RSG INTERNATIONAL LIMITED

Consolidated financial statements

For the year ended 31 December 2012

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General information

Board of Directors

Marios Nicolaides
Savvas Lazarides (appointed on 17 February 2012)

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
36 Byron Avenue
P.O. Box 21656
1511 Nicosia
Cyprus

Directors' report

The Board of Directors of RSG International Limited (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 2012.

Principal activities

The Group is involved in real estate development in the Russian Federation.

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.

In December 2012 the Group declared and paid interim dividends to shareholders for 2012 in the amount of $39,336 thousand. The Board of Directors does not recommend other payments of dividend.

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 the IFRS consolidated notes 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 2012.

The authorized and issued share capital of RSG International Limited as of 31 December 2012 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.

Directors' report (continued)

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

Larnaca, 15 May 2013

A.J.K. Management Services Limited
Secretary

Ernst & Young Cyprus Limited
Nicosia Tower Centre
36 Byron Avenue, P.O. Box 21656
1511 Nicosia, Cyprus

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Independent auditors' report

To the Members of RSG International Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RSG International Limited (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and 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 Company's 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 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 2012, 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.

Report on other legal and regulatory requirements

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

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

Other matter

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

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
15 May 2013

Consolidated statement of operations

For the year ended 31 December 2012

(in thousands of US dollars)

	Notes	*Years ended 31 December* *2012*	*2011*
Revenues	7	624,475	364,679
Cost of sales		(422,210)	(254,996)
Gross profit		**202,265**	**109,683**
General and administrative expenses	8	(33,208)	(23,813)
Other operating expenses	8	(57,384)	(61,073)
Other operating income	8	6,901	23,384
Change in fair value of investment property	12	1,931	45,670
Operating profit		**120,505**	**93,851**
Finance income	8	1,560	2,640
Finance expenses	8	(8,504)	(26,846)
Foreign exchange gains, net		1,751	752
Gain on a bargain purchase	3	2,145	–
Gain on acquisition of investments in associate	5	–	1,691
Share of (losses)/profits of associates	5	(6,720)	7,488
Profit before income tax		**110,737**	**79,576**
Income tax expense	9	(33,788)	(27,644)
Profit for the year		**76,949**	**51,932**
Attributable to:			
Equity holders of the parent		74,645	50,693
Non-controlling interests		2,304	1,239

The accompanying notes on pages 6 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

(in thousands of US dollars)

	Notes	Years ended 31 December 2012	2011
Net profit		**76,949**	**51,932**
Other comprehensive income/(loss)			
Effect of translation to presentation currency		36,066	(30,966)
Share of other comprehensive income/(loss) of associates accounted for using the equity method		810	(448)
Share of other comprehensive loss of non-controlling interests		896	–
Other comprehensive income/(loss), net of tax		**37,772**	**(31,414)**
Total comprehensive income, net of tax		**114,721**	**20,518**
Attributable to:			
Equity holders of the parent		111,521	19,279
Non-controlling interests		3,200	1,239

The accompanying notes on pages 6 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2012

(in thousands of US dollars)

	Notes	31 December 2012	31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	10	78,912	67,621
Intangible assets other than goodwill	11	19,971	632
Goodwill	6	11,553	10,899
Investments in associates	5	10,349	16,144
Investment properties	12	653,556	561,377
Deferred income tax assets	9	14,265	8,748
Interest-bearing loans receivable	14	6,843	7,417
Inventories	15	1,297	60,792
Other long-term assets	17	12,885	–
		809,631	**733,630**
Current assets			
Inventories	15	559,234	431,446
Trade and other receivables	16	14,128	10,975
Prepayments	17	27,475	8,156
Interest-bearing loans receivable	14	3,141	1,256
Income tax receivable		5,869	7,826
Other taxes recoverable	13	25,550	22,465
Cash and cash equivalents	18	56,659	41,646
		692,056	**523,770**
Total assets		**1,501,687**	**1,257,400**
Equity and liabilities			
Equity			
Issued capital	19	6,787	6,787
Share premium	19	671,712	671,712
Capital contribution reserve		33,133	30,694
Business combination reserve	19	112,009	112,009
Retained earnings		(172,839)	(205,709)
Foreign currency translation reserve		10,056	(26,820)
Equity attributable to equity holders of the parent		**660,858**	**588,673**
Non-controlling interests		17,337	14,137
Total equity		**678,195**	**602,810**
Non-current liabilities			
Interest-bearing loans and borrowings	20	234,313	159,040
Deferred income tax liabilities	9	117,515	111,249
Promissory notes		–	2,973
Debt securities issued	21	158,112	93,179
Provisions	25	22,881	–
Other liabilities	23	9,996	2,206
		542,817	**368,647**
Current liabilities			
Trade and other payables	22	60,343	55,549
Advances from customers	24	117,659	108,842
Promissory notes		3,427	3,920
Interest-bearing loans and borrowings	20	56,979	91,968
Income tax payable		4,340	4,835
Other taxes payable		9,628	5,466
Provisions	25	20,707	15,363
Other liabilities	23	7,592	–
		280,675	**285,943**
Total liabilities		**823,492**	**654,590**
Total equity and liabilities		**1,501,687**	**1,257,400**

On 15 May 2013 the Board of Directors of RSG International Limited authorised these financial statements for issue.

Marios Nicolaides ______________ Director Savvas Lazarides ______________ Director

The accompanying notes on pages 6 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

(in thousands of US dollars)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Cash flows from operating activities:		
Profit before tax	110,737	79,576
Adjustments for:		
Depreciation and amortization (Note 8, 10)	2,433	2,387
Gain on bargain purchase (Note 3)	(2,145)	–
Finance income	(1,560)	(2,640)
Finance expenses	8,504	26,846
Change in fair value of investment properties (Note 12)	(1,931)	(45,670)
Net gain on sale of property, plant and equipment	(3,337)	(1,591)
Write-down of inventory to net realizable value (Note 15)	12,685	19,659
Bad debt expense	586	756
Change in other provisions	12,493	(11,514)
Foreign exchange gains	(1,943)	(752)
Share of loss/(profit) of associates (Note 5)	6,720	(7,488)
Gain on acquisition of investments in associate (Note 5)	–	(1,691)
Operating cash flows before working capital changes	**143,242**	**57,878**
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(13,166)	161,541
Increase in inventories	(26,058)	(154,669)
(Decrease)/increase in trade and other payables	(8,641)	12,013
(Decrease)/increase in provisions	(6,510)	5,302
Increase in prepayments	(18,407)	(4,761)
Increase in taxes receivable	(4,600)	(1,443)
Increase in advances received	4,755	58,458
Increase/(decrease) in other taxes payable	1,430	(2,061)
Cash flows from operating activities	**72,045**	**132,258**
Income tax paid	(37,361)	(31,947)
Interest paid	(44,948)	(69,445)
Interest reimbursed by governmental bodies	865	1,825
Net cash flows (used in)/from operating activities	**(9,399)**	**32,691**
Cash flows from investing activities:		
Acquisition of subsidiary (Note 3)	(2)	–
Disposal of subsidiaries, net of cash disposed of (Note 4)	–	(16,387)
Purchase of property, plant and equipment	(9,717)	(12,642)
Purchase of intangible assets	(1,789)	–
Proceeds from sale of property, plant and equipment	7,322	1,879
Purchase of investment properties	(6,519)	(6,070)
Issuance of loans receivable	(6,705)	(5,225)
Repayment of loans receivable	–	490
Repayment of interest receivable	165	78
Net cash flows used in investing activities	**(17,245)**	**(37,877)**
Cash flows from financing activities:		
Acquisition of non-controlling interest (Note 3)	–	(9,000)
Dividends paid to shareholders	(39,336)	–
Repayment of finance lease obligation	(598)	–
Proceeds from borrowings	706,372	459,846
Repayment of borrowings	(628,103)	(429,421)
Net cash flows from financing activities	**38,335**	**21,425**
Effect of exchange rate changes on cash and cash equivalents	3,322	(10,882)
Net increase in cash and cash equivalents	**15,013**	**5,357**
Cash and cash equivalents at the beginning of the period	**41,646**	**36,289**
Cash and cash equivalents at the end of the period (Note 18)	**56,659**	**41,646**

The accompanying notes on pages 6 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

(in thousands of US dollars)

	Issued capital	*Share premium*	*Capital contribution reserve*	*Business combination reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Total*	*Non-controlling interest*	*Total equity*
As at 31 December 2010	**3,889**	**384,857**	**60,172**	**133,907**	**(256,402)**	**4,594**	**331,017**	**–**	**331,017**
Profit for the year	–	–	–	–	50,693	–	50,693	1,239	**51,932**
Other comprehensive income	–	–	–	–	–	(31,414)	(31,414)	–	**(31,414)**
Total comprehensive income	**–**	**–**	**–**	**–**	**50,693**	**(31,414)**	**19,279**	**1,239**	**20,518**
Issue of share capital (Note 19)	2,898	286,855	(24,195)	–	–	–	265,558	–	**265,558**
Reversal of discount on loans received from entities under common control	–	–	(5,283)	–	–	–	(5,283)	–	**(5,283)**
Acquisition of non-controlling interest in subsidiaries (Note 3)	–	–	–	(9,000)	–	–	(9,000)	–	**(9,000)**
Disposal of non-controlling interest (Note 3)	–	–	–	(12,898)	–	–	(12,898)	12,898	**–**
As at 31 December 2011	**6,787**	**671,712**	**30,694**	**112,009**	**(205,709)**	**(26,820)**	**588,673**	**14,137**	**602,810**
Profit for the year	–	–	–	–	74,645	–	74,645	2,304	**76,949**
Other comprehensive income	–	–	–	–	–	36,876	36,876	896	**37,772**
Total comprehensive income	**–**	**–**	**–**	**–**	**74,645**	**36,876**	**111,521**	**3,200**	**114,721**
Dididents paid to shareholders	–	–	–	–	(39,336)	–	(39,336)	–	**(39,336)**
Transfer of foreign exchange losses from capital contribution reserve	–	–	2,439	–	(2,439)	–	–	–	**–**
As at 31 December 2012	**6,787**	**671,712**	**33,133**	**112,009**	**(172,839)**	**10,056**	**660,858**	**17,337**	**678,195**

The accompanying notes on pages 6 to 52 form an integral part of these consolidated financial statements.

