O1 PROPERTIES GROUP

Annual Report and Consolidated Financial Statements
31 December 2012

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BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Mr. Dmitriy Mints Mr. Tomasz Zamiara Mr. Michael Stanton Mr. Alexander Ostrovskiy Mr. Richard Gregson Mr. Timothy Fenwick Mr. John Nacos
Company Secretary:	Panglobe Secretarial Limited
Independent Auditors:	PricewaterhouseCoopers Limited, Cyprus Certified Public Accountants and Registered Auditors
Registered office:	18 Spyrou Kyprianou Flat/office 301 1075 Nicosia Cyprus
Bankers:	Nomos Bank Bank of Cyprus VTB plc CJSC Credit Europe Bank
Registration number:	HE 272334

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited consolidated financial statements of O1 Properties Limited (the "Company") and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2012.

Incorporation

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

Change of name

On 30 May 2011 the Company's name was changed from Tonebol Limited to O1 Properties 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. On 10 July 2012 the Company was reconstituted from public limited company to a private limited liability company under the name O1 Properties Limited.

Principal activities

The principal activities of the Company are the holding and financing of investments. The Group operates in the Russian real estate market. In particular, the Group is focused on buying active investment properties in the Russian Federation to derive 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 2012 was USD 65 839 thousand (2011: USD 275 839 thousand) while comprehensive income for the year was USD 126 412 thousand (2011: USD 196 391 thousand). At 31 December 2012 the total assets of the Group were USD 3 171 037 thousand and the total equity was USD 1 077 033 thousand (2011: USD 2 295 573 thousand and USD 774 875 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, 4, 23, 24 and 25 to the consolidated financial statements.

Results and Dividends

The Group's results for the year ended 31 December 2012 are set out on page 7. On 27 December 2012 the Directors approved the payment of a dividend of USD 3 950 thousand to the holders of redeemable preference shares.

Share capital

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 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 authorised share capital of the Company may 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 3 330 thousand).

On 5 December 2012 the Company resolved that the authorised share capital be increased from EUR 2 000 000, divided into 200 000 000 ordinary shares of nominal value EUR 0.01 each to EUR 2 000 000 and USD 173 divided into up to 200 000 000 ordinary shares of nominal value EUR 0.01 and 17 300 redeemable preference shares of nominal value of USD 0.01, through the creation of 17 300 new redeemable preference shares of nominal value USD 0.01 each.

On 6 December 2012 the Company issued 16 790 redeemable preference shares of USD 0.01 each at a premium of USD 9 999.99 each. Total consideration amounted to USD 167 900 thousand.

Refer to Note 18 to the consolidated financial statements.

Board of Directors

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

In June 2012 the director of the Company Mr. Norbert Kickum resigned and a new director Mr. Richard Gregson was 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 July 2012 are:

Mr. Dmitriy Mints

Mr. Tomasz Zamiara

Mr. Michael Stanton

Mr. Alexander Ostrovskiy

Mr. Richard Gregson

Mr. Timothy Fenwick

Mr. John Nacos

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 2012 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,

____ April 2013

Dmitriy Mints, Director

Independent auditor's report

To the Members of O1 Properties Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O1 Properties Limited (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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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PricewaterhouseCoopers Ltd is a member firm of PricewaterhouseCoopers International Ltd, each member firm of which is a separate legal entity
PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No 143594). A list of the company's directors including for individuals the present name and surname, as well as any previous names and for legal entities the corporate name, is kept by the Secretary of the company at its registered office at 3 Themistocles Dervis Street, 1066 Nicosia and appears on the company's web site. Offices in Nicosia, Limassol, Larnaca and Paphos

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012 and 31 December 2011, and of its financial performance and its cash flows for the years then ended 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.

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

30 April 2013

O1 Properties Group
Consolidated Statement of Financial Position

In thousands of US Dollars	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	23 336	1 978
Investment property	9	2 639 912	2 012 148
Investment in associate	10	10 199	9 781
Loans issued	11	23 032	5 555
Prepayments and deferred expenses	9	7 157	25 022
VAT receivable		6 984	17 205
Total non-current assets		**2 710 620**	**2 071 689**
Current assets			
Derivative financial instruments	25	-	1 103
Inventories	12	336	53 825
Loans issued	11	504	17 355
Prepayments and deferred expenses		6 340	2 410
VAT receivable		17 131	43 460
Trade and other receivables	13	37 653	19 983
Current income tax prepayments		399	133
Cash and cash equivalents	14	54 769	51 675
Non-current assets classified as held for sale	15	343 285	33 940
Total current assets		**460 417**	**223 884**
TOTAL ASSETS		**3 171 037**	**2 295 573**
LIABILITIES			
Non-current liabilities			
Borrowings	16	1 403 507	1 094 193
Tenant deposits		34 315	22 859
Deferred income tax liability	22	1 391	2 002
Total non-current liabilities		**1 439 213**	**1 119 054**
Current liabilities			
Borrowings	16	281 096	135 338
Derivative financial instruments	25	16 033	10 918
Tenant deposits		11 234	5 719
Deferred rental income		71 413	36 220
Deferred income on residential property	12	-	66 096
Co-investor's share in residential property	12	-	15 639
Current income tax liability		2 964	5 238
Trade and other payables and other liabilities	17	67 935	113 502
Liabilities directly associated with non-current assets classified as held for sale	15	204 116	12 974
Total current liabilities		**654 791**	**401 644**
TOTAL LIABILITIES		**2 094 004**	**1 520 698**
EQUITY			
Share capital and share premium	18	639 814	468 584
Retained earnings		461 468	391 121
Translation reserve		(24 335)	(84 892)
Equity attributable to owners of the Company		**1 076 947**	**774 813**
Non-controlling interest		**86**	**62**
TOTAL EQUITY		**1 077 033**	**774 875**
TOTAL LIABILITIES AND EQUITY		**3 171 037**	**2 295 573**

Approved for issue by the Board of Directors and signed on its behalf on 30 April 2013.

Dmitriy Mints, Director

Tomasz Zamiara, Director

Alexander Ostrovskiy, Director

Michael Stanton, Director

In thousands of US Dollars	Note	2012	2011
Rental revenue		178 196	104 437
Operating expenses of investment property	19	(33 891)	(18 943)
Net rental income		**144 305**	**85 494**
Net gain from fair value adjustment on investment property	9	3 804	291 782
General and administrative expenses	20	(30 661)	(15 273)
Other operating income		2 289	2 940
Other operating expenses		(2 896)	(2 710)
Finance income	21	2 425	2 535
Finance costs	21	(129 186)	(52 336)
Share of result of associate	10	(168)	1 550
Share of result of joint venture	29	3 103	-
Foreign exchange translation gains less losses		84 465	(25 674)
Profit before income tax		**77 480**	**288 308**
Income tax expense	22	(11 641)	(12 469)
Profit for the year		**65 839**	**275 839**
Other comprehensive income/(loss):			
Effect of translation to presentation currency		59 987	(78 096)
Share of other comprehensive income of associate	10	586	(1 352)
Total other comprehensive income/(loss) for the year		**60 573**	**(79 448)**
Total comprehensive income for the year		**126 412**	**196 391**
Profit/(loss) is attributable to:			
- Owners of the Company		65 815	275 853
- Non-controlling interest		24	(14)
Total comprehensive income/(loss) is attributable to:			
- Owners of the Company		126 388	196 405
- Non-controlling interest		24	(14)

In thousands of US Dollars	Attributable to owners of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Share-holders' contri-bution	Retained earnings	Transla-tion reserve	Total		
Balance at 1 January 2011	**18**	**504 583**	**61 359**	**94 896**	**126**	**660 982**	**76**	**661 058**
Profit/(loss) for the year	-	-	-	275 853	-	275 853	(14)	275 839
Other comprehensive loss for the year	-	-	-	-	(79 448)	(79 448)	-	(79 448)
Total comprehensive income/(loss) for the year	-	-	-	275 853	(79 448)	196 405	(14)	196 391
Equity reduction (Notes 4 and 18)	-	(36 017)	(61 359)	-	-	(97 376)	-	(97 376)
Contribution from shareholders through sale of subsidiary (Notes 4 and 29)	-	-	-	20 372	(5 570)	14 802	-	14 802
Balance at 31 December 2011	**18**	**468 566**	**-**	**391 121**	**(84 892)**	**774 813**	**62**	**774 875**
Profit for the year	-	-	-	65 815	-	65 815	24	65 839
Other comprehensive income for the year	-	-	-	-	60 573	60 573	-	60 573
Total comprehensive income for the year	-	-	-	65 815	60 573	126 388	24	126 412
Share issue (Note 18)	650	170 580	-	-	-	171 230	-	171 230
Contribution from shareholders through sale of subsidiary (Notes 4 and 29)	-	-	-	8 482	(16)	8 466	-	8 466
Dividends paid (Note 18)	-	-	-	(3 950)	-	(3 950)	-	(3 950)
Balance at 31 December 2012	**668**	**639 146**	**-**	**461 468**	**(24 335)**	**1 076 947**	**86**	**1 077 033**

