Report on Review of Interim Financial Information

PJSC HALS-Development

and its subsidiaries

for the six-month period ended 30 June 2017

August 2017

Contents

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Report on Review of Interim Financial Information

To the shareholders of PJSC HALS-Development

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC HALS-Development and its subsidiaries ("the Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated cash flow statement for the six-month period then ended, and selected explanatory notes (interim financial information). Management of PJSC HALS-Development is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A member firm of Ernst & Young Global Limited

Emphasis of matter

We draw attention to Note 2 in the interim condensed consolidated financial statements which indicates that as of 30 June 2017 Group's current liabilities exceeded its current assets by RUR 12,742 million and, as of that date, Group's negative net assets amounted to RUR 29,723 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

T.P. Pavlova
Partner
Ernst & Young LLC

29 August 2017

Details of the audited entity

Name: PJSC HALS-Development
Record made in the State Register of Legal Entities on 16 July 2002, State Registration Number 1027739002510.
Address: Russia 115184, Moscow, B. Tatarskaya st., 35/4.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of comprehensive income

for the six-month period ended 30 June 2017

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

	Notes	2017 (unaudited)	2016 (unaudited)
Rental income	4	2,404	3,137
Property operating expenses		(550)	(606)
Net rental income		**1,854**	**2,531**
Valuation losses on completed investment property	12	(2,438)	(1,078)
Valuation gains on investment property under construction	13	773	(1,204)
Valuation gains on completed investment property classified as held for sale		39	–
Valuation losses on investment property		**(1,626)**	**(2,282)**
Revenue from sales of inventory property	5	6,258	884
Cost of sales – inventory property	5, 17	(4,472)	(644)
Gross profit on sale of inventory property		**1,786**	**240**
Revenue from room charges and other hotel services	5	410	381
Cost of hotel services		(326)	(342)
Gross profit on hotel services		**84**	**39**
Other sales	5	32	40
Cost of other sales		(5)	(5)
Gross profit on other sales		**27**	**35**
Administration and selling expenses	6	(889)	(872)
Other operating income	7	285	507
Other operating expenses	8	(764)	(477)
Operating profit		**757**	**(279)**
Profit on disposal of subsidiary	3	804	
Finance income	9	926	1,894
Finance expenses	10	(2,544)	(2,975)
Share of profit/(loss) of joint venture, net of tax	14	30	(100)
Foreign exchange gain/(loss)		(58)	446
Loss before tax		**(85)**	**(1,014)**
Income tax benefit/(expense)	11	365	(371)
Profit/(loss) for the period		**280**	**(1,385)**
Total comprehensive profit/(loss) for the period		**280**	**(1,385)**
Profit/(loss) attributable to:			
Owners of the parent		(215)	(1,326)
Non-controlling interests in JSCs		496	(61)
Non-controlling participants in LLCs		(1)	2
		280	**(1,385)**
Weighted average number of common shares outstanding		11,211,534	11,211,534
Basic and diluted loss for the year per share, RUR		(19)	(118)

Kaprov L.G. — Senior Vice President – Commercial Director

29 August 2017

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of financial position

as at 30 June 2017

(Amounts in millions of Russian rubles)

	Notes	30 June 2017 (unaudited)	31 December 2016 (audited)
Assets			
Non-current assets			
Property, plant and equipment	15	2,038	2,100
Completed investment property	12	27,977	32,695
Investment property under construction	13	18,286	15,724
Intangible assets	16	540	540
Available-for-sale financial assets	19	427	427
Investments in joint venture	14	440	410
Other non-financial assets	21	2,878	2,147
Deferred tax assets		2,784	2,731
		55,370	**56,774**
Current assets			
Inventory property with period of sale above the year	17	4,689	2,946
Inventory property with period of sale within the year	17	34,546	36,306
Trade and other receivables	18	990	986
VAT reimbursable		2,521	2,463
Other financial assets	18	107	104
Other non-financial assets	21	5,496	4,544
Cash and short-term deposits	20	14,524	20,651
		62,873	**68,000**
Assets classified as held for sale	22	324	9,807
		63,197	**77,807**
Total assets		**118,567**	**134,581**
Equity and liabilities			
Equity			
Issued share capital	23	567	567
Treasury shares	23	(1)	(1)
Additional paid-in capital		18,296	18,296
Accumulated losses		(50,365)	(50,150)
Total equity attributable to equity holders of the parent		**(31,503)**	**(31,288)**
Non-controlling interests in JSCs		1,855	1,359
Net assets attributable to non-controlling participants in LLCs		(75)	(74)
Total equity		**(29,723)**	**(30,003)**
Non-current liabilities			
Interest bearing loans and borrowings	24	65,216	66,117
Trade and other payables	25	536	447
Embedded financial derivatives	27	402	1,907
Tenants' guarantee deposits		543	505
Other non-financial liabilities	26	1,460	2,498
Deferred tax liabilities		4,194	4,864
		72,351	**76,338**
Current liabilities			
Interest bearing loans and borrowings	24	33,077	42,087
Trade and other payables	25	3,643	4,701
Provisions		227	177
Current income tax payable		27	847
Other non-financial liabilities	26	38,965	39,135
		75,939	**86,947**
Liabilities directly associated with the assets classified as held for sale	22	–	1,299
		75,939	**88,246**
Total liabilities		**148,290**	**164,584**
Total equity and liabilities		**118,567**	**134,581**

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated statement of changes in equity

for the six-month period ended 30 June 2017

(Amounts in millions of Russian rubles)

	Issued capital	Treasury shares	Additional paid-in capital	Accumulated losses	Equity attributable to equity holders of the parent	Non-controlling interest in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2017 (audited)	**567**	**(1)**	**18,296**	**(50,150)**	**(31,288)**	**1,359**	**(74)**	**(30,003)**
(Loss)/income for the period	–	–	–	(215)	**(215)**	496	(1)	**280**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(215)**	**(215)**	**496**	**(1)**	**280**
At 30 June 2017 (unaudited)	**567**	**(1)**	**18,296**	**(50,365)**	**(31,503)**	**1,855**	**(75)**	**(29,723)**

