PJSC HALS-Development and subsidiaries

Consolidated financial statements

31 December 2015

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Independent auditors' report

To the Shareholders of PJSC HALS-Development

We have audited the accompanying consolidated financial statements of PJSC 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 2015, 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 information.

Management's responsibility for the financial statements

Management 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and 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 14,151 million during the year ended 31 December 2015 and, as at that date, the Group's negative net assets amounted to RUR 37,823 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

15 April 2016

Moscow, Russia

PJSC HALS-Development and subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2015

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

	Notes	2015	2014
Rental income	7	5,358	3,612
Property operating expense		(1,212)	(827)
Net rental income		**4,146**	**2,785**
Valuation (losses)/gains on completed investment property	15	(1,279)	2,723
Valuation (losses)/gains on investment property under construction	16	(11,016)	2,847
Valuation gains on completed investment property classified as held for sale	25	–	1,068
Valuation (losses)/gains on investment property		**(12,295)**	**6,638**
Revenue from sales of inventory property	8	2,493	39,304
Cost of sales – inventory property	8, 20	(1,669)	(27,958)
Gross profit on sale of inventory property		**824**	**11,346**
Write-down of inventory property to net realizable value	20	**–**	**(8,073)**
Revenue from room charges and other hotel services	8	724	692
Cost of hotel services	8	(694)	(952)
Gross profit/(loss) on hotel services		**30**	**(260)**
Other sales	8	99	64
Cost of other sales		(3)	(12)
Gross profit on other sales		**96**	**52**
Administration and selling expenses	9	(2,299)	(2,244)
Other operating income	10	874	936
Other operating expenses	11	(1,817)	(4,149)
Operating (loss)/profit		**(10,441)**	**7,031**
Gain on disposal of subsidiaries	5	–	2,810
Finance income	12	2,081	810
Finance expenses	13	(6,785)	(7,758)
Share of loss of joint venture, net of tax	17	(504)	(1,008)
Foreign exchange loss		(713)	(814)
(Loss)/profit before tax		**(16,362)**	**1,071**
Income tax	14	2,211	(1,926)
Loss for the year		**(14,151)**	**(855)**
Total comprehensive loss for the year		**(14,151)**	**(855)**
Attributable to:			
Owners of the parent		(10,311)	(1,084)
Non-controlling interests in JSCs		(3,804)	790
Non-controlling participants in LLCs		(36)	(561)
		(14,151)	**(855)**
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the year per share, RUR		(920)	(97)

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

PJSC HALS-Development and subsidiaries

Consolidated statement of financial position

as of 31 December 2015

(Amounts in millions of Russian rubles)

	Notes	31 December 2015	31 December 2014 restated*
Assets			
Non-current assets			
Property, plant and equipment	18	3,245	3,168
Completed investment property	15	44,456	30,712
Investment property under construction	16	13,092	31,578
Intangible assets	19	545	545
Available-for-sale financial assets	22	1,805	2,833
Investments in joint venture	17	394	898
Other non-financial assets	24	2,341	5,068
Deferred tax assets	14	2,154	1,788
		68,032	**76,590**
Current assets			
Inventory property with period of sale above the year	20	11,748	21,471
Inventory property with period of sale within the year	20	19,158	3,386
Trade and other receivables	21	733	1,464
VAT reimbursable		1,949	1,921
Other financial assets	21	6	52
Other non-financial assets	24	3,997	3,153
Cash and short-term deposits	23	19,761	18,104
		57,352	**49,551**
Assets classified as held for sale	25	–	640
		57,352	**50,191**
Total assets		**125,384**	**126,781**
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		(54,816)	(47,032)
Total equity attributable to equity holders of the parent		**(35,954)**	**(28,170)**
Non-controlling interests in JSCs		(1,797)	2,007
Net assets attributable to non-controlling participants in LLCs		(72)	(36)
Total equity		**(37,823)**	**(26,199)**
Non-current liabilities			
Interest bearing loans and borrowings	27	92,510	85,160
Trade and other payables	28	314	544
Embedded financial derivatives	31	4,014	1,869
Tenants' guarantee deposits		620	607
Income tax payable		109	–
Other non-financial liabilities	29	1,969	2,142
Deferred tax liability	14	3,285	5,135
		102,821	**95,457**
Current liabilities			
Interest bearing loans and borrowings	27	26,639	31,807
Trade and other payables	28	4,352	5,097
Provisions		26	321
Current income tax payable		44	1,451
Other non-financial liabilities	29	29,325	18,847
		60,386	**57,523**
Total liabilities		**163,207**	**152,980**
Total equity and liabilities		**125,384**	**126,781**

***** Certain amounts do not correspond to the 2014 consolidated financial statements and reflect adjustment made as detailed in Note 4.

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

PJSC HALS-Development and subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2015

(Amounts in millions of Russian rubles)

	Issued share capital	Treasury shares	Additio-nal paid-in capital	Accumu-lated losses	Equity attribu-table 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 2014	**567**	**(1)**	**18,296**	**(45,948)**	**(27,086)**	**1,217**	**(372)**	**(26,241)**
(Loss)/profit for the year	–	–	–	(1,084)	(1,084)	790	(561)	**(855)**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**(1,084)**	**(1,084)**	**790**	**(561)**	**(855)**
Disposal of subsidiary (Note 5)	–	–	–	–	–	–	933	**933**
Transfer non-controlling participants in LLCs from liabilities to equity	–	–	–	–	–	–	(36)	**(36)**
At 31 December 2014	**567**	**(1)**	**18,296**	**(47,032)**	**(28,170)**	**2,007**	**(36)**	**(26,199)**
Loss for the year	–	–	–	(10,311)	(10,311)	(3,804)	(36)	**(14,151)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(10,311)**	**(10,311)**	**(3,804)**	**(36)**	**(14,151)**
Initial recognition of loans payable (Note 27)	–	–	–	2,527	2,527	–	–	**2,527**
At 31 December 2015	**567**	**(1)**	**18,296**	**(54,816)**	**(35,954)**	**(1,797)**	**(72)**	**(37,823)**

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

PJSC HALS-Development and subsidiaries

Consolidated cash flow statement

for the year ended 31 December 2015

(Amounts in millions of Russian rubles)

	Notes	2015	2014
Operating activities			
(Loss)/profit before tax		(16,362)	1,071
Adjustments to reconcile (loss)/profit before tax to cash flows			
Changes in fair value of investment property	15, 16	12,295	(6,638)
Share of loss of joint venture	17	504	1,008
Impairment of available-for-sale financial assets	22	1,028	–
Depreciation and amortization	18, 19	219	262
Gain on disposal of subsidiaries	5	–	(2,810)
Write-down of inventory property to net realizable value	20	–	8,073
Impairment of property, plant and equipment	11, 18	174	3,016
Net gain on resignation of inventory property	8	–	(6,038)
Finance income	12	(2,081)	(810)
Finance expenses	13	6,785	7,758
Payables and other obligations write off	10	(101)	(244)
Profit on sale of assets classified as held for sale	10	(226)	(212)
Fines and penalties under civil contracts	10	(323)	–
Receivables and other assets write off	11	121	326
Reversal of penalties for delay of property commissioning	10	–	(245)
Recovery of receivables written off in prior period	10	(59)	(96)
Changes in legal provision	11	27	20
Foreign exchange loss		713	814
Cash flows before working capital changes		**2,714**	**5,255**
Change in trade and other receivables, VAT reimbursable and other non-financial assets		1,120	(2)
Change in inventory property		(5,129)	(1,970)
Change in trade, other payables and non-financial liabilities		10,439	9,167
Cash flow generated from operating activities		**9,144**	**12,450**
Income tax paid		(1,611)	(34)
Net cash flow generated from operating activities		**7,533**	**12,416**
Investing activities			
Repayment of receivables from disposal of ZAO RTI Estate		4	313
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(4,107)	(10,899)
Interest received		2,158	655
Repayment of loans issued		–	38
Net cash flow used in investing activities		**(1,945)**	**(9,893)**
Financing activities			
Proceeds from loans and borrowings		161	17,712
Redemption of loans and borrowings		(2,579)	(9,144)
Interest paid		(1,569)	(448)
Repayment of finance lease liabilities		(50)	(76)
Net cash flow (used in)/from financing activities		**(4,037)**	**8,044**
Effects of foreign currency translation on cash and short-term deposits		106	131
Net increase in cash and short-term deposits		**1,657**	**10,698**
Cash and short-term deposits at 1 January	23	18,104	7,406
Cash and short-term deposits at 31 December	23	**19,761**	**18,104**

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

1. Corporate information

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

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

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

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

As at 31 December 2015 and 31 December 2014 PJSC VTB Bank ("VTB") owned 98.06% and 96.44% of the share capital of the Company, respectively. 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 2015 and for the year then ended were authorised for issue by the President of the Company on 15 April 2016.

