highway near Martemianovo Community. The plan includes 8 condos (4 185 apartments of total area of 220 thousand sq. m), an underground parking complex, a shopping centre and other social infrastructure. The first phase of the project includes 4 multi-apartment buildings with studios, 1, 2 and 3-room apartments with 21-100 sqm in size each and an underground parking complex. As at 31 December 2012 the Group obtained official permission for construction under the first phase. Construction of the first phase is expected to be completed in the 2nd quarter of 2014.

Frame-panel houses

Frame-panel houses are designed, engineered and manufactured by the Group’s subsidiary located in Canada. Houses are mainly sold to individuals and professional contractors in Canada, US and Japan. In 2012 the Group sold this subsidiary, therefore all operations of this component were classified as discontinued in these consolidated financial statements.

Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 34).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management made provisions for impairment of property, plant and equipment (Note 5), inventory write-down (Note 8) and adjusted fair value of investment properties (Notes 6) by considering the economic situation and outlook at the end of the reporting period. The future economic and regulatory situation may differ from management’s current expectations.

Going concern

The consolidated financial statements of the Group have been prepared based on the going concern assumption envisaging realisation of assets and repayment of debt in the normal course of business.

In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources and also the analysis of the financial crisis influence on future operations of the Group

The net cash outflow from operating activities for 2012 amounted to RR 2 745 004 thousand. Loans and borrowings of RR 6 744 816 thousand due by 31 December 2013 were included in the current liabilities.

In order to assess the ability of the Group to meet its obligations as they fall due, management has prepared a cash flow projection for 2013. The key assumptions are as follows:

- The Group expects to extend repayments of the short term borrowings of RR 2 000 608 thousand till Quarter 4th, 2014.
- The Group also expects to restructure the terms of repayments under another loan of RR 1 214 904 thousand.
- Another loan of RR 1 983 012 thousand has been presented in the financial statements as current due to breach of covenants identified by the management as at 31 December 2012. In 2013 this non-compliance does not exist as based on the conditions of the respective contract the covenant does not apply in 2013.
- The Group is currently negotiating with one of its partnering banks additional funding of approximately RR 1 500 000 thousand expected to be received in 2013.

1 Nature of Business (Continued)

- At the end of 2012 the Group signed several agreements for sale of land plots from its land bank. Total proceeds from sales under these agreements will generate RR 645 000 thousand of cash inflows in 2013. Another agreement for sale of land plots has been already negotiated after the reporting date. It is expected to generate additional RR 624 000 thousand of cash inflow in 2013.

- The Group will continue to generate cash from sale of its residential property developments and also from sale of land from its land bank .

In connection with the uncertainty which currently prevails in the credit and capital markets, the controlling shareholder has confirmed to the management that the Group will receive financial support in the foreseeable future if the need arises.

The Group's ability to continue its operations as a going concern is dependent upon certain matters outside of its direct control, including the matter of availability of financing. Management believes that the actions referred to above will ensure that the Group will continue its operation on the basis of the going concern concept and accordingly these consolidated financial statements have been prepared on that basis and as such no adjustments to the carrying value of the Group's assets and liabilities are required.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies

Basis of consolidated financial statements preparation

These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention except for:

- valuation of subsidiaries at fair value at the date of acquisition in accordance with IFRS 3, Business Combinations;
- valuation of investment property at fair value under IAS 40, Investment Property;
- valuation of inventories at net realisable value if it was lower than their original cost under IAS 2, Inventories;
- valuation of financial instruments at amortised cost in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

Hereafter is a summary of the significant accounting policies applied by the Group in preparing these consolidated financial statements.

Statutory accounting principles and procedures in the countries where the Group's subsidiaries are incorporated substantially differ from those generally accepted under IFRS. Accordingly, consolidated financial statements of the Group, which have been prepared based on the local statutory accounting records of Group's entities domiciled in the Russian Federation and Canada, were adjusted to be presented in accordance with IFRS.

Presentation currency

The presentation currency of the Group is Russian Rouble. The presentation currency of the Group has been changed in 2012. Effects of this change on the consolidated financial statements of the Group are discussed further in Note 2.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The prevailing functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) and Bank of Canada at the respective reporting dates. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into a separate entity’s functional currency at year-end official exchange rates of the CBRF are presented separately in the consolidated income statement. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in foreign currency are recorded as part of the fair value gain or loss.

The translation into Russian Roubles of the financial statements of the Group's subsidiaries with a functional currency other than Russian Rouble is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at each reporting date;
- All items included in the consolidated statement of changes in equity, other than net profit, are translated at historical exchange rates;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- Resulting exchange differences are recognised in other comprehensive income line and accumulated in the consolidated statement of changes in equity as “Translation Difference”; and
- In the consolidated statement of cash flows, cash balances at the beginning and the end of each year presented are translated at exchange rates in effect at the beginning and at the end of each reporting period, respectively. All cash flows are translated at exchange rates in effect when the cash flows occurred. For those cash flows that occurred evenly over the period, an average exchange rate for the period is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as “Effect of Currency Exchange Rates”.

As at 31 December 2012 and 2011, exchange rates of RR 30,37 and RR 32,20 to USD 1 were used, respectively for translation purposes. The average exchange rates for the years ended 31 December 2012 and 2011 were RR 31,09 and RR 29,39 to USD 1, respectively.

As at 21 December 2012 (the date of disposal of the Canadian subsidiary) and 31 December 2011, exchange rates of RR 31,13 and RR 31,57 to CAD 1 were used, respectively, for translation purposes. The average exchange rates for the years ended 31 December 2012 and 2011 were RR 31,02 and RR 29,61 to CAD1, respectively.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries' financial statements are prepared for the same reporting period as the Company's financial statements. If required, subsidiaries' financial statements are restated in order to bring them into compliance with the Group's accounting policies.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

All intra-group transactions, balances and any unrealised profits or losses arising from intra-group transactions are fully eliminated during consolidation process.

The Group did not have any non-controlling interest in 2012 and 2011.

Disposal of subsidiaries

When the Group ceases to have control over the subsidiary, any retained interest in the entity is remeasured at its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount recognized for the purposes of subsequently accounting for the retained fraction as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are transferred to profit or loss.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Property, plant and equipment

Property, plant and equipment other than owner-occupied property transferred from investment properties is carried at historical cost less accumulated depreciation and any accumulated impairment loss. The actual cost of property, plant and equipment includes major expenditures for improvements and replacements that extend the useful life of an asset or increase asset's revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the consolidated income statement as incurred.

Owner-occupied property transferred from investment properties carried at fair value is transferred to property, plant and equipment at cost that equals its fair value at the date of such transfer and subsequently accounted for at this cost less accumulated depreciation and accumulated impairment losses.

Construction in progress includes costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred during construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Depreciation on property, plant and equipment is applied to write the asset off over its estimated useful life. Depreciation is applied on a straight-line basis using the following useful lives:

	Useful life in years
Buildings	10-40
Machinery and equipment	5-20
Transport	5
Furniture and office equipment	7-3

The estimated useful life and amortisation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

The result arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Leasehold improvements are amortised over the useful life of the related leased assets. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation.

Capital advances

Capital advances represent amounts paid to vendors for capital construction, acquisition of property, plant and equipment, land plots and investment property. Capital advances are carried at actual cost less any accumulated impairment loss.

Investment property

Investment property is a property (land or building – or part of a building – or both) held by the Group to earn rentals or for capital appreciation or both. Investment property also includes land plots with currently undetermined future use which comprises land for which the Group has not determined whether it will use the land as owner-occupied property or treat it as land held for sale in the ordinary course of business.

Investment property is originally recorded at cost. Subsequent expenditure relating to investment property is added to the carrying amount of the investment property only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and the cost can be measured reliably. All other subsequent expenditures are recognised as expenses in the period in which they are incurred.

The Group has elected to use the fair value model to measure investment property subsequent to initial recognition. As the result investment property is stated at fair value in the Group's consolidated statement of financial position. Gains and losses arising from changes in the fair value of investment property are included in the consolidated statement of comprehensive income in the year in which they arise.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, independent and willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

Valuation techniques to measure fair value and main assumptions are disclosed in Note 4, Section "Fair Value of Investment Property and Investment Property under Development".

Transfers to, or from, investment property are made when, and only when, there is a change in use, mostly evidenced by:

- for a transfer from investment property to inventories or assets held for sale - commencement of development with a view for sale, based on reassessment by management of further use;
- for a transfer from inventories to investment property – commencement of an operating lease with third party.

Inventories

Inventories are measured at the lowest of two values: the acquisition cost or possible net realisable value. Inventories transferred from investment property or investment property under development carried at fair value are recorded at fair value at the date of transfer and subsequently are measured at the lowest of two values: the acquisition cost or possible net realisable value.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

When recognising inventories write off in cost of sale the Company measures these inventories considering cost identified on a property-by-property basis for cottages and on the average weighted cost method for flats in low-height buildings, townhouses and multi-apartment buildings.

Cost of land plots relating to townhouses and apartments is included in cost of residential property sold upon sale of townhouses and apartments and pro rata a portion of townhouses and apartments sold to the total tenancy in common.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion (development) and costs necessary to make the sale.

The cost of finished goods and property under development includes an appropriate share of production overheads based on normal operating capacity.

Impairment of tangible and intangible assets excluding goodwill

At each period end, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the highest of net realisable value and value in use. 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 associated with the asset for which the estimates of future cash flows have not been adjusted.

If an asset does not generate a cash flow independent from other assets, for the purpose of testing for impairment, assets are combined into the smallest group for which there is a cash flow independent from other assets or groups of assets; and in relation to such group - value in use is determined. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. Otherwise cash generating units are combined into larger groups of assets for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating group) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating group) is reduced to its recoverable amount. Impairment loss is recognised in the consolidated income statement at a time.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating group) is increased to the revised estimate of its recoverable amount, but in a way that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating group) in prior years. Recovery of impairment loss is recognised in the consolidated statement of comprehensive income at a time.

Current income tax

The current income tax is based on taxable profit for the accounted period. Taxable profit differs from profit reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end in accordance with the laws of the Russian Federation, Canada, USA and Cyprus. The Group operated and owned property on the USA territory before the disposal of its Canadian subsidiary.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Deferred tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary

differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax balances are measured at tax rates enacted or declared at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and deferred tax liabilities are offset and reflected in consolidated financial statements when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognized as an expense or income in the consolidated statement of comprehensive income, except when they relate to items included to other comprehensive income or directly to equity, in which case the tax is also recognised in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, and also short-term placements with banks. Cash equivalents include short-term placements with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of evaluation of financial instruments, cash relates to the category "Loans issued and receivables".

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value, actual cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions, and apply the bid or asking price to the net open position as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Actual cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and unamortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition and classification of financial assets

Financial assets are recognised in the Group's consolidated statement of financial position, when the Group is a party to the contract in respect of applicable financial instruments, and are initially recognised at fair value plus costs directly attributed to the cost of acquisition or issue of financial asset, except for financial assets at a fair value through profit or loss which are initially recognised at their fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; investments held to maturity; available-for-sale financial assets, loans and receivables. Their classification depends on their substance and purpose for which such financial assets are used and is determined upon initial recognition.

