RSG INTERNATIONAL Ltd.

Consolidated financial statements

For the year ended 31 December 2014

Contents

General information
Directors' report
Independent auditors' report

Notes to consolidated financial statements

General information

Board of Directors

Marios Nicolaides
Savvas Lazarides

Company secretary

A.J.K. Management Services Limited
1 Naousis, Karapatakis bldg
Larnaca, 6018
Cyprus

Registered office

1 Naousis, Karapatakis bldg
Larnaca, 6018
Cyprus

Independent auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
6 Stasinou Avenue P.O. Box 21656
1511 Nicosia
Cyprus

Directors' report

The Board of Directors of RSG INTERNATIONAL Ltd. (the "Company") presents herewith its report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014.

Principal activities

The Group is involved in real estate development in the Russian Federation. There were no changes in the Group's activities from last year.

Examination of the development, position and performance of the activities of the Group

The Board of Directors has assessed the risks set out in this report and believes that steps taken to mitigate the risks are sufficient to prevent their material adverse effect on the financial performance and financial position of the Group. Therefore: (i) the current financial position as presented in the consolidated financial statements is considered satisfactory; (ii) the Board of Directors does not expect major changes in the principal activities of the Group in the foreseeable future.

Financial results and dividends

The results of the Group for the respective periods are set out in the Statement of Operations and Statement of Comprehensive Income on pages 1 and 2 of the consolidated financial statements.

The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Main risks and uncertainties

In the ordinary course of business activity, the Group is exposed to a variety of risks the most important which are credit risk, liquidity risk and market risk. These risks are identified, measured and monitored through various control mechanisms at the operating level of subsidiaries. Detailed information relating to these risks is set out in Note 28, financial risk management objectives and policies.

Share capital

There were no changes in the share capital of the Company during the year ended 31 December 2014.

The authorized and issued share capital of RSG INTERNATIONAL Ltd. as of 31 December 2014 consists of 6,786,205 ordinary shares of $1 each.

Branches

The Company did not operate through any branches during the year.

Events subsequent to the reporting date

Events subsequent to the statement of financial position date are disclosed in Note 30, Subsequent Events.

Board of Directors

As at the date of this report the members of the Board of Directors are listed as follows:

Marios Nicolaides (Cypriot) – appointed on 24 March 2008
Savvas Lazarides (Cypriot) – appointed on 17 February 2012

The Company's Articles of Association do not provide for the rotation of directors. Each appointed director shall hold office until the next annual general meeting and shall be eligible for re-election.

Auditors

The independent auditors of the Company, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing their re-appointment and authorizing the Board of Directors to fix their remuneration will be submitted to the Members at the Annual General Meeting of the Company.

By order of the Board

A.J.K. Management Services Limited
Secretary

Larnaca,
30 April 2015

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511 Nicosia, Cyprus

Tel: +357 22209999
Fax: +357 22209998
ey.com

Building a better working world

Independent auditor's report

To the Members of RSG INTERNATIONAL Ltd.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RSG INTERNATIONAL Ltd. (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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.

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 2014, and of its financial performance and its cash flows for the year 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.

Building a better
working world

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, 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, so far as appears from our examination of these books.
- 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 Laws of 2009 and 2013 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.

Andreas Avraamides
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
30 April 2015

Consolidated statement of operations

For the year ended 31 December 2014

(in thousands of US dollars)

	Notes	Years ended 31 December 2014	2013
Revenue	7	477,190	624,069
Cost of sales	8	(338,564)	(435,280)
Gross profit		**138,626**	**188,789**
General and administrative expenses	8	(30,729)	(26,316)
Other operating income	8	18,999	3,894
Other operating expenses	8	(47,975)	(65,675)
Change in fair value of investment property	12	(31,189)	(6,759)
Operating profit		**47,732**	**93,933**
Finance income	8	11,722	5,488
Finance costs	8	(23,464)	(26,289)
Foreign exchange(losses)/gain, net		(1,124)	(729)
Share of gain/(losses) of associates	5	13,148	(1,210)
Impairment of goodwill	6	(9,829)	(222)
Profit before income tax		**38,185**	**70,971**
Income tax expense	9	(17,485)	(28,768)
Net profit for the year		**20,700**	**42,203**
Attributable to:			
Equity holders of the parent		20,256	41,248
Non-controlling interests		444	955

Consolidated statement of comprehensive income

For the year ended 31 December 2014

(in thousands of US dollars)

	Notes	Years ended 31 December 2014	2013
Net profit		**20,700**	**42,203**
Other comprehensive income/(loss)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Effect of translation to presentation currency		(282,751)	(49,635)
Other comprehensive (loss)/income, net of tax		**(282,751)**	**(49,635)**
Total comprehensive (loss)/income, net of tax		**(262,051)**	**(7,432)**
Attributable to:			
Equity holders of the parent		(255,718)	(7,323)
Non-controlling interests		(6,333)	(109)

Consolidated statement of financial position

At 31 December 2014

(in thousands of US dollars)

	Notes	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	10	17,675	83,184
Intangible assets	11	10,792	15,637
Goodwill	6	–	10,505
Investments in associates	5	354	8,932
Investment properties	12	295,549	592,914
Interest-bearing loans receivable	14	3,454	3,009
Inventories	15	232	13,731
Other long-term assets		–	2,268
Deferred tax asset	9	12,163	18,997
		340,219	**749,177**
Current assets			
Income tax receivable		3,555	1,705
Inventories	15	347,603	543,119
Trade and other receivables	16	29,388	149,711
Prepayments	17	13,382	36,139
Interest-bearing loans receivable	14	20,598	345
Taxes recoverable	13	9,671	21,761
Cash and cash equivalents	18	51,346	94,827
		475,543	**847,607**
Total assets		**815,762**	**1,596,784**
Equity and liabilities			
Equity			
Issued capital	19	6,787	6,787
Share premium		671,712	671,712
Capital contribution reserve	19	(22,478)	23,339
Business combination reserve		112,009	112,009
Accumulated loss		(107,532)	(127,788)
Translation differences		(314,144)	(38,170)
Equity attributable to equity holders of the parent		**346,354**	**647,889**
Total non-controlling interest		14,738	17,228
Total equity		**361,092**	**665,117**
Non-current liabilities			
Interest-bearing loans and borrowings	20	15,721	199,613
Debt securities issued	21	53,056	76,904
Provisions	25	881	13,466
Other liabilities	23	19,290	30,796
Deferred income tax liabilities	9	59,264	105,492
		148,212	**426,271**
Current liabilities			
Trade and other payables	22	44,885	86,641
Advances from customers	24	100,951	123,693
Debt securities issued	21	46,250	159,777
Interest-bearing loans and borrowings	20	59,139	29,754
Income taxes payable		2,386	14,833
Other taxes payable		3,363	3,732
Provisions	25	10,057	20,409
Other liabilities	23	39,427	66,557
		306,458	**505,396**
Total liabilities		**454,670**	**931,667**
Total equity and liabilities		**815,762**	**1,596,784**

On 30 April 2015 the Board of Directors of RSG INTERNATIONAL Ltd. authorized these financial statements for issue.

Marios Nicolaides ____ ~~Director~~ Savvas Lazarides ____ Director

The accompanying notes on pages 6 to 50 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2014

(in thousands of US dollars)

	Year ended 31 December 2014	*Year ended 31 December 2013*
Cash flows from operating activities		
Profit before tax	38,185	70,971
Adjustments for:		
Depreciation and amortization (Note 10, 11)	3,201	3,661
Finance income (Note 8)	(11,722)	(5,488)
Finance expenses (Note 8)	23,464	26,289
Change in fair value of investment properties (Note 12)	31,189	6,759
(Gain)/loss on sale of property, plant and equipment (Note 8)	(5,624)	151
Impairment of intangible assets (Note 11)	–	338
Write-down of inventory to net realizable value (Note 15)	25,320	30,662
Impairment of irrecoverable trade and other receivables (Note 8)	1,463	206
Change in provisions (Note 8)	(109)	1,359
Impairment of goodwill (Note 6)	9,829	222
Impairment of property, plant and equipment (Note 8, Note 10)	405	–
Foreign exchange losses	1,124	729
Change in bonuses and unused vacation accruals	5,188	316
Losses from write-off of VAT receivable	5,431	4,438
Share of (profits)/losses of associates (Note 5)	(13,148)	1,210
Reversal of social objects provision	(6,849)	(3,721)
(Gain)/loss on sale of a subsidiary (Note 8)	(1,662)	709
Other non-cash operations	(3,704)	(6,527)
Operating cash flow before working capital changes	**101,981**	**132,284**
Decrease in provisions	(1,639)	(2,355)
Decrease/(Increase) in trade and other receivables	8,748	(31,118)
Decrease/(Increase) in inventories	73,868	(9,615)
(Decrease)/Increase in trade and other payables	(15,811)	41,006
Decrease in prepayments	16,006	1,628
Decrease in VAT receivable	(3,161)	(854)
Increase in advances received	40,160	33,561
Increase/(decrease) in other taxes payable	2,892	(7,275)
(Decrease)/Increase in other liabilities	(4,947)	13,070
Cash flows from operating activities	**218,097**	**170,332**
Income tax paid	(38,820)	(23,139)
Interest paid	(48,752)	(60,070)
interest reimbursed by governmental bodies	–	736
Net cash flows from/(used in) operating activities	**130,525**	**87,859**
Cash flows from investing activities		
Prepayments for long-term assets	(8,661)	(2,859)
Purchase of property, plant and equipment	(3,174)	(8,612)
Purchase of investment properties	(15,201)	(22,277)
Purchase of intangible assets	(265)	–
Disposal of subsidiaries, net of cash disposed (Note 4)	266	24,804
Acquisition of investment in associate	–	(515)
Issuance of loans receivable	(12,542)	(67,644)
Proceeds from sale of property, plant and equipment	71	–
Repayment of loans receivable	61,707	–
Repayment of interest free financing	69,531	45,749
Interest-free financing provided	(25,860)	(122,908)
Interest received	1,424	12
Net cash used in investing activities	**67,296**	**(154,250)**
Cash flows from financing activities		
Proceeds from borrowings	365,903	753,384
Repayment of borrowings	(573,258)	(641,893)
Repayment of finance lease obligation	–	(654)
Net cash flows from financing activities	**(207,355)**	**110,837**
Effect of exchange rate changes on cash and cash equivalents	(33,947)	(6,278)
Net (decrease)/increase in cash and cash equivalents	**(43,481)**	**38,168**
Cash and cash equivalents at the beginning of the period	**94,827**	**56,659**
Cash and cash equivalents at the end of the period	**51,346**	**94,827**

The accompanying notes on pages 6 to 50 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2014

(in thousands of US dollars)

	Issued capital	Share premium	Capital contribu-tion reserve	Business combina-tion reserve	Retained earnings	Foreign currency translation reserve	Total	Non-cont-rolling interest	Total equity
As at 31 December 2012	**6,787**	**671,712**	**33,133**	**112,009**	**(169,036)**	**10,401**	**665,006**	**17,337**	**682,343**
Profit for the year	–	–	–	–	41,248	–	**41,248**	955	**42,203**
Other comprehensive income	–	–	–	–	–	(48,571)	**(48,571)**	(1,064)	**(49,635)**
Total comprehensive income	**–**	**–**	**–**	**–**	**41,248**	**(48,571)**	**(7,323)**	**(109)**	**(7,432)**
Capital distributions to shareholder (Note 19)	–	–	(9,025)	–	–	–	**(9,025)**	–	**(9,025)**
Other reserve (Note 27)	–	–	(769)	–	–	–	**(769)**	–	**(769)**
As at 31 December 2013	**6,787**	**671,712**	**23,339**	**112,009**	**(127,788)**	**(38,170)**	**647,889**	**17,228**	**665,117**
Profit for the year	–	–	–	–	20,256		**20,256**	444	**20,700**
Other comprehensive income	–	–	–	–	–	(275,974)	**(275,974)**	(6,777)	**(282,751)**
Total comprehensive income	**–**	**–**	**–**	**–**	**20,256**	**(275,974)**	**(255,718)**	**(6,333)**	**(262,051)**
Capital distributions to shareholder (Note 19)	–	–	(45,817)	–	–	–	**(45,817)**	–	**(45,817)**
Reorganization of ZHSPK “Akademichesky” (Note 5)	–	–	–	–	–	–	**–**	3,843	**3,843**
As at 31 December 2014	**6,787**	**671,712**	**(22,478)**	**112,009**	**(107,532)**	**(314,144)**	**346,354**	**14,738**	**361,092**

The accompanying notes on pages 6 to 50 form an integral part of these consolidated financial statements.

