PJSC HALS-Development and subsidiaries

Interim condensed consolidated financial statements

30 June 2015

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Report on review of interim condensed consolidated financial statements

To the shareholders of PJSC HALS-Development

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC HALS-Development and its subsidiaries ("the Group"), comprising the interim condensed consolidated statement of financial position as at 30 June 2015 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 2 to the interim condensed consolidated financial statements which indicates that the Group incurred a net loss of RUR 11,840 million during the six-month period ended 30 June 2015 and, as at that date, the Group's negative net assets amounted to RUR 38,039 million. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Ernst & Young LLC

28 August 2015

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of comprehensive income

for the six-month period ended 30 June 2015

(Amounts in millions of Russian rubles, except for shares and loss per share amounts)

	Notes	2015 (unaudited)	2014 (unaudited)
Rental income	3	2,378	1,795
Property operating expense		(491)	(380)
Net rental income		**1,887**	**1,415**
Valuation (losses)/gains on completed investment property	11	(3,222)	678
Valuation (losses)/gains on investment property under construction	12	(10,678)	2,629
Valuation gains on completed investment property classified as held for sale	20	–	696
Valuation (losses)/gains on investment property		**(13,900)**	**4,003**
Revenue from sales of inventory property	4	1,147	26,371
Cost of sales − inventory property	4, 16	(792)	(20,331)
Gross profit on sale of inventory property		**355**	**6,040**
Write-down of inventory property to net realizable value	16	**–**	**(8,068)**
Revenue from room charges and other hotel services	4	275	305
Cost of hotel services		(288)	(414)
Gross loss on hotel services		**(13)**	**(109)**
Other sales	4	50	22
Cost of other sales		(3)	(2)
Gross profit on other sales		**47**	**20**
Administration and selling expenses	5	(937)	(1,133)
Other operating income	6	430	317
Other operating expenses	7	(314)	(1,838)
Operating (loss)/profit		**(12,445)**	**647**
Finance income	8	1,722	255
Finance expenses	9	(2,944)	(3,713)
Share of loss of joint venture, net of tax	13	(445)	(165)
Foreign exchange loss		(19)	(45)
Loss before tax		**(14,131)**	**(3,021)**
Income tax	10	2,291	(445)
Loss for the period		**(11,840)**	**(3,466)**
Total comprehensive loss for the period		**(11,840)**	**(3,466)**
Attributable to:			
- owners of the parent		(8,720)	(4,027)
- non-controlling interests in JSCs		(3,109)	1,020
- non-controlling participants in LLCs		(11)	(459)
		(11,840)	**(3,466)**
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the period per share, RUR		(778)	(359)

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of financial position as of 30 June 2015

(Amounts in millions of Russian rubles)

	Notes	30 June 2015 (unaudited)	31 December 2014 restated*
Assets			
Non-current assets			
Property, plant and equipment	14	3,174	3,168
Completed investment property	11	41,293	30,712
Investment property under construction	12	12,236	31,578
Intangible assets	15	545	545
Available-for-sale financial assets	26	2,833	2,833
Investments in joint venture	13	453	898
Loans and notes receivable		3	–
Other non-financial assets	18	3,057	5,068
Deferred tax assets		1,610	1,788
		65,204	**76,590**
Current assets			
Inventory property with period of realization above the year	16	24,560	21,471
Inventory property with period of realization within the year	16	2,590	3,386
Trade and other receivables	17	1,213	1,464
VAT reimbursable		1,804	1,921
Other financial assets	17	–	45
Loans and notes receivable		5	7
Other non-financial assets	18	4,049	3,153
Cash and short-term deposits	19	18,514	18,104
		52,735	**49,551**
Assets classified as held for sale	20	–	640
		52,735	**50,191**
Total assets		**117,939**	**126,781**
Equity and liabilities			
Equity			
Issued share capital	21	567	567
Treasury shares	21	(1)	(1)
Additional paid-in capital		18,296	18,296
Accumulated losses		(55,752)	(47,032)
Total equity attributable to equity holders of the parent		**(36,890)**	**(28,170)**
Non-controlling interest in JSCs		(1,102)	2,007
Net assets attributable to non-controlling participants in LLCs		(47)	(36)
Total equity		**(38,039)**	**(26,199)**
Non-current liabilities			
Interest bearing loans and borrowings	22	87,932	85,160
Trade and other payables	23	839	544
Embedded financial derivatives	25	2,486	1,869
Tenants' guarantee deposits		591	607
Other non-financial liabilities	24	2,092	2,142
Deferred tax liability		2,898	5,135
		96,838	**95,457**
Current liabilities			
Interest bearing loans and borrowings	22	32,181	31,807
Trade and other payables	23	3,841	5,097
Provisions		52	321
Current income tax payable		1	1,451
Other non-financial liabilities	24	23,065	18,847
		59,140	**57,523**
Total liabilities		**155,978**	**152,980**
Total equity and liabilities		**117,939**	**126,781**

* Certain amounts do not correspond to the 2014 consolidated financial statement and reflects adjustments made as detailed in Note 2.

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of changes in equity

for the six-month period ended 30 June 2015

(Amounts in millions of Russian rubles)

	Issued capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2015	**567**	**(1)**	**18,296**	**(47,032)**	**(28,170)**	**2,007**	**(36)**	**(26,199)**
Loss for the period	–	–	–	(8,720)	**(8,720)**	(3,109)	(11)	**(11,840)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(8,720)**	**(8,720)**	**(3,109)**	**(11)**	**(11,840)**
At 30 June 2015 (unaudited)	**567**	**(1)**	**18 296**	**(55,752)**	**(36,890)**	**(1,102)**	**(47)**	**(38,039)**

	Issued capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2014	**567**	**(1)**	**18,296**	**(45,948)**	**(27,086)**	**1,217**	**(372)**	**(26,241)**
Loss for the period	–	–	–	(4,027)	**(4,027)**	1,020	(459)	**(3,466)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(4,027)**	**(4,027)**	**1,020**	**(459)**	**(3,466)**
At 30 June 2014 (unaudited)	**567**	**(1)**	**18,296**	**(49,975)**	**(31,113)**	**2,237**	**(831)**	**(29,707)**

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated cash flow statement

for the six-month period ended 30 June 2015

(Amounts in millions of Russian rubles)

