JSC HALS-Development and subsidiaries

Interim condensed consolidated financial statements

30 June 2014

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Report on review of interim condensed consolidated financial statements

To the shareholders of JSC HALS-Development

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC HALS-Development and its subsidiaries ("the Group"), comprising the interim condensed consolidated statement of financial position as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Emphasis of matter

We draw attention to Note 2 to the interim condensed consolidated financial statements which indicates that as of 30 June 2014 the Group had negative net assets of RUR 29,707 million and incurred a net loss of RUR 3,466 million during the six-month period then ended. 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. Our conclusion is not qualified in respect of this matter.

Ernst & Young LLC

28 August 2014

JSC HALS-Development and subsidiaries

Interim condensed consolidated statement of comprehensive income

for the six-month period ended 30 June 2014

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

	Notes	2014 (unaudited)	2013 (unaudited)
Rental income	3	1,795	1,121
Property operating expense		(380)	(278)
Net rental income		**1,415**	**843**
Valuation gains on completed investment property	11	678	2,314
Valuation gains/(losses) on investment property under construction	12	2,629	(373)
Valuation gains on completed investment property classified as held for sale	20	696	–
Valuation gains on investment property		**4,003**	**1,941**
Revenue from sales of inventory property	4	26,371	350
Cost of sales – inventory property	4, 16	(20,331)	(200)
Gross profit on sale of inventory property		**6,040**	**150**
Write-down of inventory property to net realizable value	16	**(8,068)**	**–**
Revenue from room charges and other hotel services	4	305	228
Cost of hotel services		(414)	(114)
Gross (loss)/profit on hotel services		**(109)**	**114**
Other sales	4	22	18
Cost of other sales		(2)	(3)
Gross profit on other sales		**20**	**15**
Administration and selling expenses	5	(1,133)	(980)
Other operating income	6	317	547
Other operating expenses	7	(1,838)	(1,073)
Operating profit		**647**	**1,557**
Finance income	8	255	112
Finance expenses	9	(3,713)	(2,258)
Share of loss of joint venture, net of tax	13	(165)	(106)
Foreign exchange loss		(45)	(143)
Loss before tax		**(3,021)**	**(838)**
Income tax expense	10	(445)	(469)
Loss for the period		**(3,466)**	**(1,307)**
Total comprehensive loss for the period		**(3,466)**	**(1,307)**
Attributable to:			
- owners of the parent		(4,027)	(783)
- non-controlling interests in JSCs		1,020	(524)
- non-controlling participants in LLCs		(459)	–
		(3,466)	**(1,307)**
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the period per share, RUR		(359)	(70)

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

JSC HALS-Development and subsidiaries

Interim condensed consolidated statement of financial position

as of 30 June 2014

(Amounts in millions of Russian Rubles)

	Notes	30 June 2014 (unaudited)	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	14	4,548	5,326
Completed investment property	11	23,097	22,359
Investment property under construction	12	27,764	22,482
Intangible assets	15	545	545
Investments in joint venture	13	1,741	1,906
Other non-financial assets	18	5,118	3,580
Deferred tax assets		2,773	2,391
		65,586	**58,589**
Current assets			
Inventory property with period of realization above the year	16	18,493	48,147
Inventory property with period of realization within the year	16	6,605	1,532
Trade and other receivables	17	975	842
VAT reimbursable		1,915	2,211
Other financial assets	17	178	334
Loans and notes receivable		8	22
Other non-financial assets	18	2,686	2,038
Cash and short-term deposits	19	9,487	7,406
		40,347	**62,532**
Assets classified as held for sale	20	7,943	5,089
		48,290	**67,621**
Total assets		**113,876**	**126,210**
Equity and liabilities			
Equity			
Issued share capital	21	567	567
Treasury shares	21	(1)	(1)
Additional paid-in capital		18,296	18,296
Accumulated losses		(49,975)	(45,948)
Total equity attributable to equity holders of the parent		**(31,113)**	**(27,086)**
Non-controlling interest in JSCs		2,237	1,217
Net assets attributable to non-controlling participants in LLCs		(831)	(372)
Total equity		**(29,707)**	**(26,241)**
Non-current liabilities			
Interest bearing loans and borrowings	22	91,239	88,019
Trade and other payables		405	611
Tenants' guarantee deposits		539	484
Other non-financial liabilities	24	2,290	2,431
Deferred tax liability		6,015	5,262
		100,488	**96,807**
Current liabilities			
Net assets attributable to non-controlling participants in LLCs		–	33
Interest bearing loans and borrowings	22	16,797	39,358
Trade and other payables	23	2,797	2,991
Provisions		778	643
Current income tax payable		12	14
Other non-financial liabilities	24	19,250	12,155
		39,634	**55,194**
Liabilities directly associated with the assets classified as held for sale	20	3,461	450
		43,095	**55,644**
Total liabilities		**143,583**	**152,451**
Total equity and liabilities		**113,876**	**126,210**

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

JSC HALS-Development and subsidiaries

Interim condensed consolidated statement of changes in equity

for the six-month period ended 30 June 2014

(Amounts in millions of Russian Rubles)

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

	Issued capital	Treasury shares	Additional paid-in capital	Accumu-lated losses	Equity attributable to equity holders of the parent	Non-controlling interest in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2013	**567**	**(1)**	**18,296**	**(41,081)**	**(22,219)**	**1,575**	**–**	**(20,644)**
Loss for the period	–	–	–	(783)	(783)	(524)	–	**(1,307)**
Total comprehensive loss for the period	**–**	**–**	**–**	**(783)**	**(783)**	**(524)**	**–**	**(1,307)**
At 30 June 2013 (unaudited)	**567**	**(1)**	**18,296**	**(41,864)**	**(23,002)**	**1,051**	**–**	**(21,951)**