(in thousands of US dollars)

1. Corporate information

The consolidated financial statements of RSG INTERNATIONAL LIMITED (hereinafter "the Company") and its subsidiaries (hereinafter, "RSG International" or "the Group") for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 15 May 2013.

RSG INTERNATIONAL LIMITED 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, the Republic of Cyprus.

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 2012*	*Effective ownership interest at 31 December 2011*
1	CJSC "Contractor Relations Center"	Russia	Management services	100%	100%
2	LLC "Renova-StroyGroup-Tauer"	Russia	Real estate development	100%	100%
3	LLC "Garazh-S"	Russia	Real estate development	100%	100%
4	CJSC "Renova-StroyGroup-Akademicheskoe"	Russia	Real estate development	97%	97%
5	LLC "Semnadtsaty Kvartal"	Russia	Real estate development	100%	100%
6	CJSC "Yaroslavl-9"	Russia	Real estate development	100%	100%
7	LLC "PSP Express"	Russia	Real estate development	100%	100%
8	LLC "ElitComplex"	Russia	Real estate development	100%	100%
9	CJSC "Stroitelnyj Aljans"	Russia	Real estate development	100%	100%
10	LLC "Atman"	Russia	Real estate development	100%	100%
11	CJSC "Renova-StroyGroup-Krasnodar"	Russia	Real estate development	100%	100%
12	LLC "MegaStroy Invest"	Russia	Real estate development	100%	100%
13	LLC "Tatlin"	Russia	Rental income	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 2012 the Group reported operating cash outflow of $9,399 and net profit of $76,949. For the year ended 31 December 2011 the Group reported operating cash inflow of $32,691 and net profit of $51,932.

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 2012, the Group was in compliance with all of its financial covenants. 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 2012 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.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012.

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.

2.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Issued by the IASB and adopted by the European Union

Standard	***Content of change***	***Effective for (date)***	***Effect on the financial statements***
IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*	The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Itemsthat could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that willnever be reclassified	Annual periods beginning on or after 1 July 2012	The amendment affects presentation only and has no impact on the Group's financial position or performance.
IAS 19 *Employee Benefits* (Revised)	The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording regarding treatment, measurement and disclosure of employee benefit	Annual periods beginning on or after 1 January 2013	These amendments will not impact the Group's financial position or performance as the Group has no post-employment benefits, termination benefits and other long-term benefits
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)	As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, anddescribes the application of the equity method to investments in joint ventures in addition to associates	Annual periods beginning on or after 1 January 2013	These amendments are not expected to impact the Group's financial position or performance

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Standards issued but not yet effective (continued)

Standard	***Content of change***	***Effective for (date)***	***Effect on the financial statements***
IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*	These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendmentsalso clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing housesystems) which apply gross settlement mechanisms that are not simultaneous.	Annual periods beginning on or after 1 January 2014	These amendments are not expected to impact the Group's financial position or performance
IFRS 1 *Government Loans – Amendments to IFRS 1* IFRS 1 *First-time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for Firsttime Adopters*	These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amended standard provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.	Annual periods beginning on or after 1 January 2013	These amendments will not impact the Group's financial position or performance
IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*	These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating The effect of netting arrangements on an entity's financial position. The new disclosures are required for allrecognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master nettingarrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.	Annual periods beginning on or after 1 January 2013	These amendments will not impact the Group's financial position or performance
IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*	IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities* (clarification of control definition)	Annual periods beginning on or after 1 January 2013	Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of companies of the Group
IFRS 11 *Joint Arrangements*	IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.	Annual periods beginning on or after 1 January 2013	These amendments will not impact the Group's financial position or performance as the Group has no JCEs

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Standards issued but not yet effective (continued)

Standard	***Content of change***	***Effective for (date)***	***Effect on the financial statements***
IFRS 12 *Disclosure of Involvement with Other Entities*	These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required including: – A requirement to disclose judgements made in determining if the Group controls, has joint control or significant influence over an entity; – A requirement to disclose judgements made in determining the type of joint arrangement in which the Group has an interest.	Annual periods beginning on or after 1 January 2013	These amendments will not impact the Group's financial position or performance
IFRS 13 *Fair Value Measurement*	Standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does expand the disclosure requirements in respect of fair value measurement. In particular, the financial statements will in the future, as well as other disclosures, contain: – An analysis of the fair value hierarchy for investment property; – Information about the sensitivity of fair value measurements to changes in unobservable estimation inputs; – A detailed commentary on the Group's valuations methods and procedures	Annual periods beginning on or after 1 January 2013	The Group does not consider that the definition of fair value that is applied in IFRS 13 differs in a material way from its current approach and consequently anticipates there will not be any impact from this standard on its financial position. Relevant disclosures will be made in financial statements when the standard becomes effective.
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine.	Annual periods beginning on or after 1 January 2013	The new interpretation is not applicable for the Group's financial statements
Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC–12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief.	The guidance is effective for annual periods beginning on or after 1 January 2013.	Based on the preliminary analyses performed, the amendments are not expected to have any significant impact on the financial statements of the Group

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Standards issued but not yet effective (continued)

Annual amendments to the standards (May 2012)

These improvements will not have an impact on the Group, but include the following amendments, *Issued by the IASB and adopted by the European Union:*

Standard	***Content of amendment***	***Effective for (date)***
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.	Annual periods beginning on or after 1 January 2013
IAS 1 *Presentation of Financial Statements*	This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is theprevious period.	Annual periods beginning on or after 1 January 2013
IAS 16 *Property Plant and Equipment*	This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.	Annual periods beginning on or after 1 January 2013
IAS 32 *Financial Instruments, Presentation*	This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.	Annual periods beginning on or after 1 January 2013
IAS 34 *Interim Financial Reporting*	The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.	Annual periods beginning on or after 1 January 2013

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

Standard	***Content of change***	***Effective for (date)***	***Effect on the financial statements***
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	Accounting of joint arrangements and consolidation (clarification of control definition)	Annual periods beginning on or after 1 January 2014	These amendments will not impact the Group's financial position or performance
IFRS 9 *Financial Instruments: Classification and Measurement*	The clarification of new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.	Annual periods beginning on or after 1 January 2015	The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.3 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.

Revenue Recognition

During the reporting period the Group recognised revenue of $54,504 on sale of apartments relating to Ramenki project. The management's judgment was that the significant risks and rewards associated with the apartments were transferred to the buyer when the act of acceptance between the Group and the buyer was signed, rather than at the moment of signing the act of finalisation of the investment contract between construction company and the government of Moscow which was not signed as at the end of the reporting period.

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 method / Discounted cash flow (DCF) method;
- Comparative method.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.3 Significant accounting judgements, estimates and assumptions (continued)

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 Subject 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.

Comparative method 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 comparables method takes into account the supply and demand parity on the market, as well as other external factors.

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 2011 and 2012 no impairment loss 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 fair value and, ultimately, the amount of any impairment.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.3 Significant accounting judgements, estimates and assumptions (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis as of June 30, 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 December 31 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 economical 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 provisions in the period in which the determination is made. More details are provided in Note 27.

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 balance sheet 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 2012 and 2011, allowance for net realizable value in respect of inventories amounted to $51,668 and $36,491, respectively (Note 15).

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. As of 31 December 2012 and 2011 allowances for doubtful accounts in respect of accounts receivables had been made in the amount of $1,483 and $1,341 (Note 16).

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.

2.4 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.

Business combinations achieved in stages are accounted for as separate steps. Any additional acquired share of interest is not affect previously recognized goodwill.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.4 Business combinations and goodwill (continued)

Contingent 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 acquired. Any subsequent adjustments to the contingent consideration are recognized in profit and loss.

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.

Where goodwill is generated by the recognition, on the acquisition of a business, of deferred tax liabilities in excess of the fair value of such liabilities, the post-tax discount rate is adjusted in order to determine the appropriate pre-tax discount rate used to determine the value in use for impairment testing purposes (Note 6). Therefore, the deferred tax liability in excess of its fair value, as determined at acquisition, is offset against the goodwill and the net amount tested to determine whether that goodwill is impaired.

To the extent that the deferred tax provision in excess of the fair value of that liability is subsequently reduced or eliminated, for example through a change in the tax circumstances of the Group, then the goodwill arising from the initial recognition of the deferred tax provision may become impaired.

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 (ie 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.

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.

2.5 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Foreign currency translation

The companies of the Group which are incorporated in the Republic of Cyprus and in foreign 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 Group determined that in 2011 the functional currency of all of it companies incorporated in the Republic of Cyprus is Russian ruble (in the past such subsidiaries used US dollar as functional currency). The Group accounted for the change in functional currency of its companies incorporated in the Republic of Cyprus prospectively.

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 statements of operations are translated at the weighted average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity. 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.

2.7 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments (continued)

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.

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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments (continued)

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.

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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.7 Financial instruments (continued)

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 insruments, 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.

Loans, borrowings and debt instruments

After initial recognition, interest bearing loans and borrowings, debt instruments 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.