	Notes	2015 (unaudited)	2014 (unaudited)
Operating activities			
Loss before tax		**(14,131)**	**(3,021)**
Adjustments to reconcile loss before tax to cash flows:			
Changes in fair value of investment property	11, 12	13,900	(4,003)
Share of loss in joint venture	13	445	165
Depreciation and amortization	14	106	129
Write-down of inventory property to net realizable value	16	–	8,068
Impairment of property, plant and equipment	7, 14	35	1,395
Net gain on resignation of inventory property	4	–	(6,038)
Finance income	8	(1,722)	(255)
Finance expenses	9	2,944	3,713
Profit on sale of assets classified as held for sale	6	(223)	–
Fines and penalties under civil contracts	6	(119)	–
Recovery of receivables written off in prior periods	6	(40)	(23)
Reversal of penalties for delay of property commissioning	6	–	(245)
Payables and other obligations write off	6	(20)	(4)
Receivables write off	7	94	87
Foreign currency loss		19	45
		1,288	**13**
Working capital adjustments:			
Change in trade and other receivables, VAT reimbursable and other non-financial assets		2,475	(1,635)
Change in inventory property		(1,836)	(3,333)
Change in trade and other payables, tenants' guarantee deposits and other non-financial liabilities		2,167	7,152
Cash flow from operating activities		**4,094**	**2,197**
Income tax paid		(1,513)	(14)
Net cash flow from operating activities		**2,581**	**2,183**
Investing activities			
Repayment of receivables from disposal of ZAO RTI Estate	17	4	156
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(2,489)	(4,510)
Interest received		1,134	174
Repayment of loans issued		–	14
Net cash flow used in investing activities		**(1,351)**	**(4,166)**
Financing activities			
Proceeds from borrowings		–	8,655
Redemption of borrowings		(568)	(4,555)
Interest paid		(231)	–
Repayment of finance lease liabilities		(15)	(35)
Net cash (used in)/flow from financing activities		**(814)**	**4,065**
Effects of foreign currency translation on cash and short-term deposits		(6)	(1)
Net increase in cash and short-term deposits		**410**	**2,081**
Cash and short-term deposits at 1 January	19	18,104	7,406
Cash and short-term deposits at 30 June	19	**18,514**	**9,487**

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

1. Corporate information

PJSC HALS-Development, formerly known as JSC Sistema-Hals, ("HALS-Development" or the "Company") and subsidiaries (together − the "Group") are engaged in real estate development, primarily focused on the "Class A" and "Class B" buildings of the Moscow office market, shopping centers, high-end housing, single family houses, apartment buildings and land development. The Group's revenues are derived principally from the following activities:

- Sale of completed development projects, both commercial and residential, as well as the sale of land plots;
- Rental income from completed development projects; and
- Revenue from room charges and other hotel services.

In July 2015 JSC HALS-Development was renamed into PJSC HALS-Development in accordance with the legislative requirements.

The Group's operations are conducted in the Russian Federation (hereinafter referred to as "the RF") and the Commonwealth of Independent States ("the CIS"), primarily in Moscow, the Moscow Region, the Nizhniy Novgorod region, Sochi, Kiev and Saint-Petersburg. The majority of the Group entities are incorporated in the RF. The registered office is located at 35/4, B. Tatarskaya st., Moscow, Russia.

As at 30 June 2015 and 31 December 2014 PJSC VTB Bank ("VTB") owned 96.46% of the share capital of the Company. The ultimate controlling party of the Group is the state of Russian Federation, acting through the Federal Property Agency.

These interim condensed consolidated financial statements at 30 June 2015 and for the six-month period then ended were authorised for issue by the President of the Company on 28 August 2015.

2. Basis of preparation and changes to the Group's accounting policies

The interim condensed consolidated financial statements for the six-month period ended 30 June 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2014.

These interim condensed consolidated financial statements are presented in the Russian Rouble ("RUR") and all values are rounded to the nearest million, except when otherwise indicated.

Going concern

As at 30 June 2015, the Group's negative net assets amounted to RUR 38,039 million (as at 31 December 2014: RUR 26,199 million) and the Group incurred a net loss of RUR 11,840 million for the six-month period ended 30 June 2015 (for the six-month period ended 30 June 2014: RUR 3,466 million).

2. Basis of preparation and changes to the Group's accounting policies (continued)

Going concern (continued)

The Group's ability to complete projects under development and fund its contractual commitments/co-investment contracts requires a significant amount of capital and liquidity.

Management of the Group has assessed its current strategic and operational intentions, future profitability of its operations based on the current market conditions, its cash requirements, and its ability to access financing and associated cost of such financing. Based on this assessment, management has taken the following actions:

- management assessed the Group's portfolio of projects and has prioritized those that it believes to be more strategic, and suspended other activities in order to reduce the Group's cash requirements;
- during 2014 and 2015 the Group actively raised funds from joint construction participants as prepayment for residential real estate sales and thereof financed significant part of residential real estate developments.

Management believes, based on the actions undertaken, that it will have adequate liquidity to continue to fund its liabilities and operations and continue as a going concern in the foreseeable future.

The conditions described above represent a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. In such case, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

These interim condensed consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The interim condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

2. Basis of preparation and changes to the Group's accounting policies (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements, these improvements did not have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

Since the Group has no share-based payments these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

2. Basis of preparation and changes to the Group's accounting policies (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 30 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

2. Basis of preparation and changes to the Group's accounting policies (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Restatement of comparative information

During the preparation of these interim condensed consolidated financial statements it has been identified that in prior period the Group improperly classified some current interest bearing loans and borrowings as non-current which resulted in overstatement of non-current interest bearing loans and borrowings and understatement of current interest bearing loans and borrowings by RUR 13,843 million. Error in classification was corrected by restating the comparative information as at 31 December 2014.

3. Rental income

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms between five and seven years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Rental income generated by SkyLight, Leto, Danilovsky Fort, Detsky Mir Lubyanka, Hotel complex "Pekin", Krasnobogatyrskaya (NIIDAR) and other properties in the six-month period ended 30 June 2015 amounted to RUR 956 million, RUR 744 million, RUR 298 million, RUR 232 million, RUR 101 million, RUR 32 million and RUR 15 million, respectively.

Rental income generated by SkyLight, Leto, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR) and other properties in the six-month period ended 30 June 2014 amounted to RUR 789 million, RUR 736 million, RUR 213 million, RUR 39 million and RUR 18 million, respectively.

(Amounts in millions of Russian rubles, unless otherwise stated)

4. Revenue from sales of inventory property, from room charges and other hotel services and other sales

In the third quarter of 2014 the Group completed the project Literator and in the six-month period ended 30 June 2015 signed acts of acceptance and transfer of residential and non-residential premises and recognized revenue from sales of inventory property in the amount of RUR 524 million and cost of sales in the amount of RUR 302 million respectively.

In 2014 the Group completed the project Kamelia apartments in the six-month period ended 30 June 2015 signed acts of acceptance and transfer of residential and non-residential premises and recognized revenue from sales of inventory property in the amount of RUR 608 million and cost of sales in the amount of RUR 485 million respectively.

