

**JSC HALS-Development and subsidiaries**

Consolidated financial statements

*31 December 2014*

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**Contents**

Report of independent auditors .....	1
Consolidated statement of comprehensive income.....	3
Consolidated statement of financial position.....	4
Consolidated statement of changes in equity .....	6
Consolidated cash flow statement .....	7
Notes to the consolidated financial statements.....	8

## Independent auditors' report

To the Shareholders of JSC HALS-Development

We have audited the accompanying consolidated financial statements of JSC HALS-Development, formerly known as JSC Sistema-Hals and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of 31 December 2014, 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.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, 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 855 million during the year ended 31 December 2014 and, as at that date, the Group's negative net assets amounted to RUR 26,199 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*

20 April 2015

Moscow, Russia

JSC HALS-Development and subsidiaries  
Consolidated statement of comprehensive income  
for the year ended 31 December 2014

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

	Notes	2014	2013
Rental income	7	3,612	2,630
Property operating expense		(827)	(726)
<b>Net rental income</b>		<b>2,785</b>	<b>1,904</b>
Valuation gains on completed investment property	15	2,723	2,851
Valuation gains on investment property under construction	16	2,847	432
Valuation gains on completed investment property classified as held for sale	25	1,068	-
<b>Valuation gains on investment property</b>		<b>6,638</b>	<b>3,283</b>
Revenue from sales of inventory property	8	39,304	429
Cost of sales – inventory property	8, 20	(27,958)	(220)
<b>Gross profit on sale of inventory property</b>		<b>11,346</b>	<b>209</b>
<b>Write-down of inventory property to net realizable value</b>	20	<b>(8,073)</b>	<b>(1,490)</b>
Revenue from room charges and other hotel services	8	692	446
Cost of hotel services	8	(952)	(228)
<b>Gross profit/(loss) on hotel services</b>		<b>(260)</b>	<b>218</b>
Other sales	8	64	30
Cost of other sales		(12)	(9)
<b>Gross profit on other sales</b>		<b>52</b>	<b>21</b>
Administration and selling expenses	9	(2,244)	(2,129)
Other operating income	10	936	1,171
Other operating expenses	11	(4,149)	(2,682)
<b>Operating profit</b>		<b>7,031</b>	<b>505</b>
Gain on disposal of subsidiaries	5	2,810	80
Finance income	12	810	274
Finance expenses	13	(7,758)	(5,972)
Share of loss of joint ventures, net of tax	17	(1,008)	(32)
Foreign exchange loss		(814)	(130)
<b>Profit/(loss) before tax</b>		<b>1,071</b>	<b>(5,275)</b>
Income tax expense	14	(1,926)	(300)
<b>Loss for the year</b>		<b>(855)</b>	<b>(5,575)</b>
<b>Total comprehensive loss for the year</b>		<b>(855)</b>	<b>(5,575)</b>
<b>Attributable to:</b>			
Owners of the parent		(1,084)	(4,867)
Non-controlling interests in JSCs		790	(358)
Non-controlling participants in LLCs		(561)	(350)
		<b>(855)</b>	<b>(5,575)</b>
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the year per share, RUR		(97)	(434)

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

JSC HALS-Development and subsidiaries  
Consolidated statement of financial position

As of 31 December 2014

*(Amounts in millions of Russian rubles)*

	Notes	31 December 2014	31 December 2013
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	3,168	5,326
Completed investment property	15	30,712	22,359
Investment property under construction	16	31,578	22,482
Intangible assets	19	545	545
Available-for-sale financial assets	22	2,833	-
Investments in joint venture	17	898	1,906
Other non-financial assets	24	5,068	3,580
Deferred tax assets	14	1,788	2,391
		<b>76,590</b>	<b>58,589</b>
<b>Current assets</b>			
Inventory property with period of sale above the year	20	21,471	48,147
Inventory property with period of sale within the year	20	3,386	1,532
Trade and other receivables	21	1,464	842
VAT reimbursable		1,921	2,211
Other financial assets	21	45	334
Loans and notes receivable		7	22
Other non-financial assets	24	3,153	2,038
Cash and short-term deposits	23	18,104	7,406
		<b>49,551</b>	<b>62,532</b>
Assets classified as held for sale	25	640	5,089
		<b>50,191</b>	<b>67,621</b>
<b>Total assets</b>		<b>126,781</b>	<b>126,210</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued share capital	26	567	567
Treasury shares	26	(1)	(1)
Additional paid-in capital		18,296	18,296
Accumulated losses		(47,032)	(45,948)
<b>Total equity attributable to equity holders of the parent</b>		<b>(28,170)</b>	<b>(27,086)</b>
Non-controlling interests in JSCs		2,007	1,217
Net assets attributable to non-controlling participants in LLCs		(36)	(372)
<b>Total equity</b>		<b>(26,199)</b>	<b>(26,241)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	27	99,003	88,019
Trade and other payables	28	544	578
Embedded financial derivatives	31	1,869	33
Tenants` guarantee deposits		607	484
Other non-financial liabilities	29	2,142	2,431
Deferred tax liability	14	5,135	5,262
		<b>109,300</b>	<b>96,807</b>

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

JSC HALS-Development and subsidiaries

Consolidated statement of financial position (continued)

(Amounts in millions of Russian rubles)

	Notes	31 December 2014	31 December 2013
<b>Current liabilities</b>			
Net assets attributable to non-controlling participants in LLCs	30	–	33
Interest bearing loans and borrowings	27	17,964	39,358
Trade and other payables	28	5,097	2,991
Provisions		321	643
Current income tax payable		1,451	14
Other non-financial liabilities	29	18,847	12,155
		<b>43,680</b>	<b>55,194</b>
Liabilities directly associated with the assets classified as held for sale	25	–	450
		<b>43,680</b>	<b>55,644</b>
<b>Total liabilities</b>		<b>152,980</b>	<b>152,451</b>
<b>Total equity and liabilities</b>		<b>126,781</b>	<b>126,210</b>

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

JSC HALS-Development and subsidiaries  
 Consolidated statement of changes in equity  
 for the year ended 31 December 2014

*(Amounts in millions of Russian rubles)*

	Issued share capital	Treasury shares	Additio- nal paid- in capital	Accumu- lated losses	Equity attribu- table to holders of the parent	Non- controlling interests in JSCs	Net assets attributable to non- controlling participants in LLCs	Total equity
<b>At 1 January 2013</b>	<b>567</b>	<b>(1)</b>	<b>18,296</b>	<b>(41,081)</b>	<b>(22,219)</b>	<b>1,575</b>	<b>-</b>	<b>(20,644)</b>
Loss for the year	-	-	-	(4,867)	(4,867)	(358)	(350)	(5,575)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,867)</b>	<b>(4,867)</b>	<b>(358)</b>	<b>(350)</b>	<b>(5,575)</b>
Transfer non-controlling participants in LLCs from liabilities to equity	-	-	-	-	-	-	(22)	(22)
<b>At 31 December 2013</b>	<b>567</b>	<b>(1)</b>	<b>18,296</b>	<b>(45,948)</b>	<b>(27,086)</b>	<b>1,217</b>	<b>(372)</b>	<b>(26,241)</b>
Loss for the year	-	-	-	(1,084)	(1,084)	790	(561)	(855)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,084)</b>	<b>(1,084)</b>	<b>790</b>	<b>(561)</b>	<b>(855)</b>
Disposal of subsidiary (Note 5)	-	-	-	-	-	-	933	933
Transfer non-controlling participants in LLCs from liabilities to equity	-	-	-	-	-	-	(36)	(36)
<b>At 31 December 2014</b>	<b>567</b>	<b>(1)</b>	<b>18,296</b>	<b>(47,032)</b>	<b>(28,170)</b>	<b>2,007</b>	<b>(36)</b>	<b>(26,199)</b>

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

# JSC HALS-Development and subsidiaries

## Consolidated cash flow statement

for the year ended 31 December 2014

(Amounts in millions of Russian rubles)