Transaction costs for redemption/repurchase of debt instruments

Transaction costs for redemption/repurchase of debt instruments are recognized in the statement of operations even if the Group intends to resell it in the near term.

Besides, the part of initially capitilised costs regarded to repurchased debt instruments are recognized 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

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.

2.8 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.

2.9 Value added tax

Tax legislation of the Russian Federation permits settlement of value added tax ("VAT") on a net basis.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the statement of financial position date, is not deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales. VAT receivable related to construction of residential property cannot be claimed for offset, thus this VAT is capitalized in the cost of such property.

2.10 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.10 Inventories (continued)

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 typically in the following 12-24 months, and no significant delays in construction are expected. Otherwise the inventory should be classified as non-current.

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 on gross up basis in the financial statements;
- 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.

2.11 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, 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 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.12 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.

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 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.

2.13 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. Such reversal is recognized in the statement of operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.14 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.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of a day to day servicing. 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 or completion of construction or development. 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.

2.15 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.16 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.

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.

2.17 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.

2.18 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, other than on a business combination, 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 the entities under common control under the terms different from the market terms.

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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.18 Equity (continued)

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.

2.19 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 made by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date 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.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

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.

2.20 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.

2.21 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.22 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.

2.23 Classification of assets and liabilities

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. 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 during the duration of the normal construction cycle, which generally varies between 12 and 24 months. All other assets and liabilities are classified as non-current.

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

LLC "Stroy Region Holding"

On 29 June 2012, the Group acquired 100% of ordinary shares of LLC "Stroy Region Holding" (the Russian Federation) from third party for purchase consideration of $2. The main activity of LLC "Stroy Region Holding" prior to the acquisition was renting out of commercial property in Perm. Financial position and the financial results of operations of LLC "Stroy Region Holding" were included in the Group's consolidated financial statements from 29 June 2012.

The Group is planning to complete appraisal of acquired assets and liabilities of LLC "Stroy Region Holding" before 29 June 2013. The table below sets forth the provisional fair values of LLC "Stroy Region Holding"'s identifiable assets and liabilities at the date of acquisition:

	As at 29 June 2012
Investment property	6,900
Trade and other receivables	40
Deferred income tax assets	354
Trade and other payables	(256)
Other liabilities	(4,638)
Income tax payable	(161)
Other taxes payable	(92)
Net assets	**2,147**
Purchase consideration	(2)
Gain on a bargain purchase	**2,145**

The excess of the net assets acquired over the cost of acquisition in the amount of $2,145 resulted from management's ability and power to conclude such an agreement was recognized as gain on a bargain purchase in the statement of operations.

From the date of acquisition, ZAO "Stroy Region Holding" has contributed revenue of $4 and loss of $807. If the combination had taken place at the beginning of the year, the loss from continuing operations for the period would have been $1,108 and revenue from continuing operations would have been $10.

(in thousands of US dollars)

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

CJSC "Garant"

On 1 November 2012, the Group acquired 75% of ordinary shares of CJSC "Garant" (the Russian Federation) from third party for purchase consideration of $0.2. The main activity of CJSC "Garant" is providing of security services in Ekaterinburg, Sverdlovskiy region. Financial position and the financial results of operations of CJSC "Garant" were included in the Group's consolidated financial statements from 1 November 2012.

	As at 1 November 2012
Propery, plant and equipment	1,390
Inventory	31
Trade and other account receivable	96
Deferred tax assets	73
Interest-bearing loans and borrowings	(1,021)
Trade and other account payables	(525,3)
Advances received	(44)
Net assets	**(0.3)**
Non-controlling interest	(0.1)
Purchase consideration	(0.2)

From the date of acquisition, ZAO "Garant" has contributed revenue of $131 and loss of $68. If the combination had taken place at the beginning of the year, the loss from continuing operations for the period would have been $187 and revenue from continuing operations would have been $787.

Acquisition and disposal of non-controlling interest in a subsidiary

On 31 March 2011, the Group sold 3% of its ordinary shares in RSG-Akademicheskoe Limited, the holding company for the "Academic City" project (disclosed in Note 29). RSG-Akademicheskoe Limited is the parent company of CJSC "Renova-StroyGroup-Akademicheskoe", which represented approximately 63% of the consolidated assets of the Group as at 31 December 2011 and 54% of the consolidated revenues of the Group for 2011 year ended 31 December 2011. The book value of the net assets of CJSC "Renova-StroyGroup-Akademicheskoe" was $486,897 as of 31 March 2011. The carrying value of non-controlling interest at transaction date was in the amount of $12,898. This change in ownership interest did not result in a loss of control. The effect of changes in non-controlling interest was accounted for as the Group's equity transaction.

In December 2011 the Group acquired an additional 35% interest in share capital of LLC "EnCo-Invest", increasing its ownership interest up to 100%. A cash considiration of $9,000 was paid to the non-controlling interest shareholders (third party).The carrying value of non-controlling interest was nil as of the date of the transaction.

Disclosure of other information in respect of business combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

(in thousands of US dollars)

4. Disposal of subsidiary

Blosscrown Investments Ltd and Top-Project LLC

On 12 December 2011, the Group sold to a related party, Kateb Holding S.A, 100% shares of the authorized and issued capital of Blosscrown Investments Limited with it's subsidiary LLC "Top-Project" which main activity was construction of commercial premises.

The table below sets the current values of Blosscrown Investments Limited and LLC "Top-Project" identifiable assets and liabilities at the date of disposal:

	As at 12 December 2011
Property, plant and equipment	132
Inventory	13,080
Trade and other receivables	9,978
VAT recoverable	1,314
Cash	16,387
Interest-bearing loans and borrowings	(53,030)
Deferred tax liabilities	(584)
Trade and other payables	(82)
Provisions	(573)
Net assets	**(13,378)**
Cash consideration	1
Loans payable due to LLC "Top-Project"	15,530
Pre-tax Loss on disposal of subsidiaries	2,153

At the date of disposal the net assets of LLC "Top-Project" included loans receivable due from the Group in the amount of $15,530.

5. Investment in associates

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

ZHSPK "Akademichesky"

In 2011 the Group acquired additional 10% shares of ZHSPK "Akademichesky" ("ZHSPK"). The consideration transferred by the Group comprised of land plots held by OOO "Uralskaya Companiya Razvitiya" with the total carrying value of $1,238. The Group recognized gain on the transaction in the total amount of $1,691 which represented an excess of the fair value of acquired share in the net assets of ZHSPK "Akademichsky" over the total carrying value of the transferred land plots.

As of 31 December 2012 and 2011 the voting rights of the Group in ZHSPK were 26.3% and 25.6%, respectively, and interest in profits of the associate up to 47.5% and 46.25%, respectively.

As of 31 December 2012 and 2011 ZHSPK's net assets were $33,167 and $31,714, respectively.

The main asset of ZHSPK is right for lease of land plots located near Akademic City (Sverdlovsk region).

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

	ZhSPK "Akademicheskoe"	
	2012	***2011***
Opening balance at 1 January	**10,262**	**5,852**
Additional investments	115	2,929
Share of profit for the year	(630)	1,491
Translation difference	602	(10)
Closing balance at 31 December	**10,349**	**10,262**

(in thousands of US dollars)

5. Investment in associates (continued)

CJSC "Sverdlovskoe"

As at December 31, 2012, the Group had a 9.96% interest in CJSC "Sverdlovskoe", an associate that is engaged in agricultural activities and is located in the Ural Region, the Russian Federation. The Group had significant influence over CJSC "Sverdlovskoe" due to the interest held coupled with the loan issued of $5 million as at 31 December 2011. As of 31 December 2011 CJSC "Sverdlovskoe"'s assets, liabilities and net assets were 62,410, 6,756 and 55,654, respectively.

In 2012 CJSC "Sverdlovskoe" was reorganized through establishment of two legal entities CJSC "Natzionalnaya Developerskaya Gruppa-Kvartal 46" (the only shareholder is ZHSPK-1, the Group's subsidiary) and CJSC "Reconstruktzia", third party. As a result of reorganization CJSC "Sverdlovskoe" transferred its main assets (land plots) to new established legal entities and retain no significant assets after reorganization. CJSC "Natzionalnaya Developerskaya Gruppa-Kvartal 46" obtained two land plots with total area of 124 hectares and loan and interest payable to the Group at the amount of $5,337.

The movement in investments in the associate was as follows:

	CJSC "Sverdlovskoe"	
	2012	***2011***
Opening balance at 1 January	**5,882**	**323**
Share of (loss)/profit for the year	(6,090)	5,997
Translation difference	208	(438)
Closing balance at 31 December	**–**	**5,882**

The table below sets forth income and expenses of CJSC "Sverdlovskoe" for 2012 and 2011:

	Year ended 31 December 2012	***Year ended 31 December 2011***
Finance expenses	–	(1,025)
Change in fair value of non-current assets	(61,145)	57,968
Other income, net of expenses	–	3,272
Net (loss)/profit	**(61,145)**	**60,215**
Group's share of (loss)/profit of the associate	**(6,090)**	**5,997**

6. Goodwill

As of 31 December 2012 carrying amount of goodwill amounted to $11,553 (31 December 2011: $10,899) of which $11,320 relates to CJSC "Renova-StroyGroup-Krasnodar" (31 December 2011: $10,679). The changes in balances are attributable to the effect of translation to presentation currency.

Goodwill was tested for impairment as of 30 June 2012 and 30 June 2011. As of 31 December 2012 and 31 December 2011 the Group did not identify any indicators that could lead to impairment of goodwill.