In the second quarter of 2014 the Group has completed the construction and put into operation the cottage village Lighthouse in the Moscow region in the neighborhood of Gorki-8. In June 2014 the Group sold cottages – to its parent company, VTB, for RUR 26,345 million as settlement of loans payable in the amount of RUR 25,645 million – and additional payment in the amount of RUR 700 million. Excess of settled loans payable and additional payment over the carrying value of the cottages transferred, was recognised as gross profit on sale of inventory property in the amount of RUR 6,038 million.

For the six-month periods ended 30 June 2015 and 30 June 2014 the Group recognized revenue from sales of inventory property relating to the project Solntse, the Nakhimovsky and Michurinsky projects in the amount of RUR 15 million and RUR 26 million, respectively, and cost of sales in the amount of RUR 5 million and RUR 24 million, respectively.

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Total area transferred to customers, thousand square meters	3.764	0.083
Parking lots transferred to customers, thousand square meters	0.721	0.134

Revenue from room charges and other hotel services for the six-month periods ended 30 June 2015 and 30 June 2014 in the amount of RUR 167 million and RUR 107 million, respectively, is attributable to Hotel Swissotel Resort Sochi Kamelia, and in the amount of RUR 108 million and RUR 198 million, respectively, is attributable to Hotel complex “Pekin”.

Other sales for the six-month periods ended 30 June 2015 and 30 June 2014 represent agency remuneration in the amount of RUR 50 million and RUR 13 million, respectively, and other revenues.

(Amounts in millions of Russian rubles, unless otherwise stated)

5. Administration and selling expenses

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Staff cost	459	498
Advertising costs	236	332
Realtor and other similar services	91	60
Consulting and other professional services	41	50
Depreciation and amortization	35	59
Cost of computer software maintenance	21	28
Banking services	8	6
Hotel room reservation system fees	6	5
Communication services	5	4
Repairs, maintenance and utilities	4	20
Rent of premises and land	3	10
Security expenses	2	5
Other	26	56
	937	**1,133**

In the six-month periods ended 30 June 2015 and 30 June 2014 the Group incurred advertising costs related to promotion campaign of main projects and “Hals” branding.

6. Other operating income

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Gain on sales of assets classified as held for sale (Note 20)	223	–
Fines and penalties under civil contracts	119	–
Recovery of receivables written-off in prior periods	40	23
Gain on accounts payable written-off	20	4
Reversal of penalties for delay of property commissioning	–	245
Other	28	45
	430	**317**

During the six-month period ended 30 June 2014 the Group reversed previously accrued penalties for delay of Kamelia hotel commissioning in the amount of RUR 245 million.

7. Other operating expenses

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Taxes other than income tax	116	288
Receivables and other assets write off	94	87
Impairment of property, plant and equipment (Note 14)	35	1,395
Other	69	68
	314	**1,838**

(Amounts in millions of Russian rubles, unless otherwise stated)

7. Other operating expenses (continued)

The Group wrote off receivables from customers, VAT reimbursable, other assets in the amount of RUR 57 million, RUR 37 million and RUR nil million, respectively in the six-month period ended 30 June 2015 and RUR 48 million, RUR 34 million and RUR 5 million, respectively, in the six-month period ended 30 June 2014.

8. Finance income

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Interest on bank deposits	1,161	222
Gain on financial instruments at fair value through profit or loss	561	–
Net loss attributable to non-controlling interest in subsidiaries − Limited Liability Companies	–	33
	1,722	**255**

In the six-month period ended 30 June 2015 gain on financial instruments at fair value through profit or loss in the amount of RUR 561 million relates to embedded derivatives, which have been separated from the operating lease agreement.

9. Finance expenses

	The six-month period ended 30 June (unaudited)	
	2015	**2014**
Interest on bank loans	3,982	4,775
Less: amounts capitalized	(1,059)	(1,281)
Loss on financial instruments at fair value through profit or loss	–	192
Interest on tenants' guarantee deposits	15	12
Finance lease expenses	6	15
	2,944	**3,713**

In the six-month period ended 30 June 2014 loss on financial instruments at fair value through profit or loss in the amount of RUR 192 million relates to embedded derivatives, which have been separated from the operating lease agreement.

In the six-month period ended 30 June 2015 the Group capitalized interest on bank loans in investment property under construction, inventory property and property, plant and equipment in the amount of RUR 549 million, RUR 457 million and RUR 53 million, respectively

In the six-month period ended 30 June 2014 the Group capitalized interest on bank loans in investment property under construction, inventory property and property, plant and equipment in the amount of RUR 601 million, RUR 462 million and RUR 218 million, respectively.

(Amounts in millions of Russian rubles, unless otherwise stated)

10. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to expected total annual earnings, i.e., the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The major components of income tax for the six-month periods ended 30 June 2015 and 30 June 2014 are:

	2015 (unaudited)	2014 (unaudited)
Income tax		
Current income tax expense	(38)	(18)
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	2,059	(292)
Income tax provision	270	(135)
Income tax	**2,291**	**(445)**

11. Completed investment property

	2015 (unaudited)	2014 (unaudited)
At 1 January	**30,712**	**22,359**
Capital expenditure on owned property	911	60
Transfer from investment property under construction (Note 12)	12,892	–
Fair value adjustment	(3,222)	678
At 30 June (unaudited)	**41,293**	**23,097**

The fair value of completed investment property has been determined on a market value basis in accordance with IFRS 13. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only relied on historical transactional comparables.

The valuations were performed by Group's internal valuer with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 40,204 million, RUR 29,445 million, RUR 21,906 million and RUR 20,996 million as of 30 June 2015, 31 December 2014, 30 June 2014 and 1 January 2014, respectively, the income method was used.

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 1,089 million, RUR 1,267 million, RUR 1,191 million and RUR 1,363 million as of 30 June 2015, 31 December 2014, 30 June 2014 and 1 January 2014, respectively, the comparative method was used.

In April 2015 Detsky Mir Lubyanka with a book value of RUR 12,892 million was transferred from investment property under construction to completed investment property as the construction has been completed by the Group.

(Amounts in millions of Russian rubles, unless otherwise stated)

12. Investment property under construction

	2015 (unaudited)	2014 (unaudited)
At 1 January	**31,578**	**22,482**
Capital expenditure	3,679	2,052
Interest capitalized (Note 9)	549	601
Transfer to completed investment property (Note 11)	(12,892)	–
Fair value adjustment	(10,678)	2,629
At 30 June (unaudited)	**12,236**	**27,764**

The fair value of investment property under construction has been determined on a market value basis in accordance with IFRS 13. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by Group's internal valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

In determining the fair value of investment property under construction the income method was used.

