O1 PROPERTIES LIMITED GROUP
(formerly Tonebol Limited Group)

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the period from 24 August 2010
to 31 December 2010

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2010 MANAGEMENT REPORT

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Mr. Dmitriy Mints Mr. Tomasz Zamiara Mr. Michael Stanton Mr. Alexander Ostrovskiy Mr. Norbert Kickum Mr. Timothy Fenwick
Company Secretary:	Poli Monti
Independent Auditors:	PricewaterhouseCoopers Limited Chartered accountants
Registered office:	2 Michail Karaoli Egkomi 2404 Nicosia Cyprus
Banker:	Nomos Bank
Registration number:	272334

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its first report and audited consolidated financial statements of O1 Properties Limited (formerly Tonebol Limited) ("the Company") and its subsidiaries (together referred to as "the Group") for the period from 24 August 2010 to 31 December 2010.

Incorporation

The Company O1 Properties Limited (formerly Tonebol Limited) was incorporated in Cyprus on 24 August 2010 as a limited liability company under the provisions of the Cyprus Companies Law, Cap. 113.

Change of name

On 30 May 2011 the Company's name was changed to O1 Properties Limited.

Principal activities

The principal activities of the Company are the holding and financing of investments.

O1 Properties Limited (formerly Tonebol Limited) ("the Company") and its subsidiaries (together "the Group") operate mainly in the Russian real estate market. In particular, the Group is focused on buying active companies in the Russian Federation to obtain the profit from their business activities.

Review of the development and current position of the Company and description of the major risks and uncertainties

The profit of the Group for the period from 24 August 2010 to 31 December 2010 was USD 94 902 thousand. On 31 December 2010 the total assets of the Group were USD 1 692 277 thousand and the net assets were USD 661 058 thousand. The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory.

The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in note 23 of the consolidated financial statements.

Results and Dividends

The Group's results for the period from 24 August 2010 to 31 December 2010 are set out on page 7. The Board of Directors does not recommend the payment of a dividend and the net profit for the reporting period is retained.

Share capital

Authorised capital

Under its Memorandum the Company fixed its share capital at 1,000 ordinary shares of nominal value of EUR 1 each. On 9 November 2010 and 1 December 2010 the authorised share capital of the Company was increased to 10,000 shares and then 13,000 shares respectively, of a nominal value of EUR 1 each.

Issued capital

Upon incorporation on 24 August 2010 the Company issued to the subscribers of its Memorandum of Association 1 000 ordinary shares of EUR 1 each at par. On the 9 November 2010, the Company issued 9 000 shares of EUR 1 each at premium of EUR 32 049.45 each. On the 1 December 2010, the Company issued 3 000 shares of EUR 1 each at premium of EUR 25 930.39 each.

REPORT OF THE BOARD OF DIRECTORS

Board of Directors

The members of the Group's Board of Directors at the date of this report are presented on page 1. Mr. Theodoulos Montis was the sole director was a member of the Board of Directors throughout the period from 24 August 2010 to 31 December 2010.

On 1 July 2011 the sole director of the Company Mr. Theodoulos Montis resigned and new directors were appointed by unanimous resolution of the shareholders of the Company pursuant to the Articles of Association of the Company. The current directors of the Company with effect from 1 July 2011 are:

Mr. Dmitriy Mints

Mr. Tomasz Zamiara

Mr. Michael Stanton

Mr. Alexander Ostrovskiy

Mr. Norbert Kickum

Mr. Timothy Fenwick

Significant events after the reporting period

Any significant events that occurred after the end of the reporting period are described in note 30 to the consolidated financial statements.

Existence of branches

During the period from 24 August 2010 to 31 December 2010 the Company did not operate any branches.

Independent Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,

12 July, 2011

Dmitriy Mints, Director

pwc

Independent auditor's report

To the Members of O1 Properties Limited (formerly Tonebol Limited)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O1 Properties Limited (formerly Tonebol Limited) (the "Company") and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the period from 24 August 2010 (date of incorporation) to 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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PricewaterhouseCoopers Ltd is a member firm of PricewaterhouseCoopers International Ltd, each member firm of which is a separate legal entity. PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No. 143594). A list of the company's directors including for individuals the present name and surname, as well as any previous names and for legal entities the corporate name, is kept by the Secretary of the company at its registered office at 3 Themistocles Dervis Street, 1066 Nicosia and appears on the company's web site. Offices in Nicosia, Limassol, Larnaca and Paphos.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of O1 Properties Limited (formerly Tonebol Limited) and its subsidiaries as at 31 December 2010, and of their financial performance and their cash flows for the period from 24 August 2010 (date of incorporation) to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

Report on other legal and regulatory requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Christakis K. Santis
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Ltd
Certified Public Accountants and Registered Auditors

12 July 2011

In thousands of US Dollars	Note	31 December 2010
ASSETS		
Non-current assets		
Property, plant and equipment	7	16 693
Investment property	8	1 458 527
Prepayments		177
VAT receivable		20 308
Total non-current assets		**1 495 705**
Current assets		
Inventories	10	58 179
Loans issued	9	11 002
VAT receivable		30 851
Trade and other receivables	11	31 259
Current income tax prepayments		1 314
Cash and cash equivalents	12	54 646
Other assets		9 321
Total current assets		**196 572**
TOTAL ASSETS		**1 692 277**
LIABILITIES		
Non-current liabilities		
Borrowings	13	821 569
Tenant deposits		14 883
Deferred income tax liability	21	4
Total non-current liabilities		**836 456**
Current liabilities		
Borrowings	13	14 885
Derivative financial instruments	14	3 851
Tenant deposits		3 208
Deferred rental income		25 277
Deferred income on residential property	15	69 746
Co-investor share in residential property		16 362
Current income tax liability		271
Trade and other payables	16	61 163
Total current liabilities		**194 763**
TOTAL LIABILITIES		**1 031 219**
EQUITY		
Share capital	17	565 960
Retained earnings		94 896
Translation reserve		126
Equity attributable to the equity holders of the Company		**660 982**
Non-controlling interest		**76**
TOTAL EQUITY		**661 058**
TOTAL LIABILITIES AND EQUITY		**1 692 277**

Approved for issue by the Board of Directors and signed on its behalf on 12 July 2011.

Dmitriy Mints, Director

Tomasz Zamiara, Director

Alexander Ostrovsky, Director

Michael Stanton, Director

The accompanying notes on pages 11 to 56 are an integral part of these consolidated financial statements.

In thousands of US Dollars	Note	From 24 August 2010 to 31 December 2010
Rental revenue		8 718
Operating expenses of investment property	18	(1 620)
Net rental income		**7 098**
Gain from change in fair value of investment property	8	41 491
General and administrative expenses	19	(2 095)
Other operating income		123
Other operating expenses		(38)
Net gain from disposal of subsidiaries		51 956
Operating profit		**98 535**
Finance income	20	1 435
Finance costs	20	(6 721)
Foreign exchange differences		4 809
Profit before income tax		**98 058**
Income tax expense	21	(3 156)
Profit for the period		**94 902**
Profit attributable to:		
- Owners of the Company		94 896
- Non-controlling interest		6
Earnings per ordinary share attributable to the owners of the Company, basic and diluted (in thousands of US Dollars per share)		18

In thousands of US Dollars	**From 24 August 2010 to 31 December 2010**
Profit for the period	**94 902**
Other comprehensive income:	
Effect of translation to presentation currency	126
Other comprehensive income for the period	**126**
Total comprehensive income for the period	**95 028**
Total comprehensive income is attributable to:	
- Owners of the Company	95 022
- Non-controlling interest	6

In thousands of US Dollars	**Share capital**	**Retained earnings**	**Translation reserve**	**Non-controlling interest**	**Total equity**
Balance at 24 August 2010	-	-	-	-	-
Profit for the period	-	94 896	-	6	94 902
Other comprehensive income for the period	-	-	126	-	126
Total comprehensive income for the period	-	94 896	126	6	95 028
Ordinary shares issue (Note 17)	18	-	-	-	18
Share premium (Note 17)	504 583	-	-	-	504 583
Shareholder's contribution (Note 17)	61 359	-	-	-	61 359
Business combinations (Note 29)	-	-	-	70	70
Balance at 31 December 2010	**565 960**	**94 896**	**126**	**76**	**661 058**

In thousands of US Dollars	Note	From 24 August 2010 to 31 December 2010
Profit before tax		**98 058**
Adjustments for:		
Depreciation	19	52
Gain from change in fair value of investment property	8	(41 491)
Gain on disposal of subsidiary		(51 956)
Finance costs	20	6 721
Finance income	20	(1 435)
Unrealized foreign exchange differences		(4 824)
Other non-cash operating costs		2
Operating cash flows before working capital changes		**5 127**
Net increase in VAT receivable		(391)
Net decrease in trade and other receivables		91 332
Net decrease in prepayments		1 311
Net increase in deferred rental income		4 510
Net decrease in trade and other payables		(99 239)
Cash flows from operating activities		**2 650**
Income tax paid		(421)
Net cash from operating activities		**2 229**
Cash flow from investing activities		
Expenditures on subsequent improvements of investment property	8	(3 956)
Acquisition of subsidiaries, net of cash acquired	29	(199 674)
Proceeds from sale of shares in subsidiary, net of cash disposed	29	(63)
Increase in non-current VAT receivable		(242)
Loans issued		(45 152)
Repayment of loans issued		10 010
Interest received		39
Net cash used in investing activities		**(239 038)**
Cash flows from financing activities		
Proceeds from shares issued	17	290 503
Proceeds from borrowings		16 343
Repayment of borrowings		(6 072)
Interest paid		(10 424)
Net cash from financing activities		**290 350**
Effect of exchange rate changes on cash and cash equivalents		**(15)**
Effect of translation to presentation currency		**1 120**
Net increase in cash and cash equivalents		**54 646**
Cash and cash equivalents at beginning of period	12	-
Cash and cash equivalents at the end of the period	**12**	**54 646**

During the reporting period the share capital of the Group was settled in kind of promissory notes issued by third-parties which were used for acquisition of subsidiaries and part of the borrowings were repaid by transferring the shares in a subsidiary of the Group. Refer to Note 29.

Non-cash transactions presented below were not reflected in consolidated statement of cash flows:

Non-cash transactions:	
Acquisition of subsidiaries in exchange of Promissory Notes (Note 29)	(203 400)
Issue of ordinary shares in exchange for Promissory Notes	207 600
Shareholder's contribution (Note 17)	61 359
Repayment of borrowings in exchange for shares in subsidiary (Note 29)	(42 514)

1 General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113, for the period from 24 August 2010 to 31 December 2010 for O1 Properties Limited (formerly Tonebol Limited) (hereinafter, "the Company") and Subsidiaries (together referred to as "the Group").

The Company was incorporated on 24 August 2010 as a limited liability company and is domiciled in Cyprus. The address of its registered office is Michail Karaoli, 2, Egkomi, P.C.2404, Nicosia, Cyprus. On 30 May 2011 the Company's name was changed to O1 Properties Limited.

As at 31 December 2010 the Group's ultimate parent company is Lenmar Capital Inc., BVI, which owns 100% of Salastar Investments Ltd, Cyprus. The Group's immediate shareholders are Salastar Investments Ltd., Cyprus (99.992%) and Coniston Management Limited, BVI (0.008%). The Group is ultimately controlled by Mr. Boris Mints (Citizen of the Russian Federation).

These consolidated financial statements were approved for issue on 12 July 2011.

Principal activity: The principal activities of the Group are development and operation of office investment property located in Moscow, Russian Federation.

The Group has three major business segments:

1) development of office investment property: acquisition of investment properties in Moscow, redeveloping them for further leasing them out as Class A and Class B offices and further sale.
2) new construction of office investment property: acquisition of land plots in Moscow to develop Class A offices for further leasing them out and further sale.
3) new construction of premium class residential property: acquisition of land plots in Moscow to develop the residential apartments for further sale to private residents.