O1 Properties Group
Consolidated Statement of Cash Flows

In thousands of US Dollars	Note	2012	2011
Profit before income tax		**77 480**	**288 308**
Adjustments for:			
Depreciation	8, 20	400	451
Gain from change in fair value of investment property	9	(3 804)	(291 782)
Finance costs	21	129 186	52 336
Finance income	21	(2 425)	(2 535)
Share of result of associates	10	168	(1 550)
Share of result of joint venture	29	(3 103)	-
Foreign exchange translation gains less losses		(84 465)	24 033
Other non-cash adjustments		2 691	4 025
Operating cash flows before working capital changes		**116 128**	**73 286**
Net decrease in VAT receivable		23 563	3 916
Net (increase)/decrease in trade and other receivables		(20 316)	9 630
Net (increase)/decrease in prepayments		(16)	1 155
Net decrease in inventories		-	1 307
Net (decrease)/increase in tenant deposits		(1 577)	12 873
Net increase in deferred rental income		33 856	105
Net increase/(decrease) in trade and other payables		1 550	(10 161)
Effect of translation to presentation currency		(352)	(5 906)
Changes in working capital		**36 708**	**12 919**
Income tax paid		(14 895)	(5 089)
Net cash from operating activities		**137 941**	**81 116**
Cash flow from investing activities			
Expenditures on subsequent improvements of investment property	9	(58 326)	(105 104)
Payments for land lease		(1 324)	(1 356)
Purchase of property, plant and equipment		-	(378)
Acquisition of subsidiaries, net of cash acquired	29	(312 018)	(119 133)
Acquisition of share in associate		-	(5 584)
Acquisition of share in joint venture	29	(3 045)	-
(Cash outflow)/proceeds from sale of shares in subsidiary, net of cash disposed	29	(781)	32 500
Sale of investment securities available for sale		-	887
Increase in non-current VAT receivable		(3 416)	(13 422)
Loans issued		(71 232)	(117 749)
Repayment of loans issued		40 330	52 041
Interest received		2 115	2 302
Net cash used in investing activities		**(407 697)**	**(274 996)**
Cash flows from financing activities			
Proceeds from shares issued	18	3 330	-
Proceeds from borrowings		1 479 865	261 537
Repayment of borrowings		(1 076 761)	(24 075)
Interest paid		(121 228)	(44 912)
Dividends paid	18	(3 950)	-
Net cash from financing activities		**281 256**	**192 550**
Effect of exchange rate changes on cash and cash equivalents		(3 411)	(1 641)
Net increase/(decrease) in cash and cash equivalents		**8 089**	**(2 971)**
Cash and cash equivalents at beginning of year		51 675	54 646
Cash and cash equivalents at the end of year	14, 15	**59 764**	**51 675**

Refer to Notes 18 and 29 for the information on significant non-cash transactions.

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 Limited (the "Company") and its subsidiaries (the "Group").

The Company was incorporated on 24 August 2010 as a private limited liability company named Tonebol Limited and is domiciled in Cyprus. On 30 May 2011 the Company's name was changed to O1 Properties 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. On 10 July 2012 the Company was reconstituted from public limited company to a private limited liability company under the name O1 Properties Limited. The address of its registered office is 18, Spyrou Kyprianou, flat/office 301, 1075 Nicosia, Cyprus. The address of the Group in Moscow is Valovaya street, 26.

At 31 December 2012 the Company's parent was O1 Group Limited (formerly Salastar Investments Ltd, Cyprus) which owned 54.614% (2011: 95.246%) of ordinary shares of the Company. At 31 December 2012 Coniston Management Limited (BVI) owned 45.0% (2011: 4.754%) of ordinary shares of the Company. The Group is ultimately controlled by Mr. Boris Mints, citizen of the Russian Federation (the "Ultimate Controlling Shareholder"). Refer to Note 30 for the information on the changes in ownership after 31 December 2012.

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 2012 the consolidated subsidiaries, joint ventures and associates of the Group were as follows:

Entity	Country of incorporation	Principal activity	% of ownership at 31 December 2012	% of ownership at 31 December 2011
Avion Corporate Business Center (Cyprus) Limited	Cyprus	Investment property	100*	100*
Business Center Stanislavsky (Cyprus) Limited	Cyprus	Investment property	100*	100*
Calyasca Limited (Note 29)	Cyprus	Investment property	-	100*
LLC "Firma "Morava" (Note 10)	Russian Federation	Investment property	50	50
Gasheka Realty Limited (Note 29)	Russian Federation	Investment property	100*	-
Krugozor Business Center (Cyprus) Limited	Cyprus	Investment property	100*	100*
Le Fortaco Limited	Cyprus	Investment property	100*	100*
Levisoma Trading Limited	Cyprus	Investment property	100*	100*
Mervita Holdings Limited	Cyprus	Investment property	100*	100*
Meteolook Investments Limited (Note 29)	Cyprus	Investment property	100*	100*
Pianconero Investments Limited	Cyprus	Investment property	100*	100*
Silver City Limited (Note 29)	Russian Federation	Investment property	100*	-
Tzortis Limited	Cyprus	Investment property	100*	100*
CJSC "Vodniy Stadion Sport Invest" (Note 15)	Russian Federation	Investment property	100*	100*
Amortilla Holding Limited	Cyprus	Holding company	100*	100*
Arliamos Limited	Cyprus	Holding company	100*	100*
Boxar Holdings Limited	Cyprus	Holding company	100*	100*
Celera Corporation	British Virgin Islands	Holding company	100*	100*
Dawson Int'L Inc.	British Virgin Islands	Holding company	100*	100*

1 General Information (Continued)

Entity	Country of incorporation	Principal activity	% of ownership at 31 December 2012	% of ownership at 31 December 2011
Discovery Russian Realty Paveletskaya Project Ltd	Cayman Islands	Holding company	100*	99.94*
Effusive Holding Limited (Note 15)	Cyprus	Holding company	100*	100*
Everworld Management Limited (Note 29)	Cyprus	Holding company	-	100*
Finstroy Limited	Russian Federation	Holding company	100*	-
Freyamoon Limited	Cyprus	Holding company	100*	-
Gasheka Development Limited (Note 29)	Cyprus	Holding company	100*	-
Gasheka Finance Company Limited (Note 29)	Cayman Islands	Holding company	100*	-
Hines DPIII Development Limited (Note 29)	Cyprus	Holding company	100**	-
Hines DPIII Realty Limited (Note 29)	Cyprus	Holding company	100**	-
Paremos Limited	Cyprus	Holding company	100*	100*
Ratado Holding Limited	Cyprus	Holding company	100*	-
Sandix Group B.V. (Note 30)	The Netherlands	Holding company	100	100*
Sharezone Capital Limited	Cyprus	Holding company	100*	100*
Taavo Enterprises Limited (Note 10)	Cyprus	Holding company	50*	50
Talisia Investments Ltd	British Virgin Islands	Holding company	100*	100*
Theochristel Limited	Cyprus	Holding company	100*	-
Tropical Sunset Holdings Inc.	British Virgin Islands	Holding company	100**	-
Wizgate Holding Limited	Cyprus	Holding company	100*	100*
Zatkapa Holdings Limited	Cyprus	Holding company	100*	100*
Valnaz Investments Limited	Cyprus	Holding company	100	-
Eagleman Limited	Cyprus	Financing company	100	100
Flybase Investments Limited (Note 15)	Cyprus	Financing company	100*	100
Maiga Investments Limited	Cyprus	Financing company	100*	100*
Nancit Enterprises Limited (Note 29)	Cyprus	Financing company	100*	100*
Oborne Finance Limited (Note 29)	British Virgin Islands	Financing company	100*	100*
Silver City Finance S.à.r.l.	Luxembourg	Financing company	100*	-
Stabilac Limited	Cyprus	Financing company	100	100
Upstalen Limited (Note 29)	Cyprus	Financing company	100	-
Wallasey Limited	Cyprus	Financing company	100*	100*
LLC "City-Developer"	Russian Federation	Management company	100	-
CJSC "Nash Standart"	Russian Federation	Management company	100	-
CJSC "O1 Properties Management" (Note 29)	Russian Federation	Management company	100	100
Annabeth Services Limited	Cyprus	Inactive	100	-
Bitlena Holdings Limited	Cyprus	Inactive	100	100
Blandid Limited	Cyprus	Inactive	100	-
Brightlink Holding Limited (Note 29)	Cyprus	Inactive	-	100
CJSC "Moscow Furniture Plant"	Russian Federation	Inactive	95.8*	95.8*
CJSC "Stroypromplast"	Russian Federation	Inactive	100	100
CJSC "Horus Capital" (Note 29)	Russian Federation	Inactive	-	100
Crossriver Limited	Cyprus	Inactive	-	100
Damvex Investments Limited	Cyprus	Inactive	100*	-
Derelia Limited	Cyprus	Inactive	-	100
Enersenia Limited	Cyprus	Inactive	-	100

1 General Information (Continued)

Entity	Country of incorporation	Principal activity	% of ownership at 31 December 2012	% of ownership at 31 December 2011
Gisoral Holdings Limited	Cyprus	Inactive	50.1	-
Letvion Investments Limited	Cyprus	Inactive	100	-
Lightnet Limited	Cyprus	Inactive	-	100
LLC "Astra"	Russian Federation	Inactive	100	-
LLC "Semela"	Russian Federation	Inactive	100	-
Lomnia Services Limited	Cyprus	Inactive	100	-
Hannory Holdings Limited	Cyprus	Inactive	100	-
Kenzer Management Limited	Cyprus	Inactive	-	100*
Manette Holdings Limited	Cyprus	Inactive	-	100
Nareena Limited	Cyprus	Inactive	-	100
Nightsky S.à.r.l.	Luxembourg	Inactive	100	-
Quotex Limited	Cyprus	Inactive	100	-
Red Royal Services Limited (Note 29)	Cyprus	Inactive	-	100*
Reindex Limited	Cyprus	Inactive	-	100
Renabon Limited	Cyprus	Inactive	-	100
Seaprus Holding Limited	Cyprus	Inactive	-	100*
Skypharus Limited	Cyprus	Inactive	-	100*
Solorita Holding Limited	Cyprus	Inactive	50.1	-
Vameno Holdings	Cyprus	Inactive	-	100
Xeroma Management Limited	Cyprus	Inactive	100*	100

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

Taavo Enterprises Limited and LLC Firma Morava are associates of the Group and accounted for in these consolidated financial statements using equity method of accounting (Note 10).