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 ruble ("RUR") and all values are rounded to the nearest million, except when otherwise indicate.

Going concern

As at 31 December 2015, the Group's negative net assets amounted to RUR 37,823 million (31 December 2014: RUR 26,199 million) and the Group incurred a net loss of RUR 14,151 million for the year ended 31 December 2015 (31 December 2014: RUR 855 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 2015 the Group actively raised funds from joint construction participants as prepayment for residential real estate sales and thereof financed significant part of residential real estate developments.

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

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

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:

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 *Business Combinations* (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. Significant accounting judgements, estimates and assumptions (continued)

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.

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.

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

3.2. Estimates and assumptions (continued)

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.

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.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these valuations are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk, market prices and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

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 2015. 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.

The ownership interest of the Group and the proportion of its voting power in its major subsidiaries as of 31 December 2015 and 31 December 2014 were as follows:

			Ownership interest and voting power	
Operating entities	**Location**	**Investment project**	**31 December 2015**	**31 December 2014**
PJCS Hals-Development	Russia	SkyLight, Nahimovsky	Parent company	
OJSC Beiging-Invest	Russia	Peking Gardens	100%	100%
CJSC Promresurs	Russia	Danilovsky Fort	100%	100%
CJSC Hals-Stroy	Russia	Michurinsky	100%	100%
OJSC IRT	Russia	Nasledie	100%	100%
CJSC Kuntsevo-Invest	Russia	Kuntsevo, Solntse	100%	100%
Sapidus	Cyprus	Holding Company	100%	100%
SIB-BROK	Ukraine	Yalta	100%	100%
Alyans-Bud	Ukraine	Kiev	51%	51%
JSC Lubyanka-development	Russia	CDM na Lubyanke	100%	100%
LLC Hals-Invest Development	Russia	Leto	100%	100%
LLC Iskra-Park	Russia	Iskra-Park	100%	100%
CJSC Hals-Tehnopark	Russia	Teatralny Dom	100%	100%
CJSC Pansionat Kamelia	Russia	Kamelia	100%	100%
CJSC EZNCH	Russia	Literator	100%	100%
CJSC Businesspark Novaya Riga	Russia	Wine House	100%	100%
CiTer Invest B.V.	Netherlands	IQ-Quarter	50.5%	50.5%
OJSC GOK Pekin	Russia	Pekin Hotel	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.

4. Summary of significant accounting policies (continued)

Business combinations (continued)

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.

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.

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.

4. Summary of significant accounting policies (continued)

Investment in an associate (continued)

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

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.

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 IFRS to measure the transaction at fair value.

Classification of assets and liabilities

The Group clearly identified 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 rubles, 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.

4. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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.

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.

4. Summary of significant accounting policies (continued)

Investment property (continued)

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:

- 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 and available-for-sale financial assets.

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)

Financial assets (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.

Available-for-sale financial assets

Available-for-sale (AFS) financial assets include equity investments which are neither classified as held for trading nor designated at fair value through profit or loss.

AFS financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

After initial measurement AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income (“OCI”) and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognized in other operating income or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of comprehensive income in other operating expenses.

Financial liabilities

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

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.

4. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss. Embedded financial derivatives are separated and are carried at fair value through profit or loss.

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.

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.

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.

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.

4. Summary of significant accounting policies (continued)

Inventory property (continued)

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.

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.

4. Summary of significant accounting policies (continued)

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.

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.

4. Summary of significant accounting policies (continued)

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 *Financial Instruments. Recognition and Measurement* (IAS 39). The excess between the principal amounts of the deposit over its fair value is within the scope of IAS 17 *Leases* (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 deferred rent 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.

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.

4. Summary of significant accounting policies (continued)

Revenue recognition (continued)

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 balance 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 management estimates 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 *Operating Segments* (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 AFS financial assets, 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.

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

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 standards, interpretations and amendments thereof, 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 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

4. Summary of significant accounting policies (continued)

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

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual improvements 2010-2012 cycle

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

IFRS 2 Share-based Payment

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

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

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

IFRS 3 Business Combinations

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

4. Summary of significant accounting policies (continued)

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 36 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of his decision making.

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

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 cycle

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

IFRS 3 Business Combinations

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

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

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

4. Summary of significant accounting policies (continued)

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group assesses the possible impact of the new standard on its consolidated financial statements and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group assesses the possible impact of the new standard on its financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

In January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 *Leases*. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Acknowledging the potentially significant impact of the new lease standard on a lessee's financial statements, IFRS 16 does not require a full retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* but allows a 'simplified approach'. Full retrospective application is optional. If an entity chooses not to use the 'simplified approach', it has to apply IFRS 16 retrospectively to each prior reporting period in accordance with IAS 8.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied. The Group is currently assessing the impact of the amendment and plans to adopt the new standard on the required effective date.

Restatement of comparative information

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

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

5. Disposals

Disposal of Gorki-8 LLC

In July 2014 the Group sold a 74.9% interest in its subsidiary Gorki-8 LLC, an owner of townhouses in the Moscow Region in residential district Gorki-8, to the third party (the Buyer) for nominal cash consideration of RUB 1. The Group signed a novation agreement with the Buyer relating to the transaction, according to which the claims of the Group under loans granted to Gorki-8 LLC were contributed as payment for a 9.97% interest in the charter capital of the Buyer. The fair value of AFS financial asset acquired amounted to RUR 2,833 million. As a result the Group recognized gain on disposal of subsidiary of RUR 2,810 million.

LLC Gorki-8's carrying value of net liabilities at the date of disposal was as follows:

Inventory property (Note 20)	1,376
Trade and other receivables	700
Deferred tax assets (Note 14)	79
Interest bearing loans and borrowings	(16,693)
Trade and other payables	(132)
Provisions	(384)
Net liabilities disposed	**(15,054)**
Non-controlling interests disposed	933
Fair value of the 9.97% interest in the charter capital of the Buyer	2,833
Disposal of loans granted to Gorki-8 LLC	14,098
Gain on disposal of subsidiary	**2,810**

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
2015					
Citer Invest B.V.	the Netherlands	Russia	49.5%	(3,802)	(1,754)
2014					
Citer Invest B.V.	the Netherlands	Russia	49.5%	791	2,048

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

Citer Invest B.V.	2015	2014
Valuation (losses)/gains on investment property under construction	(7,929)	4,198
Administration and selling expenses	(15)	(15)
Other operating (expenses)/income, net	(5)	20
Finance expenses, net	(1,470)	(1,965)
(Loss)/profit before tax	**(9,419)**	**2,238**
Income tax	1,739	(641)
(Loss)/profit for the year	**(7,680)**	**1,597**
Total comprehensive (loss)/income	**(7,680)**	**1,597**
Attributable to:		
Owners of the parent	(3,878)	806
Non-controlling interests in JSCs	(3,802)	791