13. Investments in joint venture

Investments in joint venture consisted of the following:

Name	Country of incorporation	Country of operation	Project	Voting and effective %	30 June 2015 (unaudited)	31 December 2014
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	453	898
Total					**453**	**898**

	2015 (unaudited)	2014 (unaudited)
At 1 January	**898**	**1,906**
Share of loss of joint venture, net of tax, in the consolidated statement of comprehensive income	(445)	(165)
At 30 June (unaudited)	**453**	**1,741**

Summarized financial information of the joint venture, based on its IFRS financial statements, is set out below:

	30 June 2015 (unaudited)	31 December 2014
Non-current assets	6,945	7,295
Current assets	9,445	9,730
Non-current liabilities	(13,163)	(11,855)
Current liabilities	(2,320)	(3,375)
Net assets	**907**	**1,795**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investments	**453**	**898**

(Amounts in millions of Russian rubles, unless otherwise stated)

13. Investments in joint venture (continued)

	The six-month period ended	
	30 June 2015 (unaudited)	**30 June 2014 (unaudited)**
Loss for the period	(890)	(330)
Group's share of loss for the period	**(445)**	**(165)**

The Group has not incurred any contingent liabilities in relation to its interest in the joint ventures, nor does the joint venture itself have any contingent liabilities for which the Group is contingently liable.

The Group has not entered into any capital commitments in relation to its interest in the joint ventures.

14. Property, plant and equipment

	Buildings	**Other**	**Construction in progress**	**Total**
Cost				
1 January 2015	**7,500**	**660**	**1,020**	**9,180**
Additions	35	32	80	**147**
30 June 2015 (unaudited)	**7,535**	**692**	**1,100**	**9,327**
Depreciation and impairment				
1 January 2015	**(5,804)**	**(208)**	**–**	**(6,012)**
Depreciation charge for the period	(29)	(77)	–	**(106)**
Impairment (Note 7)	(35)	–	–	**(35)**
30 June 2015 (unaudited)	**(5,868)**	**(285)**	**–**	**(6,153)**
Net book value				
30 June 2015 (unaudited)	**1,667**	**407**	**1,100**	**3,174**
1 January 2015	**1,696**	**452**	**1,020**	**3,168**

	Buildings	**Other**	**Construction in progress**	**Total**
Cost				
1 January 2014	**2,329**	**410**	**5,323**	**8,062**
Additions	402	194	152	**748**
Assets put into operation	4,640	–	(4,640)	**–**
Disposals	–	(2)	–	**(2)**
30 June 2014 (unaudited)	**7,371**	**602**	**835**	**8,808**
Depreciation and impairment				
1 January 2014	**(221)**	**(79)**	**(2,436)**	**(2,736)**
Depreciation charge for the period	(73)	(56)	–	**(129)**
Impairment (Note 7)	(1,395)	–	–	**(1,395)**
Assets put into operation	(2,436)	–	2,436	**–**
30 June 2014 (unaudited)	**(4,125)**	**(135)**	**–**	**(4,260)**
Net book value				
30 June 2014 (unaudited)	**3,246**	**467**	**835**	**4,548**
1 January 2014	**2,108**	**331**	**2,887**	**5,326**

(Amounts in millions of Russian rubles, unless otherwise stated)

14. Property, plant and equipment (continued)

In January 2014 the Group has commissioned and started operating five-star hotel Kamelia under the brand Swissotel in Sochi.

Borrowing costs capitalised during the six-month periods ended 30 June 2015 and 30 June 2014 amounted to RUR 53 million and RUR 218 million, respectively (Note 9).

In the six-month periods ended 30 June 2015 and 30 June 2014 the Group capitalized staff costs in property, plant and equipment (project “Kamelia”) in the amount of RUR null million and RUR 13.5 million, respectively.

As of 30 June 2015 and 30 June 2014 the Group performed impairment test and determined the recoverable amount as value in use of the project Kamelia. As a result the Group recognised impairment loss in the amount of RUR 35 million and of RUR 1,395 million, respectively (which is included in other operating expenses) (Note 7).

The major events and circumstances that led to the recognition of impairment in the six-month periods ended 30 June 2015 and 30 June 2014:

- Management of the Group has changed the concept of the project: increased future cost for room furnishing for the future appreciation and increase of perception of the customers.
- Reduction future cash flows from rental of hotel rooms in connection with the turn of market.

The significant assumptions made relating the estimation of Kamelia’s value in use as of 30 June 2015 are set out below:

- discount rate − 15% (as of 31 December 2014 and as of 30 June 2014 – 15%);
- period of hotel operation is from 2015 to 2018 in which it is planned to be sold (as of 31 December 2014: from 2015 to 2017 and as of 30 June 2014: from 2014 to 2015);
- capitalization rate − 12% (as of 31 December 2014 and as of 30 June 2014 – 11%).

15. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
Cost				
1 January 2015	**861**	**675**	**5**	**1,541**
30 June 2015 (unaudited)	**861**	**675**	**5**	**1,541**
Depreciation and impairment				
1 January 2015	**(769)**	**(222)**	**(5)**	**(996)**
30 June 2015 (unaudited)	**(769)**	**(222)**	**(5)**	**(996)**
Net book value				
30 June 2015 (unaudited)	**92**	**453**	**–**	**545**
1 January 2015	**92**	**453**	**–**	**545**

(Amounts in millions of Russian rubles, unless otherwise stated)

15. Intangible assets (continued)

	Goodwill	Development rights	Other	Total
Cost				
1 January 2014	**861**	**675**	**5**	**1,541**
30 June 2014 (unaudited)	**861**	**675**	**5**	**1,541**
Depreciation and impairment				
1 January 2014	**(769)**	**(222)**	**(5)**	**(996)**
30 June 2014 (unaudited)	**(769)**	**(222)**	**(5)**	**(996)**
Net book value				
30 June 2014 (unaudited)	**92**	**453**	**–**	**545**
1 January 2014	**92**	**453**	**–**	**545**

16. Inventory property

	2015 (unaudited)	2014 (unaudited)
At 1 January	**24,857**	**49,679**
Construction costs incurred	2,628	4,732
Interest capitalized (Note 9)	457	462
Transfer to assets classified as held for sale (Note 20)	–	(1,376)
Property sold (Note 4)	(792)	(20,331)
Write-down of inventory to net realizable value	–	(8,068)
At 30 June (unaudited)	**27,150**	**25,098**

During the six-month periods ended 30 June 2015 and 30 June 2014 the Group tested inventory property for recoverability. As a result of the test, in the six-month periods ended 30 June 2015 and 30 June 2014 the Group recognized loss on inventory property write off to net realizable value in the amount of RUR nil million and RUR 8,068 million, respectively.

In the six-month period ended 30 June 2014 the Group recognized losses on write-down to net realizable value for projects Lighthouse and Kamelia (apartments) in the amount of RUR 7,266 million and RUR 802 million, respectively.