(in thousands of US dollars)

1. Corporate information

The consolidated financial statements of RSG INTERNATIONAL Ltd. (hereinafter “the Company”) and its subsidiaries (hereinafter, “RSG INTERNATIONAL” or “the Group”) for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 30 April 2015.

RSG INTERNATIONAL Ltd. was incorporated in the Republic of Cyprus on 24 March 2008 as a limited liability company under the Republic of Cyprus Companies Law, Cap.113. The Company’s registered office is located at 1 Naousis Street, Karapatakis building, P.O. 6018, Larnaca, Republic of Cyprus. The parent Company of the Group is Kortros Holding Ltd.

Mr. Victor Vekselberg is the ultimate controlling party of the Group.

Principal activities

Principal activities of the Group include investments in and construction of real estate properties for their further sale, rent or holding for capital appreciation purposes and construction of business and residential property in Moscow, Yekaterinburg, Yaroslavl, Krasnodar, Perm and other regions in the Russian Federation. The Group specializes on projects of Complex Territories Development (CTD), which envisage creation of balanced city-building solution (residential properties, infrastructure, work, social sphere, leisure) and its implementation on the specific land plot.

The consolidated financial statements include the financial statements of RSG INTERNATIONAL LIMITED and its subsidiaries. The major subsidiaries are listed in the following table:

№	*Entity*	*Country of incorporation*	*Activity*	*Effective ownership interest at 31 December 2014*	*Effective ownership interest at 31 December 2013*
1	CJSC “Regional Construction Group-Akademicheskoe” (before "Renova-StroyGroup-Akademicheskoe")	Russia	Real estate development	97%	97%
2	OJSC “Energo-generiruyuschaya Company”	Russia	Utility production and distribution	100%	100%
3	CJSC “Contractor Relations Center”	Russia	Management services	100%	100%
4	LLC “ElitComplex”	Russia	Real estate development	100%	100%
5	LLC “EnkoInvest”	Russia	Real estate development	100%	100%
6	LLC “Uralskaya Kompaniya Razvitiya”	Russia	Real estate development	100%	100%
7	LLC “Petrovskiy Aliance”	Russia	Real estate development	100%	100%
8	LLC “MegaStroy Invest”	Russia	Real estate development	100%	100%
9	LLC “RSG-Finance”	Russia	Financial services	100%	100%

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. For the year ended 31 December 2014 the Group reported operating cash inflow of $130,525 and net profit of $20,700. For the year ended 31 December 2013 the Group reported operating cash inflow of $87,859 and net profit of $42,203.

In the next twelve months the Group expects to finance its operating and investing activities primarily with cash generated from operations, through attraction of additional borrowings from banks, issue long-term bonds and renegotiating of its short-term loans. Management believes that necessary financing will be available to the Group and it will be able to pay debts as they become due.

At 31 December 2014, the Group was in compliance with all of its financial covenants, except as disclosed in Note 20. Based on the current market conditions the Board and the management have reasonable expectations that the Group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparation of these consolidated financial statements.

(in thousands of US dollars)

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

These consolidated financial statements of the Group for the year ended 31 December 2014 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.

Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except when otherwise stated further.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated. At 31 December 2014 the principal rate of exchange used for translating foreign currency balances on the Group's consolidated statement of financial position was 56.2584 RUR/US dollars (USD) (2013: 32.7292 RUR/USD). The average rate used for translation of the Group's consolidated statement of operations for the first half-year of 2014 was 34.9796 RUR/USD and for the second half-year of 2014 was 41.8076 RUR/USD. Whenever a significant individual transactions can be attributed to a specific date, it was translated into the US dollars using the rate of the date of the transaction. The average rate used for 2013 was 31.8480 RUR/USD.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company's, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated.

To correspond to the 2014 presentation of the Statement of Financial Position and Income Statement, certain reclassifications were made for 2013 comparative amounts. Therefore, certain amounts shown for the comparative period do not correspond to the financial statements for the year ended 31 December 2013.

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Acquisition of companies

The Group exercises judgment in deciding whether the acquisition of companies is an acquisition of asset or a business combination, considering relevant factors, analyzing transaction terms and applying the definitions of asset and business combination stated in respective IFRS.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Litigations

The Group exercises judgement in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 27.

Fair value of investment properties

Investment property is stated at fair value as at the reporting date. Gains or losses arising from changes in the fair values are included in the statement of operations in the year in which they arise.

The fair value of investment properties is determined based on valuations performed by an accredited independent valuer. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Estimates to determine the fair value are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions. The Group performed selection of the method of valuation considering the following methods:

- Income approach / Discounted cash flow (DCF) method;
- Market approach.

In the course of this analysis the advantages and disadvantages of each applied technique were considered in relationship to the property being appraised and to the market. In the end the final conclusions on the Investment property market and fair values are made based on all relevant factors and best judgment.

Techniques used for valuing investment property

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property.

The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Market approach includes collection of data of sales and offers of properties similar to evaluated properties. The prices for similar properties are then adjusted for significant parameters which differentiate the properties. After adjustment prices may be used for determining market prices of the evaluated properties. The market approach takes into account the supply and demand parity on the market, as well as other external factors.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates.

Such estimates are based on valuation techniques which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2013 no impairment loss was identified, in 2014 impairment loss of $405 was identified and recognized by the Group.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a CGU involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in used and, ultimately, the amount of any impairment.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis as of 30 June, or whenever indicators of impairment are present. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group asseses whether the indicators of goodwill impairment exist as of 31 December each year. More details are provided in Note 6.

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model capitalized.

Current taxes

The Group recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses in the period in which the determination is made. More details are provided in Note 27.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Allowances

Inventory is stated at the lower of cost and net realizable value (NRV) (Note 15). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Group's sales and marketing managers. Estimates of NRV of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period. As of 31 December 2014 and 2013, allowance for net realizable value in respect of inventories amounted to $41,500 and $67,847, respectively.

The Group makes allowances for doubtful accounts receivable and loans receivable to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Allowances for doubtful accounts in respect of accounts receivables and prepayments had been made in the amount of $622 and $692 as of 31 December 2014, and $1,151 and $1,099 as of December 2013 respectively (Note 16, Note 17).

Deferred income tax assets

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

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The non-controlling interest (formerly known as minority interest) is measured at the proportionate share of the acquiree's identifiable net assets.

Consideration transferred in a business combination is initially measured at its fair value calculated as the sum of the acquisition-date fair values of the assets transferred and the liabilities incurred to the former owners of the acquired company and the equity interest issued.

Goodwill is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of acquiree's acquisition-date identifiable assets acquired and liabilities assumed. If the sum above is lower than the fair value of acquiree's acquisition-date identifiable assets acquired and liabilities assumed, the difference is recognized in profit or loss as gain on a bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group determines whether goodwill is impaired at least on an annual basis. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of the CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Acquisition of non-controlling interest

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity in business combination reserve and attributed to the owners of the parent.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.3 Business combinations and goodwill (continued)

Acquisitions of controlling interests in subsidiaries from entities under common control

Acquisitions of controlling interest in entities in transactions with parties under common control with the Group are accounted for using the pooling of interest method.

The assets and liabilities of entities transferred under common control are recorded at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of the acquired net assets, and the consideration paid is accounted for in the financial statements as an adjustment to the shareholders' equity.

2.4 Investments in associates

The Group's investments in its associates are accounted for using the equity method and are initially recognized at cost, including goodwill. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in other comprehensive income is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

2.5 Foreign currency translation

The companies of the Group which are incorporated in the Republic of Cyprus and in other jurisdictions (primarily in the Russian Federation) maintain their accounting records in Russian rubles ("rubles") and prepare their statutory financial statements in accordance with IFRS as adopted by the European Union (EU) and the requirements of the Republic of Cyprus Companies Law, Cap.113 and in accordance with the Regulations on Accounting and Reporting of the Russian Federation, respectively. These financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with the Group's accounting policies. The principal adjustments relate to use of fair values and income taxes.

The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group's subsidiaries is the Russian ruble. As at the reporting date, the assets and liabilities of the subsidiaries with functional currency other than the US dollar are translated into the presentation currency at the rate of exchange effective at the statement of financial position date, and their income and expenses for the first half of the year are translated at the weighted average exchange rate for the first six months, and statements of operations for the second half of the year are translated at the weighted average exchange rate for the second half of the year. The exchange differences arising on translation are taken to a separate component of equity through other comprehensive income. On disposal of a subsidiary with a functional currency other than the US dollar, the cumulative amount recognized in equity relating to that particular subsidiary is recognized in the statement of operations.

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate effective at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All resulting differences are taken to the statement of operations as foreign exchange gains/losses.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of operations. The losses arising from impairment are recognised in the statement of operations in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statement of operations in finance costs and removed from the available-for-sale reserve.

The Group evaluates whether its ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management intents significantly change to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity investments is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of operations.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of operations.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations – is removed from other comprehensive income and recognized in the statement of operations.

Impairment losses on equity investments are not reversed through the statement of operations; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of operations, the impairment loss is reversed through the statement of operations.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, debts securities issued, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of operations.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

Loans, borrowings and debt securities issued

After initial recognition, interest bearing loans and borrowings, debt securities issued are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of operations when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of operations.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

2.7 Cash and cash equivalents

Cash in the statement of financial position comprises cash at banks and in hand, short-term deposits with an original maturity of three months or less.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Completed property and property under development

Completed property and property under development is property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Such property is stated at the lower of cost or net realizable value. Cost is based on the individual cost method and includes the following:

- freehold and leasehold rights for land;
- planning and design costs, costs of site preparation;
- cost of raw materials;
- labor costs and amounts paid to subcontractors for construction;
- construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- borrowing costs.

The cost of completed property and property under development recognised in profit or loss on disposal is determined with reference to the specific costs incurred on inventories sold and an allocation of any non-specific costs based on the relative size of the property sold.

Inventories are classified as current when the following conditions are met: i) construction is ongoing; ii) the completion and the sale of the asset is anticipated to occur in near future and as part of the normal construction period, which is longer than one calendar year, and no significant delays in construction are expected. Otherwise the inventory is classified as non-current.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.8 Inventories (continued)

The operating cycle of a construction project may exceed 12 months. Inventories are classified as current, even if within 12 months after the reporting date their sale is not expected.

The Group concludes investment and co-investment contracts for construction of residential premises with local authorities. These investment contracts could impose on the Group the following requirements:

- construction and free of charge transfer of certain social objects, such as schools and kindergartens, to local authorities, after the completion. Incurred cost and recognized obligations are recognized;
- construction of infrastructure objects (water, heat and electricity supply systems, roads and etc.) related to constructing residential districts;
- construction of certain objects for public use (e.g., parking places), for which the Group doesn't expect to receive sufficient compensation from customers to cover costs for construction of these objects.

If the conclusion of such contracts is the part of the receipt of investment rights and the Group consider such costs as directly attributable to constructing buildings then costs for the construction of abovementioned objects are included in total costs of construction of buildings, to which these investment rights are related.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses 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 difference is recognized as an expense (impairment loss) in the statement of operations.

An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	30 to 50
Fitting and fixtures	30
Office equipment and others	3 to 10
Leasehold improvements	Lower of useful life and operating lease term

An item of property, plant and equipment and any its significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of operations when the asset is derecognized.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired.