Summarized statement of financial position

Citer Invest B.V.	31 December 2015	31 December 2014
Non-current assets		
Property, plant and equipment	1,151	999
Investment property under construction	10,161	16,140
Other non-financial assets	1,386	1,603
Deferred tax assets	412	–
	13,110	**18,742**
Current assets		
Inventory property with period of sale above the year	1,891	1,638
Other financial assets	55	440
Other non-financial assets	291	694
	2,237	**2,772**
Total assets	**15,347**	**21,514**
Non-current liabilities		
Interest bearing loans and borrowings	6,638	4,806
Trade and other payables	19	–
Deferred tax liability	–	1,329
	6,657	**6,135**
Current liabilities		
Interest bearing loans and borrowings	10,447	9,660
Trade and other payables	1,049	909
Other non-financial liabilities	737	673
	12,233	**11,242**
Total liabilities	**18,890**	**17,377**
Equity	**(3,543)**	**4,137**
Attributable to:		
Owners of the parent	(1,789)	2,089
Non-controlling interests in JSCs	(1,754)	2,048

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

6. Material partly owned subsidiaries (continued)

Summarized cash flow information

Citer Invest B.V.	2015	2014
Net cash flow from operating activities	107	247
Net cash flow from investing activities	(592)	(3,262)
Net cash flow from financing activities	120	3,336
Effects of foreign currency translation on cash	–	1
Net (decrease)/increase in cash and short-term deposits	**(365)**	**322**

Name	Country of incorporation	Country of operation	Voting held by non-controlling interests	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
2014					
Gorki-8	Russia	Russia	–	(561)	–

The subsidiary was disposed during 2014 (Note 5).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

Gorki-8	Period from 1 January 2014 to the date of disposal
Revenue from sales of inventory property	26,345
Cost of sales – inventory property	(20,307)
Other sales	43
Write down of inventory property to net realizable value	(7,267)
Administration and selling expenses	(23)
Other operating income/(expenses), net	7
Finance expenses	(1,147)
Loss before tax	**(2,349)**
Income tax benefit	115
Loss for the year	**(2,234)**
Total comprehensive loss	**(2,234)**
Comprehensive loss attributable to owners of the parent	(1,673)
Net assets attributable to non-controlling participants in LLC	(561)

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

6. Material partly owned subsidiaries (continued)

Summarized statement of financial position

Gorki-8	At the date of disposal
Non-current assets	
Deferred tax assets	79
	79
Current assets	
Inventory property with period of sale above the year	–
Inventory property with period of sale within the year	1,376
Trade and other receivables	700
Other non-financial assets	–
	2,076
Total assets	**2,155**
Non-current liabilities	
Interest bearing loans and borrowings	14,098
Deferred tax liability	–
	14,098
Current liabilities	
Interest bearing loans and borrowings	2,595
Trade and other payables	132
Provisions	384
	3,111
Total liabilities	**17,209**
Equity	**(15,054)**
Equity attributable to owners of the parent	(14,121)
Net assets attributable to non – controlling participants in LLC	(933)

Summarized cash flow information

Gorki-8	Period from 1 January 2014 to the date of disposal
Net cash flow from operating activities	(2,271)
Net cash flow from investing activities	–
Net cash flow from financing activities	2,271
Net decrease in cash and short-term deposits	**–**

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.

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

7. Rental income (continued)

As of 31 December 2015 the Group received an irretrievable guarantee deposit for the last three months of lease of Danilovsky Fort in the amount RUR 129 million and guarantee deposits which can be returned at the end of lease term of SkyLight, Leto and CDM na Lubyanke in the amount of RUR 278 million, RUR 165 million and RUR 176 million, respectively. For the year ended 31 December 2015 the Group recognised interest on tenants' guarantee deposits in the amount of RUR 39 million (Note 13).

As of 31 December 2014 the Group received an irretrievable guarantee deposit for the last three months of lease of Danilovsky Fort in the amount of RUR 102 million and guarantee deposits which can be returned at the end of lease term of SkyLight, Leto and CDM na Lubyanke in the amount of RUR 261 million, RUR 156 million and RUR 184 million, respectively. For the year ended 31 December 2014 the Group recognised interest on tenants' guarantee deposits in the amount of RUR 27 million (Note 13).

Rental income generated by SkyLight, Leto, CDM na Lubyanke, Danilovsky Fort, Hotel complex Pekin, Krasnobogatyrskaya (NIIDAR) and other properties for the year ended 31 December 2015 amounted to RUR 2,073 million, RUR 1,588 million, RUR 843 million, RUR 587 million, RUR 188 million, RUR 51 million and RUR 28 million, respectively.

Rental income generated by SkyLight, Leto, Danilovsky Fort, Krasnobogatyrskaya (NIIDAR) and other properties for the year ended 31 December 2014 amounted to RUR 1,609 million, RUR 1,457 million, RUR 425 million, RUR 75 million, and RUR 46 million, respectively.

As of 31 December 2015 and 2014 future minimum rentals receivable under non-cancellable operating leases are as follows:

	Future minimum lease payments	
Expected maturities	**2015**	**2014**
Within one year	6,492	3,574
In the second to fifth year	21,725	11,414
After fifth year	2,550	2,166
	30,767	**17,154**

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

In 2014 the Group completed the project Literator. In 2015 and 2014 under signed acts of acceptance and transfer of residential and non-residential premises the Group recognised revenue from sales of inventory property in the amount of RUR 1,178 million and RUR 12,847 million respectively and cost of sales in the amount of RUR 685 million and RUR 7,591 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)

In 2014 the Group completed the project Kamelia apartments. In 2015 and 2014 under signed acts of acceptance and transfer of residential and non-residential premises the Group recognised revenue from sales of inventory property in the amount of RUR 1,280 million and RUR 65 million, respectively and cost of sales in the amount of RUR 952 million and RUR 34 million, respectively.

In the second quarter of 2014 the Group has completed the construction and put into operation the cottage village Lighthouse in the Moscow region in the neighborhood of Gorki-8. In June 2014 the Group sold cottages (Note 20) to its parent company, VTB, for RUR 26,345 million as settlement of loans payable in the amount of RUR 25,645 million and additional payment in the amount of RUR 700 million. Excess of settled loans payable and additional payment over the carrying value of the cottages transferred, was recognised as gross profit on sale of inventory property in the amount of RUR 6,038 million.

In 2015 and 2014 the Group recognised revenue from sales of inventory property relating to the Nakhimovsky and Michurinsky projects in the amount of RUR 15 million and RUR 8 million respectively and cost of sales in the amount of RUR 22 million and RUR 9 million, respectively.

In 2015 and 2014 the Group recognised revenue from sales of inventory property relating to the project Solntse in the amount of RUR 20 million and RUR 39 million respectively and cost of sales in the amount of RUR 10 million and RUR 17 million, respectively.

	2015	2014
Total area transferred to customers, square meters:	7,713.7	28,937.9
Including		
Transferred to the local authorities	–	–
Transferred to other customers	7,713.7	28,937.9
Parking lots transferred to customers, square meters:	2,188.4	4,126.8
Including		
Transferred to the local authorities	–	–
Transferred to other customers	2,188.4	4,126.8

Revenue from room charges and other hotel services for the years ended 31 December 2015 and 2014 in the amount of RUR 491 million and RUR 287 million, respectively, is attributable to Hotel Swissotel Resort Sochi Kamelia and in the amount of RUR 233 million and RUR 405 million, respectively, is attributable to Hotel complex “Pekin”.

Cost of hotel services for the years ended 31 December 2015 and 2014 comprise the following:

	2015	2014
Payroll	257	293
Depreciation	139	201
Material expenses, including food and beverages	116	176
Property maintenance and operation	182	282
	694	**952**

Other sales for the years ended 31 December 2015 and 2014 represent agency remuneration in the amount of RUR 90 million and RUR 54 million, respectively, and other revenues.