The consolidated subsidaries and the degree of control exercised by the Group are as follows:

Entity	Country of incorporation	Principal activity	% share
CJSC "Horus Capital"	Russian Federation	Development and operation of office investment property. Development and sale of residential property.	100
CJSC "Vodniy Stadion Sport Invest"	Russian Federation	Investment property	100
CJSC "Stroypromplast"	Russian Federation	Investment property	100
CJSC "Moscow Furniture Plant"	Russian Federation	Investment property	95,86
Sandix Group B.V.	The Netherlands	Inactive	100
Flybase Investments Limited	Cyprus	Financing company	100
Effusive Holding Limited	Cyprus	Holding company	100
Longmoor Limited	Cyprus	Holding company	100
Wallasey Limited	Cyprus	Financing company	100
Derelia Limited	Cyprus	Inactive	100
Lightnet Limited	Cyprus	Inactive	100
Nareena Limited	Cyprus	Inactive	100
Renabon Limited	Cyprus	Inactive	100
Crossriver Limited	Cyprus	Inactive	100
Eagleman Limited	Cyprus	Inactive	100
Enersenia Limited	Cyprus	Inactive	100
Manette Holdings Limited	Cyprus	Inactive	100
Reindex Limited	Cyprus	Inactive	100
Vameno Holdings	Cyprus	Inactive	100
Levisoma Trading Limited	Cyprus	Financing company	100

1 General Information (Continued)

Entity	Country of incorporation	Principal activity	% share
Zatkapa Holdings Limited	Cyprus	Holding company	100
Maiga Investments Limited	Cyprus	Financing company	100
Tzortis Limited	Cyprus	Investment property	100
Pianconero Investments Limited	Cyprus	Investment property	100
Mervita Holdings Limited	Cyprus	Investment property	100
Boxar Holdings Limited	Cyprus	Holding company	100
Talisia Investments Limited	British Virgin Islands	Holding company	100
Dawson Int'L Inc.	British Virgin Islands	Holding company	100
Celera Corporation	British Virgin Islands	Holding company	100
Discovery Russian Realty Paveletskaya Project Limited	Cayman Islands	Holding company	99,94

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Basis of Preparation and Summary of Significant Accounting Policies

Basis of presentation. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. They have been prepared under the historical cost convention as modified by revaluation of property, plant and equipment and investment property.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Functional currency. The individual financial statements of each of the companies within the Group are prepared in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the parent entity is the US Dollar. The presentation currency used in the consolidated financial statements is the US Dollar.

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of US Dollars ("USD").

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries that meet the definition of business. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition of a business are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest 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 may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Key measurement terms. Depending on their classification financial instruments are carried at fair value 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.

Valuation techniques such as discounted cash flows 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 consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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. An 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 of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised 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.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating the 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. (refer to income and expense recognition policy).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities. The Group classifies its financial liabilities into financial liabilities carried at amortised cost.

Initial recognition of financial instruments. Financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in the income statement for financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred not retained substantially all risks and rewards of ownership but has not retained control. 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.

Property, plant and equipment. Property, plant and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of property, plant and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Buildings are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation of buildings are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit and loss for the year.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each end of reporting period management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimate the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amounted is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Computer equipment	5
Cars	5
Office equipment	10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is the property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, 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 the similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows;

(d) sale proposals from the market players.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in valuation of property of similar location and category.

Investment property that is being developed or redeveloped for continuing use as investment property continues to be measured at fair value. Earned rental income is recorded in profit or loss within the separate line "Rental revenue". Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment property also includes long-term leasehold land held under an operating lease, which is accounted for as a finance lease in accordance with IAS 40 "Investment Property" and IAS 17 "Leases". Each lease payment on the long-term leasehold land is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liability on leasehold land. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

If the Group begins to redevelop (including partial or complete building demolition) an existing investment property for continued future use as investment property, the property remains an investment property.

Loans issued. Loans are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

After initial recognition loans and receivables are measured at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is 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.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the 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. In Cyprus VAT is under certain conditions recoverable upon demand.

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.

Inventories. The Group's inventories include the following categories:

- work in progress. This category includes residential property under construction.
- other inventory.

Inventories are accounted for at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete and selling expenses. Cost of inventories is determined using the special identification method, whereby the specific costs are attributed to identified items of inventory.

A normal operating cycle required for construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the reporting date.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. A provision for impairment of financial assets carried at amortised cost is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other expenses.

The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset within general and administrative expenses. 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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through the income statement.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purpose of the cash flow statement.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (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 income on the temporary investment of those borrowings are capitalised.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or where the Group is a lessee in an operating lease, which is classified as investment property, the assets leased are capitalised in investment property at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method.

Derivative financial instruments. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes is disclosed in Note 14. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedge item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The changes in the fair value of derivatives are recognised immediately in the consolidated income statement.

Tenant deposits. Tenant deposits represent advances made by lessees as guarantees during the lease period and are repayable by the Group upon termination of lease contracts. Tenant deposits are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method. Any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the lease term within finance activities.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Deferred income on residential property. Prepayments for real estate developed with a view for sale comprise advances received for the purchase of apartments, parking lots and commercial space and represent deferred revenue. Deferred revenue from advanced sale of real estate developed with a view for sale represents funds received from clients of the Group at the inception of real estate development and during the development process for the purpose of future purchase of real estate upon finalisation of construction.

Co-investor's share in residential property. Where the Group enters into a co-investment contract with a third party in order to develop a site, the agreement typically specifies an ownership interest of the third party in the completed property, or a specific element of developed site. The contribution received from the co-investor in respect of this arrangement is recognised as a liability in the statment of financial position. Upon a realisation of investment agreement the liability will be netted against the share of co-investor in the investment costs of the constructed residential property.

Income tax. Income tax has been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in other comprehensive income or directly in equity because it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within general and administrative expenses.

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. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period 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 liabilities are netted in the consolidated financial statements of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries , except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's strategy is that all investment property projects are directly or indirectly owned by Cyprus incorporated companies and these investment properties will,if necessary, be disposed through the disposal of shares of the Cyprus companies. Gains on disposal of shares are exempt from Cyprus income tax, therefore the Group does not recognise deferred tax liabilities on fair value gains on investment property.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes 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 by the end of reporting period and any known Court or other rulings on such issues.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

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.

Trade and other payables. Trade and other payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost, using the effective interest method.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. 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 consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Revenue and expense recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts. The main activity of the Group is the investment property business.

Rental revenue. Rental income is recognised in the income statement on a straight-line basis over the lease term. Rental revenue received in advance is recognised as deferred rental income in the statement of financial position.

Operating expenses of investment property. The operating expenses associated with investment properties are charged to the income statement as incurred. These expenses include only expenses that directly refer to investment property which generated rental income during the year.

Interest income and expenses: Interest income and expenses are recognised on a time-proportion basis using the effective interest method.

Other income and expenses. All other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid and unpaid 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 and are included in general and administrative expenses. Group companies do not operate their own pension schemes. There is no personnel employed outside the Russian Federation.

Foreign currency translation. 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") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in the income statement and are presented on a net basis within finance activity.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Translation at year-end rates does not apply to non-monetary items, including equity investments, which are translated at the exchange rate as at the date of the transaction. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each Group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses for each income statement 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);

(iii) components of equity are translated at the historical rate, and

(iv) all resulting exchange differences are recognised as a separate component of equity.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 30.4769 and the average exchange rate at 31 December 2010 was USD 1 = RUR 30.3692.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of participating shares outstanding during the reporting year.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Valuation of investment properties. The fair value of investment properties is determined by using valuation techniques. In determining the fair value of the Group's investment property, management have regard to reports by independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

If information on current or recent prices of comparable investment properties is not available, the fair value of investment properties is determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each reporting date. Changes in assumptions used in the valuation techniques could affect reported fair value.

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

The principal assumptions underlying management's estimation of fair value are those related to the application of an appropriate discount rate. The impact on the aggregate valuations of changes in this variable is estimated by adjusting the variable and assuming that other variables remain the same.

Management considers the valuation using income approach in conjunction with any available current or recent prices of comparable investment properties in determining the carrying value of investment property.

In 2010 the Group applied equivalent yields between 10% and 11.5% for the yielding investment property in valuing its principal investment properties. Had the equivalent yields been 10% lower or higher than those actually applied, it is estimated that the total valuation of the investment properties would be USD 89 565 thousand higher or USD 73 275 thousand lower respectively.

For the investment property under development the Group applied discount rates of between 18% and 20%. Had the discount rates been 10% lower or higher than those actually applied, it is estimated that the total valuation of the investment properties on a discounted cash flow basis would be USD 46 000 thousand higher or USD 42 000 thousand lower respectively.

Revenue recognition from sale of real estate. The Group recognises revenue from sale of real estate 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. The management considers the trigger event for revenue recognition is a receipt of ownership certificate on the name of the Group for residential property developed. As at 31 December 2010 the trigger event for revenue recognition has not yet been occured.

Should the Group receive ownership certificate the revenue in the amount of USD 69 746 thousand would be recognised in the consolidated financial statements.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, the Group evaluates among other factors, the location of activities, the sources of revenue and expense, risks associated with activities, and denomination of currencies of operations of different entities. Specifically, in determination of the Company’s functional currency the management based its judgment on the fact that US Dollar is the currency in which funds from financing activities are generated and receipts from operating activities are usually retained. Also US Dollar is the currency in which the business risks and exposures are managed and the performance of the business is measured. Given the significant exposure of the Company through its directly and indirectly owned subsidiaries to the economy and markets of the Russian Federation, the alternative to US Dollars as a functional currency for the Company would have been Russian Roubles. In such a case the Company would have recorded foreign exchange translation gains less losses related to its US Dollar balances in the profit or loss and, considering the presentation of the financial statements in US Dollars, offsetting translation movement within other comprehensive income. Management is unable to reliably estimate what those amounts recorded would have been in such a case.

Tax, currency and customs legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

5 Adoption of New or Revised Standards and Interpretations

Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, Presentation of Financial Statements, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any material effect on its financial statements.

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. 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.

6 New Accounting Pronouncements (Continued)

- 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 only payments of principal and interest (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 as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. However, the standard has not yet been endorsed by the EU, the Group is considering the implications of the standard and the impact on the Group and the timing of its adoption by the Group.

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 Group does not expect the amendments to have any material effect on its financial statements. Amendments have not yet being endorsed by the EU.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Group as explained in Note 5.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements. Amendments have not yet being endorsed by the EU.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004.

6 New Accounting Pronouncements (Continued)

This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any material effect on its financial statements. Amendments have not yet being endorsed by the EU.

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 standard has not yet been endorsed by the EU.

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 Ventures". Changes in the definitions have reduced the "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 standard has not yet been endorsed by the EU.

IFRS 12, Disclosure of interest 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 this objective, there is a new requirement to disclose significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities. As a consequence of these changes IAS 27 is renamed "Separate financial statements". It continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. The standard has not yet been endorsed by the EU.

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 precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard has not yet been endorsed by the EU.

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

7 Property, Plant and Equipment

In thousands of US Dollars	Premises	Computers	Office Equipment	Total
Carrying amount at 24 August 2010	**-**	**-**	**-**	**-**
Acqusition	14 699	94	1 952	16 745
Depreciation charge (Note 19)	(21)	(6)	(25)	(52)
Carrying amount at 31 December 2010	**14 678**	**88**	**1 927**	**16 693**
Cost at 31 December 2010	14 699	94	1 952	16 745
Accumulated depreciation	(21)	(6)	(25)	(52)
Carrying amount at 31 December 2010	**14 678**	**88**	**1 927**	**16 693**

The Group's buildings were revalued at acquisition date by independent valuers. Valuations were made on the basis of recent market transactions on arm's length terms.

At 31 December 2010 premises carried at a fair value of USD 14 678 thousand have been pledged to third parties as collateral with respect to bank borrowings. Refer to Note 13.