	Notes	2014	2013
<b>Operating activities</b>			
Profit /(loss) before tax		1,071	(5,275)
<b>Adjustments to reconcile profit/(loss) before tax to cash flows</b>			
Changes in fair value of investment property	15, 16	(6,638)	(3,283)
Share of loss of joint ventures	17	1,008	32
Depreciation and amortization	18, 19	262	113
Gain on disposal of subsidiaries	5	(2,810)	(80)
Write-down of inventory property to net realizable value	20	8,073	1,490
Impairment of property, plant and equipment	11, 18	3,016	1,337
Net gain on resignation of inventory property	8	(6,038)	-
Finance income	12	(810)	(274)
Finance expenses	13	7,758	5,972
Payables and other obligations write off	10	(244)	(262)
Profit on sale of assets classified as held for sale	10	(212)	-
Profit from sale of investment Property	10	-	(629)
Receivables and other assets write off	11	326	380
Reversal of penalties for delay of property commissioning	10	(245)	-
Recovery of receivables written off in prior period	10	(96)	(158)
Changes in legal provision	10, 11	20	(40)
Foreign exchange loss		814	130
<b>Cash flows before working capital changes</b>		<b>5,255</b>	<b>(547)</b>
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(2)	(804)
Change in inventory property		(1,970)	(9,273)
Change in trade, other payables and non-financial liabilities		9,167	12,046
<b>Cash flow generated from operating activities</b>		<b>12,450</b>	<b>1,422</b>
Income tax paid		(34)	(167)
<b>Net cash flow generated from operating activities</b>		<b>12,416</b>	<b>1,255</b>
<b>Investing activities</b>			
Repayment of receivables from disposal of ZAO RTI Estate	21	313	243
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(10,899)	(12,267)
Proceeds from disposal of investment property		-	3,776
Interest received		655	184
Repayment of loans issued		38	40
<b>Net cash flow used in investing activities</b>		<b>(9,893)</b>	<b>(8,024)</b>
<b>Financing activities</b>			
Proceeds from loans and borrowings		17,712	19,150
Redemption of loans and borrowings		(9,144)	(7,286)
Interest paid		(448)	(50)
Repayment of finance lease liabilities		(76)	(65)
<b>Net cash flow from financing activities</b>		<b>8,044</b>	<b>11,749</b>
Effects of foreign currency translation on cash and short-term deposits		131	(27)
<b>Net increase in cash and short-term deposits</b>		<b>10,698</b>	<b>4,953</b>
Cash and short-term deposits at 1 January	23	7,406	2,453
<b>Cash and short-term deposits at 31 December</b>	23	<b>18,104</b>	<b>7,406</b>

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

**JSC HALS-Development and subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 31 December 2014**

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

**1. Corporate information**

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

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

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

As at 31 December 2014 and 31 December 2013 OJSC VTB Bank (“VTB”) owned 96.44% and 51.24% 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 2014 and for the year then ended were authorised for issue by the President of the Company on 20 April 2015.

**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 2014, the Group’s negative net assets amounted to RUR 26,199 million (31 December 2013: RUR 26,241 million) and the Group incurred a net loss of RUR 855 million for the year ended 31 December 2014 (31 December 2013: RUR 5,575 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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 2014 the Group actively raised funds from joint construction participants as prepayment for residential real estate sales and thereof financed significant part of residential real estate developments.

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

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

These 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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 countries 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

(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 2014. 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 Company and the proportion of its voting power in its major subsidiaries as of 31 December 2014, 31 December 2013 and 31 December 2012 were as follows:

Operating entities	Location	Investment project	Ownership interest and voting power		
			31 December 2014	31 December 2013	31 December 2012
Hals-Development	Russia	SkyLight, Nahimovsky		Parent company	
Beiging-Invest	Russia	Peking Gardens	100%	100%	100%
Promresurs	Russia	Danilovsky Fort	100%	100%	100%
Hals-Stroy	Russia	Michurinsky	100%	100%	100%
IRT	Russia	Nasledie	100%	100%	100%
Kuntsevo-Invest	Russia	Kuntsevo, Solntse	100%	100%	100%
Sapidus	Cyprus	Holding Company	100%	100%	100%
SIB-BROK	Ukraine	Yalta	100%	100%	100%
Alyans-Bud	Ukraine	Kiev	51%	51%	51%
Yurlak	Russia	Detsky Mir Kazan	100%	100%	100%
Lubyanka-development	Russia	Detsky Mir Lubyanka	100%	100%	100%
Hals-Invest Development	Russia	Leto	100%	100%	50%
Gorki-8	Russia	Lighthouse, Gorki-8 Townhouses	-	74.9%	74.9%
Istochnik	Russia	Gorki-8 (land plot)	-	74.9%	74.9%
Iskra-Park	Russia	Iskra-Park	100%	100%	-
Hals-Technopark	Russia	Teatralny Dom	100%	100%	50%
Pansionat Kamelia	Russia	Kamelia	100%	100%	100%
EZNCH	Russia	Literator	100%	100%	100%
Businesspark Novaya Riga	Russia	Wine House	100%	100%	100%
CiTer Invest B.V.	Netherlands	IQ-Quarter	50.5%	50.5%	50.5%
GOK Pekin	Russia	Pekin Hotel	100%	100%	100%

##### Business combinations

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

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

##### **Investment in an associate**

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

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

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

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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 will 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 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:

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

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

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

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

##### Property, plant and equipment

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

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

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 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 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 finance costs.

##### 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **4. Summary of significant accounting policies (continued)**

##### **Inventory property (continued)**

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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. The excess between the principal amounts of the deposit over its fair value is within the scope of IAS 17. The fair value of the deposits are determined based on the prevailing market rate of interest for a similar loan, considering the credit worthiness of the Group and, depending on facts and circumstances, any additional security available to the lessee. The excess of the principal amount of the deposits over its fair value is accounted for as 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 4. Summary of significant accounting policies (continued)

##### Taxes (continued)

###### **Deferred income tax**

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

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

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

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

The element of the total carrying amount of the investment property represented by the land is considered non-depreciable. The 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 4. Summary of significant accounting policies (continued)

##### Financial guarantee contracts

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

##### Segment information

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

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

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

Segment performance is evaluated based on the results of the cash flows, representing the movement in cash flows for the reporting period. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements as IFRS consolidated financial statements are prepared on accrual basis, and management accounts are prepared on cash basis. The majority of the Group's revenue and non-current assets are generated and located in Russia.

##### Fair value measurement

The Group measures financial instruments, such as, derivatives and 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 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 and amended standards and interpretations adopted by the Group

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

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

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **4. Summary of significant accounting policies (continued)**

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

###### *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

###### *IFRIC 21 Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group.

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

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

###### *Annual Improvements 2010-2012 Cycle*

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 4. Summary of significant accounting policies (continued)

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

###### *Annual Improvements 2011-2013 Cycle*

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

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

##### **Standards issued but not yet effective**

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

###### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 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 other comprehensive income. The standard requires disclosures on 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. This standard is not expected to have any impact to the Group.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 4. Summary of significant accounting policies (continued)

##### Standards issued but not yet effective (continued)

###### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise 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. It is not expected that this amendment would be 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 are not expected to 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.

###### *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).

###### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarifies 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **4. Summary of significant accounting policies (continued)**

##### **Standards issued but not yet effective (continued)**

###### *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 on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

###### *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.

##### **Annual Improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and 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.

Those improvements are not expected to have a material impact on the Group.

###### *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). Those improvements are not expected to have a material impact on the Group.

###### *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 business combination. Those improvements are not expected to have a material impact on the Group.

###### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **4. Summary of significant accounting policies (continued)**

##### **Standards issued but not yet effective (continued)**

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

##### *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 to 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.

##### *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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **4. Summary of significant accounting policies (continued)**

##### **Standards issued but not yet effective (continued)**

###### *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.

###### **Annual Improvements 2012-2014 Cycle**

###### *IFRS 5: Changes in methods of disposal*

The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment will not have any impact on the Group's consolidated financial statements.

###### *IFRS 7: Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to 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. The amendment will not have any impact on the Group's consolidated financial statements.

###### *IFRS 7: Applicability of the offsetting disclosures to condensed interim financial statements*

The amendment, clarifies that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment will not have any impact on the Group's consolidated financial statements.

###### *IAS 19: Discount rate: regional market issue*

IAS 19 requires an entity to recognise a post-employment benefit obligation for its defined benefit plans. This obligation must be discounted using market rates on high quality corporate bonds or using government bond rates if a deep market for high quality corporate bonds does not exist.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 4. Summary of significant accounting policies (continued)

##### Standards issued but not yet effective (continued)

The amendment to IAS 19 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. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment will not have any impact on the Group's consolidated financial statements.