Investments held to maturity

Debentures with fixed payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as investments held to maturity. Investments held to maturity are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Loans and receivables

Loans, trade receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Impairment provisions reflect either specific cases or estimates based on evidence of collection. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. The subsequent return of the amounts already written off are credited against the allowance. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset when (a) the assets are repaid or contractual rights to the cash flows from such asset expire; or (b) the Group transfers the title to cash flows from financial assets or executes a transfer agreement and (i) also transfers substantially all the risks and rewards associated with ownership of the asset, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership, but loses control over the transferred asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, netted of direct transaction costs, and subsequently measured at amortised cost using the effective interest method.

Disposal of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average refinancing rate (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment gain on the temporary investment of those borrowings are capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

The Group does not capitalize borrowing costs attributable to qualifying assets that are carried at fair value – investment property.

Prepayments

Prepayments are carried at actual cost less provision for impairment. Prepayments are classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital and additional paid-in capital

Share capital is presented at historic rates in the respective columns of the statement of changes in equity and notes thereto. Any effects of translating equity components from the functional currency to the presentation currency are recognised within the currency translation reserve movement for the year. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Excess of fair value of funds received above par value is reflected as additional capital.

External costs directly attributable to the issue of new shares, other than in a business combination, are deducted from equity net of any related income taxes.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Dividend income

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the "Events after the reporting date" note.

Treasury shares

If the Company or its subsidiaries acquire any shares in the Company, any contribution paid, including any costs directly attributed to such transaction, less income tax, are deducted from the total amount of equity payable to the Company's shareholders up to the time of redemption, re-issue or sale of such shares. If such shares are subsequently sold or re-issued, any contribution received, less any additional costs associated with the transaction, and respective income tax, is included in the equity payable to the Company's shareholders.

Leases

Leases under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Group as a lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease payable.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent lease payments are recognised as expenses in the periods in which they are incurred.

The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating lease payments are recognised as expenses on a straight-line basis over the lease term. Contingent lease payments arising under operating leases are recognised as expenses in the period in which they are incurred.

Provisions for other liabilities and charges

Provisions for other liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognised as a provision for other liabilities and charges is the best estimate of the consideration required to settle the present obligation at the period end, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Provision for guarantee commitments accrued in the reporting period is recognised within the cost of sales of property and cost under construction contracts.

Value added tax

Value added tax (VAT) related to sales is payable to tax authorities on the earliest of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Revenue recognition

The Group recognises revenue from sale of residential properties when there is a sufficient probability that significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

Revenue from realisation of frame-panel houses is recognised in the moment, when risks and rewards aligned with the object are transferred. Usually it happens on goods shipment. In case if Group take responsibility to deliver goods to the warehouse of Buyer, revenue is recognised at the moment of goods transfer at its destination place.

Revenue is recognised net of VAT and discounts.

Construction contracts

The Group concludes contracts with its clients for construction of houses and communal infrastructure on land plots owned by the Group. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Revenue from construction contracts comprises the initial amount of revenue agreed in the construction contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

The Group concludes contracts in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses. Contractual costs comprise costs that relate directly to the specific construction contract; costs that are attributable to contract activity in general and can be allocated to the contract; and other costs as are specifically chargeable to the customer under the terms of the construction contract.

When the outcome of a construction contract can be estimated reliably, contract revenue and associated contract costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the period end, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. An expected loss on a construction contract is recognised as an expense immediately.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Cottages construction contracts stipulate construction periods, which are agreed with customers. In case a period of construction is violated due to different reasons, a customer has the right to terminate the contract. At the end of each reporting period the Group identifies construction contracts in respect of which non-compliance with construction terms has been identified or expected and estimate probability of termination of such contracts on the basis of historical data on actual terminations. Based on the results of such estimation, the Group suspends recognition of revenue and costs under construction contracts, for which probability of contract termination is high and reverses earlier recognised revenue and costs under such construction contracts in the consolidated statement of comprehensive income.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work (receivables). For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work (payables). Amounts received before the related work is performed are included in the consolidated statement of financial position, as advances received from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position as receivables under construction contracts.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond statutory insurance contributions.

Contingencies and commitments

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for tax positions that are determined by management as more likely than not to result in additional tax liabilities being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of reporting period.

2 Basis of Consolidated Financial Statements Preparation and Significant Principles of Accounting Policies (Continued)

Segmental information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of managerial reports used by the Group's chief operating decision maker to oversee operations and make decisions on allocating the resources. The Group has identified the General Director as its chief operating decision maker and the managerial reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These managerial reports are prepared on the same basis as these consolidated financial statements.

Based on current management structure, the Group has identified four reportable segments: land holdings, residential property, multi-apartment residential complexes (operations in this segment started in 2012 due to commencement of the Vesna project) and fabricated homes (discontinued in 2012). The Group's operations are based in the Russian Federation. In 2011 the Group's operations were also based in Canada, US and Japan (realisation of prefab buildings) but in 2012 these operations became discontinued.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between operating segments. Such transfers are accounted for at competitive market prices charged to unaffiliated counteragents for similar services. Those transfers are eliminated on consolidation.

Expenses, which cannot be directly attributed to a segment, are not allocated to segments.

Amendment of the consolidated financial statements after issue

Any restatements to these consolidated financial statements may be made only if approved by the Group management which authorised these consolidated financial statements for issue.

Change in presentation currency

The Group changed the presentation currency of the consolidated financial statements in 2012 to Russian Roubles from US dollars due to new legislation requirements concerning preparation of the consolidated financial statements in the Russian Federation. The consolidated statement of financial position as of 1 January 2011 is presented in these consolidated financial statements in Russian Roubles as a result of the above described changes in presentation. The requirement to present the additional opening statement of financial position, when the entity changed the accounting policy applied retrospectively, extends to the information in the related notes.

The amount of the adjustment to each financial statement line for the current period and each presented periods which were affected by the change in presentation currency is not disclosed in the consolidated financial statements as being assessed by the Management of the Group as impracticable.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

Pronouncements issued by International Accounting Standards Board and endorsed for application in Russia

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11 "Joint Arrangements", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27 "Separate Financial Statements", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances. ***Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013),*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

Pronouncements issued by International Accounting Standards Board and not endorsed for application in Russia

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

3 Adoption of New and Revised International Financial Reporting Standards and Interpretations (Continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed by the Group on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Fair value of investment property

The Group recognises investment property at fair values, which are derived from a number of sources, namely market prices, independent appraisers and management estimates. These estimates are based on valuation techniques which require judgement in predicting future cash flows and developing other assumptions. Due to absence of an active market for certain of the Group’s assets, the estimation of fair value of these assets include assumptions not directly supportable by observed market prices or rates.

Investment property is revalued annually as at 31 December of the reporting year.

The carrying amounts of the Group’s assets carried at fair value (where gains and losses arising from changes in the fair value are recognised in the consolidated statement of comprehensive income as of 31 December 2012 and 2011 are as follows:

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Investment property (Note 6)	28 455 244	30 010 976	26 645 772

Management’s assessment of fair value of agricultural land plots included in the Group’s investment property has been performed by using the sales comparison method, which involves a review of available data on sales offers of comparable properties and making adjustments in the prices to reflect the differences between the properties offered and the properties owned by the Group. Key assumptions within the valuation model include the adjustments applied for comparability purposes, the time period over which land assets could optimally be realized (sold), future price growth, and the discount rate.

For the purpose of fair value of the land plots, being investment property, the Group management considers these land plots on an aggregate basis and presumes that all the land plots owned by the Group, will not be realized at once.

The fair value of investment property (mostly represented by land plots) included in the consolidated financial statements at 31 December 2012 is the result of an independent valuation performed by the sales comparison method.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The following major assumptions were used by the independent valuer in the analysis:

Assumption	31 December 2012
Source of cash inflows	Sale of land
Discount rate	13,6%-23%
Expected period of sale of land	2013-2027
Land selling price in 2013, USD per 1,00 square metres (the price range reflects locations of land)	284-49 000
Projected increase in selling prices	7%-8% growth in 2013-2016, then decreasing to 2%-3% (Odintsovsky District - 8% growth to 7% growth)

Assumption	31 December 2011
Source of cash inflows	Sale of land
Discount rate	11%-23%
Expected period of sale of land	2012-2026
Land selling price in 2012, USD per 1,00 square metres (the price range reflects locations of land)	284-49 500
Projected increase in selling prices	6%-8% growth in 2012-2018, then decreasing to 3% (Odintsovsky District - remaining at the level of 4%)

Assumption	1 January 2011
Source of cash inflows	Sale of land
Discount rate	14%-20%
Expected period of sale of land	2011-2025
Land selling price in 2011, USD per 1,00 square metres (the price range reflects locations of land)	296-52 000
Projected increase in selling prices	7% in 2012-2013, then decreasing to 2%

Due to considerable uncertainty related to estimation of future cash flows, management carried out a sensitivity analysis of fair value of land plots. The estimated impact on the aggregate valuation of changing key assumptions is as follows:

- If the selling price of land increased /decreased by 5%, the carrying value of investment property would have increased/decreased by RR 1 668 062 thousand (31 December 2011: RR 1 701 022 thousand, 1 January 2011: RR 1 631 700 thousand).
- If the length of selling period increased for one year, the carrying value of investment property would have decreased by RR 2 882 823 thousand (31 December 2011: RR 3 599 694 thousand, 1 January 2011: RR 3 389 332 thousand).
- If the discount rate increased/decreased by 1%, the carrying value of investment property would have decreased/increased by RR 1 365 095 thousand (31 December 2011: RR 1 528 981 thousand, 1 January 2011: RR 1 535 222 thousand).

Assumptions used by the Group's management for determining the fair value of investment property and investment property under development are applicable at a specific date and depend on market conditions. During 2012, there was relative stagnation on the Russian real estate market. Access to finance continues to be restricted. Significant uncertainties remain, particularly in respect of the Group’s land bank where no active market can be observed.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Assessment of net realisable value of inventories

Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices and inventory cost, among other things, relating to events occurring subsequent to the period end to the extent that such events confirm conditions existing at the end of the period.

In assessing net realisable value of the land plots and cottage communities included in the Group's inventory balance, management used selling prices as per current price lists as adjusted for expected discounts granted to customers.

Based on the assessment of inventories as of 31 December 2012 and 2011, management of the Group believes that all necessary adjustments have been made to state inventories at their net realisable value where it is lower than cost in the Group's consolidated statement of financial position. If selling prices increased or decreased by 5% as of 31 December 2012, the carrying value of inventories would be increased by RR 165 131 thousand or decreased by RR 183 288 thousand (31 December 2011: increased by RR 200 365 thousand or decreased by RR 252 452 thousand; 1 January 2011: increased by RR 99 781 thousand or decreased by RR 109 625 thousand), accordingly.

Recognition of revenue under cottage construction contracts

The Group operates a large number of construction contracts in respect of cottage construction. In order to determine whether the revenue under such contracts should be recognised as revenue under construction contracts or revenue from sales of goods, management assessed such criteria as the customer's ability to impact construction details of the cottage and determined that the customer has such ability upon signing the contract prior to certain stage of construction. This threshold was determined at the level of 70% completion of property. Therefore, if the contract is signed prior to achievement of 70% completion of the cottage, such contract is classified as construction contract (IFRS (IAS) 11 'Construction contracts') and revenue and cost associated therewith are recognised in proportion to its completion. If the contract is signed after 70% of completion is achieved, IAS 18 'Revenue' is applied instead of IAS 11.

