

# ***O1 PROPERTIES GROUP***

Annual Report and Consolidated Financial Statements  
31 December 2011

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## **BOARD OF DIRECTORS AND OTHER OFFICERS**

<b>Board of Directors:</b>	Mr. Dmitriy Mints Mr. Tomasz Zamara Mr. Michael Stanton Mr. Alexander Ostrovskiy Mr. Norbert Kickum Mr. Timothy Fenwick Mr. John Nacos
<b>Company Secretary:</b>	Panglobe Secretarial Limited
<b>Independent Auditors:</b>	PricewaterhouseCoopers Limited Chartered accountants
<b>Registered office:</b>	18 Spyrou Kyprianou Flat/office 301 1075 Nicosia Cyprus
<b>Banker:</b>	Nomos Bank Bank of Cyprus VTB plc
<b>Registration number:</b>	272334

## **ANNUAL REPORT OF THE BOARD OF DIRECTORS**

The Board of Directors presents its report and audited consolidated financial statements of O1 Properties plc (formerly O1 Properties Limited) ("the Company") and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2011.

### **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.

On 28 March 2012 the Company was reconstituted from a private limited liability company to a public limited company under name O1 Properties plc.

### **Change of name**

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

### **Principal activities**

The principal activities of the Company are the holding and financing of investments. The Group operates mainly in the Russian real estate market. In particular, the Group is focused on buying active investment properties in the Russian Federation to obtain the profit from their 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 year ended 31 December 2011 was USD 275 839 thousand (period from 24 August 2010 to 31 December 2010: USD 94 902 thousand). On 31 December 2011 the total assets of the Group were USD 2 295 573 thousand and the total equity were USD 774 875 thousand (31 December 2010: USD 1 692 277 thousand and USD 661 058 thousand respectively). 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 Notes 2 and 23 to the consolidated financial statements.

### **Results and Dividends**

The Group's results for the year ended 31 December 2011 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 year is retained.

### **Share capital**

On 29 December 2011 the Board of Directors proposed and the shareholders of the Company passed an unanimous resolution for the reduction of the share premium account by USD 36 017 thousand and shareholder's contribution by USD 61 359 thousand. The reduction was settled with the transfer of financial instruments on 29 December 2011. The share premium reduction was subject to the approval of the Nicosia District Court. On 21 March 2012 the resolution for the reduction of share premium was approved by the Nicosia District Court and the Company Secretary proceeded with its submission to the Registrar of Companies on 28 March 2012. Refer to Note 17 to the consolidated financial statements.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

On 2 March 2012 the Company resolved that the authorized and issued share capital of the Company of EUR 13 thousand divided into 13 000 shares of EUR 1 each be subdivided into 1 300 000 shares of EUR 0.01 each. On the same date the Company resolved that the authorized share capital of the Company be increased from EUR 13 thousand divided into 1 300 000 shares of EUR 0.01 each to EUR 2 000 thousand divided into 200 000 000 shares of EUR 0.01 each by the addition of 198 700 000 ordinary shares of EUR 0.01 each.

On 2 March 2012 the Company issued 48 700 000 ordinary shares of EUR 0.01 each at a nominal value and 193 544 ordinary shares of EUR 0.01 each at a premium of EUR 10.4149 each. Total consideration amounted to EUR 2 505 thousand (USD 3 311 thousand).

### Board of Directors

The members of the Company's Board of Directors at the date of this report are presented on page 1.

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

On 1 August 2011 Mr. John Nacos was appointed to the Board of Directors.

The interests of the Members of the Board of Directors in the share capital of the Company are disclosed in Note 28 to the consolidated financial statements.

### 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.

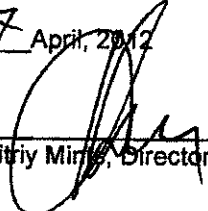
### Existence of branches

During the year ended 31 December 2011 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,

7 April, 2012  
  
Dmitriy Mints, Director



## Independent auditor's report

### To the Members of O1 Properties plc (formerly O1 Properties Limited and Tonebol Limited)

#### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O1 Properties plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2011 and for the period from 24 August 2010 (date of incorporation) to 31 December 2010 respectively, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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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### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and 31 December 2010, and of its financial performance and its cash flows for the year ended 31 December 2011 and for the period from 24 August 2010 (date of incorporation) to 31 December 2010 respectively 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 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 consolidated 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.

A handwritten signature in blue ink, appearing to read 'K. Santis', is written over a horizontal line.

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

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

7 April 2012

**O1 Properties Group**  
**Consolidated Statement of Financial Position**

<i>In thousands of US Dollars</i>	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	1 978	16 693
Investment property	9	2 012 148	1 458 527
Investment in associate	10	9 781	-
Loans issued		5 555	-
Prepayments and deferred expenses	9	25 022	177
VAT receivable		17 205	20 308
<b>Total non-current assets</b>		<b>2 071 689</b>	<b>1 495 705</b>
<b>Current assets</b>			
Derivative financial instruments	25	1 103	-
Inventories	11	53 825	58 179
Loans issued	28	17 355	11 002
Prepayments and deferred expenses		2 410	9 321
VAT receivable		43 460	30 851
Trade and other receivables	12	19 983	31 259
Current income tax prepayments		133	1 314
Cash and cash equivalents	13	51 675	54 646
Non-current assets classified as held for sale	14	33 940	-
<b>Total current assets</b>		<b>223 884</b>	<b>196 572</b>
<b>TOTAL ASSETS</b>		<b>2 295 573</b>	<b>1 692 277</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	15	1 094 193	821 569
Tenant deposits		22 859	14 883
Deferred income tax liability	21	2 002	4
<b>Total non-current liabilities</b>		<b>1 119 054</b>	<b>836 456</b>
<b>Current liabilities</b>			
Borrowings	15	135 338	14 885
Derivative financial instruments	25	10 918	3 851
Tenant deposits		5 719	3 208
Deferred rental income		36 220	25 277
Deferred income on residential property	11	66 096	69 746
Co-investor's share in residential property	11	15 639	16 362
Current income tax liability		5 238	271
Trade and other payables and other liabilities	16	113 502	61 163
Liabilities directly associated with non-current assets classified as held for sale	14	12 974	-
<b>Total current liabilities</b>		<b>401 644</b>	<b>194 763</b>
<b>TOTAL LIABILITIES</b>		<b>1 520 698</b>	<b>1 031 219</b>
<b>EQUITY</b>			
Share capital	17	468 584	565 960
Retained earnings		391 121	94 896
Translation reserve		(84 892)	126
<b>Equity attributable to the equity holders of the Company</b>		<b>774 813</b>	<b>660 982</b>
Non-controlling interests		62	76
<b>TOTAL EQUITY</b>		<b>774 875</b>	<b>661 058</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2 295 573</b>	<b>1 692 277</b>

Approved for issue by the Board of Directors and signed on its behalf on 7 April 2012.

  
 Dmitriy Mikhlin, Director

  
 Tomasz Zamiara, Director

  
 Alexander Ostrovskiy, Director

  
 Michael Stanton, Director

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



**O1 Properties Group**  
**Consolidated Statement of Comprehensive Income**

<i>In thousands of US Dollars</i>	Note	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
Rental revenue		104 437	8 718
Operating expenses of investment property	18	(18 943)	(1 620)
<b>Net rental income</b>		<b>85 494</b>	<b>7 098</b>
Net gain from fair value adjustment on investment property	9	291 782	41 491
General and administrative expenses	19	(15 273)	(2 095)
Other operating income		2 940	123
Other operating expenses		(2 710)	(38)
Net gain from disposal of subsidiaries	29	-	51 956
Finance income	20	2 535	1 435
Finance costs	20	(52 336)	(6 721)
Share of result of associate	10	1 550	-
Foreign exchange translation gains less losses		(25 674)	4 809
<b>Profit before income tax</b>		<b>288 308</b>	<b>98 058</b>
Income tax expense	21	(12 469)	(3 156)
<b>Profit for the period</b>		<b>275 839</b>	<b>94 902</b>
<b>Other comprehensive (loss)/income:</b>			
Effect of translation to presentation currency		(79 448)	126
<b>Total other comprehensive (loss)/income for the period</b>		<b>(79 448)</b>	<b>126</b>
<b>Total comprehensive income for the period</b>		<b>196 391</b>	<b>95 028</b>
<b>Profit/(loss) is attributable to:</b>			
- Equity holders of the Company		275 853	94 896
- Non-controlling interest		(14)	6
<b>Total comprehensive income/(loss) is attributable to:</b>			
- Equity holders of the Company		196 405	95 022
- Non-controlling interest		(14)	6
<b>Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (in US Dollars per share)</b>	22	<b>5.52</b>	<b>4.64</b>

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

**O1 Properties Group**  
**Consolidated Statement of Changes in Equity**

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shareholders' contribution	Retained earnings	Translation reserve	Total		
<i>In thousands of US Dollars</i>								
<b>Balance at 24 August 2010</b>	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	94 896	-	94 896	6	94 902
Other comprehensive income for the period	-	-	-	-	126	126	-	126
<b>Total comprehensive income for the period</b>	-	-	-	94 896	126	95 022	6	95 028
Share issue (Note 17)	18	504 583	-	-	-	504 601	-	504 601
Shareholder's contribution (Note 17)	-	-	61 359	-	-	61 359	-	61 359
Business combinations (Note 29)	-	-	-	-	-	-	70	70
<b>Balance at 31 December 2010</b>	<b>18</b>	<b>504 583</b>	<b>61 359</b>	<b>94 896</b>	<b>126</b>	<b>660 982</b>	<b>76</b>	<b>661 058</b>
Profit/(loss) for the year	-	-	-	275 853	-	275 853	(14)	275 839
Other comprehensive loss for the year	-	-	-	-	(79 448)	(79 448)	-	(79 448)
<b>Total comprehensive income/(loss) for the year</b>	-	-	-	275 853	(79 448)	196 405	(14)	196 391
Equity reduction (Notes 4 and 17)	-	(36 017)	(61 359)	-	-	(97 376)	-	(97 376)
Contribution from shareholder through sale of subsidiary (Notes 4 and 29)	-	-	-	20 372	(5 570)	14 802	-	14 802
<b>Balance at 31 December 2011</b>	<b>18</b>	<b>468 566</b>	<b>-</b>	<b>391 121</b>	<b>(84 892)</b>	<b>774 813</b>	<b>62</b>	<b>774 875</b>

