JSC HALS-Development and its subsidiaries

Consolidated financial statements

31 December 2013

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Совершенствуя бизнес,
улучшаем мир

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Report of independent auditors

To the Shareholders of JSC HALS-Development

We have audited the accompanying consolidated financial statements of JSC HALS-Development, formerly known as JSC Sistema-Hals and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Совершенствуя бизнес, улучшаем мир

Opinion

In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Group as of 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RUR 5,575 million during the year ended 31 December 2013 and, as of that date, the Group's negative net assets amounted to RUR 26,241 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

23 April 2014

JSC HALS-Development and subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2013

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

	Notes	2013	2012
Rental income	7	2,630	1,294
Property operating expense		(726)	(359)
Net rental income		**1,904**	**935**
Valuation gains on completed investment property	15	2,851	187
Valuation gains on investment property under construction	16	432	2,679
Valuation gains on investment property		**3,283**	**2,866**
Revenue from sales of inventory property	8	429	8,337
Cost of sales – inventory property	8, 20	(220)	(4,918)
Gross profit on sale of inventory property		**209**	**3,419**
Write-down of inventory property to net realizable value	20	**(1,490)**	**(631)**
Revenue from room charges and other hotel services	8	446	411
Cost of hotel services		(228)	(200)
Gross profit on hotel services		**218**	**211**
Other sales	8	30	62
Cost of other sales		(9)	(13)
Gross profit on other sales		**21**	**49**
Administration and selling expenses	9	(2,129)	(1,512)
Other operating income	10	1,171	872
Other operating expenses	11	(2,682)	(2,554)
Operating profit		**505**	**3,655**
Gain on disposal of subsidiary	5	80	–
Finance income	12	274	317
Finance expenses	13	(5,972)	(4,310)
Share of loss of joint ventures, net of tax	17	(32)	(162)
Foreign exchange (loss)/gain		(130)	271
Loss before tax		**(5,275)**	**(229)**
Income tax expense	14	(300)	(880)
Loss for the year		**(5,575)**	**(1,109)**
Total comprehensive loss for the year		**(5,575)**	**(1,109)**
Attributable to:			
- owners of the parent		(4,867)	(1,438)
- non-controlling interests in JSCs		(358)	329
- non-controlling participants in LLCs		(350)	–
		(5,575)	**(1,109)**
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the year per share, RUR		(434)	(128)

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

JSC HALS-Development and subsidiaries

Consolidated statement of financial position

As of 31 December 2012

(Amounts in millions of Russian Rubles)

	Notes	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	18	5,326	2,308
Completed investment property	15	22,359	25,419
Investment property under construction	16	22,482	15,348
Intangible assets	19	545	545
Loans and notes receivable	22	–	11
Investments in joint venture	17	1,906	1,938
Other non-financial assets	24	3,580	2,515
Other financial assets	21	–	266
Deferred tax assets	14	2,391	1,711
		58,589	**50,061**
Current assets			
Inventory property with period of sale above the year	20	48,147	37,221
Inventory property with period of sale within the year	20	1,532	1,753
Trade and other receivables	21	842	851
VAT reimbursable		2,211	2,964
Other financial assets	21	334	334
Loans and notes receivable	22	22	76
Other non-financial assets	24	2,038	2,497
Cash and short-term deposits	23	7,406	2,453
		62,532	**48,149**
Assets classified as held for sale	25	5,089	–
		67,621	**48,149**
Total assets		**126,210**	**98,210**
Equity and liabilities			
Equity			
Issued share capital	26	567	567
Treasury shares	26	(1)	(1)
Additional paid-in capital		18,296	18,296
Accumulated losses		(45,948)	(41,081)
Total equity attributable to equity holders of the parent		**(27,086)**	**(22,219)**
Non-controlling interests in JSCs		1,217	1,575
Net assets attributable to non-controlling participants in LLCs		(372)	–
Total equity		**(26,241)**	**(20,644)**
Non-current liabilities			
Net assets attributable to non-controlling participants in LLCs	30	–	19
Interest bearing loans and borrowings	27	88,019	83,482
Trade and other payables	28	611	76
Tenants` guarantee deposits		484	274
Other non-financial liabilities	29	2,431	196
Deferred tax liability	14	5,262	4,565
		96,807	**88,612**
Current liabilities			
Net assets attributable to non-controlling participants in LLCs	30	33	–
Interest bearing loans and borrowings	27	39,358	22,995
Trade and other payables	28	2,991	1,220
Provisions		643	455
Current income tax payable		14	153
Other non-financial liabilities	29	12,155	5,419
		55,194	**30,242**
Liabilities directly associated with the assets classified as held for sale	25	450	–
		55,644	**30,242**
Total liabilities		**152,451**	**118,854**
Total equity and liabilities		**126,210**	**98,210**

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

JSC HALS-Development and subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2013

(Amounts in millions of Russian Rubles)

	Issued share capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interests in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2012	**567**	**(1)**	**18,296**	**(39,643)**	**(20,781)**	**1,248**	**–**	**(19,533)**
Loss for the year	–	–	–	(1,438)	(1,438)	329	–	**(1,109)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(1,438)**	**(1,438)**	**329**	**–**	**(1,109)**
Disposal of non-controlling interests	**–**	**–**	**–**	**–**	**–**	(2)	–	**(2)**
At 31 December 2012	**567**	**(1)**	**18,296**	**(41,081)**	**(22,219)**	**1,575**	**–**	**(20,644)**
Loss for the year	–	–	–	(4,867)	**(4,867)**	**(358)**	(350)	**(5,575)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(4,867)**	**(4,867)**	(358)	**(350)**	**(5,575)**
Transfer non-controlling participants in LLCs from liabilities to equity	–	–	–	–	–	–	(22)	**(22)**
At 31 December 2013	**567**	**(1)**	**18,296**	**(45,948)**	**(27,086)**	**1,217**	**(372)**	**(26,241)**

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

JSC HALS-Development and subsidiaries

Consolidated cash flow statement

for the year ended 31 December 2013

(Amounts in millions of Russian Rubles)

	Notes	2013	2012
Operating activities			
Loss before tax		(5,275)	(229)
Adjustments to reconcile loss before tax to cash flows:			
Changes in fair value of investment property	15,16	(3,283)	(2,866)
Share of loss of joint ventures	17	32	162
Loss from remeasurement of investments in former associates to fair value	10,11	–	336
Goodwill impairment and write off	11,19	–	781
Reversal of development rights impairment	10,19	–	(453)
Depreciation and amortization	18,19	113	112
Gain on disposal of subsidiary	5	(80)	–
Write-down of inventory property to net realizable value	20	1,490	631
Impairment of property, plant and equipment	11,18	1,337	490
Finance income	12	(274)	(317)
Finance expenses	13	5,972	4,310
Gain on plant reallocation	10	–	(61)
Expired construction warranty provision write off	10	–	(197)
Payables and other obligations write off	10	(262)	–
(Profit)/loss on sale of investment property	10,11	(629)	69
Receivables and other assets write off	11	380	307
Recovery of receivables written off in prior period	10	(158)	–
Changes in legal provision	10	(40)	–
Foreign exchange (loss)/gain		130	(271)
Cash flows before working capital changes		**(547)**	**2,804**
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(804)	4,070
Change in inventory property		(9,273)	(8,096)
Change in trade, other payables and non-financial liabilities		12,046	(3,425)
Cash flow generated from/(used in) operating activities		**1,422**	**(4,647)**
Income tax paid		(167)	(635)
Net cash flow generated from/(used in) operating activities		**1,255**	**(5,282)**
Investing activities			
Acquisition of businesses, net of cash acquired	5	–	(1,935)
Repayment of receivables from disposal of ZAO RTI Estate		243	246
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(12,267)	(7,327)
Proceeds from disposal of investment property		3,776	869
Loans issued		–	(272)
Interest received		184	142
Repayment of loans issued		40	38
Net cash flow used in investing activities		**(8,024)**	**(8,239)**
Financing activities			
Proceeds from borrowings		19,150	19,757
Redemption of borrowings		(7,286)	(5,646)
Interest paid		(50)	(158)
Repayment of finance lease liabilities		(65)	–
Net cash flow from financing activities		**11,749**	**13,953**
Effects of foreign currency translation on cash and short-term deposits		(27)	(17)
Net increase in cash and short-term deposits		**4,953**	**415**
Cash and short-term deposits at 1 January	23	2,453	2,038
Cash and short-term deposits at 31 December	23	**7,406**	**2,453**

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

1. Corporate information

JSC 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.

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 31 December 2013 and 31 December 2012 OJSC VTB Bank ("VTB") owned 51.24% 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 consolidated financial statements at 31 December 2013 and for the year then ended were authorised for issue by the President of the Company on 23 April 2014.

2. Basis of preparation

The consolidated statements for the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except when otherwise indicated in the accounting policies below.

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

Going concern

As at 31 December 2013, the Group's negative net assets amounted to RUR 26,241 million (31 December 2012: RUR 20,644 million) and the Group incurred a net loss of RUR 5,575 million for the year ended 31 December 2013 (31 December 2012: RUR 1,109 million).

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.

2. Basis of preparation (continued)

Going concern (continued)

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 are more strategic to the Group, and suspended other activities in order to reduce its cash requirements;
- during 2013 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 consolidated financial statements have been prepared based on the assumption that the Group is able to continue its business as a going concern. The 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.

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 accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. 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:

3. Significant accounting judgements, estimates and assumptions (continued)

3.1. Judgements (continued)

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IFRS 3.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Classification of properties

The Group determines whether a property is classified as own property, plant and equipment, investment property or inventory properties:

- Investment property comprises land and buildings (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 primarily to earn rental income and capital appreciation.
- Inventory property comprises properties that are held for sale in the ordinary course of business. Principally, this is residential properties that the Group develops and intends to sell before or on completion of construction.
- Property, plant and equipment comprises properties that are held for use in supply of goods or services or for administrative purposes.

Operating lease contracts – Group as a lessor

The Group has entered into commercial property leases on its investment 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.

3.2. 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.

3. Significant accounting judgements, estimates and assumptions (continued)

3.2. Estimates and assumptions (continued)

Estimation of net realisable value for inventory property

Inventory property is stated at the lower of cost and net realisable value (NRV).

NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV for property under construction is assessed with reference to the selling market prices at the reporting date for similar completed property, less estimated cost to complete the construction provided in the current construction budget, adjusted for the time value of money if material.

Valuation of investment property

The fair value of investment property is determined by Company's internal valuers using recognised valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group assets.

Investment property under construction is also valued at fair value as determined by Company's internal valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at reporting date.