If the contract is classified as a construction contract, then determination of the outcome of the contract fulfilment requires assessment of costs to complete, the customers' ability to comply with the payment terms of the contract, and the consequences of any delays by the Group in completing its contract obligations.

Management considered the detailed criteria for the recognition of revenue from construction contracts in terms of assessment of probability of completion of such contract. In order to make the above estimations of final outcome on contracts, management has analysed historical contract performance, including the historical level of contract cancellations and the outcomes on claims arising from contract delay. It has also assessed the position regarding any claims arising subsequent to the reporting date.

Following a detailed review of the Group's construction contracts, management is satisfied that the revenue and profit for such contracts in the reporting period were recognised appropriately.

Recognition of revenue from sales of land plots, finished cottages, town houses and apartments

The Group determines the time of recognition of revenue from sales of land plots, completed cottages, town houses and apartments in cottage communities based on their analysis of the time of transfer of key risks and rewards to the customer.

Claims provisions

The consolidated statement of financial position as at 31 December 2012 and 2011 and at 1 January 2011 includes claims provision amounting to RR 118 602 thousand, RR thousand 136 987 and RR thousand 220 853 respectively. This provision reflects the best estimation of management in respect of potential losses related to the risk of cancellation of construction contracts with customers. The final expected outcome of construction contracts depends on a number of factors. If the level of claims to the Group increases in the future, the effective liabilities may be considerably higher.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Deferred income tax

Deferred tax assets are reviewed at each period end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognised in the consolidated statement of comprehensive income.

The Group recognises deferred taxation on fair value changes to investment property assets at the Russian statutory rate. Tax that is ultimately payable upon realisation of the assets can be affected by the specific tax regulations applicable to the disposal transaction and may vary depending upon a number of factors. The Group may also realise the value of an asset through the generation of income from holding the asset which may lead to a differing taxation treatment. Tax ultimately payable upon realization of the asset may therefore differ from the amounts reflected in the consolidated financial statements.

5 Property, Plant and Equipment

(in thousands of Russian Roubles)	**Land and buildings**	**Fittings and fixtures**	**Trans-port, machi-nery and equip-ment**	**Furniture and office equip-ment**	**Construc-tion in progress**	**Total**
Cost						
Balance at 1 January 2010	**492 897**	**78 745**	**586 028**	**93 725**	**187 728**	**1 439 123**
Additions	135 217	769	1 106	1 051	48 615	186 758
Assets put into operation	-	-	-	353	(353)	-
Disposals	-	(37 953)	(18 827)	(19 209)	(36 146)	(112 135)
Disposal of subsidiaries	-	(1 611)	(12 851)	(7 985)	(33 187)	(55 634)
Transfer to investment property (Note 6)	(371)	-	-	-	-	(371)
Transfer to inventories	-	-	-	-	(2 297)	(2 297)
Translation difference	27 790	1 671	31 047	1 190	513	62 211
Balance at 31 December 2010	**655 533**	**41 621**	**586 503**	**69 125**	**164 873**	**1 517 655**
Additions	5 523	2 258	12 805	11 550	82 367	114 503
Assets put into operation	-	-	-	49	(49)	-
Transfer to investment property (Note 6)	(134 036)	-	-	-	-	(134 036)
Disposals	(129 894)	(6 496)	(9 488)	(136)	(13 305)	(159 319)
Translation difference	10 145	683	20 141	907	365	32 241
Balance at 31 December 2011	**407 271**	**38 066**	**609 961**	**81 495**	**234 251**	**1 371 044**
Additions	270	1 919	4 411	13 578	183 846	204 024
Disposals	(91 004)	(2 237)	(33 605)	(8 126)	-	(134 972)
Discontinued operations	(309 748)	(24 171)	(556 230)	(25 673)	(10 337)	(926 159)
Translation difference	(5 959)	(361)	(8 365)	(345)	(146)	(15 176)
Balance at 31 December 2012	**830**	**13 216**	**16 172**	**60 929**	**407 614**	**498 761**

5 Property, Plant and Equipment (Continued)

(in thousands of Russian Roubles)	Land and buildings	Fittings and fixtures	Transport, machinery and equipment	Furniture and office equipment	Construction in progress	Total
Accumulated depreciation						
Balance at 1 January 2010	**36 707**	**54 456**	**310 325**	**52 508**	**81 740**	**535 736**
Accrued for the year	18 264	6 167	79 187	13 631	-	117 249
Impairment	-	-	193 260	-	67 548	260 808
Disposals	-	(37 953)	(13 541)	(11 121)	(35 248)	(97 863)
Disposal of subsidiaries	-	(1 611)	(10 426)	(7 110)	(33 187)	(52 334)
Translation difference	2 725	990	18 232	1 583	-	23 530
Balance at 31 December 2010	**57 696**	**22 049**	**577 037**	**49 491**	**80 853**	**787 126**
Accrued for the year	18 454	7 140	7 631	12 344	-	45 569
Disposals	(15 947)	(3 882)	(9 206)	(136)	(13 305)	(42 476)
Translation difference	2 181	831	20 057	864	-	23 933
Balance at 31 December 2011	**62 384**	**26 138**	**595 519**	**62 563**	**67 548**	**814 152**
Accrued for the year	14 586	2 569	4 522	8 868	-	30 545
Impairment	-	-	-	-	146 701	146 701
Disposals	(9 941)	(1 685)	(33 562)	(7 604)	-	(52 792)
Discontinued operations	(65 502)	(22 005)	(550 452)	(22 408)	-	(660 367)
Translation difference	(839)	(317)	(8 311)	(292)	-	(9 759)
Balance at 31 December 2012	**688**	**4 700**	**7 716**	**41 127**	**214 249**	**268 480**
Carrying amount						
At 31 December 2010	**597 837**	**19 572**	**9 466**	**19 634**	**84 020**	**730 529**
At 31 December 2011	**344 887**	**11 928**	**14 442**	**18 932**	**166 703**	**556 892**
At 31 December 2012	**142**	**8 516**	**8 456**	**19 802**	**193 365**	**230 281**

As of 31 December 2012, no property, plant and equipment were pledged as collateral under loans and borrowings received by the Group (2011: none). In 2012, the Group capitalised interest on loans within construction in progress in the amount of RR 19 614 thousand (2011: RR 9 058 thousand).

In 2012, the Group reviewed the recoverable amount of its property, plant and equipment. The recoverable amount of property, plant and equipment was determined on the basis of their value in use. As a result of this review, the Group recognised an impairment loss from property, plant and equipment of RR 146 701 thousand. Part of this loss in the amount of RR 137 168 thousand refers to reconstruction of drain system. Its recoverable amount was determined by evaluating future cash flows using a 15% discount rate. The remaining amount of RR 9 533 thousand refers to fully impaired commercial property items.

In 2011, the Group did not identify any signs of impairment of property, plant and equipment.

6 Investment Property

The Group's investment property is represented by land with indefinite future use located in different Russian regions. The basis of fair valuation of investment property and valuation assumptions are summarised in Note 4.

(in thousands of Russian Roubles)	Land plots	Land plots with buildings	Total
Balance at 1 January 2010	**38 497 801**	**-**	**38 497 801**
Additions	2 374 193	-	2 374 193
Transfer from property, plant and equipment (Note 5)	371	-	371
Disposals	(865 033)	-	
Changes in fair value as a result of revaluation	(13 361 560)	-	(13 361 560)
Balance at 31 December 2010	**26 645 772**	**-**	**26 645 772**
Additions	17 603	-	17 603
Transfer from inventories (Note 8)	134 036	-	134 036
Disposals	(32 110)	-	(32 110)
Changes in fair value as a result of revaluation	3 245 675	-	3 245 675
Balance at 31 December 2011	**30 010 976**	**-**	**30 010 976**
Additions	227 811	1 027	228 838
Transfer (to)/ from inventories (Note 8)	(625 097)	20 756	(604 341)
Disposals	(670 893)	-	(670 893)
Changes in fair value as a result of revaluation	(497 103)	(12 233)	(509 336)
Balance at 31 December 2012	**28 445 694**	**9 550**	**28 455 244**

The carrying amounts of land by region are as follows:

	31 December 2012		**31 December 2011**		**Type of authorized use**
	Area, ha	**Net book value (in thousands of Russian Roubles)**	**Area, ha**	**Net book value(in thousands of Russian Roubles)**	
Klinsky District Moscow Region	10 439	7 557 138	10 676	8 419 919	A/c, SPT,STL
Mytishinsky District, Moscow Region	1 103	9 305 843	1 124	9 562 728	A/c, IHC
Dmitrovsky District, Moscow Region	7 371	8 445 160	7 488	8 911 950	A/c
Kalyazinsky District, Tver Region	3 986	330 824	3 986	323 554	A/c, IHC
Kashinsky District Tver Region	7 975	1 001 049	7 975	1 105 235	A/c
Kesovogorsky District, Tver Region	3 635	100 598	3 635	102 244	A/c
Odintsovsky District, Moscow Region	30	1 586 767	30	1 471 365	A/c, LHC
Suzdalsky District, Vladimir Region	611	44 368	611	38 341	A/c
Yuriev-Polsky, Vladimir Region	2 848	73 947	2 848	75 640	A/c
Total	**37 998**	**28 445 694**	**38 373**	**30 010 976**	

6 Investment Property (Continued)

A/c- for agricultural use;
SPT - specially protected territories;
STL – settlement land;
IHC - individual housing construction;
LHC - low-height housing construction

Exchange transactions for investment property that did not involve the use of cash and cash equivalents amounted to RR 187 732 thousand in 2012 (2011: nil).

At 31 December 2012, investment property with a carrying value of RR 10 698 066 thousand (31 December 2011: RR 8 029 238 thousand) was pledged as collateral for received bankloans (Note 18).

During 2012, the Group incurred operating expenses of RR 30 689 thousand (2011: RR 18 278 thousand) with regard to investment property. These expenses mainly include land tax.

During 2012, the Group transferred 72,7 ha in Dmitrovsky District and 7,2 ha in Mytishinsky District to local communities. During 2012, the Group also sold 27,1 ha in Dmitrovsky District and 13,99 ha in Mytishinsky District. Total loss from these transactions amounted to RR 520 344 thousand. This loss was reflected in losses from disposal of investment property and investment property under development in the consolidated statement of comprehensive income.

During 2012, the Group acquired 24,36 ha in Mytishinsky District in exchange for 16,65 ha in Dmitrovsky District. The Group also acquired 4,17 ha of settlement land in Klinsky District in exchange for 70,73 ha of agricultural land in the same district. Total effect of these exchanges resulted in the gain of RR 102 014 thousand netted to losses from disposal of investment property and investment property under development in the consolidated statement of comprehensive income.

During 2011, the Group sold 3 ha of land located in Mytishinsky District and transferred 25 ha of land located in Dmitrovsky Region to individuals free of charge. Total loss from these transactions amounted to RR 24 637 thousand. This loss was reflected in losses from disposal of investment property and investment property under development in the consolidated statement of comprehensive income.