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of operations in the year in which the expenditure is incurred.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.10 Intangible assets (continued)

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is either recognized in the statement of operations in the expense category consistent with the function of the intangible asset or is capitalized in cost of inventories being under construction.

Development rights are amortized on a straight-line basis proportionally to stage of completion of the related project. Leasehold rights are amortized using straight-line method over duration of rent agreement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. When there is an indication that the carrying value of these assets may be impaired, the test for impairment is performed immediately. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of operations when the asset is derecognized.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

2.12 Investment property

Investment property comprises completed property and property under construction (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held to earn rentals or for capital appreciation or both, or the land with currently undetermined future use.

A property interest that is held by a Group under an operating is classified and accounted for as investment property if the property meets the definition of an investment property and the Group uses the fair value model for the asset recognised.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.12 Investment property (continued)

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of operations in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of operations in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations.

Interest costs on borrowings to finance the construction and development of investment property are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2.13 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the statement of financial position method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.14 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of operations.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.14 Leases (continued)

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of operations on a straight line basis over the lease term.

Operating lease contracts – Group as lessor

The Group has entered into commercial property leases on its property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.
Operating lease payments from lessees are recognized as revenue in the statement of operations on a straight line basis over the lease term.

2.15 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

2.16 Equity

Issued capital and share premium

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as a share premium.

Capital contribution reserve

Capital contribution reserve includes the effect of discounting of loans received from and granted to the entities under common control under the terms different from the market terms, and distribution to and contribution from shareholders.

Business combination reserve

Business combination reserve represents:

- The difference between net assets of the acquired subsidiaries and consideration paid at the acquisition, that have been accounted for using the pooling of interests method, and also the effect of changes in group structure including the reorganization of parent company.
- The differences between the carrying values of non-controlling interest in entities acquired and the consideration given for such increase.

Foreign currency translation reserve

Foreign currency translation reserve reflects the effect of translation of accounts from functional currency to presentation currency.

Dividends

Dividends are recognized as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorized for issue.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.17 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventory are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from rendering of services is recognized in the period the services are provided based on the total contract value and the percentage completed. The percentage of completion is determined by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date to the total costs incurred and the estimated costs to complete.

Other revenue includes the following types: revenue from heating, water, electricity and energy sales, agency fees, which is recognized in the period when the service is actually rendered.

Rental income receivable under operating leases is recognized on a straight-line basis over the term of the lease, except for contingent rental income which is recognized when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognized in the statement of operations when they arise.

2.18 Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of operations.

2.19 Exchange transactions

The Group enters into investment agreements to construct buildings, where a certain number of apartments and/or commercial area should be given away to the local authorities (as well as certain infrastructure facilities should be constructed) in exchange for development rights. This exchange is regarded as a transaction that generates revenue. When the fair value of developments rights received can be measured reliably the revenue is measured at the fair value of the developments rights, adjusted for any cash or cash equivalents transferred. When the fair value of developments rights received cannot be measured reliably the revenue is measured at the fair value of real estate properties given up, adjusted for any cash or cash equivalents transferred.

2.20 Employee benefits

State pension scheme

In the normal course of business the Group contributes to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. Mandatory contributions to the governmental pension scheme are expensed when incurred. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

2.21 Classification of assets and liabilities

Assets and liabilities are classified as current if they are expected to be realized or settled within the twelve months after the balance sheet date, except for the Inventory and advances received from customers, which are classified as current if the Company expects to realise them or intends to settle them in its normal operating cycle exceeds 12 months. All other assets and liabilities are classified as non-current.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2014. This adoption did not have material effects on the accounting policies of the Group.

Standards, Interpretations and Amendments to published standards that are issued but not yet effective

Up to the date of approval of the financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

Issued by the IASB and adopted by the European Union

- IFRIC Interpretation 21 *Levies* (effective for annual periods beginning on or after 17 June 2014);
- *Annual Improvements to IFRSs 2010-2012 Cycle* (effective for annual periods beginning on or after 1 July 2014);
- *Annual Improvements to IFRSs 2011-2013 Cycle* (effective for annual periods beginning on or after 1 July 2014);
- *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19) (effective for annual periods beginning on or after 1 July 2014).

Issued by the IASB but not yet adopted by the European Union

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018);
- IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016);
- IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 *Disclosure Initiative Operations* (effective for annual periods beginning on or after 1 January 2016);
- *Annual Improvements to IFRSs 2012-2014 Cycle* (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 41 *Bearer Plants* (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after 1 January 2016).

The above are expected to have no significant impact on the Group’s financial statements when they become effective.

(in thousands of US dollars)

4. Business combinations, acquisitions and disposals of non-controlling interest

Animagus Holdings Ltd. and LLC “Stroitelny Holding-South”

On 10 April 2014, the Group sold to a third party 100% share of the authorized and issued capital of Animagus Holdings Ltd with its subsidiary LLC “Stroitelny Holding-South”. The amount of purchase consideration was $2,001.

The table below sets the carrying values of Animagus Holdings Ltd and LLC “Stroitelny Holding-South” identifiable assets and liabilities at the date of disposal:

	As at 10 April 2014
Inventory (Note 15)	311
VAT recoverable	3
Cash	–
Trade and other payables	(25)
Net assets	**289**
Purchase consideration, including	
- Cash consideration received	2,001
Pre-tax income on disposal of subsidiaries	1,712

CJSC “TeploSetevayaCompany” and CJSC “Vodosnabzhauschaya Company”

On 29 December 2014, the Group transferred for free to a company under common control 100% share of the authorized and issued capital of CJSC “TeploSetevaya Company” and CJSC “Vodosnabzhauschaya Company”. Transaction was classified as distribution of funds to shareholders.

The table below sets the carrying values of CJSC “TeploSetevaya Company” and CJSC “Vodosnabzhauschaya Company” assets and liabilities at the date of disposal:

	As at 29 December 2014
Property, plant and equipment (Note 10)	37,320
Inventories (Note 15)	7
Loans receivable	3,045
Trade and other receivables	3,345
Deferred tax assets (Note 9)	1,209
Income tax prepayment	20
Other assets	836
Cash	1,730
Trade and other payables	(2,194)
Income tax liabilities	(193)
Other liabilities	(2,279)
Net assets	**42,846**
Purchase consideration	–
Distribution of funds to shareholders (Note 19)	42,846

CJSC "ISK Arsenal Holding" and LLC "RSG-Saint-Peterburg"

On 20 February 2014 and 27 October 2014, the Group liquidated its sudsidiaries CJSC “ISK Arsenal-Holding” and LLC "RSG-Saint-Peterburg” respectively. Pre-tax loss on disposal of subsidiaries $50, including cash outflow $5.

Calianson Management Ltd and LLC “Renova-StroyGroup-Tower”

On 28 May 2013, the Group sold to a third party 100% shares of the authorized and issued capital of Calianson Management Ltd with its subsidiary LLC “Renova-StroyGroup-Tower” which main activity was renting out of commercial premises in business center. The amount of purchase consideration was $25,000.

(in thousands of US dollars)

4. Business combinations, acquisitions and disposals of non-controlling interest (continued)

Calianson Management Ltd and LLC “Renova-StroyGroup-Tower” (continued)

The table below sets the carrying values of Calianson Management Ltd and LLC “Renova-StroyGroup-Tower” identifiable assets and liabilities at the date of disposal:

	As at 28 May 2013
Investment property (Note 12)	26,635
Inventory (Note 15)	21
Trade and other receivables	136
VAT recoverable	84
Cash	170
Deferred tax liabilities (Note 9)	(1,252)
Other taxes payable	(61)
Trade and other payables	(43)
Advances received	(124)
Net assets	**25,566**
Cash consideration received	25,000
Loss on disposal of subsidiary	566
Net cash inflow	24,830

LLC “Tatlin”

The table below sets the carrying values of LLC “Tatlin” assets and liabilities at the date of disposal:

	As at 31 July 2013
Property, plant and equipment	3
Inventory (Note 15)	1
Trade and other receivables	120
VAT recoverable	73
Cash	26
Deferred tax assets (Note 9)	386
Other taxes payable	(15)
Trade and other payables	(317)
Advances received	(36)
Net assets	**241**
Purchase consideration	0.3
Loss on disposal of subsidiary	241
Net cash outflow	(25.7)

5. Investment in associates

The Group accounts for investments in associates under the equity method.

ZHSPK “Akademichesky”

In January 2014 the Group’s associate ZHSPK “Akademichesky” was reorganized through an establishment of a separate entity ZHSPK “Akademichesky-Yug”, 82.4% subsidiary of the Group.

As a result of this reorganization, ZHSPK “Akademichesky-Yug” received a land plot lease rights from ZHSPK “Akademichesky”, which was valued by independent appraiser (Note 12). The transaction is accounted for as a purchase group of assets housed in a subsidiary. As a result of this transaction non-controlling interest in amount of 3,843 kUSD was recognized.

(in thousands of US dollars)

5. Investment in associates (continued)

ZHSPK "Akademichesky" (continued)

As of 31 December 2013, the voting rights of the Group in ZHSPK "Akademichesky" were 26.3%, and interest in profits of the associate comprised 47.5%.

As of 31 December 2013, ZHSPK "Akademichesky's" net assets were represented mainly by non-current assets (investment property – right for lease of land plots located near Akademic City (Russian Federation, Ural Region) and amounted to $28,200.

The effect on financial statements of movement of investment in the associate was as follows:

	ZHSPK "Akademichesky"	
	For the years ended 31 December	
	2014	*2013*
Opening balance as at 1 January	**8,430**	**10,349**
Additional investments	–	515
Gain/(loss) from investment in associate	13,065	(1,718)
Reorganization of ZHSPK-Akademichesky	(20,813)	–
Disposal of investment	(140)	–
Translation difference	(542)	(716)
Closing balance at 31 December	**–**	**8,430**

CJSC UK Akademichesky

The Group has 25% + 1 share in CJSC UK Akademichesky, acquired in 2011. The entity provides services to citizens of Academic city (Russian Federation, Ural Region).

The effect on financial statements of movement of investment in the associate was as follows:

	CJSC UK Akademichesky	
	For the years ended 31 December	
	2014	*2013*
Opening balance as at 1 January	**502**	**–**
Additional investments		–
Share of profit for the year	83	508
Translation difference	(231)	(6)
Closing balance at 31 December	**354**	**502**

6. Goodwill

The table below represents movements of goodwill:

	Carrying amount
At 31 December 2012	**11,553**
Impairment of goodwill for the year	(222)
Disposal of subsidiaries	–
Translation difference	(826)
At 31 December 2013	**10,505**
Impairment of goodwill for the year	(9,829)
Translation difference	(676)
At 31 December 2014	**–**

In prior periods goodwill allocated mainly to RSG Krasnodar was tested for impairment on the basis of assumption that the major asset of RSG Krasnodar – land plot classified as inventory would be used for development. As a result, recoverable amount was determined as it value in use. In the current period the Group has decided to sell the asset without development. As a result, the recoverable amount was decreased and full impairment of the goodwill was recognized.

In 2014, the Group accounted for the impairment of 100% of the goodwill related to CJSC "Renova-StroyGroup-Krasnodar". In 2013, the goodwill recognized on acquisition of LLC "Tatlin" in prior periods was impaired in total amount of $222.

(in thousands of US dollars)

7. Revenues

Revenues include the following:

	For the years ended 31 December	
	2014	***2013***
Sales of residential property	458,063	596,935
Rental income	967	2,433
Other revenue	18,160	24,701
Total	**477,190**	**624,069**

Other revenue is mainly represented by sales of heating energy, water and electricity in the amount of $14,165 (2013: $15,355) and revenue from supporting services provided by the Group in respect of sale of residential property in the amount of $2,666 (2013: revenue from services provided by the Group in respect of construction of hotel complex in Sochi performed by entity under common control in the amount of $6,188).