**O1 Properties Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of US Dollars</i>	Note	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
<b>Profit before income tax</b>		<b>288 308</b>	<b>98 058</b>
Adjustments for:			
Depreciation	19	451	52
Net gain from fair value adjustment on investment property	9	(291 782)	(41 491)
Gain on disposal of subsidiary	29	-	(51 956)
Finance costs	20	52 336	6 721
Finance income	20	(2 535)	(1 435)
Share of result of associate		(1 550)	-
Foreign exchange translation gains less losses		24 033	(4 824)
Other non-cash operating costs		4 025	2
<b>Operating cash flows before working capital changes</b>		<b>73 286</b>	<b>5 127</b>
Net increase in VAT receivable		3 916	(391)
Net decrease in trade and other receivables		9 630	91 332
Net decrease in prepayments		1 155	1 311
Net decrease in inventories		1 307	-
Net increase in tenant deposits		12 873	-
Net increase in deferred rental income		105	4 510
Net decrease in trade and other payables		(10 161)	(99 239)
Effect of translation to presentation currency		(5 906)	1 120
<b>Changes in working capital</b>		<b>12 919</b>	<b>(1 357)</b>
Income tax paid		(5 089)	(421)
<b>Net cash from operating activities</b>		<b>81 116</b>	<b>3 349</b>
<b>Cash flow from investing activities</b>			
Expenditures on subsequent improvements of investment property	9	(105 104)	(3 956)
Payments for land lease		(1 356)	-
Purchase of property, plant and equipment	8	(378)	-
Acquisition of subsidiaries, net of cash acquired	9, 29	(119 133)	(199 674)
Acquisition of share in associate		(5 584)	-
Proceeds from sale of shares in subsidiary, net of cash disposed	14, 29	32 500	(63)
Sale of investment securities available for sale		887	-
Decrease in non-current VAT receivable		(13 422)	(242)
Loans issued		(117 749)	(45 152)
Repayment of loans issued		52 041	10 010
Interest received		2 302	39
<b>Net cash used in investing activities</b>		<b>(274 996)</b>	<b>(239 038)</b>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued	17	-	290 503
Proceeds from borrowings		261 537	16 343
Repayment of borrowings		(24 075)	(6 072)
Interest paid		(44 912)	(10 424)
<b>Net cash from financing activities</b>		<b>192 550</b>	<b>290 350</b>
Effect of exchange rate changes on cash and cash equivalents		(1 641)	(15)
<b>Net decrease in cash and cash equivalents</b>		<b>(2 971)</b>	<b>54 646</b>
Cash and cash equivalents at beginning of period	13	54 646	-
<b>Cash and cash equivalents at the end of the period</b>	13	<b>51 675</b>	<b>54 646</b>

Refer to Notes 17 and 29 for the information on significant non-cash transactions.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**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 O1 Properties plc (the "Company") and its subsidiaries (the "Group").

The Company was incorporated on 24 August 2010 as a limited liability company Tonebol Limited and is domiciled in Cyprus. On 30 May 2011 the Company's name was changed to O1 Properties Limited. The address of its registered office is 18, Spyrou Kyprianou, Flat/office 301, 1075 Nicosia, Cyprus. On 28 March 2012 the Company was reconstituted from a limited liability company to a public limited company under the name O1 Properties plc.

At 31 December 2011 the Company's parent is O1 Group Limited (formerly Salastar Investments Ltd, Cyprus) (95.246%) (31 December 2010: 99.992%). The Group is ultimately controlled by Mr. Boris Mints, citizen of the Russian Federation (the "Ultimate Controlling Shareholder").

**Principal activity:** The principal activities of the Company are the holding and financing of investments. The Group operates mainly in the Russian real estate market. In particular, the Group is focused on buying investment properties in the Russian Federation to obtain the profit from their activities. Refer to Note 7 for the segment information.

At 31 December 2011 the consolidated subsidiaries and associates of the Group were as follows:

Entity	Country of incorporation	Principal activity	% of ownership at 31 December 2011	% of ownership at 31 December 2010
CJSC "Horus Capital" (Note 30)	Russian Federation	Investment property	100	100
CJSC "Vodniy Stadion Sport Invest"	Russian Federation	Investment property	100*	100
CJSC "Stroypromplast"	Russian Federation	Investment property	100	100
CJSC "Moscow Furniture Plant"	Russian Federation	Investment property	95.8*	95.8*
CJSC "O1 Properties Management"	Russian Federation	Management company	100	-
Tzortis Limited	Cyprus	Investment property	100*	100*
Planconero Investments Limited	Cyprus	Investment property	100*	100*
Mervita Holdings Limited	Cyprus	Investment property	100*	100*
Calyasca Limited	Cyprus	investment property	100*	-
Avion Corporate Business Center (Cyprus) Limited	Cyprus	Investment property	100*	-
Business Center Stanislavsky (Cyprus) Limited	Cyprus	Investment property	100*	-
Krugozor Business Center (Cyprus) Limited	Cyprus	Investment property	100*	-
Le Fortaco Limited	Cyprus	Investment property	100*	-
Meteolook Investments Limited	Cyprus	Investment property	100*	-
Sharezone Capital Limited	Cyprus	Holding company	100*	-
Everworld Management Limited	Cyprus	Holding company	100*	-
Effusive Holding Limited	Cyprus	Holding company	100	100
Zatkapa Holdings Limited	Cyprus	Holding company	100*	100*

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**1 General Information (Continued)**

Entity	Country of incorporation	Principal activity	% of ownership at 31 December 2011	% of ownership at 31 December 2010
Boxar Holdings Limited	Cyprus	Holding company	100*	100*
Taavo Enterprises Limited	Cyprus	Holding company	50	-
Paremos Limited	Cyprus	Holding company	100*	-
Amortilla Holding Limited	Cyprus	Holding company	100*	-
Wizgate Holding Limited	Cyprus	Holding company	100*	-
Arlamos Limited	Cyprus	Holding company	100*	-
Wallasey Limited	Cyprus	Financing company	100*	100*
Flybase Investments Limited	Cyprus	Financing company	100	100
Maiga Investments Limited	Cyprus	Financing company	100*	100*
Levisoma Trading Limited	Cyprus	Financing company	100*	100*
Derelia Limited	Cyprus	Inactive	100	100
Lightnet Limited	Cyprus	Inactive	100	100
Nareena Limited	Cyprus	Inactive	100	100
Renabon Limited	Cyprus	Inactive	100	100
Crossriver Limited	Cyprus	Inactive	100	100
Eagleman Limited	Cyprus	Inactive	100	100
Enersenia Limited	Cyprus	Inactive	100	100
Manette Holdings Limited	Cyprus	Inactive	100	100
Reindex Limited	Cyprus	Inactive	100	100
Vameno Holdings	Cyprus	Inactive	100	100
Stabilac Limited	Cyprus	Inactive	100	-
Skypharus Limited	Cyprus	Inactive	100*	-
Seaprus Holding Limited	Cyprus	Inactive	100*	-
Kenzer Management Limited	Cyprus	Inactive	100*	-
Red Royal Services Limited	Cyprus	Inactive	100*	-
Xeroma Management Limited	Cyprus	Inactive	100	-
Bitiena Holdings Limited	Cyprus	Inactive	100	-
Nancit Enterprises Limited	Cyprus	Financing company	100*	-
Brightlink Holding Limited	Cyprus	Inactive	100	-
Sandix Group B.V.	The Netherlands	Holding company	100*	100*
Talsia Investments Ltd	British Virgin Islands	Holding company	100*	100
Dawson Int'l Inc.	British Virgin Islands	Holding company	100*	100
Celera Corporation	British Virgin Islands	Holding company	100*	100
Osborne Finance Limited	British Virgin Islands	Financing company	100*	-
Discovery Russian Realty Paveletskaya Project Ltd	Cayman Islands	Holding company	99.94*	99.94*

All entities with ownership exceeding 50% are controlled by the Group and consolidated in these consolidated financial statements.

Taavo Enterprises Limited is an associate of the Group and accounted for in these consolidated financial statements using equity method of accounting.

The ownership stakes marked with (\*) were pledged in relation to borrowings (Note 15) at respective dates.

## **2 Operating Environment of the Group**

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 25).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined fair values and other estimates by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

## **3 Basis of Preparation and Summary of Significant Accounting Policies**

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

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") that were effective as of 1 January 2011 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.

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 Company is the US Dollar ("USD"). The functional currency of the property holding companies is Russian Rouble ("RR"). Refer to Note 4.

**Presentation currency.** All amounts in these consolidated financial statements are presented in thousands of 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.

Non-controlling interests that are not present ownership interests are measured at fair value.

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

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 related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt 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 Company 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 based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill and deferred taxes.

**Associates.** Associates are all entities over which the Group has significant influence (directly or indirectly) but not control, generally accompanying a shareholding of between 20% and 50% (including 50%) of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition.

The Group's share of post-acquisition profit and loss is recognised in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interest in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the profit or loss.

**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 and associates.** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the difference in carrying amount recognised in profit or loss. The fair value of any retained interest in the entity is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate 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.

**Operating segments.** Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker (the "CODM") is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision maker is the Board of Directors of the Company.

**Financial instruments - 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.



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

*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.

*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.

*Derivative financial instruments*, including foreign exchange contracts and interest rate swaps, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year.

*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 except for derivatives into financial liabilities carried at amortised cost.

**Initial recognition of financial instruments.** All financial instruments carried at amortised cost or as available for sale 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 are recognised when the entity becomes a party to the contractual provisions of the instruments.

**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 expire or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor 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.

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

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.

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. 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 estimates 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 amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year 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 as other operating income or other operating expenses.

**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 includes assets under construction for future use as investment property.

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

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

- (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.

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". Net gains from fair value adjustment on investment property are recorded in profit or loss. 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 profit or loss 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.

**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 recognised in profit or loss when the goods or services relating to the prepayments are received.

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

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. Prepayments are treated as non-financial assets.

**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.

Input VAT from goods or services received, prepayments made to tax authorities and VAT receivable from tax authorities are presented as VAT receivable in the statement of financial position. Payables to tax authorities for VAT are shown as part of trade and other payables.

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 recorded in the profit or loss within other operating 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.

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

**Cash and cash equivalents.** Cash and cash equivalents include cash in hand and balances with banks with original maturities of three months or less. 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.

**Non-current assets classified as held for sale.** Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

**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 profit or loss over the lease period using the effective interest method.

**Derivative financial instruments.** Derivatives including forward rate agreements, interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

The changes in the fair value of derivatives are recognised immediately in the profit or loss as finance income or finance cost.

**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 treated as deferred revenue and amortised on a straight line basis over the period of the lease. The tenant deposit is subsequently measured at amortised cost and the interest expense is recorded over the period of the lease term within finance costs.

**Deferred income on residential property.** Deferred revenue from pre-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 consolidated statement of financial position. Upon realisation of an investment agreement the liability is 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 profit or loss for the year 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 and operating expenses of investment property.

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 only within the individual companies 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 and associates, 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 net gain from fair value adjustment on investment property. Refer to Note 4.

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

**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.

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.** Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

**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.

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

**Operating expenses of investment property.** The operating expenses associated with investment properties are charged to the profit or loss 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 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 period 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.

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

**Share based payments plan.** As discussed in Note 25 certain directors of the Company are entitled to the share based payments plan. The Group has liability to settle the plan in cash and therefore the plan is accounted for as a cash-settled share based payment transaction. The calculation of the plan related liabilities and expense are based on (1) vesting period, (2) estimated fair value of the unit options, (3) the number of unit options expected to satisfy vesting conditions, and (4) estimated timing of exercise of the unit options. At each reporting date the plan related liability is remeasured to its fair value through profit or loss to the extent the award is vested.

**Foreign currency translation.** Monetary assets and liabilities are translated into each entity's functional currency at the exchange rate at the end of the respective 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 period-end official exchange rates are recognised in as foreign exchange differences.

Translation at period-end rates does not apply to non-monetary items, which are translated at the exchange rate 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 are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historical rate; and
- (iv) all resulting exchange differences are recognised separately in other comprehensive income.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUR 32.1961 (31 December 2010: USD 1 = RUR 30.4769) and the average exchange rate used for translating income and expenses was USD 1 = RUR 29.3874 (period from 24 August 2010 to 31 December 2010: 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:



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

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

Since the information on current or recent prices of comparable investment properties was limited, the fair value of investment properties was determined mainly using discounted cash flow valuation techniques. The Group used assumptions that were mainly based on market conditions existing at each reporting date. Changes in assumptions used in the valuation techniques could affect reported fair value.