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

JSC HALS-Development and subsidiaries

Interim condensed consolidated cash flow statement

for the six-month period ended 30 June 2014

(Amounts in millions of Russian Rubles)

	Notes	2014 (unaudited)	2013 (unaudited)
Operating activities			
Loss before tax		**(3,021)**	**(838)**
Adjustments to reconcile loss before tax to cash flows:			
Changes in fair value of investment property	11, 12, 20	(4,003)	(1,941)
Share of loss in joint venture	13	165	106
Depreciation and amortization	14	129	55
Write-down of inventory property to net realizable value	16	8,068	–
Impairment of property, plant and equipment	7, 14	1,395	712
Net gain on resignation of inventory property	4	(6,038)	–
Finance income	8	(255)	(112)
Finance expenses	9	3,713	2,258
Changes in legal provision	6	–	(40)
Recovery of receivables written off in prior periods	6	(23)	(102)
Reversal of penalties for delay of property commissioning		(245)	
Payables and other obligations write off	6	(4)	(9)
Gain from sale of investment property	6	–	(346)
Receivables write off	7	87	76
Foreign currency loss		45	143
		13	**(38)**
Working capital adjustments:			
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(1,635)	1,184
Change in inventory property		(3,333)	(4,701)
Change in trade and other payables, tenants' guarantee deposits and other non-financial liabilities		7,152	4,057
Cash flow from operating activities		**2,197**	**502**
Income tax paid		(14)	(188)
Net cash flow from operating activities		**2,183**	**314**
Investing activities			
Repayment of receivables from disposal of ZAO RTI Estate	17	156	122
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(4,510)	(5,872)
Proceeds from disposal of investment property		–	542
Interest received		174	55
Repayment of loans issued		14	40
Net cash flow used in investing activities		**(4,166)**	**(5,113)**
Financing activities			
Proceeds from borrowings		8,655	8,898
Redemption of borrowings		(4,555)	(2,314)
Interest paid		–	(50)
Repayment of finance lease liabilities		(35)	–
Net cash flow from financing activities		**4,065**	**6,534**
Effects of foreign currency translation on cash and short-term deposits		(1)	(49)
Net increase in cash and short-term deposits		**2,081**	**1,686**
Cash and short-term deposits at 1 January	19	7,406	2,453
Cash and short-term deposits at 30 June	19	**9,487**	**4,139**

The accompanying notes are an integral part of these interim condensed 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 30 June 2014 and 31 December 2013 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 interim condensed consolidated financial statements at 30 June 2014 and for the six-month period then ended were authorised for issue by the President of the Company on 28 August 2014.

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

The interim condensed consolidated financial statements for the six-month period ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

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

Going concern

As at 30 June 2014, the Group's negative net assets amounted to RUR 29,707 million (31 December 2013: RUR 26,241 million) and the Group incurred a net loss of RUR 3,466 million for the six-month period ended 30 June 2014 (for the six-month period ended 30 June 2013: RUR 1,307 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 and changes to the Group's accounting policies (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 to be more strategic, and suspended other activities in order to reduce the Group's cash requirements;
- during 2014 the Group actively raised funds from joint construction participants as prepayment for residential real estate sales and thereof financed significant part of residential real estate developments.

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

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

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

Addition to accounting policy for new transactions

Transactions under common control

The transactions with entities under common control are measured at the actual consideration stated in any agreement related to the each transaction, provided that there is no requirement of International Financial Reporting Standards ("IFRS") to measure the transaction at fair value.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014, noted below:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments had no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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

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

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 amendments had no impact on the Group.

Amendments to IAS 19 Employee Benefits

The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments had no impact on the Group.

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 had no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. These IFRIC had no impact on the Group.

Standards, amendments and interpretations issued but not effective and not applied for the financial year beginning 1 January 2014

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 Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The Group is currently assessing the impact of the standard on the consolidated financial statements.

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

Standards, amendments and interpretations issued but not effective and not applied for the financial year beginning 1 January 2014 (continued)

In May 2014, the IASB issued an amendment to IFRS 11 *Joint Arrangements*, entitled Accounting for Acquisitions of Interests in Joint Operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled Clarification of Acceptable Methods of Depreciation and Amortization. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

3. Rental income

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

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

Rental income generated by Leto, SkyLight, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR), Bul'var na Peterburgskoy (Kazan) and other properties in the six-month period ended 30 June 2013 amounted to RUR 605 million, RUR 251 million, RUR 137 million, RUR 75 million, RUR 29 million and RUR 24 million, respectively.

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

In the second quarter of 2014 the Group has completed the construction and put into operation the cottage village Lighthouse in the Moscow region in the neighborhood of Gorki-8. In June 2014 the Group sold cottages (Note 16) to its parent company, VTB, as settlement of loans payable in the amount of RUR 25,645 million (Note 22) and negotiated additional payment in the amount of RUR 700 million recorded as trade and other receivables as of 30 June 2014 (Note 20). Excess of settled loans payable and additional payment over the carrying value of the cottages transferred, was recognised as gross profit on sale of inventory property in the amount of RUR 6,038 million.