8 Investment Property

In thousands of US Dollars	
Total investment property at 24 August 2010	**-**
Acqusition	1 467 074
Capitalised finance costs	666
Expenditure on subsequent improvements	3 290
Fair value gains less losses	41 491
Disposal of investment property	(55 203)
Effect of translation to presentation currency	1 209
Total investment property at 31 December 2010	**1 458 527**

The investment property represents land and buildings located in Moscow, Russia. Land is leased from the Moscow City Authorities under operating leases (from 1 to 43 years), which are renewable at the option of the Group.

8 Investment Property (Continued)

Investment property comprises the following premises intended for use as Class A and Class B office accommodation:

	31 December 2010	
In thousands of US Dollars	**Total area (square metres)**	**Amount**
Investment Property at fair value:		
Office accommodation		
KRUGOZOR - Obrucheva st., 30/1, bldg. 1, 2, 3	51 154	297 517
STANISLAVSKY FACTORY - Stanislavskogo st., 21, bldg. 1, 2, 3, 5, 7,18	38 964	182 194
LeFORT - Elektrozavodskaya st., bldg. 1, 1A, 2, 3, 3A, 3D, 4, 5, 6, 7, 8, 9	59 578	213 475
AVION - Leningradsky pr., 47, bldg. 2, 3	19 188	85 609
GAMMA - Gamsonovsky per., 5/15, bldg. 1, 2, 3	10 399	25 399
VIVALDI PLAZA - Letnikovskaya st., 2, bldg. 1, 2, 3	71 809	330 000
OLIMPIA - Leningradskoe sh., 39	79 234	153 000
LIGHTHOUSE - Valovaya st., 28	44 581	187 000
Total office accommodation	**374 907**	**1 474 194**
Total investment property at fair value	**374 907**	**1 474 194**
Less: Impact of straight lining rental income		(15 667)
Investment property, carrying amount		**1 458 527**

The investment properties were valued at the date of acquistion. The valuations were carried out by independent firms of valuers, Jones Lang LaSalle and Ernst and Young Valuation and Advisory Services LLC. The basis used for the appraisal was the income capitalisation and market comparison approaches. The critical assumptions used in valuation are disclosed in Note 4.

Currently in Moscow private ownership of land is not common, most land is held on a long-term leasehold basis.

The Group applies the provisions of IAS 40 to account for land held under an operating lease as if it was held under a finance lease, with the land classified as investment property such land was carried at a fair value of USD 6 222 thousand at 31 December 2010.

As at 31 December 2010, investment properties carried at USD 1 474 194 thousand have been pledged to third parties as collateral with respect to bank borrowings. Refer to Note 13.

Capital commitments related to the Group's development projects are disclosed in Note 25.

8 Investment Property (Continued)

The minimum future rental income of the Group under non-cancellable operating leases is as follows:

In thousands of US Dollars	**31 December 2010**
- Not later than one year	102 468
- Later than 1 year and not later than 5 years	198 883
- Later than 5 years	2 601
Total future rental income	**303 952**

At 31 December 2010 future rental income in the amount of USD 303 952 thousand has been pledged to third parties as collateral with respect to bank borrowings obtained by related party. Refer to Note 13.

9 Loans Issued

In thousands of US Dollars	**31 December 2010**
Loans issued long term	-
Loans issued short term	11 002
Total loans issued	**11 002**
Loans issued to related parties (Note 28)	11 002
Total loans issued	**11 002**

The loans were issued by the Group without collateral in order to finance the working capital of the borrowers. The Group assesses the credit quality of its borrowers as satisfactory based on their good credit history.

Loans issued represent amounts that are neither past due nor impaired. As at 31 December 2010 the Group had no overdue loans.

During the period from 24 August 2010 to 31 December 2010 there were no loans issued at rates below market.

Issued loans are fixed rate and denominated in US Dollars. The effective interest rate on loans issued is 8.32%. Information on loans issued to related parties is disclosed in Note 28.

The fair value of loans issued is disclosed in Note 26.

10 Inventories

In thousands of US Dollars	**31 December 2010**
Work in progress	58 111
Raw materials	68
Total inventories	**58 179**

Under an investment agreement with the Department of Investment Programmes of Construction of the City of Moscow, the Group invested in the development of a residential apartment area. The Group intends to sell the apartments to private residents. Work in progress includes properties of the residential complex development in total amount of USD 56 481 thousand as at 31 December. As at 31 December 2010 the advances resulted from pre-sale agreements with customers were obtained by the Group for more than 99% of the properties accounted for as inventories. The significant risks and rewards were not transferred to the customers as at 31 December 2010 because ownership certificate on the name of the Group has not been received, therefore revenue from sale of residential properties was not recognised in this reporting period. Refer to Note 4.

During period from 24 August 2010 to 31 December 2010 there was no finance cost capitalized in work in progress.

11 Trade and Other Receivables

In thousands of US Dollars	**31 December 2010**
Rent receivables	8 223
Straight-line adjustment on rental income	15 667
Receivables from shareholder (Note 28)	6 501
Other receivables	868
Total trade and other receivables	**31 259**

The majority of trade and other receivables do not carry credit risk. An amount of USD 15 667 thousand represents straight-line adjustment on rental income. The amount of USD 8 223 is secured by tenant deposits.

12 Cash and Cash Equivalents

In thousands of US Dollars	**31 December 2010**
Bank balances payable on demand	39 398
Deposit accounts with banks	15 248
Total cash and cash equivalents	**54 646**

12 Cash and Cash Equivalents (Continued)

Analysis by credit quality of bank balances payable on demand is as follows:

In thousands of US Dollars	**31 December 2010**
Neither past due nor impaired – exposure to	
UniCredit Bank	29 437
Otkritie Bank	17 869
Nomos Bank	3 662
Raiffaisenbank	3 050
UBS AG	543
Bank of Cyprus	85
Total	**54 646**

The amount of USD 10,500 is reserved during the period from 28 May 2010 till 1 July 2011 by the Group on UniCredit Bank bank account for the purposes of settlement with its general contractor (Strabag AG) upon satisfactory fulfillment of obligations by Strabag AG.

Cash and cash equivalents are neither past due nor impaired.

13 Borrowings

In thousands of US Dollars	**31 December 2010**
Non-current borrowings	
Loans from banks	795 689
Loans from related parties (Note 28)	20 460
Finance lease liabilities	5 420
Total non-current borrowings	**821 569**
Current borrowings	
Loans from banks	13 967
Loans from related parties (Note 28)	222
Finance lease liabilities	696
Total current borrowings	**14 885**
Total borrowings	**836 454**

The loans from banks in amount of USD 275 706 thousand (at amortised cost) represent facility agreements and bear fixed interest rates from 7.23% to 12.5% p.a. The outstanding principal amount of USD 50 848 thousand will be repaid on September 2012 and the amount of USD 214 268 thousand will be repaid in instalments until August 2014.

13 Borrowings (Continued)

The loans from banks in amount of USD 316 276 thousand (at amortised cost) represent facility agreements and bear swapped interest rates from 3.05% to 3.47% p.a. plus bank margin of 4.15% p.a. until SWAP termination dates in March and June 2011 (Note 14). On the expiry of SWAP agreements, the interest rates on these loans will change into fixed rate of 3.08% p.a. plus bank margin of 4% p.a. The outstanding principal amount of USD 321 297 thousand (Note 14) will be repaid in instalments until August 2014.

The loans from banks in amount of USD 96 011 thousand (at amortised cost) represent facility agreement and bear swapped interest rates from 1.1% p.a. plus bank margin of 3.9% p.a. until December 2011. From December 2011 the notional amount will be increased from USD 96 000 thousand to USD 183 000 thousand and SWAP interest will change from 1.1% p.a. plus bank margin of 3.9% p.a. to 1.2% p.a. plus bank margin 3.9% p.a. In December 2012 the notional amount will be reduced from USD 183 000 thousand to USD 165 000 thousand and SWAP interest will change from 1.2% p.a. plus bank margin of 3.9% p.a. to 1.4% p.a. plus bank margin 3.9% p.a. The outstanding principal amount of USD 96 000 thousand as at 31 December 2010 will be repaid in December 2013.

The loans from banks in amount of USD 86 039 thousand (at amortised cost) represents facility agreement and bears floating rate of 3.51% p.a. (1 months LIBOR plus bank margin) until December 2011. In December 2011 the interest rate will be swapped from floating interest rate into swapped interest rate. The principal amount of USD 86 031 thousand is due in December 2013.

The rest amount of loans from banks of USD 35 624 thousand (at amortised cost) represents facility agreement and bears floating rate of 4.45% p.a. (3 month LIBOR plus bank margin). The principal amount of USD 35 554 thousand is due in August 2014.

The loan from related parties bears a fixed rate of 20% and is due in December 2013. At 31 December 2010 the outstanding principal amount is USD 14 898 thousand.

The facility agreement in amount of USD 570 369 thousand (at amortised cost) has the following financial covenants:

- Loan to Value Ratio - the loan amount to the aggregate market value of the property according to the most recent valuation, expressed in a percentage will not exceed 75%.

- Projected Debt Service Cover Ratio - at any interest payment date, the ratio expressed as a percentage of the projected net rental income for the next 12 month period to the aggregate of all payments due and payable by the Group for the same period will be not less than 120%.

As at 31 December 2010 the Group was in full compliance with the above mentioned covenant ratios.

During 2010 the Group failed to comply with covenant provisions of the facility agreement with UniCredit Bank Austria AG, related to insurance of property and prospective rental income. Waiver on breach of these covenants was received from the Bank on 31 December 2010. In consequence of this letter no breach of covenants existed at the end of the reporting period.

The fair value of borrowings is disclosed in Note 26.

13 Borrowings (Continued)

The reconciliation between the total future minimum lease payments and their present value is set out below:

In thousands of US Dollars	**31 December 2010**
Minimum lease payments:	
- not later than one year	744
- later than 1 year and not later than 5 years	2 911
- later than 5 years	19 144
Total minimum lease payments	**22 799**
Future finance charges	**(16 683)**
Present value of minimum lease payments	**6 116**

As at December 2010 the interest rate implicit in the leases is 11.3%.

14 Derivative Financial Instruments

In thousands of US Dollars	
Interest rate SWAP - cash flow hedge at 24 August 2010	-
Acquisition	2 455
Fair value loss during the period (Note 20)	1 336
Currency translation difference	60
Interest rate SWAP - cash flow hedge at 31 December 2010	**3 851**

The notional amount, fixed interest rates and termination dates for the tranches are the following:

	31 December 2010		
	Notional amount, thousands of US Dollars	**Interest Rate, %**	**Contract termination date**
Tranche 2 Part 1	135 900	7,20%	15 March 2011
Tranche 2 Part 2	114 194	7,62%	15 June 2011
Tranche 3	71 203	7,62%	15 June 2011
Total Tranches	**321 297**		

The floating rates are 3 months LIBOR + 4.15% p.a. From March 2011 the bank margin will change to 4% p.a.

The average SWAP interest rate is 7.44%

14 Derivative financial instruments (Continued)

The calculation of the fair value of SWAPs is based on discounted cash flows of future anticipated interest payments on the SWAP agreements in place compared with the discounted cash flows of anticipated interest payments at market SWAP interest rates at the reporting date. The interest SWAP rate is designated and effective as cash flow hedge and the fair value of this derivative financial instrument is directly recognised in the consolidated income statement. Refer to Note 20.

15 Deferred Rental Income on Residential Property

As at 31 December 2010 deferred income on residential property in the amount of USD 69 746 thousand represents advances received for residential property. Refer to Note 10.

16 Trade and Other Payables

In thousands of US Dollars	**31 December 2010**
Payables for expenditure on investment properties	31 512
Payables for acquisition of additional share in subsidiaries	12 615
Taxes payable other than on income	4 386
Payables on debt purchase (Note 28)	4 653
Advances received for sale of inventory	6 392
Payables for professional fees	682
Settlements with personnel	23
Other	900
Total trade and other payables	**61 163**

17 Share Capital and Translation Reserve

Share capital

Share capital authorised, issued and fully paid comprises:

	31 December 2010			
In thousands of US Dollars	**Number of shares**	**Nominal amount**	**Share premium**	**Shareholder's contribution**
Ordinary shares	13 000	18	504 583	61 359
Total share capital	**13 000**	**18**	**504 583**	**61 359**

The total authorised number of ordinary shares is 13 000 shares with a par value of EUR 1 per share. All issued ordinary share are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

The share capital of the Group comprises only ordinary shares, all of which bear voting rights and the right to dividends as approved at the General Meeting of the Group. No other additional rights or preferences are attached to this class of shares.