The principal assumptions underlying the estimation of fair value are those related to the application of appropriate discount and exit capitalization rates. The impact on the aggregate valuations of changes in these variables is estimated by adjusting the variable and assuming that other variables remain the same.

In 2011 the Group applied for the yielding investment property exit capitalization rates between 9.5% and 10.0%. Had these rates been 10% lower or higher (95 to 100 basis points lower or higher) than those actually applied, it is estimated that the total valuation of these investment properties on a discounted cash flow basis would be USD 142 100 thousand higher or USD 115 200 thousand lower respectively.

In 2011 the Group applied for the newly completed investment property exit capitalization rates between 8.5% and 9.0%. Had these rates been 10% lower or higher (85 to 90 basis points lower or higher) than those actually applied, it is estimated that the total valuation of these investment properties on a discounted cash flow basis would be USD 109 100 thousand higher or USD 80 500 thousand lower respectively.

In 2010 the Group applied for the yielding investment property equivalent yields between 10% and 11.5%. Had these rates been 10% lower or higher (100 to 115 basis points lower or higher) than those actually applied, it is estimated that the total valuation of these investment properties would be USD 89 565 thousand higher or USD 73 275 thousand lower respectively.

In 2010 the Group applied for the investment property under development discount rates between 18% and 20%. Had the discount rates been 10% lower or higher (180 or 200 basis points lower or higher) than those actually applied, it is estimated that the total valuation of these investment properties on a discounted cash flow basis would be USD 46 000 thousand higher or USD 42 000 thousand lower respectively.

Upon completion of Olimpia property (Note 9), the Group has to purchase Moscow City's share in this property. The purchase consideration is to be agreed upon completion of the property with reference to its market value and other factors. The Group included its best estimate of the expected purchase consideration payable in the calculation of the fair value of the property. Such estimate was made by the Group on the basis of the current market practices and on-going discussions with Moscow City authorities. The Group believes that the final amount of the purchase consideration payable cannot exceed the Group's estimate by more than USD 20 000 thousand. A higher amount of the purchase consideration payable would have resulted in a corresponding decrease of the fair value of the property.

**Deferred taxation of fair value adjustment on investment property.** Each investment property of the Group is held by a separate Cypriot holding company. The disposal of the investment properties is expected to be performed through disposal of the shares in such Cypriot holding companies. Taking into consideration current structure of the Group, such disposal of shares will not be taxable. Therefore the Group has not recorded deferred taxation in relation to fair value adjustment on the investment property since the date of acquisition of respective properties.

The above accounting policy was adopted by the Group following its formation in 2010 and on the basis of IFRS pronouncements and their interpretations available at that date. The Management of the Group believes that subsequent changes in such pronouncements and their current interpretations still allow the Group to use the above accounting policy. If IFRS guidance in this area changes, the Group will consider the need to revise its policy at that point in time.

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

If the Group recorded deferred taxation in relation to fair value adjustment on investment property, the profit for the year ended 31 December 2011 would have been lower by USD 58 356 thousand (profit for the period from 24 August 2010 to 31 December 2010 would have been lower by USD 8 298 thousand) and equity at 31 December 2011 would have been lower by USD 60 953 thousand (equity at 31 December 2010 would have been lower by USD 8 298 thousand).

**Revenue recognition from sale of residential property.** 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, there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

At 31 December 2011 and 2010 in relation to the residential property (Note 11) the ownership certificate in the name of the Group was not received and therefore the Group concluded that criteria for revenue recognition from the sale of this property were not met.

At 31 December 2011 had the Group received the ownership certificate and completed this sale, additional revenue of USD 66 096 thousand and profit before income tax of USD 28 029 thousand would have been recorded in the consolidated statement of comprehensive income for the year ended 31 December 2011 (period from 24 August 2010 to 31 December 2010: USD 69 746 thousand and USD 29 627 thousand respectively) and equity at 31 December 2011 would be USD 22 423 thousand (31 December 2010: USD 23 702 thousand) higher.

**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.

The Group concluded that the functional currency of O1 Properties Limited, the parent company of the Group, is US Dollar, the currency in which (1) funds are obtained and invested, (2) receipts from activities are retained, (3) the business risks and exposures are measured and (4) performance of the business is measured. The Group concluded that the functional currency of the property holding subsidiaries of the Group is Russian Rouble since the primary economic environment in which these entities generate and spend cash is the Russian Federation where the properties are located. The Group concluded that the functional currency of other, mainly financing, subsidiaries of the Group is either Russian Rouble or US Dollar depending on their operations.

Given the significant exposure of the Group to the economy and markets of the Russian Federation, the alternative to US Dollar functional currency of the Company and some of its subsidiaries would have been Russian Rouble. In such case the Company and respective subsidiaries would have recorded foreign exchange translation gains less losses related to US Dollar balances in the profit or loss.

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

**Equity reduction.** As explained in Note 17 the Company has resolved to have an equity reduction by USD 97 376 thousand. The reduction of share premium of USD 36 017 thousand was subject to approval by the Nicosia District court and filing with the Registrar of Companies. In the opinion of the Company's Board of Directors, based on the circumstances surrounding the application, the financial position of the Company and the mix of its external creditors, the approval by the authorities was considered certain and as such the Board proceeded with the transfer of the contractual right to receive the financial asset to the Company's shareholders on 29 December 2011. Therefore upon payment/transfer of risks and rewards of ownership of the financial instrument the charge was recognised as equity. Therefore such equity reduction was recorded in full on 29 December 2011. The actual reduction of the statutory nominal share premium will be recognised in 2012 upon its approval by the Registrar.

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

**Contribution from shareholder through sale of subsidiary.** As detailed in Note 29 on 1 November 2011 the Group sold 100% interest in Longmoor Limited (Cyprus) to a company controlled by the Ultimate Controlling Shareholder (Note 1) for nominal value of USD 1. The result of this transaction with the owner in its capacity as owner was recorded directly in retained earnings and translation reserve in the net amount of USD 14 802 thousand. If this transaction was not accounted for as transaction with the owner in its capacity as owner the gain from the disposal in the amount of USD 20 372 thousand would have been recorded in the profit or loss and related reduction of translation reserve in the amount of USD 5 570 thousand would have been recorded through other comprehensive income.

**5 Adoption of New or Revised Standards and Interpretations**

Certain new standards and interpretations became effective for the Group from 1 January 2011:

**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 amendments had not any material effect on these consolidated financial statements.

**Other revised standards and interpretations** effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

**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 amendments had not any material effect on these consolidated financial statements.

## **6 New Accounting Pronouncements**

Certain new and amended standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later and which the Group has not early adopted. Pronouncements marked by (\*) are not yet adopted by the European Union.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent 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 do not 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 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

**IFRS 11, Joint arrangements\***, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**6 New Accounting Pronouncements (Continued)**

**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 these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

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

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

**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 derecognized 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 amendment is not expected to have any impact on the Group's consolidated financial statements.

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

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

**6 New Accounting Pronouncements (Continued)**

**Amendments to IAS 1, Presentation of financial statements\***, (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**Amended IAS 19, Employee benefits\***, (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19 and may significantly change performance indicators and the volume of disclosures. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**Other revised standards and interpretations:** The amendments to IFRS 1, First-time adoption of IFRS\*, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12, Income taxes\*, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale is currently considered by the Group, and IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine\*, which considers when and how to account for the benefits arising from the stripping activity in mining industry, are not expected to have any impact on these consolidated financial statements.

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

**7 Segment information**

The Group determined that its Chief Operating Decision Maker ("CODM") is the Board of Directors of the Company.

For the CODM purposes all activities of the Group are presented on the basis of three major operating segments:

- Yielding property – representing completed operating investment properties leased to third parties.
- Newly completed property – representing substantially completed investment properties currently actively marketed and in the process of being leased out.
- Property under development – representing investment properties which are currently in the process of development or expected to be developed in the near future.

Segment performance and breakdowns of assets and liabilities, income and expenses are reviewed by the management of the Group on a regular basis. Segment assets and liabilities, income and expense are reported to the management of the Group net of inter-segment balances and turnovers.

From a strategic financial perspective the Board of Directors monitors/relies on analysis of certain items in the consolidated statement of comprehensive income and consolidated statement of financial position broken down by each operating segment. The following items are reviewed by the CODM: fair value of investment property, VAT receivable, cash and cash equivalents, non-current and current borrowings, net rental income, net gain from fair value adjustment on investment property and net finance costs.

The CODM evaluates performance of operating segments based on the net rental income and net gain from fair value adjustment on investment property.

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**7 Segment information (Continued)**

The main differences between segment reporting used by the CODM and IFRS are: (1) fair value of investment property is based on reports of independent appraisers without additional adjustments for straight-lining of rental income and finance lease liabilities accounted for separately; (2) borrowings within a reporting segment are usually presented at their carrying value according to Russian accounting standards or management accounts. These differences are adjusted in the annual and semi-annual reporting.

Regular review of financial position and results of the Group's subsidiaries in accordance with management accounting and Russian accounting standards is delegated to the individual management teams.

Segment information for reportable segments of the Group and reconciliation of such information to the Group's IFRS consolidated financial statements at and for the year ended 31 December 2011 is set out below:

	Yielding property	Newly completed property	Property under development	Reconcilia- tion to the Group's consolidated financial statements	Total
<i>In thousands of US Dollars</i>					
<b>Non-current assets</b>					
Investment property	1 206 685	805 463	-	-	2 012 148
VAT receivable	2 974	14 231	-	-	17 205
Investment in associate	-	-	9 781	-	9 781
Other non-current assets	-	-	-	32 555	32 555
<b>Total non-current assets</b>	<b>1 209 659</b>	<b>819 694</b>	<b>9 781</b>	<b>32 555</b>	<b>2 071 689</b>
<b>Current assets</b>					
VAT receivable	22 712	20 748	-	-	43 460
Cash and cash equivalents	22 967	16 372	-	12 336	51 675
Other current assets	-	-	-	128 749	128 749
<b>Total current assets</b>	<b>45 679</b>	<b>37 120</b>	<b>-</b>	<b>141 085</b>	<b>223 884</b>
<b>TOTAL ASSETS</b>	<b>1 255 338</b>	<b>856 814</b>	<b>9 781</b>	<b>173 640</b>	<b>2 295 573</b>
<b>Liabilities</b>					
Non-current borrowings	(794 565)	(299 628)	-	-	(1 094 193)
Current borrowings	(16 871)	(100 182)	-	(18 285)	(135 338)
Other liabilities	-	-	-	(291 167)	(291 167)
<b>TOTAL LIABILITIES</b>	<b>(811 436)</b>	<b>(399 810)</b>	<b>-</b>	<b>(309 452)</b>	<b>(1 520 698)</b>
<b>Net rental income</b>	<b>85 494</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85 494</b>
<b>Net gain from fair value adjustment on investment property</b>	<b>229 074</b>	<b>62 708</b>	<b>-</b>	<b>-</b>	<b>291 782</b>
General and administrative expenses	-	-	-	(15 273)	(15 273)
Other operating income less other operating expenses	-	-	-	230	230
Net finance costs recognized in profit or loss	(41 267)	(9 910)	-	1 376	(49 801)
Share of result of associate	-	-	1 550	-	1 550
Foreign exchange translation gains less losses	-	-	-	(25 674)	(25 674)
<b>Profit before income tax</b>	<b>273 301</b>	<b>52 798</b>	<b>1 550</b>	<b>(39 341)</b>	<b>288 308</b>