For the purpose of impairment testing as of 30 June 2012 and 30 June 2011 the recoverable amount of goodwill has been determined based on value in use. Value in use has been calculated using cash flows projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating units. The key assumptions used by the management in value in use calculation are presented in the table below. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate. According to business plan approved by management and considering the average life of Group's construction projects in other locations, the cash generating units listed below are expected to operate more than five years, therefore, a longer than five-year period is justified for cash flow projections used in impairment test.

	Period of expected use, years	***Period of forecast, years***	***Pre-tax discount rate, %***	***Source of cash inflow***	***Average price per m^2 (thousands of rubles)***
LLC "Tatlin" as at 30 June 2012	16.5	5	21	Rental income	8.5
LLC "Tatlin" as at 30 June 2011	17.5	5	21	Rental income	6.7
CJSC "Renova-StroyGroup-Krasnodar" as at 30 June 2012	1.5-6.5	1.5-6.5	14-20	Investment property	51.9-101.4
CJSC "Renova-StroyGroup-Krasnodar" as at 30 June 2011	2.5-7.5	2.5-5	11-12	Investment property	40.4-84.7

The values assigned to key assumptions reflect past experience and are also consistent with external sources of information. No reasonably possible changes in key assumptions will result in impairment of goodwill.

(in thousands of US dollars)

7. Revenues

Revenues include the following:

	For the years ended 31 December	
	2012	***2011***
Sale of inventory properties	598,531	347,881
Rental income	3,309	2,971
Other revenue	22,635	13,827
	624,475	**364,679**

In the sales of residential property for the years ended 31 December 2012 and 2011 was included imputed interest on advances received from individuals in the amount of $3,099 and $8,014, respectively.

Other revenue is mainly represented by sales of heating energy in the amount of $11,615 (2011: $11,770) and revenue from management services provided by the Group in respect of construction of hotel complex in Sochi performed by entity under common control in the amount of $6,397 (2011: $0).

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. Such exchange of assets represents barter transaction. Transfer of apartments to individuals constitutes sale, and revenue is recognized at market value of apartments as of the date of gaining of development rights. In 2012 the Group recognized such revenues in the amount of $10,635.

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	
	2012	***2011***
Staff costs, including social security taxes	21,527	16,176
Depreciation and amortization	2,433	2,387

Cost of sales

In the cost of sales of inventory property for the years ended 31 December 2012 and 2011 was included imputed interest on advances received from individuals in the amount of $ 3,099 and $8,014, respectively.

General and administrative expenses

The structure of general and administrative expenses was the following:

	For the years ended 31 December	
	2012	***2011***
Staff costs, including social security taxes	15,067	11,392
Consulting	4,697	1,053
Other professional services fees	3,002	3,309
Audit fees – current year statutory audit	1,645	1,347
Representation expenses	1,607	1,104
Security	1,088	1,016
Taxes other than income tax	1,041	35
Telecommunications	705	526
Repair and maintanance	687	833
Rent	642	388
Materials	472	186
Depreciation of property, plant and equipment	452	577
Utilities services	102	33
Amortization of intangible assets	22	35
Tax services	2	3
Other	1,977	1,976
	33,208	**23,813**

(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	
	2012	**2011**
Interest on bank accounts and deposits	826	198
Interest on loans receivable	242	2,344
Other financial income	492	98
	1,560	**2,640**

Finance expenses

The components of finance expenses were as follows:

	For the years ended 31 December	
	2012	**2011**
Interest expense	7,479	26,846
Other financial expenses	1,025	–
	8,504	**26,846**

Other operating income

The components of other operating income were as follows:

	For the years ended 31 December	
	2012	**2011**
Gain on sale of property plant and equipment	3,840	1,969
Change in allowance for irrecoverable trade and other receivables	749	266
Derecognition of accounts payable and reversal of impairment on loans issued	546	20,097
Reversal of write-down of inventories to their net realizable value	317	–
Other income	1,449	1,052
	6,901	**23,384**

Other operating expenses

The components of other operating expenses were as follows:

	For the years ended 31 December	
	2012	**2011**
Write-down of inventories to net realizable value	22,476	19,659
Commercial expenses	16,395	24,199
Other taxes (excluding income tax)	7,417	5,513
Maintenance of completed real property	2,445	381
Penalty fees	1,663	975
Bank services	1,143	635
Write-off of unrecoverable loans receivable	21	–
Loss on disposal of subsidiary	–	2,153
Other expenses	5,824	7,558
	57,384	**61,073**

(in thousands of US dollars)

9. Income tax

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

	2012	*2011*
The Russian Federation	20.00%	20.00%
The Republic of Cyprus	10.00%	10.00%

The corporate income tax rate in Cyprus increased from 10% to 12.5% as of 1 January 2013. The special contribution on passive interest income received by tax residents is increased from 15% to 30%.

Major components of income tax expense for the years ended 31 December 2012 and 2011 were as follows:

	2012	*2011*
Income tax expense – current	38,640	24,320
Deferred tax expense – origination and reversal of temporary differences	(4,852)	3,324
Income tax expense	**33,788**	**27,644**

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

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:

	2012	*2011*
Profit before income tax	**110,737**	**79,576**
At the Russian statutory income tax rate of 20%	(22,147)	(15,915)
Effect of non-deductible expenses	(1,936)	(15,713)
Effect of income exempt from tax	5,551	5,062
Effect of the difference in tax rates in countries other than the Russian Federation	(7,778)	(1,786)
Change in unrecognized deferred tax asset	(7,478)	708
Income tax expense	**(33,788)**	**(27,644)**

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2012 were as follows:

	31 December 2012	*Change recognized in statement of operations*	*Acquisitions of new companies*	*Translation difference*	*31 December 2011*
Deferred income tax assets:					
Property, plant and equipment	4,235	880	–	210	3,145
Investment property	1,622	726	753	41	102
Inventory	26,524	5,180	–	1,325	20,019
Accounts receivable and loans	1,529	(1,545)	5	139	2,930
Accounts payable and accruals	4,693	1,749	999	172	1,773
Tax losses available for offset	10,364	(826)	644	593	9,953
Other	893	299	149	35	410
	49,860	**6,463**	**2,550**	**2,515**	**38,332**
Deferred income tax liabilities:					
Property, plant and equipment	(4,841)	(3,689)	(97)	(144)	(911)
Investment property	(123,459)	(10,278)	–	(6,640)	(106,541)
Inventory	(3,518)	17,285	–	(791)	(20,012)
Accounts receivable and loans	(215)	(133)	–	(8)	(74)
Accounts payable and accruals	(19,512)	(10,203)	(2,026)	(686)	(6,597)
Investments in associate	(932)	1,383	–	(100)	(2,215)
Other	(633)	4,024	–	(174)	(4,483)
	(153,110)	**(1,611)**	**(2,123)**	**(8,543)**	**(140,833)**
Total deferred income tax (liability)/ asset	**(103,250)**	**4,852**	**427**	**(6,028)**	**(102,501)**
Represented by the following:					
Net deferred income tax assets	**14,265**	**4,123**	**427**	**967**	**8,748**
Net deferred income tax liabilities	**(117,515)**	**729**	**–**	**(6,995)**	**(111,249)**

(in thousands of US dollars)

9. Income tax (continued)

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2011 were as follows:

	31 December 2011	*Change recognized in the consolidated statement of operations*	*Disposal of companies*	*Translation difference*	*31 December 2010*
Deferred income tax assets:					
Property, plant and equipment	3,145	1,833	(102)	(406)	1,820
Investment property	102	112	–	(10)	–
Inventory	20,019	1,619	–	(1,187)	19,587
Accounts receivable and loans	2,930	2,400	–	(251)	781
Accounts payable and accruals	1,773	1,162	(115)	(155)	881
Tax losses available for offset	9,953	2,590	(551)	(685)	8,599
Other	410	178	(3)	(30)	265
	38,332	**9,894**	**(771)**	**(2,724)**	**31,933**
Deferred income tax liabilities:					
Property, plant and equipment	(911)	(495)	–	67	(483)
Investment property	(106,541)	(12,099)	–	6,443	(100,885)
Inventory	(20,012)	(12,915)	1,211	2,239	(10,547)
Accounts receivable and loans	(74)	18,074	–	(642)	(17,506)
Accounts payable and accruals	(6,597)	(3,080)	–	483	(4,000)
Investments in associate	(2,215)	(1,989)	–	47	(273)
Other	(4,483)	(714)	–	539	(4,308)
	(140,833)	**(13,218)**	**1,211**	**9,176**	**(138,002)**
Total deferred income tax liability	**(102,501)**	**(3,324)**	**440**	**6,452**	**(106,069)**
Represented by the following:					
Net deferred income tax assets	**8,748**	**4,326**	**440**	**443**	**3,539**
Net deferred income tax liabilities	**(111,249)**	**(7,650)**	**–**	**6,009**	**(109,608)**

As of 31 December 2012 and 31 December 2011 unused tax loss carry forward for which deferred tax assets were recognized approximated $51,820 and $49,767, respectively. Deferred tax assets in the amount of $4,691 (31 December 2011: $4,490) 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 utilisation 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.

Net temporary differences of $476,483 and $377,342 as of 31 December 2012 and 31 December 2011, respectively, were associated with investments in subsidiaries. At 31 December 2012 and 31 December 2011 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 2011 the rate was 15% up to 30 August 2011 and 17% thereafter.

Companies which 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. Defence Tax at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011 and 17% thereafter) will be payable on such deemed dividends distribution. Profits and to the extent that these 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 Defence Tax is payable by the Company for the account of the shareholders.