The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in Notes 15 and 16.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

3. Significant accounting judgements, estimates and assumptions (continued)

3.2. Estimates and assumptions (continued)

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 14.

Impairment of goodwill and investments in associates and joint ventures

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units 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 cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group determines whether it is necessary to recognise an impairment loss on the Group's investments in its associates and joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates and joint ventures is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint ventures and its carrying value and recognises the amount in the 'share of profit or loss of an associate or joint ventures' in the statement of comprehensive income.

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The ownership interest of Company and the proportion of its voting power in its major subsidiaries as of 31 December 2013, 31 December 2012 and 1 January 2012 were as follows:

			Ownership interest and voting power		
Operating entities	**Location**	**Investment project**	**31 December 2013**	**31 December 2012**	**31 December 2011**
Hals-Development	Russia	SkyLight, Nahimovsky		Parent company	
Beiging-Invest	Russia	Sady Pekina	100%	100%	100%
Promresurs	Russia	Danilovsky Fort	100%	100%	100%
Hals-Stroy	Russia	Michurinsky	100%	100%	100%
IRT	Russia	Nasledie	100%	100%	100%
Kuntsevo-Invest	Russia	Kuntsevo, Solntse	100%	100%	100%
Sapidus	Cyprus	Holding Company	100%	100%	100%
SIB-BROK	Ukraine	Yalta	100%	100%	100%
Alyans-Bud	Ukraine	Kiev	51%	51%	51%
Yurlak	Russia	Detsky Mir Kazan	100%	100%	100%
Lubyanka-development	Russia	Detsky Mir Lubyanka	100%	100%	100%
Hals-Invest Development	Russia	Leto	100%	100%	50%
Gorki-8	Russia	Gorki-8 Townhouses	74.9%	74.9%	74.9%
Istochnik	Russia	Gorki-8 (land plot)	74.9%	74.9%	74.9%
Iskra-Park	Russia	Iskra	100%	–	–
Hals-Technopark	Russia	Povarskaya	100%	100%	50%
Pansionat Kamelia	Russia	Kamelia	100%	100%	100%
EZNCH	Russia	Literator	100%	100%	100%
Businesspark Novaya Riga	Russia	Wine House	100%	100%	100%
CiTer Invest B.V.	The Netherlands	IQ-quarter	50.5%	50.5%	50.5%
GOK Pekin	Russia	Pekin Hotel	100%	100%	100%

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

4. Summary of significant accounting policies (continued)

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Subsequently, goodwill is not amortised, but is tested for impairment at least annually.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group's cash generating units are investment projects.

Interests in jointly controlled entities

The Group has contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities.

Where the joint venture is established through an interest in a company (a jointly controlled entity), the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received. The Group's statement of comprehensive income reflects the share of the jointly controlled entity's results after tax.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

4. Summary of significant accounting policies (continued)

Investment in an associate (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Classification of assets and liabilities

The Group clearly indentified that on a project by project basis the normal operating cycle varies from 3 to 13 years depending on the complexity and types of property developed. Assets and liabilities attributable to real estate held for sale segment are classified as current if they are expected to be settled or realized within those normal operating cycles determined on a project by project basis.

The Group's normal operating cycle in other segments remain 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. All other assets and liabilities are classified as non-current.

Foreign currency translation

The consolidated financial statements are presented in Russian Roubles, which is a functional currency of the Company and all its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset including investment property under construction and inventory property that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

4. Summary of significant accounting policies (continued)

Borrowing costs (continued)

The interest capitalized in relation to general borrowings is calculated using the Group's capitalization rate. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale with be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Investment property also includes land with a currently undetermined future use.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss in the year in which they arise. For the purposes of these consolidated financial statements, in order to avoid 'double accounting', the assessed fair value is:

4. Summary of significant accounting policies (continued)

Investment property (continued)

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments;
- Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the statement of financial position as a finance lease obligation;
- Increased or reduced by the fair value of the derivatives embedded in the lease contracts.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the profit or loss in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset as of the date of disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. 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.

Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings 30 years
- Plant and equipment 3 to 5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised 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 profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

4. Summary of significant accounting policies (continued)

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 amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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 recognised in profit or loss when the asset is derecognised.

Developments rights

Expenditure on obtaining development rights, necessary to start construction activities, are recognised in intangible assets if the projects are technically and commercially feasible and the Group has sufficient resources to accomplish the development of the projects.

Capitalised development rights recognised on initial acquisition as intangible assets are measured at cost less accumulated impairment losses until the development starts. On commencement of construction of real estate properties (including buildings) such development rights are amortised based on the ratio of usable area of the building (real estate object) in the overall real estate properties (real estate objects) usable area. Amortisation is included in inventory property or investment property under construction.

Financial assets

The Group’s financial assets include cash and short-term deposits, trade and other receivables, loans and notes receivables.

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value and carried at amortised cost. An impairment loss is recognised when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

4. Summary of significant accounting policies (continued)

Trade and other receivables (continued)

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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 recognised to the extent of the Group’s continuing involvement in the asset.

Value added tax

The Russian tax legislation permits settlement of value added tax (“VAT”) on a net basis. VAT recoverable arises when VAT related to purchases exceeds VAT related to sales. Long-term VAT recoverable is recognised at fair value at inception date and measured at amortised cost at subsequent reporting dates.

Financial liabilities

The Group’s financial liabilities include trade and other payables, tenants’ guarantee deposits, loans and borrowings.

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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 cost in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

4. Summary of significant accounting policies (continued)

Loans and borrowings (continued)

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date less costs to complete and the estimated selling expenses, adjusted for the time value of money if material.

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

The Group has considered the application of IFRIC 15 to these contracts and concluded that these ‘pre-completion’ contracts were not, in substance, construction contracts. However, where the legal terms were such that the construction represented the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition has been applied and revenue recognised as work progressed. Development expenditure incurred in respect of inventory dealt with under the percentage of completion method is recognised in profit or loss in the period incurred.

Revenue from sales of residential properties where the contracts are not in substance construction contracts and do not lead to a continuous transfer of work in progress, is recognised in accordance with revenue recognition section presented below.

Exchange transactions

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Based on the investment agreements the Group is obliged to construct buildings, where a part of apartments and non-residential premises are transferred to the local authorities for no consideration. The obligation of the Group to deliver certain number of properties to the local authorities is a part of investment contract granting to the Group the right to construct buildings, so the Group exchanges real estate properties for the development right.

4. Summary of significant accounting policies (continued)

Exchange transactions (continued)

The goods exchanged are of different nature and therefore there is a substance to these transactions and the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of development right received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

As far as the development right was received before properties are transferred to the authorities the non-financial liability to deliver properties at future date is recognised. At the date of exchange, which is normally the date of investment agreement, the Group recognises the development rights as intangible asset (to be further included in total costs of construction of such buildings) and the obligations to develop property as non-financial liability (being by nature the advance payment received from the authorities). The Group recognises revenue at the date when the act of acceptance is signed. Cost of construction of apartments and facilities to be transferred to the authorities are accounted for as work in progress until construction is completed and recognised as cost of sales when sales to authorities are recognised.

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 cash-generating unit's (CGU) 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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five-years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in profit or loss.

4. Summary of significant accounting policies (continued)

Cash and short term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits with an original maturity of three months or less.

Net assets attributable to non-controlling participants in LLCs

Non-controlling interests in the Group's subsidiaries, established in the form of a limited liability company ("LLC"), do not satisfy the conditions of an equity instrument, since in accordance with the legislation of Russian Federation and charters, participants of those subsidiaries have a right to request the redemption of their interests in cash. Based on the provisions of the law determining the exit period, the net assets attributable to non-controlling participants in LLC had been presented within current liabilities. Share of non-controlling participants in profit or loss of those subsidiaries is presented in the statement of comprehensive income as finance income or expense. In case of negative net assets of subsidiaries having the legal form of LLC, non-controlling participants are recorded within equity.

Deposits paid under an operating lease – Group as a lessor

Deposits paid by lessees at the inception of an operating lease for which no interest is receivable or the interest rate receivable is lower than market interest rates are initially accounted for at fair value as within the scope of IAS 39. The excess between the principal amounts of the deposit over its fair value is within the scope of IAS 17. The fair value of the deposits are determined based on the prevailing market rate of interest for a similar loan, considering the credit worthiness of the Group and, depending on facts and circumstances, any additional security available to the lessee. The excess of the principal amount of the deposits over its fair value is accounted for as prepaid lease expense (income) and amortised over the lease term on a straight-line basis. Interest on the deposit, meanwhile, is accounted for using the effective interest rate (EIR) method.

Revenue recognition

Revenue from room charges

Revenue is recognised on room charges when rooms are occupied and revenue from other hotel services when those have been rendered.

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised 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.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the profit or loss when they arise.

4. Summary of significant accounting policies (continued)

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

Service charges and expenses recoverable from tenants

Income arising from services recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue, as the management considers that the Group acts as principal in this respect.

Sales of real estate property

Revenue from the sale of real estate properties is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Time of the transfer of risks and benefits vary depending on the specific conditions of the contract of sale. There are two variant of revenue from pre-sale of constructed real estate properties:

- in the CPJC (the contract of participation in joint construction) – revenue is recognised at the time of signing the act of acceptance and transfer of properties;
- in the contract of transfer of rights to previously signed investment contract – revenue is recognised at the time of signing of the act of investment contract completion.

Revenue from sale of completed properties is recognised at the date when risks and rewards are transferred to the buyers which is usually the date of title registration.

Revenue from construction services

Revenue from construction services is recognised by reference to the stage of completion. Stage of completion is measured by reference to actual costs incurred to date as a percentage of total estimated costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised in other comprehensive income or directly in equity is recognised either in other comprehensive income or in equity, respectively, and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and accrues provisions where appropriate.

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary differences can be controlled by the parent, venturer or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. Based on the fact that the tax loss can be offset against received profits within the next ten years (art.283 Tax Code RF), the confidence of the Group for reimbursement of a deferred tax asset on losses associated with the following beliefs:

- During this period expected to be completed investment projects, respectively, the Group will receive income from the rental or sale of assets;
- Group companies are the holders of shares and can get profit from their sale or in the form of dividends.

The element of the total carrying amount of the investment property represented by the land is considered non-depreciable. The directors estimate the depreciable amount and residual value of the building element on a property by property basis.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised in other comprehensive income or directly in equity is recognised either in other comprehensive income or in equity, respectively, and not in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement. Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty related costs is revised annually.

4. Summary of significant accounting policies (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Segment information

The Group's business operations are located in the Russian Federation and the CIS and relate primarily to real estate development. Presentation of the operating segments is based on the class of property as management monitors the operating results of its business units based on the different classes of property separately for the purpose of making decisions about resource allocation and performance assessment.