Refer to Note 29 for the information on the joint venture of the Group formed and disposed during 2012.

The ownership stakes marked with (*) were pledged in relation to borrowings (Note 16) and those marked by (**) were pledged in relation to liabilities of entities controlled by the Ultimate Controlling Shareholder.

2 Operating Environment of the Group

The Group through its operations has a significant exposure to the economic conditions in the Russian Federation and legal and tax conditions in Cyprus.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 25).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined fair values and made other estimates by considering the economic environment and outlook at the end of the reporting period.

2 Operating Environment of the Group (Continued)

Cyprus. The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. Further to the negotiations of the Republic of Cyprus with the European Commission, the European Central Bank and the International Monetary Fund (Troika) for the purpose of obtaining financing, on 25 March 2013 the Eurogroup agreed a financial assistance package with the Cyprus government to be provided to Cyprus with a number of measures that included the split of Laiki Bank into a good bank (depositors with amounts up to €100 thousand) and bad bank (depositors with amounts over €100 thousand); and conversion of uninsured deposits (amounts over €100 thousand) of Bank of Cyprus depositors into equity instruments. In addition the corporate tax rate will increase from 10% to 12.5% as from 1 January 2013.

At the end of March 2013 cash balances of the Group with Laiki Bank amounted to USD 4 thousand and with the Bank of Cyprus amounted to USD 3 203 thousand. An amount of USD 1 010 thousand representing 37.5% of the uninsured deposits has been converted to Class A shares of Bank of Cyprus and an additional amount of USD 624 thousand has been blocked and classified as Supplementary Depositors Contribution to be converted fully or partly to Bank of Cyprus Class A shares.

The current and future economic conditions in Cyprus may have an adverse impact on some operations of the Group. The management of the Group is constantly monitoring the developments in order to estimate the full impact that these measures may have on the business of the Group.

The future economic and regulatory situation may differ from management's current expectations.

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 the European Union and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified by revaluation of premises, 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 at 1 January 2012 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 a 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 arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Any negative amount ("negative goodwill, bargain purchase") 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 entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of the 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. However, 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investment in jointly controlled entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each partner has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the partners establishes joint control over the economic activity of the entity.

Investments in jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

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, jointly controlled entities 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 and financial assets at fair value through profit or loss.

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. Loans and receivables are carried at amortized cost.

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 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 assets 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.

The Group uses discounted cash flow valuation techniques to determine the fair value of derivative financial instruments, loans to and from related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the derivative financial instruments, loans to and from related parties.

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 not retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Derecognition of financial liabilities. The Group derecognises a financial liability or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

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.

Premises 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.

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.

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for the similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

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

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

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

(d) sale proposals from the market players.

The 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 the consolidated statement of comprehensive income within the separate line "Rental revenue". Net gains from fair value adjustment on investment property are recorded in the consolidated statement of comprehensive income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure (other than fit-out compensations to the Group's tenants which is recorded as reduction of rental revenues on a straight-line basis) 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.

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.

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

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.

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 and non-monetary 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 consolidated 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 specific 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 consolidated statement of comprehensive income 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;

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

- 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.

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.

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

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.

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 is 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 sale 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 settled 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.

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

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, joint venture and associates, except where the Group controls the investee'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 gains arising from fair value adjustments on investment property. Refer to Note 4.

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 and share premium. 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.

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

Preference shares are classified as equity if, and only if, both conditions (a) and (b) below are met: (a) the shares include no contractual obligation (i) to deliver cash or another financial asset to another entity, or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, and (b) the shares will or may be settled in the issuer's own equity instruments and the shares are (i) non-derivatives that include no contractual obligation for the issuer to deliver a variable number of its own equity instruments, or (ii) derivatives that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

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.

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

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 recorded 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.

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 a 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 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 (31 December 2011: USD 1 = RR 32.1961) and the average exchange rate used for translating income and expenses was USD 1 = RR 31.093 (2011: USD 1 = RR 29.3874).

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

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.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Valuation of investment properties. The fair value of investment properties 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 values.

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.

At 31 December 2012 the Group applied exit capitalization rates between 9.0% and 10.0% for the investment properties (all properties were yielding properties). Had these rates been 10% lower or higher (90 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 369 600 thousand higher or USD 299 000 thousand lower respectively.

At 31 December 2011 the Group applied exit capitalization rates between 9.5% and 10.0% for the yielding investment properties. 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 would be USD 142 100 thousand higher or USD 115 200 thousand lower respectively.

At 31 December 2011 the Group applied exit capitalisation rates between 8.5% and 9.0% for the newly completed investment properties. Had these rates been 10% lower or higher (85 or 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.

Deferred taxation of fair value adjustment on investment property. Each investment property of the Group is held through 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 the 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 properties since the date of acquisition of the 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 the fair value adjustments on investment properties, the profit for the year ended 31 December 2012 would have been lower by USD 761 thousand (profit for the year ended 31 December 2011 would have been lower by USD 58 356 thousand) and equity at 31 December 2012 would have been lower by USD 65 373 thousand (equity at 31 December 2011 would have been lower by USD 60 953 thousand).

Revenue recognition from sale of residential property. The Group recognises revenue from sale of real estate when it is probable 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 in relation to the residential property 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 and equity at 31 December 2011 would be USD 22 423 thousand higher. Refer to Note 29 for information on disposal of ZAO "Horus Capital" in March 2012.

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 the 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 the 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 the Russian Rouble or the US Dollar depending on their operations. The above analysis and conclusions were based on consideration of own activities of respective entities and not on the basis of consideration of activities of their subsidiaries, if any.

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

Contribution from shareholder through sale of subsidiary. During 2012 the Group sold a 100% interest in CJSC "Horus Capital" to a company controlled by the Ultimate Controlling Shareholder (Note 1) for USD 10 thousand (Note 29). Therefore result of this transaction with the owner in its capacity as owner was recorded directly in retained earnings and translation reserve in the total net amount of USD 8 466 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 8 482 thousand would have been recorded in the profit or loss and related reduction of translation reserve in the amount of USD 16 thousand would have been recorded through other comprehensive income.

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

As detailed in Note 29 during 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 total 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.

Equity reduction. As explained in Note 18 the Company resolved to have an equity reduction by USD 97 376 thousand. The reduction of share premium of USD 36 017 thousand was subject to an 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 was recognised in 2012 upon its approval by the Registrar.

Acquisitions of investment property. The Group concluded that the acquisitions of subsidiaries holding properties during 2012 and 2011 constituted acquisition of assets and liabilities rather than acquisition of businesses as defined in IFRS 3 "Business combinations". The Group purchased assets and not the accompanying processes. The Group identified and recorded the individual identifiable assets acquired and liabilities assumed. The purchase price was allocated to those assets and liabilities on the basis of their relative fair values at the date of acquisition. The Group has not recorded any goodwill and deferred taxation arising from the assets acquired and liabilities assumed as no business combination was recognised.

5 Adoption of New or Revised Standards and Interpretations

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

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment did not have any impact on the Group's consolidated financial statements.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS" relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted. Pronouncements marked by (*) are not yet adopted by the European Union.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the 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 2014), 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 2014), 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, summarised 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 revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the 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 2014), 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 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group 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 standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Disclosures – Offsetting Financial assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's 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.

6 New Accounting Pronouncements (Continued)

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.

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

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

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities* (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendment to IAS 12 "Income Taxes" on deferred tax relating to recovery of underlying assets (effective for annual periods beginning on or after 1 January 2013). The Group is currently assessing the impact of the amendment on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Other revised standards and interpretations: Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" on the application of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure on Government Assistance" - exemption on the retrospective application of IFRSs in relation to government grants (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition, 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.

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 (Note 9); (2) borrowings within a reporting segment are usually presented at their carrying value according to Russian accounting standards or management accounts, that is at nominal values, rather than at amortised cost. 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.

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 and for the year ended 31 December 2012 is set out below:

In thousands of US Dollars	Yielding property	Property under development	Reconciliation to Group's consolidated financial statements	Total
Non-current assets				
Investment property	2 639 912	-	-	2 639 912
VAT receivable	6 984	-	-	6 984
Investment in associate	-	10 199	-	10 199
Other non-current assets	-	-	53 525	53 525
Total non-current assets	**2 646 896**	**10 199**	**53 525**	**2 710 620**
Current assets				
VAT receivable	17 131	-	-	17 131
Cash and cash equivalents	32 740	-	22 029	54 769
Non-current assets classified as held for sale (Note 15)	-	-	343 285	343 285
Other current assets	-	-	45 232	45 232
Total current assets	**49 871**	-	**410 546**	**460 417**
TOTAL ASSETS	**2 696 767**	**10 199**	**464 071**	**3 171 037**
Liabilities				
Non-current borrowings	1 398 394	-	5 113	1 403 507
Current borrowings	252 370	-	28 726	281 096
Liabilities directly associated with non-current assets classified as held for sale (Note 15)	-	-	204 116	204 116
Other liabilities	-	-	205 285	205 285
TOTAL LIABILITIES	**1 650 764**	-	**443 240**	**2 094 004**
Rental revenue	178 196	-	-	178 196
Operating expenses of investment property	(33 891)	-	-	(33 891)
Net gain from fair value adjustment on investment property	3 804	-	-	3 804
General and administration expenses	-	-	(30 661)	(30 661)
Other operating expenses less other operating income	-	-	(607)	(607)
Net finance costs recorded in profit or loss	(124 652)	-	(2 109)	(126 761)
Share of result of associate	-	(168)	-	(168)
Share of result of joint venture	-	3 103	-	3 103
Foreign exchange translation gains less losses	-	-	84 465	84 465
Profit before tax	**23 457**	**2 935**	**51 088**	**77 480**