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

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

In 2012 the Group completed the project Solntse, and in the six-month periods ended 30 June 2014 and 30 June 2013 signed acts of acceptance and transfer of real estate properties and recognised revenue from sales of inventory property in the amount of RUR 26 million and RUR 350 million, and cost of sales in the amount of RUR 24 million and RUR 200 million, respectively.

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Total area transferred to customers, thousand square meters	0.083	1.274
Parking lots transferred to customers, thousand square meters	0.134	1.717

Revenue from room charges and other hotel services for the six-month periods ended 30 June 2014 and 30 June 2013 in the amount of RUR 198 million and RUR 228 million, respectively, is attributable to Hotel Pekin, and for the six-month period ended 30 June 2014 in the amount of RUR 107 million is attributable to Hotel Kamelia.

Other sales for the six-month periods ended 30 June 2014 and 30 June 2013 represent general constructor service fees in the amount RUR 5 million and RUR 6 million, respectively, agency remuneration in the amount of RUR 13 million and RUR 8 million, respectively, and other revenues.

5. Administration and selling expenses

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Staff cost	498	448
Advertising costs	332	211
Realtor and other similar services	60	90
Depreciation and amortization	59	23
Consulting and other professional services	50	126
Cost of computer software maintenance	28	17
Repairs, maintenance and utilities	20	10
Rent of premises and land	10	3
Banking services	6	6
Hotel room reservation system fees	5	7
Security expenses	5	5
Communication services	4	5
Other	56	29
	1,133	**980**

In the six-month periods ended 30 June 2014 and 2013 the Group incurred advertising costs related to promotion campaign of main projects and “Hals” branding.

In the six-month period ended 30 June 2013 the Group incurred consulting and other professional services expenses attributable to legal fees in connections with court proceedings.

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

6. Other operating income

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Reversal of penalties for delay of property commissioning	245	–
Recovery of receivables written-off in prior periods	23	102
Gain on accounts payable written-off	4	9
Gain on sales of investment property (Note 11)	–	346
Reversal of legal provision	–	40
Other	45	50
	317	**547**

In 2013 the Group recognised loss on penalties for delay of Kamelia hotel commissioning in the amount of RUR 290 million. Such penalties were stipulated in the contract for the construction of Olympic project in Sochi. In the six-month period ended 30 June 2014 the parties reached the agreement to reduce the amount of penalties to RUR 45 million. As a result in the six-month period ended 30 June 2014 the Group reversed previously accrued penalties for delay of Kamelia hotel commissioning in the amount of RUR 245 million.

In the six-month period ended 30 June 2013 the Group recognised profit from sales of investment property in the amount of RUR 346 million, including gain from sales of Bul'var na Peterburgskoy (Kazan) and Krasnoyarsk land plot in the amount of RUR 291 million and RUR 55 million, respectively.

7. Other operating expenses

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Impairment of property, plant and equipment (Note 14)	1,395	712
Taxes other than income tax	288	235
Receivables and other assets write off	87	76
Other	68	50
	1,838	**1,073**

The Group wrote off VAT reimbursable, receivables from customers and other assets in the amount of RUR 34 million, RUR 48 million and RUR 5 million, respectively in the six-month period ended 30 June 2014 and RUR 36 million, RUR 38 million and RUR 2 million, respectively, in the six-month period ended 30 June 2013.

8. Finance income

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Interest on bank deposits	222	69
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies	33	2
Unwinding of discount for long-term receivable (Note 17)	–	26
Interest on loans issued	–	15
	255	**112**

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

9. Finance expenses

	The six-month period ended 30 June (unaudited)	
	2014	**2013**
Interest on bank loans	4,775	4,275
Less: amounts capitalized	(1,281)	(2,028)
Loss on financial instruments at fair value through profit or loss	192	–
Finance lease expenses	15	–
Interest on tenants' guarantee deposits	12	11
	3,713	**2,258**

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

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

In the six-month period ended 30 June 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 460 million, RUR 1,480 million and RUR 88 million, respectively.

10. Income tax

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

The major components of income tax expense for the six-month periods ended 30 June 2014 and 30 June 2013 are:

	2014 (unaudited)	**2013 (unaudited)**
Income taxes		
Current income tax expense	(18)	(65)
Deferred income tax expense relating to origination and reversal of temporary differences	(292)	(285)
Income tax provision	(135)	(119)
Income tax expense	**(445)**	**(469)**

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

11. Completed investment property

	2014 (unaudited)	2013 (unaudited)
At 1 January	**22,359**	**25,419**
Capital expenditure on owned property	60	927
Disposals	–	(225)
Fair value adjustment	678	2,314
At 30 June (unaudited)	**23,097**	**28,435**

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

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

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 21,906 million, RUR 20,996 million, RUR 27,071 million and RUR 23,974 million as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, the income method was used.

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 1,191 million, RUR 1,363 million, RUR 1,364 million and RUR 1,445 million as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, the comparative method was used.

In the six-month period ended 30 June 2013 the Group sold Bul'var na Peterburgskoy (Kazan) building and Krasnoyarsk land plot with a book value of RUR 124 million and RUR 101 million, respectively. Gain on sale of these properties is reflected in other income (Note 6).

12. Investment property under construction

	2014 (unaudited)	2013 (unaudited)
At 1 January	**22,482**	**15,348**
Capital expenditure	2,052	965
Interest capitalized (Note 9)	601	460
Acquisition of investment property	–	4,741
Transfer to inventory property (Note 16)	–	(931)
Transfer to property, plant and equipment (Note 14)	–	(564)
Fair value adjustment	2,629	(373)
At 30 June (unaudited)	**27,764**	**19,646**

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.