17 Share Capital and Translation Reserve (Continued)

On incorporation the Company issued 1 000 ordinary shares with nominal value of EUR 1 (USD 1.385).

On 9 November 2010, the Company issued 9 000 ordinary shares with nominal value of EUR 1 (USD 1.3957) each at a premium of EUR 32 049.45 each share – total consideration USD 402 600 thousand.

On 1 December 2010, the Company issued 3 000 ordinary shares with nominal value of EUR 1 (USD 1.3112) each at a premium of EUR 25 930.39 each share – total consideration USD 102 000 thousand.

Shareholder's contribution was recognised when the shareholder contributed assets for which the Group has no repayment obligations.

Translation reserve

In presenting the financial statements in US dollars, the Group translates all assets and liabilities at the closing exchange rate prevailing at the respective reporting date. All income and expenses are translated using a basis that approximates the rate of exchange prevailing at the date of the transactions. Any resulting foreign exchange gains or losses are recognised directly in equity in the translation reserve.

18 Operating Expenses of Investment Property

In thousands of US Dollars	**From 24 August 2010 to 31 December 2010**
Property management fees	791
Cleaning and Utilities	378
Property tax	335
Repairs and maintenance	62
Insurance	34
Other	20
Total operating expenses of investment property	**1 620**

19 General and Administrative Expenses

In thousands of US Dollars	From 24 August 2010 to 31 December 2010
Staff costs	50
Social contributions	9
Professional services	1 616
Sales commissions	122
Depreciation (Note 7)	52
Land lease expenses	53
Rent, cleaning and utilities	27
Fines	25
Bank fees	42
Marketing and advertising	12
Information services	3
Property tax	3
Security	2
Insurance	2
Low value items written-off	1
Other	76
Total general and administrative expenses	**2 095**

During 2010 there were no staff costs capitalised in work in progress, property, plant and equipment and investment property.

Information on staff cost and social contribution expense with related parties are presented in Note 28.

The professional fees stated above include fees of USD 42 thousand for audit services and USD 4 thousand for tax consultancy services charged by the statutory audit firm.

20 Finance Income and Finance Costs

In thousands of US Dollars	Note	From 24 August 2010 to 31 December 2010
Interest income on loans issued		48
Fair value effect on initial recognition of tenants deposits		51
Fair value gain on interest SWAP	14	1 336
Total finance income		**1 435**
Interest expense on borrowings		6 548
Interest expense on subsequent measurement of tenants deposits		124
Finance charge on lease liabilities		49
Total finance cost		**6 721**
Net finance cost		**(5 286)**

Information on interest income on loans issued with related parties is presented in Note 28.

21 Income Tax

Income tax expense comprises the following:

In thousands of US Dollars	**From 24 August 2010 to 31 December 2010**
Current tax	3 151
Deferred tax	5
Income tax expense for the period	**3 156**

The income tax rate applicable to the majority of the Group's income (the Russian Federation) is 20%. The income tax rate on the Group's income in Cyprus is 10%.

A reconciliation between the expected and the actual taxation charge is provided below:

In thousands of US Dollars	**From 24 August 2010 to 31 December 2010**
Profit before income tax	**98 058**
Theoretical tax charge at the applicable statutory rates	10 911
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Non-taxable income	(9 923)
- Non-deductible expenses	2 168
Income tax expense for the period	**3 156**

Differences between IFRS and statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. As these differences only relate to the activities in the Russian Federation the tax effect of the movement on these temporary differences is recorded at the rate of 20%. The Group does not provide deferred income tax on the differences between the carrying amount of its investment property and its tax base, as by the use of the participation exemption in Cyprus these temporary differences will not be liable to taxation at the moment of sale of the subsidiary that holds the property. These circumstances would exist only when an acquisition of an investment property would constitute the purchase of an asset and not a business combination had it been acquired at the balance sheet date.

21 Income Tax (Continued)

In thousands of US Dollars	Movement	Effect of translation to presentation currency	31 December 2010
Tax effect of deductible temporary differences			
Accruals	(59)	-	(59)
Provision for impairment of prepayments	932	(3)	929
Other	(341)	1	(340)
Gross deferred tax assets	**532**	**(2)**	**530**
Tax effect of taxable temporary differences			
Fair valuation of investment property	417	(1)	416
Depreciation	(142)	1	(141)
Other	(812)	3	(809)
Gross deferred tax liabilities	**(537)**	**3**	**(534)**
Total net deferred tax liability	**(5)**	**1**	**(4)**

As required by IAS 12 'Income taxes', the Group has not recognised a cumulative deferred tax relating to acquisition of subsidiaries, which were accounted for as acquisition of assets.

Deferred tax assets and liabilities are offset and presented as net deferred tax liability in the consolidated statement of financial position.

22 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

In thousands of US Dollars	From 24 August 2010 to 31 December 2010
Profit for the period attributable to the owners of Company	94 896
Weighted average number of ordinary shares in issue	5 325
Basic and diluted earnings per ordinary share (expressed in thousands of US Dollars per share)	**18**

23 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity, geographical, currency, interest rate and market), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Group takes an exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's exposure to credit risk is reflected in the carrying amounts of trade and other receivables, loans issued and bank balances payable on demand.

The Group's maximum exposure to credit risk by classes of assets is as follows:

In thousands of US Dollars	**31 December 2010**
Loans issued (Note 9)	11 002
Trade and other receivables (Note 11)	7 369
Cash and cash equivalents (Note 12):	
- Bank balances payable on demand	39 398
- Deposit accounts with banks	15 248
Total maximum exposure to credit risk	**73 017**

As at 31 December 2010 100% of the Group's loans issued are loans issued to related parties.

In order to maintain its liquiditity ratio the Group manages its trade receivables credit risks by performing credit checks of all new tenants. If tenants are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group's marketing department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. In certain cases the Group requires a guarantee from the parent Group. Trade receivables of the Group are secured by Tenants Deposits paid at the inception of Lease agreements.

Credit risks concentration

During the reporting periods the Group mainly cooperated with the following two major banks: Raiffeisenbank and Otkritie bank, thus exposing the Group to a concentration of credit risk. The Group policy is to accept only independently rated banks with a minimum rating of B. The ratings of the banks are: UniCredit Bank's is BBB- (S&P), Otkritie Bank's is A+ (National Rating Agency), Nomos Bank's is BB- (Fitch), Raiffeisenbank's is BBB (S&P) and UBS AG's is A+ (S&P).

During the reporting periods the Group was not exposed to concentration risk in respect of specific customers, since its revenues are generated from lease out of office and retail premises to various customers. The maximum area leased out by one customer is 6.8% of total gross leasable area.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the top management of the Group. The management uses budgeting and cash forecasting to ensure that the Group has sufficient resources to meet its obligations.

23 Financial Risk Management (Continued)

The Group manages liquidity risk based on the following key components:

- As the Group has a long-term investment horizon, it strives for a sound capital structure and actively seeks long-term financing;
- A loan-to-value ratio on stabilized projects is between 70% (comfortable) and 80% (maximum);
- An average loan maturity should exceed 3 years.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

31 December 2010

In thousands of US Dollars	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Non-derivative financial liabilities						
Borrowings, excluding finance lease liabilities	830 338	945 052	47 890	348 401	548 761	-
Finance lease liabilities	6 116	22 799	744	1 456	1 455	19 144
Tenant deposits	18 091	25 958	4 307	13 895	4 193	3 563
Trade and other payables, excluding taxes payable	56 777	56 777	56 777	-	-	-
Total future payments, including future principal and interest payments	**911 322**	**1 050 586**	**109 718**	**363 752**	**554 409**	**22 707**

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables and tenant deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 12), loans issued (Note 9) and trade and other receivables (Note 11). Management estimates that the liquidity portfolio cash, bank deposits can be realised in cash within a day in order to meet unforeseen liquidity requirements.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in foreign currencies and interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Currency risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

23 Financial Risk Management (Continued)

The Group limits exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows due to the fact that rental revenues and the majority of borrowings are denominated in US Dollars. Foreign currency position is reviewed by top management on a regular basis.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of reporting period:

	31 December 2010	
In thousands of US Dollars	**USD**	**Euro**
Monetary financial assets		
Loans issued	11 002	-
Cash and cash equivalents	33 854	84
Trade and other receivables	30 741	-
Total monetary financial assets	**75 597**	**84**
Monetary financial liabilities		
Borrowings, excluding finance lease liability	(830 116)	-
Tenant deposits	(17 031)	-
Trade and other payables, excluding taxes payable	(39 819)	(5 522)
Total monetary financial liabilities	**(886 966)**	**(5 522)**
Net balance sheet position	**(811 369)**	**(5 438)**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the Group's functional currency, with all other variables held constant:

In thousands of US Dollars	**31 December 2010**
Impact on profit or loss:	
US Dollar strengthening by 10%	(81 137)
US Dollar weakening by 10%	81 137
Euro strengthening by 10%	(544)
Euro weakening by 10%	544

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business. Management monitors on a regular basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The tables below summarise the Group's exposure to interest rate risks.

23 Financial Risk Management (Continued)

The exposure of the Group's loans issued to the contractual maturity and repricing dates are as follows:

In thousands of US Dollars	**31 December 2010**
- within 1 year or less	11 002
Total loans issued	**11 002**

The tables below present the aggregated amounts of the Group's financial liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

Borrowings:

In thousands of US Dollars	**31 December 2010**
- within 6 months or less	7 044
- between 6 and 12 months	7 145
- between 1 and 5 years	816 149
Total borrowings, excluding finance lease liabilities	**830 338**

Finance lease liabilities:

In thousands of US Dollars	**31 December 2010**
- not later than one year	696
- later than 1 year and not later than 5 years	2 098
- later than 5 years	3 322
Total present value of minimum lease payments	**6 116**

Tenant deposits:

In thousands of US Dollars	**31 December 2010**
- not later than one year	3 208
- later than 1 year and not later than 5 years	13 600
- later than 5 years	1 283
Total tenant deposits	**18 091**

All the Group's debt instruments reprice within four years.

23 Financial Risk Management (Continued)

The Group's borrowings excluding finance lease liabilities are denominated in the following currencies:

In thousands of US Dollars	**31 December 2010**
- US Dollars	830 116
- Russian Roubles	222
Total borrowings, excluding finance lease liabilities	**830 338**

Finance leasing liability is denominated in Russian Roubles.

The effective interest rates at the reporting date are as follows:

	31 December 2010
Loans from banks	5,4%
Loans from other companies	20,0%
Finance lease liabilities	11,3%
Tenant deposits	12,3%

To minimize interest rate risk the Group's management aims to have:

- average interest rates below expected cap rates if the project is to be highly leveraged;
- from a long-term stable cash earnings perspective an optimal mix of floating and fixed rate financing for all financial commitments;
- by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The Group's interest-bearing financial assets are mainly comprised by loans issued to related parties at fixed interest rates. The Group's interest rate risk arises mostly from long-term borrowings and tenants deposits.

Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain the majority of its borrowings in fixed rate instruments. Tenant deposits carry zero nominal interest rate.

Geographical risk

The main part of the assets and liabilities of the Group is with counterparties in the Russian Federation except for loans issued in the amount of USD 11 002 thousand, borrowings in the amount of USD 77 698 thousand, other assets in the amount of USD 10 701 thousand and other liabilities in the amount of USD 271 thousand that are held in Cyprus, borrowings in the amount of USD 182 050 thousand that are held in Austria, borrowings in the amount of USD 570 369 thousand that are held in Federal Republic of Germany and other liabilities in the amounts of USD 6 120 thousand and USD 6 495 thousand that are held in the British Virgin Islands and the Netherlands respectively.