	Issued capital	Treasury shares	Additional paid-in capital	Accumulated losses	Equity attributable to equity holders of the parent	Non-controlling interest in JSCs	Net assets attributable to non-controlling participants in LLCs	Total equity
At 1 January 2016 (audited)	**567**	**(1)**	**18,296**	**(54,816)**	**(35,954)**	**(1,797)**	**(72)**	**(37,823)**
(Loss)/income for the period	–	–	–	(1,326)	**(1,326)**	(61)	2	**(1,385)**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(1,326)**	**(1,326)**	**(61)**	**2**	**(1,385)**
Distribution to shareholder (Note 3)	–	–	–	(5,959)	**(5,959)**	–	–	**(5,959)**
Effect of loan's modification (Note 24)	–	–	–	1,060	**1,060**	–	–	**1,060**
At 30 June 2016 (unaudited)	**567**	**(1)**	**18,296**	**(61,041)**	**(42,179)**	**(1,858)**	**(70)**	**(44,107)**

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

PJSC HALS-Development and subsidiaries

Interim condensed consolidated cash flow statement

for the six-month period ended 30 June 2017

(Amounts in millions of Russian rubles)

	Notes	2017 (unaudited)	2016 (unaudited)
Operating activities			
Loss before tax		(85)	(1,014)
Adjustments to reconcile loss before tax to cash flows			
Changes in fair value of investment property	12, 13	1,665	2,282
Changes in fair value of assets classified as held for sale		(39)	
Profit on disposal of subsidiary	3	(804)	–
Profit on disposal of investment property	7	(112)	–
Share of profit/(loss) of joint venture	14	(30)	100
Depreciation	15	93	112
Impairment of property, plant and equipment	8, 15	–	139
Finance income	9	(926)	(1,894)
Finance expenses	10	2,544	2,975
Payables and other obligations write off	7	(2)	(137)
Fines and penalties under civil contracts	7	(9)	(184)
Receivables and other assets write off	8	355	94
Recovery of receivables written-off in prior periods	7	–	(30)
Foreign exchange gain/(loss)		58	(446)
Cash flows before working capital changes		**2,708**	**1,997**
Change in trade and other receivables, VAT reimbursable and other non-financial assets		(1,671)	(721)
Change in inventory property		229	(4,750)
Change in trade, other payables and non-financial liabilities		(791)	6,806
Cash flow generated from operating activities		**475**	**3,332**
Income tax paid		(1,190)	(185)
Net cash flow (used in) / generated from operating activities		**(715)**	**3,147**
Investing activities			
Proceeds from disposal of investment property	12	1,251	–
Disposal of businesses, net of cash disposed	3	8,765	–
Acquisitions and advances paid for construction of investment property and property, plant and equipment		(3,093)	(1,365)
Interest received		777	1,037
Net cash flow generated from / (used in) in investing activities		**7,700**	**(328)**
Financing activities			
Proceeds from loans and borrowings		–	833
Redemption of loans and borrowings		(13,073)	(3,036)
Interest paid		–	(596)
Repayment of finance lease liabilities		(28)	(29)
Net cash flow used in financing activities		**(13,101)**	**(2,828)**
Effects of foreign currency translation on cash and short-term deposits		(11)	(60)
Net decrease in cash and short-term deposits		**(6,127)**	**(69)**
Cash and short-term deposits at 1 January	20	20,651	19,761
Cash and short-term deposits at 30 June	20	**14,524**	**19,692**

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

1. Corporate information

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

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

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

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

As at 30 June 2017 and 31 December 2016 PJSC VTB Bank (“VTB”) owned 98.11% and 98.11% 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 interim condensed consolidated financial statements as at 30 June 2017 and for the six-month period then ended were authorised for issue by the Senior Vice President – Commercial Director of the Company on 29 August 2017.

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

The interim condensed consolidated financial statements for the six-month period ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2016.

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

Going concern

As at 30 June 2017 the Group’s current liabilities exceeded current assets by 12,742 million (as at 31 December 2016: RUR 10,439 million) and the Group’s negative net assets amounted to RUR 29,723 million (as at 31 December 2016: RUR 30,003 million).

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

Going concern (continued)

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

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

- management assessed the Group's portfolio of projects and has prioritized those that it believes are more strategic to the Group, and suspended other activities in order to reduce its cash requirements;
- during 2016 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;
- in November 2016 the management of the Group decided to sell a part of IQ-quarter project and in December 2016 − the shopping and entertainment complex "Leto". In March 2017 the shopping and entertainment complex "Leto" was transferred to the buyer (Note 3);
- in January 2017 the Group signed a contract to sell non-residential properties in "SkyLight". In February 2017 these non-residential properties were transferred to the buyer (Note 12).

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

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

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

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

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

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

IAS 7 Disclosure Initiative − Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to disclose additional information in its condensed interim consolidated financial statements but will disclose it in the consolidated financial statements for the year ended 31 December 2017.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses − Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity.

The Group applied the amendments retrospectively. However it did not have any impact on the financial statements and operational results, given that the Group has no temporary differences or assets related to the scope of these amendments.

Annual improvements 2014-2016 cycle

IFRS 12 Disclosure of Interests in Other Entities − Amendments to IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The Group applied the amendments retrospectively.

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

3. Acquisition and disposal

Disposal of LLC Hals-Invest Development

In March 2017 the Group sold a 100% interest in the charter capital of LLC Hals-Invest Development to a third party. LLC Hals-Invest Development owns the project "Leto", located in St. Petersburg, which is a shopping and entertainment complex. As at 31 December 2016 assets and liabilities of the company were presented as assets and liabilities, classified as held for sale (Note 22).