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

12. Investment property under construction (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 investment property under construction the income method was used.

In the six-month period ended 30 June 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 the six-month period ended 30 June 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 mln (Note 24).

13. Investments in joint venture

Investments in joint venture consisted of the following:

Name	Country of incorporation	Country of operation	Project	Voting and effective %	30 June 2014 (unaudited)	31 December 2013
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	1,741	1,906
Total					**1,741**	**1,906**

	2014 (unaudited)	2013 (unaudited)
At 1 January	**1,906**	**1,938**
Share of loss of joint venture, net of tax, in the consolidated statement of comprehensive income	(165)	(106)
At 30 June (unaudited)	**1,741**	**1,832**

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

13. Investments in joint venture (continued)

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

	30 June 2014 (unaudited)	31 December 2013
Non-current assets	14,486	14,423
Current assets	6,094	5,984
Non-current liabilities	(10,844)	(10,940)
Current liabilities	(6,254)	(5,655)
Net assets	**3,482**	**3,812**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investments	**1,741**	**1,906**

	The six-month period ended	
	30 June 2014 (unaudited)	30 June 2013 (unaudited)
Loss for the period	**(330)**	**(212)**
Group's share of loss for the period	**(165)**	**(106)**

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

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

14. Property, plant and equipment

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

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

14. Property, plant and equipment (continued)

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2013	**2,329**	**179**	**1,099**	**3,607**
Additions	–	19	712	**731**
Transfer from investment property under construction (Note 12)	–	–	564	**564**
Additions	–	(5)	–	**(5)**
30 June 2013 (unaudited)	**2,329**	**193**	**2,375**	**4,897**
Depreciation and impairment				
1 January 2013	**(144)**	**(56)**	**(1,099)**	**(1,299)**
Depreciation charge for the period	(39)	(16)	–	**(55)**
Impairment	–	–	(712)	**(712)**
Disposals	–	2	–	**2**
30 June 2013 (unaudited)	**(183)**	**(70)**	**(1,811)**	**(2,064)**
Net book value				
30 June 2013 (unaudited)	**2,146**	**123**	**564**	**2,833**
1 January 2013	**2,185**	**123**	**–**	**2,308**

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

Borrowing costs capitalised during the six-month periods ended 30 June 2014 and 30 June 2013 amounted to RUR 218 million and RUR 88 million, respectively (Note 9).

In the six-month periods ended 30 June 2014 and 30 June 2013 the Group capitalized staff costs in property, plant and equipment (project “Kamelia”) in the amount of RUR 13.5 million and RUR 14.3 million, respectively.

As of 30 June 2014 and 30 June 2013 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 1,395 million and of RUR 712 million, respectively (which is included in other operating expenses) (Note 7).

The major events and circumstances that led to the recognition of impairment in the six-month periods ended 30 June 2014 and 30 June 2013:

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

The significant assumptions made relating the estimation of Kamelia’s value in use as of 30 June 2014 are set out below:

- discount rate – 15% (as of 31 December 2013: 18% and 30 June 2013: 20%);
- period of hotel operation is from 2014 to 2015 in which it is planned to be sold (as of 31 December 2013: from 2014 to 2018 and as of 30 June 2013: from 2013 to 2014);
- capitalisation rate – 11% (as of 31 December 2013: 11% and 30 June 2013: 9.5%).

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

15. Intangible assets

Intangible assets consisted of the following:

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

	Goodwill	Development rights	Other	Total
Cost				
1 January 2013	**861**	**675**	**37**	**1,573**
Additions	–	–	1	**1**
Disposals	–	–	(33)	**(33)**
30 June 2013 (unaudited)	**861**	**675**	**5**	**1,541**
Depreciation and impairment				
1 January 2013	**(769)**	**(222)**	**(37)**	**(1,028)**
Disposals	–	–	33	**33**
30 June 2013 (unaudited)	**(769)**	**(222)**	**(4)**	**(995)**
Net book value				
30 June 2013 (unaudited)	**92**	**453**	**1**	**546**
1 January 2013	**92**	**453**	**–**	**545**

16. Inventory property

	2014 (unaudited)	2013 (unaudited)
At 1 January	**49,679**	**38,974**
Construction costs incurred	4,732	4,900
Interest capitalized (Note 9)	462	1,480
Transfer to assets classified as held for sale (Note 20)	(1,376)	–
Transfer from investment property (Note 12)	–	931
Property sold (Note 4)	(20,331)	(200)
Write-down of inventory to net realizable value	(8,068)	–
At 30 June (unaudited)	**25,098**	**46,085**

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

16. Inventory property (continued)

During the six-month periods ended 30 June 2014 and 30 June 2013 the Group tested inventory property for recoverability. As a result of the test, in the six-month periods ended 30 June 2014 and 30 June 2013 the Group recognized loss on inventory property write off to net realizable value in the amount of RUR 8,068 million and RUR nil million, respectively. In the six-month period ended 30 June 2014 the Group recognized impairment losses on projects Lighthouse and Kamelia (apartments) in the amount of RUR 7,266 million and RUR 802 million, respectively.

In the six-month periods ended 30 June 2014 and 30 June 2013 the Group capitalized staff costs in inventory property in the amount of RUR 62 million and RUR 53 million, respectively.