##### *IAS 34: Disclosure of information 'elsewhere in the interim financial report'*

The amendment states 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 greater interim financial report (e.g., in the management commentary or risk report).

The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group is currently assessing the impact of the amendment and plans to adopt the new standard on the required effective date.

#### 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)
<b>Net liabilities disposed</b>	<b>(15,054)</b>
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
<b>Gain on disposal of subsidiary</b>	<b>2,810</b>

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 5. Disposals (continued)

##### **Disposal of JSC Prestigh**

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

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

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

#### 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
<b>2014</b>					
Citer Invest B.V.	the Netherlands	Russia	49.5%	791	2,048
<b>2013</b>					
Citer Invest B.V.	the Netherlands	Russia	49.5%	(356)	1,257

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

##### **Summarized statement of comprehensive income**

Citer Invest B.V.	2014	2013
Valuation gains/(losses) on investment property under construction	4,198	(879)
Administration and selling expenses	(15)	(50)
Other operating income, net	20	161
Finance expenses, net	(1,965)	(181)
<b>Profit/(loss) before tax</b>	<b>2,238</b>	<b>(949)</b>
Income tax (expense)/benefit	(641)	230
<b>Profit/(loss) for the year</b>	<b>1,597</b>	<b>(719)</b>
<b>Total comprehensive income/(loss)</b>	<b>1,597</b>	<b>(719)</b>
<b>Attributable to:</b>		
Owners of the parent	806	(363)
Non-controlling interests in JSCs	791	(356)

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

**6. Material partly owned subsidiaries (continued)**

**Summarized statement of financial position**

<b>Citer Invest B.V.</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Non-current assets</b>		
Property, plant and equipment	999	681
Investment property under construction	16,140	8,102
Other non-financial assets	1,603	1,965
	<b>18,742</b>	<b>10,748</b>
<b>Current assets</b>		
Inventory property with period of sale above the year	1,638	1,111
Other financial assets	440	118
Other non-financial assets	694	455
	<b>2,772</b>	<b>1,684</b>
<b>Total assets</b>	<b>21,514</b>	<b>12,432</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	10,936	8,568
Deferred tax liability	1,329	689
	<b>12,265</b>	<b>9,257</b>
<b>Current liabilities</b>		
Interest bearing loans and borrowings	3,530	54
Trade and other payables	909	297
Other non-financial liabilities	673	285
	<b>5,112</b>	<b>636</b>
<b>Total liabilities</b>	<b>17,377</b>	<b>9,893</b>
<b>Equity</b>	<b>4,137</b>	<b>2,539</b>
<b>Attributable to:</b>		
Owners of the parent	2,089	1,282
Non-controlling interests in JSCs	2,048	1,257

**Summarized cash flow information**

<b>Citer Invest B.V.</b>	<b>2014</b>	<b>2013</b>
Net cash flow from operating activities	247	530
Net cash flow from investing activities	(3,262)	(3,772)
Net cash flow from financing activities	3,336	3,227
Effects of foreign currency translation on cash	1	(1)
<b>Net increase/(decrease) in cash and short-term deposits</b>	<b>322</b>	<b>(16)</b>

The Group has reclassified some of payables in the amount of RUR 261 million from other non-financial liabilities to trade and other payables as at 31 December 2013 for more relevant presentation and comparability.

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

6. Material partly owned subsidiaries (continued)

Summarized cash flow information (continued)

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
<b>2014</b>					
Gorki-8	Russia	Russia	-	(561)	-
<b>2013</b>					
Gorki-8	Russia	Russia	25.1%	(350)	(372)

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	2013
Revenue from sales of inventory property	26,345	-
Cost of sales – inventory property	(20,307)	-
Other sales	43	72
Write down of inventory property to net realizable value	(7,267)	(661)
Administration and selling expenses	(23)	(30)
Other operating income / (expenses), net	7	(9)
Finance expenses	(1,147)	(1,113)
<b>Loss before tax</b>	<b>(2,349)</b>	<b>(1,741)</b>
Income tax benefit	115	346
<b>Loss for the year</b>	<b>(2,234)</b>	<b>(1,395)</b>
<b>Total comprehensive loss</b>	<b>(2,234)</b>	<b>(1,395)</b>
Comprehensive loss attributable to owners of the parent	(1,673)	(1,045)
Net assets attributable to non-controlling participants in LLC	(561)	(350)

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 6. Material partly owned subsidiaries (continued)

##### Summarized statement of financial position

<b>Gorki-8</b>	<b>At the date of disposal</b>	<b>31 December 2013</b>
<b>Non-current assets</b>		
Deferred tax assets	79	-
	<b>79</b>	<b>-</b>
<b>Current assets</b>		
Inventory property with period of sale above the year	-	29,552
Inventory property with period of sale within the year	1,376	1,397
Trade and other receivables	700	-
Other non-financial assets	-	36
	<b>2,076</b>	<b>30,985</b>
<b>Total assets</b>	<b>2,155</b>	<b>30,985</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	14,098	14,266
Deferred tax liability	-	157
	<b>14,098</b>	<b>14,423</b>
<b>Current liabilities</b>		
Interest bearing loans and borrowings	2,595	24,185
Trade and other payables	132	63
Provisions	384	-
	<b>3,111</b>	<b>24,248</b>
<b>Total liabilities</b>	<b>17,209</b>	<b>38,671</b>
<b>Equity</b>	<b>(15,054)</b>	<b>(7,686)</b>
Equity attributable to owners of the parent	(14,121)	(7,336)
Net assets attributable to non-controlling participants in LLC	(933)	(372)

##### Summarized cash flow information

<b>Gorki-8</b>	<b>Period from 1 January 2014 to the date of disposal</b>	<b>2013</b>
Net cash flow from operating activities	(2,271)	(2,540)
Net cash flow from investing activities	-	-
Net cash flow from financing activities	2,271	2,539
<b>Net decrease in cash and short-term deposits</b>	<b>-</b>	<b>(1)</b>

#### 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 7. Rental income (continued)

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 USD 3.3 million (or RUR 102 million) and guarantee deposits which can be returned at the end of lease term of SkyLight, Leto and Detsky Mir Lubyanka in the amount of USD 8.7 million (or RUR 261 million), EUR 3.7 million (or RUR 156 million) and USD 5.1 million (or 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).

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

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

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

As of 31 December 2014 and 2013 future minimum rentals receivable under non-cancellable operating leases are as follows:

<b>Expected maturities</b>	<b>Future minimum lease payments</b>	
	<b>2014</b>	<b>2013</b>
Within one year	3,574	2,694
In the second to fifth year	11,414	8,399
After fifth year	2,166	302
	<b>17,154</b>	<b>11,395</b>

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

In the second quarter of 2014 the Group has completed the construction and put into operation the cottage village Lighthouse in the Moscow region in the neighborhood of Gorki-8. In June 2014 the Group sold cottages (Note 20) to its parent company, VTB, for RUR 26,345 million as settlement of loans payable in the amount of RUR 25,645 million (Note 27) 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 2014 the Group completed the project Literator, signed acts of acceptance and transfer of real estate properties and in 2014 recognised revenue from sales of inventory property in the amount of RUR 12,847 million and cost of sales in the amount of RUR 7,591 million.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

*(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, signed acts of acceptance and transfer of real estate properties and in 2014 recognised revenue from sales of inventory property in the amount of RUR 65 million and cost of sales in the amount of RUR 34 million.

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

In 2014 and 2013 the Group recognised revenue from sales of inventory property relating to the project Solntse in the amount of RUR 39 million and RUR 429 million, and cost of sales in the amount of RUR 17 million and RUR 220 million, respectively.

	<b>2014</b>	<b>2013</b>
Total area transferred to customers, thousand square meters:	28,937.9	1,356.4
<i>Including</i>		
Transferred to the local authorities	–	–
Transferred to other customers	28,937.9	1,356.4
Parking lots transferred to customers	4,126.8	2,728.00
<i>Including</i>		
Transferred to the local authorities	–	–
Transferred to other customers	4,126.8	2,728.00

Revenue from room charges and other hotel services for the years ended 31 December 2014 and 2013 in the amount of RUR 405 million and RUR 446 million, respectively, is attributable to Hotel Pekin, and for the year ended 31 December 2014 in the amount of RUR 287 million is attributable to Hotel Kamelia.