Price risk

The Group is exposed to property price and property rentals risk. The Group has proper policies in place to monitor the change in the market prices. Moreover, most rental contracts contain well defined clauses, according to which the rent prices can be renegotiated by the Group once the conditions on the market deteriorate, so as to eliminate the rental price risks to which the Group might be exposed.

24 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings and trade and other payables, as shown in the consolidated statement of financial position, less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

In thousands of US Dollars	**31 December 2010**
Total borrowings and trade and other payables	913 979
Less: cash and cash equivalents	(54 646)
Net debt	859 333
Total equity	661 058
Total capital	1 520 391
Gearing ratio	**56,52%**

Gearing ratios as at 31 December 2010 are in compliance with management expectations and industry comparables.

25 Contingencies, Commitments and Operating Risks

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of any such claims, and accordingly no provision has been made in these consolidated financial statements.

Tax, currency and customs legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

25 Contingencies, Commitments and Operating (Continued)

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

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 in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, 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 entity.

The Group includes 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. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may 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 entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2010 no provision for potential tax liabilities had been recorded.

Capital commitments. As at 31 December 2010 the Group has contractual capital expenditure commitments in respect of office buildings under redevelopment totalling USD 40 749 thousand. The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. As at 31 December 2010 under facilities with respect to loans from banks the Group has pledged investment property with a fair value of USD 1 474 194 thousand (Note 8) and property, plant and equipment with a fair value of USD 14 678 thousand (Note 7). As at 31 December 2010 borrowings were also secured by the pledge of future rental income in the amount of USD 303 952 thousand (Note 8).

25 Contingencies, Commitments and Operating (Continued)

Shares pledged. As at 31 December 2010 under the loan facilities from banks the Group has pledged the shares of the Company and subsidiaries:

	31 December 2010			
	Number of shares		Percentage of ownership	
In thousands of US Dollars	Ordinary	Preference	Ordinary	Preference
Longmoor Limited	2 000	-	100%	-
Wallasey Limited	1 000	-	100%	-
Levisoma Trading Limited	2 000	-	100%	-
Zatkapa Holdings Limited	1 000	-	100%	-
Maiga Investments Limited	1 000	-	100%	-
Tzortis Limited	1 000	-	100%	-
Pianconero Investments Limited	1 000	-	100%	-
Mervita Holdings Limited	1 000	-	100%	-
Boxar Holdings Limited	1 000	-	100%	-
Discovery Russian Realty Paveletskaya Project Limited	132 927	-	99,94%	-
CJSC "Moscow Furniture Plant"	1 573 601	2 815	100%	92,75%

Financial covenants. As at 31 December 2010 the Group has financial covenants under the facility agreements with banks. Financial covenants are disclosed in Note 13.

Guarantees. Guarantees and other securities (including shares pledged for third parties liabilities and referred to above under shares pledged) are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

	31 December 2010	
In thousands of US Dollars	Guaranteed obligations	Due dates of guaranteed obligations
O1 Properties Limited (formerly Tonebol Limited)	85 000	22 November 2013
O1 Properties Limited (formerly Tonebol Limited)	34 200	26 November 2012
O1 Properties Limited (formerly Tonebol Limited)	24 000	13 December 2012
O1 Properties Limited (formerly Tonebol Limited)	24 000	27 July 2012
Total guarantees	**167 200**	

Apart of amounts of guarantees mentioned above, the Group companies might be obliged to repay the accrued interests and other penalties. Management is of an opinion that the provision for these guarantees should not be created in these consolidated financial statements.

26 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, when such information exists and is considered a reliable indicator, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Cash and cash equivalents*.** Cash and cash equivalents are carried at amortized cost which approximates current fair value.

***Financial assets carried at amortized cost*.** The estimated fair value of financial assets carried at amortized cost is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Used discount rate of 8.32% p.a. depends on credit risk of the counterparty. The carrying amount of loans issued and trade receivables approximate fair value.

***Liabilities carried at amortized cost*.** The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The carrying amount of tenant deposits and trade and other payables approximates fair value. Discount rates range from 3.51% p.a. to 7.53% p.a.

The fair value of borrowings is based on calculations of the net present value of loans by using a discount rate based on market rates for similar loans and a series of all future repayments and proceeds. The comparison of fair value and carrying value of assets and liabilities carried at amortised cost are as follows:

	31 December 2010	
In thousands of US Dollars	**Fair value**	**Carrying value**
Loans issued	11 002	11 002
Trade and other receivables	31 259	31 259
Cash and cash equivalents	54 646	54 646
Loans from banks	814 414	809 656
Loans from other companies	20 682	20 682
Finance lease liabilities	6 116	6 116
Tenant deposits	19 755	18 091
Trade and other payables	61 163	61 163

27 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories:

In thousands of US Dollars	**31 December 2010**
Loans issued	11 002
Trade and other receivables	31 259
Cash and cash equivalents	54 646
Total financial assets	**96 907**

All of the Group's financial assts are included in category loans and receivables. All of the Group's financial liabilities are carried at amortised cost.

28 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if they are under common control, or if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions are entered into in the normal course of business with significant shareholders, directors and other related parties.

As at 31 December 2010 the outstanding balances with related companies were as follows:

	31 December 2010	
In thousands of US Dollars	**Immidiate shareholder**	**Companies under significant influence of ultimate beneficial owner**
Capitalised finance costs		663
Loans issued	-	11 002
Trade and other receivables	6 501	-
Cash and cash equivalents	-	17 869
Borrowings	-	(77 698)
Trade and other payables	-	(4 653)

28 Related Party Transactions (Continued)

The income and expense items with related parties for the period from 24 August to 31 December 2010 were as follows:

	From 24 August 2010 to 31 December 2010	
In thousands of US Dollars	**Immidiate shareholder**	**Companies under significant influence of ultimate beneficial owner**
Staff cost, including social contribution expense	-	(45)
Net gain from disposal of subsidiary (Note 29)	-	51 956
Interest income	40	2
Interest expense	-	(488)

During the period from 24 August 2010 to 31 December 2010 the Group outsourced management function to related company and amount of USD 45 thousand is recognised in the consolidated income statement as part of staff cost and social contribution expense. Refer to Note 19.

During the reporting period the total remuneration of key management, including salaries, bonuses and social contribution is amounted to USD 2 thousand.

As at 31 December 2010 the Group provided guarantees in amount of USD 58 200 thousand to the immediate shareholder Salastar Investments Ltd, Cyprus. Refer to Note 25.

29 Acquisition and disposal of subsidiaries

During the reporting period the Group acquired 100% of the ordinary shares of Dawson INT'L Inc, BVI which owns 100% of Boxar Holdings Limited, Cyprus which owns 100% of CJSC Stroypromplast, the Russian Federation, owner of an office building of 44 581 square meters in Moscow, the Russian Federation and 100% of the ordinary shares of Talisia Investments Limited, BVI which owns 100% of Levisoma Trading Limited, Cyprus for the total consideration in the amount of USD 51 400 thousand. These companies constituted groups of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and no accompanied process.

The details of the assets and liabilities acquired are as follows:

In thousands of US Dollars	**Attributed fair value**
Cash and cash equivalents	278
VAT recoverable	7 474
Investment property	171 484
Other assets	539
Borrowings, including finance leases	(118 817)
Trade and other payables	(9 558)
Fair value of identifiable net assets of subsidiary	**51 400**
Total purchase consideration in the acquiree	**(51 400)**
Less: Non-cash consideration	51 400
Less: Cash and cash equivalents of subsidiary acquired	278
Inflow of cash and cash equivalents on acquisition	**278**

The acquired subsidiaries contributed no rental revenue and loss of USD 1 466 thousand to the Group for the period from the date of acquisition to 31 December 2010.

29 Acquisition and disposal of subsidiaries (Continued)

In November 2010 the Group acquired 100% of the ordinary shares of Discovery Russian Realty Paveletskaya Project Limited, Cayman Islands which owns of 100% of Maiga Investments Limited, Cyprus, Zatkapa Holdings Limited, Cyprus which owns 95,86% of CJSC Moscow Furniture Plant, the Russian Federation, 100% of Tzortis Limited, Cyprus which representation office in Moscow is owner of a an office building of 24 096 square meters in Moscow, the Russian Federation, 100% of Pianconero Investments Limited which representation office in Moscow is owner of a an office building of 26 382 square meters in Moscow, the Russian Federation, 100% of Mervita Holdings limited which representation office in Moscow is owner of a an office building of 21 330 square meters in Moscow, the Russian Federation for the total consideration in the amount of USD 108 000 thousand. These companies constituted groups of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and no accompanied process.

The details of the assets and liabilities acquired are as follows:

In thousands of US Dollars	**Attributed fair value**
Cash and cash equivalents	31 981
VAT recoverable	20 626
Inventories	1 630
Investment property	375 754
Property, plant and equipment	24
Other assets	588
Borrowings, including finance leases	(257 714)
Trade and other payables	(64 819)
Fair value of identifiable net assets of subsidiary	**108 070**
Less: non-controlling interest	**(70)**
Total purchase consideration in the acquiree	**(108 000)**
Less: Non-cash consideration	108 000
Less: Cash and cash equivalents of subsidiary acquired	31 981
Inflow of cash and cash equivalents on acquisition	**31 981**

The acquired subsidiaries contributed no rental revenue and profit of USD 49 552 thousand to the Group for the period from the date of acquisition to 31 December 2010.

29 Acquisition and disposal of subsidiaries (Continued)

On 26 November 2010 the Group acquired 100% of the ordinary shares of Wallasey Limited, Cyprus, of Longmoor Limited, Cyprus which owns 99,9991% of CJSC Horus Capital, the Russian Federation for USD 241 351 thousand and 0,0009% of the ordinary shares of CJSC Horus Capital, the Russian Federation, owner of the office buildings of 179 283 square meters in Moscow, the Russian Federation, for USD 3 thousand. These companies constituted groups of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and no accompanied process.

The details of the assets and liabilities acquired are as follows:

In thousands of US Dollars	**Attributed fair value**
Cash and cash equivalents	28 546
Loans issued	11 002
VAT recoverable	10 225
Trade and other receivables	23 892
Inventories	56 535
Investment property	816 972
Property, plant and equipment	16 721
Other assets	6 314
Borrowings, including finance leases	(570 369)
Tenant deposits	(18 091)
Land lease liability	(6 116)
Deferred rental income	(25 277)
Trade and other payables	(92 774)
Other liabilities	(16 226)
Fair value of identifiable net assets of subsidiary	**241 354**
Total purchase consideration in the acquiree	**(241 354)**
Less: Non-cash consideration	50 495
Less: Cash and cash equivalents of subsidiary acquired	28 546
Outflow of cash and cash equivalents on acquisition	**(162 313)**

The acquired subsidiaries contributed rental revenue of USD 8 577 thousand and loss of USD 991 thousand to the Group for the period from the date of acquisition to 31 December 2010.

29 Acquisition and disposal of subsidiaries (Continued)

On 15 December 2010 the Group acquired 100% of the ordinary shares of Flybase Investments Limited, Cyprus and 100% of the ordinary shares of Effusive Holding Limited, Cyprus which owns 100% of CJSC Vodny Stadion Sport Invest, the Russian Federation, owner of an office building of 79 234 square meters in Moscow, the Russian Federation for USD 69 810 thousand. These companies constituted groups of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and no accompanied process.

The details of the assets and liabilities acquired are as follows:

In thousands of US Dollars	**Attributed fair value**
Cash and cash equivalents	199
VAT recoverable	12 834
Investment property	102 864
Other assets	231
Borrowings, including finance leases	(26 259)
Trade and other payables	(20 011)
Other liabilities	(48)
Fair value of identifiable net assets of subsidiary	**69 810**
Total purchase consideration in the acquiree	**(69 810)**
Less: Cash and cash equivalents of subsidiary acquired	199
Outflow of cash and cash equivalents on acquisition	**(69 611)**

The acquired subsidiaries contributed no rental revenue and loss of USD 4 thousand to the Group for the period from the date of acquisition to 31 December 2010.