17. Trade and other receivables and other financial assets

	30 June 2014 (unaudited)	**31 December 2013**
Trade receivables		
Trade receivable from third parties	221	94
	221	**94**
Other receivables		
Other receivable from third parties	681	725
Other receivable from related parties	73	23
	754	**748**
	975	**842**

	30 June 2014 (unaudited)	**31 December 2013**
Other current financial assets		
Other financial assets	178	334
	178	**334**

As of 30 June 2014 other current financial assets comprise the amortized cost of receivables from the sale of ZAO RTI Estate in 2011 in the amount of RUR 143 million (31 December 2013: RUR 265 million) and the amortized cost of other receivable in the amount of RUR 35 million (31 December 2013: RUR 69 million). The effect of unwinding of discount is reflected in the financial income (Note 8). In the six-month period ended 30 June 2014 RUR 156 million of receivables from the sale of ZAO RTI Estate were received by the Group.

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

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

18. Other non-financial assets

	30 June 2014 (unaudited)	31 December 2013
Other non-current		
Advances issued for construction of investment property	4,644	3,116
Advances issued for construction of property, plant and equipment	474	464
	5,118	**3,580**
Other current assets		
Advances issued for construction of inventory property with period of realization above the year	1,467	1,759
Advances issued for construction of inventory property with period of realization within the year	943	5
Advance payments for taxes	30	36
Other current non-financial assets	246	238
	2,686	**2,038**

19. Cash and short term deposits

	30 June 2014 (unaudited)	31 December 2013
Cash at bank and on hand	810	771
Short-term deposits	8,677	6,635
	9,487	**7,406**

As of 30 June 2014 cash and short-term deposits were deposited as follows: RUR 9,478 million in VTB (31 December 2013: RUR 7,396 million), RUR 9 million in other banks (31 December 2013: RUR 10 million).

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. The weighted average interest rate on demand deposits as of 30 June 2014 was 6.6% (31 December 2013: 5.5%).

As at 30 June 2014 and 31 December 2013 VTB has Baa2 credit rating assigned by the Moody's credit rating agency (Note 31).

20. Assets and liabilities, classified as held for sale

As at 30 June 2014 Tower B of "SkyLight", located on the Leningradskoe highway in Moscow, which is a business centre class A with two symmetrical towers, was classified as assets and liabilities held for sale in the amount of RUR 5,787 million (31 December 2013: RUR 5,089 million) and RUR 766 million (31 December 2013: RUR 450 million), respectively, 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 28).

	2014 (unaudited)	2013 (unaudited)
At 1 January	**5,089**	**−**
Capital expenditure on owned property	2	−
Fair value adjustment	696	−
At 30 June (unaudited)	**5,787**	**−**

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

20. Assets and liabilities, classified as held for sale (continued)

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

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

21. Equity

At 30 June 2014 and 31 December 2013 the Company had 11,217,094 common shares issued and 11,211,534 shares outstanding. Nominal value of one share is equal to RUR 50.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the six-month periods ended 30 June 2014 and 2013 is as follows:

	Total shares authorised and issued	**Treasury shares**	**Total shares authorised, issued and outstanding**
	Thousands	**Thousands**	**Thousands**
As of 1 January 2014	11,217	(5)	11,212
As of 30 June 2014 (unaudited)	**11,217**	**(5)**	**11,212**
As of 1 January 2013	11,217	(5)	11,212
As of 30 June 2013 (unaudited)	**11,217**	**(5)**	**11,212**

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

22. Interest bearing loans and borrowings

	Interest rate %	Maturity	30 June 2014 (unaudited)	31 December 2013
Current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2020	6,261	6,072
VTB	9.5%	2015	3,322	–
VTB	9.5%	2017	1,406	2,174
VTB	9.5%	2016	261	67
VTB	12.0%	2017	–	17,651
VTB	The rate of the Central Bank (RF) + 0.25%	2014	3,648	5,261
VTB	The rate of the Central Bank (RF) + 0.25%	2016	1,891	1,591
VTB	The rate of the Central Bank (RF) + 0.25%	2015	–	4,077
			16,789	**36,893**
Current interest-bearing loans and borrowings from third parties				
Vnesheconombank (Note 20)	9.0%	2014	–	2,456
Other third parties	Various		8	9
			8	**2,465**
Total current interest-bearing loans and borrowings			**16,797**	**39,358**
Non-current interest-bearing loans and borrowings from related parties				
VTB	8.0%	2015	4,311	4,128
VTB	9.5%	2021	31,176	24,468
VTB	9.5%	2017	26,582	26,264
VTB	9.5%	2020	12,250	10,914
VTB	9.5%	2022	4,010	3,841
VTB	9.5%	2016	3,478	3,759
VTB	9.5%	2019	–	3,521
VTB	9.5%	2015	–	3,210
VTB	10.0%	2016	4,442	2,227
VTB	10.0%	2015	3,601	3,701
VTB	The rate of the Central Bank (RF) + 0.25%	2015	–	620
Other Related Parties	Various	2015	–	40
			89,850	**86,693**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V	8.15%	2018	1,375	1,305
Other Third Parties	Various	Various	14	21
			1,389	**1,326**
Total non-current interest-bearing loans and borrowings			**91,239**	**88,019**
Total interest-bearing loans and borrowings			**108,036**	**127,377**

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

22. Interest bearing loans and borrowings (continued)

The schedule of repayment of debt as at 30 June 2014 is as follows:

Year ended 30 June	
2015	6,978
2016	14,520
2017	4,661
2018	28,180
2019	–
2020	–
2021	18,510
2022	35,187
Total	**108,036**

In April 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 1,477 million, the interest rate of 9.5% per annum for the purpose of financing the Sady Pekina project. The loan is to be repaid in October 2017. As of 30 June 2014 the loan facility was utilized in amount of RUB 316 million and repaid in amount of RUB 250 million.