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

Completed investment property	9,113
Trade and other receivables	1
Other financial assets	3
Cash and short-term deposits	437
Embedded financial derivatives	(159)
Deferred tax liabilities	(580)
Trade and other payables	(417)
Net assets disposed	**8,398**
Consideration received	9,202
Profit on disposal	**804**

Acquisition of Lira LLC

In March 2016 the Group acquired a 100% interest in LLC Lira (Rostov-on-Don) which owns Sheraton Rostov-on-Don Hotel & Business Center, the business complex under construction comprising of Class A office building, hotel and private parking for the consideration of RUR 1.

The fair value of the identifiable assets and liabilities of LLC Lira as at the date of acquisition was:

	Fair value recognised on acquisition
Trade and other receivables	3
Interest bearing loans and borrowings	(5,903)
Trade and other payables	(59)
Net liabilities assumed at fair value	**(5,959)**

Before the acquisition 100% interest in LLC Lira were pledged as a collateral under the loan agreement with the shareholder of the Group. At the date of transaction the fair value of assets acquired approximated zero. By substance this acquisition represented the assumption of net liabilities of RUR 5,959 million from the shareholder of the Group which were recognised as distribution to shareholder in equity.

Disposal of Lira LLC

In September 2016, the Group sold a 100% interest in the charter capital of LLC Lira (Rostov-on-Don) for a nominal value of RUB 1. The transaction was agreed with the Group's shareholder and is in effect a waiver of the previously recognized liability to the Group's shareholder, including accrued interest, which was recorded within equity as a shareholder contribution.

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

3. Acquisition and disposal (continued)

Disposal of Lira LLC (continued)

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

Trade and other receivables	9
Interest bearing loans and borrowings	(5,955)
Trade and other payables	(160)
Net liabilities disposed	**(6,106)**

4. Rental income

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

Rental income generated by SkyLight, CDM na Lubyanke, Leto, Danilovsky Fort, Hotel complex Pekin and other properties in the six-month period ended 30 June 2017 amounted to RUR 1,017 million, RUR 574 million, RUR 369 million, RUR 339 million, RUR 86 million and RUR 19 million, respectively.

Rental income generated by SkyLight, Leto, CDM na Lubyanke, Danilovsky Fort, Hotel complex Pekin and other properties in the six-month period ended 30 June 2016 amounted to RUR 1,147 million, RUR 854 million, RUR 739 million, RUR 301 million, RUR 81 million and RUR 15 million, respectively.

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

In 2016 the Group completed the project Wine House. For the six-month period ended 30 June 2017 the Group recognized revenue and cost of sales in amount of RUR 2,236 million and RUR 1,676 million respectively according to signed acts of acceptance and transfer of residential and non-residential premises.

In 2016 the Group completed the project Peking Gardens. For the six-month period ended 30 June 2017 the Group recognized revenue and cost of sales in amount of RUR 2,201 million and RUR 1,299 million respectively according to signed acts of acceptance and transfer of non-residential premises.

In 2016 the Group completed the 1st stage of project Nasledie. For the six-month period ended 30 June 2017 the Group recognized revenue and cost of sales in amount of RUR 273 million and RUR 220 million respectively according to signed acts of acceptance and transfer of residential and non-residential premises.

In December 2016 the Group completed the 1st stage of the project IQ-quarter. For the six-month period ended 30 June 2017 the Group recognized revenue and cost of sales in amount of RUR 915 million and RUR 813 million respectively according to signed acts of acceptance and transfer of residential and non-residential premises.

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

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

For the six-month periods ended 30 June 2017 and 30 June 2016 the Group recognized revenue from sales of inventory property relating to non-residential premises in a renovated historical building, which is a part of elite residential quarter Wine House in the amount of RUR 328 million and RUR 219 million, respectively, and cost of sales in the amount of RUR 297 million and RUR 170 million, respectively.

For the six-month periods ended 30 June 2017 and 30 June 2016 the Group recognized revenue from sales of inventory property relating to non-residential premises of the project Kamelia in the amount of RUR 66 million and RUR 461 million, respectively, and cost of sales in the amount of RUR 27 million and RUR 334 million, respectively.

For the six-month periods ended 30 June 2017 and 30 June 2016 the Group recognized revenue from sales of inventory property relating to residential and non-residential premises of the project Literator in the amount of RUR 238 million and RUR 187 million, respectively, and cost of sales in the amount of RUR 140 million and RUR 126 million, respectively.

For the six-month periods ended 30 June 2017 and 30 June 2016 the Group recognized revenue from sales of inventory property relating to the project Solntse, the Nakhimovsky and Michurinsky projects in the amount of RUR 1 million and RUR 17 million, respectively, and cost of sales in the amount of RUR 0 million and RUR 14 million, respectively.

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Total area transferred to customers, thousand square meters	19.594	3.074
Parking lots transferred to customers, thousand square meters	1.933	0.939

Revenue from room charges and other hotel services for the the six-month periods ended 30 June 2017 and 30 June 2016 in the amount of RUR 286 million and RUR 256 million, respectively, is attributable to Hotel Swissotel Resort Sochi Kamelia and in the amount of RUR 124 million and RUR 125 million, respectively, is attributable to Hotel complex Pekin.

Other sales for the six-month periods ended 30 June 2017 and 30 June 2016 represent agency remuneration in the amount of RUR 32 million and RUR 40 million, respectively.

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

6. Administration and selling expenses

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Staff costs	376	458
Advertising costs	277	239
Consulting and other professional services	63	49
Cost of computer software maintenance	44	19
Realtors service fees	43	16
Depreciation	19	26
Hotel room reservation system fees	13	11
Banking services	9	10
Repairs, maintenance and utilities	9	7
Security expenses	5	3
Communication services	4	4
Rent of premises and land	3	1
Other	24	29
	889	**872**

In the six-month periods ended 30 June 2017 and 30 June 2016 the Group incurred advertising costs related to promotion campaign of main projects and Hals branding.