On 21 December 2010 the Group acquired 100% of the ordinary shares of Sandix Group B.V., registered in the Netherlands for USD 33 thousand.

The details of the assets and liabilities acquired are as follows:

In thousands of US Dollars	**Attributed fair value**
Trade and other receivables	42
Trade and other payables	(9)
Fair value of identifiable net assets of subsidiary	**33**
Total purchase consideration in the acquiree	**(33)**
Less: Non-cash consideration	24
Outflow of cash and cash equivalents on acquisition	**(9)**

On 27 December 2010 the Group acquired 100% of the ordinary shares of Celera Corporation BVI, for nominal value USD 1.

29 Acquisition and disposal of subsidiaries (Continued)

On 30 December 2010 the Group sold 100% of the ordinary shares of Pekrix Holdings Limited, Cyprus which representation office was the owner of a building in Moscow, the Russian Federation for USD 42 514 thousand.

The details of the assets and liabilities sold and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	63
VAT recoverable	7 030
Trade and other receivables	5 606
Investment property	55 203
Borrowings, including finance leases	(77 029)
Trade and other payables	(315)
Fair value of identifiable net liabilities of subsidiary	**(9 442)**
Gain from sale of subsidiary (Note 28)	51 956
Total purchase consideration received	**42 514**
Less: Non-cash consideration	(42 514)
Less: Cash and cash equivalents of subsidiary dispose	(63)
Outflow of cash and cash equivalents on disposal	**(63)**

The net gain from the sale is recognised in the consolidated income statement.

30 Subsequent Events

On 04 March 2011 under the loan facility to third parties in the amount of USD 67 000 thousand the Group has pledged 3 000 shares or 100% of the ordinary share capital of Effusive Holding Limited.

On 29 April 2011 under the loan facility from the bank provided to the Group 50 shares or 100% of the ordinary share capital of CJSC “Vodniy Stadion Sport Invest” have been pledged.

On 6 May 2011 a decision was received from the Russian tax authorities stating that they are to recover accumulated VAT in an amount of USD 15 035 thousand. On 27 June 2011 the amounts were transferred to the Group companies’ bank accounts.

On 27 May 2011 the Company’s immediate shareholder Salastar Investments Ltd., Cyprus transferred 617 shares or 4.7462% of the ordinary share capital of O1 Properties Limited (former Tonebol Limited) to Company’s immediate shareholder Coniston Management Limited, BVI. At the date of this report the shares of immediate shareholders Salastar Investments Ltd., Cyprus and Coniston Management Limited, BVI in the ordinary share capital of the Company were 95.25% and 4.75% respectively.

On 30 May 2011 the Company has applied to change its name to O1 Properties Limited.

On 01 June 2011 the Group acquired 2 500 shares or 50% of the ordinary share capital of Taavo Enterprises Limited for USD 9 583 thousand.

Independent Auditor’s Report on pages 4 and 5.

o1properties

2010 MANAGEMENT REPORT

1 O1 PROPERTIES GROUP IN YEAR 2010 AND STRATEGIC PLANS FOR YEAR 2011

The year 2010 has been first year of existence for O1 Properties Group. Therefore, the main transactions were acquisitions of the whole portfolio in number of transactions carried out in Q4 2010.

For each acquisition, O1 Properties has performed investment analysis for each office building being acquired. We firmly believe that the focus on one asset class provides competitive advantages in terms of deal-sourcing, asset management know-how and knowledge of the local market. Through focus on Moscow office market, the O1 Properties' resources can be efficiently employed to target office real estate investments that meet the Company's investment criteria. Further focus in year 2011 on the office asset class allows O1 Properties to further develop extensive expertise which it can leverage in its operations. We will not be however striving for big-bang solutions to our well-thought strategic growth.

O1 Properties will be striving to deliver accretive growth and value creation for its shareholders. We intend to further expand our portfolio in the coming years by acquiring real estate office properties throughout Moscow. Based on our experience to date, our current level of market activity and the O1 Properties' access to financial resources, we are optimistic about being able to seize market opportunities. Investment decisions at O1 Properties are based on analysis of the local Moscow market and on the adequacy of a building within its local environment in terms of location, size and quality. O1 Properties' strategy is to enter new markets and build critical mass through long-term secured assets.

Once critical mass is achieved and in-depth local knowledge is secured, O1 Properties is able to pursue other real estate opportunities, including repositioning and the development of assets and additional lease-up risks.

2 STRATEGIC PERFORMANCE

A. OPERATING ACTIVITIES

At the end of 2010, the O1 Properties portfolio consisted of 5 completed business centers and 3 business centers close to construction completion with approx. 300 000 sqm of lettable area and EoP contractual rent of USD 86 m.

Yielding portfolio of 5 assets acquired by O1 Properties in November 2010 has seen stabilized growth of the rental income and increasing take-up which allowed to earn 87 mln USD of net rental revenues in the whole 2010 year. In the consolidated profit and loss account we recognized only part of secured rental revenue due to the fact that O1 Properties acquired the portfolio of 5 yielding assets only at the end of November 2010.

The average remaining lease length amounts to approx. 3.1 years. The medium and long-term leases provide a stable cash flow base supported by a reliable tenant structure. Within the next three years, approx. 65% of the currently existing leases in terms of passing rent are subject to re-let. Based on tenant retention ratio recorded in the past we look optimistically to re-let most of the currently occupied space to current tenants at the same or higher rental rates as some of the lease contracts have been signed before the pre-crisis rental peak in years 2005—2007. The long-term reliability of rental income and the dependability of our major tenants, have been a major asset in the past years and will continue to provide a solid foundation upon which to pursue a sustainable growth strategy.

Based on the strong relationship with our tenants and the strong competence of identifying the tenants' needs and excellent retention ratio. In 2010 year leases for approximately 10% of the portfolio were expiring (approximately 17 500 m^2). We were able to renew 71% of expiring leases (approximately 12 500 m^2) on the same or better terms. New leases for remaining area (approximately 5 000 m^2) were signed with new creditworthy international and local tenants (such as Hemofarm, Mail.ru, and Coffee House) at market terms. Therefore, our operational vacancy of the portfolio toward end of 2010 was below 2%.

By the end of year 2011 O1 Properties balance sheet should enjoy 100% owned income producing portfolio consisting of 3 greenfield office projects and 5 completed office refurbishment projects.

Portfolio highlights	Dec 31, 2009*	Dec 31, 2010
Number of completed business centers	5	5
Number of completed buildings	25	25
Number of business centers under development	3	3
Number of buildings under development	7	7
Market value of completed properties (USD m)	800	813
Market value of properties under completion (USD m)	264	674
Total market value of portfolio (USD m)	1 064	1 487
Income generating portfolio		
Contractual rent (USD m)	86	86
Valuation yield	12.0%	11.3%
Approx. lettable area (sqm)	169 000	169 000
Vacancy (% of lettable area)	4.8%	1.2%
Lease length (years)	3.4	3.1
Average value per sqm (USD)	4 736	4 809
Average rent per sqm (USD per year)	507	510

*2009 pro-forma

B. INVESTMENT ACTIVITIES

New acquisitions

During year 2010 we have acquired the following projects:

- 5 yielding assets – 169 000 m² of leasable area; regeneration scheme, CBD location, almost fully leased;
- Olympia – 45 128 m² of leasable area, 3 office buildings in the concept of business park located on Leningradsky shosse, development completion planned for Q3 2011;
- Vivaldi project – 48 100 m² of leasable area, office building CBD located, development completion planned for Q4 2011;
- Lighthouse project – 27 600 m² of leasable area, office building CBD located, development completion planned for Q4 2011;

C. FINANCING ACTIVITIES

Debt financing

O1 Properties' total debt position stood at USD 830 m (excluding finance lease liabilities) as of December 31, 2010. This number includes one investment loan of USD 571 m and three development loans of USD 259 m. Some 85 % of our total debt is hedged by swaps and fixed rates, 15% of it is floating. The corporate LTV ratio is 56%. Taking into account O1 Properties' cash of USD 55 m the net LTV currently stands at 52%. The average debt maturity is 3.25 years and is planned to be increased due to planned replacement of construction loans by investment loans in years 2011–2012 which will also allow for some equity release.

In year 2011 we will enjoy comfortable debt service cover ratio (NRI / Debt service) of 1.5x for the group and net LTV 52% which is in line with O1 Properties's target range of 50–55%. Year 2011 weighted average interest rate for the group is forecasted at 7.3% p.a. We have no refinancing needs till September 2012.

Equity

Equity per IFRS has amounted to USD 661 m. There are plans of dividend payments in year 2011 and going forward.

Personnel

The number of the Group's employees as at 31 December 2010 was 46. During 2011 the O1 Properties' number of employees will increase as a result of new planned acquisitions.

3 EPRA PERFORMANCE

The EPRA index is the well-known international index which tracks the performance of the largest European and North American listed property companies. The European Public Real Estate Association (EPRA) represents the interests of the major European property management companies and supports the development and market presence of European public property companies.

EPRA Key Figures		2010
1	EPRA Earnings	119
2	EPRA NAV	660 982
3	EPRA NNNAV	656 233
4	(a) EPRA Net Initial Yield (NIY)	10.7%
	(b) EPRA «topped-up» (NIY)	11.0%
5	EPRA Vacancy Rate	1.5%

EPRA Earnings

The EPRA Earnings are an indicator of the underlying performance of the property portfolio and are therefore broadly in line with our financial calculation. It excludes all components not relevant to the underlying and recurring performance of the portfolio, including any revaluation results and results from sales of properties.

EPRA Earnings (USD k)	Dec 31, 2010
Earnings per IRFS Income Statement	**94 902**
(a) Changes in value of investment properties, development properties held for investment	-41 491
(b) Profits or losses on disposal of investment properties, development properties held for investment and subsidiaries	-51 956
(c) Changes in fair value of financial instruments and associated close-out costs	-1 336
EPRA Earnings	**119**

EPRA NAV and NNNAV

The objective of the EPRA NAV measure is to highlight the fair value of net assets on an ongoing, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value of financial derivatives and deferred taxes on property valuation surpluses, are therefore excluded. The objective of the EPRA NNNAV measure is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV. EPRA NNNAV is not taking into consideration contingent liabilities described in Note 25.

EPRA NNNAV (USD k)

	Dec 31, 2010
NAV	**660 985**
Investment property held under construction (if IAS 40 cost option in used)	0
Fair value of financial instruments	3 851
EPRA NAV	**664 836**
Fair value of financial instruments	-3 851
Fair value of debt	-4 756
Deferred tax	4
EPRA NNNAV	**656 233**

EPRA Net Initial Yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market value of the property.

EPRA «topped-up» (NIY)

The EPRA "topped-up" NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent-free periods.

	Dec 31, 2010
Investment property - wholly owned*	**1 473 205**
Less development properties	-670 000
Completed property portfolio	**803 205**
Annualized cash passing rental income	86 306
Annualized net rents	86 306
«Additional rent expiration of rent free periods or other lease incentived»	1 968
Topped-up net annualized rent	**88 274**
EPRA NIY	**10.7%**
EPRA «topped up» NIY	**11.0%**

*Including property used for our own purpose

EPRA Vacancy Rate (NIY)

In order to encourage the provision of comparable and consistent disclosure of vacancy measures, EPRA has identified a single vacancy measure. The EPRA Vacancy Rate is expressed as a percentage, being the ERV of vacant space divided by ERV of the whole portfolio. The Vacancy Rate is calculated for all completed properties, but excluding those properties which are under development.

EPRA Vacancy Rate	Dec 31, 2010
Estimated Rental Value (ERV)	84675
ERV of vacant space	1300
Vacancy Rate	1.5%

4 ACQUISITION STRATEGY AS FUNDAMENT OF O1 PROPERTIES'S CAPITALIZATION GROWTH

A. ASSET SELECTION (THE OWNER ROLE)

Successful acquisitions in 2010 take O1 Properties Group closer to strategic goals to build strong and highly valued real estate group. In the reporting year the acquisitions were made by high levels of expertise and knowledge in our asset selection, property management and finance teams. Quality location of assets is our prime consideration. Our 2010 acquisition meet these criteria and were made through strong teams working according to a combination of our value drivers and core values.