In April 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 1,802 million, the interest rate of 9.5% per annum for the purpose of financing the reconstruction of Hotel complex “Pekin”. The loan is to be repaid in April 2018. As of 30 June 2014 the loan facility was not utilized.

In May 2010 the Group signed credit facility agreement with VTB with a limit of RUR 557 million, the interest rate of 9.5% per annum and maturing in four years for the purpose of financing the Detsky Mir Lubyanka project. In October 2010 the Group agreed with VTB to increase the limit of the credit agreement from RUR 557 million up to 5,780 million and prolong the repayment date of this facility from May 2014 to January 2019. In May 2014 the Group agreed with VTB to increase the limit of the credit agreement from RUR 5,780 million up to 9,710 million and prolong the repayment date of this facility from January 2019 to September 2021. As of 30 June 2013, 31 December 2013 and 30 June 2014 the loan facility was utilized in amount of RUR 2,129 million, RUR 3,011 million and RUR 5,138, respectively.

In June 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 2,047 million, the interest rate of 9.5% per annum for the purpose of financing the Iskra-Park project. The loan is to be repaid in June 2021. As of 30 June 2014 the loan facility was not utilized.

In April 2010 the Group signed the credit facility agreement with VTB with a limit of RUR 475 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in July 2015 which was supposed to be used for current activity. As of 30 June 2013 and 31 December 2013 the loan facility was fully utilized. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 638 million including related interests (Note 4).

22. Interest bearing loans and borrowings (continued)

In April 2010 the Group signed the credit facility agreement with VTB with a limit of RUR 3,183 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in July 2015 for the purpose of financing the Lighthouse project. As of 30 June 2013 and 31 December 2013 the loan facility was fully utilized. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 4,212 million including related interests (Note 4).

In January 2011 the Group signed the credit facility agreement with VTB with a limit of RUR 17,077 million, the interest rate of 9.5% per annum and maturing in six years for the purpose of financing the Lighthouse project. As of 30 June 2013 and 31 December 2013 the loan facility was utilized in amount of RUR 13,537 million and RUR 14,485 million, respectively. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 20,795 million including related interests (Note 4).

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

In April 2013 the Group agreed with VTB to increase the limit of the credit agreement for financing of the Povarskaya project from RUR 1,297 million up to 2,683 million. As of 30 June 2013, 31 December 2013 and 30 June 2014 the loan facility was utilized in amount of RUR 1,340 million, RUR 1,439 million and RUR 1,673 million, respectively.

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 30 June 2013 and 31 December 2013 the loan facility was utilized in amount of RUR 6,200 million and RUR 8,730 million, respectively. As of 30 June 2014 the loan facility was fully utilized.

In May 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 9,008 million, the interest rate of 10% per annum for the purpose of financing the project multifunctional terminal complex “IQ-quarter”. The loan is to be repaid in November 2015. As of 30 June 2013 the loan facility was not utilized. As of 31 December 2013 and 30 June 2014 the loan facility was utilized in amount of RUR 2,151 million and RUR 4,208 million, respectively.

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

23. Trade and other payables

	30 June 2014 (unaudited)	31 December 2013
Current financial liability		
Trade payables		
Guarantee retentions	886	389
Trade payable to third parties	302	114
	1,188	**503**
Other payables		
Payable to employees	243	722
Taxes payable	1,181	1,476
Other payable to third parties	135	243
Financial lease obligations	50	47
	1,609	**2,488**
	2,797	**2,991**
Non-current financial liability		
Trade payables		
Guarantee retentions	262	497
	262	**497**
Other payables		
Financial lease obligations	94	81
Embedded financial derivatives	49	33
	143	**114**
	405	**611**

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

24. Other non-financial liability

	30 June 2014 (unaudited)	31 December 2013
Non-current		
Advances from Iskra (Note 12)	1,400	1,400
Advances from customers	778	912
Deferred rent income	112	119
	2,290	**2,431**
Current liability		
Advances from customers with period of settlement above the year	8,246	9,441
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	9,345	1,055
	19,250	**12,155**

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

25. Fair values of financial assets and financial liabilities

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

	Carrying amount		**Fair value**	
	30 June 2014 (unaudited)	**31 December 2013**	**30 June 2014 (unaudited)**	**31 December 2013**
Financial assets				
Trade and other receivables	1,153	1,176	1,153	1,176
Loans and notes receivable	8	22	8	22
Cash and short-term deposits	9,487	7,406	9,487	7,406
	10,648	**8,604**	**10,648**	**8,604**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(5,539)	(11,549)	(5,539)	(11,549)
Fixed rate borrowings	(102,497)	(115,828)	(87,650)	(100,935)
Trade and other payables	(3,202)	(3,602)	(3,202)	(3,602)
Tenants guarantee deposits	(539)	(484)	(539)	(484)
	(111,777)	**(131,463)**	**(96,930)**	**(116,570)**

The fair value of fixed rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms (as at 30 June 2014 and 31 December 2013 approximate 9.47% and 9.68%, respectively) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 30 June 2014 and 31 December 2013 are accounted for at amortized cost.