The Group concluded investment contracts with local authorities for development and construction of residential districts. According to these investment contracts the Group is required to provide apartments to a number of individuals free of charge in exchange of the development rights. Such exchange of assets represents barter transaction. Transfer of the apartments to individuals constitutes sale, and deferred revenue is recognized at the estimated fair value of the apartments to be transferred as of the date of gaining of the development rights. For the years ended 31 December 2014 and 2013, the Group recognized such barter revenues in the amount of $4,310 and $6,676 respectively.

8. Income and expenses

Staff costs, depreciation of property, plant and equipment and amortization of intangible assets included in cost of inventories sold, general and administrative expenses and other expenses amounted to the following:

	For the years ended 31 December	
	2014	***2013***
Staff costs, including social security taxes	20,290	15,362
Depreciation and amortisation	3,201	3,661

Cost of sales

Cost of sales of residential property for the years ended 31 December 2014 and 2013 was $323,633 and $412,054 respectively (Note 15). Cost of other sales was $14,931 and $23,226 for the years ended 31 December 2014 and 2013 respectively.

In the cost of sales of inventory property for the years ended 31 December 2014 and 2013 was included imputed interest on advances received from individuals in the amount of $nil and $728, respectively.

General and administrative expenses

The structure of general and administrative expenses was the following:

	For the years ended 31 December	
	2014	***2013***
Staff costs, including social security taxes	13,330	9,166
Consulting	5,035	6,442
Taxes other than income tax	1,684	861
Security	1,653	1,859
Rent	1,277	701
Repair and maintenance	1,215	454
Depreciation of property, plant and equipment	1,079	1,428
Representation expenses	820	848
Materials	620	640
Audit fees	600	675
Other professional services	564	770
Other assurance services	354	354
Telecommunication	536	707
Utilities services	376	199
Amortization of intangible assets	49	11
Other	1,537	1,201
Total	**30,729**	**26,316**

(in thousands of US dollars)

8. Income and expenses (continued)

Finance income

The components of finance income were as follows:

	For the years ended 31 December	
	2014	2013
Interest on bank accounts and deposits	4,679	2,592
Interest on unwinding of discount on related party receivable	4,746	1,483
Interest on loans receivable	2,297	781
Other financial Income	–	632
Total	**11,722**	**5,488**

Finance expenses

The components of finance expenses were as follows:

	For the years ended 31 December	
	2014	2013
Interest expense	22,936	25,921
Other financial expenses	528	368
Total	**23,464**	**26,289**

Other operating income

The components of other operating income were as follows:

	For the years ended 31 December	
	2014	2013
Gain on sale of property plant and equipment, and inventory	5,624	21
Reversal of unused provisions for social objects	6,849	2,852
Net penalty fees income	3,564	–
Gain on disposal of subsidiary	1,662	–
Derecognition of accounts payable	229	415
Decrease in legal provisions	109	–
Other income	962	606
Total	**18,999**	**3,894**

Other operating expenses

The components of other operating expenses were as follows:

	For the years ended 31 December	
	2014	2013
Write-down of inventories to net realizable value (Note 15)	25,320	30,662
Commercial expenses	10,198	20,065
Other taxes (excluding income tax)	5,903	5,522
Rent and maintenance of completed real estate property	2,022	2,942
Change in allowance for irrecoverable trade and other receivables	1,463	206
Bank services	721	890
Impairment of property plant and equipment (Note 10)	405	–
Penalty fees	148	383
Write-off of unrecoverable loans receivable	26	–
Legal provision	–	1,359
Loss on disposal of subsidiary	–	709
Impairment of intangible assets (Note 11)	–	338
Loss on sale of property plant and equipment	–	151
Other expenses	1,769	2,448
Total	**47,975**	**65,675**

(in thousands of US dollars)

9. Income tax

Corporate tax

The Group's income was subject to tax at the following tax rates:

	2014	*2013*
The Russian Federation (ordinary rate)	20.00%	20.00%
The Russian Federation (special tax regime area – The Perm Territory)	15.50%	15.50%
The Republic of Cyprus	12.50%	12.50%
Belize, BVI	0%	0%

The corporate income tax rate in Cyprus increased from 10% to 12.5% as of 1 January 2013.

Major components of income tax expense for the years ended 31 December 2014 and 2013 were as follows:

	For the years ended 31 December	
	2014	*2013*
Income tax expense – current	24,415	38,414
Tax risks provision reversed	(714)	(196)
Deferred tax benefit – origination and reversal of temporary differences	(6,216)	(9,450)
Income tax expense reported in the consolidated statement of operations	**17,485**	**28,768**

The major part of income taxes is paid in the Russian Federation.

Under certain conditions interest income may be subject to defence contribution at the rate of 30% (15% to 29 April 2013). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for 2013 and 17% for 2014 and thereafter.

A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended 31 December is as follows:

	For the years ended 31 December	
	2014	*2013*
Profit before income tax	**38,185**	**70,971**
The profit of subsidiaries taxable at income tax rate:		
20%	72,744	150,160
15.5%	3,363	5,910
12.5%	(10,610)	(64,790)
0%	(27,311)	(20,309)
At the Russian statutory income tax rate of 20%	**(7,637)**	**(14,194)**
Effect of non-deductible expenses	(4,548)	(1,665)
Effect of income exempt from tax	179	–
Correction in income tax calculation for prior periods	778	(2,418)
Change in unrecognized deferred tax asset	(6,971)	(10,531)
Tax risks reversed	714	196
Dividend tax	–	(156)
Income tax expense reported in the consolidated income statement of operations	**(17,485)**	**(28,768)**

(in thousands of US dollars)

9. Income tax (continued)

Corporate tax (continued)

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2014 were as follows:

	31 December 2014	*Change recognised in income statement*	*Disposal of companies (Note 3)*	*Translation difference*	*31 December 2013*
Deferred income tax assets					
Property, plant and equipment, Intangible assets	1,305	(539)	(917)	(1,699)	4,460
Investment property	1,033	653	–	(616)	996
Inventory	4,066	(4,809)	–	(3,135)	12,010
Accounts receivable and loans receivable	1,986	1,079	(29)	(1,341)	2,277
Accounts payable and accruals	5,773	891	–	(4,359)	9,241
Investment in associates	2,694	4,255	–	(1,643)	82
Tax losses available for offset	8,379	4,374	(263)	(5,531)	9,799
Other	311	457	–	(248)	102
Total deferred tax assets	**25,547**	**6,361**	**(1,209)**	**(18,572)**	**38,967**
Deferred income tax liabilities					
Property, plant and equipment, Intangible assets	(336)	18	–	378	(732)
Investment property	(56,513)	14,185	–	42,949	(113,647)
Inventory	(10,374)	(12,786)	–	5,985	(3,573)
Accounts receivable and loans receivable	(107)	795	–	112	(1,014)
Accounts payable and accruals	(3,186)	61	–	2,072	(5,319)
Investment in associates	(2,079)	(2,621)	–	1,309	(767)
Other	(53)	203	–	154	(410)
Total deferred tax liabilities	**(72,648)**	**(145)**	**–**	**52,959**	**(125,462)**
Total deferred tax assets/(liability)	**(47,101)**	**6,216**	**(1,209)**	**34,387**	**(86,495)**
Represented by the following					
Net deferred income tax asset	12,163	3,859	(1,209)	(9,473)	18,997
Net deferred income tax liability	**(59,264)**	**2,357**	**–**	**43,860**	**(105,492)**

(in thousands of US dollars)

9. Income tax (continued)

Corporate tax (continued)

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2013 were as follows:

	31 December 2013	*Change recognised in income statement*	*Disposal of companies (Note 3)*	*Translation difference*	*31 December 2012*
Deferred income tax assets					
Property, plant and equipment, Intangible assets	4,460	545	–	(320)	4,235
Investment property	996	202	–	(67)	861
Inventory	12,010	(12,953)	–	(1,561)	26,524
Accounts receivable and loans receivable	2,277	918	(36)	(134)	1,529
Accounts payable and accruals	9,241	5,021	–	(473)	4,693
Investment in associates	82	(118)	–	(12)	212
Tax losses available for offset	9,799	2,336	(2,150)	(751)	10,364
Other	102	(513)	(31)	(35)	681
Total deferred tax assets	**38,967**	**(4,562)**	**(2,217)**	**(3,353)**	**49,099**
Deferred income tax liabilities					
Property, plant and equipment, Intangible assets	(732)	3,864	–	245	(4,841)
Investment property	(113,647)	(2,101)	3,083	8,830	(123,459)
Inventory	(3,573)	(340)	–	285	(3,518)
Accounts receivable and loans receivable	(1,014)	(837)	–	38	(215)
Accounts payable and accruals	(5,319)	13,143	–	1,050	(19,512)
Investment in associates	(767)	101	–	64	(932)
Other	(410)	182	–	41	(633)
Total deferred tax liabilities	**(125,462)**	**14,012**	**3,083**	**10,553**	**(153,110)**
Total deferred tax assets/(liability)	**(86,495)**	**9,450**	**866**	**7,200**	**(104,011)**
Represented by the following					
Net deferred income tax asset	18,997	5,683	–	(951)	14,265
Net deferred income tax liability	**(105,492)**	**3,767**	**866**	**8,151**	**(118,276)**

As at 31 December 2014, the balance of tax losses which is available for offset against future taxable profits, but for which no deferred asset is recognised in the statement of financial position amounts to $41,895 (2013: $48,988).

Deferred tax assets in the amount of $146 (31 December 2013: $551) have not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Losses, which are available for offset against future taxable profits of the companies in which the losses arose, will expire during 2016-2020. For assessment of deferred tax assets relizability where the utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences management of the Group used business plans prepared by the management of specific projects.

Taxable differences of $127,734 and $194,835 as of 31 December 2014 and 31 December 2013, respectively, were associated with investments in subsidiaries. At 31 December 2014 and 31 December 2013 the Group did not recognise any deferred tax liability in respect of these temporary differences, as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There is no withholding tax on payments of dividends by the Company to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividends to shareholders that are individual tax resident in Cyprus are subject to a 20% Special Contribution for the Defence Fund of the Republic, i.e. “Defence Tax” (generally on a withholding basis).

(in thousands of US dollars)

9. Income tax (continued)

Deemed dividends distribution

Companies that do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends distribution. Profits and to the extent that are attributable to shareholders, who are not tax resident of Cyprus and own shares in the Company either directly and/ or indirectly at the end of two years from the end of the tax year to which the profits relate, are exempted. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

10. Property, plant and equipment

Property, plant and equipment consisted of the following:

	Land	*Buildings*	*Fittings and fixtures*	*Leasehold improve-ments and other equipment*	*Assets under construc-tion*	*Total*
Cost						
Balance as at 31 December 2012	**3,667**	**4,075**	**59,141**	**5,244**	**14,112**	**86,239**
Additions	–	–	–	31	10,694	**10,725**
Disposals	–	–	–	(305)	–	**(305)**
Transfers	–	–	7,644	645	(8,289)	**–**
Transfer from inventory (Note 15)	–	3,214	–	–	–	**3,214**
Translation difference	(264)	(378)	(4,463)	(387)	(1,076)	**(6,568)**
Balance as at 31 December 2013	**3,403**	**6,911**	**62,322**	**5,228**	**15,441**	**93,305**
Additions	2	–	–	363	6,275	**6,640**
Disposals	–	(1,245)	–	(249)	–	**(1,494)**
Disposals of subsidiaries (Note 4)	(2,132)	(12)	(33,903)	(4)	(6,043)	**(42,094)**
Transfers	4	1,164	4,816	558	(6,542)	**–**
Transfer from inventory (Note 15)	–	2,426	–	1,028	(331)	**3,123**
Translation difference	(1,266)	(3,882)	(24,759)	(2,789)	(6,123)	**(38,819)**
Balance as at 31 December 2014	**11**	**5,362**	**8,476**	**4,135**	**2,677**	**20,661**
Accumulated depreciation						
Balance as at 31 December 2012	**–**	**(466)**	**(4,655)**	**(2,206)**	**–**	**(7,327)**
Depreciation charge	–	(861)	(2,131)	(647)	–	**(3,639)**
Disposals	–	–	–	231	–	**231**
Translation difference	–	46	393	175	–	**614**
Balance as at 31 December 2013	**–**	**(1,281)**	**(6,393)**	**(2,447)**	**–**	**(10,121)**
Depreciation charge	–	(594)	(1,847)	(711)	–	**(3,152)**
Impairment	–	(287)	(118)	–	–	**(405)**
Disposals	–	1,245	–	132		**1,377**
Disposals of subsidiaries (Note 4)	–	2	4,771	1	–	**4,774**
Translation difference	–	458	2,909	1,174	–	**4,541**
Balance as at 31 December 2014	**–**	**(457)**	**(678)**	**(1,851)**	**–**	**(2,986)**
Net book value						
At 31 December 2013	**3,403**	**5,630**	**55,929**	**2,781**	**15,441**	**83,184**
At 31 December 2014	**11**	**4,905**	**7,798**	**2,284**	**2,677**	**17,675**

Fittings and fixtures represent networks (heating, water, electricity supply networks), transforming stations used by the Group for providing public facility services. On 29 December 2014, the Group sold to related party its shares in CJSC "TeploSetevaya Company" and CJSC "Vodosnabzhauschaya Company", which assets were represented by heating and water supply networks (Note 4).