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**7 Segment information (Continued)**

Segment information for reportable segments of the Group and reconciliation of such information to the Group's IFRS consolidated financial statements at 31 December 2010 and for the period from 24 August 2010 to 31 December 2010 is set out below:

	Yielding property	Property under development	Reconciliation to the Group's consolidated financial statements	Total
<i>In thousands of US Dollars</i>				
<b>Non-current assets</b>				
Investment property	788 527	670 000	-	1 458 527
VAT receivable	-	20 308	-	20 308
Other non-current assets	-	-	16 870	16 870
<b>Total non-current assets</b>	<b>788 527</b>	<b>690 308</b>	<b>16 870</b>	<b>1 495 705</b>
<b>Current assets</b>				
VAT receivable	10 225	20 626	-	30 851
Cash and cash equivalents	20 882	30 035	3 729	54 646
Other current assets	-	-	111 075	111 075
<b>Total current assets</b>	<b>31 107</b>	<b>50 661</b>	<b>114 804</b>	<b>196 572</b>
<b>TOTAL ASSETS</b>	<b>819 634</b>	<b>740 969</b>	<b>131 674</b>	<b>1 692 277</b>
<b>Liabilities</b>				
Non-current borrowings	(562 251)	(259 318)	-	(821 569)
Current borrowings	(14 234)	(651)	-	(14 885)
Other liabilities	-	-	(194 765)	(194 765)
<b>TOTAL LIABILITIES</b>	<b>(576 485)</b>	<b>(259 969)</b>	<b>(194 765)</b>	<b>(1 031 219)</b>
<b>Net rental income</b>	<b>7 098</b>	-	-	<b>7 098</b>
<b>Net gain from fair value adjustment on investment property</b>	<b>28 427</b>	<b>13 064</b>	-	<b>41 491</b>
General and administrative expenses	-	-	(2 095)	(2 095)
Other operating income less other operating expenses	-	-	85	85
Net gain from disposal of subsidiaries	-	-	51 956	51 956
Net finance costs recognized in profit or loss	(3 733)	(1 553)	-	(5 286)
Foreign exchange translation gains less losses	-	-	4 809	4 809
<b>Profit before tax</b>	<b>31 792</b>	<b>11 511</b>	<b>54 755</b>	<b>98 058</b>

As the Group's activities are concentrated in Moscow, the Group's portfolio of investment property is not geographically diversified. Therefore no geographical segment analysis is required. Investment decisions of the CODM 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.



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**Notes to the Consolidated Financial Statements - 31 December 2011**

**8 Property, Plant and Equipment**

<i>In thousands of US Dollars</i>	Premises	Computers	Office Equipment	Total
<b>Carrying amount at 24 August 2010</b>	-	-	-	-
Acquisition	14 699	94	1 952	16 745
Depreciation charge (Note 19)	(21)	(6)	(25)	(52)
<b>Carrying amount at 31 December 2010</b>	<b>14 678</b>	<b>88</b>	<b>1 927</b>	<b>16 693</b>
Cost at 31 December 2010	14 699	94	1 952	16 745
Accumulated depreciation	(21)	(6)	(25)	(52)
<b>Carrying amount at 31 December 2010</b>	<b>14 678</b>	<b>88</b>	<b>1 927</b>	<b>16 693</b>
Acquisition	-	48	405	453
Depreciation charge (Note 19)	(41)	(59)	(351)	(451)
Transfer to investment property (Note 9)	(13 857)	-	-	(13 857)
Effect of translation to presentation currency	(780)	1	(81)	(860)
<b>Carrying amount at 31 December 2011</b>	<b>-</b>	<b>78</b>	<b>1 900</b>	<b>1 978</b>
Cost at 31 December 2011	-	144	2 271	2 415
Accumulated depreciation	-	(66)	(371)	(437)
<b>Carrying amount at 31 December 2011</b>	<b>-</b>	<b>78</b>	<b>1 900</b>	<b>1 978</b>

At 31 December 2010 premises of the Group were pledged as collateral with respect to borrowings Note 15.

**9 Investment Property**

<i>In thousands of US Dollars</i>	Note	Carrying amount
<b>Total investment property at 24 August 2010</b>		-
Acquisition	29	1 467 074
Capitalised finance costs	20	666
Subsequent expenditure		3 290
Disposal of investment property	29	(55 203)
Fair value adjustment		41 491
Effect of translation to presentation currency		1 209
<b>Total investment property at 31 December 2010</b>		<b>1 458 527</b>
Acquisition	29	266 129
Recognition of land held under operating leases		4 563
Capitalised finance costs and foreign exchange translation gains less losses	20	25 498
Subsequent expenditure		89 157
Transfer to non-current assets classified as held for sale	14	(31 971)
Transfer from property, plant and equipment	8	13 857
Fair value adjustment		291 782
Effect of translation to presentation currency		(105 394)
<b>Total investment property at 31 December 2011</b>		<b>2 012 148</b>

The investment property represents land and office buildings located in Moscow, Russia. Land is leased from the Moscow City Authorities under renewable operating leases (from 1 to 48 years).

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**9 Investment Property (Continued)**

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

Property name	Note	31 December 2011		31 December 2010	
		Net rentable area (square metres)	Amount (in thousands of US Dollars)	Net rentable area (square metres)	Amount (in thousands of US Dollars)
KRUGOZOR - Obrucheva st., 30/1, bldg. 1, 2, 3		50 917	349 900	50 917	296 825
STANISLAVSKY FACTORY - Stanislavskogo st., 21, bldg. 1, 2, 3, 5, 7, 18		34 285	237 400	34 285	178 878
LeFORT - Elektrozavodskaya st., bldg. 1, 1A, 2, 3, 3A, 3D, 4, 5, 6, 7, 8, 9		56 185	250 200	56 185	212 300
AVION - Leningradsky pr., 47, bldg. 2, 3		18 376	109 100	18 376	85 475
VIVALDI PLAZA - Letnikovskaya st., 2, bldg. 1, 2, 3		48 025	324 300	48 025	330 000
OLIMPIA - Leningradskoe sh., 39		45 943	258 900	45 943	153 000
LIGHTHOUSE - Valovaya st., 28		27 470	217 700	27 470	187 000
LESNAYA PLAZA - 4th Lesnoy Lane, bldg. 4		39 667	267 000	-	-
GAMMA - Gamsonovsky per., 5/15, bldg. 1, 2, 3	14	-	-	9 259	24 600
<b>Total investment property at fair value</b>		<b>320 868</b>	<b>2 014 500</b>	<b>290 460</b>	<b>1 468 078</b>
Add: Finance lease liabilities accounted for separately	15		10 453		6 116
Less: Straight line adjustment on rental income accounted for separately	12		(12 805)		(15 667)
<b>Total carrying value of investment property</b>			<b>2 012 148</b>		<b>1 458 527</b>

At 31 December 2011 the valuation of investment property was carried out by an independent firm of valuers, Cushman & Wakefield LLP. At 31 December 2010 the valuation of investment property was carried out by independent firms of valuers, Jones Lang LaSalle and Ernst and Young Valuation and Advisory Services LLC. The basis used for the valuation was mainly the income approach. The critical assumptions used in the valuations are disclosed in Note 4.

At 31 December 2011 investment properties with fair value of USD 2 014 500 thousand (31 December 2010: USD 1 468 078 thousand) have been pledged as collateral with respect to the borrowings (Note 15).

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

<i>In thousands of US Dollars</i>	31 December 2011	31 December 2010
- Not later than one year	140 660	102 468
- Later than 1 year and not later than 5 years	462 249	198 883
- Later than 5 years	122 192	2 601
<b>Total future rental income</b>	<b>725 101</b>	<b>303 952</b>

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**9 Investment Property (Continued)**

At 31 December 2011 future rental income in the amount of USD 725 101 thousand (31 December 2010: USD 303 952 thousand) has been pledged as collateral with respect to the borrowings (Note 15).

At 31 December 2011 prepayments and deferred expenses included USD 6 879 thousand related to acquisition of OJSC "Bolshevik" (Note 30) and USD 10 000 thousand related to acquisition of Silver City building (Note 25).

**10 Investments in Associate**

On 1 June 2011 the Group acquired for USD 9 583 thousand 50% interest in Taavo Enterprises Limited, Cyprus.

*In thousands of US Dollars*

<b>Total investments in associate at 31 December 2010</b>		-
Acquisition of associate		9 583
Share of result of associate		1 550
Share of other comprehensive income of associate		(1 352)
<b>Total investments in associate at 31 December 2011</b>		<b>9 781</b>

At 31 December 2011 consolidated assets of Taavo Enterprises Limited amounted to USD 27 558 thousand and consolidated liabilities amounted to USD 7 996 thousand. Taavo Enterprises Limited is expected to be involved in construction of a new office property.

**11 Inventories**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Residential property construction	53 706	56 481
Work in progress	-	1 630
Raw materials	119	68
<b>Total inventories</b>	<b>53 825</b>	<b>58 179</b>

Under an investment agreement with the Department of Investment Programmes of Property Construction of the City of Moscow the Group invested in the development of a residential apartment area. At 31 December 2011 and 2010 the advances from the co-investor and from pre-sale agreements with customers were obtained by the Group and related liabilities to co-investor and customers were recorded in the consolidated statement of financial position as co-investor's share in residential property and deferred income on residential property. The significant risks and rewards were not transferred to the customers at 31 December 2011 and 2010 because ownership certificate on the name of the Group had not been received, therefore revenue from the sale of residential property was not yet recognised. For the information on critical judgments relating to accounting for the residential property construction refer to Note 4.

During year ended 31 December 2011 and period from 24 August 2010 to 31 December 2010 there were no finance costs capitalized in relation to residential property construction.

Refer to Note 30 for the information on the disposal in 2012 of a subsidiary holding the residential property.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**12 Trade and Other Receivables**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Rent receivable	6 322	8 223
Straight-line adjustment on rental income (Note 9)	12 805	15 667
Receivables from shareholder (Note 28)	1	6 501
Other receivables	855	868
<b>Total trade and other receivables</b>	<b>19 983</b>	<b>31 259</b>

At 31 December 2011 the amount of USD 6 322 thousand (31 December 2010: USD 8 223 thousand) is secured by tenant deposits.

All trade and other receivables balances are neither past due nor impaired except as disclosed in the table below:

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<i>Past due but not impaired</i>		
- less than 30 days overdue	5 303	4 473
- 30 to 90 days overdue	110	939
- 91 to 180 days overdue	-	1 777
- 181 to 360 days overdue	-	470
- over 360 days overdue	488	84
<b>Total past due but not impaired</b>	<b>5 901</b>	<b>7 743</b>

**13 Cash and Cash Equivalents**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Cash on hand	6	-
Current and demand accounts	39 612	39 398
Deposits with banks	12 057	15 248
<b>Total cash and cash equivalents</b>	<b>51 675</b>	<b>54 646</b>

Analysis of cash balances with banks by credit ratings is as follows:

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<i>Neither past due nor impaired</i>		
A +	-	543
A	18 160	-
BBB+	12 721	-
BB	12 156	-
BBB	5 902	3 050
B-	1 250	-
BBB-	1 037	29 437
BB+	315	-
BB-	-	3 662
Other	128	17 954
<b>Total cash balances with banks</b>	<b>51 669</b>	<b>54 646</b>

Cash and cash equivalents are neither past due nor impaired.