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 for the year ended 31 December 2011 is set out below:

In thousands of US Dollars	Yielding property	Newly completed property	Property under development	Reconciliation to the Group's consolidated financial statements	Total
Non-current assets					
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
Total non-current assets	**1 209 659**	**819 694**	**9 781**	**32 555**	**2 071 689**
Current assets					
VAT receivable	22 712	20 748	-	-	43 460
Cash and cash equivalents	22 967	16 372	-	12 336	51 675
Non-current assets classified as held for sale	-	-	-	33 940	33 940
Other current assets	-	-	-	94 809	94 809
Total current assets	**45 679**	**37 120**	**-**	**141 085**	**223 884**
TOTAL ASSETS	**1 255 338**	**856 814**	**9 781**	**173 640**	**2 295 573**
Liabilities					
Non-current borrowings	794 565	299 628	-	-	1 094 193
Current borrowings	16 871	100 182	-	18 285	135 338
Liabilities directly associated with non-current assets classified as held for sale	-	-	-	12 974	12 974
Other liabilities	-	-	-	278 193	278 193
TOTAL LIABILITIES	**811 436**	**399 810**	**-**	**309 452**	**1 520 698**
Rental income	104 437	-	-	-	104 437
Operating expenses of investment property	(18 943)	-	-	-	(18 943)
Net gain from fair value adjustment on investment property	229 074	62 708	-	-	291 782
General and administrative expenses	-	-	-	(15 273)	(15 273)
Other operating income less other operating expenses	-	-	-	230	230
Net finance costs recorded 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)
Profit before income tax	**273 301**	**52 798**	**1 550**	**(39 341)**	**288 308**

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

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of US Dollars	Premises	Computers	Office equipment	Total
Carrying amount at 31 December 2010	**14 678**	**88**	**1 927**	**16 693**
Acquisition	-	48	405	453
Depreciation charge (Note 20)	(41)	(59)	(351)	(451)
Transfer to investment property (Note 9)	(13 857)	-	-	(13 857)
Effect of translation to presentation currency	(780)	1	(81)	(860)
Carrying amount at 31 December 2011	-	**78**	**1 900**	**1 978**
Cost at 31 December 2011	-	144	2 271	2 415
Accumulated depreciation	-	(66)	(371)	(437)
Carrying amount at 31 December 2011	-	**78**	**1 900**	**1 978**
Acquisition	-	321	842	1 163
Revaluation loss (recorded in profit or loss)	(270)	-	-	(270)
Depreciation charge (Note 20)	(218)	(96)	(86)	(400)
Transfer from investment property (Note 9)	21 052	-	-	21 052
Disposals (Note 29)	-		(1 369)	(1 369)
Effect of translation to presentation currency	1 549	22	(389)	1 182
Carrying amount at 31 December 2012	22 113	**325**	**898**	**23 336**
Cost at 31 December 2012	22 336	454	1 181	23 971
Accumulated depreciation	(223)	(129)	(283)	(635)
Carrying amount at 31 December 2012	**22 113**	**325**	**898**	**23 336**

Premises include the owner's occupied area of Lighthouse building (Note 9).

The premises were last revalued at 31 December 2012 by independent firm of valuers Cushman & Wakefield. The valuation was made on the basis of the income approach. A revaluation loss in the amount of USD 270 thousand was recorded in profit or loss.

At 31 December 2012 premises with carrying value of USD 22 113 thousand were pledged as collateral with respect to borrowings (Note 16).

9 Investment Property

In thousands of US Dollars	Note	2012	2011
Total investment property at 1 January		**2 012 148**	**1 458 527**
Acquisition	29	757 302	266 129
Recognition of land held under operating leases		-	4 563
Capitalised finance costs and foreign exchange translation gains less losses	21	14 188	25 498
Subsequent expenditure		44 138	89 157
Transfer to non-current assets classified as held for sale	15	(318 073)	(31 971)
Transfer from property, plant and equipment	8	-	13 857
Transfer to property, plant and equipment	8	(21 052)	-
Fair value adjustment		3 804	291 782
Effect of translation to presentation currency		147 457	(105 394)
Total investment property at 31 December		**2 639 912**	**2 012 148**

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 47 years).

9 Investment Property (Continued)

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

	Note	31 December 2012		31 December 2011	
Property name		**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		50 951	358 900	50 917	349 900
STANISLAVSKY FACTORY - Stanislavskogo st., 21, bldg. 1, 2, 3, 5, 7,18		34 345	255 500	34 285	237 400
LeFORT - Elektrozavodskaya st., bldg. 1, 1A, 2, 3, 3A, 3D, 4, 5, 6, 7, 8, 9		56 169	261 400	56 185	250 200
AVION - Leningradsky pr., 47, bldg. 2, 3		18 429	106 700	18 376	109 100
VIVALDI PLAZA - Letnikovskaya st., 2, bldg. 1, 2, 3		48 014	417 700	48 025	324 300
OLIMPIA - Leningradskoe sh., 39	15	-	-	45 943	258 900
LIGHTHOUSE - Valovaya st., 26		27 405	241 800	27 470	217 700
LESNAYA PLAZA - 4th Lesnoy Lane, bldg. 4	29	39 710	283 100	39 667	267 000
SILVER CITY - Serebryanicheskaya Emb., 29	29	41 766	361 700	-	-
DUCAT III - Gasheka Str., 6	29	32 817	380 100	-	-
Total fair value of property per valuation reports		**349 606**	**2 666 900**	**320 868**	**2 014 500**
Less: Reclassification of owner occupied premises in LIGHTHOUSE	8		(22 113)		-
Total investment property at fair value			**2 644 787**		**2 014 500**
Add: Finance lease liabilities accounted for separately	16		12 562		10 453
Less: Straight line adjustment on rental income accounted for separately	13		(17 437)		(12 805)
Total carrying value of investment property			**2 639 912**		**2 012 148**

9 Investment Property (Continued)

At 31 December 2012 and 2011 the valuation of investment property was carried out by the independent firm of valuers Cushman & Wakefield. The basis used for the valuation was mainly the income approach. The critical assumptions used in the valuation are disclosed in Note 4.

IAS 40 requires the fair value of investment property to exclude prepaid lease income because the entity recognises it as a separate liability. The Group already considered in determining the fair value of investment property and thus no additional adjustment for deferred rental income is required to arrive at carrying value of investment property.

At 31 December 2012 investment properties with fair value of USD 2 644 787 thousand (2011: USD 2 014 500 thousand) have been pledged as collateral with respect to the borrowings (Note 16).

The minimum future rental income of the Group under non-cancellable operating leases (including those relating to the investment property classified as non-current assets held for sale) was as follows:

In thousands of US Dollars	31 December 2012	31 December 2011
- Not later than one year	293 460	140 660
- Later than 1 year and not later than 5 years	911 854	462 249
- Later than 5 years	372 394	122 192
Total future rental income	**1 577 708**	**725 101**

At 31 December 2012 future rental income in the amount of USD 1 577 709 thousand (2011: USD 725 101 thousand) has been pledged as collateral with respect to the borrowings (Note 16).

At 31 December 2011 prepayments and deferred expenses included USD 10 000 thousand related to acquisition of Silver City building and USD 6 879 thousand related to acquisition of OJSC "Bolshevik" (Note 29).

10 Investment in Associate

In thousands of US Dollars	2012	2011
Total investment in associate at 1 January	**9 781**	-
Acquisition of associate	-	9 583
Share of result of associate	(168)	1 550
Share of other comprehensive income of associate	586	(1 352)
Total investment in associate at 31 December	**10 199**	**9 781**

At 31 December 2012 consolidated assets of Taavo Enterprises Limited, a company 50% owned by the Group, amounted to USD 30 148 thousand (2011: USD 27 558 thousand) and consolidated liabilities amounted to USD 9 750 thousand (2011: USD 7 996 thousand). Taavo Enterprises Limited is expected to be involved in construction of a new office property located in Moscow, Oktyabrskaya str. 98.

11 Loans Issued

In thousands of US Dollars	31 December 2012	31 December 2011
Loans issued - due in more than 12 months	23 032	5 555
Loans issued - current portion	504	17 355
Total loans issued	**23 536**	**22 910**
Loans issued to related parties	504	14 483
Loans issued to other companies	23 032	8 427
Total loans issued	**23 536**	**22 910**

At 31 December 2012 and 2011 loans issued were neither past due nor impaired, were not secured, were denominated in US Dollars, had maturity dates from 31 December 2014 to 24 May 2016 and fixed interest at rates from 6.0% to 8.0% per annum.

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

12 Inventories

In thousands of US Dollars	31 December 2012	31 December 2011
Residential property construction	-	53 706
Other inventory	336	119
Total inventories	**336**	**53 825**

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 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 because the ownership certificate in the name of the Group had not been received; therefore revenue from the sale of residential property was not recognised in 2011. For the information on critical judgments relating to accounting for the residential property construction refer to Note 4.

Refer to Note 29 for the information on the disposal during 2012 of a subsidiary holding the residential property.

13 Trade and Other Receivables

In thousands of US Dollars	31 December 2012	31 December 2011
Rent receivable	10 774	6 322
Straight-line adjustment on rental income (Note 9)	17 437	12 805
Receivables for sale of investment in joint venture (Note 29)	6 295	-
Receivables from related parties	482	1
Other receivables	2 665	855
Total trade and other receivables	**37 653**	**19 983**

13 Trade and Other Receivables (Continued)

At 31 December 2012 rent receivable of USD 10 774 thousand (2011: USD 6 322 thousand) was secured by tenant deposits.