(in thousands of US dollars)

10. Property, plant and equipment

Property, plant and equipment consisted of the following:

	Land	*Buildings*	*Fittings and fixtures*	*Leasehold improvements and other equipment*	*Assets under construction*	*Total*
Cost						
At 31 December 2010	**4,160**	**7,889**	**43,748**	**2,981**	**5,694**	**64,472**
Additions	–	–	–	–	15,535	**15,535**
Disposals	–	(6,185)	(1,758)	(149)	–	**(8,092)**
Transfers	–	319	5,946	813	(7,078)	**–**
Transfer from/(to) inventory	–	688	3,985	(50)	–	**4,623**
Transfer from/(to) investment property	727	(230)	–	–	–	**497**
Translation difference	(281)	42	(3,049)	(216)	(1,042)	**(4,546)**
At 31 December 2011	**4,606**	**2,523**	**48,872**	**3,379**	**13,109**	**72,489**
Acquisition of ZAO “Garant”	–	859	–	531	–	**1,390**
Additions	–	–	–	47	14,778	**14,825**
Disposals	(1,187)	(203)	–	(233)	(2,677)	**(4,300)**
Transfers	–	670	10,083	1,187	(11,940)	**–**
Transfer from/(to) inventory	–	–	832	102	–	**934**
Transfer from/(to) investment property	–	–	(3,776)	–	18	**(3,758)**
Translation difference	248	226	3,130	231	824	**4,659**
At 31 December 2012	**3,667**	**4,075**	**59,141**	**5,244**	**14,112**	**86,239**
Accumulated depreciation						
At 31 December 2010	**–**	**(641)**	**(1,532)**	**(1,342)**	**–**	**(3,515)**
Depreciation charge	–	(190)	(1,549)	(613)	–	**(2,352)**
Disposals	–	564	86	48	–	**698**
Translation difference	–	50	130	121	–	**301**
At 31 December 2011	**–**	**(217)**	**(2,865)**	**(1,786)**	**–**	**(4,868)**
Depreciation charge	–	(240)	(1,697)	(474)	–	**(2,411)**
Disposals	–	12	–	167	–	**179**
Transfer to investment property	–	–	117		–	**117**
Translation difference	–	(21)	(210)	(113)	–	**(344)**
At 31 December 2012	**–**	**(466)**	**(4,655)**	**(2,206)**	**–**	**(7,327)**
Net book value						
At 31 December 2012	**3,667**	**3,609**	**54,486**	**3,038**	**14,112**	**78,912**
At 31 December 2011	**4,606**	**2,306**	**46,007**	**1,593**	**13,109**	**67,621**

Fittings and fixtures represent networks (heating, water, electrility supply networks), transforming stations used by the Group for providing public facility services.

Interest capitalized net of the interest reimbursed by the governmental bodies as part of additions to property, plant and equipment during 2012 amounted to $3,377 (2011: $608). Interest expense reimbursed by the governmental bodies and credited to additions during 2012 amounted to $865 (2011: $1,825). The weighted average rate for the borrowings which were obtained for construction (either in part, or in full) for the year ended 31 December 2012 equals to 12.05% (2011: 11.28%).

In 2010, the Group acquired land plot encumbered by building and railways for construction thermoelectric plant for Akademicheskiy district. Total cost of transaction was $ 1,278. Additionally the Group incurred construction cost on thermoelectric plant in amount $2,651. On the June 25, 2012 the Group concluded contract for sale land plot with encumbrance to JLC TGK-9 and recognized a gain on disposal of the asset in the amount of $3,492 as a part of other operating expenses/income for the period.

(in thousands of US dollars)

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					
At 31 December 2010	**734**	**1,086**	**–**	**–**	**1,820**
Additions	–	–	–	299	**299**
Disposals	(289)	–	–	–	**(289)**
Transfer to inventory	–	(1,126)	–	–	**(1,126)**
Translation difference	(14)	40	–	(27)	**(1)**
At 31 December 2011	**431**	**–**	**–**	**272**	**703**
Additions	–	1,789	18,050	80	**19,919**
Transfer from inventory	–	3,610	4,786	–	**8,396**
Translation difference	26	128	542	19	**715**
At 31 December 2012	**457**	**5,527**	**23,378**	**371**	**29,733**
Accumulated amortization					
At 31 December 2010	**(73)**	**(334)**	**–**	**–**	**(407)**
Amortization charge	(28)	–	–	(6)	**(34)**
Disposal	34	–	–	–	**34**
Transfer to inventory	–	346	–	–	**346**
Translation difference	2	(12)	–	–	**(10)**
At 31 December 2011	**(65)**	**–**	**–**	**(6)**	**(71)**
Amortization charge	(22)	(1,018)	(6,647)	(4)	**(7,691)**
Transfer from inventory	–	(1,771)	–	–	**(1,771)**
Translation difference	(5)	(66)	(158)	–	**(229)**
At 31 December 2012	**(92)**	**(2,855)**	**(6,805)**	**(10)**	**(9,762)**
Net book value					
At 31 December 2011	**366**	**–**	**–**	**266**	**632**
At 31 December 2012	**365**	**2,672**	**16,573**	**361**	**19,971**

Leasehold right (building) with net book value of $366 and $365 as at 31 December 2011 and 31 December 2012, respectively, represented a contractual right for rent of business complex in Yekaterinburg. No impairment indicators of leasehold right (building) was identified as at 31 December 2012.

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

The Group concluded investment contracts with local authorities for construction of residential districts. As a result the Group obtained development rights of $18,050 recognized as intangible assets in exchange of residential premises to be transferred to 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 $7,665 was included in the carrying amount of constructed property as at 31 December 2012 (2011: $0).

(in thousands of US dollars)

12. Investment properties

Investment property consisted of the following:

	2012	*2011*
Opening balance at 1 January	**561,377**	**532,423**
Additions (acquisitions)	5,217	–
Additions (acquisitions through business combinations)	16,857	–
Additions (subsequent expenditure)	5,754	17,395
Transfer from inventory	23,685	310
Transfer from/(to) property, plant and equipment	3,640	(497)
Translation difference	35,095	(33,924)
Increase in fair value of investment property	1,931	45,670
Closing balance at 31 December	**653,556**	**561,377**

During the years ended 31 December 2012 and 2011, the fair value of investment property was 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.

Interest capitalized as part of subsequent expenditure to investment properties amounted to $2,657 and $2,919 for the years ended 31 December 2012 and 2011, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in 2012 year was 11.34%. (2011: 11.48%)

In 2012, the Group had income from rent of investment property of $1,508 (2011: $1,398) and direct operating expenses arising from investment property that generated rental income of $830 (2011: $585).

13. Other taxes recoverable

Other taxes recoverable mainly reprented 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 $25,550 as at 31 December 2012 (2011: $22,465) is fully recoverable during 12 months following the respective reporting date. At 31 December 2012 and 2011, VAT recoverable balance was denominated in rubles.

14. Interest-bearing loans receivable

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

	31 December 2012	*31 December 2011*
Non-current loans receivable		
Loans receivable from third parties	–	4
Loans receivable from related parties (**Note 26**)	6,843	7,413
Total non-current loans receivable	**6,843**	**7,417**
Current loans receivable		
Loans receivable from third parties	176	25
Loans receivable from related parties (**Note 26**)	2,965	1,231
Total current loans receivable	**3,141**	**1,256**

(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*	
	2012	***2011***	***2012***	***2011***
Related parties	3-12%	3-5%	3-12%	3-35%

Loans receivable were denominated in currencies as presented below:

	31 December 2012	***31 December 2011***
USD	3,070	2,924
RUB	6,914	5,749
	9,984	**8,673**

15. Inventories

Inventories consisted of the following as of:

	31 December 2012	***31 December 2011***
Inventory properties under construction:		
- at cost	408,075	349,198
- at net realizable value	24,970	12,282
Constructed inventory properties:		
- at cost	101,646	109,031
- at net realizable value	25,225	20,954
Other inventories, at cost	615	773
	560,531	**492,238**
Including:		
- Current	559,234	431,446
- Non-current	1,297	60,792
Cummulative write-down of inventory held as at 31 December to NRV	51,668	36,491

The Group accrued imputed interest on advances received from individuals for residential property. The total amount of recognized imputed interest in inventory as at 31 December 2012 and 31 December 2011 was $690 and $3,662 respectively.

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

	2012	***2011***
Opening balance at 1 January	**492,238**	**387,958**
Construction costs incurred	454,304	384,789
Interest capitalized	31,184	26,912
Transfer to intangible assets	(6,624)	–
Transfer to investment property	(23,685)	(310)
Transfer to property, plant and equipment	(934)	(4,623)
Write-down to net realizable value	(12,685)	(19,659)
Disposals (recognized in cost of sales)	(403,746)	(237,136)
Disposals of subsidiary (LLC “Top-Project”)	–	(13,019)
Acquisition of ZAO “Garant”	31	–
Translation difference	30,448	(32,674)
Closing balance at 31 December	**560,531**	**492,238**

(in thousands of US dollars)

16. Trade and other receivables

Trade and other receivables consisted of the following as at:

	31 December 2012	*31 December 2011*
Trade receivables	5,332	4,897
Trade receivables due from related parties (Note 26)	7,615	3,996
Other receivables	2,390	3,015
Other receivables due from related parties (Note 26)	274	408
Allowance for irrecoverable amounts	(1,483)	(1,341)
	14,128	**10,975**

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

	31 December 2012	*31 December 2011*
RUR	13,448	10,410
USD	645	562
EUR	35	3
	14,128	**10,975**

As at 31 December 2012 allowance for irrecoverable amounts was recognized in other operating expenses in the amount of $749 (31 December 2011: release of allowance in the amount of $266 in other operating income).

17. Prepayments

Prepayments are mainly represented by the advances paid by the Group for rendering management services for development project under agency agreement to the contractors of the hotel in Sochi in the amount of $21,405 and $4,121 as at 31 December 2012 and 31 December 31 2011, respectively.