(in thousands of US dollars)

10. Property, plant and equipment (continued)

Interest net of the interest reimbursed by the governmental bodies capitalized as part of additions to property, plant and equipment during 2014 amounted to $3,231 (2013: $2,989). The weighted average rate for the borrowings which were obtained for construction (either in part, or in full) for the year ended 31 December 2014 equals to 10.8% (2013: 10.27%).

Interest expense reimbursed by the governmental bodies and credited to interest capitalized during 2014 amounted to nil (2013: $736).

In 2014, the impairment loss of $287 (buildings) and $118 (fittings and fixtures) represented the write-down of certain property, plant and equipment in the heating segment to the recoverable amount as a result of technological obsolescence. This was recognized in the statement of profit or loss as other operating expenses. The recoverable amount of $1,707 as at 31 December 2014 was based on value in use and was determined at the level of the cash generating unit (CGU). The CGU consisted of the Moscow region-based assets (boiler-house in the Sherbinka district) of EnKo Invest Limited, a subsidiary. In determining value in use for the CGU, the cash flows were discounted at a rate of 14% on a pre-tax basis.

11. Intangible assets other than goodwill

Intangible assets other than goodwill consisted of the following:

	Leasehold rights (Buildings)	*Leasehold rights (Land)*	*Develop-ment rights*	*Other*	*Total*
Cost					
Balance as at 31 December 2012	**457**	**5,527**	**23,378**	**371**	**29,733**
Additions	–	–	7,827	–	**7,827**
Transfer to inventory	(436)	(131)	(1,470)	–	**(2,037)**
Translation difference	(21)	(394)	(1,855)	(27)	**(2,297)**
Balance as at 31 December 2013	**–**	**5,002**	**27,880**	**344**	**33,226**
Additions	–	–	10,262	–	**10,262**
Disposals	–	(1,694)	–	–	**(1,694)**
Translation difference	–	(1,451)	(15,243)	(144)	**(16,838)**
Balance as at 31 December 2014	**–**	**1,857**	**22,899**	**200**	**24,956**
Accumulated amortization and impairment					
Balance as at 31 December 2012	**(92)**	**(2,855)**	**(6,805)**	**(10)**	**(9,762)**
Amortization charge	(11)	(1,059)	(9,385)	(11)	**(10,466)**
Disposals	436	131	1,470	–	**2,037**
Impairment	(338)	–	–	–	**(338)**
Translation difference	5	230	704	1	**940**
Balance as at 31 December 2013	**–**	**(3,553)**	**(14,016)**	**(20)**	**(17,589)**
Amortization charge	–	(906)	(6,764)	(45)	**(7,715)**
Disposals	–	1,694	–	–	**1,694**
Reclass between intangible assets	–	(10)	–	10	**–**
Translation difference	–	1,181	8,246	19	**9,446**
Balance as at 31 December 2014	**–**	**(1,594)**	**(12,534)**	**(36)**	**(14,164)**
Net book value as at 31 December 2013	**–**	**1,449**	**13,864**	**324**	**15,637**
Net book value as at 31 December 2014	**–**	**263**	**10,365**	**164**	**10,792**

Leasehold rights (land) were mainly represented by contractual rights for rent of land in Krasnodar, Yekaterinburg (Akademichesky project) and Moscow region (Sherbinka, Shelkovo, and Ivanteevka).

The Group concluded investment contracts with local authorities for construction of residential districts. As a result the Group obtained development rights of $10,262 (2013: $7,827) recognized as intangible assets in exchange for obligation to transfer residential premises tocertain number of individuals free of charge. Carrying value of recognized development rights was determined as market value of residential premises that will be transferred to individuals free of charge.

Amortization of development and leasehold rights in amount of $7,670 was included in the carrying amount of constructed property as at 31 December 2014 (2013: $10,444).

(in thousands of US dollars)

12. Investment properties

Investment property consisted of the following:

	2014	*2013*
Opening Balance as at 1 January	**592,914**	**658,465**
Additions (acquisitions)	4,680	9,854
Additions (subsequent expenditure)	12,005	16,260
Reorganization of ZhSPK-Akademicheskoe (Note 5)	25,254	–
Transfer from/(to) inventory (Note 15)	(89,395)	(12,059)
Disposal of subsidiaries (Note 4)	–	(26,635)
Translation difference	(218,720)	(46,212)
Decrease in fair value of investment property	(31,189)	(6,759)
Closing balance at 31 December	**295,549**	**592,914**

Interest capitalized as part of subsequent expenditure to investment properties amounted to $2,375 and $3,634 for the years ended 31 December 2014 and 2013, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in 2014 year was 12.88%. (2012: 12.28%)

In 2014, the Group had income from rent of investment property of $688 (2013: $515) and direct operating expenses arising from investment property that generated rental income of $382 (2013: $275).

During the years ended 31 December 2014 and 2013, the fair value of investment property was primary determined based on valuation performed by an accredited independent appraiser, who holds recognised and relevant professional qualification and who has had recent experience in the locations and category of the investment property being valued.

The fair value of investment property was determined using the income approach and/or the sales comparison approach. The income approach is based on the assumption that the value of the property is conditional on the future benefits that the property will bring the owner within a certain period of time, and the risks associated with receiving the benefits. The sales comparison approach is based on comparative analysis of actual sales and/or asking prices for comparable properties.

Investment property fair values relate to the Level 3 of fair value hierarchy. Fair value hierarchy disclosures for investment properties have been provided in Note 28.

Description of valuation techniques used and key inputs to valuation on investment properties

Below are the major projects of the Group and description of valuation techniques for each as at 31 December 2014 and 2013. The investment properties are represented by the land plots for RSG-Akademicheskoe project and leasehold rights for ZHSPK “Akademichesky-Yug” projects.

RSG-Academicheskoe project had the fair value of investment property of $255,506 and 86.5% share in total consolidated value of investment property as of December 2014 respectively (2013: $489,522 and 82.56%).

Unobservable inputs for project RSG-Academicheskoe were as follows:

Description	*Methods of assessment*	*Unobservable inputs for project*	*Range (weighted average)*	*Sensitivity of the fair value to the inputs*
Land plots	Combination of market and income approaches	Annual growth of sales price for apartments	2.50%	Increase/(Decrease) of sales price growth to 0.50%/(1.50%) would increase/ (decrease) fair value by $5,333/ ($15,749)
		Annual growth of sales price for land plot	0.00%	Increase/(Decrease) of sales price growth to 5% would increase/(decrease) fair value by $17,562/($17,544)
		Discount rate for entrepreneur	19.00%	Increase of entrepreneur’s discount rate to 1%/(2%) would decrease fair value by $9,172/($18,060)
		Discount rate for developer	25.00%	Increase of developer’s discount rate to 1%/(2%) would decrease fair value by $8,905/($17,260)
		Sales rate for land plots	1.2	Decrease of land plot’s sales rate to 0.2%/(0.4%) would decrease fair value by $42,838/($79,028)

(in thousands of US dollars)

12. Investment properties (continued)

Description of valuation techniques used and key inputs to valuation of investment properties (continued)

ZHSPK "Akademichesky-Yug" project had the fair value of investment property of $13,642 and 4.6% share in total consolidated value of investment property as of 31 December 2014 (2013: $26,690 and 4.6%, respectively).

Unobservable inputs for project ZHSPK "Akademichesky-Yug" were as follows:

Description	***Methods of assessment***	***Unobservable inputs for project***	***Range (weighted average)***	***Sensitivity of the fair value to the inputs***
Leasehold rights	Combination of income and market approaches	Maximum sales volume per year	4 plots of 1.5 hectares per year	Increase/(decrease) of the maximum sales volume for 1 plot would increase/(decrease) in fair value of $669/($969), respectively
		Discount rate	22.00%	Increase/(decrease) in the discount rate of 1% would result in decrease/(increase) of fair value by $283 and $293, respectively

13. Other taxes recoverable

Other taxes recoverable are mainly represented by value added tax balances. Value added tax ("VAT") represents amounts payable or paid to suppliers that are recoverable from the tax authorities via offset against VAT payable to the tax authorities for the Group's revenue or direct cash receipts from the tax authorities. This VAT relates to investment property, general and administrative and other expenses, while VAT related to residential property is capitalized.

The management of the Group periodically reviews the recoverability of the balance of input value added tax and believes that VAT recoverable balance of $9,476 as at 31 December 2014 (2013: $19,996) is fully recoverable during 12 months following the respective reporting date.

VAT recoverable balance was denominated in rubles as of 31 December 2014 and 2013.

14. Interest-bearing loans receivable

Current and non-current interest-bearing loans receivable were as follows as of:

	31 December 2014	***31 December 2013***
Non-current loans receivable		
Loans receivable from third parties	1,007	85
Loans receivable from related parties (Note 26)	2,447	2,924
Total non-current loans receivable	**3,454**	**3,009**
Current loans receivable		
Loans receivable from third parties	45	345
Loans receivable from related parties (Note 26)	20,553	–
Total current loans receivable	**20,598**	**345**

(in thousands of US dollars)

14. Interest-bearing loans receivable (continued)

The annual interest rates for the loans receivable were as follows as at 31 December:

	Current loans receivable		*Non-current loans receivable*	
	2014	**2013**	**2014**	**2013**
Third parties	7.00-12.00%	3.35-8.00%	5.91-9.60%	9.25%
Related parties	3.35-10.90%	3.35%	3.35%	12.05%

Loans receivable were denominated in currencies as presented below:

	31 December 2014	***31 December 2013***
RUR	21,605	276
USD	2,447	3,078

15. Inventories

Inventories consisted of the following as of:

	31 December 2014	***31 December 2013***
Inventory properties under construction:		
- at cost	208,890	288,579
- at net realizable value, net of allowance	19,961	16,884
Constructed inventory properties:		
- at cost	99,544	211,182
- at net realizable value, net of allowance	19,094	39,675
Other inventory, at cost	346	530
Total	**347,835**	**556,850**
Including		
- current	347,603	543,119
- non-current	232	13,731

Write-down of inventory to net realizable value (NRV) is recognized in other operating expenses in the amount of $25,320 and $30,662 for the years ended as at 31 December 2014 and 2013 accordingly.

A summary of movement in inventories is set out in the table below:

	31 December 2014	***31 December 2013***
Opening balance at 1 January	**556,850**	**560,531**
Construction costs incurred	282,846	442,765
Other costs incurred	5,885	8,377
Interest capitalized	19,097	28,820
Transfer to property, plant and equipment (Note 10)	(3,123)	(3,214)
Transfer from investment property (Note 12)	89,395	12,059
Write-down to net realizable value (Note 8)	(25,320)	(30,662)
Disposals (recognized in cost of sales of residential property) (Note 8)	(323,633)	(412,054)
Disposals (recognized in cost of other sales)	(5,885)	(8,377)
Disposal of subsidiaries (Note 4)	(318)	(22)
Translation difference	(247,959)	(41,373)
Closing balance at 31 December	**347,835**	**556,850**

In 2014 and 2013 the Group acquired leasehold rights which were recognized as additions to inventory in the amount of $13,880 and $43,900 correspondingly.