The Group considers that it has six operating segment under IFRS 8:

- real estate held for sale – ready for use by the buyer;
- real estate held for sale – under construction;
- investment property – under construction;
- investment property – submitted to the operating lease;
- hospitality – under construction;
- hospitality – rented apartments.

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 accrual basis, and management accounts are prepared on cash basis. The majority of the Group's revenue and non-current assets are generated and located in Russia.

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

New and amended standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of these 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 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013, noted below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment did not affect presentation and had no impact on the Group’s financial position or performance.

4. Summary of significant accounting policies (continued)

New and amended standards and interpretations adopted by the Group (continued)

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment did not affect presentation and had no impact on the Group's financial position or performance.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not affect presentation and had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. As the Group does not have any defined benefit plans in place, these amendments do not have an impact on the Group.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments 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 all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

4. Summary of significant accounting policies (continued)

New and amended standards and interpretations adopted by the Group (continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. Adoption of IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. 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 under IFRS 11 must be accounted for using the equity method. The application of this new standard did not have an impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. IFRS 12 disclosures are provided in Notes 6, 17.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 32.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Summary of significant accounting policies (continued)

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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. 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 the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 18. These amendments would continue to be considered for future disclosures.

5. Acquisitions and disposals

Disposal of JSC Prestigh

On 11 December 2013 the Group sold 100% of the shares of JSC Prestigh to a third party for cash consideration of RUR 0,011 million, which owns the part of the project “Literator” (the building without a complex reconstruction).

JSC Prestige's carrying value of net assets at the date of disposal was as follows:

Inventory property (Note 20)	155
VAT reimbursable	5
Deferred tax assets (Note 14)	1
	161
Interest bearing loans and borrowings	(241)
	(241)
Net assets disposed	**(80)**
Fair value of the consideration receivable	**0**
Gain on disposal of subsidiary	**80**

Acquisition of SistemApsys S.A.R.L.

On 30 January 2012 the Group acquired 50% of the shares of SistemApsys S.A.R.L. for consideration of USD 41.7 million (RUR 1,306 million), which owns the shopping and entertainment complex “Leto” in S.Peterburg, bringing its ownership to 100%.

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

5. Acquisitions and disposals (continued)

Acquisition of SistemApsys S.A.R.L. (continued)

SistemApsys S.A.R.L.'s fair value of net assets at the date of acquisition was as follows:

	Fair value recognised on acquisition
Property, plant and equipment (Note 18)	3
Completed investment property (Note 15)	6,621
Trade and other receivables	97
VAT reimbursable	858
Cash and short-term deposits	349
Other non-financial assets	69
Deferred tax assets	289
	8,286
Interest bearing loans and borrowings	(134)
Trade and other payables	(48)
Provisions	(217)
Other non-financial liabilities	(250)
	(649)
Total identifiable net assets at fair value	**7,637**
Fair value of previously acquired interest (50%) (Note 17)	538
Total consideration	7,868
Goodwill arising on acquisition (Note 19)	**769**
Total consideration consists of:	**7,868**
- preexisting interest bearing loans issued	6,956
- preexisting other non-financial liabilities	(394)
- cash consideration paid	1,306
Cash flow on acquisition	
Cash paid for the acquisition	(1,306)
Cash acquired with the subsidiary	349
Net cash outflow on acquisition	**(957)**

At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised loss in the amount of RUR 428 million (Note 11).

From the date of acquisition, SistemApsys S.A.R.L. has contributed RUR 732 million and RUR 935 million to the Group’s revenue and profit before tax for 2012, respectively. If the combination had taken place at the beginning of the period, the Group’s revenue and loss before tax would have been increased by RUR 48 million and RUR 16 million, respectively.

Goodwill was written off in full amount (Note 11) as the Group’s management believes it will not be recoverable.

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

5. Acquisitions and disposals (continued)

Acquisition of JSC StroyPromOb’ekt

On 19 April 2012 the Group acquired 100% of the shares of JSC StroyPromOb'ekt for the amount of RUR 980 million, which owns 50% of the shares of JSC Hals-Technopark, a former associate of the Group which holds Povarskaya project. After the acquisition the Group owns 100% of the shares of JSC Hals-Technopark.

The fair value of the identifiable assets and liabilities of JSC StroyPromOb'ekt and JSC Hals-Technopark as at the date of acquisition were:

	Fair value recognised on acquisition
Inventory property (Note 20)	3,887
VAT reimbursable	39
Cash and short-term deposits	2
Other non-financial assets	45
	3,973
Interest bearing loans and borrowings	(273)
Trade and other payables	(16)
Deferred tax liability	(168)
Other non-financial liabilities	(1,659)
	(2,116)
Total identifiable net assets at fair value	**1,857**
Fair value of previously acquired interest in JSC Hals-Technopark (50%)	973
Total consideration	896
Goodwill arising on acquisition	**12**
Total consideration consists of:	**896**
- preexisting interest bearing loans issued	289
- preexisting accounts payable	(373)
- cash consideration paid	980
Cash paid for the acquisition	(980)
Cash acquired with the subsidiary	2
Net cash outflow on acquisition	**(978)**

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

5. Acquisitions and disposals (continued)

Acquisition of JSC StroyPromOb'ekt (continued)

At the date of obtaining control the Group remeasured previously held equity investment to fair value and recognised income in the amount of RUR 92 million (Note 10).

Goodwill was written off in full amount (Note 11) as the Group's management believes it will not be recoverable.

From the date of acquisition, JCS StroyPromOb'ekt has contributed RUR 11 million and RUR 3 million to the Group's revenue and profit before tax for 2012, respectively. If the combination had taken place at the beginning of the period, the Group's revenue and loss before tax would have been increased by RUR 3 million and RUR nil million, respectively.

6. Material partly owned subsidiaries

Name	Country of incorporation	Country of operation	Voting held by non-controlling interests	Profit/(loss) allocated to non-controlling interests in JSCs	Accumulated non-controlling interests in JSCs at end of year
			2013		
Citer Invest B.V.	The Netherlands	Russia	49.5%	(356)	1,257
			2012		
Citer Invest B.V.	The Netherlands	Russia	49.5%	365	1,613

The summarized financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of comprehensive income

Citer Invest B.V.	**2013**	**2012**
Valuation (losses)/gains on investment property under construction	(879)	853
Administration and selling expenses	(50)	(7)
Finance (expenses)/income, net	(20)	63
(Loss)/profit before tax	**(949)**	**909**
Income tax benefit/(expense)	230	(171)
(Loss)/profit for the year	**(719)**	**738**
Total comprehensive (loss)/income	**(719)**	**738**
Attributable to:		
Owners of the parent	(363)	373
Non-controlling interests in JSCs	(356)	365

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

6. Material partly owned subsidiaries (continued)

Summarized statement of financial position

Citer Invest B.V.	31 December 2013	31 December 2012
Non-current assets		
Property, plant and equipment	681	8
Investment property under construction	8,102	8,394
Other non-financial assets	1,965	330
	10,748	**8,732**
Current assets		
Inventory property with period of sale above the year	1,111	–
Other financial assets	118	114
Other non-financial assets	455	186
	1,684	**300**
Total assets	**12,432**	**9,032**
Non-current liabilities		
Interest bearing loans and borrowings	8,568	4,496
Deferred tax liability	689	919
	9,257	**5,415**
Current liabilities		
Interest bearing loans and borrowings	54	179
Trade and other payables	36	7
Other non-financial liabilities	546	172
	636	**358**
Total liabilities	**9,893**	**5,773**
Equity	**2,539**	**3,259**
Attributable to:		
Owners of the parent	1,282	1,646
Non-controlling interests in JSCs	1,257	1,613

Summarized cash flow information

Citer Invest B.V.	2013	2012
Net cash flow from operating activities	530	59
Net cash flow from investing activities	(3,772)	(2,065)
Net cash flow from financing activities	3,227	2,108
Effects of foreign currency translation on cash	(1)	(1)
Net increase/(decrease) in cash and short-term deposits	**(16)**	**101**

Name	Country of incorporation	Country of operation	Voting held by non-controlling interests	Profit/(loss) allocated to net assets attributable to non-controlling participants in LLCs	Accumulated net assets attributable to non-controlling participants in LLCs at end of year
			2013		
Gorki-8	Russia	Russia	25.1%	(350)	(372)

The summarized financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

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

6. Material partly owned subsidiaries (continued)

Summarized statement of comprehensive income

Gorki-8	**2013**
Other sales	72
Write-down of inventory property to net realizable value	(661)
Administration and selling expenses	(30)
Other operating expenses	(9)
Finance expenses	(1,113)
Loss before tax	**(1,741)**
Income tax benefit	346
Loss for the year	**(1,395)**
Total comprehensive loss	**(1,395)**
Comprehensive loss attributable to owners of the parent	(1,045)
Net assets attributable to non-controlling participants in LLCs	(350)

Summarized statement of financial position

Gorki-8	**31 December 2013**
Current assets	
Inventory property with period of sale above the year	29,552
Inventory property with period of sale within the year	1,397
Other non-financial assets	36
	30,985
Total assets	**30,985**
Non-current liabilities	
Interest bearing loans and borrowings	14,266
Deferred tax liability	157
	14,423
Current liabilities	
Interest bearing loans and borrowings	24,185
Trade and other payables	63
	24,248
Total liabilities	**38,671**
Equity	**(7,686)**
Equity attributable to owners of the parent	(7,336)
Net assets attributable to non-controlling participants in LLCs	(372)

The Group at the time of the first application consolidated financial statements according to IFRS on 1 January 2010 net assets attributable to non-controlling participants in LLCs, of subsidiary of Gorki-8 recognized at fair value in the amount of RUR nill.

Summarized cash flow information

Gorki-8	**2013**
Net cash flow from operating activities	(2,540)
Net cash flow from investing activities	–
Net cash flow from financing activities	2,539
Net decrease in cash and short-term deposits	**(1)**

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

7. 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.

As of 31 December 2013 the Group received a guarantee deposit for the last three months of lease of Danilovsky Fort in the amount of USD 3.3 million (or RUR 102 million) and return guarantee deposits at the end of lease term of SkyLight, Leto and Detsky Mir Lubyanka in the amount of USD 8.3 million (or RUR 271 million), EUR 3.8 million (or RUR 171 million) and USD 2.9 million (or RUR 95 million), respectively. For the year ended 31 December 2013 the Group recognised interest on tenants' guarantee deposits in the amount of RUR 23 million (Note 13).