Cost of hotel services for the years ended 31 December 2014 and 2013 comprise the following:

	<b>2014</b>	<b>2013</b>
Payroll	293	93
Depreciation	201	71
Material expenses, including food and beverages	176	5
Property maintenance and operation	282	59
	<b>952</b>	<b>228</b>

Other sales for the years ended 31 December 2014 and 2013 represent agency remuneration in the amount of RUR 54 million and RUR 17 million, respectively, general constructor service fees in the amount of RUR 5 million and RUR 3 million, respectively, and other revenues.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 9. Administration and selling expenses

	2014	2013
Staff cost	997	959
Advertising costs	591	477
Realtors service fees	228	198
Consulting and other professional services	138	245
Depreciation and amortization	63	44
Cost of computer software maintenance	53	44
Banking services	14	12
Repairs, maintenance and utilities	11	24
Hotel room reservation system fees	11	15
Communication services	11	10
Security expenses	11	9
Rent of premises and land	11	6
Other	105	86
	<b>2,244</b>	<b>2,129</b>

In 2014 and 2013 the Group incurred advertising costs related to promotion campaign of main projects and “Hals” branding.

#### 10. Other operating income

	2014	2013
Reversal of penalties for delay of property commissioning	245	-
Recovery of property tax	218	-
Profit from sale of assets classified as held for sale	212	-
Recovery of receivables written-off in prior periods	96	158
Fines and penalties of receivable	44	35
Annual reimbursement from depositary	39	-
Payables and other obligations write off	26	109
Profit from sale of investment property	-	629
Penalties for delay of VAT refund	-	153
Reversal of legal provision	-	40
Other	56	47
	<b>936</b>	<b>1,171</b>

In 2013 the Group recognised loss on penalties for delay of Kamelia hotel commissioning in the amount of RUR 290 million. Such penalties were stipulated in the contract for the construction of Olympic project in Sochi. In 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 Kamelia hotel commissioning in the amount of RUR 245 million.

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 2014 the Group recognised profit from sale of Tower B Skylight classified as assets held for sale in the amount of RUR 212 million (Note 25).

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 10. Other operating income (continued)

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

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

In 2014 and 2013 the Group recognized income on write off of payables in the amount of RUR 26 million and RUR 109 million, respectively, as a result of the limitation period expiration.

#### 11. Other operating expenses

	2014	2013
Impairment of property plant and equipment (Note 18)	3,016	1,337
Taxes other than income tax	573	500
Receivables and other assets write off	326	380
Penalties for delay of property commissioning	80	290
Legal provision	20	–
Other	134	175
	<b>4,149</b>	<b>2,682</b>

In 2014 the Group recognised loss in the amount of RUR 80 million on penalties for delay of Detsky Mir Lubyanka commissioning. In 2013 the Group recognised loss in the amount of RUR 290 million on penalties for delay of Kamelia hotel commissioning.

#### 12. Finance income

	2014	2013
Interest on bank deposits	741	202
Net loss attributable to non-controlling interest in subsidiaries – Limited Liability Companies (Note 30)	69	8
Interest on loans issued	–	17
Unwinding of discount of long-term receivable (Note 21)	–	47
	<b>810</b>	<b>274</b>

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

#### 13. Finance expenses

	2014	2013
Interest on bank loans	8,746	9,001
Less: amounts capitalized	(2,573)	(3,076)
Net loss on financial instruments at fair value through profit or loss	1,518	–
Finance lease expenses	40	24
Interest on tenants' guarantee deposits (Note 7)	27	23
<b>Total</b>	<b>7,758</b>	<b>5,972</b>

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 13. Finance expenses (continued)

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.

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

#### 14. Income tax

The major components of income tax for the years ended 31 December 2014 and 2013 are:

	2014	2013
<b>Consolidated statement of comprehensive income</b>		
Income tax expense – current	(1,483)	(85)
Income tax provision	(41)	(203)
Deferred tax expense	(402)	(12)
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>(1,926)</b>	<b>(300)</b>

A reconciliation between income tax expense and the product of accounting profit/(loss) multiplied by statutory tax rate for the years ended 31 December 2014 and 2013 is as follows:

	2014	2013
<b>Profit/(loss) before tax</b>	<b>1,071</b>	<b>(5,275)</b>
<b>Income tax computed on profit/(loss) before taxes at statutory rate (20%)</b>	<b>(214)</b>	<b>1,055</b>
Non-deductible expenses	(1,033)	(863)
Effect of tax rates in other jurisdictions	(144)	(153)
Effect of net loss attributable to non-controlling participants in LLCs	14	2
Change in unrecognised losses carried forward	(508)	(138)
Income tax provision	(41)	(203)
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>(1,926)</b>	<b>(300)</b>

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

14. Income tax (continued)

	Consolidated statement of financial position		Acquisition of one asset entity and disposal of subsidiary (Note 5)	Consolidated statement of comprehensive income
	31 December 2014	31 December 2013	2014	2014
<b>Deferred tax liability</b>				
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)
	<b>(8,487)</b>	<b>(7,790)</b>	<b>-</b>	<b>(697)</b>
<b>Deferred income tax assets</b>				
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
	<b>5,140</b>	<b>4,919</b>	<b>(74)</b>	<b>295</b>
<b>Deferred tax expense</b>				<b>(402)</b>

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 14. Income tax (continued)

	<b>Consolidated statement of financial position</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Deferred tax liability, net</b>		
<b>Reflected in the consolidated statement of financial position as follows</b>		
Deferred tax assets	1,788	2,391
Deferred tax liability	(5,135)	(5,262)
<b>Deferred tax liability, net</b>	<b>(3,347)</b>	<b>(2,871)</b>

Reconciliation of deferred tax liability, net for the years ended 31 December 2014 and 2013 is follows:

	<b>2014</b>	<b>2013</b>
<b>At 1 January</b>	<b>(2,871)</b>	<b>(2,854)</b>
Deferred tax expense recognised in the consolidated statement of comprehensive income	(402)	(12)
Deferred tax acquired in one asset entity	5	(4)
Deferred tax disposed with subsidiary (Note 5)	(79)	(1)
<b>At 31 December</b>	<b>(3,347)</b>	<b>(2,871)</b>

As of 31 December 2014 and 2013 cumulative tax loss in the amount of RUR 21,740 million and RUR 19,990 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 2014 and 2013 the Group did not recognise deferred tax asset for tax loss in the amount of RUR 5,450 million and RUR 2,910 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

	<b>2014</b>	<b>2013</b>
<b>At 1 January</b>	<b>22,359</b>	<b>25,419</b>
Capital expenditure on owned property	90	1,799
Disposals (Note 10)	-	(2,621)
Transfer from assets classified as held for sale (Note 25)	4,261	-
Transfer from property, plant and equipment (Note 18)	1,279	-
Transfer to assets classified as held for sale (Note 25)	-	(5,089)
Fair value adjustment	2,723	2,851
<b>At 31 December</b>	<b>30,712</b>	<b>22,359</b>

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

(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 29,445 million and RUR 20,996 million of 31 December 2014 and 31 December 2013, 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:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Contracted rental rate, kRUR/sq. m/per year	23.4	18.2
Average annual rental rate indexation	5.5%	4.8%
Market rental rate		
Office, kRUR/sq. m/year	25.6	20.4
Retail, kRUR/sq. m/year	18.9	13.6
Terminal capitalization rate	11.3%	9.5%
Discount rate	14.3%	13.1%

In determining the fair value of land, held to benefit from capital appreciation over the long-term and for currently undetermined use, totaling RUR 1,267 million and RUR 1,363 million as of 31 December 2014 and 31 December 2013, respectively, the comparative method was used.

As at 31 December 2014 part of the Hotel complex "Pekin" held for rent in the amount 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.