7. Other operating income

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Profit on sale of investment property (Note 12)	112	–
Recovery of provision for further construction	81	–
Recovery of provision for liabilities and charges	24	–
Fines and penalties under civil contracts	9	184
Payables and other obligations write off	2	137
Recovery of property tax	–	106
Recovery of receivables written-off in prior periods	–	30
Other	57	50
	285	**507**

In the six-month periods ended 30 June 2016 the Group recognized fines and penalties receivable for one of the Group's counterparties' non-fulfillment of obligations under construction contracts in the amount of RUR 132 million.

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

7. Other operating income (continued)

In the six-month period ended 30 June 2016 the Group recognized income in the amount of RUR 21 million from the application of preferential rate of property tax 0% instead of 2.2% in respect of parking lots and RUR 85 million from reduction of taxable cost of investment property. The revised tax returns for prior periods have been prepared by the Group and submitted to tax authorities.

8. Other operating expenses

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Receivables and other assets write off	355	94
Taxes other than income tax	337	208
Impairment of property plant and equipment (Note 15)	–	139
Other	72	36
	764	**477**

The Group wrote off VAT reimbursable, receivables from customers, other assets in the amount of RUR 0 million, RUR 159 million and RUR 196 million, respectively in the six-month period ended 30 June 2017 and RUR 81 million, RUR 7 million and RUR 6 million, respectively, in the six-month period ended 30 June 2016.

9. Finance income

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Interest on bank deposits	757	1,007
Gain on financial instruments at fair value through profit or loss	164	887
Interest on loans issued	5	–
	926	**1,894**

In the six-month period ended 30 June 2017 and 30 June 2016 gain on financial instruments at fair value through profit or loss in the amount of RUR 164 million and RUR 887 million, respectively, relates to embedded derivatives, which have been separated from the operating lease agreement.

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

10. Finance expenses

	The six-month period ended 30 June (unaudited)	
	2017	**2016**
Interest on bank loans and borrowings	2,966	3,940
Less: amounts capitalized	(457)	(1,006)
Interest on tenants' guarantee deposits	18	22
Finance lease expenses	17	19
Total	**2,544**	**2,975**

In the six-month period ended 30 June 2017 the Group capitalized interest on bank loans in investment property under construction, inventory property and property, assets classified as held for sale in the amount of RUR 231 million, RUR 211 million and RUR 15 million, respectively.

In the six-month period ended 30 June 2016 the Group capitalized interest on bank loans in investment property under construction, inventory property and property, plant and equipment in the amount of RUR 492 million, RUR 406 million and RUR 108 million, respectively.

11. Income tax benefit/(expense)

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

The major components of income tax benefit/(expense) for the six-month periods ended 30 June 2017 and 30 June 2016 are:

	2017 (unaudited)	**2016 (unaudited)**
Income tax		
Current income tax expense	(311)	(149)
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	676	(222)
Income tax benefit/(expense)	**365**	**(371)**

12. Completed investment property

	2017 (unaudited)	**2016 (unaudited)**
At 1 January	**32,695**	**44,456**
Capital expenditure on owned property and changes in other components capitalized	(42)	121
Disposal of property (Note 7)	(2,238)	–
Fair value adjustment	(2,438)	(1,078)
At 30 June (unaudited)	**27,977**	**43,499**

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

12. Completed investment property (continued)

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

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

In determining the fair value of buildings, held primarily to earn rental income, totaling RUR 27,655 million, RUR 32,210 million, RUR 42,443 million and RUR 43,353 million as at 30 June 2017, 31 December 2016, 30 June 2016 and 1 January 2016, respectively, the income method was used.

In determining the fair value of land and buildings, held to benefit from capital appreciation over the long-term, totaling RUR 322 million, RUR 485 million, RUR 1,056 million and RUR 1,103 million as at 30 June 2017, 31 December 2016, 30 June 2016 and 1 January 2016, respectively, the comparative method was used.

In February 2017, the Group sold to a third party the non-residential properties in Tower B of «SkyLight». The fair value of the properties sold and related liabilities were equal to RUR 2,081 million and RUR 1,246 million, respectively. Profit from sale of investment property recognized as other operating income in the consolidated statement of comprehensive income (Note 7).

In May 2017 the Group sold land plot located in Yalta, the fair value RUR 157 million, to a third party. Profit from sale of assets recognized as other operating income in the consolidated statement of comprehensive income (Note 7).

13. Investment property under construction

	2017 (unaudited)	2016 (unaudited)
At 1 January	**15,724**	**13,092**
Capital expenditure on owned property and other components capitalized	1,558	422
Interest capitalized (Note 10)	231	492
Fair value adjustment	773	(1,204)
At 30 June (unaudited)	**18,286**	**12,802**

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

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

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

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

14. Investments in joint venture

Investments in joint venture consisted of the following:

Name	Country of incorporation	Country of operation	Project	Voting and effective	30 June 2017 (unaudited)	31 December 2016
JSC Ekvivalent	Russia	Russia	Nevskaya Ratusha	50%	440	410
Total					**440**	**410**

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

	2017 (unaudited)	2016 (unaudited)
At 1 January	**410**	**394**
Share of profit/(loss) of joint venture, net of tax, in the consolidated statement of comprehensive income	30	(100)
At 30 June (unaudited)	**440**	**294**

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

	30 June 2017 (unaudited)	31 December 2016
Non-current assets	18,078	8,588
Current assets	4,754	11,882
Non-current liabilities	(1,870)	(1,678)
Current liabilities	(20,082)	(17,972)
Net assets	**880**	**820**
Proportion of the Group's ownership	50%	50%
Carrying amount of the investments	**440**	**410**

	The six-month period ended	
	30 June 2017 (unaudited)	30 June 2016 (unaudited)
Profit/(loss) for the period	60	(200)
Group's share of profit/(loss) for the period	**30**	**(100)**