As of 31 December 2012 the Group received a guarantee deposit for the last three months of lease of SkyLight, Danilovsky Fort and Leto in the amount of USD 7.9 million (or RUR 244.2 million), USD 2.5 million (or RUR 78.1 million) and EUR 3.6 million (or RUR 147.7 million), respectively. For the year ended 31 December 2012 the Group recognised interest on tenants' guarantee deposits in the amount of RUR 25 million (Note 13).

Rental income generated by Leto, SkyLight, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR), Bul'var na Peterburgskoy (Kazan) and other properties for the year ended 31 December 2013 amounted to RUR 1,210 million, RUR 931 million, RUR 303 million, RUR 115 million, RUR 29 million and RUR 42 million, respectively.

Rental income generated by Leto, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR), Bul'var na Peterburgskoy (Kazan) and other properties for the year ended 31 December 2012 amounted to RUR 778 million, RUR 231 million, RUR 139 million, RUR 63 million and RUR 83 million, respectively.

As of 31 December 2013 and 2012 future minimum rentals receivable under non-cancellable operating leases are as follows:

	Future minimum lease payments	
Expected maturities	**2013**	**2012**
Within one year	2,694	2,241
In the second to fifth year	8,399	9,861
After fifth year	302	235
	11,395	**12,337**

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

In 2012 the Group completed the project Solntse, signed acts of acceptance and transfer of real estate properties and in 2013 and 2012 recognised revenue from sales of inventory property in the amount of RUR 429 million and RUR 5,190 million, and cost of sales in the amount of RUR 220 million and RUR 2,614 million, respectively.

In 2012 the Group signed an act of investment contract completion for Michurinsky project and recognised revenue from sales of inventory property and cost of sales in the amount of RUR 3,057 million and RUR 2,111 million, respectively.

In 2012 the Group recognised revenue from sales of inventory property and cost of sales relating to the Nakhimovski project in the amount of RUR 90 million and RUR 193 million, respectively.

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

8. Revenue from sales of inventory property, from room charges and other hotel services and other sales (continued)

	2013	2012
Total area transferred to customers, thousand square meters:	1,356.4	67,593.42
Including:		
transferred to the local authorities	–	6,764.90
transferred to other customers	1,356.4	60,828.52
Parking lots transferred to customers	2,728.00	10,766.92
Including:		
transferred to the local authorities	–	1,997.80
transferred to other customers	2,728.00	8,769.12

Revenue from room charges and other hotel services for the year ended 31 December 2013 and 2012 in the amount of RUR 446 million and RUR 411 million, respectively, is attributable to Hotel Pekin.

Other sales for the year ended 31 December 2013 and 2012 represent agency remuneration in the amount of RUR 17 million and RUR 21 million, respectively, general constructor service fees in the amount of RUR 3 million and RUR 28 million, respectively, and other revenues.

9. Administration and selling expenses

	2013	2012
Staff cost	959	867
Advertising costs	477	282
Consulting and other professional services	245	101
Realtors service fees	198	39
Cost of computer software maintenance	44	53
Depreciation and amortization	44	41
Repairs, maintenance and utilities	24	13
Hotel room reservation system fees	15	17
Banking services	12	19
Communication services	10	9
Security expenses	9	10
Rent of premises and land	6	15
Other	86	46
	2,129	**1,512**

In 2013 and 2012 the Group incurred advertising costs related to promotion campaign of main projects and “Hals” branding.

In 2013 the Group incurred consulting and other professional services attributable to legal fees in connection with court proceedings.

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

10. Other operating income

	2013	2012
Profit from sale of investment property	629	–
Recovery of receivables written off in prior periods	158	–
Penalties for delay of VAT refund	153	–
Payables and other obligations write off	109	–
Reversal of legal provision	40	–
Fines and penalties of receivable	35	–
Reversal of development rights impairment	–	453
Expired construction warranty provision write off	–	197
Gain on remeasurement of investments in associate to fair value (Note 5)	–	92
Gain on plant reallocation	–	61
Other	47	69
	1,171	**872**

In 2013 the Group recognised a profit from sale of investment property in the amount of RUR 629 million, including profit from sale of part of Tower B Skylight, Bul`var na Peterburgskoy (Kazan) and Krasnoyarsk land plot in the amount of RUR 283 million, RUR 292 million and RUR 54 million, respectively.

In 2013 the Group received penalties for delay of VAT refund from the tax inspection on the construction of Skylight and Leto in the amount of RUR 153 million.

In 2013 the Group recognized income on write off of payables in the amount of RUR 109 million as a result of the limitation period expiration.

In 2012 the Group reversed impairment of development rights related to Kuntsevo project in the amount of RUR 453 million (Note 19).

In 2012 the Group wrote off expired construction warranty provision accrued in previous periods in the amount of RUR 197 million.

Gain on remeasurement of the investment in associate to fair value in the amount of RUR 92 million was recognized upon the acquisition of JSC Hals-Technopark (Note 5).

In 2012 the Group reallocated the plan as part of Preobragensky project. As a result the net gain of RUR 61 million was recognized as other operating income.

11. Other operating expenses

	2013	2012
Impairment of property plant and equipment (Note 18)	1,337	490
Taxes other than income tax	500	258
Receivables and other assets write off	380	307
Penalties for delay of property commissioning	290	–
Goodwill impairment and write off (Note 19)	–	781
Loss from remeasurement of investment in associate to fair value (Note 5)	–	428
Penalty for cancellation of the contract on cooperation with Apsys	–	110
Loss from sale of investment property	–	69
Other	175	111
	2,682	**2,554**

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

11. Other operating expenses (continued)

In 2013 the Group recognised loss in the amount of RUR 290 million on penalties for delay of Kamelia hotel commissioning.

In 2013 the Group wrote off receivables due from customers, VAT reimbursable and other assets in the amount of RUR 241 million, RUR 94 million and RUR 13 million, respectively.

In 2012 the Group recognized impairment of goodwill on acquisition of SistemApsys S.A.R.L. and wrote off goodwill related to StroyPromOb'ekt in the amount of RUR 769 million and RUR 12 million, respectively (Note 19).

In 2012 the Group recognized a loss from sale of investment property in the amount of RUR 69 million, including loss from sales of B.Tatarskaya land plot and part of the Nastasinsky building in the amount of RUR 73 million and RUR 58 million, respectively, and profit from sale of Magistralnaya building in the amount of RUR 62 million.

In 2012 the Group recognized a loss of RUR 428 million upon acquisition of SistemApsys S.A.R.L. (Note 5).

In January 2012 the Group cancelled a contract with LLC Apsys Rus Management on managing of the Leto project caused by breach of this contract by the Group. As the result the Group paid penalty in the amount of RUR 110 million which were recognized as other operating expenses.

In 2012 the Group wrote off VAT reimbursable, receivables due from customers and other assets in the amount of RUR 164 million, RUR 81 million and RUR 62 million, respectively.

12. Finance income

	2013	2012
Interest on loans issued	17	117
Unwinding of discount of long-term receivable (Note 21)	47	70
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 30)	8	–
Interest on bank deposits	202	130
	274	**317**

In 2013 and 2012 the Group recognized the unwinding of the discount related to long term receivable as finance income in the total amount of RUR 47 million and RUR 70 million, respectively.

13. Finance expenses

	2013	2012
Interest on bank loans	9,001	7,571
Less: amounts capitalized	(3,076)	(3,305)
Interest on tenants' guarantee deposits	23	25
Finance lease expenses	24	–
Net income attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 30)	–	19
Total	**5,972**	**4,310**

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

13. Finance expenses (continued)

In 2013 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 851 million, RUR 1,970 million and RUR 255 million, respectively.

In 2012 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 992 million, RUR 2,145 million and RUR 168 million, respectively.

14. Income tax

The major components of income tax for the years ended 31 December 2013 and 2012 are:

	2013	2012
Consolidated statement of comprehensive income		
Income tax expense – current	(85)	(702)
Income tax provision	(203)	(83)
Deferred tax expense	(12)	(95)
Income tax expense reported in the consolidated statement of comprehensive income	**(300)**	**(880)**

A reconciliation between income tax expense and the product of accounting loss multiplied by statutory tax rate for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
Loss before tax	**(5,275)**	**(229)**
Income tax computed on loss before taxes at statutory rate (20%)	1,055	46
Non-deductible expenses	(863)	(169)
Effect of tax rates in other jurisdictions	(153)	(294)
Effect of net gain/(loss) attributable to non-controlling participants in LLCs	2	(4)
Change in unrecognised losses carried forward	(138)	(376)
Income tax provision	(203)	(83)
Income tax expense reported in the consolidated statement of comprehensive income	**(300)**	**(880)**

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

14. Income tax (continued)

	Consolidated statement of financial position		Acquisition of one asset entity and disposal of subsidiary (Note 5)	Consolidated statement of comprehensive income
	31 December 2013	31 December 2012	2013	2013
Deferred tax liability				
Revaluations of investment property to fair value	(4,976)	(4,654)	–	(322)
Timing of recognition on financial results	(65)	(65)	–	–
Timing of capitalized interest recognised	(1,516)	(1,012)	–	(504)
Timing of costs recognised	(1,019)	(370)	–	(649)
Other liability	(214)	(99)	(4)	(111)
	(7,790)	**(6,200)**	**(4)**	**(1,586)**
Deferred income tax assets				
Accrual of provisions	68	35	–	33
Valuations of assets other than investment property	99	93	–	6
Revaluations of investment property to fair value	679	482	–	197
Depreciation	3	3	–	–
Losses available for offset against future taxable income	4,580	3,133	–	1,447
Unrecognised tax losses carried forward	(582)	(444)	–	(138)
Other assets valuation	72	44	(1)	29
	4,919	**3,346**	**(1)**	**1,574**
Deferred tax expense				**(12)**

	Consolidated statement of financial position		Business combinations (Note 5)	Consolidated statement of comprehensive income
	31 December 2012	31 December 2011	2012	2012
Deferred tax liability				
Revaluations of investment property to fair value	(4,654)	(4,206)	(269)	(179)
Timing of recognition on financial results	(65)	(227)	–	162
Timing of capitalized interest recognised	(1,012)	(357)	(297)	(358)
Timing of costs recognised	(370)	(181)	–	(189)
Other liability	(99)	(78)	–	(21)
	(6,200)	**(5,049)**	**(566)**	**(585)**
Deferred income tax assets				
Accrual of provisions	35	–	8	27
Valuations of assets other than investment property	93	148	–	(55)
Revaluations of investment property to fair value	482	699	–	(217)
Depreciation	3	37	–	(34)
Losses available for offset against future taxable income	3,133	1,318	679	1,136
Unrecognised tax losses carried forward	(444)	(68)	–	(376)
Other assets valuation	44	35	–	9
	3,346	**2,169**	**687**	**490**
Deferred tax expense				**(95)**

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

14. Income tax (continued)

	Consolidated statement of financial position	
	31 December 2013	**31 December 2012**
Deferred tax liability, net		
Reflected in the consolidated statement of financial position as follows:		
Deferred tax assets	2,391	1,711
Deferred tax liability	(5,262)	(4,565)
Deferred tax liability, net	**(2,871)**	**(2,854)**

Reconciliation of deferred tax liability, net for the years ended 31 December 2013 and 2012 is follows:

	2013	2012
At 1 January	**(2,854)**	**(2,880)**
Deferred tax expense recognised in the consolidated statement of comprehensive income	(12)	(95)
Deferred tax acquired in business combinations and one asset entity (Note 5)	(4)	121
Deferred tax disposed with subsidiary (Note 5)	(1)	–
At 31 December	**(2,871)**	**(2,854)**

As of 31 December 2013 and 2012 cumulative tax loss in the amount of RUR 19,990 million and RUR 13,445 million, respectively, for which deferred tax asset was recognised, is available to offset against future taxable profit during successive 5-10 years. Unrecognised deferred tax assets are available to offset during successive 5-10 years as well.