In the six-month periods ended 30 June 2015 and 30 June 2014 the Group capitalized staff costs in inventory property in the amount of RUR 98 million and RUR 62 million, respectively.

17. Trade and other receivables and other financial assets

	30 June 2015 (unaudited)	31 December 2014
Trade receivables		
Trade receivable from third parties	307	342
	307	**342**
Other receivables		
Other receivable from third parties	769	1,009
Other receivable from related parties	137	113
	906	**1,122**
	1,213	**1,464**

(Amounts in millions of Russian rubles, unless otherwise stated)

17. Trade and other receivables and other financial assets (continued)

	30 June 2015 (unaudited)	31 December 2014
Other current financial assets		
Other financial assets	–	45
	–	**45**

As of 31 December 2014 other current financial assets comprise the amortized cost of receivables from the sale of ZAO RTI Estate in the amount of RUR 45 million.

Trade and other receivables are neither past due nor impaired. The Group holds no collateral in respect of these receivables.

18. Other non-financial assets

	30 June 2015 (unaudited)	31 December 2014
Other non-current		
Advances issued for construction of investment property	2,670	4,574
Advances issued for construction of property, plant and equipment	387	494
	3,057	**5,068**
Other current assets		
Advances issued for construction of inventory property with period of realization above the year	3,607	2,383
Advances issued for construction of inventory property with period of realization within the year	156	492
Advance payments for taxes	60	70
Other current non-financial assets	226	208
	4,049	**3,153**

19. Cash and short term deposits

	30 June 2015 (unaudited)	31 December 2014
Cash at bank and on hand	225	627
Short-term deposits	18,289	17,477
	18,514	**18,104**

As of 30 June 2015 cash and short-term deposits were deposited as follows: RUR 18,509 million in VTB (31 December 2014: RUR 18,094 million) and RUR 5 million in other banks (31 December 2014: RUR 10 million).

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. The weighted average interest rate on demand deposits as of 30 June 2015 was 13.43% (31 December 2014: 7.7%).

As at 30 June 2015 and 31 December 2014 VTB has Ba1 and Ba1 credit rating assigned by the Moody’s credit rating agency.

(Amounts in millions of Russian rubles, unless otherwise stated)

20. Assets and liabilities, classified as held for sale

As at 31 December 2014 due to change in market conditions the Group changed its intention to sell Tower B of “SkyLight” in the nearest future at the current market price and transferred the major part of the project back to investment property. The remaining part of Tower B of “SkyLight” recognized as assets classified as held for sale as at 31 December 2014 in the amount of RUR 640 million represented premises for which the Group’s management approved a sale deal and this deal was completed in February 2015. Profit from sale of assets classified as held for sale recognized as other operating income in the consolidated statement of comprehensive income (Note 6).

In June 2014 management of the Group adopted a decision on the sale of 74.9% shares in LLC Gorki-8. As 30 June 2014 the Group classified LLC Gorki-8 as a disposal group in assets and liabilities held for sale. Major classes of disposal group’s assets and liabilities classified as held for sale are as follows:

	30 June 2014 (unaudited)
Assets classified as held for sale	
Inventory property with period of realization within the year	1,376
Trade and other receivables	701
Deferred tax assets	79
	2,156
Liabilities directly associated with the assets classified as held for sale	
Interest bearing loans and borrowings	2,595
Trade and other payables	100
	2,695
Equity	
Net assets attributable to non-controlling participants in LLC Gorki-8	**(831)**

In July 2014 the Group sold a 74.9% interest in its subsidiary Gorki-8 LLC, an owner of townhouses in the Moscow Region in residential district Gorki-8, to the third party (the Buyer) for nominal cash consideration of RUB 1. The Group signed a novation agreement with the Buyer relating to the transaction, according to which the claims of the Group under loans granted to Gorki-8 LLC were contributed as payment for a 9.97% interest in the charter capital of the Buyer. The fair value of available- for-sale financial asset acquired amounted to RUR 2,833 million.

21. Equity

At 30 June 2015 and 31 December 2014 the Company had 11,217,094 common shares issued and 11,211,534 shares outstanding. Nominal value of one share is equal to RUR 50.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the six-month periods ended 30 June 2015 and 30 June 2014 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	Thousands	Thousands
As of 1 January 2015	11,217	(5)	11,212
As of 30 June 2015 (unaudited)	**11,217**	**(5)**	**11,212**
As of 1 January 2014	11,217	(5)	11,212
As of 30 June 2014 (unaudited)	**11,217**	**(5)**	**11,212**

(Amounts in millions of Russian rubles, unless otherwise stated)

22. Interest bearing loans and borrowings

	Interest rate %	Maturity	30 June 2015 (unaudited)	31 December 2014 Restated
Current interest-bearing loans from related parties				
VTB	9.5%	2020	6,641	6,452
VTB	9.5%	2017	2,774	2,667
VTB	9.5%	2016	487	466
VTB	9.5%	2015	3,547	3,435
VTB	The rate of the Central Bank (RF) + 0.25%	2015	2,570	2,517
VTB	The rate of the Central Bank (RF) + 0.25%	2016	2,488	2,400
VTB	8.0%	2015	3,850	4,242
VTB	10.0%	2015	9,803	9,601
			32,160	**31,780**
Current interest-bearing loans and borrowings from third parties				
Other third parties	Various	Various	21	27
			21	**27**
Total current interest-bearing loans and borrowings			**32,181**	**31,807**
Non-current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2017	28,001	27,264
VTB	9.5%	2018	11	11
VTB	9.5%	2021	36,628	35,369
VTB	9.5%	2020	13,234	12,746
VTB	9.5%	2022	4,352	4,183
VTB	9.5%	2016	3,324	3,231
			85,550	**82,804**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V	8.15%	2018	2,382	2,356
			2,382	**2,356**
Total non-current interest-bearing loans and borrowings			**87,932**	**85,160**
Total interest-bearing loans and borrowings			**120,113**	**116,967**

The schedule of repayment of debt as at 30 June 2015 is as follows:

Year ended 30 June	
2016	22,767
2017	4,600
2018	31,893
2019	–
2020	–
2021	20,420
2022	40,433
Total	**120,113**

22. Interest bearing loans and borrowings (continued)

In April 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 1,477 million, the interest rate of 9.5% per annum for the purpose of financing the Peking Gardens project. The loan is to be repaid in October 2017. In July 2014 the Group agreed with VTB to increase the limit of credit agreement from RUR 1,477 million up to RUR 2,760 million. As of 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in amount of RUR 316 million, RUR 2,391 million and RUR 2,391 million, respectively.

In April 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 1,802 million, the interest rate of 9.5% per annum for the purpose of financing the reconstruction of Hotel complex Pekin. The loan is to be repaid in April 2018. In July 2014 the Group agreed with VTB to decrease the limit of credit agreement from RUR 1,802 million down to RUR 519 million. As of 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in amount of RUR nill, RUR 11 million and RUR 11 million, respectively.