(in thousands of US dollars)

16. Trade and other receivables

Trade and other receivables consisted of the following as at:

	31 December 2014	*31 December 2013*
Trade accounts receivable due from third parties	3,843	16,347
Trade accounts receivable due from related parties (Note 26, 19)	14,212	71,706
Other accounts receivable due from third parties	2,029	7,682
Other accounts receivable due from related parties (Note 26)	9,926	55,127
Allowance for irrecoverable amounts	(622)	(1,151)
	29,388	**149,711**

Trade and other receivables were denominated in currencies as presented below:

	31 December 2014	*31 December 2013*
RUR	28,913	148,373
USD	435	1,300
EUR	40	38
	29,388	**149,711**

Movement of irrecoverable amounts were presented below:

	2014	*2013*
At 1 January	**1,151**	**1,482**
Charge for the year (Note 8)	648	109
Amounts written off	(717)	(193)
Disposal of subsidiary	–	(147)
Translation differences	(460)	(100)
At 31 December	**622**	**1,151**

17. Prepayments and other non-current assets

Prepayments made consisted of the following as at:

	31 December 2014	*31 December 2013*
Prepayments made to third parties	4,999	28,622
Prepayments made to third party for investment project	8,000	8,000
Prepayments made to related parties (Note 26)	1,075	616
Allowance for irrecoverable amounts	(692)	(1,099)
	13,382	**36,139**

The Group actively develops new projects in various regions of Russia, and thus participates in tenders for obtaining lease rights for land plots and construction permits. Prepayments under such tenders, which were not finalized as at 31 December 2014, are accounted for as other non-current assets until the tender is finalized.

As of 31 December 2014 and 2013, the Group recognized $8,000 of prepayments made to third party for investment project, which Group is planning to undertake in the future.

As at 31 December 2013, prepayments were mainly represented by advances paid for rendering management services for development project under agency agreement to the contractors of the hotel in Sochi in the amount of $19,892.

The services were rendered during 2014 and advances paid were closed as at 31 December 2014.

(in thousands of US dollars)

17. Prepayments and other non-current assets (continued)

Movement of irrecoverable amounts were presented below:

	2014	*2013*
At 1 January	**1,099**	**1,258**
Charge for the year (Note 8)	815	97
Amounts written off	(541)	(126)
Disposal of subsidiary	(197)	(53)
Translation differences	(484)	(77)
At 31 December	**692**	**1,099**

18. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	31 December 2014	*31 December 2013*
Cash	10,120	19,612
Cash in OJSC “Metcombank” (Note 26)	37,736	55,813
Short term deposits in OJSC “Metcombank” (Note 26)	3,490	19,402
	51,346	**94,827**

Cash and cash equivalents were denominated in the following currencies:

	31 December 2014	*31 December 2013*
Rubles	51,133	91,601
US dollars	76	2,980
Euro	35	155
Other	102	91
	51,346	**94,827**

19. Equity

Total number of outstanding shares is comprised of the following:

Authorized, issued and fully paid	***Number of shares***	***Share capital***
At 31 December 2013	6,786,205	6,787
At 31 December 2014	6,786,205	6,787

The Group performs management services to an entity under common control (the “Entity”) in respect to the construction of the hotel complex in Sochi (Note 7). In 2013 and 2014, Company’s subsidiaries settled liabilities of the Entity in the total amount of $620 (2013: $4,670), which was recognized as distribution to the parent in the consolidated statement of changes in equity of the Group as the costs of the settlement are not reimbursable by the parent.

Additionally, in 2014 and 2013 Company’s subsidiary provided interest free financing to the Entity presented in Trade and other receivables (Note 16 and Note 26) in the consolidated balance sheet of the Group. The financing receivable was provided in form of payment due date deferral and recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue. The difference between the fair value and the nominal value of the receivable on initial recognition is recorded as distribution to parent in the consolidated statement of changes in equity of the Group and amounted to $1,565 for 2014 (2013: $4,355). In 2014 and 2013 the Group recognized interest income related to these accounts receivable in amount of $4,015 and $1,483 respectively. In addition to that the Group recognized $3,669 as other income received in 2014 as compensation from the entity under common control for finance costs incurred to provide financing to that entity.

(in thousands of US dollars)

19. Equity (continued)

The Group provided loan in US dollars to an entity under common control maturing at 31 December 2017. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue. The loan receivable outstanding amounted to $2,447 at 31 December 2014 (2013: $2,924). The difference between the fair value and the nominal value of the loan on initial recognition is recorded as distribution to parent in the consolidated statement of changes in equity of the Group and amounted to $786 for the year ended 31 December 2014 (2013: nil).

On 29 December 2014, the Group transferred for free to an entity under common control 100% share of the authorized and issued capital of CJSC "TeploSetevaya Company" and CJSC "Vodosnabzhauschaya Company" (Note 4). Carrying values of identifiable assets and liabilities of mentioned companies at the date of disposal amounted to $42,846 was classified as distribution of funds to shareholders.

20. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings as at 31 December 2014 and 31 December 2013:

Non-current interest-bearing loans and borrowings	*Interest rate 2014*	*31 December 2014*	*Unused borrowing facilities*	*Interest rate 2013*	*31 December 2013*	*Unused borrowing facilities*
Loans and borrowings from third parties	11.00-12.94%	1,546	91,996	8.30-13.50%	153,608	210,169
Loans and borrowings from related parties	8.50-16.00%	14,175	–	3.00-11.00%	46,005	17,668
Total non-current interest-bearing loans and borrowings		**15,721**	**91,996**		**199,613**	**227,837**

Current portion of non-current interest-bearing loans and borrowings	*Interest rate 2014*	*31 December 2014*	*Unused borrowing facilities*	*Interest rate 2013*	*31 December 2013*	*Unused borrowing facilities*
Loans and borrowings from third parties	15.00%	8,888	–	10.80%	3,597	–
Loans and borrowings from related parties	–	–	–	10.50%	20,525	–
Total current portion of non-current interest-bearing loans and borrowings		**8,888**	**–**		**24,122**	**–**

Current interest-bearing loans and borrowings	*Interest rate 2014*	*31 December 2014*	*Unused borrowing facilities*	*Interest rate 2013*	*31 December 2013*	*Unused borrowing facilities*
Loans and borrowings from third parties	0.00-17.00%	47,542	136,060	8.30-17%	1,319	–
Loans and borrowings from related parties	3.00-11.50%	2,709	8,888	9.3-11.50%	4,313	16,171
Total current interest-bearing loans and borrowings		**50,251**	**144,948**		**5,632**	**16,171**
Total interest-bearing loans and borrowings		**74,860**	**236,944**		**229,367**	**244,008**

All borrowings bear fixed interest rate as at 31 December 2014 and 31 December 2013.

Interest-bearing loans and borrowings were denominated in currencies as presented below:

	31 December 2014	*31 December 2013*
RUR	74,165	228,250
USD	564	969
EUR	131	148
	74,860	**229,367**

(in thousands of US dollars)

20. Interest-bearing loans and borrowings (continued)

Compliance with covenants

According to loan agreements terms, the Group and its subsidiaries are required to comply with debt covenants. As of 31 December 2014, one of the Group's subsidiaries, which is a guarantor of the loan with the total outstanding amount of $29,085, did not meet covenant requirement of minimal positive net assets as reported under Russian accounting standards, therefore the loan was classified as short-term in the Group's Consolidated Statement of Financial Position as at 31 December 2014. In 2015, the Group increased minimal positive net assets of its guarantor subsidiary above the level required by the loan agreement. Bank has not exercised its right to demand immediate full repayment of the loan so far and the Group expects to get a waiver from the bank and expects that the loan would be paid based on original contractual terms.

Pledged assets

At 31 December 2014 the Group had inventory with a fair value of $212,574 (2013: $324,568) and investment property with a fair value of $112,189 (2013: $176,391) pledged as collateral under the loan agreements.

The Group had intangible assets with a carrying value of $nil and property plant and equipment with a carrying value of $422 at 31 December 2014 (2013: $748 and $14,955) pledged as collateral under the loan agreements.

As at 31 December 2014, the Group had pledged shares of the following subsidiaries:

Lender	*Subsidiary pledged*	*Pledged share of subsidiary*	*Share of pledged subsidiary in the total consolidated assets of the Group*	*Share of pledged subsidiary in the total consolidated revenue of the Group*	*Net assets of pledged subsidiary (including intra-group balances)*
OJSC "Sberbank of Russia"	CJSC Renova-StroyGroup-Academicheskoe	100%	51.6%	54.3%	317,816
OJSC "Sberbank of Russia"	LLC ElitComplex	100%	6.3%	15.1%	42,178
OJSC "BANK Uralsib"	LLC Enko Invest	100%	7.9%	9.3%	31,997
OJSC "Sberbank of Russia"	CJSC ElectroSetevaya Company	100%	1.6%	1.2%	13,765
OJSC "Sberbank of Russia"	LLC "Story Region Holding"	100%	1.9%	–	4,516
OJSC "Sberbank of Russia"	LLC PSP Express	100%	3.0%	4.6%	1,342
					411,614

As at 31 December 2013, the Group had pledged shares of the following subsidiaries:

Lender	*Subsidiary pledged*	*Pledged share of subsidiary*	*Share of pledged subsidiary in the total consolidated assets of the Group*	*Share of pledged subsidiary in the total consolidated revenue of the Group*	*Net assets of pledged subsidiary (including intra-group balances)*
OJSC "Sberbank of Russia"	CJSC Renova-StroyGroup-Academicheskoe	100%	51.2%	49.4%	511,937
OJSC "Moscow Credit Bank"	OJSC Energo-Generiruyuschaya Company	100%	0.3%	1.6%	103,258
OJSC "NOMOS-BANK"	LLC ElitComplex	100%	4.0%	12.0%	52,860
OJSC "Sberbank of Russia"	CJSC TeploSetevaya Company	100%	2.6%	3.1%	28,954
OJSC "Sberbank of Russia"	CJSC ElectroSetevaya Company	100%	1.0%	1.3%	21,706
OJSC "Sberbank of Russia"	CJSC Vodosnab-zhauschaya Company	100%	1.8%	1.3%	16,509
OJSC "Sberbank of Russia"	LLC PSP Express	100%	2.5%	4.4%	3,955
					739,179

In 2013 the Group concluded assignment claim agreement with related party under which recognized interest-bearing borrowing. As of 31 December 2014, carrying value of this borrowing was $14,789 (2013: $45,874) (Note 23).

(in thousands of US dollars)

21. Debt securities issued

In June 2011 LLC "RSG-Finance", the Group's subsidiary, issued 3 billion ruble denominated bonds with a par value of 1,000 ruble each. The securities were issued at par value, mature on 18 June 2014, bear an interest at a rate of 10.75% and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost using effective interest rate. Debt issuance costs paid by the Group in relation to the arrangement of bonds in the amount of $674 represented agent commission and arrangement costs.

On 25 December 2012 LLC "RSG-Finance", announced for a repurchase of the first issue of bonds. The debt securities for the total number of 759,855 were repurchased on the market at their par value of 1,000 ruble each for $25,018. The interest rate after repurchase increased up to 13.25% per annum.

On 17 October 2012 LLC "RSG-Finance" issued the second tranche of 2,500 million ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 14 October 2015, bear interest rate of 13.75% per annum and were guaranteed by the Company.

Debt issuance costs paid by the Group in relation to the arrangement of second issue of bonds in the amount of $376 represented agent commission and arrangement costs.

On 27 December 2013 LLC "RSG-Finance", announced for a repurchase of the second issue of bonds. The debt securities for the total number of 245,723 were repurchased on the market at their par value of 1,000 ruble each for $7,737. The interest rate after repurchase was not changed.