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

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

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

15. Property, plant and equipment

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2017	**7,995**	**701**	**–**	**8,696**
Additions	18	21	–	**39**
Transfers between categories	37	(37)	–	**–**
Disposals	–	(21)	–	**(21)**
30 June 2017 (unaudited)	**8,050**	**664**	**–**	**8,714**
Depreciation and impairment				
1 January 2017	**(6,116)**	**(480)**	**–**	**(6,596)**
Depreciation charge for the period	(33)	(60)	–	**(93)**
Transfer between categories	(34)	34	–	**–**
Disposals	–	13	–	**13**
30 June 2017 (unaudited)	**(6,183)**	**(493)**	**–**	**(6,676)**
Net book value				
30 June 2017 (unaudited)	**1,867**	**171**	**–**	**2,038**
1 January 2017	**1,879**	**221**	**–**	**2,100**

	Buildings	Other	Construction in progress	Total
Cost				
1 January 2016	**7,736**	**718**	**1,192**	**9,646**
Additions	139	26	27	**192**
Disposals	–	(14)	–	**(14)**
Transfer to inventory property (Note 17)	–	–	(1,219)	**(1,219)**
30 June 2016 (unaudited)	**7,875**	**730**	**–**	**8,605**
Depreciation and impairment				
1 January 2016	**(6,043)**	**(358)**	**–**	**(6,401)**
Depreciation charge for the period	(33)	(79)	–	**(112)**
Impairment (Note 8)	(139)	–	–	**(139)**
Disposals	–	12	–	**12**
30 June 2016 (unaudited)	**(6,215)**	**(425)**	**–**	**(6,640)**
Net book value				
30 June 2016 (unaudited)	**1,660**	**305**	**–**	**1,965**
1 January 2016	**1,693**	**360**	**1,192**	**3,245**

The amount of borrowing costs capitalised during the six-month periods ended 30 June 2017 and 30 June 2016 amounted to RUR 0 million and RUR 108 million, respectively (Note 10).

“Swissotel Resort Sochi Kamelia”

As at 30 June 2017 and 30 June 2016 the Group performed impairment test and determined the recoverable amount as value in use of Swissotel Resort Sochi Kamelia. As at 30 June 2017 the carrying amount of the object did not exceed its recoverable amount so no impairment was recognized. For the six-month period ended 30 June 2016 the Group recognised impairment loss in the amount of RUR 41 million, which is included in other operating expenses (Note 8).

15. Property, plant and equipment (continued)

"Swissotel Resort Sochi Kamelia" (continued)

The major events and circumstances that led to the recognition of impairment in the six-month periods ended 30 June 2016:

- Additional costs incurred to meet customers' requirements.
- Reduction future cash flows from rental of hotel rooms in connection with the turn of market.

The significant assumptions made relating the estimation of Swissotel Resort Sochi Kamelia's value in use as at 30 June 2017 are set out below:

- discount rate (pretax) − 15% (as at 31 December 2016 and as at 30 June 2016 – 15%);
- period of hotel operation is from 2017 to 2021 in which it is planned to be sold (as at 31 December 2016: from 2017 to 2021 and as at 30 June 2016: from 2016 to 2018);
- capitalization rate − 12% (as at 31 December 2016 and as at 30 June 2016 – 12%).

"Sheraton Rostov-on-Don Hotel"

As at 30 June 2016 the Group performed impairment test and determined the recoverable amount as value in use of Sheraton Rostov-on-Don Hotel. As a result the Group recognised impairment loss in the amount of RUR 98 million (Note 8). In September 2016, Sheraton Rostov-on-Don Hotel was sold (Note 3).

The significant assumptions made relating the estimation of Sheraton Rostov-on-Don Hotel value in use as at 30 June 2016 are set out below:

- discount rate (pretax) − 16%;
- period of hotel operation is from 2017 to 2022 in which it is planned to be sold;
- capitalization rate − 12%.

IQ-quarter

In the six-month period ended 30 June 2016 construction in progress (the project IQ-quarter) in the amount of RUR 1,219 million was transferred from property, plant and equipment to inventory property as the Group has changed the concept of the project turning the hotel under construction into non-residential premised constructed for sale.

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

16. Intangible assets

Intangible assets consisted of the following:

	Goodwill	Development rights	Other	Total
Cost				
1 January 2017	**92**	**675**	**5**	**772**
30 June 2017 (unaudited)	**92**	**675**	**5**	**772**
Depreciation and impairment				
1 January 2017	**–**	**(227)**	**(5)**	**(232)**
30 June 2017 (unaudited)	**–**	**(227)**	**(5)**	**(232)**
Net book value				
30 June 2017 (unaudited)	**92**	**448**	**–**	**540**
1 January 2017	**92**	**448**	**–**	**540**

	Goodwill	Development rights	Other	Total
Cost				
1 January 2016	**92**	**675**	**5**	**772**
30 June 2016 (unaudited)	**92**	**675**	**5**	**772**
Depreciation and impairment				
1 January 2016	**–**	**(222)**	**(5)**	**(227)**
30 June 2016 (unaudited)	**–**	**(222)**	**(5)**	**(227)**
Net book value				
30 June 2016 (unaudited)	**92**	**453**	**–**	**545**
1 January 2016	**92**	**453**	**–**	**545**

17. Inventory property

	2017 (unaudited)	2016 (unaudited)
At 1 January	**39,252**	**30,906**
Construction costs incurred	4,244	5,398
Interest capitalized	211	406
Transfer from property, plant and equipment (Note 15)	–	1,219
Property sold (Note 5)	(4,472)	(644)
At 30 June (unaudited)	**39,235**	**37,285**

During the six-month periods ended 30 June 2017 and 30 June 2016 the Group tested inventory property for recoverability. As a result of the test, in the six-month periods ended 30 June 2017 and 30 June 2016 the carrying amount of inventory property did not exceed its net realizable value.

In the six-month periods ended 30 June 2017 and 30 June 2016 the Group capitalized staff costs in inventory property in the amount of RUR 179 million and RUR 189 million, respectively.