In our search for new acquisitions we target office centres in prime, dominant locations in Moscow. All prospects must be good and very good quality, according to our own internal rating system, and have potential for our project managers to enhance their value. In addition, we must be able to acquire asset at a realistic price. The Moscow market has not grown enough yet and we can still buy properties at reasonable prices. All prospects are analyzed against strategic fit and desired IRR, cash-on-cash and risk/return criteria.

Every year, O1 Properties carries out a hold/sell analysis of our standing portfolio based on past performance and future potential. Independent, external appraisers value our properties on a regular basis. In addition, we have our own internal rating system for office buildings. Strong investor demand for office property is the primary driver behind this increase.

B. MANAGING ASSETS (THE OPERATOR ROLE)

We take the strategic view that location needs to be continually reinforced by quality tenant mix and extensions, renovation and refurbishment to ensure first-class services and facilities. If we are able to continually improve the quality and attractiveness of our shopping centres through property management, then we maintain and grow the value of our asset. This is the strategic rationale behind our consistent development of quality office buildings in Moscow.

Working closely with asset colleagues, property managers (Hines, Moj Dom, Sawatzky, Paragon Construction) play a key role in identifying trends and changes in tenant and visitor needs. These are taken into account when deciding to extend, renovate or refurbish – or a combination of all three – one of our standing assets.

C. FINANCE AND CONTROL (THE CONTROLLER ROLE)

O1 Properties operates in a highly capital-intensive business sector. We also have a long-term investment horizon. From a strategic financial perspective, if we are to pursue our mission of consistent growth in shareholder value, we must have an optimal capital structure as foundation. This means a strong balance sheet that enables us to fund our business in a viable, secure and sustainable way, while minimizing capital costs. Our financial structure should maximize the margin between our return on property assets and the cost of capital needed to acquire and maintain them. This is why an optimal capital structure is one of the Group's five value drivers and translates into strategic and long-term financial objective: to maintain strong access to capital from the shareholder by broadening our investor base and increasing the liquidity of our shares through planned future exit either through real estate vehicles (eg. REITs) or Initial Public Offering.

Our targets to minimize the financial risk of the Group are based on certain key components:

- as we have a long-term investment horizon, we strive for a sound capital structure and actively seek long-term financing;
- a loan-to-value (LTV) ratio on stabilized project level between 55% (comfortable) and 70% (maximum);
- average interest rates below expected cap rates if the project is to be leveraged above comfortable levels;
- an average loan maturity should exceed 3.0 years (plan from 2011 going forward);
- from a long-term stable cash earnings perspective, we aim for a optimal mix of floating and fixed rate financing for all financial commitments with preference in current volatile market enviroment to have fixed rate;
- investments in the same currency as future rental stream and exit proceeds.

5 RISK MANAGEMENT

O1 Properties risk management goals are: no material surprises, no uninformed decisions and no major missed opportunities. These three goals are underpinned and guided by several principals, including:

- a strongly defined corporate governance structure;
- organizational model based on segregation of the Owner, Operator and Controller roles;
- living four strong corporate values (exchanging knowledge, being predictable, teamwork and continuous improvement);
- proactive and hands-on property and asset management;
- collective and informed decision-making through clearly defined authorization limits for all material and potentially higher risk business transactions, actions and decisions;
- strong and independent oversight of operational effectiveness of risk management and internal control systems and measures.

The Financial risk management policies of the Group are also disclosed in Note 23 to the consolidated financial statements.

6 MOSCOW OFFICE MARKET OVERVIEW

During 2010 the situation on the office market stabilized. Demand for office space was at the same level as in 2009, while the volume of delivery dropped considerably. The vacancy rate had fallen by the end of the year and overall rental rates were stable.

The market saw considerable geographical segmentation in 2010, a phenomenon that had not previously been strongly noticeable in Moscow. Thus, while the CBD enjoyed growing demand, falling vacancy and even an increase in prime rents, peripheral areas saw growing vacancy due to constrained demand and over-supply.

Supply

As we forecast in early 2010, the amount of office space delivered fell considerably, reaching just 950 000 m² (compared with 1.6 mln m² in 2009). Geographically, the largest share of new space entered the market in the area between the Third Transportation Ring (TTK) and MKAD (53%), followed by the CBD (28%), while the area between the Garden Ring and TTK had only 8%. The area beyond MKAD received 11% of new deliveries.

Among the projects delivered during 2010 were:

- Nagatino i-Land Phase I 150 000 m²
- Preobrazhenskaya pl., 87 500 m²
- Marr Plaza 22 000 m²
- LegendBC 30 000 m²
- Summit BC 18 000 m²

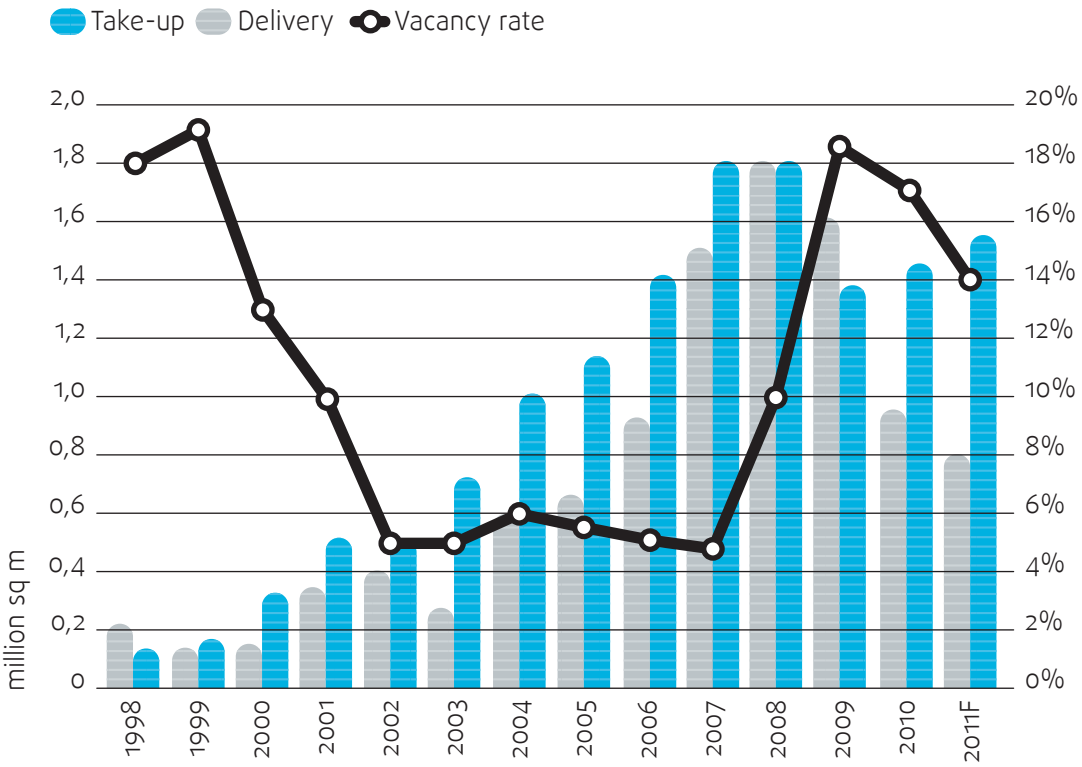
Class A buildings accounted for 38% of new delivery, a record high for the proportion of quality stock. In previous years this share was always around 20% (22% in 2009).

The substantial increase of the Class A share in 2010 was due to the delivery of large scale Class A projects to the market, including Domnikov BC (68 000 m²); Western Gate (56 000 m²), and others.

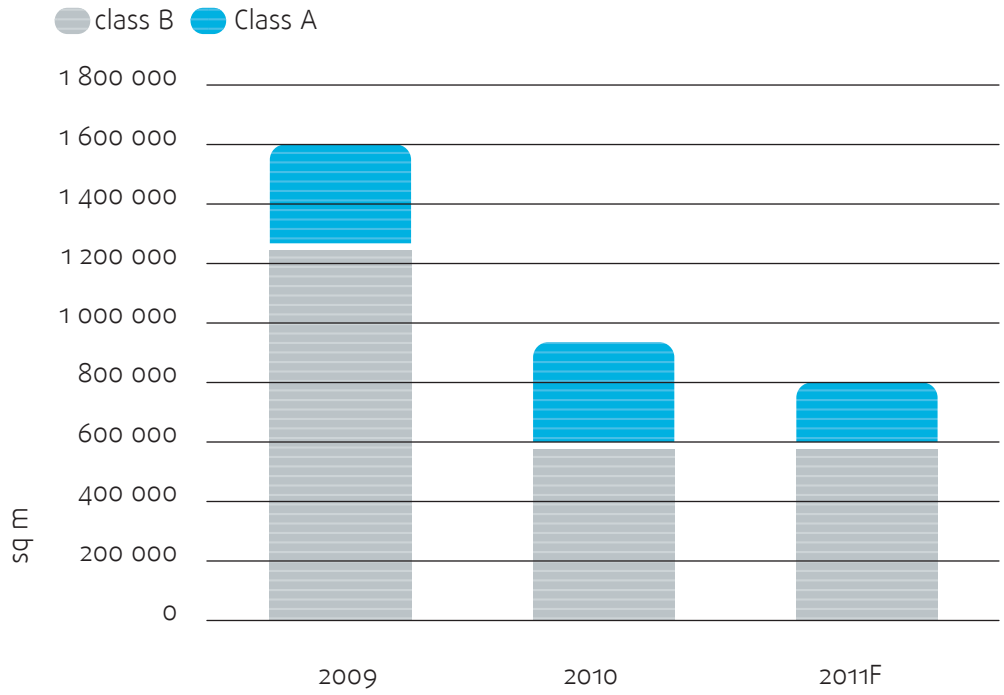
Only a moderate amount of delivery is expected in 2011 due to the continuing after-effects of the financial crisis. Preliminary indications are that the market could see about 800 000 m² of new delivery in 2011. Among the projects likely to enter the market are:

- Imperia Tower 70 000 m²
- Olympia BC 44 000 m²
- Trio BC 33 000 m²

Take-Up, Delivery and Vacancy Rate



Annual Delivery by Class



Take-Up

Take-up on the market was 1.4 mln m² by volume in 2010 as a result of deals closed, the same as in 2009. Though the market saw healthy demand for space throughout the year, the last quarter turned out to be the least fruitful in terms of the volume of deals, and thus the annual volume of take-up failed to exceed the previous year's results.

While the quantity of take-up remained stable, its composition changed a great deal. We witnessed a considerable change in the geographical preferences of occupiers, and a continuation of Class A's rising share in the volume of take-up.

The CBD's share in annual take-up was substantial at 33%. Furthermore, we expect that the volume of deals in the area will remain high, as the amount of vacant space there is still robust at 274 000 m², with an additional 200 000 of new space likely to be delivered in 2011.

Altogether the central areas (CBD and the area between Garden Ring and TTK) accounted for 63% of total annual take-up, the same as in 2009.

Class A's share of take-up actually increased from 14% in 2009 to 32% in 2010. Among Class A projects that saw substantial new occupancy in 2010 were: White Square, Voentorg, Dvintsev BC, Paveletskaya Plaza (three phases), Metropolis, and others.