On 22 November 2013 LLC "RSG-Finance" issued the third tranche of 3 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 18 November 2016, bear interest rate of 12.75% per annum and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost. Debt issuance costs paid by the Group in relation to the arrangement of second issue of bonds in the amount of $439 represented agent commission and arrangement costs.

During the year ended 31 December 2013, first issued debt securities in the total number of 659,855 were reissued for $20,778. Securities for the total number of 345,723 were acquired by OJSC "Metcombank" and OJSC "Bank Otkrytie".

On 12 February 2014, LLC "RSG-Finance", Group's subsidiary, voluntarily redeemed the part of the first tranche of its bonds issued. The debt securities in the total number of 162,299 were repurchased on the market at their par value of 1,000 ruble each for $2,885. The interest rate after repurchase was not changed and amounted to 13.25% p.a.

On 21 April 2014, LLC "RSG-Finance", Group's subsidiary, announced for a repurchase of the second issue debt securities. The debt securities in the total number of 1,536,569 were repurchased on the market at their par value of 1,000 ruble each for $27,319. The interest rate after repurchase was not changed and amounted to 13.75% p.a.

In April, June and October 2014, second issue debt securities in the total number of 1,782,292 were reissued at a par value of 1,000 rubles each. The interest rate was not changed and amounted to 13.75% per annum.

On 18 June 2014, LLC "RSG-Finance", the Group's subsidiary, settled its obligations in the amount of 3 billion rubles in relation of the first issue debt securities according to the repayment schedule.

22. Trade and other payables

Trade and other payables consisted of the following as of:

	31 December 2014	***31 December 2013***
Trade accounts payable due to third parties	27,293	68,359
Trade accounts payable due to related parties (Note 26)	100	230
Other accounts payable due to third parties	6,457	8,110
Other accounts payable due to related parties (Note 26)	2,989	162
Bonus accrual	4,470	8,317
Unused vacation accrual	3,576	1,463
Total	**44,885**	**86,641**

(in thousands of US dollars)

22. Trade and other payables (continued)

Trade and other payables were denominated in currencies as presented below:

	31 December 2014	*31 December 2013*
RUR	41,165	81,551
USD	1,722	1,944
EUR	1,998	3,146
Total	**44,885**	**86,641**

During the year ended 31 December 2014, vacation provision accrual in the amount of $1,793 were capitalized to inventory (2013: $626).

23. Other liabilities

Other liabilities consisted of the following as of:

	31 December 2014	*31 December 2013*
Non-current non-financial liabilities		
Guarantee issued for the loan provided by Vnesheconombank to related party (Note 27)	344	733
Other non-current liabilities	–	11
Non-current financial liabilities		
Liabilities for purchasing of land lease rights	10,917	19,688
Lease obligations	8,029	249
Liabilities for acquisition of investment property	–	10,115
	19,290	**30,796**
Current non-financial liabilities		
Liabilities for investment contracts with local authorities	8,291	8,325
Liabilities for construction of social objects	2,216	–
Liabilities for purchasing of land lease rights – current portion	585	10,477
Other current liabilities	1,018	1,503
Current financial liabilities		
Liabilities due to related parties (Note 26)	14,789	45,874
Liabilities for acquisition of investment property	10,880	
Lease obligations – current portion	1,648	378
	39,427	**66,557**

In 2012, the Group concluded agreement for acquisition of Petrovskiy Aliance LLC, by substance representing purchase of land lease right. The asset was actually received in 2013. As of 31 December 2014, the Group had outstanding non-current liabilities in respect of this purchase in the amount of $10,917 which represent an obligation to transfer 20% of apartments after completion the construction (2013: $19,688), the short term payable represents the payable to Saint Peterburg Administration in the amount of $585 and (2013: $10,477) accordingly.

In July 2012, the Group concluded agreement for acquisition of Zolotoy Vozrast LLC, by substance representing purchase of land lease right. As of 31 December 2014 and 2013, the Group had outstanding accounts payable in respect of this purchase in the amount of $10,880 and $10,115 respectively.

The Group concluded a number of investment contracts with local authorities for development and constructions of residential districts. According to these investment contracts, the Group is required to provide apartments to a number of individuals. Other current liabilities represented liabilities of the Group for provision of apartments to individuals under these investment contracts in amount of $8,291 and $8,325 as at 31 December 2014 and 2013, respectively.

During the 2013 year, the Group concluded several assignment agreements with related party under which $45,874 were reclassified from interest-bearing borrowing to other liabilities. As of 31 December 2014 and 2013, carrying value of these liabilities were $14,789 and $45,874 respectively (Note 26).

Other liabilities are mainly presented by audit and other professional fees accruals and state duties.

(in thousands of US dollars)

24. Advances from customers

At 31 December 2014 and at 31 December 2013, advances received in the amount of $100,951 and $123,693 respectively, were mainly represented by advance payments received from individuals and legal entities for construction of residential property. The amount of advances received from related parties as at 31 December 2014 was $92 (mainly consisted of advances received by the Group for management services) (31 December 2013: $138).

The Group recognized imputed interest at the market rate of 15-18%% in 2013 and nil in 2014 of advances received. The related interest was capitalized in inventory (Note 15).

25. Provisions

Provisions consisted of the following:

	Provisions for tax liability	*Legal claims*	*Construction of social objects*	*Provision for recons-truction*	*Total*
At 31 December 2012	**2,957**	**1,029**	**19,696**	**5,300**	**28,982**
Accrued	−	1,638	14,224	−	**15,862**
Used amounts	−	(127)	(4,728)	−	**(4,855)**
Unused amounts reversed	(195)	−	(3,721)	−	**(3,916)**
Disposal of subsidiary	−	(282)	−	−	**(282)**
Unwinding of discounting	−	−	−	359	**359**
Translation differences	(208)	(103)	(1,573)	(391)	**(2,275)**
At 31 December 2013	**2,554**	**2,155**	**23,898**	**5,268**	**33,875**
Accrued	−	206	8,800	2,403	**11,409**
Used amounts	−	(1,639)	(10,772)	(1,654)	**(14,065)**
Unused amounts reversed	(714)	(315)	(11,211)	−	**(12,240)**
Unwinding of discounting	−	−	−	111	**111**
Translation differences	(885)	(265)	(4,595)	(2,407)	**(8,152)**
At 31 December 2014	**955**	**142**	**6,120**	**3,721**	**10,938**

Provision for tax liability includes estimation of probable tax risks as at the reporting date.

On 29 June 2012, the Group acquired 100% of ordinary shares of LLC “Stroy Region Holding” from third party. The Group is required to perform reconstruction works for the acquired assets As of 31 December 2014 the Group recognized current and non-current provision in respect of reconstruction works in the amount of $3,195 and $526 respectively (2013: $2,989 and $2,279).

26. Balances and transactions with related parties

Related parties may enter into transactions which unrelated parties might not enter into, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding on 31 December 2014 and 31 December 2013 are detailed below:

31 December 2014	*Loans receivable*	*Trade and other receivables*	*Advances issued*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables, other liabilities*	*Advances received*
Controlling Shareholder of the parent company	2,447	3,620	−	−	565	220	2
Associates	−	5	54	−	−	110	−
Entities under common control	20,553	20,513	1,021	41,226	16,319	17,548	90
Total	**23,000**	**24,138**	**1,075**	**41,226**	**16,884**	**17,878**	**92**

(in thousands of US dollars)

26. Balances and transactions with related parties (continued)

31 December 2013	*Loans receivable*	*Trade and other receivables*	*Advances issued*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables, other liabilities*	*Advances received*
Controlling Shareholder of the parent company	2,924	6,220	–	–	547	210	55
Associates	–	937	473	–	–	182	4
Entities under common control	–	119,676	143	75,215	70,296	45,874	79
Total	**2,924**	**126,833**	**616**	**75,215**	**70,843**	**46,266**	**138**

For the year ended 31 December 2014	*Revenue*	*Finance income*	*Purchases*	*Finance costs*	*Other income/ (expenses)*
Controlling Shareholder of the parent company	–	60	–	287	–
Associates	4,005	–	506	–	(653)
Entities under common control	4,814	9,837	1,115	10,893	(35,277)
Total	**8,819**	**9,897**	**1,621**	**11,180**	**(35,930)**

For the year ended 31 December 2013	*Revenue*	*Finance income*	*Purchases*	*Finance costs*	*Other income/ (expenses)*
Controlling Shareholder of the parent company	–	1,542	–	24	–
Associates	6,509	–	311	–	(1,370)
Entities under common control	13,715	2,222	802	9,390	(12)
Total	**20,224**	**3,764**	**1,113**	**9,414**	**(1,382)**

The balances with related parties as at 31 December 2014 and 31 December 2013 are unsecured and settlement occurs in cash. Loans and borrowings are interest bearing, while trade receivables, cash and advances granted are not interest bearing. There have been no guarantees provided or received for any related party receivables or payables.

Compensation to key management personnel

Key management personnel include top managers of the Group and major subsidiaries.

Total compensation to key management personnel was included in general and administrative expenses in the consolidated statement of operations and consisted of short-term employee benefits:

	31 December 2014	*31 December 2013*
Salary	3,803	7,091
Performance bonuses	2,921	3,522
Other compensations	690	347
Social security taxes	229	220
Total	**7,643**	**11,180**

(in thousands of US dollars)

27. Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%.The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Taxation

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

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods in the Russian Federation 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.

Separately last changes in tax legislation which may have significant influence on tax consequences of the Group should be mentioned, including the following:

- Transfer pricing (“TP”) rules which came into force starting 1 January 2012. In accordance with these rules the tax authorities have right to define market level of prices for controlled transactions (i.e. transactions controlled under TP rules) and make profit tax exposures in correspondence with defined market level of prices. In case the taxpayer will not defend its position in respect to applied level of prices for controlled transactions on the basis of special TP documentation (or without such documentation) the tax authorities may calculate corresponding exposures.
- Russian Controlled Foreign Companies (“CFC”) rules which came into force starting 1 January 2015. In accordance with these rules the Russian tax authorities have right to challenge application of the double tax treaty benefits (beneficial ownership concept) and define foreign companies as the Russian tax residents if these companies are effectively managed from Russia. These amendments as well as the introduction taxation of controlled foreign companies and the concept of taxation of capital gains from indirect sale of property-rich companies may have significant negative impact on interpretation of different transactions performed by the Group.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

The Group estimated that 31 December 2014 it had possible obligations from exposures to various tax risks primarily related to financing and investment arrangements of the Group’s companies. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and its practical application in Russian Federation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative.

Uncertainties in interpretation of applicable legislation and its practical application in Russian Federation may also lead to possible non-recoverability of certain tax assets. Russian members of our Group may be affected by this development of tax practice, which could have a significant effect on the Group’s financial condition and results of operations.

Insurance policies

The Group holds insurance policies in relation to its assets, covering a number of cases such as accidents, fire, wrongful actions, force majeure, etc., as well as insurance policies covering vehicles and voluntary medical insurance of employees of the Group’s entities.

(in thousands of US dollars)

27. Contingencies, commitments and operating risks (continued)

Contractual commitments

The Group has signed a number of contracts for the construction works as of 31 December 2014. The Group had firm contractual commitments for the construction works for an approximate amount of $209,281 as at 31 December 2014 (31 December 2013: $158,564).

However, many of the contracts provide for payments stage wise basing on specifically agreed cost of stages. It is not practicable to measure the amount of these purchase commitments, though they constitute significant amount and concern most of the construction and investment projects of the Group.

Legal proceedings

The Group is involved in a number of legal proceedings. All legal proceedings which individually or in aggregate, may have a significant effect on the Group's financial operations or financial position have been accrued in these consolidated financial statements (Note 25).

The Group is also involved in legal proceedings with the total maximum possible risk estimated at $215 as at 31 December 2014 (2013: $1,213).