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

9. Administration and selling expenses

	2015	2014
Staff cost	989	997
Advertising costs	803	591
Realtors service fees	139	228
Consulting and other professional services	121	138
Depreciation and amortization	62	63
Cost of computer software maintenance	49	53
Hotel room reservation system fees	24	11
Banking services	18	14
Repairs, maintenance and utilities	11	11
Communication services	11	11
Security expenses	8	11
Rent of premises and land	5	11
Other	59	105
	2,299	**2,244**

In 2015 and 2014 the Group incurred advertising costs related to promotion campaign of main projects and “Hals” branding.

10. Other operating income

	2015	2014
Fines and penalties receivable	323	44
Profit from sale of assets classified as held for sale	226	212
Recovery of receivables written-off in prior periods	59	96
Payables and other obligations write off	26	26
Reversal of penalties for delay of property commissioning	–	245
Recovery of property tax	75	218
Annual reimbursement from depositary	20	39
Other	145	56
	874	**936**

In 2015 the Group recognized fines and penalties receivable for one of the Group’s counterparties’ non-fulfillment of obligations under construction contracts in the amount of RUR 270 million.

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

In 2015 the Group recognized income in the amount of RUR 75 million from the application of preferential rate of property tax 0% instead of 2.2% in respect of parking lots. The revised tax returns for prior periods have been prepared by the Group and submitted to tax authorities.

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

10. Other operating income (continued)

In 2014 the Group recognized income in the amount of RUR 218 million from the application of preferential rate of property tax 1.1% instead of 2.2%. The revised tax returns for prior periods have been submitted by tax authorities and the amount of overpaid property tax was returned to the Group's bank account.

In 2015 and 2014 the Group recognised profit from sale of Tower B SkyLight classified as assets held for sale in the amount of RUR 226 million and RUR 212 million, respectively (Note 25).

In 2015 and 2014 the Group recognized income on write off of payables in the amount of RUR 26 million and RUR 26 million, respectively, as a result of the limitation period expiration.

11. Other operating expenses

	2015	**2014**
Impairment of available-for-sale financial assets (Note 22)	1,028	–
Taxes other than income tax	370	573
Impairment of property plant and equipment (Note 18)	174	3,016
Receivables and other assets write off	121	326
Penalties for delay of property commissioning	–	80
Legal provision	27	20
Other	97	134
	1,817	**4,149**

In 2014 the Group recognised loss in the amount of RUR 80 million on penalties for delay of CDM na Lubyanke commissioning.

12. Finance income

	2015	**2014**
Interest on bank deposits	2,081	741
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 30)	–	69
	2,081	**810**

13. Finance expenses

	2015	**2014**
Interest on bank loans and borrowings	7,986	8,746
Less: amounts capitalized	(2,135)	(2,573)
Net loss on financial instruments at fair value through profit or loss	866	1,518
Finance lease expenses	29	40
Interest on tenants' guarantee deposits (Note 7)	39	27
Total	**6,785**	**7,758**

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

13. Finance expenses (continued)

In 2015 the Group capitalized interest on bank loans in investment property under construction, inventory property and property plant and equipment in the amount of RUR 1,113 million, RUR 920 million and RUR 102 million, respectively.

In 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 1,399 million, RUR 900 million and RUR 274 million, respectively.

14. Income tax

The major components of income tax for the years ended 31 December 2015 and 2014 are:

	2015	2014
Consolidated statement of comprehensive income		
Income tax expense – current	(5)	(1,483)
Income tax provision	–	(41)
Deferred tax benefit/(expense) relating to origination and reversal of temporary differences	2,216	(402)
Income tax	**2,211**	**(1,926)**

A reconciliation between income tax benefit/(expense) and the product of accounting (loss)/profit multiplied by statutory tax rate for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
(Loss)/profit before tax	**(16,362)**	**1,071**
Income tax computed on (loss)/profit before taxes at statutory rate (20%)	**3,272**	**(214)**
Non-deductible expenses	(1,233)	(1,033)
Effect of tax rates in other jurisdictions	232	(144)
Effect of net loss attributable to non-controlling participants in LLCs	–	14
Change in unrecognised losses carried forward	(60)	(508)
Income tax provision	–	(41)
Income tax benefit/(expense) reported in the consolidated statement of comprehensive income	**2,211**	**(1,926)**

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

14. Income tax (continued)

	Consolidated statement of financial position		Consolidated statement of comprehensive income
	31 December 2015	31 December 2014	2015
Deferred tax liability			
Revaluations of investment property to fair value	(2,870)	(5,298)	2,428
Timing of recognition on financial results	(65)	(65)	–
Timing of capitalized interest recognised	(1,752)	(1,709)	(43)
Timing of costs recognised	(1,535)	(1,192)	(343)
Other liability	(678)	(223)	(455)
	(6,900)	**(8,487)**	**1,587**
Deferred income tax assets			
Accrual of provisions	2	10	(8)
Valuations of assets other than investment property	99	99	–
Revaluations of investment property to fair value	762	584	178
Depreciation	3	3	–
Losses available for offset against future taxable income	5,581	5,438	143
Unrecognised tax losses carried forward	(1,150)	(1,090)	(60)
Impairment of available-for-sale financial assets	206	–	206
Other assets valuation	266	96	170
	5,769	**5,140**	**629**
Deferred tax benefit			**2,216**

	Consolidated statement of financial position		Acquisition of one asset entity and disposal of subsidiary (Note 5)	Consolidated statement of comprehensive income
	31 December 2014	31 December 2013	2014	2014
Deferred tax liability				
Revaluations of investment property to fair value	(5,298)	(4,976)	–	(322)
Timing of recognition on financial results	(65)	(65)	–	–
Timing of capitalized interest recognised	(1,709)	(1,516)	–	(193)
Timing of costs recognised	(1,192)	(1,019)	–	(173)
Other liability	(223)	(214)	–	(9)
	(8,487)	**(7,790)**	**–**	**(697)**
Deferred income tax assets				
Accrual of provisions	10	68	–	(58)
Valuations of assets other than investment property	99	99	–	–
Revaluations of investment property to fair value	584	679	(79)	(16)
Depreciation	3	3	–	–
Losses available for offset against future taxable income	5,438	4,580	5	853
Unrecognised tax losses carried forward	(1,090)	(582)	–	(508)
Other assets valuation	96	72	–	24
	5,140	**4,919**	**(74)**	**295**
Deferred tax expense				**(402)**

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

14. Income tax (continued)

	Consolidated statement of financial position	
	31 December 2015	**31 December 2014**
Deferred tax liability, net		
Reflected in the consolidated statement of financial position as follows		
Deferred tax assets	2,154	1,788
Deferred tax liability	(3,285)	(5,135)
Deferred tax liability, net	**(1,131)**	**(3,347)**

Reconciliation of deferred tax liability, net for the years ended 31 December 2015 and 2014 is follows:

	2015	2014
At 1 January	**(3,347)**	**(2,871)**
Deferred tax expense recognised in the consolidated statement of comprehensive income	2,216	(402)
Deferred tax acquired in one asset entity	–	5
Deferred tax disposed with subsidiary (Note 5)	–	(79)
At 31 December	**(1,131)**	**(3,347)**

As of 31 December 2015 and 2014 cumulative tax loss in the amount of RUR 22,155 million and RUR 21,740 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 2015 and 2014 the Group did not recognise deferred tax asset for tax loss in the amount of RUR 5,750 million and RUR 5,450 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

	2015	2014
At 1 January	**30,712**	**22,359**
Capital expenditure on owned property and other components capitalized	2,198	90
Disposals	(12)	–
Transfer from investment property under construction (Note 16)	12,892	–
Transfer to property, plant and equipment (Note 18)	(55)	–
Transfer from assets classified as held for sale (Note 25)	–	4,261
Transfer from property, plant and equipment (Note 18)	–	1,279
Fair value adjustment	(1,279)	2,723
At 31 December	**44,456**	**30,712**

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 43,353 million and RUR 29,445 million as of 31 December 2015 and 31 December 2014, 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 2015	31 December 2014
Contracted rental rate, kRUR/sq. m/per year	20.9	23.4
Average annual rental rate indexation	4.9%	5.5%
Market rental rate		
Office, kRUR/sq. m/year	24.7	25.6
Retail, kRUR/sq. m/year	17.0	18.9
Terminal capitalization rate	11.5%	11.3%
Discount rate	14.6%	14.3%

In determining the fair value of land, held to benefit from capital appreciation over the long-term and for currently undetermined use, totaling RUR 1,103 million and RUR 1,267 million as of 31 December 2015 and 31 December 2014, respectively, the comparative method was used.