A number of large-scale deals were closed on the market during 2010, including:

- TNK-BP — 37 700 m² in Nordstar BC
- IBS — 19 000 m² in Horizont BC
- Sportmaster — 16 700 m² in Aviator BC
- E4 Group — 10 000 m² in WTC
- Sanofi Aventis — 9 000 m² in Summit BC

Annual Take-Up by Class

Vacancy rates

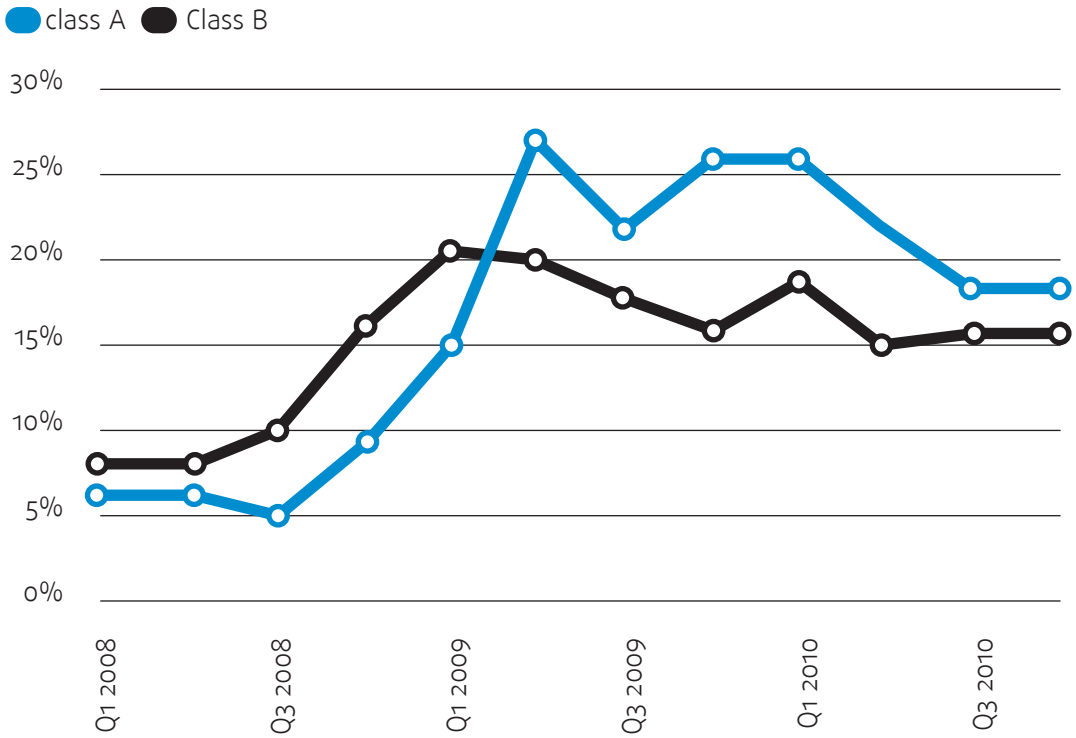
The year 2010 started with an overall vacancy rate of 20%, as a result of the economic downturn and the extremely large supply volumes of 2008 and 2009. However, starting from Q2 the vacancy rate fell and during the rest of the year fluctuated around 16%–17%. By the end of Q4 the overall vacancy rate was at 17%.

Though the overall vacancy was stable for most of the year, we saw considerable variations within geographic areas. These changes showed the market segmentation taking place in Moscow. As the CBD area saw high demand for space, it managed to absorb much of the vacant space, which peaked in Q2 with 370 000 m² of empty premises (equal to a 15% vacancy level) and ended the year with 274 000 of vacant space (10.4%). The area between TTK and MKAD, on the contrary, started and ended the year with over 1 mln m² of empty space (21%). Though the area saw some relief from this high level in the middle of the year, the relatively low demand for space in the area was not sufficient to absorb the rising supply by the end of the year.

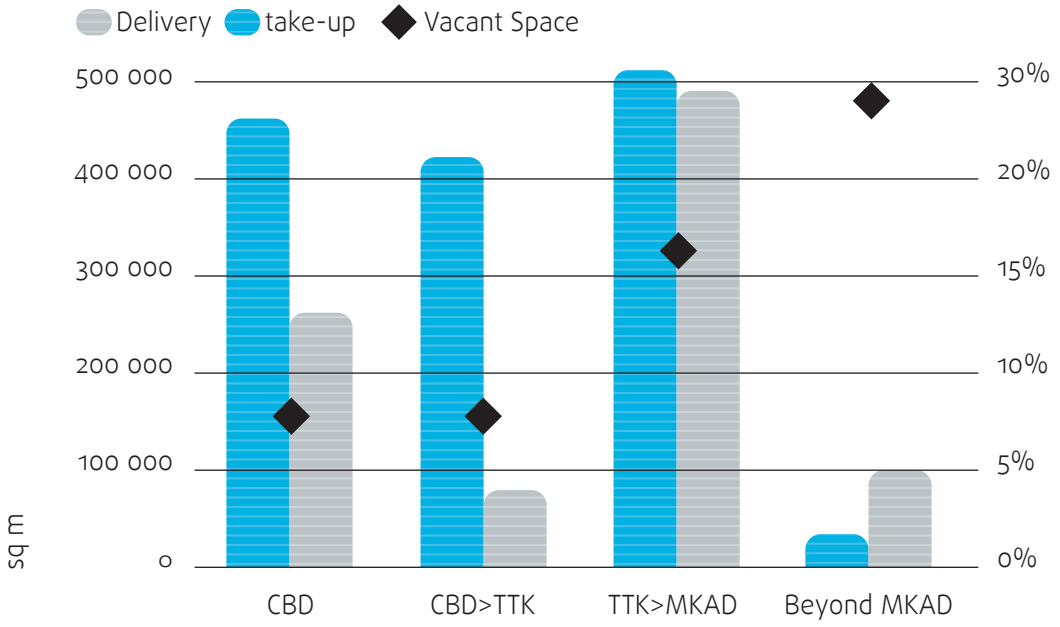
The vacancy rate in different classes also started to return to the familiar pre-crisis structure (lower in Class A than in Class B). Class A vacancy fell from 26% in Q1 to 18% in Q4. However, Class A vacancy in the CBD is much lower at 12%, although, an even lower rate was not recorded due to the deliveries of Legend BC (30 000 m²), and Summit BC (18 000 m²) in Q4. But for the delivery of those projects, the CBD's Class A vacancy would have been just 8%.

Class B vacancy went in the opposite direction and after falling in Q2 it rose again to over 1.5 mln m² (16%) by the end of Q4. The share of vacant space in shell & core condition also grew through the year and from 67% as of end of 2009 increased to 75% end of 2010. As new supply in 2011 is expected to be limited, we expect that Class A vacancy will see further falls, while Class B vacancy will stabilize. However within the Class B sector we expect to see growing vacancy for decentralized Class B- projects, while centrally located Class B+ projects will be in higher demand.

Vacancy Rates by Class



Supply, Take-up and Vacancy by Geographic Submarket 2010



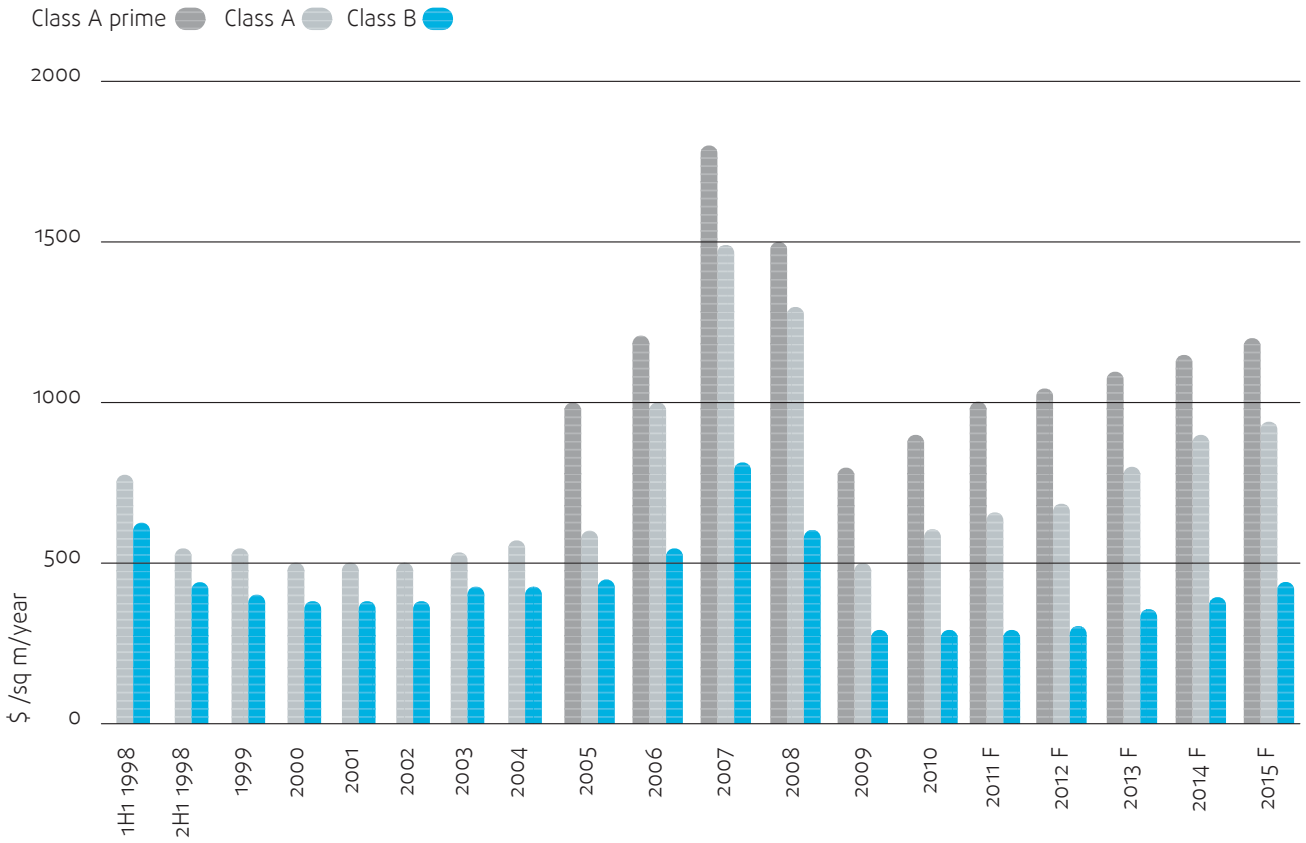
Rents

Although the market was stable overall, prime rents rose throughout the year. This was due to the fact that there is only a limited amount of prime space on the market and even during stable periods it is in high demand. The high volume of vacant space across the wider market created a competitive environment among the landlords of non-prime objects, and as a result the overall level of rents remained stable.

Prime rents reached USD 900 per m² per year (excluding operating expenses and VAT). Prime rents increased more than 29% in 2010.

Class A base rents increased at 9% QoQ and ended Q4 at USD 750 per m² per year. Class B+ and Class B- base rents were unchanged at USD 400—600 and USD 300—400 respectively.

Average Asking Rents



Forecast

As prime rents showed some growth during 2010, we expect that average Class A rents will follow this trend throughout 2011, though less sharply. Delivery of new Class A space will be limited at 250 000 m², of which 35% is already committed. This means that only 175 000 m² of new Class A space will be added to the amount of transactable stock, while during 2010 we saw 350 000 m² of transactable Class A space delivered. The pace of growth will very much depend on the unique characteristics of each project, but overall annual growth for Class A rents could be 3 to 5%. In the Class B sector, an increase of rental rates in central areas is possible as most Class B new delivery during 2011 will be concentrated in the areas beyond TTK. As a result, in Class B decentralized locations, the oversupply situation is likely to

last throughout 2011 and beyond, leaving no room for rental growth.

By analyzing the major indices of the office market, we can see that there is no longer a unified trend for the whole Moscow office market. High demand for space in the central areas puts upward pressure on rents while decentralized areas suffer from a lack of demand and low rents. This trend brings Moscow closer to the structure found in more mature markets which have a considerable degree of segmentation: different submarkets within the same cities have widely differing pricing levels, incentive policies, market practices, and tenant pulls and mixes.

Key figures and data of the above section are sources from CB Richard Ellis and Jones Lang LaSalle reports.

7 CONCLUSION

As indicated above, in 2011, the Group will further stabilize and further prepare for potentially public offering in the second half of year 2012. Due to very limited commitments on development side, liquidity situation of the group should further improve.

12 July, 2011

Dmitriy Mints, Director