In May 2010 the Group signed credit facility agreement with VTB with a limit of RUR 557 million, the interest rate of 9.5% per annum and maturing in four years for the purpose of financing the Detsky Mir Lubyanka project. In October 2010 the Group agreed with VTB to increase the limit of the credit agreement from RUR 557 million up to 5,780 million and prolong the repayment date of this facility from May 2014 to January 2019. In May 2014 the Group agreed with VTB to increase the limit of the credit agreement from RUR 5,780 million up to 9,710 million and prolong the repayment date of this facility from January 2019 to September 2021. As of 31 December 2013, 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in amount of RUR 3,085 million, RUR 5,213 million, RUR 7,944 million and RUR 7,944 million, respectively. As of 30 June 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In June 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 2,047 million, the interest rate of 9.5% per annum for the purpose of financing the Iskra-Park project. The loan is to be repaid in June 2021. As of 30 June 2014,as of 31 December 2014 and 30 June 2015 the loan facility was utilized in amount of RUR nill, RUR 520 million and RUR 520 million, respectively. As of 30 June 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In September 2010 the Group signed credit facility agreement with VTB with a limit of RUR 5,374 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in September 2014 for the purpose of financing the SkyLight project. In August 2014 the Group agreed with VTB to prolong the repayment date of this facility from September 2014 to September 2015. As of 31 December 2013, 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in amount of RUR 5,271 million. As of 30 June 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In March 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 3,600 million, the interest rate of 9.5% per annum for the purpose of financing the Iskra-Park project. The loan is to be repaid in March 2022. As of 31 December 2013, 30 June 2014, as of 31 December 2014 and 30 June 2015 the loan facility was fully utilized.

In March 2011 the Group signed new credit facility agreement with VTB with a limit of RUR 679 million, the interest rate of the Central Bank (RF) + 0.25% for the purpose of financing the Teatralny Dom project. The loan is to be repaid in March 2016. In August 2012 the Group agreed with VTB to increase the limit of the credit agreement from RUR 679 million up to 1,297 million. In April 2013 the Group agreed with VTB to increase the limit of the credit agreement from RUR 1,297 million up to 2,683 million. As 31 December 2013, 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in the amount of RUR 1,439 million, RUR 1,673 million, RUR 2,101 million and RUR 2,101 million, respectively.

(Amounts in millions of Russian rubles, unless otherwise stated)

22. Interest bearing loans and borrowings (continued)

As of 30 June 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In September 2011 the Group signed new credit agreement with the limit of RUR 5,000 million and interest rate of 9.5% for the corporate purpose. The loan is to be repaid in December 2020. In July 2012 the Group agreed with VTB to increase the limit on the corporate credit facility up to RUR 6,200 million. In May 2013 the Group agreed with VTB to increase the limit on the corporate credit facility from RUR 6,200 million up to RUR 9,600 million which supposed to be used for current activity as well as project financing. As of 31 December 2013 the loan facility was utilized in the amount of RUR 8,730 million. As of 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was fully utilized.

In May 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 9,008 million, the interest rate of 10% per annum for the purpose of financing the project multifunctional complex IQ-quarter. The loan is to be repaid in November 2015. As 31 December 2013, 30 June 2014, 31 December 2014 and 30 June 2015 the loan facility was utilized in the amount of RUR 2,151 million, RUR 4,208 million, RUR 5,893 million and RUR 5,893 million, respectively.

In December 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 1,755 million, the interest rate of 9,5% per annum for the Nasledie project. The loan is to be repaid in March 2016. As of 31 December 2013, 30 June 2014, of 31 December 2014 and 30 June 2015 the loan facility was utilized in the amount of RUR 66 millon, RUR 254 million, RUR 442 million and RUR 442 million, respectively. As of 30 June 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

For the sixth-month period ended 30 June 2015 the Group partly repaid the debt under credit facility agreements for the purpose of financing the projects “Kamelia” and “IQ-quarter” in the amount of RUR 527 million and RUR 41 million, respectively.

23. Trade and other payables

	30 June 2015 (unaudited)	31 December 2014
Current financial liability		
Trade payables		
Guarantee retentions	1,060	1,028
Trade payable to third parties	1,020	1,347
	2,080	**2,375**
Other payables		
Payable to employees	240	141
Taxes payable	991	1,284
Other payable to third parties	512	1,261
Financial lease obligations	18	36
	1,761	**2,722**
	3,841	**5,097**
Non-current financial liability		
Trade payables		
Guarantee retentions	616	399
	616	**399**
Other payables		
Financial lease obligations	223	145
	223	**145**
	839	**544**

(Amounts in millions of Russian rubles, unless otherwise stated)

23. Trade and other payables (continued)

Guarantee retentions represent amounts not paid to the constructors and held by the Group till the construction of the Group's development projects is complete and all constructors' obligations in respect to the constructions are settled.

24. Other non-financial liability

	30 June 2015 (unaudited)	31 December 2014
Non-current		
Advances from Iskra	1,400	1,400
Advances from customers	540	646
Deferred rent income	152	96
	2,092	**2,142**
Current liability		
Advances from customers with period of settlement above the year	19,157	14,561
Advances from state authority with period of settlement above the year	1,659	1,659
Advances from customers with period of settlement within the year	2,249	2,627
	23,065	**18,847**

25. Embedded financial derivatives

During the years 2013, 2014 and 2015 the Group signed long-term lease agreements with tenants with payments set in US dollars, a currency other than the functional currency of the both parties of the contracts. Those agreements provide a corridor of USD/RUR x-rates for the payments which are made by lessees in Russian rubles which means foreign currency derivative embedded in the lease agreement.

The fair value of the embedded derivatives recognized as at 30 June 2015 and 31 December 2014 amounted to RUR 2,486 million and RUR 1,869 million, respectively.

For the sixth-month period ended 30 June 2015 change in fair value of the embedded derivatives was recognized as net gain on financial instruments at fair value through profit or loss in the amount of RUR 561 million.

For the sixth-month period ended 30 June 2014 change in fair value of the embedded derivatives was recognized as net loss on financial instruments at fair value through profit or loss in the amount of RUR 192 million.

26. Available – for-sale financial assets

As at 30 June 2015 and 31 December 2014 available-for-sale financial assets in the total amount of RUR 2,833 million and RUR 2,833 million respectively included investments in unquoted interest in the charter capital (Note 20).

(Amounts in millions of Russian rubles, unless otherwise stated)

27. Fair values of financial assets and financial liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the interim consolidated financial statements.