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

In thousands of US Dollars	31 December 2012	31 December 2011
Past due but not impaired		
- less than 30 days overdue	7 240	5 303
- 30 to 90 days overdue	1 700	110
- 91 to 180 days overdue	481	-
- 181 to 360 days overdue	118	-
- over 360 days overdue	39	488
Total past due but not impaired	**9 578**	**5 901**

14 Cash and Cash Equivalents

In thousands of US Dollars	31 December 2012	31 December 2011
Cash on hand	6	6
Current and demand accounts	28 478	39 612
Deposits with banks with original maturity of less than 3 months	26 285	12 057
Total cash and cash equivalents	**54 769**	**51 675**

Analysis of cash balances with banks by credit ratings at respective dates was as follows:

In thousands of US Dollars		31 December 2012	31 December 2011
Neither past due nor impaired			
B	Fitch Ratings, Standard & Poor's	23 710	-
BBB	Fitch Ratings, Standard & Poor's	16 935	5 902
Baa3	Moody's	1 668	-
Caa1	Moody's	4 179	-
A+	Fitch Ratings	3 812	-
BBB+	Fitch Ratings	3 080	12 721
BB	Fitch Ratings	935	12 156
A	Fitch Ratings	221	18 160
BB-	Fitch Ratings	79	-
BBB-	Fitch Ratings	14	1 037
BB+	-	-	315
B-	Fitch Ratings	7	1 250
Other		123	128
Total cash balances with banks		**54 763**	**51 669**

Information on the balances with the related parties is disclosed in Note 28.

15 Non-current Assets Classified as Held for Sale

At 31 December non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale represented balances of subsidiaries related to Olympia property (31 December 2011: Gamma property).

In thousands of US Dollars	31 December 2012	31 December 2011
Investment property	318 073	31 971
Prepayments and deferred expenses	2 440	-
VAT receivable	16 358	-
Trade and other receivables	1 419	1 449
Cash and cash equivalents	4 995	520
Total non-current assets classified as held for sale	**343 285**	**33 940**
Borrowings	(188 617)	(11 534)
Tenant deposits	(4 089)	(698)
Deferred rental income	(7 267)	(713)
Trade and other payables	(4 143)	(29)
Total liabilities directly associated with non-current assets classified as held for sale	**(204 116)**	**(12 974)**

At 31 December 2012 investment property classified as held for sale with carrying value of USD 318 073 thousand (2011: USD 31 971 thousand) was pledged as collateral with respect to borrowings (Note 16).

Olympia. In December 2012 the Group signed a sale purchase agreement for the sale of its entire interest in Effusive Holding Limited and Flybase Investments Limited (Note 1). Effusive Holding Limited owned 100% interest in CJSC "Vodny Stadion Sport Invest", a company which owned Olympia property (Note 9). At 31 December 2012 related conditions precedent were not completed. The sale was completed in February 2013. The details of the assets and liabilities at the date of sale were as follows:

In thousands of US Dollars	Carrying amount
Cash and cash equivalents	14 396
Loans issued	7 801
VAT recoverable	16 050
Trade and other receivables	3 408
Investment property	318 073
Borrowings	(191 582)
Tenant deposits	(13 451)
Deferred rental income	(5 462)
Trade and other payables	(4 576)
Carrying value of identifiable net assets of subsidiaries disposed	**144 657**
Gain from disposal	10 130
Total sale consideration	**154 787**
Less: Cash and cash equivalents of subsidiary disposed	(14 396)
Inflow of cash and cash equivalents on disposal	**140 391**

15 Non-current Assets Classified as Held for Sale (Continued)

The total sale consideration includes (1) USD 128 737 thousand received by the Group by the end of February 2013, (2) USD 10 000 thousand retained by the buyer till registration of the land lease and completion of the investment agreement with City of Moscow (to be finalised not later than 1 March 2014), and (3) USD 16 050 thousand payment by the buyer to the Group following recovery by the buyer of VAT receivable as at the date of sale (to happen not later than within 18 months from the transaction completion date).

The maximum liability of the Group in relation to customary warranties, indemnities and other contingent liabilities related to this transaction approximates consideration received.

Gamma. 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 for USD 32 500 thousand (Note 17) adjusted for working capital and debt at the date of sale. Calyaska Limited owned Gamma property. At 31 December 2011 related conditions precedent were not completed. The sale was completed in February 2012. The final sale consideration amounted to USD 14 537 thousand for the shares in the companies sold and the balance of USD 32 500 thousand initially received from the buyer represented mainly consideration of the Group for transfer to the buyer of rights for balances receivable from the companies sold. At the date of disposal total assets of Calyasca Limited were USD 48 386 thousand, cash and cash equivalents were USD 649 thousand and total liabilities were USD 34 498 thousand.

16 Borrowings

In thousands of US Dollars	31 December 2012	31 December 2011
Non-current borrowings		
Loans from banks	1 387 044	1 063 643
Loans from related parties	1 273	21 167
Loans from other companies	3 868	-
Finance lease liabilities	11 322	9 383
Total non-current borrowings	**1 403 507**	**1 094 193**
Current borrowings		
Loans from banks	236 691	16 208
Loans from related parties	26 273	108 792
Loans from other companies and individuals	16 892	9 268
Finance lease liabilities	1 240	1 070
Total current borrowings	**281 096**	**135 338**
Total borrowings	**1 684 603**	**1 229 531**

16 Borrowings (Continued)

The detailed information on borrowings at 31 December 2012 is presented below:

Name of Lender	Facility	Carrying amount in thousands of US Dollars	Currency	Contractual interest rate, % per annum		Repayment terms	Investment property pledged
Aareal Bank	Facility Agreement dated 20 July 2007	472 886	USD	8.18%	payable quarterly	by quarterly instalments by 15 June 2017	
Aareal Bank	Facility Agreement dated 20 July 2007	15 482	USD	3 month LIBOR + 5.1%	payable quarterly	by 15 June 2017	
Aareal Bank	Facility Agreement dated 20 July 2007	681	USD	8.18%	payable quarterly	by 15 June 2017	KRUGOZOR, STANISLAVSKY FACTORY, LeFORT
VTB Capital Plc	Facility Agreement dated 30 December 2011	151 513	USD	3m LIBOR + 6.25% + 4.35% (capitalised interest)	payable quarterly	by 30 December 2014	
VTB Capital Plc	Facility Agreement dated 20 July 2012	221 091	USD	3m LIBOR + 8.0%	payable quarterly	by 20 July 2017	SILVER CITY
VTB Capital (France) S.A	Facility Agreement dated 30 December 2011	144 734	USD	3 month LIBOR + 5.5%	payable quarterly	by quarterly instalments by 5 July 2017	LESNAYA PLAZA
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	7 955	USD	1 month LIBOR+ 3.25%	payable monthly	by 31 December 2013	-
UniCredit Bank Austria AG	Facility Agreement dated 31 October 2007	184 126	USD	3 month LIBOR + 4.05%	payable quarterly	by 31 December 2013	VIVALDI PLAZA
UniCredit Bank Austria AG	Facility Agreement dated 30 May 2011	202 306	USD	1 month LIBOR + 5.25%	payable quarterly	by 30 November 2016	DUCAT III
Otkritie FC	Facility Agreement dated 17 March 2008	24 208	USD	9.0%	payable at maturity date	by 31 December 2013	-
TransCredit Bank	Facility Agreement dated 6 June 2012	137 858	USD	3 months LIBOR + 8.25%	payable monthly	by 5 June 2017	LIGHTHOUSE
O1 Group Overseas	Facility Agreement dated 30 December 2010	1 273	USD	8.0%	payable at maturity date	by 31 December 2014	-
Credit Europe Bank	Facility Agreement dated 14 August 2012	10 008	USD	9.5%	payable monthly	by 15 February 2013	-
O1 Trust Services	Facility Agreement dated 24 August 2012	2 065	USD	11.0%	payable at maturity date	by 31 December 2013	-
Railways Development	Facility Agreement dated 8 November 2012	15 265	USD	12.0%	payable at maturity date	by 8 November 2013	-
Alfa Bank	Facility Agreement dated 26 November 2012	75 095	USD	3m LIBOR+7.4%	payable monthly	by 25 November 2022	AVION
Other		5 495		from 3.3% to 16.0%			
Finance lease liabilities		12 562	RR	-	-	by 10 May 2060	-
Total borrowings		**1 684 603**					

16 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+ 4.0%	payable quarterly	by 29 August 2014	
Aareal Bank	Facility Agreement dated 20 July 2007	682	USD	7.08%	payable quarterly	by 29 August 2014	KRUGOZOR, STANISLAVSKY FACTORY, AVION, LeFORT
Bank Otkritie	Facility Agreement dated 10 September 2010	59 394	USD	12.5%	payable monthly since 30 April 2012	by 10 September 2012	LIGHTHOUSE
Bank Otkritie (Petrovskiy)	Facility Agreement dated 10 September 2010	39 102	USD	12.5%	payable quarterly	by 10 September 2012	LIGHTHOUSE
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	VIVALDI PLAZA
TransCredit Bank	Facility Agreement dated 29 April 2011	84 115	USD	3 month LIBOR+ 8.25%	payable monthly	by 29 April 2014	OLIMPIA
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	LESNAYA PLAZA
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	RR	5.5%	payable at maturity date	by 31 December 2012	-
Finance lease liabilities		10 453	RR				
Total borrowings		**1 229 531**					

16 Borrowings (Continued)

Refer to Note 1 for the information on shares of subsidiaries of the Group pledged in relation to borrowings.