In 2015 part of the Hotel complex "Pekin" with the value of RUR 55 million was transferred from completed investment property into property, plant and equipment.

In 2014 part of the Hotel complex "Pekin" held for rent with a value of RUR 1,279 million was transferred to investment 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 2014 as the result of the essential changes of market conditions the Group decided to transfer to the completed investment property the premises of Tower B of "SkyLight" with a value of RUR 4,261 million that were classified as at 31 December 2013 as assets held for sale (Note 25).

16. Investment property under construction

	2015	2014
At 1 January	**31,578**	**22,482**
Capital expenditure on owned property and other components capitalized	4,309	6,707
Interest capitalized (Note 13)	1,113	1,399
Transfer from investment property under construction (Note 15)	(12,892)	–
Transfer to inventory property (Note 20)	–	(1,857)
Fair value adjustment	(11,016)	2,847
At 31 December	**13,092**	**31,578**

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

16. Investment property under construction (continued)

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

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

In determining the fair value of investment property under construction, totaling RUR 13,092 million and RUR 31,578 million of 31 December 2015 and 31 December 2014, 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 2015	31 December 2014
Average annual rental rate indexation	5.0%	5.0%
Market rental rate		
Office, kRUR/sq. m/year	25.5	33.2
Retail, kRUR/sq. m/year	86.9	74.8
Terminal capitalization rate	11.5%	10.7%
Discount rate	23.75%	22.5%
Construction costs, kRUR/sq. m	96.2	106.4

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

In 2014 the Group has changed the concept of the project Iskra-Park based on the highest and best use of the land plot; as a result the Group transferred to the inventory property the residential part of the project with a value of RUR 1,857 million.

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 2015	31 December 2014
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	394	898
Total					**394**	**898**

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

17. Investments in joint venture (continued)

JSC Ekvivalent is engaged in real estate development. The major project of the company is "Nevskaya Ratusha" – administrative, public and business complex in St. Petersburg.

	2015	2014
At 1 January	**898**	**1,906**
Share of loss of joint venture, net of tax, in the consolidated statement of comprehensive income	(504)	(1,008)
At 31 December	**394**	**898**

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

	31 December 2015	31 December 2014
Non-current assets	7,307	7,295
Current assets	10,814	9,730
Non-current liabilities	(2,462)	(11,855)
Current liabilities	(14,871)	(3,375)
Net assets	**788**	**1,795**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investments	**394**	**898**

	2015	2014
Loss for the year	(1,007)	(2,016)
Group's share of loss for the year	**(504)**	**(1,008)**

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.

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

18. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
At 1 January 2014	**2,329**	**410**	**5,323**	**8,062**
Additions	1,810	264	337	**2,411**
Disposals	–	(14)	–	**(14)**
Assets put into operation	4,640		(4,640)	**–**
Transfer to completed investment property (Note 15)	(1,279)	–	–	**(1,279)**
At 31 December 2014	**7,500**	**660**	**1,020**	**9,180**
Additions	181	62	172	**415**
Disposals	–	(4)	–	**(4)**
Transfer from completed investment property (Note 15)	55	–	–	**55**
At 31 December 2015	**7,736**	**718**	**1,192**	**9,646**
Accumulated depreciation and impairment				
At 1 January 2014	**(221)**	**(79)**	**(2,436)**	**(2,736)**
Depreciation charge for the year	(131)	(131)	–	**(262)**
Impairment (Note 11)	(3,016)	–	–	**(3,016)**
Assets put into operation	(2,436)		2,436	**–**
Disposals	–	2	–	**2**
At 31 December 2014	**(5,804)**	**(208)**	**–**	**(6,012)**
Depreciation charge for the year	(65)	(154)	–	**(219)**
Impairment (Note 11)	(174)	–	–	**(174)**
Disposals	–	4	–	**4**
At 31 December 2015	**(6,043)**	**(358)**	**–**	**(6,401)**
Net book value				
At 31 December 2015	**1,693**	**360**	**1,192**	**3,245**
At 31 December 2014	**1,696**	**452**	**1,020**	**3,168**

The amount of borrowing costs capitalised during the years ended 31 December 2015 and 2014 was RUR 102 million and RUR 274 million, respectively.

In 2015 and 2014 the Group capitalized staff costs in property, plant and equipment (Swissotel Resort Sochi Kamelia) in the amount of RUR nil million and RUR 19 million, respectively.

In 2015 and 2014 the Group performed impairment test and determined the recoverable amount as value in use of Swissotel Resort Sochi Kamelia. As a result the Group recognised impairment loss in the amount of RUR 174 million and of RUR 2,687 million, respectively (which is included in other operating expenses).

18. Property, plant and equipment (continued)

The major events and circumstances that led to the recognition of impairment for 2015 and 2014 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 the turn of market.

The significant assumptions made relating the estimation of Swissotel Resort Sochi Kamelia's value in use are set out below:

- discount rate – 15% (15% for impairment test in 2014);
- period of hotel operation is from 2016 to 2018 in which it is planned to be sold (from 2015 to 2017 for impairment test in 2014);
- capitalization rate – 12% (11% for impairment test in 2014).

In July 2014 the Group acquired 100% of the shares of JSC Brestskaya, one asset entity holding property title to an office building in Moscow, for the cash consideration of USD 33.6 million (RUR 1,214 million) as part of Hotel complex Pekin project. The cost of the acquisition was capitalized in the cost of the Hotel Pekin hotel reconstruction. In August 2014 the building held by JSC Brestskaya was disposed by the Group to reallocate tenants from the Hotel Pekin making it available for the further reconstruction.

In 2015 and 2014 the Group performed the impairment test and determined the recoverable amount as value in use of the Hotel Pekin. As at 31 December 2015 the carrying amount of the object did not exceed its recoverable amount so no impairment was recognized.

In 2014 the Group recognized impairment loss in the amount of RUR 329 million as other operating expenses.

The significant assumptions made relating the estimation of the Hotel Pekin's value in use are set out below:

- discount rate – 15% (15% for impairment test in 2014);
- period of hotel operation is from 2016 to 2020 in which it is planned to be sold (from 2015 to 2019 for impairment test in 2014);
- capitalization rate – 11% (11% for impairment test in 2014).

In 2015 the Group performed the impairment test and determined the recoverable amount as value in use of the construction in progress for the project IQ-quarter. As at 31 December 2015 the carrying amount of the object did not exceed its recoverable amount so no impairment was recognized.

The significant assumptions made relating the estimation of the construction's in progress value in use are set out below:

- discount rate – 15%;
- period of object's operation is from 2016 to 2022 in which it is planned to be sold;
- capitalization rate – 12%.

(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 2014	**92**	**675**	**5**	**1,541**
Additions	–	–	–	–
Disposals	–	–	–	–
31 December 2014	**92**	**675**	**5**	**1,541**
Additions	–	–	–	–
Disposals	–	–	–	–
31 December 2015	**92**	**675**	**5**	**1,541**
Amortization and impairment				
1 January 2014	**–**	**(222)**	**(5)**	**(996)**
Disposals	–	–	–	–
31 December 2014	**–**	**(222)**	**(5)**	**(996)**
Disposals	–	–	–	–
31 December 2015	**–**	**(222)**	**(5)**	**(996)**
Net book value				
31 December 2015	**92**	**453**	**–**	**545**
31 December 2014	**92**	**453**	**–**	**545**

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 2015 and 2014 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 – 17.5% (17.22% for impairment test in 2014);
- period of the project IQ-quarter operation is from 2016 to 2022 in which it is planned to be sold (31 December 2014: from 2015 to 2021 in which it is planned to be sold);
- capitalization rate – 11% (31 December 2014: 11%).