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

18. Trade receivables, other receivables and other financial assets

Current financial assets	**30 June 2017 (unaudited)**	**31 December 2016**
Trade receivables		
Trade receivable from third parties	217	247
	217	**247**
Other receivables		
Other receivable from third parties	773	719
Other receivable from related parties	–	20
	773	**739**
	990	**986**

Other current financial assets	**30 June 2017 (unaudited)**	**31 December 2016**
Promissory note receivable from related party	101	96
Loans receivable from third parties	6	6
Loans receivable from related parties	–	2
	107	**104**

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

19. Available-for-sale financial assets

As at 30 June 2017 and 31 December 2016 available-for-sale financial assets in the total amount of RUR 427 million and RUR 427 million, respectively, included investments in unquoted interest in the charter capital.

20. Cash and short term deposits

	30 June 2017 (unaudited)	**31 December 2016**
Cash at bank and on hand	843	467
Short-term deposits	13,681	20,184
	14,524	**20,651**

As at 30 June 2017 cash and short-term deposits were deposited as follows: RUR 14,523 million in VTB Bank (31 December 2016: RUR 20,647 million), RUR 1 million in other banks (31 December 2016: RUR 4 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 at 30 June 2017 was 8.7% (31 December 2016: 9.6%).

As at 30 June 2017 VTB Bank has Ba1 credit rating assigned by the Moody’s credit rating agency (31 December 2016: Ba1).

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

21. Other non-financial assets

	30 June 2017 (unaudited)	31 December 2016
Other non-current		
Advances issued for construction of investment property	2,867	2,017
Advances issued for construction of property, plant and equipment	11	130
	2,878	**2,147**
Other current assets		
Advances issued for construction of inventory property with period of sale above the year	1,671	1,196
Advances issued for construction of inventory property with period of sale within the year	2,506	2,913
Advance payments for taxes	163	120
Other current non-financial assets	1,156	315
	5,496	**4,544**

22. Assets and liabilities, classified as held for sale

In the fourth quarter of 2016 the management of the Group decided to sell “Leto”, located in St. Petersburg, Pulkovo highway, which is a shopping and entertainment complex and signed an obliging contract with a buyer. As at 31 December 2016 the respective assets and liabilities in amount of RUR 9,544 million (including investment property in the amount of RUR 9,056 million) and RUR 1,299 million, respectively, were classified as assets and liabilities held for sale. These assets and liabilities included in reporting as “investment property − under construction” segment (Note 31).

In March 2017 the Group was completed this deal and sold “Leto” to a third party (Note 3).

In November 2016 the Group decided to sell a part of the IQ-quarter project (underground area) located in Moscow City. As at 31 December 2016 the assets in the amount of RUR 263 million, presented as investment property, were classified as assets held for sale. The fair value of the assets as at 30 June 2017 amounted to RUR 324 million.

23. Equity

As at 30 June 2017 and 31 December 2016 Company had 11,217,094 common shares issued and 11,211,534 shares outstanding. Nominal value of one share is equal to RUR 50.

The reconciliation of the beginning and closing balances of the number of shares authorized, issued and outstanding for the six-month periods ended 30 June 2017 and 30 June 2016 is as follows:

	Total shares authorised and issued	Treasury shares	Total shares authorised, issued and outstanding
	Thousands	Thousands	Thousands
As at 1 January 2017	**11,217**	**(5)**	**11,212**
As at 30 June 2017 (unaudited)	**11,217**	**(5)**	**11,212**
As at 1 January 2016	**11,217**	**(5)**	**11,212**
As at 30 June 2016 (unaudited)	**11,217**	**(5)**	**11,212**

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

24. Interest bearing loans and borrowings

	Interest rate %	Maturity	30 June 2017 (unaudited)	31 December 2016
Current interest-bearing loans from related parties				
VTB	9.5%	2020	7,400	7,212
VTB	9.5%	2017	17,904	30,474
VTB	10.0%	2023	4,594	4,387
			29,898	**42,073**
Current interest-bearing loans and borrowings from third parties				
Emmomax International N.V.	8.26%	2018	2,969	–
Other third parties	Various	Various	210	14
			3,179	**14**
Total current interest-bearing loans and borrowings			**33,077**	**42,087**
Non-current interest-bearing loans and borrowings from related parties				
VTB	9.5%	2021	31,220	30,325
VTB	9.5%	2018-2021	9,659	9,320
VTB	9.5%	2020	14,518	14,061
VTB	9.5%	2022	5,036	4,867
VTB	9.5%	2026-2028	2,416	2,316
VTB	8.0%	2023	2,367	2,323
			65,216	**63,212**
Non-current interest-bearing loans and borrowings from third parties				
Emmomax International N.V.	8.26%	2018	–	2,905
			–	**2,905**
Total non-current interest-bearing loans and borrowings			**65,216**	**66,117**
Total interest-bearing loans and borrowings			**98,293**	**108,204**

The schedule of repayment of debt as at 30 June 2017 is as follows:

Year ended 30 June	
2018	33,077
2019	229
2020	222
2021	15,338
2022	44,644
2024	2,367
2026	636
2027	210
2028	1,570
Total	**98,293**

24. Interest bearing loans and borrowings (continued)

VTB

In May 2010 the Group signed credit facility agreement with VTB with a limit of RUR 557 million, the interest rate of 9.5% per annum and maturing in four years for the purpose of financing the CDM na Lubyanke project. In October 2010 the Group agreed with VTB to increase the limit of the credit agreement from RUR 557 million up to 5,780 million and prolong the repayment date of this facility from May 2014 to January 2019. In May 2014 the Group agreed with VTB to increase the limit of the credit agreement from RUR 5,780 million up to 9,710 million and prolong the repayment date of this facility from January 2019 to September 2021. As at 30 June 2017 and 31 December 2016 the loan facility was utilized in amount of RUR 7,944 million. As at 30 June 2017 the Group lost its right to utilize the loan facility in respect of unused amount.

In June 2014 the Group signed new credit facility agreement with VTB with a limit of RUR 2,047 million, the interest rate of 9.5% per annum for the purpose of financing the Iskra-Park project. The loan is to be repaid in June 2021. As at 30 June 2017 and 31 December 2016 the loan facility was utilized in amount of RUR 520 million. As at 30 June 2017 the Group lost its right to utilize the loan facility in respect of unused amount.