At 31 December 2011 the undrawn facilities totalled USD 184 335 thousand.

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; and
- Minimum amounts of total equity.

The Group was in compliance with financial covenants at 31 December 2012 and 2011.

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. The Group received waivers from UniCredit Bank Austria AG in respect of such breaches and at 31 December 2012 and 2011 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:

In thousands of US Dollars	31 December 2012	31 December 2011
Minimum lease payments:		
- not later than one year	1 290	1 133
- later than 1 year and not later than 5 years	5 366	4 675
- later than 5 years	46 379	37 542
Total minimum lease payments	**53 036**	**43 350**
Less future finance charges	**(40 474)**	**(32 897)**
Present value of minimum lease payments	**12 562**	**10 453**

At 31 December 2012 the interest rate implicit in the leases was 11.2% (2011: 10.8%).

17 Trade and Other Payables and Other Liabilities

In thousands of US Dollars	31 December 2012	31 December 2011
Payables for expenditure on investment properties	9 904	20 751
Prepayment from tenant for fit out	23 317	-
Payables for acquisition of shares	4 000	5 170
VAT and taxes payables other than on income	13 727	23 833
Accrued employees compensation	3 600	-
Advance received for sale of non-current assets classified as held for sale (Note 15)	3 000	32 500
Payables to shareholder (Note 18)	2 331	30 000
Payables for professional fees	3 474	883
Other	4 582	365
Total trade and other payables and other liabilities	**67 935**	**113 502**

18 Share Capital and Share Premium

Share capital authorised, issued and fully paid comprise:

In thousands of US Dollars	Number of ordinary shares	Number of preference shares	Nominal amount	Share premium	Shareholders' contribution	Total
Balance at 1 January 2011	**13 000**	-	**18**	**504 583**	**61 359**	**565 960**
Equity reduction	-	-	-	(36 017)	(61 359)	(97 376)
Balance at 31 December 2011	**13 000**	-	**18**	**468 566**	-	**468 584**
Share split	1 287 000	-	-	-	-	-
New ordinary shares issued	48 893 544	-	650	2 680	-	3 330
New preference shares issued (Note 29)	-	16 790	-	167 900	-	167 900
Balance at 31 December 2012	**50 193 544**	**16 790**	**668**	**639 146**	-	**639 814**

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 authorised 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.

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 3 330 thousand).

18 Share Capital and Share Premium (Continued)

On 5 December 2012 the Company resolved that the authorised share capital be increased from EUR 2 000 000, divided into 200 000 000 ordinary shares of nominal value EUR 0.01 each to EUR 2 000 000 and USD 173.00 divided into 200 000 000 ordinary shares of nominal value EUR 0.01 and 17 300 redeemable preference shares of nominal value of USD 0.01, through the creation of 17 300 new redeemable preference shares of nominal value USD 0.01 each.

On 6 December 2012 the Company issued 16 790 redeemable preference shares of USD 0.01 each at a premium of USD 9 999.99 each (Note 29, Acquisition of Ducat Place III).

The redeemable preference shares (1) are convertible at the discretion of a holder in ordinary shares at specified conversion rate after 36 months from issuance, (2) are redeemable by the Company solely at its discretion at any time for amount equal nominal value plus premium or other capital on issuance and plus accumulated unpaid and due dividends, (3) have no voting rights, (4) carry 2.5% quarterly dividend payable at sole discretion and authorization of the Board of Directors of the Company, and (5) if the dividends on the redeemable preference shares are not paid then (a) unpaid dividends are accumulated for future payment, (b) the holders of the redeemable preference shares obtain voting rights until accumulated dividends on redeemable preference shares are not fully paid, and (c) no dividends may be paid on ordinary shares until accumulated dividends on the redeemable preference shares are fully paid.

On 27 December 2012 the Directors approved the payment of a dividend of USD 3 950 thousand to the holders of redeemable preference shares.

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 settled during 2012.

19 Operating Expenses of Investment Property

In thousands of US Dollars	2012	2011
Property management fees	9 587	7 494
Cleaning and utilities	9 582	5 360
Property tax	7 899	3 930
Security	2 595	1 360
Repairs and maintenance	2 438	417
Insurance	539	275
Other	1 251	107
Total operating expenses of investment property	**33 891**	**18 943**

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

20 General and Administrative Expenses

In thousands of US Dollars	2012	2011
Salaries and bonuses	11 628	2 430
Social contributions	1 286	205
Professional services	5 367	5 589
IPO related costs	4 762	-
Marketing and advertising services	963	958
Sales commissions	930	1 138
Taxes other than income	716	-
Rent expenses (Znamenka)	603	487
Information services	569	70
Land lease expenses	489	238
Bank fees	410	465
Cleaning and utilities	404	516
Depreciation (Note 8)	400	451
Travel	260	90
Share based payments (Note 25)	11	11
Other	1 863	2 625
Total general and administrative expenses	**30 661**	**15 273**

The professional services expenses stated above include fees of USD 418 thousand (2011: USD 67 thousand) for audit services and fees of USD 40 thousand (2011: USD 3 thousand) for tax consultancy services charged by the Company's statutory audit firm.

IPO related costs represent professional services fees (legal, investment banking, valuation, accounting, etc.) incurred during preparation for a potential IPO of the Company planned in spring 2012.

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

21 Finance Income and Finance Costs

In thousands of US Dollars	Note	2012	2011
Interest income on loans issued		2 425	2 535
Total finance income		**2 425**	**2 535**
Interest expense on borrowings (excluding finance lease liability)		127 676	60 439
Interest expense on accretion of interest on tenants deposits		7 807	4 393
Finance charge on lease liabilities		1 146	820
Net loss from derivatives		6 745	860
Fair value effect on initial recognition of borrowings		-	1 771
Total finance cost		**143 374**	**68 283**
Less: costs capitalised in cost of investment property	9	(14 188)	(15 947)
Total finance cost recorded in profit or loss		**129 186**	**52 336**
Net finance cost recorded in profit or loss		**(126 761)**	**(49 801)**

The Group capitalised borrowing costs arising on financing directly attributable to the development of investment property. The capitalisation rate was 9.8% (2011: 7.7%).

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

22 Income Taxes

Income tax expense comprises the following:

In thousands of US Dollars	2012	2011
Current tax	12 355	10 281
Deferred tax	(714)	2 188
Income tax expense for the year	**11 641**	**12 469**

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% (12.5% from 1 January 2013).

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

In thousands of US Dollars	2012	2011
Profit before income tax	**77 480**	**288 308**
Theoretical tax charge at the Company's statutory rate (10%)	7 748	28 831
- Net gain from fair value adjustment on investments property (Note 4)	(380)	(29 178)
- Unrecorded tax losses carried forward related to investment property operating companies	5 073	9 559
- Non-deductible expenses	4 101	4 934
- Non-taxable income	(8 259)	(3 842)
- Net impact of difference in tax rates in different jurisdictions	5 768	(1 781)
- Change in prior periods current tax provisions	(2 443)	2 359
- Other	33	1 587
Income tax expense for the year	**11 641**	**12 469**

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 mainly recorded 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 a detailed description of this critical accounting judgment.

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.

22 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.

In thousands of US Dollars	1 January 2011	Credited/ (charged) to profit or loss	Effect of translation to presentation currency	31 December 2011	Credited/ (charged) to profit or loss	Effect of translation to presentation currency	31 December 2012
Tax effect of deductible temporary differences/ gross deferred tax assets	530	(550)	20	-	-	-	-
Tax effect of taxable temporary differences/ gross deferred tax liabilities	(534)	(1 638)	170	(2 002)	714	(103)	(1 391)
Total net deferred tax liability	(4)	(2 188)	190	(2 002)	714	(103)	(1 391)

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.

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 on 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.

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.

Also refer to Note 25 for the information on derivatives financial instruments and guarantees.

23 Financial Risk Management (Continued)

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.

The table below shows liabilities at 31 December 2012 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 2012 was as follows:

In thousands of US Dollars	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Borrowings	1 684 603	2 092 518	413 532	432 222	1 113 778	132 986
Tenant deposits	45 549	62 529	12 361	12 334	17 372	20 462
Derivative financial instruments	16 033	35 454	9 542	16 774	9 138	-
Trade and other payables, excluding taxes payable, employees compensation accrued and advances received	47 608	47 608	47 608	-	-	-
Financial liabilities directly associated with non-current assets classified as held for sale	196 426	268 869	19 110	43 989	198 407	7 363
Total potential future payments for financial obligations	**1 990 219**	**2 506 978**	**502 153**	**505 319**	**1 338 695**	**160 811**

23 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2011 was as follows:

In thousands of US Dollars	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	-	-	-
Total potential future payments for financial obligations	**1 394 544**	**1 687 449**	**329 132**	**1 143 895**	**44 126**	**170 296**

In addition to the above potential future payments for financial obligations the Group has certain capital and lease 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.