In 2012 the Group made prepayment for acquisition of non-current assets in the amount of $12,885 disclosed within other long-term assets (land lease right and investment property).

18. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	31 December 2012	*31 December 2011*
Cash	46,745	15,517
Cash in OJSC “Metcombank” (Note 26)	7,808	25,100
Promissory notes of OJSC “Metcombank” (Note 26)	–	1,029
Short term deposits	2,106	–
	56,659	**41,646**

Cash and cash equivalents were denominated in the following currencies:

	31 December 2012	*31 December 2011*
Rubles	56,468	41,458
US dollars	189	188
Euro	2	–
	56,659	**41,646**

(in thousands of US dollars)

19. Equity

Total number of outstanding shares comprised:

Authorised, issued	*Number of shares*	*Share capital*
At 31 December 2010	**3,888,677**	**3,889**
Issue of 3,887,450 ordinary shares with a par value of 1 US dollar each	2,897,528	2,898
At 31 December 2011	**6,786,205**	**6,787**
At 31 December 2012	**6,786,205**	**6,787**

As of 31 December 2010 the Company had 3,888,677 shares denominated in US dollars with par value of $1 each.

On 23 December 2011 the Company issued a resolution to increase its share capital from 3,888,677 shares to 6,786,205 ordinary shares with a par value of $1 each at a premium of $99 each to existing shareholder in exchange of contribution of Group's companies promissory notes in the total amount of $289,753. The promissory notes were issued for the settlement of loans payable to related parties. As a result the Company's issued capital increased by $2,898 and share premium increased by $286,855. The amount of share premium is not available for distribution by way of dividends.

The difference in exchange rates used for conversion of loans to share capital and actual date of resolution has lead to accrual of reserve at the amount of $4,195 which was recognized in capital contribution reserve.

In December 2012 the Group declared and paid interim dividends to shareholders for 2012 in the amount of 39,336 ($5.8 (not in thousand) per share). No other dividends were declared during the years ended 31 December 2012 and 2011.

20. Interest-bearing loans and borrowings

Non-current interest-bearing loans and borrowings

Non-current interest-bearing loans and borrowings consisted of the following as at 31 December 2012 and 31 December 2011:

Bank	*Currency*	*Maturity*	*Interest rate 2012*	*As of 31 December 2012*	*Unused borrowing facilities as of 31 December 2012*	*Interest rate 2011*	*As of 31 December 2011*	*Unused borrowing facilities as of 31 December 2011*
Interest-bearing loans and borrowings from third parties:								
OJSC "Sberbank of Russia"	RUB	Mar 2014 - Jan 2017	10.8-13.0%	179,532	152,518	10.8-13.0%	105,686	45,768
OJSC "Bank Otkritie"	RUB	Apr 2014 - Dec 2016	12.4%	34,358	99,867	11.4-12.4%	28,204	47,157
Other	RUB	Mar 2014 - May 2015	0.0-12.1%	538	16,562	11.0-14.0%	5,711	10,635
Total interest-bearing loans and borrowings from third parties				**214,428**	**268,947**		**139,601**	**103,560**
Interest-bearing loans and borrowings from related parties:								
OJSC "Metcombank"	RUB	Dec 2019	11.0%	19,361	18,108	11.0%	18,358	–
Other	USD	Dec 2015	3.0-5.5%	524	–	3.0-5.5%	1,081	22,180
Total interest-bearing loans and borrowings from related parties				**19,885**	**18,108**		**19,439**	**22,180**
Total non-current interest-bearing loans and borrowings				**234,313**	**287,055**		**159,040**	**125,740**

(in thousands of US dollars)

20. Interest-bearing loans and borrowings (continued)

Current portion of non-current interest-bearing loans and borrowings

Current portion of non-current interest-bearing loans and borrowings consisted of the following as at 31 December 2012 and 31 December 2011:

Bank	*Currency*	*Maturity*	*Interest rate 2012*	*As of 31 December 2012*	*Interest rate 2011*	*As of 31 December 2011*
Interest-bearing loans and borrowings from third parties:						
OJSC “Sberbank of Russia”	RUB	Jan-Dec 2013	10.8-13.0%	10,975	10.8-13.0%	37,174
Other	RUB	Jan-Dec 2013	12.1-12.4%	78	12.1%	2
Total interest-bearing loans and borrowings from third parties				**11,053**		**37,176**
Interest-bearing loans and borrowings from related parties:						
OJSC “Metcombank”	RUB	Jan 2013	9.5-11.0%	636	–	–
RENOVA STROY HOLDING Limited	USD	Dec 2012	–	–	3.0%	225
RENOVA INDUSTRIES Limited	USD	Dec 2012	–	–	3.0%	3,321
Total interest-bearing loans and borrowings from related parties				**636**		**3,546**
Total current portion of non-current interest-bearing loans and borrowings				**11,689**		**40,722**

Current interest-bearing loans and borrowings

Current interest-bearing loans and borrowings consisted of the following as at 31 December 2012 and 31 December 2011:

Bank	*Currency*	*Maturity*	*Interest rate 2012*	*As of 31 December 2012*	*Unused borrowing facilities as of 31 December 2012*	*Interest rate 2011*	*As of 31 December 2011*	*Unused borrowing facilities as of 31 December 2011*
Interest-bearing loans and borrowings from third parties:								
OJSC “KIT Finance Investment Bank”	RUB	Apr-Jul 2013	11.5%	29,708	–	11.5%	12,406	3,106
OJSC Moscow Credit Bank	RUB	Jun 2013	11.7%	13,176	–	10.0%	12,502	–
Other	RUB	Dec 2013	11.0-14.0%	679	1	11.0-14.0%	3,162	–
Total interest-bearing loans and borrowings from third parties				**43,563**	**1**		**28,070**	**3,106**
Interest-bearing loans and borrowings from related parties:								
OJSC “Metkombank”	RUB	Aug 2013	10.0%	1,727	18,043	–	–	–
Zapanco Limited	RUB	Dec 2011	–	–	–	0.0%	2,780	–
LLC “Top project”	RUB	Dec 2012	–	–	–	9.0%	20,396	–
Total interest-bearing loans and borrowings from related parties:				**1,727**	**18,043**		**23,176**	**–**
Total current interest-bearing loans and borrowings				**45,290**	**18,044**		**51,246**	**3,106**

All borrowings bear fixed interest rate as at 31 December 2012 and 31 December 2011.

(in thousands of US dollars)

20. Interest-bearing loans and borrowings (continued)

Compliance with covenants

Some of the loan agreements with OJSC "Sberbank of Russia", OJSC "Bank Otkritie", OJSC Moscow Credit Bank concluded in 2011-2012, provide for certain covenants in respect of several Group's subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. The Group was in compliance with all covenants as at 31 December 2012.

Discount amortisation

Amortization of the discount is included in interest expenses and amounted $1,380 for the year ended 31 December 2012 (31 December 2011: $16,575).

Pledged assets

At 31 Desember 2012, the Group had inventory with a carrying amount of $424,050 (31 December 2011 $304,340) and investment property with a carrying amount of $203,112 at 31 December 2012 (31 December 2011 $179,020) pledged as collateral under the loan agreements.

As at 31 Desember 2012, 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%	57.6%	50.3%	508,112
OJSC "Credit Bank of Moscow"	OJSC "EnergoGeneriruyuschaya Company"	100%	0.2%	1.6%	107,633
OJSC "Sberbank of Russia"	CJSC "TeploSetevaya Company"	100%	3.3%	3.0%	26,899
OJSC "Bank Otkritie"	LLC "MegaStroy Invest"	100%	2.5%	12.8%	21,651
OJSC "Sberbank of Russia"	CJSC "ElectroSetevaya Company"	100%	0.8%	0.8%	18,830
OJSC "Sberbank of Russia"	CJSC "VodoSnabzhauschaya Company"	100%	1.6%	1.1%	18,785
OJSC "Bank Otkritie"	LLC "ElitComplex"	100%	4.2%	16.0%	17,403
OJSC "Bank Otkritie"	LLC "EnCo Invest"	100%	5.4%	0.0%	14,643
OJSC "Sberbank of Russia"	CJSC "Stroitelnyj Aljans"	100%	1.9%	0.7%	6,230
OJSC "Sberbank of Russia"	LLC "Largo"	100%	1.1%	1.0%	475
					740,661

(in thousands of US dollars)

20. Interest-bearing loans and borrowings (continued)

As at 31 Desember 2011, 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%	61.1%	54.16%	412,947
OJSC "Credit Bank of Moscow"	OJSC "EnergoGeneriruyuschaya"	100%	0.5%	2.8%	97,151
OJSC "Sberbank of Russia"	CJSC "TeploSetevaya Company"	100%	2.9%	5.8%	19,140
OJSC "Sberbank of Russia"	CJSC "ElectroSetevaya Company"	100%	0.5%	3.1%	15,907
OJSC "Sberbank of Russia"	CJSC "VodoSnabzhauschaya Company"	100%	1.9%	2.5%	13,960
OJSC "Bank Otkritie"	LLC "ElitComplex"	100%	5.6%	10.7%	12,611
OJSC "MTS Bank"	LLC "Semnadtsaty Kvartal"	100%	1.9%	0.0%	6,957
OJSC "Sberbank of Russia"	CJSC "Stroitelnyj Aljans"	100%	0.4%	2.9%	5,613
OJSC "Sberbank of Russia"	LLC "Largo"	100%	1.3%	0.1%	1,412
					585,698

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 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. 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 $376 represented agent commission and arrangement costs.