In March 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 3,600 million, the interest rate of 9.5% per annum for the purpose of financing the Iskra-Park project. The loan is to be repaid in March 2022. As at 30 June 2017 and 31 December 2016 the loan facility was fully utilized.

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 at 30 June 2017 and 31 December 2016 the loan facility was fully utilized.

In May 2013 the Group signed new credit facility agreement with VTB with a limit of RUR 9,008 million, the interest rate of 10% per annum for the purpose of financing the project multifunctional complex IQ-quarter. The loan was to be repaid in November 2015. In December 2015 the Group agreed with VTB to prolong the repayment date of this facility to December 2023. The relevant additional agreement became effective on 17 February 2016, the date of it is being registered by the state authorities – Rosreestr. As a result of prolongation of loan facility the substantial modification of the terms of the existing liabilities occurred. It has been considered as an extinguishment of the original financial liabilities and the recognition of new financial liabilities. The difference between the carrying amount of the financial liabilities extinguished and the fair value of the new financial liabilities in the amount of RUR 1,060 million has been recognised in equity. As at 30 June 2017 and 31 December 2016 the loan facility was utilized in amount of RUR 8,742 million. Under the agreement, the Group undertakes to comply with certain covenants set by VTB, which, when breached, may entitle VTB to claim early repayment. As at 30 June 2017 and 31 December 2016 several covenants stipulated by the agreement were breached, therefore, the obligations under the loan were recorded within short-term liabilities of the Group.

In 2008 the Group entered into a loan facility agreement with VTB for up to RUR 4,000 million at 9.5% per annum maturing in 2020. As at 30 June 2017 and 31 December 2016 the loan facility was utilized in full. Under the agreement, the Group undertakes to comply with certain covenants set by VTB, which, when breached, may entitle VTB to claim early repayment. Several covenants stipulated by the agreement were breached, therefore, the obligations under the loan were recorded within short-term liabilities of the Group as at 30 June 2017 and 31 December 2016.

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

24. Interest bearing loans and borrowings (continued)

VTB (continued)

In August 2007 the Group signed credit agreement with the limit of RUR 13,970 million and interest rate of 9.5% per annum for the corporate purpose. As at 30 June 2017 and 31 December 2016 the loan facility was fully utilized. During the six-month period ended 30 June 2017 the Group repaid principal debt in terms of this credit facility in amount of RUR 7,320 million.

In November 2007 the Group signed credit agreement with the limit of RUR 5,588 million and interest rate of 9.5% per annum for the corporate purpose. As at 30 June 2017 and 31 December 2016 the loan facility was fully utilized. During the six-month period ended 30 June 2017 the Group repaid principal debt in terms of this credit facility in amount of RUR 5,588 million.

In April 2011 the Group signed credit agreement with the limit of RUR 2,740 million and interest rate of 9.5% per annum for the purpose of financing the IQ-quarter project. As at 30 June 2017 and 31 December 2016 the loan facility was fully utilized. During the six-month period ended 30 June 2017 the Group repaid principal debt in terms of this credit facility in amount of RUR 92 million.

25. Trade and other payables

	30 June 2017 (unaudited)	**31 December 2016**
Current financial liabilities		
Trade payables		
Guarantee retentions	1,122	1,235
Other trade payable to third parties	495	555
	1,617	**1,790**
Other payables		
Payable to employees	296	220
Taxes payable	1,239	1,758
Other payable to third parties	478	916
Financial lease obligations	13	17
	2,026	**2,911**
	3,643	**4,701**
Non-current financial liabilities		
Trade payables		
Guarantee retentions	319	229
	319	**229**
Other payables		
Financial lease obligations	217	218
	217	**218**
	536	**447**

Guarantee retentions represent amounts received by the constructors and held by the Group till the construction of the Group's development projects is complete and all constructors' obligations in respect to the constructions are settled.

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

26. Other non-financial liabilities

	30 June 2017 (unaudited)	31 December 2016
Non-current liabilities		
Advances from Iskra	1,400	1,400
Advances from customers	–	1,011
Deferred rent income	60	87
	1,460	**2,498**
Current liabilities		
Advances from customers with period of settlement above the year	4,922	2,717
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	32,384	34,759
	38,965	**39,135**

27. Embedded financial derivatives

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

The fair value of the embedded derivatives recognized as at 30 June 2017 and 31 December 2016 amounted to RUR 402 million and RUR 1,907 million, respectively.

28. 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	
	30 June 2017 (unaudited)	**31 December 2016**	**30 June 2017 (unaudited)**	**31 December 2016**
Financial assets				
Available-for-sale financial assets	427	427	427	427
Trade and other receivables	990	986	990	986
Loans and notes receivable	107	104	107	104
Cash and short-term deposits	14,524	20,651	14,524	20,651
	16,048	**22,168**	**16,048**	**22,168**
Financial liabilities				
Fixed rate borrowings	(98,293)	(108,204)	(89,055)	(97,938)
Trade and other payables	(2,940)	(3,390)	(2,940)	(3,390)
Embedded financial derivatives	(402)	(1,907)	(402)	(1,907)
Tenants' guarantee deposits	(543)	(505)	(543)	(505)
	(102,178)	**(114,006)**	**(92,940)**	**(103,740)**

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

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

The fair value of fixed rate borrowings is estimated by discounting future cash flows using rates currently available for debts on similar terms (as at 30 June 2017 and 31 December 2016 approximate 9.5%) and remaining maturities. The carrying values of fixed rate loans and borrowings as at 30 June 2017 and 31 December 2016 are accounted for at amortized cost.