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

20. Inventory property

	2015	2014
At 1 January	**24,857**	**49,679**
Construction costs incurred	6,798	9,828
Interest capitalized	920	900
Property sold (Note 8)	(1,669)	(27,958)
Disposal of subsidiary (Note 5)	–	(1,376)
Transfer from investment property (Note 16)	–	1,857
Write-down of inventory to net realizable value	–	(8,073)
At 31 December	**30,906**	**24,857**

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

20. Inventory property (continued)

As of 31 December 2015 and 2014 the Group tested inventory property for recoverability. As a result of the test, in 2015 and 2014 the Group recognized loss on inventory property write down to net realizable value in the amount of RUR nil million and RUR 8,073 million.

In the years ended 31 December 2015 and 2014 the Group capitalized staff costs in inventory property in the amount of RUR 199 million and RUR 153 million, respectively.

21. Trade receivables, other receivables and other financial assets

Current financial assets	31 December 2015	31 December 2014
Trade receivables		
Trade receivable from third parties	179	342
	179	**342**
Other receivables		
Other receivable from third parties	521	1,009
Other receivable from related parties	33	113
	554	**1,122**
	733	**1,464**

Other current financial assets	31 December 2015	31 December 2014
Other financial assets	–	45
Loans receivable	6	7
	6	**52**

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

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

22. Available-for-sale financial assets

As at 31 December 2014 available-for-sale financial assets in the total amount of RUR 2,833 million included investments in unquoted interest in the charter capital (Note 5).

As at 31 December 2015 the Group performed the impairment test and recognized impairment loss in the amount of RUR 1,028 million (Note 11).

23. Cash and short term deposits

	31 December 2015	31 December 2014
Cash at bank and on hand	247	627
Short-term deposits	19,514	17,477
	19,761	**18,104**

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

23. Cash and short term deposits (continued)

As of 31 December 2015 cash and short-term deposits were deposited as follows: RUR 19,758 million in VTB Bank (31 December 2014: RUR 18,094 million), RUR 3 million in other banks (31 December 2014: RUR 10 million).

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. The weighted average interest rate on demand deposits as of 31 December 2015 and 31 December 2014 was 11.7% and 7.7%, respectively.

As at 31 December 2015 VTB Bank has Ba1 credit rating assigned by the Moody's credit rating agency (31 December 2014: Ba1).

24. Other non-financial assets

	31 December 2015	31 December 2014
Other non-current		
Advances issued for construction of investment property	2,052	4,574
Advances issued for construction of property, plant and equipment	289	494
	2,341	**5,068**
Other current assets		
Advances issued for construction of inventory property with period of sale above the year	508	2,383
Advances issued for construction of inventory property with period of sale within the year	3,119	492
Advance payments for taxes	97	70
Other current non-financial assets	273	208
	3,997	**3,153**

25. Assets and liabilities, classified as held for sale

As at 31 December 2014 due to change in market conditions the Group changed its intention to sell Tower B of "SkyLight" in the nearest future at the current market price and transferred the major part of the project back to investment property. The remaining part of Tower B of "SkyLight" recognized as assets classified as held for sale as at 31 December 2014 with a value of RUR 640 million represented premises for which the Group's management approved a sale deal and this deal was completed in February 2015. Profit from sale of assets classified as held for sale recognized as other operating income in the consolidated statement of comprehensive income (Note 10).

In 2014 the Group sold to the third parties the part of Tower B of "SkyLight" with the total area of 5,042 sq. meters, fair value of sold assets is RUR 1,256 million. Profit from sale of assets classified as held for sale recognized as other operating income in the consolidated statement of comprehensive income (Note 10).

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

26. Equity

At 31 December 2015 and the 31 December 2014 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 2015 and 2014 is as follows:

	Total shares authorized and issued	**Treasury shares**	**Total shares authorized, issued and outstanding**
	Thousands	*Thousands*	*Thousands*
As of 31 December 2014	11,217	(5)	11,212
As of 31 December 2015	11,217	(5)	11,212

27. Interest bearing loans and borrowings

	Interest rate %	**Maturity**	**31 December 2015**	**31 December 2014 restated**
Current interest-bearing loans from related parties				
VTB	9.5%	2020	6,832	6,452
VTB	9.5%	2016	3,913	466
VTB	9.5%	2017	2,851	2,667
VTB	The rate of the Central Bank (RF) + 0.25%	2016	2,578	2,400
VTB	9.5%	2015	–	3,435
VTB	The rate of the Central Bank (RF) + 0.25%	2015	–	2,517
VTB	8.0%	2015	–	4,242
VTB	10.0%	2015	10,447	9,601
			26,621	**31,780**
Current interest-bearing loans and borrowings from third parties				
Other third parties	Various	Various	18	27
			18	**27**
Total current interest-bearing loans and borrowings			**26,639**	**31,807**
Non-current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2021	37,634	35,369
VTB	9.5%	2017	28,751	27,264
VTB	9.5%	2020	13,730	12,746
VTB	9.5%	2022	4,525	4,183
VTB	9.5%	2026-2028	2,115	–
VTB	8.0%	2023	2,543	–
VTB	9.5%	2016	–	3,231
VTB	9.5%	2018	11	11
			89,309	**82,804**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V.	8.15%	2018	3,201	2,356
			3,201	**2,356**
Total non-current interest-bearing loans and borrowings			**92,510**	**85,160**
Total interest-bearing loans and borrowings			**119,149**	**116,967**

(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 2015 is as follows:

Year ended 31 December	
2016	23,788
2017	31,602
2018	3,212
2020	13,730
2021	37,634
2022	4,525
2023	2,543
2026	557
2027	183
2028	1,375
Total	**119,149**

VTB

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

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

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

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

27. Interest bearing loans and borrowings (continued)

VTB (continued)

In September 2010 the Group signed credit facility agreement with VTB with a limit of RUR 5,374 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in September 2014 for the purpose of financing the SkyLight project. In August 2014 the Group agreed with VTB to prolong the repayment date of this facility from September 2014 to September 2015. As of 31 December 2015 the loan facility was fully repaid.

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

In March 2011 the Group signed new credit facility agreement with VTB with a limit of RUR 679 million, the interest rate of the Central Bank (RF) + 0.25% for the purpose of financing the Teatralny Dom project. The loan is to be repaid in March 2016 (Note 39). 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 2015 and 2014 the loan facility was utilized in the amount of RUR 2,101 million and RUR 2,101 million, respectively. As of 31 December 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In September 2011 the Group signed new credit agreement with the limit of RUR 5,000 million and interest rate of 9.5% for the corporate purpose. The loan is to be repaid in December 2020. In July 2012 the Group agreed with VTB to increase the limit on the corporate credit facility up to RUR 6,200 million. In May 2013 the Group agreed with VTB to increase the limit on the corporate credit facility from RUR 6,200 million up to RUR 9,600 million which supposed to be used for current activity as well as project financing. As of 31 December 2015 and 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 complex IQ-quarter. The loan is to be repaid in November 2015. As of 31 December 2015 and 2014 the loan facility was utilized in the amount of RUR 6,054 million and RUR 5,893 million, respectively.

In December 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 1,755 million, the interest rate of 9.5% per annum for the Nasledie project. The loan is to be repaid in March 2016 (Note 39). As of 31 December 2015 and 2014 the loan facility was utilized in the amount of RUR 1,542 million and RUR 1,542 million, respectively. As of 31 December 2015 the Group lost its right to utilize the loan facility in respect of unused amount.

In 2008 the Group entered into a loan facility agreement with VTB for up to RUR 4,000 million at 9.5% per annum maturing in 2020. As at 31 December 2015 and 31 December 2014 the loan facility was utilized in full. Under the agreement, the Group undertakes to comply with certain covenants set by VTB, which, when breached, may entitle VTB to claim early repayment. Several covenants stipulated by the agreement were breached, therefore, the obligations under the loan were recorded within short-term liabilities of the Group as at 31 December 2015.