	Carrying amount		**Fair value**	
	30 June 2015 (unaudited)	**31 December 2014**	**30 June 2015 (unaudited)**	**31 December 2014**
Financial assets				
Available-for-sale financial assets	2,833	2,833	2,833	2,833
Trade and other receivables	1,213	1,509	1,213	1,509
Loans and notes receivable	8	7	8	7
Cash and short-term deposits	18,514	18,104	18,514	18,104
	22,568	**22,453**	**22,568**	**22,453**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(5,058)	(4,917)	(5,058)	(4,917)
Fixed rate borrowings	(115,055)	(112,050)	(100,917)	(97,395)
Trade and other payables	(4,680)	(5,641)	(4,680)	(5,641)
Embedded financial derivatives	(2,486)	(1,869)	(2,486)	(1,869)
Tenants guarantee deposits	(591)	(607)	(591)	(607)
	(127,870)	**(125,084)**	**(113,732)**	**(110,429)**

The fair value of fixed rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms (as at 30 June 2015 and 31 December 2014 approximate 9.5%) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 30 June 2015 and 31 December 2014 are accounted for at amortized cost.

The fair values of other financial assets and liabilities approximate their carrying amounts.

28. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

(Amounts in millions of Russian rubles, unless otherwise stated)

28. Fair value measurement (continued)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 30 June 2015:

		Fair value measurement using			
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets (Note 26)	30 June 2015 (unaudited)	2,833	–	–	2,833
Investment properties					
Completed investment property (Note 11)	30 June 2015 (unaudited)	41,293	–	–	41,293
Investment property under construction (Note 12)	30 June 2015 (unaudited)	12,236	–	–	12,236
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 25)	30 June 2015 (unaudited)	2,486	–	–	2,486
Liabilities for which fair values are disclosed (Note 27)					
Interest bearing loans and borrowings	30 June 2015 (unaudited)	105,975	–	–	105,975

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2014:

		Fair value measurement using			
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets (Note 26)	31 December 2014	2,833	–	–	2,833
Assets classified as held for sale					
Completed investment property (Note 20)	31 December 2014	640	–	–	640
Investment properties					
Completed investment property (Note 11)	31 December 2014	30,712	–	–	30,712
Investment property under construction (Note 12)	31 December 2014	31,578	–	–	31,578
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 25)	31 December 2014	1,869	–	–	1,869
Liabilities for which fair values are disclosed (Note 27)					
Interest bearing loans and borrowings	31 December 2014	102,312	–	–	102,312

(Amounts in millions of Russian rubles, unless otherwise stated)

28. Fair value measurement (continued)

Description of significant unobservable inputs to valuation as at 30 June 2015:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investment properties and assets classified as held for sale				
Completed investment property	DCF Method	Discount rate	13.5%-16.0% (15.2%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,348) mln and RUR 1,467 mln, respectively.
Completed investment property	DCF Method	Average annual rental rate indexation	4.3%-4.5% (4.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 3,661 mln and RUR (3,163) mln, respectively.
Completed investment property	DCF Method	Terminal capitalization rate	10.0%-13.0% (11.3%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,486) mln and RUR 1,788 mln, respectively.
Investment property under construction	DCF Method	Discount rate	17.9%-22.1% (20.0%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (983) mln and RUR 1,044 mln, respectively.
Investment property under construction	DCF Method	Average annual rental rate indexation	4.3%-4.4% (4.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 4,570 mln and RUR (3,953) mln, respectively.
Investment property under construction	DCF Method	Terminal capitalization rate	11.0%	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,346) mln and RUR 1,616 mln, respectively.
Available-for-sale financial assets				
Equity investments	Comparative method	Sale price for land plots held by investee	0.2-0.892	10% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 673 mln and RUR (673) mln, respectively.
Embedded financial derivatives				
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	USD-rate	55.52 RUR/USD	28.5% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 1,544 mln and RUR (1,437) mln, respectively.
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	EUR-rate	61.52 RUR/EUR	28.5% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 98 mln and RUR (66) mln, respectively

(Amounts in millions of Russian rubles, unless otherwise stated)

28. Fair value measurement (continued)

Description of significant unobservable inputs to valuation as at 31 December 2014:

	Valuation technique	Significant unobser-vable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investment properties and assets classified as held for sale				
Completed investment property	DCF Method	Discount rate	13.0%-15.0% (14.0%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (453) mln and RUR 470 mln, respectively.
Completed investment property	DCF Method	Average annual rental rate indexation	3.5%-7.0% (5.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 955 mln and RUR (927) mln, respectively.
Completed investment property	DCF Method	Terminal capitalization rate	9.5%-13.0% (11.2%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,390) mln and RUR 1,667 mln, respectively.
Investment property under construction	DCF Method	Discount rate	15.27%-35.0% (22.5%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,887) mln and RUR 2,007 mln, respectively.
Investment property under construction	DCF Method	Average annual rental rate indexation	5.0%-5.0% (5.0%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 3,236 mln and RUR (2,992) mln, respectively.
Investment property under construction	DCF Method	Terminal capitalization rate	10.0%-11.0% (10.7%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (2,530) mln and RUR 3,054 mln, respectively.
Available-for-sale financial assets				
Equity investments	Comparative method	Sale price for land plots held by investee	0.2-0.892	10% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 270 mln and RUR (270) mln, respectively.
Embedded financial derivatives				
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	USD-rate	56.25 RUR/USD	28.5% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 848 mln and RUR (836) mln, respectively.

29. Transactions with related parties

The following table provides the details of transactions that have been entered into with related parties for the relevant six-month period ended 30 June:

Transactions with related parties	2015 (unaudited)	2014 (unaudited)
Interest on borrowings to shareholders		
Interest on borrowings payable to VTB	3,924	4,603
	3,924	**4,603**
Interest income from shareholders		
Interest income from VTB	1,161	221
	1,161	**221**

(Amounts in millions of Russian rubles, unless otherwise stated)

29. Transactions with related parties (continued)

	30 June 2015 (unaudited)	31 December 2014
Amounts due from shareholders		
Cash and short-term deposits in VTB	18,509	18,094
Trade and other receivables from VTB	137	113
	18,646	**18,207**
Amounts due to shareholders		
Loans and borrowings from VTB	117,710	114,584
	117,710	**114,584**

Compensation of key management personnel of the Group for the six-month periods ended 30 June:

	2015 (unaudited)	2014 (unaudited)
Short-term employee benefits	162	184
Other long-term benefits	26	19

30. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has six reportable segments in the six-month period ended 30 June 2015:

- real estate held for sale − ready for use by the buyer (the project Nahimovsky, the project Michurinsky, the project Solntse, the project Literator, the project Kamelia (apartments));
- real estate held for sale − under construction (the project Peking Gardens, the project Wine House, the project Nasledie, the project Teatralny Dom, the project IQ-quarter (apartments), the project Iskra-Park (apartments));
- investment property − under construction (the major projects − IQ-quarter, Iskra-Park);
- investment property − submitted to the operating lease (the project Danilovsky Fort, the project Leto, the project SkyLight, Detsky Mir Lubyanka, hotel Pekin);
- hospitality − under construction (the project IQ-quarter (hotel));
- hospitality − rented apartments (hotel Pekin, hotel Swissotel Resort Sochi Kamelia).