In connection with commencement of development of “Pestovo Life” project in 2012 (Note 1) the Group transferred 24,3 ha of land in Mytishinsky District from investment property to land under development held for sale within inventories.

In connection with commencement of development of “Solar coast” project in 2012 (Note 1) the Group transferred 168,9 ha of land in Klinsky District from investment property to land under development held for sale within inventories.

7 Investment Property under Development

(in thousands of Russian Roubles)	2012	2011	2010
Balance at 1 January	**-**	**1 523 845**	**1 612 016**
Additions	-	4 555	322 864
Disposals	-	(1 528 400)	-
Changes in fair value	-	-	(411 035)
Balance at 31 December	**-**	**-**	**1 523 845**

In September 2011, the only project disposed from investment property under development was A.I. Raikin Retail and Entertainment Centre. This property was sold to a third party for USD 50 000 thousand (RR 1 480 531 thousand translated at exchange rate prevailing at the date of transaction). The loss from the disposal of this property was RR 47 869 thousand.

8 Inventories

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Inventories with period of realization above one year			
Land under development held for sale (a)	4 902 398	5 116 038	5 770 213
Residential property under development held for sale (b)	2 560 154	3 132 506	3 194 985
Infrastructure (c)	425 674	796 575	471 833
Total inventories with period of realization above one year	**7 888 226**	**9 045 119**	**9 437 031**
Inventories with period of realization during the year			
Land under development held for sale (a)	621 386	811 668	1 259 354
Residential property under development held for sale (b)	434 698	783 987	1 397 518
Infrastructure (c)	402 715	36 736	322 312
Finished products (d)	969 772	991 979	3 084 151
Other inventories	36 073	100 845	154 617
Total inventories with period of realization during the year	**2 464 644**	**2 725 215**	**6 217 952**
Total inventories	**10 352 870**	**11 770 334**	**15 654 983**

Inventories recorded at cost and net realisable value are as follows:

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
At cost	7 178 177	9 396 149	13 322 124
At net realisable value	3 174 693	2 374 185	2 332 859
Total	**10 352 870**	**11 770 334**	**15 654 983**

During 2012, the Group capitalised borrowing costs of RR 586 639 thousand (2011: RR 586 393 thousand) within inventories.

In 2012, the Group recognised a decrease in the value of inventories of RR 1 491 118 thousand (2011: RR 1 171 104 thousand). Net realisable inventory provision amounted to RR 2 915 174 thousand as at 31 December 2012 (31 December 2011: RR 1 765 103 thousand).

At 31 December 2012, inventories with a carrying value of RR 4 865 829 thousand (31 December 2011: RR 2 776 085 thousand) were pledged as collateral for received borrowings (Note 18).

(a) Land under development held for sale

Land under development held for sale includes land in the Group's cottage communities (Note 1) and comprises the following main groups:

- land plots with houses which the Group builds under construction contracts; and
- land plots offered by the Group for sale without construction contracts.

8 Inventories (Continued)

(b) Residential property under development held for sale

Residential property under development held for sale, includes cottages, apartments in low-height buildings, townhouses and other residential properties under construction and development forming a part of the Group's cottage communities (Note 1).

Residential property under development held for sale includes property in respect of which the Group has concluded construction contracts with a completion degree of more than 70% and property which the Group builds for sale without construction contracts.

(c) Infrastructure

Infrastructure includes cottage communities' infrastructure facilities to be subsequently sold or transferred to commercial organisations or non-commercial partnerships.

(d) Finished goods

Finished goods include cottages, apartments in low-height buildings and townhouses whose construction was completed as at the reporting date.

9 Investments Held to Maturity

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Promissory notes issued by banks (neither overdue nor impaired) (Moody's rating – B1)	337 007	306 588	-
Total investments held to maturity	**337 007**	**306 588**	**-**

10 Prepayments

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Prepayments	1 875 316	769 386	660 564
Less: provision for impairment of prepayments	(75 255)	(260 580)	(93 584)
Total prepayments	**1 800 061**	**508 806**	**566 980**

Movements in the provision for impairment of prepayments for 2012, 2011 and 2010 are as follows:

(in thousands of Russian Roubles)	**2012**	**2011**	**2010**
Balance at 1 January	**260 580**	**93 584**	**238 875**
Accrual of provision for impairment during the year	31 764	254 856	93 584
Recovery of provision for impairment	(213 270)	(48 000)	-
Bad debts written off	(3 819)	(39 860)	-
Disposal of subsidiaries	-	-	(238 875)
Balance at 31 December	**75 255**	**260 580**	**93 584**

The prepayment in the amount of the amount of RR 1 565 580 represents an advance paid to a related party for a future acquisition of apartments in a residential complex under construction (Note 32). The actual transfer of the apartments is expected to take place in 2014-2016.

11 Receivables

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Financial assets within receivables			
Receivables under construction contracts (Note 23)	505 434	450 722	849 734
Trade receivables	130 272	121 984	74 443
Other receivables	71 917	28 502	15 428
Less: Provision for doubtful debts	(4 754)	(4 600)	(2 927)
Total financial assets within receivables	**702 869**	**596 608**	**936 678**
Prepaid current income tax	81 432	33 796	122 593
Value added tax recoverable	72 792	43 292	57 034
Other taxes prepaid	18 518	23 334	5 364
Deferred expenses	4 805	10 026	22 379
Total receivables	**880 416**	**707 056**	**1 144 048**

The analysis of receivables by credit quality is as follows:

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Neither past due nor impaired	673 922	582 177	936 678
Total neither past due nor impaired	**673 922**	**582 177**	**936 678**
Past due but not impaired			
- less than 180 days overdue	19 228	9 191	-
- from 181 to 360 days overdue	8 253	5 240	-
- over 360 days overdue	1 466	-	-
Total past due but not impaired	**28 947**	**14 431**	**-**
Past due and impaired			
-from 181 to 360 days overdue	-	-	2 927
-over 360 days overdue	4 754	4 600	-
Total past due and impaired	**4 754**	**4 600**	**2 927**
Provision for impairment of receivables	**(4 754)**	**(4 600)**	**(2 927)**
Total financial assets within receivables	**702 869**	**596 608**	**936 678**

At 31 December 2012 accounts receivable in amount of RR 673 922 thousand (31 December 2011: RR 582 177 thousand) were neither overdue nor impaired, and historically there have been no defaults observed for the counterparties included in this category. These debtors do not have an external individual credit rating. There is no significant concentration of credit risk with respect to accounts receivable, as the Group has a large number of counterparties.

The analysis of financial risks with regard to financial assets within receivables is provided in Note 35.

According to the Group's management opinion, the estimated fair value of financial assets within receivables approximates their carrying value.

12 Loans Issued

(in thousands of Russian Roubles)	Interest rate	Currency	31 December 2012	31 December 2011	1 January 2011
Loans issued (unrated)	3,0%-13%	US dollars, Russian roubles	363 854	285 493	-
Total loans issued			**363 854**	**285 493**	**-**

Loans issued were neither past due nor impaired as at 31 December 2012 and 31 December 2011. There were no guarantees or collateral given under the loans issued as at 31 December 2012 and 31 December 2011.

13 Cash and Cash Equivalents

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Cash in transit	283 976	-	-
Current accounts with banks	220 402	146 315	140 781
Short-term deposits with banks with a maturity of less than 3 months	72 485	544 863	227 938
Cash in hand	70	140	280
Total cash and cash equivalents	**576 933**	**691 318**	**368 999**

Cash in transit represents cash received as part of consideration for sale of the Group's subsidiary Viceroy Homes Limited (Note 30) including effects of foreign currency revaluation for this cash amount at 31 December 2012. It was credited to the Group's bank account in January 2013.

As at 31 December 2012, short-term rouble-denominated deposits with banks were placed at 6,7-7,5% p.a. with a maturity up to 91 days and USD-denominated deposits at 0,5% p.a. with a maturity up to 91 days (31 December 2011: rouble-denominated deposits at 4,25-5,5% p.a. with a maturity not later than 1 February of 2012).

The analysis of cash equivalents by credit quality is provided in the table below:

	31 December 2012		**31 December 2011**		**1 January 2011**	
(in thousands of Russian Roubles)	**Bank balances payable on demand**	**Term deposits**	**Bank balances payable on demand**	**Term deposits**	**Bank balances payable on demand**	**Term deposits**
Neither past due nor impaired						
Moody's rating						
- Baa1	-	-	-	-	-	75 000
- Baa2	-	-	62 763	351 429	43 887	152 385
- Baa3	384 303	31 436	-	-	-	-
- Ba3	339	41 049	-	-	-	-
- B1	3 882	-	-	-	-	-
Expert RA rating agency						
-A+ (very high level of solvency)	6 606	-	-	-		
-A (positive)	-	-	-	193 434	-	-
-B++(acceptable solvency level)	97 409	-	-	-		
-Unrated	11 839	-	83 552	-	96 894	553
Total cash equivalents	**504 378**	**72 485**	**146 315**	**544 863**	**140 781**	**227 938**

13 Cash and Cash Equivalents (Continued)

Cash and cash equivalents were neither past due nor impaired as at 31 December 2012 and 31 December 2011. According to the Group's management the estimated fair value of cash and cash equivalents does not differ significantly from their carrying value.

14 Short Term Bank deposits

Short term bank deposits were placed at 1,1% in the amount of USD 15 000 thousand (31 December 2011: none) with a maturity of more than three months but remaining period to maturity of less than one year. Substantially such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

The analysis of short term bank deposits by credit quality is provided in the table below:

(in thousands of Russian Roubles)	**Interest rate**	**Currency**	**31 December 2012**	**31 December 2011**	**1 January 2011**
Neither past due nor impaired					
Short term bank deposits (Moody's rating B1)	1,1%	US dollars	456 426	-	-
Total short term bank deposits			**456 426**	**-**	**-**

15 Share Capital

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Number of ordinary shares authorised for issuance with nominal value RR 1 000 per share, pcs	26 220 793	25 280 221	17 180 000
Including:			
Number of treasury shares with nominal value RR 1 000 per share, pcs	-	59 428	-

Movements in share capital

(in thousands of Russian Roubles)	
At 1 January 2011: 15 280 221 ordinary shares at par value of RR 1 000 each	15 280 221
Repurchase of treasury shares: 59 428 ordinary shares	(59 428)
At 31 December 2011: 15 220 793 ordinary shares at par value of RR 1 000 each	15 220 793
At 31 December 2012: 15 220 793 ordinary shares at par value of RR 1 000 each	15 220 793

In September 2011, an extraordinary meeting of shareholders of JSC OPIN resolved to decrease JSC OPIN (Company) share capital through purchasing by the Company of a portion of shares for maintaining shares' value. The purchase price was determined on the basis of market prices and amounted to RR 955.65 per Company's one registered ordinary share. As a result of this transaction 59 428 ordinary shares were bought out.

In January 2012, 59 428 treasury shares bought by the Company from its shareholders in 2011 were cancelled.