Guarantees

In 2011 LLC "Top Project" (the entity under common control outside of the Group) received loan facility from Bank for Development and Foreign Economic Affairs (Vnesheconombank). The loan matures in 2018. In connection with this loan, in April 2013 the Group provided guarantee with maximum amount of up to 2.4 billion rubles for the loan facility. Simultaneously with the conclusion of the guarantee, the Group received (as a beneficiary) a counter-guarantee, which indemnifies the Group of any possible negative cash outflows which may occur under the guarantee agreement. The counter guarantee is issued by the parent company of the Group. The abovementioned entity has significant assets, sources of income and cash flows sufficient to fulfill such an obligation.

Management of the Group concluded that the risk of negative cash outflows under the above guarantee is remote. As of December 2014, carrying value of the guarantee issued recognised as a part of other liabilities in amount of $344 (2013: $733) (Note 23).

28. Financial risk management objectives and policies

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and loans receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in rubles, in reputable Russian banks – OJSC "Sberbank of Russia" and OJSC "Metcombank" (related party). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

There are no significant concentrations of credit risk within accounts receivable balances of the Group, as the Group requires prepayments from the major part of its customers.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, without taking into account of any collateral held or other credit enhancements, which is disclosed below.

	31 December 2014	***31 December 2013***
Non-current assets		
Interest-bearing loans receivable	3,454	3,009
Total non-current assets	**3,454**	**3,009**
Current assets		
Cash and cash equivalents	51,346	94,827
Interest-bearing loans receivable	20,598	345
Trade and other receivables	29,388	149,711
Total current assets	**101,332**	**244,883**

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 31 December, the ageing analysis of trade and other receivables and loans receivable is as follows:

	Total	*Neigther past due nor impaired*	*Past due but not impaired* Less than 6 months	*Past due but not impaired* 6 months − 1 year	*Past due but not impaired* Over 1 year	*Past due and impaired*
2014	**54,060**	53,438	−	−	−	622
2013	**153,065**	151,914	−	−	−	1,151

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares monthly budgets which ensure that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31 December 2014

	Less than 12 months	*1-2 years*	*2-5 years*	*More than 5 years*	*Total*
Non-interest bearing debt					
Trade and other payables	36,675	−	−	−	**36,675**
Fixed-rate debt					
Other liabilities	28,640	15,609	3,336	−	**47,585**
Interest-bearing loans and borrowings	62,866	6,700	13,973	118	**83,657**
Debts securities issued	56,481	60,106	−	−	**116,587**
Total	**184,662**	**82,415**	**17,309**	**118**	**284,504**

31 December 2013

	Less than 12 months	*1-2 years*	*2-5 years*	*More than 5 years*	*Total*
Non-interest bearing debt					
Trade and other payables	75,852	−	−	−	**75,852**
Fixed-rate debt					
Other liabilities	62,111	13,551	2	−	**75,664**
Interest-bearing loans and borrowings	54,240	82,579	134,937	20,045	**291,801**
Debts securities issued	180,957	9,739	84,389	−	**275,085**
Total	**373,160**	**105,869**	**219,328**	**20,045**	**718,402**

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest rate risk

The Group borrows on a fixed rate basis from related parties and third party banks. Due to the ongoing world liquidity crisis the Group has a limited ability to negotiate interest rates.

The Group does not have any financial assets or liabilities with variable interest rate. All the borrowings of the Group bear fixed interest rate.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not siginificantly affect the Group's equity.

Currency risk

The Group's exposure to foreign currency is relates to the risks on loans receivable, payable from the related parties and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions are primarily denominated are rubles and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as the Group has very limited volume of transactions in currencies other than ruble.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	31 December 2014	***31 December 2013***
USD	(10,209)	(4,931)
EUR	(2,053)	(3,189)

As at 31 December 2014, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of $12,602 and US dollar-denominated loans receivable in the amount of $2,447. As at 31 December 2013, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of $11,321 and US dollar-denominated loans receivable in the amount of $3,078.

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In 2014 and 2013, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. As at 31 December 2014 and 2013 the Group used the following reasonably possible changes:

	31 December 2014		***31 December 2013***	
	Change in exchange rate	***Effect on PBT***	***Change in exchange rate***	***Effect on PBT***
	%	***USD***	***%***	***USD***
USD/RUR	(28.54)	(2,914)	(10.2)	(503)
USD/RUR	28.54	2,914	20.0	986

	31 December 2014		***31 December 2013***	
	Change in exchange rate	***Effect on PBT***	***Change in exchange rate***	***Effect on PBT***
	%	***EUR***	***%***	***EUR***
EUR/RUR	(29.58)	(607)	(8.63)	(269)
EUR/RUR	29.58	607	20.0	623

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Market risk (continued)

Fair value of financial instruments

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values: Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.

Fair value of the bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The following table shows financial instruments which carrying amounts differ from fair values as at:

	31 December 2014		*31 December 2013*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Assets				
Interest-bearing loans receivable	24,052	21,300	3,354	3,105
Total assets	**24,052**	**21,300**	**3,354**	**3,105**
Liabilities				
Interest-bearing loans and borrowings	74,860	67,926	229,367	220,952
Debts securities issued	99,306	96,128	236,681	231,818
Other liabilities	14,789	14,218	69,659	69,388
Total liabilities	**188,955**	**178,272**	**535,707**	**522,158**

The fair value of long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the market rates of interest at the reporting dates. The discount rates used for valuation of financial instruments were as follows:

Currency in which financial Instruments are denominated	***31 December 2014***	***31 December 2013***
Current financial assets		
USD	2.97%	4.53%
RUR	14.56%	7.47%
Non-current financial liabilities and assets		
USD	6.71%	5.96%
EUR	5.02%	5.64%
RUR	13.32%	11.93%
Current financial liabilities		
RUR	14.56%	10.43%

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Market risk (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have been no transfers between Level 1 and Level 2 during the period.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2014:

	Total	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at fair value				
Investment property	**295,549**	–	–	295,549
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	**21,300**	–	–	21,300
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**67,926**	–	–	67,926
Debts securities issued	**96,128**	–	96,128	–
Other liabilities	**14,218**	–	–	14,218

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2013:

	Total	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at fair value				
Investment property	**592,914**	–	–	592,914
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	**3,105**	–	–	3,105
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**220,952**	–	–	220,952
Debts securities issued	**231,818**	–	231,818	–
Other liabilities	**69,388**	–	–	69,388

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize the return to shareholders. Capital includes equity attributable to the equity holders of the parent entity. There were no changes in the objectives, policies and processes during 2014.

The Board of directors reviews the Group's performance and establishes key performance indicators.

(in thousands of US dollars)

29. Segment information

For management purposes, the Group is organized into business units based on construction projects. All business units are located in Russian Federation. Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment revenue is income from main activity reported in the Group's management accounts that are directly attributable to a segment being consideration received from customers for sale of residential or investment property being under construction, or for operating rent of premises and rendering of services.

Segment expense is expenses reported in the Group's management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment.

Segment result is segment revenue less segment expense for the reporting period.

The following tables present measures of segment revenues and segment results on management accounts in accordance with IFRS 8 and a reconciliation of revenue and segment result used by management for decision making and revenue and net result per the consolidated financial statements prepared under IFRS:

Year ended 31 December 2014

	Akademic city	*Engineering infrastructure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcherbinka*	*Ivanteevka*	*Krasnodar*	*Management company*	*DPS*	*Total*
External segment revenue	**256,130**	**14,449**	**21,899**	**28,606**	**69,410**	**44,464**	**29,434**	**1,982**	**2**	**987**	**467,363**
Intersegment revenue	2,952	15,159	–	–	–	–	–	–	–	–	**18,111**
Total segment revenue	**259,082**	**29,608**	**21,899**	**28,606**	**69,410**	**44,464**	**29,434**	**1,982**	2	**987**	**485,474**

	Akademic city	*Engineering infrastructure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcherbinka*	*Ivanteevka*	*Krasnodar*	*Management company*	*DPS*	*Total*
External segment operating profit/(loss)	**69,502**	**(3,718)**	**5,058**	**4,119**	**25,737**	**10,878**	**8,564**	**(6,810)**	**(40,558)**	**(939)**	**71,833**
Intersegment operations	(14,867)	8,518	–	–	–	–	–	–	–	–	**(6,349)**
Total segment operating profit/(loss)	**54,635**	**4,800**	**5,058**	**4, 119**	**25,737**	**10,878**	**8,564**	**(6,810)**	**(40,558)**	**(939)**	**65,484**

Year ended 31 December 2013

	Akademic city	*Engineering infrastructure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcherbinka*	*Ivanteevka*	*Krasnodar*	*Management company*	*DPS*	*Total*
External segment revenue	**308,475**	**15,443**	**27,662**	**18,441**	**74,586**	**84,504**	**32,305**	**11,242**	**1,152**	**5,739**	**579,549**
Intersegment revenue	194	29,354	–	–	–	–	–	–	–	–	**29,548**
Total segment revenue	**308,669**	**44,797**	**27,662**	**18,441**	**74,586**	**84,504**	**32,305**	**11,242**	**1,152**	**5,739**	**609,097**

	Akademic city	*Engineering infrastructure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcherbinka*	*Ivanteevka*	*Krasnodar*	*Management company*	*DPS*	*Total*
External segment operating profit/(loss)	**82,978**	**(12,137)**	**5,920**	**2,150**	**20,584**	**30,779**	**11,050**	**3,074**	**(38,733)**	**1,461**	**107,126**
Intersegment operations	(23,182)	22,782	–	–	–	–	–	–	–	–	**(400)**
Total segment operating profit/(loss)	**59,796**	**10,645**	**5,920**	**2,150**	**20,584**	**30,779**	**11,050**	**3,074**	**(38,733)**	**1,461**	**106,726**

Finance income and expenses, fair value gains and losses on financial assets, forex exchange gains/(losses) are not allocated to individual segments as the underlying instruments are managed on a group basis.

(in thousands of US dollars)

29. Segment information (continued)

Reconciliation of segments' results to net profit

	For the years ended 31 December	
	2014	***2013***
Revenue reconciliation		
Total revenue from reportable segment	485,474	609,097
Elimination of intersegment revenue	(18,111)	(29,548)
Revenue from non-reportable segments	9,827	44,520
Total group revenue	**477,190**	**624,069**
Operating profit reconciliation		
Total operating profit from reportable segment	65,484	106,726
Elimination of intersegment operations	6,349	400
Operating profit/(loss) from non-reportable segments	7,088	(6,434)
Change in fair value of investment property	(31,189)	(6,759)
Total group operating profit	**47,732**	**93,933**
Finance income	11,722	5,488
Finance costs	(23,464)	(26,289)
Foreign exchange(losses)/gain, net	(1,124)	(729)
Share of profits/(losses) of associates	13,148	(1,210)
Impairment of goodwill	(9,829)	(222)
Profit before income tax	**38,185**	**70,971**
Income tax expense	(17,485)	(28,768)
Net profit for the period	**20,700**	**42,203**

The main differences between revenue and operating profit under IFRS and management accounts are represented mainly by deferred revenue recognized at fair value of apartments transferred to individuals (Note 7), different amount of inventories write-down to net realizable value (Note 8) and other provisions, accrued under IFRS.

30. Subsequent events

On 30 March 2015 the Group concluded agreement with related party LLC "Top Project" for purchasing the Azimut Hotel located in Sochi for $133,884. On 7 April 2015 the Group concluded contract with a third party under which purchased asset was sold for $134,762 (purchase and sale prices are set in rubles and are translated at the exchange rate at 31 December 2014).

On 14 April 2015 LLC "RSG-Finance" made coupon yield payment for the second tranche of its bonds issued in the amount of $3,047 (at the exchange rate at 31 December 2014).

In January-April 2015, the Group received a loan in the total amount of $42,308 (at the exchange rate at 31 December 2014) with interest rate from 8.85% to 21%.

In January-April 2015, the Group partially settled obligations under existing credit facilities in the total amount of $65,318 (at the exchange rate at 31 December 2014).