As of 31 December 2013 and 2012 the Group did not recognise deferred tax asset for tax loss in the amount of RUR 2,910 million and RUR 2,220 million, respectively, as it is not probable that taxable profits will be available in the foreseeable future against which those tax losses could be utilised before expired for the respective entity of the Group.

15. Completed investment property

	2013	2012
At 1 January	**25,419**	**5,572**
Capital expenditure on owned property	1,799	1,420
Acquisition of subsidiary (Note 5)	–	6,621
Disposals (Note 8)	(2,621)	(507)
Transfer to assets classified as held for sale (Note 25, 32)	(5,089)	–
Transfer from investment property under construction (Note 16)	–	12,126
Fair value adjustment	2,851	187
At 31 December	**22,359**	**25,419**

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 judgement and not only relied on historical transactional comparables.

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

15. Completed investment property (continued)

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 buildings, held primarily to earn rental income, totaling RUR 20,996 million and RUR 23,974 million of 31 December 2013 and 31 December 2012, respectively, the income method was used.

The significant assumptions made relating to income method valuations of the major projects of the Group held primarily to earn rental income are set out below:

	31 December 2013	31 December 2012
Contracted rental rate, kRUR/sq. m/per year	18.2	13.1
Average annual rental rate indexation	4.8%	6.2%
Market rental rate		
office, kRUR/sq. m/year	20.4	14.5
retail, kRUR/sq. m/year	13.6	9.0
Terminal capitalization rate	9.5%	10.3%
Discount rate	13.1%	12.9%

In determining the fair value of land, held to benefit from capital appreciation over the long-term and for currently undetermined use, totaling RUR 1,363 million and RUR 1,445 million as of 31 December 2013 and 31 December 2012, respectively, the comparative method was used.

In 2012 SkyLight building with a book value of RUR 12,126 million was transferred from investment property under construction to completed investment property as the Group has completed this property.

16. Investment property under construction

	2013	2012
At 1 January	**15,348**	**20,427**
Capital expenditure	2,605	4,408
Interest capitalized (Note 13)	851	992
Acquisition of investment property	4,741	–
Transfer to inventory property (Note 20)	(931)	(1,032)
Transfer to property, plant and equipment (Note 18)	(564)	–
Transfer to completed investment property (Note 15)	–	(12,126)
Fair value adjustment	432	2,679
At 31 December	**22,482**	**15,348**

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.

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

16. Investment property under construction (continued)

In determining the fair value of investment property under construction, totaling RUR 22,482 million and RUR 15,348 million of 31 December 2013 and 31 December 2012, respectively, the income method was used.

The significant assumptions made relating to income method valuations of the major projects of the Group are set out below:

	31 December 2013	31 December 2012
Average annual rental rate indexation	5.0%	5.0%
Market rental rate		
office, kRUR/sq. m/year	24.5	24.2
retail, kRUR/sq. m/year	52.0	48.2
Terminal capitalization rate	9.5%	9.5%
Discount rate	19.1%	21.3%
Construction costs, kRUR/sq. m	65.2	65.9

In 2013 a residential part and hotel of multifunctional terminal complex “Moscow-City“ (the project “IQ-quarter) in the amount of RUR 931 million and RUR 564 million were transferred to inventory property and property, plant and equipment, respectively, as the project reached an advanced stage and the Group became able to split it into three separate parts based on available project documentation.

In 2013 the Group acquired the project Iskra thought the acquisition of one asset entity Gurdon Management Ltd (Cyprus) from a third party. The project comprises the right to lease the land to future implementation of the investment contract for the construction of this area of commercial real estate. Based on the investment contract the Group is obliged to construct real estate properties, where 20% of premises are transferred to Iskra plant, the land plot owner, for the land-use rights given to the Group to construct those real estate properties. At the date of exchange, which is the acquisition date, the Group recognises the land-use rights included in total costs of the project and the obligations to develop property as non-financial liability at the fair value of the properties to be given up in the amount of RUR 1,400 million (Note 29).

17. Investments in joint venture

Investments in joint venture consisted of the following:

Name	Country of incorporation	Country of operation	Project	Voting and effective %	31 December 2013	31 December 2012
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	1,906	1,938
Total					**1,906**	**1,938**

	2013	2012
At 1 January	**1,938**	**3,947**
Share of loss of joint ventures, net of tax, in the consolidated statement of comprehensive income	(32)	(162)
Remeasurement of stake in Hals-Technopark (Note 10)	–	92
Disposal of Hals-Technopark (Note 5)	–	(973)
Remeasurement of stake in Joint venture with Apsys (Note 11)	–	(428)
Disposal of Joint venture with Apsys (Note 5)	–	(538)
At 31 December	**1,906**	**1,938**

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

17. Investments in joint venture (continued)

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

	31 December 2013	31 December 2012
Non-current assets	14,423	16,571
Current assets	5,984	350
Non-current liabilities	(10,940)	(10,222)
Current liabilities	(5,655)	(2,823)
Net assets	**3,812**	**3,876**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investments	**1,906**	**1,938**

	2013	2012
Loss for the year	**(63)**	**(324)**
Group's share of loss for the year	**(32)**	**(162)**

The Group has not incurred any contingent liabilities in relation to its interest in the joint venture, 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 venture.

18. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
At 1 January 2012	**2,219**	**113**	**1,004**	**3,336**
Additions	110	75	1,389	**1,574**
Acquisition of a subsidiaries (Note 5)	–	3	–	**3**
Disposals	–	(12)	–	**(12)**
Transfer to inventory property (Note 20)	–	–	(1,294)	**(1,294)**
At 31 December 2012	**2,329**	**179**	**1,099**	**3,607**
Additions	–	250	3,660	**3,910**
Disposals	–	(19)	–	**(19)**
Transfer from investment property under construction (Note 16)	–	–	564	**564**
At 31 December 2013	**2,329**	**410**	**5,323**	**8,062**
Accumulated depreciation and impairment				
At 1 January 2012	**(64)**	**(49)**	**(609)**	**(722)**
Depreciation charge for the year	(80)	(18)	–	**(98)**
Impairment (Note 11)	–	–	(490)	**(490)**
Disposals	–	11	–	**11**
At 31 December 2012	**(144)**	**(56)**	**(1,099)**	**(1,299)**
Depreciation charge for the year	(77)	(36)	–	**(113)**
Impairment (Note 11)	–	–	(1,337)	**(1,337)**
Disposals	–	13	–	**13**
At 31 December 2013	**(221)**	**(79)**	**(2,436)**	**(2,736)**
Net book value				
At 31 December 2013	**2,108**	**331**	**2,887**	**5,326**
At 1 January 2013	**2,185**	**123**	**–**	**2,308**

18. Property, plant and equipment (continued)

The amount of borrowing costs capitalised during the years ended 31 December 2013 and 2012 was RUR 255 million and RUR 168 million, respectively.

In 2013 and 2012 the Group capitalized staff costs in property, plant and equipment (project Kamelia) in the amount of RUR 31 million and RUR 21 million, respectively.

In 2012 a residential part of the Kamelia project in the amount of RUR 1,294 million was transferred from property, plant and equipment to inventory property as the project reached an advanced stage and the Group became able to split it into two separate parts based on available project documentation.

In 2013 and 2012 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 1,337 million and of RUR 490 million, respectively (which is included in other operating expenses).

The major events and circumstances that led to the recognition of impairment for 2013 and 2012 were:

- 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 change of a hotel management company.

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

- discount rate – 18% (12% after entering of hotel in operation for impairment test in 2012);
- period of hotel operation is from 2014 to 2018 in which it is planned to be sold (from 2014 to 2018 for impairment test in 2012);
- capitalisation rate – 11% (10% for impairment test in 2012).

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

19. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
Cost				
1 January 2012	**92**	**675**	**37**	**804**
Goodwill on acquisition of subsidiary (Note 5)	769	–	–	**769**
31 December 2012	**861**	**675**	**37**	**1,573**
Additions	–	–	1	**1**
Disposals	–	–	(33)	**(33)**
31 December 2013	**861**	**675**	**5**	**1,541**
Depreciation and impairment				
1 January 2012	**–**	**(675)**	**(23)**	**(698)**
Amortization	–	–	(14)	**(14)**
Impairment (Note 11)	(769)	–	–	**(769)**
Reversal of impairment	–	453	–	**453**
31 December 2012	**(769)**	**(222)**	**(37)**	**(1,028)**
Disposals	–	–	32	**32**
31 December 2013	**(769)**	**(222)**	**(5)**	**(996)**
Net book value				
31 December 2013	**92**	**453**	**–**	**545**
31 December 2012	**92**	**453**	**–**	**545**

In January 2012 the Group recognised goodwill in the amount of RUR 769 million which arose on acquisition of SistemApsys S.A.R.L. (the project Leto). As of 31 December 2012 goodwill impairment testing conducted on the basis of the project Leto as a cash generating unit. The recoverable amounts the project Leto were determined based in the discounted future cash flows. The significant assumptions made by reference to market-based evidence relating the estimation of Leto's recoverable amounts are set out below:

- discount rate – 12%;
- period of the project Leto operation is from 2012 to 2015 in which it is planned to be sold;
- capitalisation rate – 10%.

As a result the Group recognised impairment loss in the amount of RUR 769 million (which is included in other operating expenses).