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

26. Fair value measurement

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

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

26. Fair value measurement (continued)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 30 June 2014:

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value:					
Assets classified as held for sale					
Completed investment property (Note 20)	30 June 2014 (unaudited)	5,787	–	–	5,787
Investment properties					
Completed investment property (Note 11)	30 June 2014 (unaudited)	23,097	–	–	23,097
Investment property under construction (Note 12)	30 June 2014 (unaudited)	27,764	–	–	27,764
Liabilities measured at fair value:					
Liabilities directly associated with the assets classified as held for sale					
Derivatives	30 June 2014 (unaudited)	521	–	–	521
Liabilities for which fair values are disclosed (Note 25)					
Loans and borrowings	30 June 2014 (unaudited)	87,650	–	–	87,650

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 20)	31 December 2013	5,089	–	–	5,089
Investment properties					
Completed investment property (Note 11)	31 December 2013	22,359	–	–	22,359
Investment property under construction (Note 12)	31 December 2013	22,482	–	–	22,482
Liabilities measured at fair value:					
Liabilities directly associated with the assets classified as held for sale					
Derivatives	31 December 2013	345	–	–	345
Liabilities for which fair values are disclosed (Note 25)					
Loans and borrowings	31 December 2013	100,935	–	–	100,935

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

26. Fair value measurement (continued)

Description of significant unobservable inputs to valuation as at 30 June 2014:

	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	12.5%-14.8% (13.2%)	1% increase (decrease) in the basis points would result in increase (decrease) in fair value by RUR 445 mln and RUR (464) mln, respectively
Completed investment property	DCF Method	Average annual rental rate indexation	3.5%-5% (4.5%)	3% increase (decrease) in the basis points would result in increase (decrease) in fair value by RUR 1,140 mln and RUR (1,071) mln, respectively
Completed investment property	DCF Method	Terminal capitalisation rate	9.0%-10.5% (9.5%)	1% increase (decrease) in the basis points would result in increase (decrease) in fair value by RUR 1,515 mln and RUR (1,877) mln, respectively
Investment property under construction	DCF Method	Discount rate	16.3%-25.0% (19.6%)	1% increase (decrease) in the basis points would result in increase (decrease) in fair value by RUR 1,915 mln and RUR (2,037) mln, respectively
Investment property under construction	DCF Method	Average annual rental rate indexation	4.5%-5.0% (4.8%)	3% increase (decrease) in the basis points would result in increase (decrease) in fair value by RUR 6,686 mln and RUR (5,932) 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 increase (decrease) in fair value by RUR 2,875 mln and RUR (3,534) mln, respectively

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

26. Fair value measurement (continued)

Description of significant unobservable inputs to valuation as at 31 December 2013:

	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 increase (decrease) 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 increase (decrease) 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 increase (decrease) 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 (2,182) 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 increase (decrease) in fair value by RUR 1,385 mln and RUR (1,686) mln, respectively

27. Transactions with related parties

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

Transactions with related parties	2014 (unaudited)	2013 (unaudited)
Interest on borrowings to shareholders		
Interest on borrowings payable to VTB	4,603	4,162
	4,603	**4,162**
Interest income from shareholders		
Interest income from VTB	221	69
	221	**69**

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

27. Transactions with related parties (continued)

	30 June 2014 (unaudited)	31 December 2013
Amounts due from shareholder		
Cash and short-term deposits in VTB	9,478	7,396
Trade and other receivables from VTB	772	22
	10,250	**7,418**
Amounts due to shareholders		
Loans and borrowings from VTB	106,639	123,546
	106,639	**123,546**

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

	2014 (unaudited)	2013 (unaudited)
Short-term employee benefits	184	91
Other long-term benefits	19	10

28. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has six reportable segments in the six-month period ended 30 June 2014:

- 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 Literator, the project Sady Pekina, the project Wine House, the project Nasledie, the project Povarskaya, the project IQ-quarter (apartments), the project Kamelia (apartments), the project Lighthouse);
- 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 IQ-quarter (hotel));
- hospitality − rented apartments (hotel Pekin, hotel Kamelia).

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

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

28. Segment information (continued)

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

The six-month period ended 30 June 2014

	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	**15**	**7,146**	**55**	**2,269**	**–**	**342**	**9,827**
Accrual vrs. cash basis	–	–	–	–	–	–	**18,666**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**28,493**

	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	**14**	**3,880**	**179**	**(1,552)**	**11**	**307**	**2,839**
Accrual vrs. cash basis	–	–	–	–	–	–	**(5,860)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,021)**

The six-month period ended 30 June 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	**221**	**2,665**	**6**	**1,551**	**–**	**261**	**4,704**
Accrual vrs. cash basis	–	–	–	–	–	–	**(2,987)**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**1,717**

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

28. Segment information (continued)

The six-month period ended 30 June 2013 (continued)

	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	**(61)**	**(97)**	**208**	**2,374**	**67**	**36**	**2,527**
Accrual vrs. cash basis	–	–	–	–	–	–	**(3,365)**
Loss before tax per IFRS consolidated financial statements* **	**–**	**–**	**–**	**–**	**–**	**–**	**(838)**

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

** *Including impairment losses by segment hospitality − rented apartments in the amount of RUR 1,395 million.*

** *Including impairment losses by segment hospitality under construction in the amount of RUR 712 million.*

29. Guarantees and pledges

Warranties and guarantees of work performed

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

Pledges

As of 30 June 2014 and 31 December 2013 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.	IQ-quarter	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-Park	5,000	100%
OJSC GOK Pekin	Hotel complex Pekin	353,210	100%

29. Guarantees and pledges (continued)

Pledges (continued)

As of 31 December 2013 the Group pledged land plots (inventory property) in the Odintsovsky Region (Soloslovo) of the Moscow region in the neighborhood of Gorki-8 with a carrying value of RUR 25,242 million as security under the credit line from VTB in the amount of RUB 4.0 billion. In June 2014, as a result of the settlement of obligations in connection with other VTB loans (Note 4 and Note 22), VTB became the pledger and the pledgee, and the pledge of assets thus became null and void.