As at 31 December 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" in the amount 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

	<b>2014</b>	<b>2013</b>
<b>At 1 January</b>	<b>22,482</b>	<b>15,348</b>
Capital expenditure	6,707	2,605
Interest capitalized (Note 13)	1,399	851
Acquisition of investment property	–	4,741
Transfer to inventory property (Note 20)	(1,857)	(931)
Transfer to property, plant and equipment (Note 18)	–	(564)
Fair value adjustment	2,847	432
<b>At 31 December</b>	<b>31,578</b>	<b>22,482</b>

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 16. Investment property under construction (continued)

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

In determining the fair value of investment property under construction, totaling RUR 31,578 million and RUR 22,482 million of 31 December 2014 and 31 December 2013, 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 2014	31 December 2013
Average annual rental rate indexation	5.0%	5.0%
Market rental rate		
Office, kRUR/sq. m/year	33.2	24.5
Retail, kRUR/sq. m/year	74.8	52.0
Terminal capitalization rate	10.7%	9.5%
Discount rate	22.5%	19.1%
Construction costs, kRUR/sq. m	106.4	65.2

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 as at 31 December 2014 the Group transferred to the inventory property the residential part of the project in the amount of RUR 1,857 million.

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

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

#### 17. Investments in joint venture

Investments in joint venture consisted of the following:

Name	Country of incorporation	Country of operation	Project	Voting and effective	31 December 2014	31 December 2013
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	898	1,906
<b>Total</b>					<b>898</b>	<b>1,906</b>

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

**17. Investments in joint venture (continued)**

	<b>2014</b>	<b>2013</b>
<b>At 1 January</b>	<b>1,906</b>	<b>1,938</b>
Share of loss of joint venture, net of tax, in the consolidated statement of comprehensive income	(1,008)	(32)
<b>At 31 December</b>	<b>898</b>	<b>1,906</b>

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
Non-current assets	7,295	14,423
Current assets	9,730	5,984
Non-current liabilities	(11,855)	(10,940)
Current liabilities	(3,375)	(5,655)
<b>Net assets</b>	<b>1,795</b>	<b>3,812</b>
Proportion of the Group's ownership	50%	50%
<b>Carrying amount of the investments</b>	<b>898</b>	<b>1,906</b>

	<b>2014</b>	<b>2013</b>
Loss for the year	(2,016)	(63)
Group's share of loss for the year	(1,008)	(32)

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.

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

**18. Property, plant and equipment**

	<b>Buildings</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>				
<b>At 1 January 2013</b>	<b>2,329</b>	<b>179</b>	<b>1,099</b>	<b>3,607</b>
Additions	-	250	3,660	<b>3,910</b>
Disposals	-	(19)	-	<b>(19)</b>
Transfer from investment property under construction (Note 16)	-	-	564	<b>564</b>
<b>At 31 December 2013</b>	<b>2,329</b>	<b>410</b>	<b>5,323</b>	<b>8,062</b>
Additions	1,810	264	337	<b>2,411</b>
Disposals	-	(14)	-	<b>(14)</b>
Assets put into operation	4,640	-	(4,640)	<b>-</b>
Transfer to completed investment property (Note 15)	(1,279)	-	-	<b>(1,279)</b>
<b>At 31 December 2014</b>	<b>7,500</b>	<b>660</b>	<b>1,020</b>	<b>9,180</b>
<b>Accumulated depreciation and impairment</b>				
<b>At 1 January 2013</b>	<b>(144)</b>	<b>(56)</b>	<b>(1,099)</b>	<b>(1,299)</b>
Depreciation charge for the year	(77)	(36)	-	<b>(113)</b>
Impairment (Note 11)	-	-	(1,337)	<b>(1,337)</b>
Disposals	-	13	-	<b>13</b>
<b>At 31 December 2013</b>	<b>(221)</b>	<b>(79)</b>	<b>(2,436)</b>	<b>(2,736)</b>
Depreciation charge for the year	(131)	(131)	-	<b>(262)</b>
Impairment (Note 11)	(3,016)	-	-	<b>(3,016)</b>
Assets put into operation	(2,436)	-	2,436	<b>-</b>
Disposals	-	2	-	<b>2</b>
<b>At 31 December 2014</b>	<b>(5,804)</b>	<b>(208)</b>	<b>-</b>	<b>(6,012)</b>
<b>Net book value</b>				
<b>At 31 December 2014</b>	<b>1,696</b>	<b>452</b>	<b>1,020</b>	<b>3,168</b>
<b>At 31 December 2013</b>	<b>2,108</b>	<b>331</b>	<b>2,887</b>	<b>5,326</b>

The amount of borrowing costs capitalised during the years ended 31 December 2014 and 2013 was RUR 274 million and RUR 255 million, respectively.

In 2014 and 2013 the Group capitalized staff costs in property, plant and equipment (project Kamelia) in the amount of RUR 19 million and RUR 31 million, respectively.

In 2014 and 2013 the Group performed impairment test and determined the recoverable amount as value in use of the project Kamelia. As a result the Group recognised impairment loss in the amount of RUR 2,687 million and of RUR 1,337 million, respectively (which is included in other operating expenses).

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **18. Property, plant and equipment (continued)**

The major events and circumstances that led to the recognition of impairment for 2014 and 2013 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 Kamelia's value in use are set out below:

- ▶ discount rate – 15% (18% for impairment test in 2013);
- ▶ period of hotel operation is from 2015 to 2017 in which it is planned to be sold (from 2014 to 2018 for impairment test in 2013);
- ▶ capitalization rate – 11% (11% for impairment test in 2013).

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. 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. The cost of the acquisition was capitalized in the cost of the Hotel Pekin hotel reconstruction.

In 2014 the Group performed the impairment test and determined the recoverable amount as value in use of the Hotel Pekin. As a result 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%;
- ▶ period of hotel operation is from 2015 to 2019 in which it is planned to be sold;
- ▶ capitalization rate – 11%.

In 2013 there were no indicators of impairment and no testing was performed by the Group.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 19. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
<b>Cost</b>				
<b>1 January 2013</b>	861	675	37	1,573
Additions	-	-	1	1
Disposals	-	-	(33)	(33)
<b>31 December 2013</b>	861	675	5	1,541
Additions	-	-	-	-
Disposals	-	-	-	-
<b>31 December 2014</b>	861	675	5	1,541
<b>Depreciation and impairment</b>				
<b>1 January 2013</b>	(769)	(222)	(37)	(1,028)
Disposals	-	-	32	32
<b>31 December 2013</b>	(769)	(222)	(5)	(996)
Disposals	-	-	-	-
<b>31 December 2014</b>	(769)	(222)	(5)	(996)
<b>Net book value</b>				
<b>31 December 2014</b>	92	453	-	545
<b>31 December 2013</b>	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 2014 and 2013 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 – 17.22% (18.8% for impairment test in 2013);
- ▶ period of the project IQ-quarter operation is from 2015 to 2021 in which it is planned to be sold (31 December 2013: from 2015 to 2018-2021 in which it is planned to be sold);
- ▶ capitalization rate – 11% (31 December 2013: 10%).

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

#### 20. Inventory property

	2014	2013
<b>At 1 January</b>	<b>49,679</b>	<b>38,974</b>
Construction costs incurred	9,828	9,669
Interest capitalized	900	1,970
Disposal of subsidiary (Note 5)	(1,376)	(155)
Transfer from investment property (Note 16)	1,857	931
Property sold (Note 8)	(27,958)	(220)
Write-down of inventory to net realizable value	(8,073)	(1,490)
<b>At 31 December</b>	<b>24,857</b>	<b>49,679</b>

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 20. Inventory property (continued)

As of 31 December 2014 and 2013 the Group tested inventory property for recoverability. As a result of the test, in 2014 and 2013 the Group recognized loss on inventory property write down to net realizable value in the amount of RUR 8,073 million and RUR 1,490 million.

In the years ended 31 December 2014 and 2013 the Group capitalized staff costs in inventory property in the amount of RUR 153 million and RUR 141 million, respectively.

#### 21. Trade receivables, other receivables and other financial assets

<b>Current financial assets</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Trade receivables</b>		
Trade receivable from third parties	342	94
	<b>342</b>	<b>94</b>
<b>Other receivables</b>		
Other receivable from third parties	1,009	725
Other receivable from related parties	113	23
	<b>1,122</b>	<b>748</b>
	<b>1,464</b>	<b>842</b>
<b>Other current financial assets</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Other financial assets	45	334
	<b>45</b>	<b>334</b>

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 (31 December 2013: RUR 265 million) and amortized cost of other receivables in the amount of RUR nill million (31 December 2013: RUR 69 million). The effect of unwinding of discount is reflected in the financial income (Note 12).