16 Additional Paid-in Capital

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Proceeds from issue of shares	45 465 964	45 465 964	45 465 964
Proceeds from purchase of treasury shares	2 636	2 636	-
Underwriters' services	(675 613)	(675 613)	(675 613)
Legal and consulting services	(112 200)	(112 200)	(112 200)
Total additional paid-in capital	**44 680 787**	**44 680 787**	**44 678 151**

17 Income Tax

(in thousands of Russian Roubles)	2012	2011
Deferred income tax	(764 871)	554 765
Current income tax	248 272	409 073
Total income tax (credit)/expense	**(516 599)**	**963 838**

The Group's income was subject to income tax on the basis of the following rates:

(in thousands of Russian Roubles)	2012	2011
Russian Federation	20%	20%
Cyprus	10%	10%
USA	35%	35%
Canada	26,5%	26,5%

The Group calculates income tax for the current period based on tax accounts maintained and prepared under the Russian tax regulations which may differ from IFRS.

The Group is subject to certain permanent tax differences with regard to certain income and expense items due to the fact that certain income and expenses are not deductible.

Deferred tax reflects the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 relate mostly to different methods of income and expense recognition, as well as to recorded values of certain assets.

The relationship between the income tax expense and the Group's accounting profit for the years ended 31 December 2012 and 31 December 2011 is provided below:

(*in thousands of Russian Roubles*)	2012	2011
Profit/(loss) before tax	**(3 201 348)**	**2 018 626**
At the Russian statutory income tax rate of 20%	(640 270)	403 725
Effect of the difference in tax rates in countries other than the Russian Federation	(9 127)	95 315
Tax effect of non-deductible expenses / (non-taxable income):		
• Interest on borrowings	75 026	42 023
• Loss from construction contracts for the reporting period	50 455	101 037
• Effect of exchange differences	3 714	63 853
• Other	3 603	257 885
Income (credit)/ tax expense	**(516 599)**	**963 838**

17 Income Tax (Continued)

Tax consequences of change of temporary differences between carrying amount of assets and liabilities in purpose of preparation of the consolidated financial statements and their basis for calculation of income tax are presented below:

(in thousands of Russian Roubles)	31 December 2011	Recognised in profit or loss	Discontinued operations	Translation difference	31 December 2012
Deferred tax assets					
Property, plant and equipment	29 332	(1 321)	3 082	54	31 147
Intangible assets	12	(12)	-	-	-
Investment property	2 642 753	114 356	-	-	2 757 109
Prior years' losses carried forward	184 649	485 651	-	(5 875)	664 425
Receivables	159 298	(159 217)	(73)	(8)	-
Payables	-	91 087	-	-	91 087
Total deferred tax assets	**3 016 044**	**530 544**	**3 009**	**(5 829)**	**3 543 768**
Deferred tax liabilities					
Inventories	(716 230)	224 661	-	-	(491 569)
Intangible assets	-	(56)	-	-	(56)
Investments held to maturity	-	(1 656)	-	-	(1 656)
Receivables	-	(28 167)	-	-	(28 167)
Payables, loans and borrowings	(51 139)	39 545	-	-	(11 594)
Total deferred tax liabilities	**(767 369)**	**234 327**	**-**	**-**	**(533 042)**
Net deferred tax asset/(liability)	**2 248 675**	**764 871**	**3 009**	**(5 829)**	**3 010 726**

Reflected in the consolidated statement of financial position:

(in thousands of Russian Roubles)	31 December 2011	Recognised in profit or loss	Discontinued operations	Translation difference	31 December 2012
Deferred tax asset	5 834 346				5 721 732
Deferred tax liability	(3 585 671)				(2 711 006)
Net deferred tax asset	**2 248 675**				**3 010 726**

(in thousands of Russian Roubles)	1 January 2011	Recognised in profit or loss	Discontinued operations	Translation difference	31 December 2011
Deferred tax assets					
Property, plant and equipment	24 494	(3 083)	7 921	-	29 332
Intangible assets	7	12	(7)	-	12
Investment property	3 298 602	(654 751)	-	(1 098)	2 642 753
Investment property under development	113 087	(113 087)	-	-	-
Prior years' losses carried forward	144 027	46 612	(5 990)	-	184 649
Receivables	109 791	48 469	1 303	(265)	159 298
Total deferred tax assets	**3 690 008**	**(675 828)**	**3 227**	**(1 363)**	**3 016 044**
Deferred tax liabilities					
Inventories	(841 657)	125 427	-	-	(716 230)
Payables, loans and borrowings	(46 778)	(4 361)	-	-	(51 139)
Total deferred tax liabilities	**(888 435)**	**121 066**	**-**	**-**	**(767 369)**
Net deferred tax asset/(liability)	**2 801 573**	**(554 762)**	**3 227**	**(1 363)**	**2 248 675**

17 Income Tax (Continued)

Reflected in the consolidated statement of financial position:

(in thousands of Russian Roubles)	1 January 2011	Recognised in profit or loss	Discontinued operations	Translation difference	31 December 2011
Deferred tax asset	5 969 891				5 834 346
Deferred tax liability	(3 168 318)				(3 585 671)
Net deferred tax asset	**2 801 573**				**2 248 675**

The Group has derecognised deferred tax assets in respect of unused tax loss carry forwards of RR 664 425 thousand (2010: RR 184 649 thousand). The tax loss carry forwards expire as follows:

(in thousands of Russian Roubles)	31 December 2012	31 December 2011
Tax loss carry-forwards expiring by the end of:		
31 December 2016	150 121	154 121
31 December 2017	8 449	31 749
31 December 2018	31 447	48 316
After 31 December 2018	2 828 278	689 049
Total tax loss carry forwards	**3 018 295**	**923 235**

The Group also has unrecognised potential deferred tax assets in respect of deductible temporary differences of RR 394 478 thousand (2011: RR 126 549 thousand).

The Group has not recorded deferred tax liabilities in respect of temporary differences of RR 3 905 872 thousand (2011: RR 4 626 161 thousand) on investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

18 Loans and Borrowings

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Long-term bank loans	5 213 058	1 000 348	532 137
Long-term borrowings	258 618	-	
Total long-term loans and borrowings	**5 471 676**	**1 000 348**	**532 137**
Short-term bank loans	4 744 208	6 556 181	8 233 445
Short-term borrowings	2 000 608	2 661 097	1 762 135
Total short-term loans and borrowings	**6 744 816**	**9 217 278**	**9 995 580**
Total loans and borrowings	**12 216 492**	**10 217 626**	**10 527 717**

The analysis of financial risks of loans and borrowings is provided in Note 35. The analysis of the fair value of loans and borrowings is provided in Note 36.

18 Loans and Borrowings (Continued)

In 2012, fixed interest rates for rouble-denominated bank loans varied between 11% and 14% (2011: between 12,4% and 14%, 2010: no rouble-denominated bank loans outstanding). In 2012, fixed interest rates for foreign currency-denominated bank loans varied between 9% and 11% (2011 and 2010: between 9% and 11%). In 2012, the floating interest rate for foreign currency-denominated bank loans Libor plus 8% (2011: varied from Libor plus 8% to Libor plus 10%, 2010; Libor plus 10%).

In 2012, fixed interest rate for foreign currency-denominated non-bank borrowings varied between 7% and 15% (2011: 15%, 2010: varied between 12% and 15%). In 2012 fixed interest rate for rouble-denominated non-bank borrowings was 10% (2010; 18%).

In 2011, as a result of the restructuring of the loan portfolio the Group incurred additional expenses of 10% of the total loan portfolio as at 31 December 2011 related to receipt of borrowed funds. These expenses are deducted from the debt principal and depreciated over the life of the debt liabilities. This transaction significantly affected the effective interest rate. The above transaction was caused by liquidity deficit in the credit market at the time when the Group borrowed the funds.

At 31 December 2012, the long-term loan of RR 1 983 012 thousand was reclassified into short-term loans due to non-compliance with financial covenants. In 2013 this non-compliance does not exist as based on the conditions of the respective contract the covenant does not apply in 2013.

At 31 December 2011, the long-term loan of RR 3 320 094 thousand was reclassified into short-term loans due to non-compliance with financial covenants. In 2012 this non-compliance was removed following the restructuring aimed at repayment of this loan (Note 37).

At 31 December 2012, investment property with a carrying value of RR 10 698 066 thousand (2011: RR 8 029 238 thousand) was pledged as collateral for received loans and borrowings (Note 6).

At 31 December 2012, inventories with a carrying value of RR 4 865 829 thousand (2011: RR 2 776 085 thousand) were pledged as collateral for received loans and borrowings (Note 8).

JSC OPIN subsidiaries act as guarantors on loans received by JSC OPIN from JSC ACB Rosbank and JSC Moscow Credit Bank as at 31 December 2012. As at 31 December 2011 JSC OPIN subsidiaries act as guarantors on loans received by JSC OPIN from ING Bank N.V., VTB Bank (Deutschland) AG, Raiffeisenbank LLC, JSC ACB Rosbank and JSC Moscow Credit Bank.

At 31 December 2012, the total amount of undrawn credit facilities was RR 6 000 thousand (2011: RR 229 291 thousand).

19 Payables

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Financial liabilities within payables			
Non-current liabilities			
Long-term payables	366 995	-	-
Current liabilities			
Accrued liabilities	989 255	-	-
Trade payables to suppliers and service providers	492 045	369 153	598 063
Other short-term payables	474 250	599 639	638 358
Lease payable	22 403	22 521	-
Total financial liabilities within current and non-current payables	**2 344 948**	**991 313**	**1 236 421**
Advances received	13 686	92 912	200 846
Payables on settlements with employees	17 212	21 918	4 596
Other liabilities under construction contracts	9 773	274 112	-
Total current and non-current payables	**2 385 619**	**1 380 255**	**1 441 863**

Accrued liabilities are represented by accrual of possible reimbursement to third parties.

The analysis of financial risks with regard to payables is provided in Note 35.

The Group's management believes that the estimated fair value of the payables approximates their carrying value.

20 Provisions for Other Liabilities and Charges

(in thousands of Russian Roubles)	**Litigation**	**Guarantee commitments**	**Other charges**	**Total**
Balance at 1 January 2010	**-**	**-**	**-**	**-**
Creation of provisions recognized in profit and loss	220 853	-	-	220 853
Balance at 31 December 2010	**220 853**	**-**	**-**	**220 853**
(Recovery)/creation of provisions recognized in profit and loss	(47 253)	117 317	42 298	112 362
Utilisation of provision	(36 613)	-	-	(36 613)
Balance at 31 December 2011	**136 987**	**117 317**	**42 298**	**296 602**
Creation of provisions recognized in profit and loss	17 373	46 736	-	64 109
Utilisation of provision	(35 758)	(38 889)	-	(74 647)
Balance at 31 December 2012	**118 602**	**125 164**	**42 298**	**286 064**

20 Provisions (Continued)

Litigation

As at 31 December 2012, Group did not comply with the deadlines for completion of some of its development projects. Historically, a number of claims have been lodged against the Group on the part of its customers as a result of such delays. The provision represents the Group's evaluation of liabilities under construction contracts and was calculated with due consideration of the historical risk level and the current level of notices of claim.

Guarantee commitments

The Group has guarantee commitments on elimination of construction defects in sold cottages, townhouses and apartments. A provision of RR 125 164 thousand was recognised in the consolidated financial statements as at 31 December of 2012 with regard to the expected number of claims on guarantees which was determined on the basis of the expected level of costs for elimination of construction defects (2011: RR 117 317 thousand). It is expected that the balance as of 31 December 2012 will be fully used or reversed by the end of 2017.