The major events and circumstances that led to the recognition of impairment were:

- postponement of the completion of construction work of the project Leto;
- increased future construction costs.

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

19. Intangible assets (continued)

In 2011 the Group recognised goodwill in the amount of RUR 92 million which arose on acquisition of Citer Invest B.V (the project IQ-quarter). As of 31 December 2013 and 2012 goodwill impairment testing conducted on the basis of the project IQ-quarter as a cash generating unit. The recoverable amounts the project IQ-quarter were determined based in the discounted future cash flows. The significant assumptions made relating the estimation of IQ-quarter's recoverable amounts are set out below:

- discount rate as at 31 December 2013 – 18.8% (31 December 2012: 22%);
- period of the project IQ-quarter operation is as at 31 December 2013 - from 2015 to 2018-2021 in which it is planned to be sold (31 December 2012: from 2015 to 2017-2020);
- capitalisation rate as at 31 December 2013 - 10% (31 December 2012: 10%).

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value materially exceed its recoverable amount.

In 2011 Department of Land Resources of Moscow forbade of development rights to Kuntsevo without bidding. In December 2012 Moscow Arbitration Court abolished the decision of the Department of Land Resources of Moscow of 2011. As a result, the Group reversed previously recognised impairment of Kuntsevo development rights in the amount of RUR 453 million.

20. Inventory property

	2013	2012
At 1 January	**38,974**	**22,789**
Construction costs incurred	9,669	12,076
Interest capitalised	1,970	2,145
Acquisition of subsidiary (Note 5)	–	3,887
Disposal of subsidiary (Note 5)	(155)	–
Acquisition of inventory property	–	1,300
Transfer from investment property (Note 16)	931	1,032
Transfer from property, plant and equipment (Note 18)	–	1,294
Property sold (Note 8)	(220)	(4,918)
Write-down of inventory to net realizable value	(1,490)	(631)
At 31 December	**49,679**	**38,974**

In 2012 the Group acquired the project Wine House for construction and sale of residential real estate from related parties (VTB Group) in the amount of RUR 1,300 million.

In 2012 part of Preobragensky (former NIIDAR) project in the amount of RUR 1,032 million was transferred from investment property under construction to inventory property as the Group's management changed the concept of these projects fully to residential developments with a view to sale.

As of 31 December 2013 and 2012 the Group tested inventory property for recoverability. As a result of the test, in 2013 and 2012 the Group recognised loss on inventory property write down to net realizable value in the amount of RUR 1,490 million and RUR 631 million.

In the years ended 31 December 2013 and 2012 the Group capitalized staff costs in inventory property in the amount of RUR 141 million and RUR 17 million, respectively.

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

21. Trade receivables, other receivables and other financial assets

Current financial assets	31 December 2013	31 December 2012
Trade receivables		
Trade receivable from third parties	94	65
	94	**65**
Other receivables		
Other receivable from third parties	725	785
Other receivable from related parties	23	1
	748	**786**
	842	**851**

Other current financial assets	31 December 2013	31 December 2012
Other financial assets	334	334
	334	**334**

Non-current financial assets	31 December 2013	31 December 2012
Other financial assets	–	266
	–	**266**

As of 31 December 2013 other non-current and current financial assets comprise the amortized cost of receivables from the sale of ZAO RTI Estate in the amount of RUR nill and RUR 265 million, respectively (31 December 2012: RUR 207 and RUR 265 million, respectively), and amortized cost of other receivables in the amount of RUR nill million and RUR 69 million, respectively (31 December 2012: RUR 59 and RUR 69 million, respectively). The effect of unwinding of discount is reflected in the financial income (Note 12).

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

22. Loans and notes receivable

	Interest rate %	Maturity	31 December 2013	31 December 2012
Current – third parties:				
Novjusar	10.00%	2014	13	–
Trast-Rezerv	10.00%	2014	–	32
Trast-Rezerv	The rate of the Central Bank (RF) + 1%	2013	–	2
Other Third Parties	Various	2014	6	2
			19	**36**
Current – related parties:				
VTB	7.22%	2013	–	36
Other Related Parties	Various	2014	3	4
			3	**40**
			22	**76**
Non-current – third parties:				
Novjusar	10.00%	2014	–	11
			–	**11**

Loans and notes receivable are neither past due nor impaired.

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

23. Cash and short term deposits

	31 December 2013	31 December 2012
Cash at bank and on hand	771	543
Short-term deposits	6,635	1,910
	7,406	**2,453**

As of 31 December 2013 cash and short-term deposits were deposited as follows:
RUR 7,396 million in VTB Bank (31 December 2012: RUR 2,281 million), RUR 10 million in other banks (31 December 2012: RUR 172 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 31 December 2013 and 31 December 2012 was 5.5% and 4.5%, respectively.

As at 31 December 2013 VTB Bank has Baa2 credit rating assigned by the Moody's credit rating agency.

As at 31 December 2012 VTB Bank has Baa1 credit rating assigned by the Moody's credit rating agency.

24. Other non-financial assets

	31 December 2013	31 December 2012
Other non-current		
Advances issued for construction of investment property	3,116	2,501
Advances issued for construction of property, plant and equipment	464	14
	3,580	**2,515**
Other current assets		
Advances issued for construction of inventory property with period of sale above the year	1,759	2,319
Advances issued for construction of inventory property with period of sale within the year	5	39
Advance payments for taxes	36	89
Other current non-financial assets	238	50
	2,038	**2,497**

25. Assets and liabilities, classified as held for sale

In the third quarter of 2013 the management of the Group decided to sell Tower B of "SkyLight", located on the Leningradskoe highlway in Moscow, which is a business centre class A with two symmetrical towers. In December 2013 part of Tower B was sold (Note 8). The remaining part of assets and liabilities in the amount of RUR 5,089 million and RUR 450 million, respectively as at 31 December 2013 was classified as assets and liabilities held for sale as the management of the Group is committed to a plan to sell Tower B within one year from the date of classification. The Group conducts active searching of buyers and advertising campaign. These assets and liabilities are included in "investment property – submitted to the operating lease" segment (Note 35).

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

26. Equity

At 31 December 2013 and the 31 December 2012 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 years ended 31 December 2013 and 2012 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	*Thousands*	*Thousands*
As of 31 December 2012	**11,217**	**(5)**	**11,212**
As of 31 December 2013	**11,217**	**(5)**	**11,212**

27. Interest bearing loans and borrowings

	Interest rate %	Maturity	31 December 2013	31 December 2012
Current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2020	6,072	–
VTB	9.5%	2017	2,174	1,373
VTB	9.5%	2016	67	–
VTB	9.5%	2015	–	649
VTB	12.0%	2017	17,651	13,539
VTB	The rate of the Central Bank (RF) + 0.25%	2014	5,261	–
VTB	The rate of the Central Bank (RF) + 0.25%	2015	4,077	3,807
VTB	The rate of the Central Bank (RF) + 0.25%	2016	1,591	1,313
			36,893	**20,681**
Current interest-bearing loans and borrowings from third parties				
Vnesheconombank	9.0%	2014	2,456	2,303
Other third parties	Various		9	11
			2,465	**2,314**
Total current interest-bearing loans and borrowings			**39,358**	**22,995**
Non-current interest-bearing loans and borrowings from related parties				
VTB	8.0%	2015	4,128	1,477
VTB	9.5%	2017	26,264	26,755
VTB	9.5%	2021	24,468	22,709
VTB	9.5%	2020	10,914	12,672
VTB	9.5%	2022	3,841	–
VTB	9.5%	2016	3,759	4,853
VTB	9.5%	2019	3,521	2,063
VTB	9.5%	2015	3,210	2,985
VTB	10.0%	2015	5,928	2,327
VTB	The rate of the Central Bank (RF) + 0.25%	2015	620	580
VTB	The rate of the Central Bank (RF) + 0.25%	2014	–	5,887
Other Related Parties	Various	2015	40	9
			86,693	**82,317**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V	8.15%	2018	1,305	1,143
Other Third Parties	Various	Various	21	22
			1,326	**1,165**
Total non-current interest-bearing loans and borrowings			**88,019**	**83,482**
Total interest-bearing loans and borrowings			**127,377**	**106,477**

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

27. Interest bearing loans and borrowings (continued)

The schedule of repayment of debt as at 31 December 2013 is as follows:

Year ended 31 December 2013	
2014	7,726
2015	18,024
2016	5,417
2017	46,089
2018	1,305
2019	3,521
2020	16,986
2021	24,468
2022	3,841
Total	**127,377**

VTB

In March 2012 the Group signed the loan agreement with VTB with a limit of RUR 1,780 million, the interest rate of 9.5% per annum and maturing in three years for the purpose of financing the Literator project. The loan is to be repaid in July 2015. As of 31 December 2013 and 31 December 2012 the loan facility was fully repaid and utilized in the amount of RUR 604 million, respectively.

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 project. The loan is to be repaid in March 2022. As of 31 December 2013 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 Povarskaya 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 of 31 December 2013 and 31 December 2012 the loan facility was utilized in the amount of RUR 1,439 million and RUR 1,273 million, respectively.

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 and 31 December 2012 the loan facility was utilized in the amount of RUR 8,730 million and RUR 5,488 million, respectively.

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 terminal complex IQ-quarter. The loan is to be repaid in November 2015. As of 31 December 2013 the loan facility was utilized in the amount of RUR 2,220 million.

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 the loan facility was utilized in the amount of RUB 66 million.

27. Interest bearing loans and borrowings (continued)

VTB (continued)

In January 2012 the Group agreed with VTB to increase the limit of the credit agreement for financing of the Leto project up to USD 190 million. The repayment date was prolonged from May 2012 to December 2016. In April 2012 the Group converted the currency of this loan agreement from USD to RUR. The interest rate was not changed and remained 9.5% per annum. As a result no substantial modification of the terms of an existing liability occurred. As of 31 December 2013 and 31 December 2012 the loan facility was utilized in the amount of RUR 4,162 million.

In February 2012 the Group signed new credit facility agreement with VTB with a limit of RUR 980 million, the interest rate of 9.5% per annum and maturing in five years for the purpose of financing the Povarskaya project. As of 31 December 2013 and 31 December 2012 the loan facility was fully utilized.

In April 2012 the Group converted the currency of the loan agreement with VTB with a limit of RUR 2,370 million signed for the purpose of purchase of 50% share in CJSC Ekvivalent from USD to RUR. The interest rate was not changed and remained 9.5% per annum. As a result no substantial modification of the terms of an existing liability occurred. As of 31 December 2013 and 31 December 2012 the loan facility was utilized in the amount of RUR 2,370 million and RUR 2,370 million, respectively.