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

27. Interest bearing loans and borrowings (continued)

VTB (continued)

In October 2015 the Group agreed with VTB to prolong the maturity of loan facility for the purpose of purchase of 50% share in CJSC Ekvivalent from October 2015 till March 2028.

In December 2015 the Group agreed with VTB to prolong the maturity of loan facility for the purpose of financing the project “Kamelia” from December 2015 till December 2023.

As a result of prolongation of both loan facilities the substantial modification of the terms of the existing liabilities occurred. It has been considered as an extinguishment of the original financial liabilities and the recognition of new financial liabilities. The difference between the carrying amount of the financial liabilities extinguished and the fair value of the new financial liabilities in the amount of RUR 2,527 million has been recognised in equity.

28. Trade and other payables

	31 December 2015	31 December 2014
Current financial liability		
Trade payables		
Guarantee retentions	1,454	1,028
Other trade payable to third parties	1,144	1,347
	2,598	**2,375**
Other payables		
Payable to employees	91	141
Taxes payable	1,061	1,284
Other payable to third parties	583	1,261
Financial lease obligations	19	36
	1,754	**2,722**
	4,352	**5,097**
Non-current financial liability		
Trade payables		
Guarantee retentions	73	399
	73	**399**
Other payables		
Financial lease obligations	241	145
	241	**145**
	314	**544**

Guarantee retentions represent amounts received by 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.

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

29. Other non-financial liability

	31 December 2015	31 December 2014
Non-current		
Advances from Iskra	1,400	1,400
Advances from customers	441	646
Deferred rent income	128	96
	1,969	**2,142**
Current liability		
Advances from customers with period of settlement above the year	5,326	14,561
Advances from state authority with period of settlement above the year	1,659	1,659
Advances from customers with period of settlement within the year	22,340	2,627
	29,325	**18,847**

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

	2015	2014
At 1 January	**–**	**33**
Net loss attributable to non-controlling participants in LLCs (Note 12)	–	(69)
Transfer to equity	–	36
At 31 December	**–**	**–**

31. Embedded financial derivatives

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

The fair value of the embedded derivatives recognized as at 31 December 2015 and 2014 amounted to RUR 4,014 million and RUR 1,869 million, respectively.

Change in fair value of the embedded derivatives during 2015 and 2014 was recognized as net loss on financial instruments at fair value through profit or loss in the amount of RUR 566 million and RUR 1,491 million.

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

32. 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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Financial assets				
Available-for-sale financial assets	1,805	2,833	1,805	2,833
Trade and other receivables	733	1,509	733	1,509
Loans and notes receivable	6	7	6	7
Cash and short-term deposits	19,761	18,104	19,761	18,104
	22,305	**22,453**	**22,305**	**22,453**
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(2,578)	(4,917)	(2,578)	(4,917)
Fixed rate borrowings	(116,571)	(112,050)	(104,450)	(97,395)
Trade and other payables	(4,666)	(5,641)	(4,666)	(5,641)
Embedded financial derivatives	(4,014)	(1,869)	(4,014)	(1,869)
Tenants' guarantee deposits	(620)	(607)	(620)	(607)
	(128,449)	**(125,084)**	**(116,328)**	**(110,429)**

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 2015 and 2014 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 2015 and 2014.
- 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 2015 and 31 December 2014 approximate 9.5% and 9.5%, respectively) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 31 December 2015 and 2014 are accounted for at amortized cost.
- Available-for-sale financial assets and embedded financial derivatives are accounted for at fair value on the consolidated statement of financial position.

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

33. 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 2015:

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets	31 December 2015	**1,805**	–	–	1,805
Investment properties					
Completed investment property (Note 15)	31 December 2015	**44,456**	–	–	44,456
Investment property under construction (Note 16)	31 December 2015	**13,092**	–	–	13,092
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 31)	31 December 2015	**4,014**	–	–	4,014
Liabilities for which fair values are disclosed (Note 32)					
Interest bearing loans and borrowings	31 December 2015	**107,028**	–	–	107,028

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

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets	31 December 2014	**2,833**	–	–	2,833
Assets classified as held for sale					
Completed investment property (Note 25)	31 December 2014	**640**	–	–	640
Investment properties					
Completed investment property (Note 15)	31 December 2014	**30,712**	–	–	30,712
Investment property under construction (Note 16)	31 December 2014	**31,578**	–	–	31,578
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 31)	31 December 2014	**1,869**	–	–	1,869
Liabilities for which fair values are disclosed (Note 32)					
Interest bearing loans and borrowings	31 December 2014	**102,312**	–	–	102,312

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

33. Fair value measurement (continued)

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobser-vable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investment properties and assets classified as held for sale				
Completed investment property	DCF Method	Discount rate	14.0%-15.5% (14.8%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,248) mln and RUR 1,318 mln, respectively.
Completed investment property	DCF Method	Average annual rental rate indexation	4.3%-4.5% (4.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 3,639 mln and RUR (3,160) mln, respectively.
Completed investment property	DCF Method	Terminal capitalization rate	10.0%-13.0% (11.8%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,516) mln and RUR 1,818 mln, respectively.
Investment property under construction	DCF Method	Discount rate	14.5%-17.8% (16.1%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,034) mln and RUR 1,098 mln, respectively.
Investment property under construction	DCF Method	Average annual rental rate indexation	4.4%-4.4% (4.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 4,482 mln and RUR (3,909) mln, respectively.
Investment property under construction	DCF Method	Terminal capitalization rate	11.0%-12.0% (11.5%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,385) mln and RUR 1,653 mln, respectively.
Available-for-sale financial assets				
Equity investments	Comparative method	Sale price for land plots held by investee	0.2-0.892	10% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 588 mln and RUR (588) mln, respectively.
Embedded financial derivatives				
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	USD-rate	72.88 RUR/USD	40.0% increase / 13.0%(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 2,616 mln and RUR (845) mln, respectively.
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	EUR-rate	79.70 RUR/EUR	43.0% increase / 15.0%(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 505 mln and RUR (170) mln, respectively.

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

34. 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	2015	2014
Interest on borrowings to shareholders		
Interest on borrowings payable to VTB	7,860	6,093
	7,860	**6,093**
Interest income from shareholders		
Interest income from VTB	2,081	741
	2,081	**741**

	31 December 2015	31 December 2014
Amounts due from shareholder		
Cash and short-term deposits in VTB	19,758	18,094
Trade and other receivables from VTB	33	113
	19,791	**18,207**
Amounts due to shareholders		
Loans and borrowings from VTB	115,930	114,584
	115,930	**114,584**

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

- parent of the Group – VTB.

Group pledged collateral for loans received from VTB as disclosed in Note 37.

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:

	2015	2014
Short-term employee benefits	358	291
Other long-term benefits	56	31

35. 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)

35. 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 2015	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Refinancing rate of Central Bank of the Russian Federation	5.5%	(23)
	-5.25%	22

31 December 2014	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Refinancing rate of Central Bank of the Russian Federation	0.5%	(20)
	-0.5%	20

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, except for those embedded in lease agreements (Note 31).

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 2015	40.00%	(1,075)
	-13.00%	349
31 December 2014	28.54%	(792)
	-28.54%	792

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

35. Financial risk management objectives and policies (continued)

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.

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

	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
As at 31 December 2015					
Interest-bearing loans and borrowings	20,396	3,625	57,082	70,486	**151,589**
Trade and other payables	1,331	3,021	314	–	**4,666**
Tenants' guarantee deposits	–	–	620	–	**620**
Embedded derivatives	–	–	1,462	2,552	**4,014**
	21,727	**6,646**	**59,478**	**73,038**	**160,889**
As at 31 December 2014					
Interest-bearing loans and borrowings	–	21,119	53,113	78,242	**152,474**
Trade and other payables	5,097	–	544	–	**5,641**
Tenants' guarantee deposits	–	–	607	–	**607**
Embedded derivatives	–	–	849	1,020	**1,869**
	5,097	**21,119**	**55,113**	**79,262**	**160,591**

35. Financial risk management objectives and policies (continued)

Capital management

At 31 December 2015 and 31 December 2014 the Group has negative net assets.