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

#### 22. 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).

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 23. Cash and short term deposits

	<b>31 December 2014</b>	<b>31 December 2013</b>
Cash at bank and on hand	627	771
Short-term deposits	17,477	6,635
	<b>18,104</b>	<b>7,406</b>

As of 31 December 2014 cash and short-term deposits were deposited as follows:  
RUR 18,094 million in VTB Bank (31 December 2013: RUR 7,396 million), RUR 10 million in other banks (31 December 2013: RUR 10 million).

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. The weighted average interest rate on demand deposits as of 31 December 2014 and 31 December 2013 was 7.7% and 5.5%, respectively.

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

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

#### 24. Other non-financial assets

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Other non-current</b>		
Advances issued for construction of investment property	4,574	3,116
Advances issued for construction of property, plant and equipment	494	464
	<b>5,068</b>	<b>3,580</b>
<b>Other current assets</b>		
Advances issued for construction of inventory property with period of sale above the year	2,383	1,759
Advances issued for construction of inventory property with period of sale within the year	492	5
Advance payments for taxes	70	36
Other current non-financial assets	208	238
	<b>3,153</b>	<b>2,038</b>

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 25. Assets and liabilities, classified as held for sale

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).

In the third quarter of 2013 the management of the Group decided to sell Tower B of “SkyLight”, located on the Leningradskoe highway in Moscow, which is a business centre class A with two symmetrical towers. In December 2013 part of Tower B was sold (Note 10). The remaining part of assets and liabilities in the amount of RUR 5,089 million and RUR 450 million, respectively as at 31 December 2013 was classified as assets and liabilities held for sale as the management of the Group is committed to a plan to sell Tower B within one year from the date of classification. The Group conducted active searching of buyers and advertising campaign. These assets and liabilities are included in “investment property – submitted to the operating lease” segment (Note 36).

As at 31 December 2014 due to change in market conditions the Group changed its intention to sell Tower B of “SkyLight” in the nearest future at the current market price and transferred the major part of the project back to investment property. The remaining part of Tower B of “SkyLight” recognized as assets classified as held for sale as at 31 December 2014 in the amount of RUR 640 million represented premises for which the Group’s management approved a sale deal and this deal was completed in February 2015 (Note 39).

#### 26. Equity

At 31 December 2014 and the 31 December 2013 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 2014 and 2013 is as follows:

	<b>Total shares authorized and issued</b>	<b>Treasury shares</b>	<b>Total shares authorized, issued and outstanding</b>
	<i>Thousands</i>	<i>Thousands</i>	<i>Thousands</i>
As of 31 December 2013	11,217	(5)	11,212
As of 31 December 2014	11,217	(5)	11,212

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

**27. Interest bearing loans and borrowings**

	Interest rate %	Maturity	31 December 2014	31 December 2013
<b>Current interest-bearing loans from related parties</b>				
VTB	9.5%	2020	6,452	6,072
VTB	9.5%	2017	2,667	2,174
VTB	9.5%	2016	466	67
VTB	9.5%	2015	3,435	-
VTB	12.0%	2017	-	17,651
VTB	The rate of the Central Bank (RF) + 0.25%	2014	-	5,261
VTB	The rate of the Central Bank (RF) + 0.25%	2015	2,517	4,077
VTB	The rate of the Central Bank (RF) + 0.25%	2016	2,400	1,591
			<b>17,937</b>	<b>36,893</b>
<b>Current interest-bearing loans and borrowings from third parties</b>				
Vnesheconombank	9.0%	2014	-	2,456
Other third parties	Various	Various	27	9
			<b>27</b>	<b>2,465</b>
<b>Total current interest-bearing loans and borrowings</b>			<b>17,964</b>	<b>39,358</b>
<b>Non-current interest-bearing loans and borrowings from related parties</b>				
VTB	8.0%	2015	4,242	4,128
VTB	9.5%	2017	27,264	26,264
VTB	9.5%	2018	11	-
VTB	9.5%	2021	35,369	24,468
VTB	9.5%	2020	12,746	10,914
VTB	9.5%	2022	4,183	3,841
VTB	9.5%	2016	3,231	3,759
VTB	9.5%	2019	-	3,521
VTB	9.5%	2015	-	3,210
VTB	10.0%	2015	9,601	5,928
VTB	The rate of the Central Bank (RF) + 0.25%	2015	-	620
Other related parties	Various	2015	-	40
			<b>96,647</b>	<b>86,693</b>
<b>Non-current interest-bearing loans and borrowings from third parties</b>				
Emmomax International N.V	8.15%	2018	2,356	1,305
Other Third Parties	Various	Various	-	21
			<b>2,356</b>	<b>1,326</b>
<b>Total non-current interest-bearing loans and borrowings</b>			<b>99,003</b>	<b>88,019</b>
<b>Total interest-bearing loans and borrowings</b>			<b>116,967</b>	<b>127,377</b>

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

(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 2014 is as follows:

Year ended 31 December	
2015	19,822
2016	6,097
2017	29,931
2018	2,367
2020	19,198
2021	35,369
2022	4,183
<b>Total</b>	<b>116,967</b>

#### 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 2014 the loan facility was utilized in amount of RUR 2,391 million.

In April 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 1,802 million, the interest rate of 9.5% per annum for the purpose of financing the reconstruction of Hotel complex Pekin. The loan is to be repaid in April 2018. 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 2014 the loan facility was utilized in amount of RUR 11 million.

In May 2010 the Group signed credit facility agreement with VTB with a limit of RUR 557 million, the interest rate of 9.5% per annum and maturing in four years for the purpose of financing the Detsky Mir Lubyanka project. In October 2010 the Group agreed with VTB to increase the limit of the credit agreement from RUR 557 million up to 5,780 million and prolong the repayment date of this facility from May 2014 to January 2019. In May 2014 the Group agreed with VTB to increase the limit of the credit agreement from RUR 5,780 million up to 9,710 million and prolong the repayment date of this facility from January 2019 to September 2021. As of 31 December 2014 and 2013 the loan facility was utilized in amount of RUR 7,950 million and RUR 3,011, respectively.

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

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 2014 and 2013 the loan facility was utilized in amount of RUR 5,271 million and RUR 5,271 million, respectively.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **27. Interest bearing loans and borrowings (continued)**

##### **VTB (continued)**

In April 2010 the Group signed the credit facility agreement with VTB with a limit of RUR 475 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in July 2015 which was supposed to be used for current activity. As of 31 December 2013 the loan facility was fully utilized. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 638 million including related interests (Note 8).

In April 2010 the Group signed the credit facility agreement with VTB with a limit of RUR 3,183 million, the interest rate of the Central Bank (RF) + 0.25% per annum and maturing in July 2015 for the purpose of financing the Lighthouse project. As of 31 December 2013 the loan facility was fully utilized. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 4,203 million including related interests (Note 8).

In January 2011 the Group signed the credit facility agreement with VTB with a limit of RUR 17,077 million, the interest rate of 12% per annum and maturing in six years for the purpose of financing the Lighthouse project. As of 31 December 2013 the loan facility was utilized in amount of RUR 14,485 million. In June 2014 the Group transferred part of the property of the project Lighthouse (inventory property) to settle obligations under the credit facility agreement in amount of RUR 20,745 million including related interests (Note 8).

In March 2012 the Group signed the loan agreement with VTB with a limit of RUR 1,780 million, the interest rate of 9.5% per annum and maturing in three years for the purpose of financing the Literator project. The loan is to be repaid in July 2015. As of 31 December 2014 and 2013 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 2014 and 2013 the loan facility was fully utilized.