**01 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**14 Non-current Assets Classified as Held for Sale**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Investment property	31 971	-
Trade and other receivables	1 449	-
Cash and cash equivalents	520	-
<b>Total non-current assets classified as held for sale</b>	<b>33 940</b>	<b>-</b>

Major classes of liabilities directly associated with non-current assets classified as held for sale were as follows:

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Borrowings	(11 534)	-
Tenant deposits	(698)	-
Deferred rental income	(713)	-
Current income tax payable	(13)	-
Trade and other payables	(16)	-
<b>Total liabilities directly associated with non-current assets classified as held for sale</b>	<b>(12 974)</b>	<b>-</b>

In October 2011 the Group signed a preliminary agreement for the sale of its entire interest in Red Royal Services Limited and in Calyasca Limited (Note 1) for USD 32 500 thousand (Note 16) less debt at the date of sale. At 31 December 2011 related conditions precedent were not completed. The sale was completed in February 2012. The final sale consideration amounted to USD 20 282 thousand and at the date of disposal total assets of Calyasca Limited were USD 34 497 thousand, cash and cash equivalents were USD 1 447 thousand and total liabilities were USD 13 889 thousand.

At 31 December 2011 investment property classified as held for sale with carrying value of USD 31 971 thousand has been pledged as collateral with respect to borrowings (Note 15).

**15 Borrowings**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Non-current borrowings</b>		
Loans from banks	1 063 643	738 451
Loans from related parties (Note 28)	21 167	77 698
Finance lease liabilities	9 383	5 420
<b>Total non-current borrowings</b>	<b>1 094 193</b>	<b>821 569</b>
<b>Current borrowings</b>		
Loans from banks	16 208	13 967
Loans from related parties (Note 28)	108 792	222
Loans from other companies and individuals	9 268	-
Finance lease liabilities	1 070	696
<b>Total current borrowings</b>	<b>135 338</b>	<b>14 885</b>
<b>Total borrowings</b>	<b>1 229 531</b>	<b>836 454</b>

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**15 Borrowings (Continued)**

The detailed information on borrowings at 31 December 2011 is presented below:

Name of Lender	Facility	Carrying amount	Currency	Contractual interest rate, % per annum	Repayment terms	Investment Property pledged
Aareal Bank	Facility Agreement dated 20 July 2007	523 639	USD	7.08%	payable quarterly	by quarterly instalments by 29 August 2014
Aareal Bank	Facility Agreement dated 20 July 2007	24 103	USD	3 month LIBOR+ 4.00%	payable quarterly	by 29 August 2014
Aareal Bank	Facility Agreement dated 20 July 2007	682	USD	7.08%	payable quarterly	by 29 August 2014
Bank Otkritie	Facility Agreement dated 10 September 2010	59 394	USD	12.5%	payable monthly since 30 April 2012	by 10 September 2012
Bank Otkritie (Petrovskiy)	Facility Agreement dated 10 September 2010	39 102	USD	12.5%	payable quarterly	by 10 September 2012
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	7 881	USD	1 month LIBOR+ 3.25%	payable monthly	by 31 December 2013
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	182 957	USD	3 month LIBOR+ 3.9%	payable quarterly	by 31 December 2013
TransCredit Bank	Facility Agreement dated 29 April 2011	84 115	USD	3 month LIBOR+ 8.25%	payable monthly	by 29 April 2014
VTB Capital PLC	Facility Agreement dated 30 December 2011	111 873	USD	3month LIBOR + 6.25 % + 4.35% (capitalized interest)	payable quarterly	by 30 December 2014
VTB Capital (France) S.A	Facility Agreement dated 30 December 2011	144 601	USD	3 month LIBOR+ 5.5%	payable quarterly	by quarterly instalments by 5 July 2017
Valtamera Ltd	Facility Agreement dated 22 February 2011	5 382	USD	9.0%	payable at maturity date	by 22 February 2012
Otkritie FC	Facility Agreement dated 17 March 2008	22 278	USD	9.0%	payable at maturity date	by 31 December 2013
O1 Trust Services	Facility Agreement dated 19 December 2011	8 000	USD	12.0%	payable at maturity date	by 15 January 2012
O1 Group Overseas	Facility Agreement dated 30 December 2010	1 185	USD	8.0%	payable at maturity date	by 30 June 2012
Shishkin P.V.	Facility Agreement dated 01 November 2011	3 669	USD	3.3%	payable at maturity date	by 1 February 2012
Mian UK	Facility Agreement dated 02 March 2010	217	RUR	5.5%	payable at maturity date	by 31 December 2012
Finance lease liabilities		10 453	RUR			
<b>Total borrowings</b>		<b>1 229 531</b>				

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**15 Borrowings (Continued)**

The detailed information on borrowings at 31 December 2010 is presented below:

Name of Lender	Facility	Carrying amount	Currency	Contractual interest rate, % per annum	Repayment terms	Investment Property pledged	
Aareal Bank	Facility Agreement dated 20 July 2007	217 786	USD	7.23%	payable quarterly	by equal quarterly instalments by 29 August 2014	
Aareal Bank	Facility Agreement dated 20 July 2007	133 663	USD	3 month LIBOR+ 4.15%	payable quarterly	by equal quarterly instalments by 29 August 2014	
Aareal Bank	Facility Agreement dated 20 July 2007	182 613	USD	3 month LIBOR+ 4.15%	payable quarterly	by equal quarterly instalments by 29 August 2014	
Aareal Bank	Facility Agreement dated 20 July 2007	35 624	USD	4.452%	payable quarterly	by 29 August 2014	KRUGOZOR, STANISLAVSKY FACTORY, AVION, LeFORT, GAMMA
Aareal Bank	Facility Agreement dated 20 July 2007	683	USD	7.230%	payable quarterly	by 29 August 2014	
Bank Otkritie	Facility Agreement dated 10 September 2010	41 175	USD	12.5%	payable monthly	by 10 September 2012	LIGHTHOUSE
Bank Otkritie (Petrovskiy)	Facility Agreement dated 10 September 2010	16 063	USD	12.5%	payable quarterly	by 10 September 2012	LIGHTHOUSE
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	86 039	USD	1month LIBOR+ 3.25%	payable monthly	by 31 December 2013	
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	96 011	USD	4.2%	payable quarterly	by 31 December 2013	VIVALDI PLAZA
Otkritie FC	Facility Agreement dated 17 March 2008	20 460	USD	20.0%	payable at maturity date	by 31 December 2013	
Mian UK	Facility Agreement dated 17 March 2009	221	RUR	5.5%	payable at maturity date	by 31 December 2012	
Finance lease liabilities	Finance lease liability	6 116	RUR				
<b>Total borrowings</b>		<b>836 454</b>					

**15 Borrowings (Continued)**

The Group is subject to a number of financial covenants related to its borrowings including the following key ratios and indices:

- Loan to Value Ratios – represented by different types of ratios expressed as a percentage of the aggregate loans outstanding under the specific credit facility (subject to certain adjustments and depending on the amount of the committed loan facility) to the aggregate market value of a specific property or the property portfolio according to the most recent valuation;
- Debt Service Cover Ratios – represented by two different types of ratios:
  - expressed as a percentage of the net rental income of the Group or its subsidiaries for the next 12 month period to the aggregate of all payments due and payable by the Group or its subsidiaries for the same period; or
  - expressed as a percentage of the net rental income of the Group or its subsidiaries for the next 12 month period to the aggregate of principal and interest payable under the specific credit facility for the same period;
- Equity ratios – expressed as a percentage of total equity to the aggregate amount of debt;
- Minimum amounts of total equity.

The Group was in compliance with financial covenants at 31 December 2011 and 2010.

Also the Group is subject to compliance with a number of various non-financial covenants.

The Group was in breach of some non-financial covenants under the credit facility from UniCredit Bank Austria AG during 2011 and 2010. The Group received from UniCredit Bank Austria AG waivers in respect of such breaches and at 31 December 2011 and 2010 was in compliance with all covenants.

The finance lease liabilities are related to operating land lease. The reconciliation between the total future minimum lease payments and their present value is set out below:

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Minimum lease payments:</b>		
- not later than one year	1 133	744
- later than 1 year and not later than 5 years	4 675	2 911
- later than 5 years	37 542	19 144
	<b>43 350</b>	<b>22 799</b>
<b>Total minimum lease payments</b>		<b>22 799</b>
<b>Less future finance charges</b>	<b>(32 897)</b>	<b>(16 683)</b>
<b>Present value of minimum lease payments</b>	<b>10 453</b>	<b>6 116</b>

At 31 December 2011 the interest rate implicit in the leases was 10.8% (31 December 2010: 11.3%).



**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**16 Trade and Other Payables and Other Liabilities**

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Payables for expenditure on investment properties	20 751	31 512
Payables for acquisition of additional share in subsidiaries and associates	5 170	12 615
VAT and taxes payable other than on income	23 833	4 386
Payable to related parties on debt purchase (Note 28)	-	4 653
Advances received for sale of inventory	-	6 392
Advance received for sale of non-current assets classified as held for sale (Note 14)	32 500	-
Payable to shareholder (Notes 17 and 28)	30 000	-
Payables for professional fees	883	682
Settlements with personnel	17	23
Other	348	900
<b>Total trade and other payables and other liabilities</b>	<b>113 502</b>	<b>61 163</b>

At 31 December 2011 VAT and taxes payable other than on income included USD 21 391 thousand VAT related to restructuring of ownership over certain properties of the Group.

**17 Share Capital**

Share capital authorised, issued and fully paid comprise:

<i>In thousands of US Dollars</i>	<b>Number of shares</b>	<b>Nominal amount</b>	<b>Share premium</b>	<b>Shareholders' contribution</b>	<b>Total</b>
<b>Balance at 24 August 2010</b>	-	-	-	-	-
Share issue	13 000	18	504 583	-	504 601
Shareholder's contribution	-	-	-	61 359	61 359
<b>Total share capital at 31 December 2010</b>	<b>13 000</b>	<b>18</b>	<b>504 583</b>	<b>61 359</b>	<b>565 960</b>
Equity reduction	-	-	(36 017)	(61 359)	(97 376)
<b>Total share capital at 31 December 2011</b>	<b>13 000</b>	<b>18</b>	<b>468 566</b>	<b>-</b>	<b>468 584</b>

At 31 December 2011 the total authorised number of ordinary shares was 13 000 shares with a par value of EUR 1 per share (31 December 2010: 13 000 shares). All issued ordinary share have nominal value of EUR 1 per share, fully paid and carry one vote each.

Share premium represents the excess of contributions received over the nominal value of shares issued. Share premium is not available for distribution by way of dividends.

On 29 December 2011 the Board of Directors proposed and the shareholders of the Company passed a unanimous resolution for the reduction of the share premium account by USD 36 017 thousand and shareholder's contribution by USD 61 359 thousand. The reduction was settled with the transfer of financial instruments on 29 December 2011. The share premium reduction was subject to the approval of the Nicosia District Court. On 21 March 2012 the resolution for the reduction of share premium was approved by the Nicosia District Court and the Company Secretary proceeded with its submission to the Registrar of Companies on 28 March 2012.

On 29 December 2011 USD 67 376 thousand payable to shareholders in relation to the above equity reduction was netted with loan to O1 Group Limited (Note 1). The remaining balance of USD 30 000 thousand was outstanding at 31 December 2011 (Note 16).