In 2014-2015 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 payable within one year 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.

36. 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 2015:

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

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

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

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

36. Segment information (continued)

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.

The year ended 31 December 2015

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construc-tion	under construc-tion	submitted to the operating lease	under construc-tion	rented apart-ments	Total
Segment revenue	**1,995**	**10,257**	**–**	**7,877**	**–**	**834**	**20,963**
Accrual vrs. cash basis	–	–	–	–	–	–	**(11,411)**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**9,552**

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construc-tion	under construc-tion	submitted to the operating lease	under construc-tion	rented apart-ments	Total
Segment result	**(399)**	**2,639**	**(579)**	**547**	**(32)**	**(771)**	**1,405**
Accrual vrs. cash basis***	–	–	–	–	–	–	**(17,767)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,362)**

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

36. Segment information (continued)

The year ended 31 December 2014

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	**under construc-tion**	**under constru-ction**	**submitted to the operating lease**	**under construc-tion**	**rented apart-ments**	**Total**
Segment revenue	**7,956**	**11,284**	**145**	**5,673**	**–**	**813**	**25,871**
Accrual vrs. cash basis	**–**	**–**	**–**	**–**	**–**	**–**	**19,269**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**45,140**

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	**under construc-tion**	**under construc-tion**	**submitted to the operating lease**	**under construc-tion**	**rented apart-ments**	**Total**
Segment result	**4,973**	**6,486**	**355**	**(91)**	**21**	**238**	**11,982**
Accrual vrs. cash basis***	–	–	–	–	–	–	**(10,911)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**1,071**

* Includes rental income, sales assets classified as held for sale, 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 and segment hospitality under construction in 2015 and 2014 in the amount of RUR 174 million and of RUR 3,016 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)

37. 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 2015 and 2014 common shares of the Group's entities have been pledged as follows:

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

As of 31 December 2015 and 2014 the Group pledged a 100% interest in its subsidiary LLL Iskra-Park, 100% shares of Gurdon Management Limited under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 3,600 million and RUR 3,600 million, respectively.

As of 31 December 2015 and 2014 the Group pledged CDM na Lubyanke (completed investment property) with a carrying amount of RUR 14,815 million and RUR 12,358 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 7,435 million and RUR 7,689 million, respectively.

As of 31 December 2015 and 2014 the Group pledged Danilovskiy Fort (completed investment property) with a carrying amount of RUR 4,145 million and RUR 4,359 million respectively as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 18,508 million and RUR 18,508 million, respectively.

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

As of 31 December 2015 and 2014 the Group pledged Leto (completed investment property) with a carrying amount of RUR 9,021 million and RUR 10,322 million, respectively, and the office building on B.Tatarskaya street (property, plant and equipment) with a carrying amount of RUR 152 million and RUR 171 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 1,979 million and RUR 1,979 million, respectively.

37. Guarantees and pledges (continued)

As of 31 December 2015 and 2014 the Group pledged the project IQ-quarter (investment property under construction, inventory property and property, plant and equipment) with a carrying amount of RUR 10,161 million, RUR 1,968 million and RUR 1,192 million, respectively, and RUR 16,140 million, RUR 1,684 million and RUR1,020 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 9,698 million and RUR 9,578 million, respectively.

As of 31 December 2015 and 2014 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying amount of RUR nill million and RUR 468 million, respectively, and RUR nill and RUR 1,421 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 2,674 million and RUR 3,641 million, respectively.

As of 31 December 2015 and 2014 the Group pledged the project Wine House (inventory property) with a carrying amount of RUR 5,259 million and RUR 3,588 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 343 million and RUR 343 million, respectively.

As of 31 December 2015 the Group pledged the project Iskra-Park (investment property under construction and inventory property) with a carrying amount of RUR 2,931 million and RUR 2,103 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 486 million.

As of 31 December 2015 the Group pledged the project “Peking Gardens” (inventory property) with a carrying amount of RUR 5,751 million as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 910 million.

As of 31 December 2015 the Group pledged the project “Hotel complex Peking” (completed investment property and property, plant and equipment) with a carrying amount of RUR 1,224 million and RUR 1,541 million as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 11 million.

38. Commitments and contingencies

Operating environment in the Russian Federation

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

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

38. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Taxation environment

Russian tax, currency and customs law allows for various interpretations and is subject to frequent changes. Management's interpretation of legislation as applied to the Company's transactions and activities may be challenged by regional or federal authorities.

In 2015 the new tax law is effective to counter the use of low tax jurisdictions and aggressive tax planning structures.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, the tax authorities may review earlier tax periods.

According to management, at 31 December 2015, they had properly construed the relevant legislation, and the probability that the Company will retain its position with regard to tax, currency and customs law is assessed as high.

During the years ended 31 December 2015, 2014 and 2013, 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 2,720 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 2015, 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.

38. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Transfer pricing

The Russian transfer pricing legislation 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 2012-2014 but also to the prior transactions with related parties if related income and expenses were recognized in 2012-2014. The 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 1 billion and RUR 0 million for international transactions. 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 the years 2013-2015 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.

38. 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 2015. A summary of significant commitments under construction contracts is provided below:

CDM na Lubyanke – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 340 million and RUR 1,945 million as of 31 December 2015 and 2014, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 652 million and RUR 1,088 million as of 31 December 2015 and 2014, respectively.

Hotel Pekin and Peking Gardens – The Group entered contractual agreements for the restoration of adaption to modern requirements of the Hotel complex Pekin and integrated development of the adjacent territory. Commitments under these contracts amounted to RUR 2,568 million and RUR 4,922 million as of 31 December 2015 and 2014, respectively.

IQ-quarter – The Group entered contractual agreements for construction of multifunctional complex IQ-quarter in Moscow-City. Commitments under these contracts amounted to RUR 7,385 million and RUR 7,804 million as of 31 December 2015 and 2014, respectively.

Literator – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 134 million and RUR 707 million as of 31 December 2015 and 2014, respectively.

Wine House – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,422 million and RUR 4,344 million as of 31 December 2015 and 2014, respectively.

Nasledie – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 7,763 million and RUR 9,694 million as of 31 December 2015 and 2014, respectively.

Teatralny Dom – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,040 million and RUR 2,239 million as of 31 December 2015 and 2014, respectively.

38. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Leto – The Group entered contractual agreements for construction of shopping and entertainment complex “Leto” in S.Peterburg. Commitments under these contracts amounted to RUR 42 million and RUR 26 million as of 31 December 2015 and 2014, respectively.

Iskra-Park – The Group entered contractual agreements for construction of the complex of apartments and offices with private parking and own infrastructure. Commitments under these contracts amounted to RUR 18,662 million and RUR 19,173 million as of 31 December 2015 and 2014, 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.

39. Subsequent events

In March 2016 the Group acquired a 100% interest in LLC Lira (Rostov-on-Don) for the hotel complex construction. As at the date of these consolidated financial statements issue the settlement of payments between the seller and the Group has not been completed.

1 December 2015 the Group agreed with VTB to prolong the maturity of loan facilities for the purposes of financing the project “IQ-quarter” in the amount of RUR 3,690 million and RUR 6,757 million from November 2015 till March 2019 and December 2023, respectively. The relevant additional agreements became effective from the date of they are being registered by the state authorities – Rosreestr. The registration date is 17 February 2016.

In March 2016 the Group fully repaid liabilities under credit facility agreements for the purpose of financing the projects “Nasledie” and “Teatralny Dom” in the amount of RUR 504 million and RUR 2,621 million, respectively.