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

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

In May 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 9,008 million, the interest rate of 10% per annum for the purpose of financing the project multifunctional complex IQ-quarter. The loan is to be repaid in November 2015. As of 31 December 2014 and 2013 the loan facility was utilized in the amount of RUR 6,115 million and RUR 2,220 million, respectively.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 27. Interest bearing loans and borrowings (continued)

##### VTB (continued)

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

#### 28. Trade and other payables

	31 December 2014	31 December 2013
<b>Current financial liability</b>		
<b>Trade payables</b>		
Guarantee retentions	1,028	389
Other trade payable to third parties	1,347	114
	<b>2,375</b>	<b>503</b>
<b>Other payables</b>		
Payable to employees	141	336
Taxes payable	1,284	1,476
Other payable to third parties	1,261	629
Financial lease obligations	36	47
	<b>2,722</b>	<b>2,488</b>
	<b>5,097</b>	<b>2,991</b>
<b>Non-current financial liability</b>		
<b>Trade payables</b>		
Guarantee retentions	399	497
	<b>399</b>	<b>497</b>
<b>Other payables</b>		
Financial lease obligations	145	81
	<b>145</b>	<b>81</b>
	<b>544</b>	<b>578</b>

As at 31 December 2013 the Group has reclassified payables to employee to other payables to third parties in the amount of RUR 386 million for more relevant presentation purposes and comparability.

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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 29. Other non-financial liability

	31 December 2014	31 December 2013
<b>Non-current</b>		
Advances from Iskra (Note 16)	1,400	1,400
Advances from customers	646	912
Deferred rent income	96	119
	<b>2,142</b>	<b>2,431</b>
<b>Current liability</b>		
Advances from customers with period of settlement above the year	14,561	9,441
Advances from state authority with period of settlement above the year	1,659	1,659
Advances from customers with period of settlement within the year	2,627	1,055
	<b>18,847</b>	<b>12,155</b>

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

	2014	2013
<b>At 1 January</b>	<b>33</b>	<b>19</b>
Net loss attributable to non-controlling participants in LLCs (Note 12)	(69)	(8)
Transfer to equity	36	22
<b>At 31 December</b>	<b>-</b>	<b>33</b>

#### 31. Embedded financial derivatives

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

The fair value of the embedded derivatives recognized as at 31 December 2014 and 2013 amounted to RUR 1,869 million and RUR 378 million, respectively.

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

(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 2014	31 December 2013	31 December 2014	31 December 2013
<b>Financial assets</b>				
Available-for-sale financial assets	2,833	-	2,833	-
Trade and other receivables	1,509	1,176	1,509	1,176
Loans and notes receivable	7	22	7	22
Cash and short-term deposits	18,104	7,406	18,104	7,406
	<b>22,453</b>	<b>8,604</b>	<b>22,453</b>	<b>8,604</b>
<b>Financial liabilities</b>				
<b>Interest-bearing loans and borrowings</b>				
Floating rate borrowings	(4,917)	(11,549)	(4,917)	(11,549)
Fixed rate borrowings	(112,050)	(115,828)	(97,395)	(100,935)
Trade and other payables	(5,641)	(3,569)	(5,641)	(3,569)
Embedded financial derivatives	(1,869)	(33)	(1,869)	(33)
Tenants' guarantee deposits	(607)	(484)	(607)	(484)
	<b>(125,084)</b>	<b>(131,463)</b>	<b>(110,429)</b>	<b>(116,570)</b>

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 2014 and 2013 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 2014 and 2013.
- ▶ 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 2014 and 31 December 2013 approximate 9.5% and 9.68%, respectively) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 31 December 2014 and 2013 are accounted for at amortized cost.
- ▶ Available-for-sale financial assets and embedded financial derivatives are accounted for at fair value on the balance sheet.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

*(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 2014:

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

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

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

**33. Fair value measurement (continued)**

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

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>					
<b>Financial assets</b>					
<b>Assets classified as held for sale</b>					
Completed investment property (Note 25)	31 December 2013	5,089			5,089
<b>Investment properties</b>					
Completed investment property (Note 15)	31 December 2013	22,359	-	-	22,359
Investment property under construction (Note 16)	31 December 2013	22,482	-	-	22,482
<b>Liabilities measured at fair value</b>					
<b>Financial liabilities at fair value through profit or loss</b>					
Embedded financial derivatives (Note 31)		33	-	-	33
<b>Liabilities directly associated with the assets classified as held for sale</b>					
Embedded financial derivatives (Note 31)	31 December 2013	345	-	-	345
<b>Liabilities for which fair values are disclosed (Note 32)</b>					
Interest bearing loans and borrowings	31 December 2013	112,484	-	-	112,484

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 33. Fair value measurement (continued)

Description of significant unobservable inputs to valuation:

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

(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	2014	2013
<b>Interest on borrowings to shareholders</b>		
Interest on borrowings payable to VTB	6,093	5,600
	<b>6,093</b>	<b>5,600</b>
<b>Interest income from shareholders</b>		
Interest income from VTB	741	190
	<b>741</b>	<b>190</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2014</b>	<b>2013</b>
<b>Amounts due from shareholder</b>		
Cash and short-term deposits in VTB	18,094	7,396
Trade and other receivables from VTB	113	22
	<b>18,207</b>	<b>7,418</b>
<b>Amounts due to shareholders</b>		
Loans and borrowings from VTB	114,584	123,547
	<b>114,584</b>	<b>123,547</b>

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:

	2014	2013
Short-term employee benefits	291	165
Other long-term benefits	31	17

#### 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

##### 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 2014	28.54%	(792)
	-28.54%	792
31 December 2013	10.21%	(158)
	-10.21%	158

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

*(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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 35. Financial risk management objectives and policies (continued)

##### Liquidity risk (continued)

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
<b>As at 31 December 2014</b>						
Interest-bearing loans and borrowings	-	-	21,119	71,767	59,588	<b>152,474</b>
Trade and other payables	-	5,097	-	544	-	<b>5,641</b>
Tenants' guarantee deposits	-	-	-	607	-	<b>607</b>
Embedded derivatives	-	-	-	849	1,020	<b>1,869</b>
	<b>-</b>	<b>5,097</b>	<b>21,119</b>	<b>73,767</b>	<b>60,608</b>	<b>160,591</b>
<b>As at 31 December 2013</b>						
Net assets attributable to non-controlling participants in LLCs	-	-	33	-	-	<b>33</b>
Interest-bearing loans and borrowings	-	-	9,765	89,937	71,133	<b>170,835</b>
Trade and other payables	-	2,991	-	611	-	<b>3,602</b>
Tenants' guarantee deposits	-	-	-	484	-	<b>484</b>
Embedded derivatives	-	-	-	-	33	<b>33</b>
	<b>-</b>	<b>2,991</b>	<b>9,798</b>	<b>91,032</b>	<b>71,166</b>	<b>174,987</b>

##### Capital management

At 31 December 2014 and 31 December 2013 the Group has negative net assets.

In 2013-2014 the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

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

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 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 2014:

- ▶ 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, Detsky Mir Lubyanka, Iskra-Park);
- ▶ investment property – submitted to the operating lease (the project Danilovsky Fort, the project Leto, the project SkyLight);
- ▶ hospitality – under construction (the project IQ-quarter (hotel));
- ▶ hospitality – rented apartments (hotel Pekin, hotel Kamelia).

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

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

*Segment expense* is cash outflows reported in the Group's management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to external, intergroup counterparties and expenses relating to transactions with other segments. Segment expense includes also net cash flows from investment and financing activity of the Group.

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

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

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

JSC HALS-Development and subsidiaries

Notes to the consolidated financial statements (continued)

(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		Total
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	
<b>Segment revenue</b>	7,956	11,284	145	5,673	–	813	25,871
Accrual vrs. cash basis	–	–	–	–	–	–	19,269
<b>Revenue per IFRS consolidated financial statements*</b>	–	–	–	–	–	–	45,140

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

The year ended 31 December 2013

	Real estate held for sale		Investment property		Hospitality		Total
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	
<b>Segment revenue</b>	234	7,839	125	7,454	33	523	16,209
Accrual vrs. cash basis	–	–	–	–	–	–	(9,424)
<b>Revenue per IFRS consolidated financial statements*</b>	–	–	–	–	–	–	6,785

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### 36. Segment information (continued)

The year ended 31 December 2013

	Real estate held for sale		Investment property		Hospitality		Total
	ready for use by the buyer	under construction	under construction	submitted to the operating lease	under construction	rented apartments	
<b>Segment result</b>	106	2,735	287	4,316	5	249	7,699
Accrual vrs. cash basis***	-	-	-	-	-	-	(12,974)
<b>Loss before tax per IFRS consolidated financial statements**</b>	-	-	-	-	-	-	(5,275)

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

\*\* Including impairment losses by segment hospitality – rented apartments and segment hospitality under construction in 2014 and 2013 in the amount of RUR 3,016 million and of RUR 1,337 million, respectively.