As of 30 June 2014 and 31 December 2013 the Group has pledged inventory property in the Moscow Region in the neighborhood of Gorki-8 with a carrying value of RUR 1,376 million (Note 20) 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 30 June 2014 and 31 December 2013 the Group pledged Detsky Mir Lubyanka (investment property under construction) with a carrying value of RUR 10,107 million and RUR 9,473 million, respectively, as security under the credit line from VTB in the amount of RUR 5,213 million and RUR 3,085 million, respectively.

As of 30 June 2014 and 31 December 2013 the Group pledged land plots and buildings (inventory property) in Khamovniki (the project Literator) with a carrying value of RUR 6,472 million and RUR 5,402 million, respectively, as security under the credit line from VTB in the amount of RUR 18,508 million and RUR 18,508 million, respectively.

As of 30 June 2014 and 31 December 2013 the Group pledged Tower A of business centre Skylight (completed investment property) with a carrying value of RUR 8,488 million and RUR 8,325 million, respectively, as security under the credit line from VTB in the amount of RUR 2,471 million and RUR 4,198 million, respectively.

As of 30 June 2014 and 31 December 2013 the Group pledged Leto (completed investment property) with a carrying value of RUR 9,899 million and RUR 9,444 million, respectively, and the office building on B.Tatarskaya street (property, plant and equipment) with a carrying value of RUR 161 million and RUR 165 million, respectively, as security under the credit line from VTB in the amount of RUR 2,329 million and RUR 2,729 million, respectively.

As of 30 June 2014 the Group pledged the project IQ-quarter (investment property under construction, inventory property and property, plant and equipment) with a carrying value of RUR 12,503, RUB 1,379 and RUB 835 million, respectively, as security under the credit line from VTB in the amount of RUR 3,591 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 value 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 30 June 2014 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying value of RUR 1,175 and 1,191 million, respectively, as security under the credit line from VTB in the amount of RUR 3,863 million. As of 31 December 2013 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying value 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.

29. Guarantees and pledges (continued)

Pledges (continued)

As of 30 June 2014 and 31 December 2013 the Group pledged the project Wine House (inventory property) with a carrying value of RUR 3,301 million and RUR 2,856 million, respectively, as security under the credit line from VTB in the amount of RUR 124 million and RUR 962 million, respectively.

30. Commitments and contingencies

Taxation

Possible liabilities identified by the management as of 30 June 2014 as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these interim condensed consolidated financial statement could be approximately RUR 1,700 million.

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to 30 June 2014. A summary of significant commitments under construction contracts is provided below:

Detsky Mir Lubyanka − The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 4,406 million and RUR 2,679 million as of 30 June 2014 and 31 December 2013, respectively.

Kamelia − The Group entered contractual agreements for construction of hotel complex and apartments in Sochi. Commitments under these contracts amounted to RUR 1,434 million and RUR 827million as of 30 June 2014 and 31 December 2013, 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 6,702 million and RUR 10,164 million as of 30 June 2014 and 31 December 2013, 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 9,407 million and RUR 7,644 million as of 30 June 2014 and 31 December 2013, respectively.

Literator − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,130 million and RUR 1,463 million as of 30 June 2014 and 31 December 2013, respectively.

Wine House − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 4,605 million and RUR 5,709 million as of 30 June 2014 and 31 December 2013, respectively.

30. 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 11,131 million and RUR 10,150 million as of 30 June 2014 and 31 December 2013, respectively.

Povarskaya − The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,676 million and RUR 2,697 million as of 30 June 2014 and 31 December 2013, 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 117 million and RUR 27 million as of 30 June 2014 and 31 December 2013, respectively.

31. Subsequent events

In July 2014, the Group sold a 74.9% interest in its subsidiary Gorki-8 LLC, an owner of townhouses in the Moscow Region in residential district Gorki-8, to the third party (the Buyer) for nominal cash consideration of RUB 1. The Group signed a novation agreement with the Buyer relating to the transaction, according to which the claims of the Group under loans granted to Gorki-8 LLC as of the date of disposal in the amount of RUB 14,041 million were contributed as payment for a 9.97% interest in the charter capital of the Buyer. As of the date of this financial statements issuance the Group did not estimate the fair value of the acquired investment.

In July 2014 the Group acquired 100% of the shares of JSC "Brestskaya" for the cash consideration of USD 33.6 million (RUR 1,287 million) as part of Hotel complex Pekin project realization.

In July and August 2014 several countries imposed limited sectoral sanctions on some Russian companies, including the parent company of the Group −VTB. The impact of these sanctions on the Group's financial position and financial performance could not be assessed.

In August 2014 Bank of Moscow, which is controlled by VTB, acquired 42.27% shares of the Company from third parties. As a result, VTB increased its share in the Company's capital from 51.24% to 93.51%.