22. Trade and other payables

Trade and other payables consisted of the following as of:

	31 December 2012	*31 December 2011*
Trade accounts payable	51,768	38,239
Trade accounts payable due to related parties (Note 26)	2,305	2,465
Other accounts payable	4,498	13,883
Other accounts payable due to related parties (Note 26)	145	170
Unused vacation accrual	1,627	792
	60,343	**55,549**

(in thousands of US dollars)

22. Trade and other payables (continued)

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

	31 December 2012	*31 December 2011*
RUR	57,642	43,326
USD	2,489	12,223
EUR	212	–
	60,343	**55,549**

23. Other liabilities

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 July 2012 the Group concluded agreement for acquisition of Zoloty Vozrast LLC, by substance respresenting purchase of land lease right. As of 31 December 2012 the Group had outstanding non-current accounts payable in respect of this purchase in the amount of $9,350.

24. Advances from customers

At 31 December 2012 and at 31 December 2011, advances received in the amount of $117,659 and $108,842 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 2012 was $18,842 (mainly consisted of advances received by the Group for management services) (31 December 2011: $2,934).

Advances received at 31 December 2012 are expected to be settled in 2013.

The Group recognized imputed interest at the market rate of 10.8-15.5%% in 2011, 10.8-20%% in 2012. The related interest was capitalized in inventory (Note 15).

At 31 December 2012 and 31 December 2011 advances received were denominated in Russian rubles.

25. Provisions

Provisions consisted of the following:

	Provision for construction of social objects	*Provision for reconstruct-tion*	*Provisions for tax liability*	*Bonus provision*	*Legal claims*	*Total*
At 31 December 2010	**–**	**–**	**2,949**	**4,920**	**–**	**7,869**
Accrued	–	–	–	13,773	–	**13,773**
Used amounts	–	–	–	(4,736)	–	**(4,736)**
Unused amounts reversed	–	–	–	(294)	–	**(294)**
Translation difference	–	–	(157)	(1,092)	–	**(1,249)**
At 31 December 2011	**–**	**–**	**2,792**	**12,571**	**–**	**15,363**
Accrued	18,962	5,102	–	14,192	1,005	**39,261**
Used amounts	–	–	–	(7,370)	–	**(7,370)**
Unused amounts reversed	–	–	–	(5,571)	–	**(5,571)**
Translation difference	734	198	165	784	24	**1,905**
At 31 December 2012	**19,696**	**5,300**	**2,957**	**14,606**	**1,029**	**43,588**

(in thousands of US dollars)

25. Provisions (continued)

Provision for tax liability includes estimation of probable tax risks as at the reporting date and bonus provision represents management's best estimate of the bonuses amount that will be subsequently paid to employees and management of the Group.

On 29 June 2012, the Group acquired 100% of ordinary shares of LLC “Stroy Region Holding” (the Russian Federation) from third party. The Group is required to perform reconstruction works for the acquired assets As of 31 December 2012 the Group recognized current and non-current provision in respect of reconstruction works in the amount of $1,066 and $4,234 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 construct social objects, such as kindergartens and schools, related to and constructed in these residential districts. As of 31 December 2012 the Group recognized current and non-current provision in respect of these obligations in the amount of $1,049 and $18,647 respectively.

26. Balances and transactions with related parties

Related parties may enter into transactions which unrelated parties might not, 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 2012 and 31 December 2011 are detailed below:

31 December 2012	*Loans receivable*	*Trade and other receivables*	*Advances issued*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables*	*Advances received*
Shareholder of the parent company	2,921	5	–	–	523	210	–
Associates	37	789	869	–	2	111	1
Entities under common control	6,850	7,095	–	7,808	21,723	2,130	18,841
Total	**9,808**	**7,889**	**869**	**7,808**	**22,248**	**2,451**	**18,842**

31 December 2011	*Loans receivable*	*Trade and other receivables*	*Advances issued*	*Cash and cash equivalents*	*Interest-bearing loans and borrowings*	*Trade and other payables*	*Advances received*
Shareholder of the parent company	2,924	2	–	–	4,439	195	–
Associates	5,720	1,381	–	–	–	723	–
Entities under common control	–	3,021	176	26,129	41,721	1,717	2,934
Total	**8,644**	**4,404**	**176**	**26,129**	**46,160**	**2,635**	**2,934**

Year ended 31 December 2012	*Revenue*	*Finance income*	*Purchases*	*Finance costs*	*Other income/ (expenses)*	*Finance capitali-zation*
Shareholder of the parent company	–	–	–	22	(21)	–
Associates	4,739	90	306	–	(561)	–
Entities under common control	16,075	1,121	929	2,075	5,895	1,944
Total	**20,814**	**1,211**	**1,235**	**2,097**	**5,313**	**1,944**

Year ended 31 December 2011	*Revenue*	*Finance income*	*Purchases*	*Finance costs*	*Other income/ (expenses)*	*Finance capitali-zation*
Shareholder of the parent company	–	537	–	124	19,889	–
Associates	2,391	1,026	834	–	–	–
Entities under common control	8,007	166	527	20,044	(35)	6,994
Total	**10,398**	**1,729**	**1,361**	**20,168**	**19,854**	**6,994**

(in thousands of US dollars)

26. Balances and transactions with related parties (continued)

The balances with related parties as at 31 December 2012 and 31 December 2011 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.

On 12 December 2011 the Group sold to a related party, Kateb Holding S.A., 100% shares of the authorized and issued capital of Blosscrown Investments Limited for the total consideration of $1,227. Accounts receivable for the sale were not settled as at 31 December 2011.

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:

	Year ended 31 December 2012	***Year ended 31 December 2011***
Salary	5,175	5,658
Performance bonuses	7,430	8,382
Other compensations	173	77
Social security taxes	256	234
	13,034	**14,351**

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, 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 preceeding the year of review. Under certain circumstances reviews may cover longer periods.

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 2012 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. During last 2 years there was increased scrutiny from Russian tax authorities regarding to tax treatment of such transactions, as well as changes in tax legislation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative starting late 2011. 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.

(in thousands of US dollars)

27. Contingencies, commitments and operating risks (continued)

Operating lease commitments

In June 2012 the Group has entered into non-cancelleble agreement for a five year rent of land plot with CJSC "Terra Nova".

Future minimum rental payable under the operating lease is as follows:

	31 December 2012
Within one year	17,522
After one year but no more than five years	36,081
	53,603

Insurance policies

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

Contractual commitments

The Group has signed a number of contracts for the construction works as of 31 December 2012. The Group had firm contractual commitments for the construction works for an approximate amount of $279,650 as at 31 December 2012 (31 December 2011: $334,261). 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.

Commitments to construct social objects

The Group has concluded a number of investments contracts. According to these investment contracts the Group is obliged to construct social objects, such as kindergartens and schools. The Group estimated cost of such commitments, which are not accured on the Group's balance sheet, in the amount of $41,961 and $17,817 as at 31 December 2012 and 31 December 2011 respectively.

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).

Guarantees

In 2012 Top Project LLC (the entity under common control) received loan facility from Bank for Development and Foreign Economic Affairs (Vnesheconombank) to finance the construction of a real estate project (hotel construction) in Sochi. In connection with this contract, in 2012 the Group concluded with Vnesheconombank a deed for undertaking under which the Group irrevocably undertakes to Vnesheconombank to provide financing to Top Project LLC in the amount of any cost overruns (if such overruns occur) under the hotel construction project. Cost overruns are defined as amounts required for completion of the construction project in excess of the targeted project costs (the aggregate planned investment amount in relation to the construction project is equal to approximately $439 million at the exchange rate at 31 December 2012). Management of the Group concluded that the risk of cash outflow under the above deed for undertaking is remote.

In 2011 the Group has provided guarantee of promissory notes in the amount of $43,484 (as at the exchange rate of 31 December 2011) issued by LLC "Top-Project" (the entity under common control). As of 31 December 2011 fair value of the guarantee issued was nil. These promissory notes were subsequently settled by LLC "Top-Project" in 2012 in the full amount.

(in thousands of US dollars)

28. Financial risk management objectives and policies

Credit risk

Credit risk refers to the risk that a 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" (a 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, asthe 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 2012	*31 December 2011*
Non-current assets		
Interest-bearing loans receivable	6,843	7,417
Total non-current assets	**6,843**	**7,417**
Current assets		
Cash and cash equivalents	56,659	41,646
Interest-bearing loans receivable	3,141	1,256
Trade and other receivables	14,128	10,975
Total current assets	**73,928**	**53,877**

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

			Past due but not impaired:			
	Total	*Neigther past due nor impaired*	*less than 6 months*	*6 months - 1 yeas*	*over 1 year*	*Past due and impaired*
2012	**25,594**	23,963	0	0	149	1,482
2011	**20,989**	14,568	0	0	5,080	1,341

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.

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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 2012

	Less than 12 months	*1-2 years*	*2-5 years*	*More then 5 years*	*Total*
Non-interest bearing debt					
Trade and other payables	60,343	–	–	–	**60,343**
Fixed-rate debt					
Other long-term liabilities	–	9,953	42	–	**9,995**
Interest-bearing loans and borrowings	89,117	67,798	217,297	23,735	**397,947**
Debts securities issued	21,096	89,616	91,148	–	**201,860**
Promissory notes	3,473	–	–	–	**3,473**
	174,028	**167,367**	**308,487**	**23,735**	**673,618**

31 December 2011

	Less than 12 months	*1-2 years*	*2-5 years*	*More then 5 years*	*Total*
Non-interest bearing debt					
Trade and other payables	55,549	–	–	–	**55,549**
Fixed-rate debt					
Other long-term liabilities	–	2,107	99	–	**2,206**
Interest-bearing loans and borrowings	118,804	98,217	74,532	24,416	**315,969**
Debts securities issued	10,044	10,017	97,789	–	**117,850**
Promissory notes	4,221	3,275	–	–	**7,496**
	188,618	**112,616**	**172,420**	**24,416**	**499,070**

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.