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

#### 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 2014 and 2013 common shares of the Group's entities have been pledged as follows:

Group's company	Projects	Number of shares pledged	Number of shares pledged as a percentage of total shares
OJSC Lubyanka-Development	Detsky Mir Lubyanka	22,004,320	100%
OJSC Sistema-Temp	Bol'shaya Tatarskaya, 35	4,680,000	100%
OJSC Beiging-Invest	Peking Gardens	1,350	90%
CJSC EZNCh	Literator	100	100%
CJSC Kuntsevo-Invest	Solntse	5,000	100%
CJSC Hals-Tehnopark	Teatralny Dom	3,781,900	100%
CJSC StroyPromOb'ekt	Teatralny Dom	10,000	100%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.	IQ-quarter	101	50%+1 share
CJSC Biznespark Novaja Riga	Wine House	100	100%
CJSC Pansionat Kamelia	Kamelia	13,000	100%
OJSC IRT	Nasledie	100	100%
GURDON MANAGEMENT LTD	Iskra-Park	5,000	100%
OJSC GOK Pekin	Hotel complex Pekin	353,210	100%

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **37. Guarantees and pledges (continued)**

As of 31 December 2013 the Group pledged land plots together with related buildings (inventory property, project Lighthouse) in the Odintsovsky Region (Soloslovo) of the Moscow region in the neighborhood of Gorki-8 with a carrying value of RUR 25,242 million as security under the credit line from VTB in the amount of RUR 4.0 billion. In June 2014, as a result of the settlement of obligations in connection with other VTB loans (Note 8 and Note 27), VTB became the pledger and the pledgee, and the pledge of assets thus became null and void.

As of 31 December 2013 the Group has pledged inventory property (project Gorki-8 Townhouses) in the Moscow Region with a carrying amount of RUR 1,376 million, as security under the loan received from Vnesheconombank in the amount of RUR 1,701 million. 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 (Note 5); as a result the rights and obligations arising from the pledge were transferred to the Buyer.

As of 31 December 2014 and 2013 the Group pledged Detsky Mir Lubyanka (investment property under construction) with a carrying amount of RUR 12,358 million and RUR 9,473 million, respectively, as security under the credit line from VTB in the amount of RUR 7,689 million and RUR 3,085 million, respectively.

As of 31 December 2014 the Group pledged Danilovskiy Fort (investment property) with a carrying amount of RUR 4,359 as security under the credit line from VTB in the amount of RUR 18,508 million. As of 31 December 2013 the Group pledged land plots and buildings (inventory property) in Khamovniki (the project Literator) with a carrying amount of RUR 5,402 million, as security under the credit line from VTB in the amount of RUR 18,508 million.

As of 31 December 2014 and 2013 the Group pledged Tower A of business center Skylight (completed investment property) with a carrying amount of RUR 9,273 million and RUR 8,325 million, respectively, as security under the credit line from VTB in the amount of RUR 1,255 million and RUR 4,198 million, respectively.

As of 31 December 2014 and 2013 the Group pledged Leto (completed investment property) with a carrying amount of RUR 10,322 million and RUR 9,444 million, respectively, and the office building on B.Tatarskaya street (property, plant and equipment) with a carrying amount of RUR 171 million and RUR 165 million, respectively, as security under the credit line from VTB in the amount of RUR 1,979 million and RUR 2,729 million, respectively.

As of 31 December 2014 and 2013 the Group pledged the project IQ-quarter (investment property under construction, inventory property and property, plant and equipment) with a carrying amount of RUR 16,140, RUR 1,684 and RUR 1,020 million, respectively, and RUR 8,167, RUR 1,127 and RUR 683 million, respectively, as security under the credit line from VTB in the amount of RUR 3,463 million and RUR 3,690 million, respectively.

As of 31 December 2014 and 2013 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying amount of RUR nil million and RUR 1,421 million, respectively, and RUR 2,202 and RUR 1,822 million, respectively, as security under the credit line from VTB in the amount of RUR 3,641 million and RUR 3,833 million, respectively.

As of 31 December 2014 and 2013 the Group pledged the project Wine House (inventory property) with a carrying amount of RUR 3,588 million and RUR 2,856 million, respectively, as security under the credit line from VTB in the amount of RUR 343 million and RUR 962 million, respectively.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **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 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. 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.

##### ***Taxation environment***

Russian tax, currency and customs legislation can be interpreted in different ways and is susceptible to frequent changes. The interpretation made by the Company's management of the legislation in question as applied to the operations and activities of the Company's enterprises may be challenged by the relevant regional or federal authorities.

In addition, certain amendments to tax legislation were passed in 2014 and enter into force from 2015 which are aimed at combating tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. In particular, those amendments include definitions of the concepts of beneficial ownership and tax residence of legal entities at their actual place of business, and an approach to the taxation of controlled foreign companies.

These changes, as well as recent trends in the application and interpretation of certain provisions of Russian tax legislation, indicate that the tax authorities may take a tougher line in interpreting the law and checking tax returns. As a result, tax authorities may raise questions about transactions and accounting methods which they did not question before. This may result in significant amounts of additional tax charges, penalties and fines being imposed. It is not possible to determine claim amounts for suits which may be, but have not actually been, filed, or to assess the likelihood of an adverse outcome. Tax audits may cover the three calendar years immediately preceding the year in which the audit occurs. In certain circumstances an audit can also cover earlier periods.

The management is of the opinion that, as at 31 December 2014, it has correctly interpreted the relevant provisions of law, and it is highly likely that the Company's position in regard to tax, currency and customs legislation will remain unchanged.

During the years ended 31 December 2014, 2013 and 2012, the Group entered into a number of investing activities in another tax jurisdiction, their tax effect is described as "Effect of tax rates in other jurisdictions" in Note 14 Income taxes. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. Possible liabilities, which were identified by management at the reporting date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these consolidated financial statements could be up to approximately RUR 1,649 million for the parent company and its subsidiaries.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **38. Commitments and contingencies (continued)**

##### **Operating environment in the Russian Federation (continued)**

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 2014, 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.

##### *Transfer pricing*

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012-2014 but also to the prior transactions with related parties if related income and expenses were recognized in 2012-2014. The new provisions apply for both cross-border and domestic transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 3 billion in 2012, RUR 2 billion in 2013 and RUR 1 billion in 2014 (or RUR 100 million, RUR 80 million and RUR 0 million for international transactions) in 2012, 2013 and 2014, respectively. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012, 2013 and 2014 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.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **38. Commitments and contingencies (continued)**

##### **Operating environment in the Russian Federation (continued)**

###### ***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.

###### ***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 2014. A summary of significant commitments under construction contracts is provided below:

*Detsky Mir Lubyanka* – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 1,945 million and RUR 2,679 million as of 31 December 2014 and 2013, respectively.

*Kamelia* – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 1,088 million and RUR 827 million as of 31 December 2014 and 2013, respectively.

*Hotel Pekin and Peking Gardens* – The Group entered contractual agreements for the restoration of adaption to modern requirements of the Hotel complex Pekin and integrated development of the adjacent territory. Commitments under these contracts amounted to RUR 4,922 million and RUR 10,164 million as of 31 December 2014 and 2013, 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 7,804 million and RUR 7,644 million as of 31 December 2014 and 2013, respectively.

*Literator* – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 707 million and RUR 1,463 million as of 31 December 2014 and 2013, respectively.

## JSC HALS-Development and subsidiaries

### Notes to the consolidated financial statements (continued)

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

#### **38. Commitments and contingencies (continued)**

##### **Operating environment in the Russian Federation (continued)**

*Wine House* – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 4,344 million and RUR 5,709 million as of 31 December 2014 and 2013, respectively.

*Nasledie* – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 9,694 million and RUR 10,150 million as of 31 December 2014 and 2013, respectively.

*Teatralny Dom* – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 2,239 million and RUR 2,697 million as of 31 December 2014 and 2013, respectively.

*Leto* – The Group entered contractual agreements for construction of shopping and entertainment complex “Leto” in S.Peterburg. Commitments under these contracts amounted to RUR 26 million and RUR 27 million as of 31 December 2014 and 2013, 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 February 2015 non-residential premises classified as at 31 December 2014 as assets held for sale were transferred to the buyer. The profit from the sale amounted to RUR 223 million.