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**17 Share Capital (Continued)**

On 2 March 2012 the Company resolved that the authorised and issued share capital of the Company of EUR 13 thousand divided into 13 000 shares of EUR 1 each be subdivided into 1 300 000 shares of EUR 0.01 each. On the same date the Company resolved that the authorized share capital of the Company be increased from EUR 13 thousand divided into 1 300 000 shares of EUR 0.01 each to EUR 2 000 thousand divided into 200 000 000 shares of EUR 0.01 each by the addition of 198 700 000 ordinary shares of EUR 0.01 each.

On 2 March 2012 the Company issued 48 700 000 ordinary shares of EUR 0.01 each at a nominal value and 193 544 ordinary shares of EUR 0.01 each at a premium of EUR 10.4149 each. Total consideration amounted to EUR 2 505 thousand (USD 3 311 thousand). Refer to Note 28 for the information on the Company's shares owned by the Members of the Board of Directors of the Company.

**18 Operating Expenses of Investment Property**

<i>In thousands of US Dollars</i>	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
Property management fees	8 854	791
Cleaning and utilities	5 360	378
Property tax	3 930	335
Repairs and maintenance	417	34
Insurance	275	62
Other	107	20
<b>Total operating expenses of investment property</b>	<b>18 943</b>	<b>1 620</b>

Information on transactions with related parties is presented in Note 28.

**19 General and Administrative Expenses**

<i>In thousands of US Dollars</i>	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
Salaries and bonuses	2 430	50
Share based payments (Note 25)	11	-
Social contributions	205	9
Professional services	5 589	1 616
Sales commissions	1 138	122
Marketing and advertising	958	12
Low value items written-off	822	1
Rent, cleaning and utilities	529	27
Bank fees	465	42
Depreciation (Note 8)	451	52
Insurance	435	2
Repairs and maintenance	341	-
Land lease expenses	238	53
Travel	90	-
Information services	70	3
Other	1 501	106
<b>Total general and administrative expenses</b>	<b>15 273</b>	<b>2 095</b>

The professional services expenses stated above include fees of USD 67 thousand (period from 24 August 2010 to 31 December 2010: USD 42 thousand) for audit service and fees of USD 3 thousand (period from 24 August 2010 to 31 December 2010: USD 4 thousand) for tax consultancy services charged by the Company's statutory audit firm.

During 2011 and 2010 there were no staff costs capitalised in inventories, property, plant and equipment and investment property. Information on share based payments is disclosed in Note 25.

Information on transactions with related parties is presented in Note 28.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**20 Finance Income and Finance Costs**

<i>In thousands of US Dollars</i>	Note	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
Interest income on loans issued		2 535	48
Net gain from derivatives	25	-	1 336
Other		-	51
<b>Total finance income</b>		<b>2 535</b>	<b>1 435</b>
Interest expense on borrowings (excluding finance lease liability)		60 439	7 214
Interest expense on accretion of interest on tenants deposits		4 393	124
Finance charge on lease liabilities		820	49
Net loss from derivatives		860	-
Fair value effect on initial recognition of borrowings		1 771	-
<b>Total finance cost</b>		<b>68 283</b>	<b>7 387</b>
Less: finance costs capitalized in cost of investment property	9	(15 947)	(666)
<b>Total finance cost recognised in profit or loss</b>		<b>52 336</b>	<b>6 721</b>
<b>Net finance cost recognized in profit or loss</b>		<b>(49 801)</b>	<b>(5 286)</b>

Information on transactions with related parties is presented in Note 28.

**21 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of US Dollars</i>	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
Current tax	10 281	3 151
Deferred tax	2 188	5
<b>Income tax expense for the period</b>	<b>12 469</b>	<b>3 156</b>

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%.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**21 Income Taxes (Continued)**

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

<i>In thousands of US Dollars</i>	Year ended 31 December 2011	Period from 24 August 2010 to 31 December 2010
<b>Profit before income tax</b>	<b>288 308</b>	<b>98 058</b>
Theoretical tax charge at the Company's statutory rate (10%)	28 831	9 806
Tax effect of items which are not deductible or assessable for taxation purposes:		
-Net gain from fair value adjustment on investment property (Note 4)	(29 178)	(9 923)
-Unrecorded tax losses carried forward related to investment property operating companies	9 559	-
-Non-deductible expenses	4 934	2 168
-Non-taxable income	(3 842)	-
-Net losses/(income) earned in low tax jurisdictions	933	-
-Net impact of difference in tax rates in different jurisdictions	(2 714)	1 105
-Change in prior periods current tax provisions	2 359	-
-Other	1 587	-
<b>Income tax expense for the period</b>	<b>12 469</b>	<b>3 156</b>

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 mainly relate to the activities in the Russian Federation the tax effect of the movement on these temporary differences is recorded mainly at the rate of 20%.

The Group does not record deferred income tax on the differences between the carrying amount of its investment property and its tax base. Refer to Note 4 for the detailed description of this critical accounting judgement.

Taking into consideration the current Group structure the Management of the Group does not expect that the transfer of earnings from operating companies of the Group to the Company will result in material tax expenses and therefore no deferred taxation has been recorded in these consolidated financial statements in respect of investments in subsidiaries.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**21 Income Taxes (Continued)**

In accordance with IAS 12 "Income Taxes" the Group does not record deferred tax assets/liabilities arising from the initial recognition of assets/liabilities in a transaction which is (1) not a business combination, and (2) at the time of the transaction effects neither accounting profit nor taxable profit.

<i>In thousands of US Dollars</i>	24 August 2010	Credited/ (charged) to profit or loss	Effect of translation to presenta- tion currency	31 December 2010	Credited/ (charged) to profit or loss	Effect of translation to presenta- tion currency	31 December 2011
<b>Tax effect of deductible temporary differences</b>	-	532	(2)	530	(550)	20	-
<b>Gross deferred tax assets</b>	-	532	(2)	530	(550)	20	-
<b>Tax effect of taxable temporary differences</b>							
Tenants deposits	-	-	-	-	(504)	44	(460)
Accruals	-	-	-	-	(604)	53	(551)
Borrowings	-	-	-	-	(203)	18	(185)
Other	-	(537)	3	(534)	(327)	55	(806)
<b>Gross deferred tax liabilities</b>	-	(537)	3	(534)	(1 638)	170	(2 002)
<b>Total net deferred tax liability</b>	-	(5)	1	(4)	(2 188)	190	(2 002)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

## **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 period.

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

The number of shares used for the calculations of earnings per share have been adjusted for the following changes in share capital which were made on 2 March 2012 (Note 17): (1) transformation of 13 000 shares of EUR 1 each into 1 300 000 shares of EUR 0.01 each and (2) issue at a nominal value to the existing shareholders of 48 700 000 ordinary shares of EUR 0.01 each which resulted in application to the weighted average number of ordinary shares in issue of 38.43 conversion factor calculated based on the number of shares before and after the issue and the Group's consolidated shareholders' equity at 31 December 2011 adjusted for the issue.

Earnings per share were calculated as follows:

<i>In thousands of US Dollars (except for number of shares)</i>	<b>Year ended 31 December 2011</b>	<b>Period from 24 August 2010 to 31 December 2010</b>
Profit for the period attributable to the equity holders of the Company	275 853	94 896
Weighted average number of ordinary shares in issue (adjusted for the changes in share capital on 2 March 2012 (Note 17))	49 958 497	20 463 769
<b>Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (in US Dollars per share)</b>	<b>5.52</b>	<b>4.64</b>

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## **23 Financial Risk Management**

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity and market risks, including currency, interest rate and other price risks), 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 the respective financial instruments.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**23 Financial Risk Management (Continued)**

The Group's maximum exposure to credit risk was as follows:

<i>In thousands of US Dollars</i>	<b>Note</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
Loans issued	28	22 910	11 002
Trade and other receivables	12, 14	21 432	31 259
Cash and cash equivalents	13, 14	52 195	54 646
Guarantees issued	25, 28	56 100	167 200
<b>Total maximum exposure to credit risk</b>		<b>152 637</b>	<b>264 107</b>

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. Rent receivable is secured by tenants deposits paid at the inception of each tenant's lease agreements.

The largest credit risk concentration relates to transactions with entities controlled by the Ultimate Controlling Shareholder (Note 1). At 31 December 2011 (1) loans issued in the amount of USD 14 483 thousand were outstanding from O1 Group Limited (31 December 2010: USD 11 002 thousand) and (2) guarantees issued in the amount of USD 56 100 thousand (31 December 2010: USD 167 200 thousand) were outstanding in relation to liabilities of O1 Group Limited. The Group believes that this risk is mitigated by (1) the sound financial position of O1 Group Limited and (2) the Ultimate Controlling Shareholder's support of O1 Group Limited and the Group's activities. Also, at 31 December 2011 the liabilities of the Group to the immediate shareholders amounted to USD 30 000 thousand (31 December 2010: nil) (Note 16) and this was further mitigating the credit risk relating to the above exposure.

**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. Management uses budgeting and cash forecasting to ensure that the Group has sufficient resources to meet its obligations.

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 and yielding projects between 55% (comfortable) and 65% (maximum); and
- An average loan maturity should exceed 3 years.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**23 Financial Risk Management (Continued)**

The table below shows liabilities at 31 December 2011 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. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

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 2011 is as follows:

<i>In thousands of US Dollars</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowings	1 229 531	1 511 878	198 800	1 118 883	36 325	157 870
Tenant deposits	28 578	39 492	6 454	12 834	7 778	12 426
Derivative financial instruments	10 918	10 562	10 562	-	-	-
Trade and other payables, excluding taxes payable and advances received	57 169	57 169	57 169	-	-	-
Financial liabilities directly associated with non-current assets classified as held for sale	12 248	12 248	47	12 178	23	-
Guarantees issued	56 100	56 100	56 100	-	-	-
<b>Total potential future payments for financial obligations</b>	<b>1 394 544</b>	<b>1 687 449</b>	<b>329 132</b>	<b>1 143 895</b>	<b>44 126</b>	<b>170 296</b>

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

<i>In thousands of US Dollars</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowings	836 454	967 851	48 634	349 857	550 216	19 144
Tenant deposits	18 091	25 958	4 307	13 895	4 193	3 563
Derivative financial instruments	3 851	3 890	3 890	-	-	-
Trade and other payables, excluding taxes payable and advances received	50 385	50 385	50 385	-	-	-
Guarantees issued	167 200	167 200	-	167 200	-	-
<b>Total potential future payments for financial obligations</b>	<b>1 075 981</b>	<b>1 215 284</b>	<b>107 216</b>	<b>530 952</b>	<b>554 409</b>	<b>22 707</b>

In addition to the above potential future payments for financial obligations the Group has certain capital commitments as disclosed in Note 25.

**Market risk**

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



**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**23 Financial Risk Management (Continued)**

**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.

The Group limits its exposure to the effects of currency risk by maintaining the majority of rental revenues and the majority of borrowings denominated in US Dollars.