21 Advances Received from Customers

(*in thousands of Russian Roubles*)	31 December 2012	31 December 2011	1 January 2011
Advances received for property under development	1 145 386	2 007 051	4 585 926
Advances received for property under development under construction contracts (Note 23)	77 293	173 311	493 311
Total advances received from customers	**1 222 679**	**2 180 362**	**5 079 237**

22 Current Tax Liabilities

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Current income tax liabilities	225 376	239 583	57 105
Other taxes payable	58 218	58 060	233 207
Total current tax liabilities	**283 594**	**297 643**	**290 312**

23 Construction Contracts

(in thousands of Russian Roubles)	31 December 2012	31 December 2011
Cumulative incurred construction costs plus recognised profitless recognised losses as of the reporting date	2 476 654	2 606 394
Less: progress billings	(2 058 286)	(2 603 095)
Total	**418 368**	**3 299**
Receivables under construction contracts (Note 11)	505 434	450 722
Advances received under construction contracts included in advances received from customers for inventories (Note 21)	(77 293)	(173 311)
Loss recognised within other payables (Note 19)	(9 773)	(274 112)
Total	**418 368**	**3 299**

23 Construction Contracts (Continued)

The Group concludes contracts for construction of cottages and objects of infrastructure. A part of contracts for construction of cottages and most of contracts for construction of objects of infrastructure are classified as contracts for which revenues and cost of sales are recognized at percentage of completion (Note 2).

24 Revenue from Construction Contracts and Cost of Construction Contracts

(in thousands of Russian Roubles)	2012	2011
Revenue from cottage construction		
Revenue recognition by completion percentage	97 966	42 593
Revenue adjustment for cancellable and potentially cancellable contracts and as a result of reviewed assumptions on completion percentage and general costs	(92 288)	(296 036)
Revenue from infrastructure construction		
Revenue recognition by completion percentage	367 526	255 193
Total revenue from construction contracts	**373 204**	**1 750**
Cost of cottage construction		
Cost recognition by completion percentage	(80 343)	(41 882)
Cost adjustment for cancellable contracts and as a result of reviewed assumptions on completion percentage and general costs	78 820	71 405
Recognition of identified loss	(5 933)	(22 212)
Cost of infrastructure construction		
Cost recognition by completion percentage	(247 275)	(277 957)
Recognition of identified loss	(269 904)	(338 879)
Total cost of construction contracts	**(524 635)**	**(609 525)**

25 Revenue from Sales of Residential Property and Land Plots and Cost of Sales of Residential Property and Land Plots

(in thousands of Russian Roubles)	2012	2011
Revenue from sales of residential property and land plots		
Cottages and land plots	2 364 439	2 800 560
Townhouses	823 374	2 138 319
Apartments	686 321	1 634 729
Total revenue from sales of residential property and land plots	**3 874 134**	**6 573 608**

(in thousands of Russian Roubles)	2012	2011
Cost of sales of residential property and land plots		
Cost of land plots	1 728 975	3 112 761
Subcontractors services	779 260	972 048
Indirect expenses	120 322	206 505
Capitalized interest expenses	109 633	34 555
Total cost of sales of residential property and land plots	**2 738 190**	**4 325 869**

26 Selling, General and Administrative Expenses

(in thousands of Russian Roubles)	**2012**	**2011**
Payroll	337 172	293 640
Advertising	289 226	74 051
Land tax and property tax	69 253	46 059
Rent	56 220	59 308
Repairs and maintenance	50 043	25 412
Insurance contributions to the pension fund	46 855	24 803
Consulting services	22 929	38 435
Brokerage fees	22 732	47 202
Depreciation of property, plant and equipment	12 070	11 490
Insurance contributions to other non-budget funds	11 784	14 958
Other expenses	182 601	132 353
Total selling, general and administrative expenses	**1 100 885**	**767 711**

Significant increase in advertising expenses in 2012 as compared to 2011 is due to more active marketing policy with regard to on-going projects and commencement of extensive promotion campaigns on new projects.

Other expenses include other operating taxes and levies.

27 Finance costs

(in thousands of Russian Roubles)	**2012**	**2011**
Interest on bank loans	1 592 766	1 064 898
Interest on other borrowings	97 230	136 096
Gain on initial recognition of long-term payables	(205 935)	-
Less: interest capitalised within inventories (Note 8) and property, plant and equipment (Note 5)	(606 253)	(595 451)
Total finance costs	**877 808**	**605 543**

28 Other Expenses

(in thousands of Russian Roubles)	**2012**	**2011**
Loss on purchase/sale of currency	43 325	3 093
Charitable contributions	12 046	6 384
Loss on disposal of other assets	1 554	66
Penalties paid	1 102	7 449
Write off of non-recoverable VAT	-	11 556
Other expenses	32 971	21 022
Total other expenses	**90 998**	**49 570**

29 Earnings per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Weighted average number of shares outstanding during the period	**Profit/(loss) from continuing operations for the period attributable to shareholders of the parent company (RR'000)**	**Earnings/ (loss) per share from continuing operations (RR)**	**Loss from discontinued operations for the period attributable to shareholders of the parent company (RR'000)**	**Loss per share from discontinued operations (RR)**
For the year ended 31 December 2012	15 220 793	(2 684 749)	(176,39)	(146 190)	(9,60)
For the year ended 31 December 2011	15 274 284	1 054 788	69,06	(101 564)	(6,65)

30 Discontinued operations

In 2012 the Group made a decision to sell its subsidiary Viceroy Homes Limited (Canada) which represented a separate component of business of the Group (segment "Frame-panel houses"). In December 2012 the Group sold its 100% interest in this subsidiary. Operations of this component until the date of disposal were recognized as discontinued in these consolidated financial statements.

Loss for the year from discontinued operations:

(in thousands of Russian Roubles)	**2012**	**2011**
Revenue	1 218 402	1 291 800
Expenses	(1 347 895)	(1 395 170)
Loss before tax of discontinued operations	(129 493)	(103 370)
Income tax relating to profit before tax of discontinued operations	3 009	1 806
Loss after tax of discontinued operations	(126 484)	(101 564)
Pre-tax loss recognised on the disposal of the group constituting the discontinued operation	(19 706)	-
Income tax effect of the disposal	-	-
Net loss from discontinued operations	**(146 190)**	**(101 564)**

Cash flows from discontinued operations:

(in thousands of Russian Roubles)	**2012**	**2011**
Net cash flows used in operating activities	(96 692)	(95 536)
Net cash flows from investing activities	61 211	80 740
Net cash flows used in financing activities	(230)	(330)
Net cash inflow	**(35 711)**	**(15 126)**

30 Discontinued operations (Continued)

The Group sold 100% share in its subsidiary Viceroy Homes Limited to a third party for a cash consideration of 11 000 thousand Canadian dollars (equivalent of RR 342 426 thousand as translated at the exchange rate prevailing at the date of transaction – 21 December 2012). The control over this subsidiary was lost on 21 December 2012. At this date the transaction on sale was completed by fulfilment of all obligations by each party under the contract with irrevocable force. Also at this date the directors of Viceroy Homes Limited resigned.

The analysis of assets and liabilities of the disposed subsidiary as at 21 December 2012 and calculation of loss on disposal is as follows:

(in thousands of Russian Roubles)	
Assets	
Property, plant and equipment (Note 5)	265 792
Intangible assets	27 384
Other non-current assets	1 681
Inventories	133 110
Trade receivables	41 433
Other receivables,	19 830
Cash and cash equivalents	11 798
Total assets	**501 028**
Liabilities	
Trade and other payables	248 633
Total liabilities	**248 633**
Cash consideration received	326 861
Account receivables	15 565
Net assets disposed off	(252 395)
Cumulative currency translation reserve on foreign operation transferred from other comprehensive income to profit or loss	(72 445)
Selling cost	(37 292)
Loss on disposal	**(19 706)**

Net cash inflow on disposal is as follows:

(in thousands of Russian Roubles)	
Consideration received in cash	326 861
Less: cash to pay for the services on support of the transaction	(37 292)
Less: cash and cash equivalent balances disposed off	(11 798)
Net cash inflow on disposals	**277 771**

31 Disposal of subsidiaries

In April 2012 the Group lost control over one of its subsidiaries which was incorporated in the form of LLC by resigning as its participant. Total assets at the date of losing control comprised RR 5 042 660 thousand, total liabilities comprised RR 1 055 632 thousand. Assets and liabilities were represented mostly by receivables and payables, accordingly. Total consideration for losing control was evaluated as proportionate share in net assets of this subsidiary at the date of resignation and amounted to RR 4 051 824 thousand. This consideration was settled with a transfer of the Company's own promissory note. Gain from disposal of subsidiary amounted to RR 64 796 thousand.

32 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making business decisions or exercise joint control. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The related parties of the Group with which the Group had transactions during the reporting period are classified into the following quality categories:

(a) enterprises that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, the Group;

(b) key management personnel, that is persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group;

The Group's balances with related parties as at 31 December 2012 and 2011 are as follows:

(in thousands of Russian Roubles)	**31 December 2012** Balances with related parties under common control	**31 December 2011** Balances with related parties under common control
Prepayments	1 565 580	-
Loans issued	34 489	-
Receivables	13 185	-
Cash and cash equivalents	6 606	193 434
Long-term loans and borrowings	(258 618)	-
Short-term loans and borrowings	(884 356)	809 086
Long-term payables	(366 995)	-
Accounts payable	(80 535)	-

In 2012 the Group received a loan from a related party in the amount of RR 254 380 thousand at 10% p.a., the Group extended a loan to a related party in the amount of RR 32 901 thousand at 13% p.a. In 2011, the Group placed a deposit with a related bank in USD at 4,5% p.a. maturing on 1 February 2012 in the Rouble equivalent of RR 184 098 thousand.

Related party transactions in 2012 and 2011 are set out below:

	Year ended 31 December 2012		Year ended 31 December 2011	
(in thousands Russian Roubles)	**Transactions with related parties under common control**	**Key management personnel transactions**	**Transactions with related parties under common control**	**Key management personnel transactions**
Revenue from rendering other services	2 412	-	-	-
Selling, administrative and general expenses	(20 658)	-	-	-
Interest income	1 561	-	2 032	-
Gain on initial recognition of long-term payables	205 935	-	-	-
Interest on other borrowings	(133 781)	-	(102 198)	-
Key management personnel compensation				
Payroll and related taxes	-	45 828	-	35 838
Payments on termination of labour contracts	-	-	-	1 860
Insurance	-	2 113	-	3 255
Total key management personnel compensation	**-**	**47 941**	**-**	**40 953**

33 Segment Information

Products and services from which reportable segments derive their revenues

The Group has identified the General Director as its chief operating decision maker and management reports used by him to oversee operations and make decisions on resource allocation serve as a basis for information presented.

The Group has determined operating segments based on the information that is reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance. For management purposes the Group is organised into business units based on their products and services, and has four reportable operating segments:

- land plots (except for land plots classified as inventories);
- residential property (including land plots classified within inventories);
- multi-apartment residential complexes;
- other.

Other operations mainly include consulting services rendered by the Group and contracts for construction of other properties.

Information regarding the Group's reportable segments is presented below.