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 as monitored by management at the end of reporting period:

In thousands of US Dollars	31 December 2012			31 December 2011		
	USD	Euro	RR	USD	Euro	RR
Monetary financial assets						
Loans issued	23 536	-	-	22 882	-	28
Cash and cash equivalents	17 633	24	37 112	29 512	33	22 130
Trade and other receivables	33 231	1 750	2 672	19 548	435	-
Derivative financial instruments	-	-	-	1 103	-	-
Financial assets directly associated with non-current assets classified as held for sale	2 096	30	4 288	1 449	-	520
Total monetary financial assets	**76 496**	**1 804**	**44 072**	**74 494**	**468**	**22 678**
Monetary financial liabilities						
Borrowings	(1 671 668)	-	(12 935)	(1 218 861)	-	(10 670)
Tenant deposits	(39 413)	(5 891)	(245)	(28 578)	-	-
Derivative financial instruments	(16 033)	-	-	(10 918)	-	-
Trade and other payables, excluding taxes payable and advances received	(14 755)	(2 138)	(30 715)	(49 603)	(298)	(7 268)
Financial liabilities directly associated with non-current assets classified as held for sale	(192 706)	(22)	(3 698)	(12 232)	-	(16)
Total monetary financial liabilities	**(1 934 575)**	**(8 051)**	**(47 593)**	**(1 320 192)**	**(298)**	**(17 954)**
Net balance sheet position	**(1 858 079)**	**(6 247)**	**(3 521)**	**(1 245 698)**	**170**	**4 724**
Net balance sheet position less fair value of foreign exchange derivatives	**(1 858 079)**	**(6 247)**	**(3 521)**	**(1 246 801)**	**170**	**4 724**
Derivative financial instruments	-	-	-	51 000	-	(49 897)
Net balance sheet and derivatives position	**(1 858 079)**	**(6 247)**	**(3 521)**	**(1 195 801)**	**170**	**(45 173)**

23 Financial Risk Management (Continued)

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.

Main operating entities of the Group have Russian Rouble functional currency (Note 4). The following table presents sensitivities of profit/loss before income tax 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:

In thousands of US Dollars	31 December 2012	31 December 2011
Impact on profit or loss before income tax expense:		
USD/RR strengthening by 10%	(114 445)	(90 676)
USD/RR weakening by 10%	114 445	90 676
Impact on equity		
USD/RR strengthening by 10%	(101 605)	(78 019)
USD/RR weakening by 10%	101 605	78 019

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:

In thousands of US Dollars	Less than 1 year	1-5 years	More than 5 years	Total
31 December 2012				
Total financial assets	99 339	23 033	-	122 372
Total financial liabilities	(1 272 430)	(694 685)	(23 104)	(1 990 219)
Effect of interest based derivatives	573 940	(573 940)	-	-
Net interest sensitivity gap at 31 December 2012	**(599 151)**	**(1 245 592)**	**(23 104)**	**(1 867 847)**
31 December 2011				
Total financial assets	92 085	5 555	-	97 640
Total financial liabilities	(762 272)	(563 378)	(12 794)	(1 338 444)
Effect of interest based derivatives	331 940	(183 000)	(148 940)	-
Net interest sensitivity gap at 31 December 2011	**(338 247)**	**(740 823)**	**(161 734)**	**(1 240 804)**

23 Financial Risk Management (Continued)

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

	31 December 2012		31 December 2011	
	Contractual rate	Effective rate	Contractual rate	Effective rate
Loans from banks (all in USD and RR)	7.6%	7.4%	7.3%	7.2%
Loans from other companies (all in USD and RR)	8.9%	8.9%	9.0%	9.0%
Finance lease liabilities (all in RR)	-	11.2%	-	10.8%
Tenant deposits (all in USD)	-	8.2%	-	9.5%

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 2012, 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 33 712 thousand lower (higher) (2011: USD 24 405 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. 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.

In thousands of US Dollars	31 December 2012	31 December 2011
Borrowings (Note 16)	1 684 603	1 229 531
Less: cash and cash equivalents (Note 14)	(54 769)	(51 675)
Net debt	1 629 834	1 177 856
Total equity	1 077 033	774 875
Total capital	2 706 867	1 952 731
Gearing ratio	**60.21%**	**60.32%**

Refer to Note 16 for the information on covenants.

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 managements 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 incompliant 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.

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

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

Given that the practice of implementation of the new Russian trasfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

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.

25 Contingencies, Commitments and Operating Risks (Continued)

In addition to the above matters, management estimates that at 31 December 2012 the Group had possible obligations from exposures to other than remote tax risks of approximately up to USD 30 000 thousand (2011: USD 68 000 thousand). At 31 December 2012 this amount included (1) approximately USD 8 900 thousand related to a subsidiary which is currently not involved in holding investment properties and is expected to be disposed by the Group during 2013, and (2) approximately USD 6 600 thousand related to a subsidiary sold during 2013 (Note 15). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group'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 2012 the Group has no contractual capital expenditure commitments in respect of office buildings under development (2011: USD 43 438 thousand). Contractual commitments of the Group relating to fit out of newly completed properties approximated USD 17 785 thousand at 31 December 2012 (2011: USD 23 400 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. At 31 December 2012 the property with a fair value of USD 2 984 973 thousand (2011: USD 2 046 471 thousand) and related land lease and lease proceeds were pledged in relation to borrowings (Notes 8, 9, 15 and 16). 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 16.

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 a 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 2012 the liabilities relating to the above share based payments plan approximated to USD 22 thousand (2011: USD 11 thousand) and were recorded through general and administrative expenses in the profit or loss (Note 20).

25 Contingencies, Commitments and Operating Risks (Continued)

Derivatives. Foreign exchange and interest rate swap derivative financial instruments 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 2012 the Group had interest rate swap contracts with a total notional amount of USD 748 252 thousand (2011: USD 331 940 thousand) whereby the Group was paying a fixed interest rate in exchange for floating interest rate. At 31 December 2012 the negative fair value of these contracts was USD 16 033 thousand (2011: USD 10 918 thousand negative fair value).

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.

Guarantees. The Group has guaranteed the following liabilities of entities controlled by the Ultimate Controlling Shareholder (Note 1):

Guarantor	**31 December 2011**	
In thousands of US Dollars	**Guaranteed liabilities amount**	**Payment dates of guaranteed liabilities**
O1 Properties Limited	32 100	26 November 2012
O1 Properties Limited	24 000	13 December 2012
Total guarantees	**56 100**	

The above guarantees expired and had not resulted in any payments or liabilities of the Group.

In addition, the Group guaranteed due performance of certain obligations of a company controlled by the Ultimate Controlling Shareholder relating to a significant property acquisition by this company.

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 their 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 the perceived credit risk of the counterparty and ranged at 31 December 2012 from 6.0% p.a. to 8% p.a. (2011: from 6.0% p.a. to 12.5% p.a.).

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 16% p.a. (2011: from 3.3% p.a. to 12.5% p.a.). The comparison of fair value and carrying value of main assets and liabilities carried at amortised cost was as follows:

In thousands of US Dollars	31 December 2012		31 December 2011	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Loans issued	23 446	23 536	22 910	22 910
Trade and other receivables	37 653	37 653	19 983	19 983
Cash and cash equivalents	54 769	54 769	51 675	51 675
Loans from banks	1 614 548	1 623 735	1 085 728	1 079 851
Loans from other companies and individuals	20 738	20 760	9 268	9 268
Loans from related parties	27 861	27 546	128 490	129 959
Finance lease liabilities	12 562	12 562	10 453	10 453
Tenant deposits	46 177	45 549	29 687	28 578
Trade and other payables	47 608	47 608	57 169	57 169

27 Presentation of Classes of Financial Instruments with Measurement Categories

At 31 December 2012 and 2011 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 2012 and 2011 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 parties were as follows:

In thousands of US Dollars	31 December 2012			31 December 2011	
	Immediate share holders (excluding key management personnel)	**Companies under significant influence of ultimate controlling shareholder**	**Key management personnel**	**Immediate share holders (excluding key management personnel)**	**Companies under significant influence of ultimate controlling shareholder**
Loans issued (Note 11)	504	-	-	14 483	-
Trade and other receivables (Note 13)	-	482	-	1	-
Cash and cash equivalents (Note 14)	-	24 406	-	-	1 250
Borrowings (Note 16)	-	(27 546)	-	-	(129 959)
Trade and other payables (Note 17)	(2 331)	-	(3 600)	(30 000)	(5)

28 Related Party Transactions (Continued)

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

In thousands of US Dollars	2012			2011		
	Immediate shareholders (excluding key management personnel)	**Companies under significant influence of ultimate controlling shareholder**	**Key management personnel**	**Immediate shareholders (excluding key management personnel)**	**Companies under significant influence of ultimate controlling shareholder**	**Key management personnel**
Rental revenue	182	-	-	-	-	-
Salaries and bonuses and related social contribution expense	-	-	(4 679)	-	-	(698)
Share based payments	-	-	-	-	-	(11)
Professional services	-	-		-	(1 512)	-
Interest income	1 214	-	-	2 083	82	-
Interest expense	-	(2 389)	-	-	(1 494)	-
Other income	-	182	-	-	-	-
Capitalised finance costs	-	(5 423)	-	-	(4 462)	-

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

During 2011 the Group outsourced its management function to a related party company and expenses for such services were recorded within professional services expenses in general and administrative expenses (Note 20). In 2011 the related company was acquired by the Group (Note 29).

In addition the Group guaranteed obligations of related parties and pledged shares in certain subsidiaries in relation to liabilities of related parties (Notes 1 and 25).

Refer to Notes 4 and 29 for details of disposal of Longmoor Limited and CJSC Horus Capital, subsidiaries of the Group, to companies controlled by the Ultimate Controlling Shareholder and acquisition of Ducat III, property from a company controlled by the Ultimate Controlling Shareholder.

The beneficial interest in the Company's ordinary shares owned by members of the Board of Directors of the Company, directly or indirectly, was as follows:

	31 December 2012	31 December 2011
Dmitry Mints*	-	-
Michael Stanton	0.065%	-
Alexander Ostrovskiy	0.057%	-
Tomasz Zamiara	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 ordinary shares and do not include impact of the preference shares.

29 Acquisitions and Disposals

Acquisition of Bolshevik. On 31 October 2011 the Group entered into an agreement with a third party for the acquisition of a 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 and the total purchase consideration (including transaction costs) amounted to USD 76 045 thousand and was settled as detailed below.