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

<i>In thousands of US Dollars</i>	31 December 2011			31 December 2010		
	USD	Euro	RUR	USD	Euro	RUR
<b>Monetary financial assets</b>						
Loans issued	22 882	-	28	11 002	-	-
Cash and cash equivalents	29 512	33	22 130	33 854	84	20 708
Trade and other receivables	19 548	435	-	30 741	-	518
Derivative financial instruments	1 103	-	-	-	-	-
Financial assets directly associated with non-current assets classified as held for sale	1 449	-	520	-	-	-
<b>Total monetary financial assets</b>	<b>74 494</b>	<b>468</b>	<b>22 678</b>	<b>75 597</b>	<b>84</b>	<b>21 226</b>
<b>Monetary financial liabilities</b>						
Borrowings	(1 218 861)	-	(10 670)	(830 117)	-	(6 337)
Tenant deposits	(28 578)	-	-	(18 091)	-	-
Derivative financial instruments	(10 918)	-	-	(3 851)	-	-
Trade and other payables, excluding taxes payable and advances received	(49 603)	(298)	(7 268)	(33 426)	(5 522)	(11 437)
Financial liabilities directly associated with non-current assets classified as held for sale	(12 232)	-	(16)	-	-	-
<b>Total monetary financial liabilities</b>	<b>(1 320 192)</b>	<b>(298)</b>	<b>(17 954)</b>	<b>(885 485)</b>	<b>(5 522)</b>	<b>(17 774)</b>
<b>Net balance sheet position</b>	<b>(1 245 698)</b>	<b>170</b>	<b>4 724</b>	<b>(809 888)</b>	<b>(5 438)</b>	<b>3 452</b>
<b>Net balance sheet position less fair value of foreign exchange derivatives</b>	<b>(1 246 801)</b>	<b>170</b>	<b>4 724</b>	<b>(809 888)</b>	<b>(5 438)</b>	<b>3 452</b>
<b>Derivative financial instruments</b>	<b>51 000</b>	<b>-</b>	<b>(49 897)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net balance sheet and derivatives position at 31 December 2011</b>	<b>(1 195 801)</b>	<b>170</b>	<b>(45 173)</b>	<b>(809 888)</b>	<b>(5 438)</b>	<b>3 452</b>

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross. The net total represents the fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**23 Financial Risk Management (Continued)**

Main operating entities of the Group have Russian Rouble functional currency (Note 4). The following table presents sensitivities of profit/loss before income tax expense of the Group entities with Russian Rouble functional currency to reasonably possible changes in exchange rates applied at the reporting date relative to Russian Rouble with all other variables held constant:

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
<i>Impact on profit or loss before income tax expense:</i>		
USD/RR strengthening by 10%	(90 676)	(82 779)
USD/RR weakening by 10%	90 676	62 779
<i>Impact on equity</i>		
USD/RR strengthening by 10%	(78 019)	(55 961)
USD/RR weakening by 10%	78 019	55 961

**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 table below presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

<i>In thousands of US Dollars</i>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>31 December 2011</b>				
Total financial assets	92 085	5 555	-	97 640
Total financial liabilities	221 392	992 702	124 350	1 338 444
<b>Net interest sensitivity gap at 31 December 2011</b>	<b>(129 307)</b>	<b>(987 147)</b>	<b>(124 350)</b>	<b>(1 240 804)</b>
<b>31 December 2010</b>				
Total financial assets	96 907	-	-	96 907
Total financial liabilities	72 329	831 847	4 605	908 781
<b>Net interest sensitivity gap at 31 December 2010</b>	<b>24 578</b>	<b>(831 847)</b>	<b>(4 605)</b>	<b>(811 874)</b>

The average interest rates for the principal financial instruments at the reporting date were as follows:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>Contractual rate</b>	<b>Effective rate</b>	<b>Contractual rate</b>	<b>Effective rate</b>
Trade and other receivables	-	-	-	-
Loans from banks (all in USD and RUR)	7.3%	7.2%	5.1%	5.4%
Loans from other companies (all in USD and RUR)	9.0%	9.0%	19.8%	20.0%
Finance lease liabilities (all in RUR)	-	10.8%	-	11.3%
Tenant deposits (all in USD)	-	9.5%	-	12.3%

**23 Financial Risk Management (Continued)**

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

- to maintain average interest rates below expected cap rates if the project is to be highly leveraged;
- to maintain an optimal mix of floating and fixed rate financing for all financial commitments;
- to use floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates (Notes 15 and 25).

The main interest rate risk of the Group is related to its borrowings. This risk arises mainly as a result of (1) originating borrowings at floating rates and (2) need to refinance the expiring borrowings. At 31 December 2011, if interest rates on borrowings of the Group had been 200 basis points higher (lower) with all other variables held constant profit before income tax expense for a year would have been USD 24 405 thousand lower (higher). At 31 December 2011, if the reference rate (mainly 3 months Libor) on floating rate borrowings of the Group had been 200 basis points higher (lower) with all other variables held constant, profit before income tax expense for a year would have been USD 4 568 thousand lower (higher).

**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 the industry, the Group monitors capital on the basis of the gearing ratio. The management's objective is to maintain the gearing ratio below 70%. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings, 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.

<i>In thousands of US Dollars</i>	<b>31 December 2011</b>	<b>31 December 2010</b>
Borrowings	1 229 531	836 454
Less: cash and cash equivalents	(51 675)	(54 646)
<b>Net debt</b>	<b>1 177 856</b>	<b>781 808</b>
<b>Total equity</b>	<b>774 875</b>	<b>661 058</b>
<b>Total capital</b>	<b>1 952 731</b>	<b>1 442 866</b>
<b>Gearing ratio</b>	<b>60,32%</b>	<b>54,18%</b>

**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 contingencies.** Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. 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 enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer 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. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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

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

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

In addition to the above matters, management estimates that at 31 December 2011 the Group had other possible obligations from exposures to other than remote tax risks of approximately up to USD 68 000 thousand. These exposures primarily related to transactions between companies within the Group. Following the Group restructuring measures taken during 2012 the above amount was decreased by approximately USD 62 000 thousand. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

**Capital commitments.** At 31 December 2011 and 2010 the Group has contractual capital expenditure commitments in respect of office buildings under redevelopment totalling USD 43 438 thousand (31 December 2010: 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.

**25 Contingencies, Commitments and Operating Risks (Continued)**

Contractual commitments of the Group relating to fit out of newly completed properties approximated USD 23 400 thousand at 31 December 2011 (31 December 2010: nil).

On 16 November 2011 the Group entered into an agreement with a third party for acquisition of a group of companies which own the Silver City building in Moscow and lease rights to the underlying land plot. Silver City is a modern Class A office building located in central administrative district of Moscow. The net rentable area of the property is 41 661 square metres. The purchase price is in the range of Euro 261 000 thousand (equivalent of USD 337 708 thousand at 31 December 2011) to Euro 270 000 thousand (equivalent of USD 349 353 thousand at 31 December 2011), depending on the occupancy levels on the date of closing, subject to certain adjustments. At 31 December 2011 and the date of issue of these consolidated financial statements condition precedents relating to this transaction were not fulfilled.

**Assets pledged and restricted.** At 31 December 2011 the investment property and related land leases with a fair value of USD 2 046 471 thousand was pledged in relation to borrowings (31 December 2010: USD 1 468 078 thousand) (Notes 9, 14 and 15). At 31 December 2010 property, plant and equipment with carrying amount of USD 14 678 thousand was pledged as collateral with respect to borrowings (Notes 8 and 15). At 31 December 2011 borrowings were also secured by the pledge of future rental income in the amount of USD 725 101 thousand (31 December 2010: USD 303 952 thousand) (Notes 9 and 15). At 31 December 2011 and 2010 all shares in the Company were pledged in relation of guarantees issued in relation to obligations of immediate shareholder. Also refer to Note 1 for the information on shares of subsidiaries of the Group pledged.

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Refer to Note 15.

**Share based payments plan.** During 2011 certain directors of the Company became entitled to the share based plan. In accordance with the plan, at the date of initial public offering and sale of the shares of the Company through stock exchange (the "IPO") such directors are to be granted a number of unit options equivalent to the fixed amount based on the Company's share price at the date of the IPO (the "Initial Unit Option"). If the Company is prepared for the IPO but the Board of Directors of the Company decides to suspend the IPO solely due to unfavourable external conditions then the directors are to receive a number of unit options equivalent to the fixed amount based on net assets of the Company (the "Pre-IPO Unit Option"). If the Pre-IPO Unit Option is granted then the Initial Unit Option will not be granted. On the last day of each calendar year following the IPO and subject to achievement in the relevant period of all relevant performance targets the directors are to be granted a number of unit options equivalent to the fixed amount based on the market share price at the date of granting. At any date the value of one unit option is equal to value of one share.

Unit options received are vested in equal parts on each anniversary of four consecutive calendar years following the date of granting. A director can exercise vested unit options and request the Company to make him a payment equivalent to the difference between (1) market value of the exercised unit options at the date of the unit option exercise and (2) market value of the exercised unit options at the date of granting. If at the exercise date the market value of the shares is not available then the unit option value is calculated based on the net assets of the Company in accordance with the latest available annual financial statements of the Company.

Once the appointment of a director is terminated (1) no further options will be granted to such director and (2) the director will have right to exercise unit options granted and vested by the date of the exercise only by 31 December of the year which follows the year of the termination. If the appointment of a director is terminated as a result of the director's misconduct then the unit options granted but not exercised are terminated immediately without any compensation.

At 31 December 2011 the liabilities relating to the above share based payments plan amounted to USD 11 thousand (Note 16) and were recorded through general and administrative expenses in the profit or loss (Note 19).

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**25 Contingencies, Commitments and Operating Risks (Continued)**

**Derivatives.** Foreign exchange and interest rate swap derivative financial instruments entered into by the Group have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

At 31 December 2011 the Group had a foreign exchange forward contract to deliver RR 1 606 500 thousand in exchange for USD 51 000 thousand with a positive fair value of USD 1 103 thousand. At 31 December 2011 the Group had interest rate swap contracts with principal amount of USD 331 940 thousand (31 December 2010: USD 321 297 thousand) whereby the Group was paying fixed interest rate in exchange for floating interest rate. At 31 December 2011 the negative fair value of these contracts was USD 10 918 thousand (31 December 2010: USD 3 851 thousand negative fair value).

**Guarantees.** The Group has guaranteed the following liabilities of O1 Group Limited (Note 1):

Guarantor	31 December 2011		31 December 2010	
	Guaranteed liability amount	Payment dates of guaranteed liabilities	Guaranteed liability amount	Payment dates of guaranteed liabilities
<i>In thousands of US Dollars</i>				
O1 Properties plc	-	-	85 000	22 November 2013
O1 Properties plc	32 100	26 November 2012	34 200	26 November 2012
O1 Properties plc	24 000	13 December 2012	24 000	13 December 2012
O1 Properties plc	-	-	24 000	27 July 2012
<b>Total guaranteed liabilities</b>	<b>56 100</b>		<b>167 200</b>	

Apart from the amounts mentioned above, the Group might be obliged to repay the related accrued interest and other penalties. Management is of an opinion that no provision for losses on these guarantees should 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 distressed 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. Interest rates used depend on credit risk of the counterparty and ranged from 6.0% p.a. to 12.5% p.a.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**26 Fair Value of Financial Instruments (Continued)**

**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. Interest rates used ranged from 3.3% p.a. to 12.5% p.a. The comparison of fair value and carrying value of assets and liabilities carried at amortised cost was as follows:

<i>In thousands of US Dollars</i>	31 December 2011		31 December 2010	
	Fair value	Carrying value	Fair value	Carrying value
Loans issued	22 910	22 910	11 002	11 002
Trade and other receivables	19 983	19 983	31 259	31 259
Cash and cash equivalents	51 675	51 675	54 646	54 646
Loans from banks	1 085 726	1 079 851	814 414	809 656
Loans from other companies and individuals	9 268	9 268	-	-
Loans from related parties	128 490	129 959	20 682	20 682
Finance lease liabilities	10 453	10 453	6 116	6 116
Tenant deposits	29 687	28 578	19 755	18 091
Trade and other payables	57 169	57 169	50 385	50 385

**27 Presentation of Classes of Financial Instruments with Measurement Categories**

At 31 December 2011 and 2010 all of the Group's financial assets except for derivative financial instruments were included in category loans and receivables. All of the Group's financial liabilities except for derivative financial instruments were carried at amortised cost.