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

2012 (*in thousands of Russian Roubles*)	**Land plots**	**Residential property**	**Multi-apartment residential complex**	**Other**	**Elimina-tions**	**Total on the Group**
Revenue						
External sales	18 869	4 284 965	-	30 410	-	4 334 244
Inter-segment sales	337	16 524	-		(16 861)	-
Total revenue	**19 206**	**4 301 489**	**-**	**30 410**	**(16 861)**	**4 334 244**
Operating expenses	(30 732)	(3 838 955)	(3 419)	(7 342)	-	(3 880 448)
Inventory write-down	-	(1 485 636)	-	(5 482)	-	(1 491 118)
Impairment of property, plant and equipment	-	(146 701)	-	-	-	(146 701)
Loss on change in fair value of investment property	(497 103)	-	-	(12 233)	-	(509 336)
Loss on investment property disposal	(418 330)	-	-	-	-	(418 330)
Claims provision	-	(17 373)	-	-	-	(17 373)
Provision for impairment of prepayments	-	181 506	-	-	-	181 506
Profit/(loss) before tax and financing activities by segments	**(926 959)**	**(1 005 670)**	**(3 419)**	**5 353**	**(16 861)**	**(1 947 556)**
Finance costs						(877 808)
Foreign exchange translation gains less losses						129 501
Unallocated expenses, net						(505 485)
Income tax						516 599
Loss for the year from continuing operations						**(2 684 749)**

33 Segment Information (Continued)

2011 (*in thousands of Russian Roubles*)	Land plots	Residential property	Multi-apartment residential complex	Other	Eliminations	Total for the Group
Revenue						
External sales	15 675	6 594 827	-	32 903	-	6 643 405
Inter-segment sales	376	7 959	-	-	(8 335)	-
Total revenue	**16 051**	**6 602 786**	**-**	**32 903**	**(8 335)**	**6 643 405**
Operating expenses	(21 660)	(5 328 985)	-	(8 158)	-	(5 358 803)
Inventory write-down	-	(1 171 104)	-	-	-	(1 171 104)
Gain from change in fair value of investment property	3 245 675	-	-	-	-	3 245 675
Loss on investment property disposal	(24 637)	-	-	(47 869)	-	(72 506)
Claims provision	-	47 253	-	-	-	47 253
Provision for impairment of prepayments	-	(205 568)	-	-	-	(205 568)
Profit/(loss) before tax and financing activities by segments	**3 215 429**	**(55 618)**	**-**	**(23 124)**	**(8 335)**	**3 128 352**
Finance costs						(605 543)
Foreign exchange translation losses less gains						(86 372)
Unallocated expenses, net						(417 811)
Income tax						(963 838)
Loss for the year from continuing operations						**1 054 788**

Unallocated (expenses)/income, net

(in thousands of Russian Roubles)	**2012**	**2011**
Selling, general and administrative expenses	(515 294)	(357 902)
Finance income	77 558	13 662
Other income	23 404	24 185
Provision for impairment of prepayments and accounts receivable	(154)	(5 888)
Provisions for other charges	-	(42 298)
Penalties paid	(1 102)	(7 449)
Write off of non-reimbursable VAT	-	(11 556)
Loss on purchase/sale of currency	(43 325)	(3 093)
Charitable contributions	(12 046)	(6 384)
Other expenses	(34 526)	(21 088)
Total unallocated expenses, net	**(505 485)**	**417 811**

33 Segment Information (Continued)

The accounting policies of reportable segments are the same as the Group's accounting policies described in Note 2. Profit/(loss) before tax in segment table represents the profit earned or the loss incurred by each segment without allocation of certain general and administrative costs, other unallocated income/(expenses), interest expense, gain/loss on foreign currency operations and income tax. This measure is reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**
Segment assets		
Land plots	33 357 332	34 900 806
Residential property	11 795 946	13 208 802
Multi-apartment residential complex	1 280 435	-
Other	13 319	339
Total segment assets	**46 447 032**	**48 109 947**
Assets relating to frame-panel houses (discontinued)	-	613 019
Unallocated assets	2 742 949	2 021 117
Total assets	**49 189 981**	**50 744 083**
Segment liabilities		
Land plots	2 043 976	2 186 232
Residential property	7 793 357	9 695 963
Multi-apartment residential complex	332 467	-
Other	-	-
Total segment liabilities	**10 169 800**	**11 882 195**
Liabilities relating to frame-panel houses (discontinued)	-	227 889
Unallocated liabilities	8 935 654	5 848 075
Total liabilities	**19 105 454**	**17 958 159**

Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

33 Segment Information (Continued)

Other segment information

(in thousands of Russian Roubles)	**2012**	**2011**
Additions to non-current assets		
Land plots	234 772	1 215
Residential property	159 574	81 073
Multi-apartment residential complex	-	-
Frame-panel houses (discontinued)	5 172	9 869
Other	1 027	359
Unallocated capital expenditures	8 628	10 652
Total additions to non-current assets	**409 173**	**103 168**
Segment depreciation		
Residential property	4 816	4 623
Multi-apartment residential complex	-	-
Frame-panel houses (discontinued)	18 474	34 083
Other	-	87
Unallocated depreciation	7 255	6 776
Total depreciation	**30 545**	**45 569**

Geographical information

The Group operates in one principal geographical areas: Russian Federation (in 2011: in four principal geographical areas: Russian Federation, Canada, USA and Japan).

Information on geographical location of the Group's non-current assets except for investments held to maturity and deferred tax assets is as follows:

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**
Non-current assets by geographical location		
Russian Federation	28 700 682	30 234 681
Canada	-	393 896
USA	-	11 565
Total non-current assets by geographical location	**28 700 682**	**30 640 142**

34 Capital Commitments and Contingencies

Capital commitments

As at 31 December 2012 and 2011, the Group did not have any significant commitments on future capital expenditures.

Operating leases

The Group did not have any significant future rental payments under non-cancellable operation leases in effect as at 31 December 2012 and 2011.

Commitments on cultivation of agricultural land

There are certain risks of forced termination of the right to agricultural land in case of its significant degradation, or in case the land has not been used for agricultural purposes during three years.

34 Capital Commitments and Contingencies (Continued)

In both cases there is a significant interval between establishing the fact of degradation (non-use) of land and termination of rights, during which violations can be eliminated. In addition, termination of rights requires compliance with certain procedures. The Group has set control procedures to decrease the risk of forced termination of rights to its agricultural land. Part of the land is leased to third party agricultural producers, the rest is cultivated.

Taxation contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. In certain cases a tax review may cover earlier periods.

Amendments to Russian transfer pricing legislation are effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the entity's financial position and/or business activities in general.

The Group includes several companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently by the Group's management; however, it may be significant to the financial position and/or the overall operations of the Group.

At 31 December 2012 in addition to the above transfer pricing matters and potential additional tax charges from non-resident Group companies the Group has other possible tax obligations from exposure to tax risks other than significant, primarily related to income tax, which the management cannot reliably estimate due to inaccuracies in interpretation of tax legislation and insufficient court practice. Management intends to vigorously defend their position and interpretations that were used for determining recognised taxes in these consolidated financial statements if they are challenged by the authorities.

34 Capital Commitments and Contingencies (Continued)

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the entity's financial position and/or business activities in general.

Pension and retirement plans

In accordance with Russian law all of the Group's employees are eligible to receive state pension benefits. At 31 December 2012 and 31 December 2011, the Group was not liable for any supplementary pensions, post-retirement health-care, insurance benefits or retirement indemnities to its current or former employees.

Compliance with loan covenants or conditions

The Group has certain restrictive covenants with regard to loans and borrowings. Non-compliance with these covenants may lead to negative consequences for the Group, including default. As at 31 December 2012 the Group was in breach of one of the financial covenants under the loan agreement with one of its banks-lenders, namely the increase of the aggregate debt under IFRS above the prescribed ceiling (USD 400 000 thousand). In connection with this non-compliance the long-term loan of RR 1 983 012 thousand was reclassified into short-term loans. In 2013 this non-compliance does not exist as based on the conditions of the respective contract the covenant does not apply in 2013.

At 31 December 31 December 2011, the Group also observed partial non-compliance with certain financial covenants as regards the loans from ING Bank N.V. in the amount of RR 3 320 095 thousand and from VTB BANK (DEUTSCHLAND) AG in the amount of RR 1 096 016 thousand, namely a decrease in the net value of the Group's net assets under IFRS below the prescribed minimal level (USD 1 261 721 thousand). In connection with this non-compliance the above loans were reclassified into short-term loans and borrowings at 31 December 2011.

In 2012, the Group successfully refinanced the ING Bank N.V. loan and, thereby, could settle the non-compliance with the financial covenants set by the loan agreement with this bank.

The loan from VTB Bank (Deutschland) AG was repaid in 2012.

35 Risk Management Policy

Risk management is essential for the Group. The main risks inherent to the Group’s operations include credit risk, liquidity risk, interest rate risk, foreign exchange risk and other price risks. A description of the Group's risk management policies in relation to these risks is provided below.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group does not hedge its credit risks.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty/customer, or groups of counterparties/customers. Prior to entering into material contracts, the Group undertakes due diligence procedures, which includes checking the financial condition and creditworthiness of the counterparty, its experience, expertise and reputation in the subject area of co-operation. The Group also obtains a legal opinion from its in-house or independent legal counsel regarding the validity and enforceability of contracts and other material documentation in connection with the subject transaction.

The Group's counterparties/customers mainly include contractors, buyers or property and banks and other financial institutions. The Group has developed additional procedures to mitigate credit risk on each category.

35 Risk Management Policy (Continued)

Contractors: The Group seeks additional credit risk mitigation instruments, including safety deposits, work completion guarantees issued by reliable banks, and attracts professional advisors for providing quality control and technical supervision.

Property buyers: As a rule prepayment is required from each potential buyer.

Banks and other financial institutions: the Group undertakes due diligence procedure with regard to banks and other financial institutions, which are service providers for the Group, to ensure their creditworthiness. The Investment Committee establishes limits for aggregate credit exposure to banks and other financial institutions. Such limits are subject to quarterly review. The Group maintains accounts with several banks to ensure the flexibility of its risk management policy implementation.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets. The maximum level of credit risk as of the reporting date was as follows:

(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Non-current assets			
Investments held to maturity (Note 9)	337 007	306 588	-
Current assets			
Cash and cash equivalents (Note 13)	576 863	691 178	368 719
Short term bank deposits (Note 14)	456 426	-	-
Financial assets within receivables (Note 11)	702 869	596 608	936 678
Loans issued (Note 12)	363 854	285 493	-
Total maximum exposure to credit risk	**2 437 019**	**1 879 867**	**1 305 397**

At 31 December 2012, the Group had one counterparty (2011: three counterparties), with aggregate receivables of RR 489 689 thousand (2011: RR 447 781 thousand) or 70% of the total trade receivables, receivables under construction contracts and other receivables (2011: 75%).
The Group has deposits with four banks (2011: two banks) which creates a certain level of credit risk concentration. The Group monitors credit risk concentration by placing deposits with reliable credit institutions internationally rated not below B1.

Market risk

The group is exposed to market risks arising from open positions on a) currency and b) interest-bearing assets and liabilities. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The impact of market risk presented below is based on a change in one factor with all other variables held constant. This can hardly occur in practice, and changes in several factors can correlate, e.g., a change in interest rates and currency rates.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group is exposed to currency risk with regard to revenue, purchases and borrowings denominated in currencies other than functional currencies of the Group's subsidiaries. The majority of these transactions are denominated in US dollars.