In April 2012 the Group terminated loan agreement with VTB for the purpose of financing GK Solntse project and the loan facility was fully repaid.

In July 2012 the Group agreed to reduce the limit of another credit facility agreement from RUR 13,970 million to RUR 12,970 million and to prolong the repayment date of this facility from August 2012 to December 2017; to prolong the repayment date of a credit facility with a limit of RUR 5,588 million from November 2012 to December 2017, to prolong the repayment date of a credit facility with a limit of RUR 756 million from November 2012 to December 2020, and to prolong the repayment date of a credit facility with a limit of RUR 4,000 million from November 2012 to December 2020. As a result all loans due to VTB maturing in 2012 with a carrying value of RUR 30,396 million as of 31 December 2012 were prolonged until 2017-2020. As a result no substantial modification of the terms of an existing liability occurred. As of 31 December 2013 and 31 December 2012 the loan facility was utilized in the amount of RUR 18,165 million and RUR 20,315 million, respectively.

In September 2012 the Group terminated loan agreement with VTB for the purpose of financing Bulvar na Peterburgskoy (Kazan) project and the loan facility was fully repaid.

In December 2012 the Group signed new loan agreement with VTB with a limit of RUR 3,971 million, the interest rate of 9.5% per annum and maturing in five years for the purpose of financing Wine House project. As of 31 December 2013 and 31 December 2012 the loan facility was utilized in the amount of RUR 962 million and RUR 329 million, respectively.

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

28. Trade and other payables

	31 December 2013	31 December 2012
Current financial liability		
Trade payables		
Guarantee retentions	389	174
Other trade payable to third parties	114	134
	503	**308**
Other payables		
Payable to employees	722	219
Taxes payable	1,476	303
Other payable to third parties	243	359
Financial lease obligations	47	31
	2,488	**912**
	2,991	**1,220**
Non-current financial liability		
Trade payables		
Guarantee retentions	497	–
	497	**–**
Other payables		
Financial lease obligations	81	76
Embedded financial derivatives	33	–
	114	**76**
	611	**76**

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.

29. Other non-financial liability

	31 December 2013	31 December 2012
Non-current		
Advances from Iskra (Note 16)	1,400	–
Advances from customers	912	–
Deferred rent income	119	196
	2,431	**196**
Current liability		
Advances from customers with period of settlement above the year	9,441	2,312
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	1,055	1,448
	12,155	**5,419**

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

30. Net assets attributable to non-controlling participants in LLC's

	2013	2012
At 1 January	**19**	**–**
Net (loss)/profit attributable to non-controlling participants in LLCs (Note 12, 13)	(8)	19
Transfer to equity	22	–
At 31 December	**33**	**19**

31. 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 consolidated financial statements.

	Carrying amount		Fair value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Financial assets				
Trade and other receivables	1,176	1,185	1,176	1,185
Loans and notes receivable	22	87	22	87
Other financial assets	–	266	–	266
Cash and short-term deposits	7,406	2,453	7,406	2,453
	8,604	**3,991**	**8,604**	**3,991**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(11,549)	(11,588)	(11,549)	(11,588)
Fixed rate borrowings	(115,828)	(94,889)	(100,935)	(81,040)
Trade and other payables	(3,602)	(1,296)	(3,602)	(1,296)
Tenants' guarantee deposits	(484)	(274)	(484)	(274)
	(131,463)	**(108,047)**	**(116,570)**	**(94,198)**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade and other receivables, trade and other payables and other current financial assets approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term and short-term loans and notes receivable are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation as at 31 December 2013 and 31 December 2012 the carrying amounts of such loans and notes receivable are not materially different from their fair values.
- The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms and remaining maturities. The carrying values of floating rate loans and borrowings approximate their fair values as at 31 December 2013 and 31 December 2012.

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

31. Fair values of financial assets and financial liabilities (continued)

- 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 31 December 2013 and 31 December 2012 approximate 9,68% and 9,5%, respectively) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 31 December 2013 and 31 December 2012 are accounted for at amortized cost.

32. Fair value measurement

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

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2013:

			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:					
Assets classified as held for sale					
Completed investment property (Note 25)	31 December 2013	**5,089**	–	–	5,089
Investment properties					
Completed investment property (Note 15)	31 December 2013	**22,359**	–	–	22,359
Investment property under construction (Note 16)	31 December 2013	**22,482**	–	–	22,482
Liabilities measured at fair value:					
Liabilities directly associated with the assets classified as held for sale					
Derivatives (Note 25)	31 December 2013	**345**	–	–	345
Liabilities for which fair values are disclosed (Note 31)					
Loans and borrowings	31 December 2013	**112,484**	–	–	112,484

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2012:

			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:					
Investment properties					
Completed investment property (Note 15)	31 December 2012	**25,419**	–	–	25,419
Investment property under construction (Note 16)	31 December 2012	**15,348**	–	–	15,348
Liabilities for which fair values are disclosed (Note 31)					
Loans and borrowings	31 December 2012	**92,628**	–	–	92,628

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

32. Fair value measurement (continued)

Description of significant unobservable inputs to valuation:

	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	12.0%-14.8% (13.1%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (405) mln and RUR 418 mln, respectively
Completed investment property	DCF Method	Average annual rental rate indexation	3.5%-6% (4.8%)	3% increase/(decrease) in the basis points would result in increase (decrease) in fair value by RUR 1,402 mln and RUR (1,309) mln, respectively
Completed investment property	DCF Method	Terminal capitalisation rate	9.0%-10% (9.5%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,463) mln and RUR 1,811 mln, respectively
Investment property under construction	DCF Method	Discount rate	18.8%-19.5% (19.1%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,140) mln and RUR 1,209 mln, respectively
Investment property under construction	DCF Method	Average annual rental rate indexation	5.0%-5.0% (5%)	3% increase/(decrease) in the basis points would result in increase (decrease) in fair value by RUR 2,401 mln and RUR (1,209) mln, respectively
Investment property under construction	DCF Method	Terminal capitalisation rate	9.0%-10% (9.5%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,385) mln and RUR 1,686 mln, respectively

33. Transactions with related parties

The following table provides the details of transactions that have been entered into with related parties for the years ended 31 December:

Transactions with related parties	2013	2012
Services provided to associates		
Services provided to SistemApsys S.A.R.L.	–	1
	–	**1**
Interest income from associates		
Interest income from SistemApsys S.A.R.L. and Hals-Invest-Development	–	91
Interest income from other associates	–	6
	–	**97**
Interest on borrowings to shareholders		
Interest on borrowings payable to VTB	5,600	4,265
	5,600	**4,265**
Interest income from shareholders		
Interest income from VTB	190	83
	190	**83**
Interest income from other related parties		
Interest income from Bank of Moscow	–	47
	–	**47**

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

33. Transactions with related parties (continued)

	31 December 2013	31 December 2012
Amounts due from associates		
Trade and other receivables from other associates	–	**3**
Loans and notes receivable other associates	–	3
	–	**6**
Amounts due from shareholder		
Cash and short-term deposits in VTB	7,396	2,281
Trade and other receivables from VTB	22	–
Loans and note receivable from VTB	–	36
	7,418	**2,317**
Amounts due to shareholders		
Loans and borrowings from VTB	123,547	102,989
	123,547	**102,989**
Amounts due from other related parties		
Cash and short-term deposits in Russian Commercial Bank (Cyprus)	–	122
	–	**122**

Major related parties with whom transactions and outstanding balances have been during the period are as follows:

- parent of the Group – VTB;
- other related parties – VTB subsidiaries (Bank of Moscow, Russian Commercial Bank (Cyprus));
- associates and jointly controlled entities – Hals-Invest-Development, SistemApsys S.A.R.L. (since January 2012 are fully controlled companies)

Group pledged collateral for loans received from VTB as disclosed in Note 36.

Related party transactions are on terms equivalent to arm's length transactions.

Compensation of key management personnel of the Group for the years ended 31 December:

	2013	2012
Short-term employee benefits	165	140
Other long-term benefits	17	15

34. Financial risk management objectives and policies

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk.

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

34. Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. Main market prices risks affecting the Group comprise: interest rate risk and foreign currency risk. The financial instruments held by the Group that are affected by market risk are principally interest bearing loans and borrowings, short-term deposits, loans and notes issued.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and borrowings with floating interest rates. The majority of loans and borrowings are at fixed rates and, accordingly, interest rate risk is limited. The Group does not use derivatives to manage its interest rate risk exposure.

The analysis below describes reasonably possible movements in interest rates with all other variables held constant, showing the impact on loss before tax.

31 December 2013	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Refinancing rate of Central Bank of the Russian Federation	0.28%	32
	-0.28%	(32)

31 December 2012	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Refinancing rate of Central Bank of the Russian Federation	1.09%	126
	-1.09%	(126)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the loans and borrowings and cash and short-term deposits denominated in USD. The Group does not use derivatives to manage its foreign currency risk exposure.

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

34. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on loss before tax
31 December 2013	10.21%	(158)
	-10.21%	158
31 December 2012	10.72%	(150)
	-10.72%	150

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its rental activities and from its financing activities, including deposits with banks and financial institutions.

To manage credit risk related to cash and short-term deposits, the Group maintains its available cash, mainly in VTB (principal shareholder of the Group). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group closely oversees the projects development and progress which mitigates its credit risk in this respect.

Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a rent agreement. Outstanding tenants' receivables are regularly monitored.

For inventory property sales customer credit risk is managed by requiring customers to pay advances before transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. If actual cash is below the forecasted amount, the Group has guaranteed financing from its principal shareholder, VTB.

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

34. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
As at 31 December 2013						
Net assets attributable to non-controlling participants in LLCs	–	–	33	–	–	**33**
Interest-bearing loans and borrowings	–	–	9,765	89,937	71,133	**170,835**
Trade and other payables	–	2,991	–	611	–	**3,602**
Tenants' guarantee deposits	–	–	–	484	–	**484**
	–	**2,991**	**9,798**	**91,032**	**71,133**	**174,954**
As at 31 December 2012						
Net assets attributable to non-controlling participants in LLCs	–	–	–	19	–	**19**
Interest-bearing loans and borrowings	–	–	11	88,354	63,582	**151,947**
Trade and other payables	–	1,220	–	76	–	**1,296**
Tenants' guarantee deposits	–	–	–	274	–	**274**
	–	**1,220**	**11**	**88,723**	**63,582**	**153,536**

Capital management

At 31 December 2013 and 31 December 2012 the Group has negative net assets.

In 2012-2013 the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the borrowings from VTB and other lenders or issue new shares.

35. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has six reportable segments in the year ended 31 December 2013:

- real estate held for sale – ready for use by the buyer (the project Nahimovsky, the project Michurinsky, the project Solntse, the project Gorki (town houses));
- real estate held for sale – under construction (the project Gorki (land plot for future construction of apartments), the project Literator, the project Sady Pekina, the project Wine House, the project Nasledie, the project IQ-quarter (apartments), the project Kamelia (apartments));
- investment property – under construction (the major projects – IQ-quarter, Detsky Mir Lubyanka);
- investment property – submitted to the operating lease (the project Danilovsky Fort, the project Leto, the project SkyLight);
- hospitality – under construction (the project Kamelia (hotel), the project IQ-quarter (hotel));
- hospitality – rented apartments (hotel Pekin).

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.

Segment revenue is cash inflows reported in the Group's management accounts that are directly attributable to a segment being cash received or non-cash forms of settlement (settlements in the form of offset and through notes instruments) from customers for sale of residential or investment property under construction, or for operating rent of premises and rendering of services.

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, intergroup counterparties and expenses relating to transactions with other segments. Segment expense includes also net cash flows from investment and financing activity of the Group.

Segment result is segment revenue less segment expense that is equal to movement in cash flows and non-cash settlements for the reporting period.

Segment assets and liabilities are not reviewed by the Group's chief operating decision maker on other than consolidated basis and presented in these consolidated financial statements.

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.

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

35. Segment information (continued)

The year ended 31 December 2013

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construction	Under construction	Submitted to the operating lease	Under construction	Rented apartments	Total
Segment revenue	**234**	**7,839**	**125**	**7,454**	**33**	**523**	**16,208**
Accrual vrs. cash basis***	–	–	–	–	–	–	**(9,423)**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**6,785**

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construction	Under construction	Submitted to the operating lease	Under construction	Rented apartments	Total
Segment result	**106**	**2,735**	**287**	**4,316**	**5**	**249**	**7,698**
Accrual vrs. cash basis***	–	–	–	–	–	–	**(12,973)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,275)**

The year ended 31 December 2012

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construction	Under construction	Submitted to the operating lease	Under construction	Rented apartments	Total
Segment revenue	**3,130**	**2,342**	**–**	**2,152**	**49**	**502**	**8,175**
Accrual vrs. cash basis***	–	–	–	–	–	–	**1,929**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**10,104**

	Real estate held for sale		Investment property		Hospitality		
	Ready for use by the buyer	Under construction	Under construction	Submitted to the operating lease	Under construction	Rented apartments	Total
Segment result	**1,468**	**(418)**	**252**	**(92)**	**27**	**5**	**1,242**
Accrual vrs. cash basis***	–	–	–	–	–	–	**(1,471)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(229)**

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

** Including impairment losses by segment hospitality under construction in 2013 and 2012 in the amount of RUR 1,337 million and of RUR 490 million, respectively.

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

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

36. 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 provisions have been recorded in the Group's consolidated financial statements in relation to warranties and guarantees for work performed.

Pledges – As of 31 December 2013 and 2012 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	Sady Pekina	1,350	90%
CJSC EZNCh	Literator	100	100%
CJSC Kuntsevo-Invest	Solntse	5,000	100%
CJSC Hals-Tehnopark	Povarskaya	3,781,900	100%
CJSC StroyPromOb'ekt	Povarskaya	10,000	100%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.	Moscow-City	101	50.5%
CJSC Biznespark Novaja Riga	Wine House	100	100%
CJSC Pansionat Kamelia	Kamelia	13,000	100%
OJSC IRT	Nasledie	100	100%
GURDON MANAGEMENT LTD	Iskra	5,000	100%

As of 31 December 2013 and 2012 the Group pledged land plots (inventory property) in the Odintsovsky Region (Soloslovo) with a carrying amount of RUR 25,242 million and RUR 21,095 million, respectively, as security under the credit line from VTB in the amount of RUR 4.0 billion and RUB 4.0 billion, respectively.

As of 31 December 2013 and 2012 the Group has pledged 40 cottages (13,184.9 sq. m) and land plots (10,695 sq. m) in the Moscow Region (inventory property) with a carrying amount of RUR 1,376 million and RUR 1,376 million, respectively, as security under the loan received from Vnesheconombank in the amount of RUR 1,701 and RUR 1,701 million, respectively.

As of 31 December 2013 and 2012 the Group pledged Detsky Mir Lubyanka (investment property under construction) with a carrying amount of RUR 9,473 million and RUR 6,888 million, respectively, as security under the credit line from VTB in the amount of RUR 3,085 million and RUR 1,849 million, respectively.

As of 31 December 2013 and 2012 the Group pledged land plots and buildings (inventory property) in Khamovniki (the project Literator) with a carrying amount of RUR 5,402 million and RUR 4,024 million, respectively, as security under the credit line from VTB in the amount of RUR 18,508 million and RUR 18,508 million, respectively.

36. Guarantees and pledges (continued)

As of 31 December 2013 the Group pledged Skylight (completed investment property) with a carrying amount of RUR 8,325 million, as security under the credit line from VTB in the amount of RUR 4,198 million.

As of 31 December 2013 the Group pledged Leto (completed investment property) with a carrying amount of RUR 9,444 million and the office building on B.Tatarskaya street (property, plant and equipment) with a carrying amount of RUR 165 million, as security under the credit line from VTB in the amount of RUR 2,729 million.

As of 31 December 2013 the Group pledged the project IQ-quarter (investment property under construction, inventory property and property, plant and equipment) with a carrying amount of RUR 8,167, RUB 1,127 and RUB 683 million, respectively, as security under the credit line from VTB in the amount of RUR 3,690 million.

As of 31 December 2013 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying amount of RUR 2,202 and 1,822 million, respectively, as security under the credit line from VTB in the amount of RUR 3,833 million.

As of 31 December 2013 the Group pledged the project Wine House (inventory property) with a carrying amount of RUR 2,856 million as security under the credit line from VTB in the amount of RUR 962 million.

37. Commitments and contingencies

Operating environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory framework which would meet the requirements of 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 ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

In 2012-2013, the Government of the Russian Federation continued measures to support economy in order to overcome consequences of the global financial crisis. While there are signs of economic recovery, the persisting uncertainty over the future economic growth, access to capital and cost of capital could affect the Group’s financial position, results of operations and business prospects.

The Group's management takes all the steps necessary to support the economic stability of the Group in the current situation. However, any further worsening of the above situation may have an adverse effect on the Group's performance and financial position. Currently, it seems impossible to determine the extent of the effect.

37. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Taxation environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

During the years ended 31 December 2013 and 2012, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as "Effect of tax rates in other jurisdictions" in Note 14 Income taxes. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. Possible liabilities, which were identified by management at the reporting date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these consolidated financial statements could be up to approximately RUR 1,282 million for the parent company and its subsidiaries.

There is no clarity in Russian civil and tax law regarding the nature of the (co-)investment agreements. During last several years largely consistent approach to tax treatment of such contracts has been accepted by tax authorities and courts. In July 2011 Plenum of Highest Arbitration Court has issued civil law interpretation of such contracts. This interpretation is different from that widely accepted previously. Such change in interpretation can result in different tax treatment of (co-)investment agreements that the Company has as of 31 December 2013, as well as those which the Company had in the previous periods still open for the tax audit. Taking into account the above court interpretation has not addressed tax matters, at the moment, it is difficult to predict whether and to which extent the tax treatment will change. If tax treatment changes it may result in material effect for the Company. However at the moment respective amounts cannot be accurately estimated.

37. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Transfer pricing

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012-2013 but also to the prior transactions with related parties if related income and expenses were recognized in 2012-2013. The new provisions apply for both cross-border and domestic transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 3 billion and RUR 2 billion (or RUR 100 million and RUR 80 million for international transactions) in 2012 and 2013, respectively. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Industry regulation

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development.

In addition, construction is subject to applicable environmental, fire safety and sanitary norms and regulations.

37. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all current and pending litigations or other legal proceedings will not have a material effect upon the financial condition, results of operations or liquidity of the Group, other than as is already reflected in these consolidated financial statements.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 31 December 2012. A summary of significant commitments under construction contracts is provided below:

Gorki-8 (land plot) – The Group entered contractual agreements for construction of housing estate in Moscow Region. Commitments under these contracts amounted to RUR nill million and RUR 1,944 million as of 31 December 2013 and 2012, respectively.

Skylight – The Group entered contractual agreements for construction of multifunctional complex with two office buildings in Moscow. Commitments under these contracts amounted to RUR nill million and RUR 91 million as of 31 December 2013 and 2012, respectively.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 2,679 million and RUR 4,014 million as of 31 December 2013 and 2012, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 827 million and RUR 2,645 million as of 31 December 2013 and 2012, respectively.

Pekin – 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 10,164 million and RUR 10,846 million as of 31 December 2013 and 2012, respectively.

IQ-quarter – The Group entered contractual agreements for construction of multifunctional terminal complex "IQ-quarter" in Moscow-City. Commitments under these contracts amounted to RUR 7,644 million and RUR 11,590 million as of 31 December 2013 and 2012, respectively.

Literator – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 1,463 million and RUR 4,279 million as of 31 December 2013 and 2012, respectively.

Wine House – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 5,709 million and RUR 7,416 million as of 31 December 2013 and 2012, respectively.

37. Commitments and contingencies (continued)

Commitments under construction contracts (continued)

Nasledie – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 10,150 million and RUR 11,845 million as of 31 December 2013 and 2012, respectively.

Povarskaya – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,697 million and RUR 3,012 million as of 31 December 2013 and 2012, 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 27 million and RUR 162 million as of 31 December 2013 and 2012, respectively.

Operating leases

With a few exceptions, land in Moscow is owned by the Moscow Government. The lease of land in Moscow is subject to a separate regulatory regime administered by the Government. As a general rule, such land lease rights are granted by the Government on the basis of an auction or tender, typically in exchange for either an upfront payment or ongoing consideration in the form of periodic lease payments.

Environmental regulations

Environmental laws and regulations impose certain restrictions and encumbrances on the properties that the Group holds or develops. Some of the land plots under development are located in areas that have special environmental protection. In addition, the development of a project may be subject to certain obligations, including planting of greenery and clean-up measures. These requirements may result in delays in the development of projects, or additional costs.

38. Subsequent events

In January 2014 the Group has completed and started operational activity of five-star hotel Kamelia under the brand Swissôtel in Sochi.

In April 2014 the Group signed two new credit facility agreements with VTB to finance the reconstruction of hotel Pekin and construction of Sady Pekina with a limits of RUR 1,477 million and RUR 1,802 million, the interest rate of 9.5% per annum and a maturity of 3.5 years and 4 years, respectively.