At 31 December 2011 and 2010 all derivatives were valued using valuation techniques with inputs observable in markets which is Level 2 measurement.

**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.

The outstanding balances with related companies were as follows:

<i>In thousands of US Dollars</i>	31 December 2011		31 December 2010	
	Immediate shareholders	Companies under significant influence/control of ultimate controlling shareholder	Immediate shareholders	Companies under significant influence/control of ultimate controlling shareholder
Capitalised finance costs	-	4 462	-	663
Loans issued	14 483	-	-	11 002
Trade and other receivables	1	-	6 501	-
Cash and cash equivalents	-	1 250	-	17 869
Borrowings	-	(129 959)	-	(77 920)
Trade and other payables	(30 000)	(5)	-	(4 653)

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**28 Related Party Transactions (Continued)**

At 31 December 2011 loan issued to immediate shareholders was denominated in USD, had maturity date by 24 May 2016 and carried contractual interest of 8% p.a. At 31 December 2010 loans issued to companies under significant influence of the Ultimate Controlling Shareholder were denominated in USD, had maturity date of 12 January 2011 and carried contractual interest of 8% p.a.

The income and expense items with related parties for the period were as follows:

	Year ended 31 December 2011			Period from 24 August 2010 to 31 December 2010		
	Immediate shareholder	Companies under significant influence/control of ultimate controlling shareholder	Key management personnel	Immediate shareholder	Companies under significant influence/control of ultimate controlling shareholder	Key management personnel
<i>In thousands of US Dollars</i>						
Salaries and bonuses and related social contribution expense	-	-	(698)	-	-	-
Share based payments	-	-	(11)	-	-	-
Professional services	-	(1 512)	-	-	(45)	-
Net gain from disposal of subsidiary (Note 29)	-	-	-	-	51 956	-
Interest income	2 083	82	-	40	2	-
Interest expense	-	(1 494)	-	-	(488)	-

Refer to Note 25 for the description of the share based payments.

During 2011 and 2010 the Group outsourced its management function to a related company and expenses for such services were recorded within professional services expenses in general and administrative expenses (Note 19). In 2011 the related company was acquired by the Group (Note 29).

In addition the Group guaranteed obligations of the immediate shareholder (Note 25).

Refer to Notes 4 and 29 for details of disposal of Longmoor Limited, a subsidiary of the Group, to a company controlled by the Ultimate Controlling Shareholder.

The beneficial interest in the Company's share capital owned by members of the Board of Directors of the Company, directly or indirectly, is as follows:

	Beneficial interest at 31 December 2011	Beneficial interest since 2 March 2012
Dmitry Mints*	-	-
Michael Stanton	-	0.065%
Alexander Ostrovskiy	-	0.057%
Tomasz Zamara	-	0.007%

\*Mr Dmitry Mints is a son of Mr Boris Mints, the Ultimate Controlling Shareholder (Note 1).

The percentages are based on the total issued share capital. Refer to Note 30 for the information on certain related party transactions after the balance sheet date.



**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**29 Acquisition and Disposal of Subsidiaries**

On 30 December 2011 the Group acquired 100% interest in (1) Osborne Finance Limited (BVI), (2) Nancit Enterprises Limited (Cyprus) and (3) Meteolook Investments Limited (Cyprus) which owns an office building of 49 478 square meters in Moscow, for the total consideration of USD 105 933 thousand. These companies constituted a group of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and not the accompanying processes.

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

<i>In thousands of US Dollars</i>	<b>Attributed fair value</b>
Cash and cash equivalents	3 679
Prepayments	61
Trade and other receivables	3 144
Investment property	266 129
Property, plant and equipment	76
Derivative financial instrument	(8 145)
Borrowings	(144 601)
Tenant deposits	(3 951)
Land lease liability	(968)
Deferred rental income	(2 057)
Current income tax liabilities	(2 408)
Trade and other payables	(5 026)
<b>Fair value of identifiable net assets of subsidiary</b>	<b>105 933</b>
<b>Total purchase consideration</b>	<b>(105 933)</b>
Less: Cash and cash equivalents of subsidiary acquired	3 679
<b>Outflow of cash and cash equivalents on acquisition</b>	<b>(102 254)</b>

The acquired subsidiaries contributed no rental revenue and profit to the Group for the period from the date of acquisition to 31 December 2011.

On 2 June 2011 the Group acquired 100% interest in CJSC "O1 Properties Management", a party related to the Group (Note 28), for USD 9 thousand. As at date of acquisition assets of CJSC "O1 Properties Management" approximated USD 1 066 thousand and liabilities approximated USD 1 269 thousand. CJSC "O1 Properties Management" provided management services to the Group (Note 28).

On 1 November 2011 the Group sold 100% interest in Longmoor Limited (Cyprus) to a company controlled by the Ultimate Controlling Shareholder for nominal value of USD 1.

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

<i>In thousands of US Dollars</i>	<b>Carrying value</b>
Cash and cash equivalents	8
Borrowings	(14 795)
Trade and other payables	(15)
<b>Fair value of identifiable net liabilities of subsidiary</b>	<b>(14 802)</b>
<b>Fair value of identifiable net liabilities of subsidiary</b>	<b>(14 802)</b>
Contribution from the shareholders recorded directly in equity	14 802
<b>Total purchase consideration received</b>	<b>-</b>
Less: Cash and cash equivalents of subsidiary disposed	(8)
<b>Outflow of cash and cash equivalents on disposal</b>	<b>(8)</b>

The financial result of the above transaction was recorded directly in equity. Refer to Note 4.

**01 Properties Group****Notes to the Consolidated Financial Statements - 31 December 2011****29 Acquisition and Disposal of Subsidiaries (Continued)**

During 2010 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 and 100% of the ordinary shares of Talisia Investments Limited (BVI) which owns 100% of Levisoma Trading Limited (Cyprus) for the total consideration of USD 51 400 thousand. These companies constituted a group of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and not the accompanying processes.

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

<i>In thousands of US Dollars</i>	<b>Attributed fair value</b>
Cash and cash equivalents	278
VAT recoverable	7 474
Investment property	171 484
Other assets	539
Borrowings	(118 817)
Trade and other payables	(9 558)
<b>Fair value of identifiable net assets of subsidiary</b>	<b>51 400</b>
<b>Total purchase consideration</b>	<b>(51 400)</b>
Less: Non-cash consideration	51 400
Less: Cash and cash equivalents of subsidiary acquired	278
<b>inflow of cash and cash equivalents on acquisition</b>	<b>278</b>

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.

In November 2010 the Group acquired 100% of the ordinary shares of Discovery Russian Realty Paveletskaya Project Limited (Cayman Islands) which owns 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) whose representation office in Moscow is owner of a an office building of 24 096 square meters in Moscow, 100% of Pianconero Investments Limited whose representation office in Moscow is owner of a an office building of 26 382 square meters in Moscow, 100% of Mervita Holdings limited whose representation office in Moscow is owner of a an office building of 21 330 square meters in Moscow, for total consideration of USD 108 000 thousand. These companies constituted a group of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and not the accompanying processes.

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

<i>In thousands of US Dollars</i>	<b>Attributed fair value</b>
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	(257 714)
Trade and other payables	(64 819)
<b>Fair value of identifiable net assets of subsidiary</b>	<b>108 070</b>
Less: non-controlling interest	(70)
<b>Total purchase consideration</b>	<b>(108 000)</b>
Less: Non-cash consideration	108 000
Less: Cash and cash equivalents of subsidiary acquired	31 981
<b>inflow of cash and cash equivalents on acquisition</b>	<b>31 981</b>

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.

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**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 for USD 3 thousand. These companies constituted a group of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and not the accompanying processes.

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

<i>In thousands of US Dollars</i>	<b>Attributed fair value</b>
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	(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)
<b>Fair value of identifiable net assets of subsidiary</b>	<b>241 354</b>
<b>Total purchase consideration</b>	<b>(241 354)</b>
Less: Non-cash consideration	50 495
Less: Cash and cash equivalents of subsidiary acquired	28 546
<b>Outflow of cash and cash equivalents on acquisition</b>	<b>(162 313)</b>

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.

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 for USD 69 810 thousand. These companies constituted a group of net assets, rather than businesses as defined in IFRS 3 "Business combinations", as the Group purchased physical assets and not the accompanying processes.

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

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

**O1 Properties Group**  
**Notes to the Consolidated Financial Statements - 31 December 2011**

**29 Acquisition and Disposal of Subsidiaries (Continued)**

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. (the Netherlands) for USD 33 thousand.

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

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

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

On 30 December 2010 the Group sold 100% of the ordinary shares of Pekrix Holdings Limited (Note 1) which owned a building in Moscow for USD 42 514 thousand.

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

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

The net gain from the sale was recognised in the consolidated statement of comprehensive income.

**30 Subsequent Events**

On 31 October 2011 the Group entered into an agreement with a third party for acquisition of 100% interest in OJSC "Bolshevik" ("Bolshevik", the owner of buildings and related land leases in Moscow) for USD 73 000 thousand subject to certain adjustments. The transaction was completed on 1 March 2012.

To finance the acquisition of Bolshevik the Group entered into a number of agreements with lending banks and a company related to those banks (the "Security Holder") whereby (1) the Security Holder received from the banks a loan in the amount of USD 53 000 thousand secured by (a) guarantee of the Company and Bolshevik, (b) guarantee of Mr. D. Mints, director of the Company, and (c) guarantee of a minority shareholder of Construction-Invest LLC, (2) the Company sold 100% interest in Bolshevik to the Security Holder for USD 73 000 thousand, and (3) the Security Holder sold 100% interest in Bolshevik to Construction-Invest LLC for USD 73 530 thousand on condition that the transfer of ownership in Bolshevik is to be made only upon complete payment of the purchase consideration. At the date of these consolidated financial statements all cash flows relating to the above transaction were completed except that USD 53 000 thousand was still outstanding from Construction-Invest LLC to the Security Holder. Construction-Invest LLC is 50%+1 share owned by the Group.

In March 2012 the Group entered into a share purchase agreement with Velessa Investments Inc, a parent company of O1 Group Limited (Note 1), to acquire 100% interest in a group of companies which own the Ducat Place III building. In December 2011 Velessa Investments Inc entered into a share purchase agreement with the previous owners of Ducat Place III building. The purchase price is USD 370 000 thousand and subject to certain adjustments.

Refer to Note 14 for the information on disposal of Red Royal Services Limited and in Calyasca Limited.

On 28 March 2012 the Company was reconstituted from a private limited liability company to a public limited company under the name O1 Properties plc.

Refer to Note 17 for the information on changes in share capital in 2012.

In March 2012 the Group sold 100% interest in ZAO "Horus Capital" (Note 1) to a company controlled by the Ultimate Controlling Shareholder for USD 10 thousand. At the date of disposal total assets of ZAO "Horus Capital" approximated USD 82 143 thousand, represented mainly by the Group's entire balance of residential property construction (Note 11) and total liabilities approximated USD 94 318 thousand, represented mainly by the Group's entire balances of (1) deferred income on residential property and (2) co-investor's share in residential property (Note 11).

Independent Auditor's Report on pages 4 and 5.