The Group's management monitors currency rate fluctuations on a permanent basis and takes necessary measures to mitigate this risk. In the context of the weakening of RR/USD exchange rate, the Group maintains part of its cash in foreign currencies, namely US dollars. In addition, initially, prices for the Group's products are set in notional units linked to the US dollar exchange rate – stated by Central Bank of Russian Federation. In such a way the Group implicitly has opportunity to decrease currency risks.

35 Risk Management Policy (Continued)

Financial instruments by currency

(in thousands of Russian Roubles)	USD	RUB	CAD	Total at 31 December 2012
Financial assets				
Investments held to maturity (Note 9)	-	337 007	-	337 007
Cash and cash equivalents (Note 13)	309 854	267 079	-	576 933
Short term bank deposits (Note 14)	456 426	-	-	456 426
Financial assets within receivables (Note 11)	-	687 605	15 264	702 869
Loans issued (Note 12)	315 779	48 075	-	363 854
Total financial assets	**1 082 059**	**1 339 766**	**15 264**	**2 437 089**
Financial liabilities				
Financial liabilities within payables (Note 19)	2 562	2 341 903	483	2 344 948
Loans and borrowings (Note 18)	8 442 474	3 774 018	-	12 216 492
Total financial liabilities	**8 445 036**	**6 115 921**	**483**	**14 561 440**
Net financial position at 31 December 2012	**(7 362 977)**	**(4 776 155)**	**14 781**	**(12 124 351)**

(in thousands of Russian Roubles)	USD	RUB	CAD	Total at 31 December 2011
Financial assets				
Investments held to maturity (Note 9)	-	306 588	-	306 588
Cash and cash equivalents (Note 13)	19 549	633 477	38 292	691 318
Financial assets within receivables (Note 11)	-	527 190	69 417	596 607
Loans issued (Note 12)	209 964	75 529	-	285 493
Total financial assets	**229 513**	**1 542 784**	**107 709**	**1 880 006**
Financial liabilities				
Financial liabilities within payables (Note 19)	37 181	826 753	127 379	991 313
Loans and borrowings (Note 18)	8 397 551	1 820 075	-	10 217 626
Total financial liabilities	**8 434 732**	**2 646 828**	**127 379**	**11 208 939**
Net financial position at 31 December 2011	**(8 205 219)**	**(1 104 044)**	**(19 670)**	**(9 328 933)**

35 Risk Management Policy (Continued)

(*in thousands of Russian Roubles*)	USD	RUB	CAD	Total at 1 January 2011
Financial assets				
Cash and cash equivalents (Note 13)	171 736	143 017	54 246	368 999
Financial assets within receivables (Note 11)	52 800	848 080	35 798	936 678
Total financial assets	**224 536**	**991 097**	**90 044**	**1 305 677**
Financial liabilities				
Financial liabilities within payables (Note 19)	53 790	1 079 629	103 002	1 236 421
Loans and borrowings (Note 18)	10 350 292	177 425	-	10 527 717
Total financial liabilities	**10 404 082**	**1 257 054**	**103 002**	**11 764 138**
Net financial position at 1 January 2011	**(10 179 546)**	**(265 957)**	**(12 958)**	**(10 458 461)**

US dollar strengthening/weakening against Russian Rouble by 10% at 31 December 2012 would have increased/decreased the profit for 2012 by RR 734 771 thousand (2011: RR 822 395 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant and does not take into account the differences on translation to the Group's presentation currency.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates for financial instruments will affect the value of financial instruments with fixed interest rates or future cash flows related to financial instruments with floating interest rates.

The Group’s Treasury function performs analysis of current interest rates on an annual basis and prepares forecasts for the next year. Depending on the forecast, the management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case of changes in the current market fixed or variable rates the management may consider refinancing of a particular debt on more favourable terms.

As at 31 December 2012 and 31 December 2011 the Group's financial assets and liabilities had fixed interest rates.

Sensitivity analysis of fixed interest rates is not presented as the Group does not have any fair valued assets or liabilities with fixed interest rates. Therefore, changes in interest rates do not affect the Group's profit or loss.

Other price risk

Other price risk arises from possible changes in fair values or future cash flows as a result of changes in market prices (apart from the impact of interest rate and currency risks) for financial instruments. The Group is exposed to this risk with regard to payables to contractors. The policy in relation to this risk stipulates signing construction contracts with contractors on a fixed price basis. Therefore, a sensitivity analysis is not presented as the risk of fluctuation of future cash flows with regard to payables is insignificant as of the reporting date.

35 Risk Management Policy (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations in due course.

The Group's management monitors these risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in financial markets for current liquidity support and cash flow management.

The Group recognises the capital intensive nature and low liquidity of real estate. Therefore, the Group uses its best efforts to fund a significant portion of future cash needs through long-term borrowings and to maintain a high proportion of equity financing. The Group also tries to partially finance the development of its residential projects by receiving advance payments under construction contracts.

The maturity analysis of the Group's financial liabilities as of 31 December 2012, 2011 and 2010 is detailed as follows. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

(in thousands of Russian Roubles)	**Weighted average interest rate**	**On demand**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Contractual amount at 31 Decembe r2012**
Financial liabilities							
Financial liabilities within payables	-	1 336 277	330 717	36 653	251 341	693 292	2 648 280
Loans and borrowings	12,2	3 616 519	660 803	337 471	3 660 669	6 785 224	15 060 686
Total financial liabilities		**4 952 796**	**991 520**	**374 124**	**3 912 010**	**7 478 516**	**17 708 966**

(*in thousands of Russian Roubles)*	**Weighted average interest rate**	**On demand**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Contractual amount at 31 December 2011**
Financial liabilities							
Financial liabilities within payables	-	526 603	193 054	88 682	160 507	112 273	1 081 119
Loans and borrowings	11,9	5 685 123	895 153	283 358	3 750 550	1 034 481	11 648 665
Total financial liabilities		**6 211 726**	**1 088 207**	**372 040**	**3 911 057**	**1 146 754**	**12 729 784**

35 Risk Management Policy (Continued)

(in thousands of Russian Roubles)	Weighted average interest rate	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Contractual amount at 1 January 2011
Financial liabilities							
Financial liabilities within payables	-	519 645	323 139	68 687	324 939	-	1 236 410
Loans and borrowings	10,1	5 317 288	-	722 276	4 583 194	597 296	11 220 054
Total financial liabilities		**5 836 933**	**323 139**	**790 963**	**4 908 133**	**597 296**	**12 456 464**

The Group's management takes actions to settle short-term debt liabilities. The settlement plan is provided in Note 1.
The Group had credit related commitments in respect of loans issued in the amount of RR 517 196 thousand at 31 December 2012 (31 December 2011: RR 662 435 thousand).

Management of Capital

The Group identifies its capital as share and additional paid-in capital and retained earnings. The Group manages its capital mainly to ensure that it will be able to continue as a going concern while maximising the return to its equity holders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To maintain and regulate the capital structure, the Group may return capital to its equity holders, issue new shares or sell assets to reduce the debt. The amount of capital that the Group managed as at 31 December 2012 was RR 30 084 527 thousand (31 December 2011: RR 32 785 924 thousand).

Main sources of finance of the Group are issuing additional shares for shareholders, offering shares in capital markets and attracting borrowed funds from lending and non-banking institutions.

The Group's management reviews the capital structure on a semi-annual basis. As part of this policy, the Group's management evaluates the cost of capital and risks associated with each capital item.

(in thousands of Russian Roubles)	31 December 2012	31 December 2011	1 January 2011
Long-term and short-term loans and borrowings (Note 18)	12 216 492	10 217 626	10 527 717
Cash and cash equivalents (Note 13)	(576 933)	(691 318)	(368 999)
Short term bank deposits (Note 14)	(456 426)	-	-
Loans issued (Note 12)	(363 854)	(285 493)	-
Net borrowed funds	**10 819 279**	**9 240 815**	**10 158 718**
Equity	**30 084 527**	**32 785 924**	**31 986 248**
Net debt to equity ratio	**35,96%**	**28,19%**	**31,76%**

The Group did not comply with externally imposed capital requirements throughout 2011. These requirements were set in the Group's loan agreements under which the Group should maintain the debt to equity ratio below 67% and its equity should not be below a certain fixed level.

35 Risk Management Policy (Continued)

The Group complied with the requirements to the debt to equity ratio and failed to comply with equity requirements under certain loan agreements. In 2012 the Group reached an agreement on decreasing the minimum equity level on one loan and took actions to repay a loan under another loan agreement, which at 31 December 2012 enables it to comply with all requirements (Note 34).

36 Financial Instruments: Presentation by Category and Fair Values

Carrying amounts of financial assets and liabilities as of 31 December 2012, 2011 and 2010 are as follows:

Financial Assets	**Held-to-maturity investments**			**Loans issued and receivables**		
(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**	**31 December 2012**	**31 December 2011**	**1 January 2011**
Non-Current Assets						
Investments held to maturity(Note 9)	337 007	306 588	-	-	-	-
Current assets						
Financial assets within receivables (Note 11)	-	-	-	702 869	596 608	936 678
Loans issued (Note 12)	-	-	-	363 854	285 493	-
Cash and cash equivalents (Note 13)	-	-	-	576 933	691 318	368 999
Short term bank deposits (Note 14)	-	-	-	456 426	-	-
Total financial assets	**337 007**	**306 588**	**-**	**2 100 082**	**1 573 419**	**1 305 677**

Financial Liabilities	**Financial liabilities carried at amortised cost**		
(in thousands of Russian Roubles)	**31 December 2012**	**31 December 2011**	**1 January 2011**
Non-Current Liabilities			
Long-term loans and borrowings (Note 18)	5 471 676	1 000 348	532 137
Financial liabilities within payables (Note 19)	366 995	-	-
Current Liabilities			
Short-term loans and borrowings (Note 18)	6 744 816	9 217 278	9 995 580
Financial liabilities within payables (Note 19)	1 977 953	991 313	1 236 421
Total financial liabilities	**14 561 440**	**11 208 939**	**11 764 138**

Management believes that the fair value of financial assets at 31 December 2012 and 31 December 2011 does not differ significantly from their carrying amounts. In management's assessment the fair value of financial liabilities at 31 December 2012 amounts to RR 13 976 006 thousand (31 December 2011: RR 11 050 729 thousand).

37 Events after the Reporting Date

In March 2013 the Group signed an agreement for sale of approximately 99 ha of land from its land bank. Total consideration amounts to RR 992 915 thousand.

Further to the negotiations of the Cyprus government with the European Commission, the European Central Bank and the International Monetary Fund for the purpose of obtaining financing, on 25 March 2013 it was agreed that financial assistance will be provided to Cyprus in conjunction with a package of measures including the split of Laiki Bank into a good bank (depositors with amounts up to €100 thousand) and bad bank (depositors with amounts over €100 thousand); and an approximate 40% haircut on Bank of Cyprus deposits with amounts over €100 thousand. In addition, the corporate tax rate will increase from 10% to 12.5%.

The Group estimates that the above mentioned events in Cyprus will not deteriorate significantly the financial position of the Group due to insignificant level of the Group's operations in Cyprus.