The Group monitors real estate prices and adjust its business strategy accordingly. The Group mitigates risk of increasing of prices for construction materials by entering into Iong-term contracts with suppliers, in several of them prices per square meter is fixed.

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.

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk

The Group's exposure to currency is nominal and 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 carrying amounts of financial instruments, such as cash, short-term accounts receivable and payable, advances from customers and prepayments approximate their fair value.

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

	31 December 2012	*31 December 2011*
USD/RUB	8,770	13,885

As at 31 December 2012, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of $11,839 and US dollar-denominated loans receivable in the amount of $3,070. As at 31 December 2011, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of $12,223, US dollar-denominated loans payable in the amount of $5,336 and US dollar-denominated loans receivable in the amount of $2,924.

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 2011and 2012, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. As at 31 December 2012 and 2011 the Group used the following reasonably possible changes:

	31 December 2012		***31 December 2011***	
	Change in exchange rate	***Effect on PBT***	***Change in exchange rate***	***Effect on PBT***
	%	***US***	***%***	***US***
USD/RUB	(10.7)	(940)	(12.5)	(1,736)
	10.7	940	12.5	1,736

Fair value of financial instruments

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

	31 December 2012		***31 December 2011***	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Assets				
Interest-bearing loans receivable	9,984	10,230	8,673	8,880
Total assets	**9,984**	**10,230**	**8,673**	**8,880**
Liabilities				
Interest-bearing loans and borrowings	291,292	285,537	251008	236,984
Debts securities issued	158,112	153,078	93,179	81,936
Promissory notes	3,427	3,089	6,893	6,200
Total liabilities	**452,831**	**441,704**	**351,080**	**325,119**

(in thousands of US dollars)

28. Financial risk management objectives and policies (continued)

Market risk (continued)

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 2012*	*31 December 2011*
Financial assets		
USD	5.55%	5.33%
RUB	8.49%	7.77%
Non-current financial liabilities		
USD	7.31%	8.37%
EUR	7.56%	8.79%
RUB	12.66%	14.3%
Current financial liabilities		
RUB	12.48%	11.23%

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 2012.

The Board of directors reviews the Group's performance and establishes key performance indicators. One of the subsidiaries of the Group (CJSC "Renova-StroyGroup-Akademicheskoe") is subject to loans covenants that imposed capital requirements, in particuarly, net assets of the subsidiary shall exceed its share capital. The management of the Group believes that the Group is in the compliance with this covenant as at 31 December 2012 and will be in compliance with this covenant for the nearest twelve months after 1 January 2013.

29. Segment information

For management purposes, the Group is organised into business units based on construction projects, and has eight reportable operating segments in 2012:

- the project "Akademic City" (investment, residential and non-residential property)
- the project "Ramenki" (residential and non-residential property)
- the project "Aprelevka" (residential and non-residential property)
- the project "Schelkovo" (residential and non-residential property)
- the project "Yaroslavl" (residential and non-residential property)
- the project "Scherbinka" (residential and non-residential property)
- the project "Perm" (residential and non-residential property)
- the project "DPS" (residential and non-residential property)

and seven reportable operating segments in 2011:

- the project "Akademic City" (investment, residential and non-residential property)
- the project "Ramenki" (residential and non-residential property)
- the project "Aprelevka" (residential and non-residential property)
- the project "Schelkovo" (residential and non-residential property)
- the project "Yaroslavl" (residential and non-residential property)
- the project "Perm" (residential and non-residential property)
- the project "DPS" (residential and non-residential property)

(in thousands of US dollars)

29. Segment information (continued)

Other projects include small construction or operating rent projects due to its size or in start-up activity and are presented as "other segments".

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the results of the cash flows, representing the movement in cash flows for the reporting period. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on an accrual basis, and management accounts are prepared on a cash basis.

Segment revenue is cash inflows 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 under construction, or for operating rent of premises and rendering of services.

Segment revenue is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

- IFRS consolidated financial statements are prepared on an accrual basis, management accounts are prepared on a cash basis;
- Management accounts include intra-group operations that are eliminated in IFRS consolidated financial statements.

Segment expense is cash outflows 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, including expenses relating to external, intra-group counterparties and expenses relating to transactions with other segments.

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

Segment assets and liabilities are not reviewed by the Group's chief operating decision maker and presented in these consolidated financial statements in accordance with the previous accounting policies in respect of segment information.

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 2012

	Akademic City	*Ramenki*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Shcher-binka*	*Perm*	*DPS*	*Other projects*	*Total*
Segment revenue	**326,704**	**31,694**	**353**	**96,464**	**19,869**	**34,201**	**31,285**	**237,655**	**205,185**	**983,410**
Accrual vs. cash basis	(3,643)	39,454	(58)	1,367	(4,680)	(34,019)	(3,071)	(231,258)	2,743	**(233,165)**
Elimination of intergroup operations	(16,162)	(7,972)	(157)	(136)	(51)	–	(37)	–	(101,255)	**(125,770)**
Revenue per IFRS consolidated financial statements	**306,899**	**63,176**	**138**	**97,695**	**15,138**	**182**	**28,177**	**6,397**	**106,673**	**624,475**

Year ended 31 December 2011

	Akademic City	*Ramenki*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Shcher-binka*	*Perm*	*DPS*	*Other projects*	*Total*
Segment revenue	**382,475**	**39,184**	**37,510**	**63,601**	**20,116**	–	**6,240**	**3,189**	**35,479**	**587,794**
Accrual vs. cash basis	(153,541)	(11,505)	(2,260)	(24,521)	(11,466)	–	(6,233)	(3,093)	102,437	**(110,182)**
Elimination of intra-group revenue	(31,440)	(884)	(1)	–	–	–	(7)	–	(80,601)	**(112,933)**
Revenue per IFRS consolidated financial statements	**197,494**	**26,795**	**35,249**	**39,080**	**8,650**	–	–	**96**	**57,315**	**364,679**

(in thousands of US dollars)

29. Segment information (continued)

Year ended 31 December 2012

	Akademic City	*Ramenki*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Shcher-binka*	*Perm*	*DPS*	*Other projects*	*Total*
Segment result	**48,270**	**7,970**	**1,854**	**42,055**	**(12,139)**	**(20,356)**	**12,105**	**1,764**	**(114,284)**	**(32,761)**
Accrual vs. cash basis	17,516	6,332	(2,594)	(20,685)	11,800	20,105	(11,222)	(950)	89,408	**109,710**
Net profit/(loss) per IFRS consolidated financial statements	**65,786**	**14,302**	**(740)**	**21,370**	**(339)**	**(251)**	**883**	**814**	**(24,876)**	**76,949**

Year ended 31 December 2011

	Akademic City	*Ramenki*	*Aprelevka*	*Schelkovo*	*Yaroslavl*	*Shcher-binka*	*Perm*	*DPS*	*Other projects*	*Total*
Segment result	**108,390**	**20,717**	**28,935**	**(7,444)**	**4,707**	**(14,921)**	**(5,433)**	**(2,451)**	**(127,144)**	**5,356**
Accrual vs. cash basis	(52,478)	(11,890)	(25,054)	17,270	1,007	14,627	6,544	2,610	93,940	**46,576**
Net profit/(loss) per IFRS consolidated financial statements	**55,912**	**8,827**	**3,881**	**9,826**	**5,714**	**(294)**	**1,111**	**159**	**(33,204)**	**51,932**

In 2012, 9% of the Group's consolidated revenues were received upon the fulfillment of the Contractual obligations per government contracts of the Russian Federation (2011: 20%).

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.

Reconciliation of segments' results to profit before tax:

	For the years ended 31 December	
	2012	***2011***
Segment result	(32,761)	5,356
Accrual vs. cash basis	136,929	17,048
Amortization and depresiation	(2,337)	(2,387)
Gain on sale propoerty plant and equipment	3,840	1,969
Change in fair value of investment property	1,931	45,670
Write-down of inventories to net realizable value	(22,159)	(19,659)
Change in allowance of irrecoverable trade and other receivables	749	266
Derecognition of accounts payable and reversal of impairmen of loans issued	546	20,097
Finance income	1,560	2,640
Finance expenses	(8,504)	(26,846)
Loss from write-off of loans receivable	(21)	–
Forex exchange (loss)/gain, net	1,751	752
Gain of acquisition of investment in associate	–	1,691
Gain from bargain purchase	2,145	–
Loss from disposal a subsidiary	–	(2,153)
Share of (loss)/profit of associates	(6,720)	7,488
Group profit	**76,949**	**51,932**

30. Subsequent events

In January-April 2013 Group fully repaid loans received from OJSC "Credit Bank of Moscow" in the total amount of $13,555 (at the exchange rate at 31 December 2012).

In January-April 2013 the Group partially repaid its obligations under existing credit facilities in the total amount of $156,193 (at the exchange rate at 31 December 2012).

In January-April 2013 the Group received loans under existing credit facilities in the total amount of $98,371 (at the exchange rate at 31 December 2012).

In April 2013 ZHSPK extended contract for rent of lands plots which is the main asset of ZHSPK.

(in thousands of US dollars)

30. Subsequent events (continued)

Cyprus and the Eurogroup reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years.

The corporate income tax rate in Cyprus increased from 10% to 12.5% as of 1 January 2013. The special contribution on passive interest income received by tax residents is increased from 15% to 30%.

As of 31 December 2012 (and 26 March 2013) and the date of the approval of these financial statements, the Group's bank assets domiciled in Cyprus are not significant. On this basis, management does not anticipate any material impact on the future recovery of the Group's bank assets from the implementation of the agreed measures.