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 operating results as defined below. This performance indicator is measured on a basis that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis.

(Amounts in millions of Russian rubles, unless otherwise stated)

30. Segment information (continued)

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 loss before tax per the consolidated financial statements prepared under IFRS:

The six-month period ended 30 June 2015

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment revenue	972	4,563	–	3,498	–	340	**9,373**
Accrual vrs. cash basis	–	–	–	–	–	–	**(5,523)**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**3,850**

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment result	**(631)**	**1,616**	**(200)**	**10**	**(14)**	**(316)**	**465**
Accrual vrs. cash basis	–	–	–	–	–	–	**(14,596)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,131)**

The six-month period ended 30 June 2014

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment revenue	**15**	**7,146**	**55**	**2,269**	**–**	**342**	**9,827**
Accrual vrs. cash basis	–	–	–	–	–	–	**18,666**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**28,493**

(Amounts in millions of Russian rubles, unless otherwise stated)

30. Segment information (continued)

The six-month period ended 30 June 2014 (continued)

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construc-tion	Under construc-tion	Submitted to the operating lease	Under construc-tion	Rented apartments	Total
Segment result	**14**	**3,880**	**179**	**(1,552)**	**11**	**307**	**2,839**
Accrual vrs. cash basis	–	–	–	–	–	–	(5,860)
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,021)**

* *Includes rental income, sales of inventory property, revenue from room charges and other hotel services and other sales per the consolidated statement of comprehensive income.*

** *Including valuation gains (losses) on investment property, write down of inventory property to net realizable value and other adjustments.*

31. Guarantees and pledges

Warranties and guarantees of work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date at which the relevant object was handed over, generally for a period up to 2 years subsequent to handover. Based upon prior experience with warranty claims, which have not been significant, no contingent liabilities have been recorded in the Group's interim condensed consolidated financial statements in relation to warranties and guarantees for work performed.

Pledges

As of 30 June 2015 and 31 December 2014 common shares of the Group's entities have been pledged as follows:

Group's company	Projects	Number of shares pledged	Number of shares pledged as a percentage of total shares
OJSC Lubyanka-Development	Detsky Mir Lubyanka	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%
OJSC Beiging-Invest	Peking Gardens	1,500	100%
CJSC EZNCh	Literator	100	100%
CJSC Kuntsevo-Invest	Solntse	5,000	100%
CJSC Hals-Tehnopark	Teatralny Dom	3,782,000	100%
CJSC StroyPromOb'ekt	Teatralny Dom	10,000	100%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.	IQ-quarter	101	50%+1 share
CJSC Biznespark Novaja Riga	Wine House	100	100%
CJSC Pansionat Kamelia	Kamelia	13,000	100%
OJSC IRT	Nasledie	100	100%
GURDON MANAGEMENT LTD	Iskra-Park	5,000	100%
OJSC GOK Pekin	Hotel complex Pekin	353,210	100%

31. Guarantees and pledges (continued)

Pledges (continued)

As of 30 June 2015 and 31 December 2014 the Group pledged Detsky Mir Lubyanka (completed investment property) with a carrying amount of RUR 13,443 million and RUR 12,358 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 7,689 million and RUR 7,689 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged Danilovskiy Fort (completed investment property) with a carrying amount of RUR 4,166 and RUR 4,359 million, respectively, as security under the credit line from VTB (principal amount without interest accrued)in the amount of RUR 18,508 million and RUR 18,508 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged Tower A of business center Skylight (completed investment property) with a carrying amount of RUR 9,461 million and RUR 9,273 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 1,255 million and RUR 1,255 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged Leto (completed investment property) with a carrying amount of RUR 8,221 million and RUR 10,322 million, respectively, and the office building on B.Tatarskaya street (property, plant and equipment) with a carrying amount of RUR 155 million and RUR 171 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 1,979 million and RUR 1,979 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged the project IQ-quarter (investment property under construction, inventory property and property, plant and equipment) with a carrying amount of RUR 9,071, RUR 1,815 and RUR 1,100 million, respectively, and RUR 16,140, RUR 1,684 and RUR 1,020 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 3,422 million and RUR 3,463 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying amount of RUR nill million and RUR 936 million, respectively, and RUR nill and RUR 1,421 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 3,114 million and RUR 3,641 million respectively.

As of 30 June 2015 and 31 December 2014 the Group pledged the project Wine House (inventory property) with a carrying amount of RUR 4,064 million and RUR 3,588 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 343 million and RUR 343 million respectively.

As of 30 June 2015 the Group pledged the project Iskra-Park (investment property under construction and inventory property) with a carrying amount of RUR 3,162 million and RUR 1,975 million respectively as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 503 million.

32. Commitments and contingencies

Taxation

Possible liabilities identified by the management as of 30 June 2015 as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these interim condensed consolidated financial statement could be approximately RUR 1,232 million.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 30 June 2015. A summary of significant commitments under construction contracts is provided below:

Detsky Mir Lubyanka − The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 742 million and RUR 1,945 million as of 30 June 2015 and 31 December 2014, respectively.

Kamelia − The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 882 million and RUR 1,088 million as of 30 June 2015 and 31 December 2014, respectively.

Hotel Pekin and Peking Gardens − The Group entered contractual agreements for the restoration of adaption to modern requirements of the Hotel complex Pekin and integrated development of the adjacent territory. Commitments under these contracts amounted to RUR 4,535 million and RUR 4,922 million as of 30 June 2015 and 31 December 2014, respectively.

IQ-quarter − The Group entered contractual agreements for construction of multifunctional complex IQ-quarter in Moscow-City. Commitments under these contracts amounted to RUR 7,782 million and RUR 7,804 million as of 30 June 2015 and 31 December 2014, respectively.

Literator − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 484 million and RUR 707 million as of 30 June 2015 and 31 December 2014, respectively.

Wine House − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 3,569 million and RUR 4,344 million as of 30 June 2015 and 31 December 2014, respectively.

Nasledie − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 8,277 million and RUR 9,694 million as of 30 June 2015 and 31 December 2014, respectively.

Teatralny Dom − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,302 million and RUR 2,239 million as of 30 June 2015 and 31 December 2014, respectively.

Leto − The Group entered contractual agreements for construction of shopping and entertainment complex “Leto” in S.Peterburg. Commitments under these contracts amounted to RUR 44 million and RUR 26 million as of 30 June 2015 and 31 December 2014, respectively.