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 50% less 1 share shareholder of Bayroad Group Limited, (2) the Company sold a 100% interest in Bolshevik to the Security Holder for USD 73 000 thousand, and (3) the Security Holder sold a 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.

Construction-Invest LLC is 100% owned by Bayroad Group Limited. Bayroad Group Limited was 50% plus 1 share owned by the Group and 50% less 1 share owned by an unrelated individual. The main financing and operating decisions of Bayroad Group Limited require unilateral approval of its shareholders. Investment of the Group in Bayroad Group Limited was classified as joint venture (jointly controlled entity) and accounted for in these consolidated financial statements using the equity method of accounting.

The details of the assets and liabilities of the joint venture formed were as follows:

In thousands of US Dollars	Attributed fair value
Cash and cash equivalents	732
Prepayments	594
Trade and other receivables	2 006
Current income tax prepayments	449
Investment property	89 407
Borrowings	(73 320)
Land lease liability	(13 415)
Deferred rental income	(201)
Trade and other payables	(175)
Fair value of identifiable net assets of joint venture acquired	**6 077**
Less: share of joint venture partner	(3 032)
Total purchase consideration	**3 045**

Refer to information on the disposal of Bolshevik during 2012 further in this Note.

Acquisition of Silver City. On 14 August 2012 the Group completed acquisition of a 100% interest in (1) Damvex Investments Limited (Cyprus) and (2) LLC Silver City (Russia) which owns an office building Silver City in Moscow, for the total consideration (including transaction costs) of USD 332 631 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.

29 Acquisitions and Disposals (Continued)

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

In thousands of US Dollars	Attributed fair value
Cash and cash equivalents	13 323
VAT recoverable	1 179
Trade and other receivables	221
Current income tax prepayments	1
Investment property	371 076
Borrowings	(33 686)
Tenant deposits	(10 175)
Trade and other payables	(9 308)
Fair value of identifiable net assets of subsidiaries acquired	**332 631**
Total purchase consideration	**332 631**
Less: Cash and cash equivalents of subsidiary acquired	(13 323)
Outflow of cash and cash equivalents on acquisition	**319 308**

The acquired subsidiaries contributed USD 18 415 thousand revenue and USD 12 276 thousand loss to the Group for the period from the date of acquisition to 31 December 2012.

Acquisition of Ducat Place III. On 17 October 2012 the Group acquired from a company controlled by the Ultimate Controlling Shareholder 100% interest in (1) Hines DPIII Realty Limited (Cyprus), (2) Hines DPIII Development Limited (Cyprus), (3) Gasheka Development Limited (Cyprus), (4) Tropical Sunset Holdings Inc. (British Virgin Islands), (5) Gasheka Finance Company Limited (Cayman Islands), (6) Upstalen Limited (Cyprus) and (7) Gasheka Realty Limited (Russia) which owns an office building Ducat III in Moscow, for total consideration (including transaction costs) of USD 172 506 thousand. These companies constituted a group of net assets and liabilities, 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:

In thousands of US Dollars	Attributed fair value
Cash and cash equivalents	1 896
Loans issued	1 944
VAT recoverable	1 542
Trade and other receivables and prepayments	4 519
Investment property	386 226
Prepayments	785
Borrowings	(204 355)
Tenant deposits	(2 879)
Land lease liability	(2 610)
Deferred rental income	(9 337)
Trade and other payables	(5 225)
Fair value of identifiable net assets of subsidiaries acquired	**172 506**
Total purchase consideration	**172 506**
Less: Cash and cash equivalents of subsidiary acquired	(1 896)
Less: Net off with receivable for preference shares (Note 16)	(167 900)
Outflow of cash and cash equivalents on acquisition	**2 710**

On 6 December 2012 USD 167 900 thousand of the total purchase consideration payable was netted with USD 167 900 thousand receivable from a company controlled by the Ultimate Controlling shareholder in relation to issuance of redeemable preference shares (Note 18).

The acquired subsidiaries contributed USD 8 153 thousand revenue and USD 9 705 thousand loss to the Group for the period from the date of acquisition to 31 December 2012.

29 Acquisitions and Disposals (Continued)

Disposal of Red Royal Services Limited and in Calyasca Limited. In February 2012 the Group completed sale of 100% interests in Red Royal Services Limited and in Calyasca Limited for USD 32 500 thousand adjusted for working capital and debt at the date of sale. The prepayment for the sale of the subsidiary was received in October 2011.

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

In thousands of US Dollars	Carrying amount
Cash and cash equivalents	649
Loans issued	13 918
VAT recoverable	1 275
Trade and other receivables	392
Property, plant and equipment	39
Investment property	32 762
Borrowings	(26 198)
Tenant deposits	(693)
Deferred rental income	(1 064)
Trade and other payables and other liabilities	(6 543)
Carrying value of identifiable net assets of subsidiaries disposed	**14 537**
Gain from disposal of subsidiaries	-
Total sale consideration	**14 537**
Less: Cash and cash equivalents of subsidiary disposed	(649)
Inflow of cash and cash equivalents on disposal	**13 888**

Disposal of CJSC Horus Capital. In March 2012 the Group sold 100% interests in CJSC "Horus Capital" to a company controlled by the Ultimate Controlling Shareholder for USD 10 thousand.

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

In thousands of US Dollars	Carrying amount
Cash and cash equivalents	142
Loans issued	3 180
Prepayments	1 480
VAT recoverable	2 766
Trade and other receivables	15 110
Inventories	61 239
Property, plant and equipment (Note 8)	1 369
Land lease liability	(2 146)
Deferred income on residential property	(72 509)
Co-investor share in residential property	(17 029)
Deferred rental income	(63)
Trade and other payables	(1 995)
Carrying value of identifiable net liabilities of subsidiary disposed	**(8 456)**
Contribution from the shareholder recorded directly in equity	**8 466**
Total sale consideration	**10**
Less: Cash and cash equivalents of subsidiary disposed	(142)
Outflow of cash and cash equivalents on disposal	**(132)**

Also, as at the date of disposal CJSC "Horus Capital" had certain contingent liabilities. The financial result of the above transaction was recorded directly in equity. Refer to Note 4.

29 Acquisitions and Disposals (Continued)

Disposal of Bolshevik. During 2012 the Group sold to its joint venture partner its 50% + 1 interest in Bayroad Group Limited BVI for USD 6 295 thousand. Bayroad Group Limited owns Bolshevik, the owner of buildings and related land leases in Moscow. Refer for the information on acquisition of Bolshevik elsewhere in this Note.

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

In thousands of US Dollars	**Carrying value**
Cash and cash equivalents	21
Loans issued	1 043
Prepayments	212
VAT recoverable	96
Trade and other receivables	137
Current income tax prepayments	453
Investment property	100 501
Borrowings	(76 920)
Land lease liability	(12 001)
Deferred rental income	(164)
Trade and other payables	(813)
Carrying value of net assets of joint venture disposed	**12 565**
Less: share of joint venture partner	(6 270)
Carrying value of investment in joint venture disposed	**6 295**
Gain from disposal of investment in joint venture	-
Total sale consideration (Note 13)	**6 295**

Disposal of Ewerwold Management Limited. On 27 December 2012 the Group sold 100% interests in Ewerwold Management Limited for USD 1 thousand. At the date of disposal total assets of Everworld Management Limited approximated USD 438 thousand and total liabilities approximated USD 458 thousand.

Disposal of Brightlink Holding Limited. On 27 December 2012 the Group sold 100% interests in Brightlink Holding for USD 1 thousand. At the date of disposal total assets of Brightlink Holding Limited approximated USD 3 thousand and total liabilities approximated USD 1 thousand.

29 Acquisitions and Disposals (Continued)

Acquisition of Lesnaya Plaza. On 30 December 2011 the Group acquired a 100% interest in (1) Oborne Finance Limited (BVI), (2) Nancit Enterprises Limited (Cyprus) and (3) Meteolook Investments Limited (Cyprus) which owns an office building Lesnaya Plaza in Moscow, for the total consideration (including transaction costs) of USD 105 933 thousand. These companies constituted a group of net assets and liabilities, 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:

In thousands of US Dollars	**Attributed fair value**
Cash and cash equivalents	3 679
Trade and other receivables	3 205
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)
Fair value of identifiable net assets of subsidiary acquired	**105 933**
Total purchase consideration	**105 933**
Less: Cash and cash equivalents of subsidiary acquired	(3 679)
Outflow of cash and cash equivalents on acquisition	**102 254**

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

Acquisition of CJSC "O1 Properties Management". 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).

Disposal of Longmoor Limited. 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:

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

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

30 Subsequent Events

Refer to Note 2 for the information on recent developments in Cyprus.

On 1 March 2013 the Group sold 100% interest in Sandix Group B.V. to the third party for USD 10 thousand. At the date of disposal total assets of Sandix Group B.V. approximated USD 42 thousand and total liabilities approximated USD 200 thousand.

On 29 March 2013 the Company's parent company O1 Group Limited (Note 1) transferred its direct interest in the Company to its subsidiary Centimila Services Limited (Cyprus). At the date of issuance of these consolidated financial statements the principal shareholders of the Company are Centimila Services Limited (Cyprus) (54.614%) and Coniston Management Limited (BVI) (45.0%).

Refer to Note 15 for the information on disposal of Olympia property during 2013.

In April 2013 a company controlled by the Ultimate Controlling Shareholder registered prospectus for issue of bonds guaranteed by the Company with total nominal value of RR 6 billion. At the date of these consolidated financial statements no bonds were issued.

Independent Auditors' Report is on pages 4 and 5.