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

29. 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 30 June 2017:

		Fair value measurement using			
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets	30 June 2017 (unaudited)	**427**	–	–	427
Investment properties					
Completed investment property (Note 12)	30 June 2017 (unaudited)	**27,977**	–	–	27,977
Investment property under construction (Note 13)	30 June 2017 (unaudited)	**18,286**	–	–	18,286
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 27)	30 June 2017 (unaudited)	**402**	–	–	402
Liabilities for which fair values are disclosed (Note 28)					
Interest bearing loans and borrowings	30 June 2017 (unaudited)	**89,055**	–	–	89,055

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

29. Fair value measurement (continued)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2016:

			Fair value measurement using		
	Date of valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Available-for-sale financial assets	31 December 2016	**427**	–	–	427
Investment properties					
Completed investment property (Note 12)	31 December 2016	**32,695**	–	–	32,695
Investment property under construction (Note 13)	31 December 2016	**15,724**	–	–	15,724
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss					
Embedded financial derivatives (Note 27)	31 December 2016	**1,907**	–	–	1,907
Liabilities for which fair values are disclosed (Note 28)					
Interest bearing loans and borrowings	31 December 2016	**97,938**	–	–	97,938

Description of significant unobservable inputs to valuation as at 30 June 2017:

	Valuation technique	**Significant unobser-vable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Investment properties and assets classified as held for sale				
Completed investment property	DCF Method	Discount rate	14.0%-15.5% (14.7%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (726) mln and RUR 760 mln, respectively.
Completed investment property	DCF Method	Average annual rental rate indexation	4.4%-4.5% (4.5%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 2,098 mln and RUR (1,843) mln, respectively.
Completed investment property	DCF Method	Terminal capitalization rate	10.0%-13.0% (11.3%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,250) mln and RUR 1,513 mln, respectively.
Investment property under construction	DCF Method	Discount rate	14.0%-16.8% (15.4%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (714) mln and RUR 764 mln, respectively.
Investment property under construction	DCF Method	Average annual rental rate indexation	4.3%-4.4% (4.3%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 2,472 mln and RUR (2,095) mln, respectively.
Investment property under construction	DCF Method	Terminal capitalization rate	11.0%-11.5% (11.25%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (720) mln and RUR 860 mln, respectively.

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

29. Fair value measurement (continued)

	Valuation technique	Significant unobser-vable inputs	Range (weighted average)	Sensitivity of the input to fair value
Available-for-sale financial assets				
Equity investments	Comparative method	Sale price for land plots held by investee	0.2-0.892	10% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 47 mln and RUR (47) mln, respectively.
Embedded financial derivatives				
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	USD-rate	59.09 RUR/USD	20% increase / 20%(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 298 mln and RUR (249) mln, respectively.

Description of significant unobservable inputs to valuation as at 31 December 2016:

	Valuation technique	Significant unobser-vable inputs	Range (weighted average)	Sensitivity of the input to fair value
Investment properties and assets classified as held for sale				
Completed investment property	DCF Method	Discount rate	14.0%-15.5% (14.8%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (857 mln and RUR 900 mln, respectively.
Completed investment property	DCF Method	Average annual rental rate indexation	4.4%-4.5% (4.5%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 2,318 mln and RUR (2,003) mln, respectively.
Completed investment property	DCF Method	Terminal capitalization rate	10.0%-13.0% (11.3%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (1,284) mln and RUR 1,555 mln, respectively.
Investment property under construction	DCF Method	Discount rate	14.1%-18.0% (16.1%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (713) mln and RUR 764 mln, respectively.
Investment property under construction	DCF Method	Average annual rental rate indexation	4.3%-4.4% (4.4%)	3% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 2,693 mln and RUR (2,225) mln, respectively.
Investment property under construction	DCF Method	Terminal capitalization rate	11.0%-11.5% (11.25%)	1% increase/(decrease) in the basis points would result in (decrease)/increase in fair value by RUR (690) mln and RUR 825 mln, respectively.

	Valuation technique	Significant unobser-vable inputs	Range (weighted average)	Sensitivity of the input to fair value
Available-for-sale financial assets				
Equity investments	Comparative method	Sale price for land plots held by investee	0.2-0.892	10% increase/(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 47 mln and RUR (47) mln, respectively.
Embedded financial derivatives				
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	USD-rate	60.66 RUR/USD	20% increase / 20%(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 929 mln and RUR (869) mln, respectively.
Foreign currency derivatives embedded in lease agreements	Black-Scholes Option Pricing model	EUR-rate	63.81 RUR/EUR	20% increase / 20%(decrease) in the basis points would result in increase/(decrease) in fair value by RUR 1 mln and RUR nil mln, respectively.

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

30. Transactions with related parties

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

Transactions with related parties	2017 (unaudited)	2016 (unaudited)
Interest on borrowings to shareholder		
Interest on borrowings payable to VTB	2,901	3,889
	2,901	**3,889**
Interest income from shareholder		
Interest income from VTB	762	1,007
	762	**1,007**

	30 June 2017 (unaudited)	31 December 2016
Amounts due from shareholder		
Cash and short-term deposits in VTB	14,523	20,647
Trade and other receivables from VTB	–	20
Other financial assets	101	96
Assets classified as held for sale	–	392
	14,624	**21,155**
Amounts due to shareholder		
Loans and borrowings from VTB	95,114	105,285
	95,114	**105,285**

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 32.

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

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

	2017 (unaudited)	2016 (unaudited)
Short-term employee benefits	57	70
Other long-term benefits	9	11

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

31. Segment information

For management purposes, the Group is organised into operating segments based on nature of property and has five reportable segments in the six-month period ended 30 June 2017:

- 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), the project Wine House (renovation), the project Wine House (construction), the project Peking Gardens, the project Nasledie (the 1st stage), the project IQ-quarter (apartments));
- real estate held for sale – under construction (the project Nasledie (the 2nd stage), the project Teatralny Dom, the project Iskra-Park (apartments), the project Dostoyanie);
- investment property – under construction (the major projects – IQ-quarter, Iskra-Park);
- investment property – submitted to the operating lease (the project Danilovsky Fort, the project SkyLight, CDM na Lubyanke, the project Leto);
- hospitality – rented apartments (Hotel complex Pekin, hotel Swissotel Resort Sochi Kamelia).

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

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

The six-month period ended 30 June 2017

	Real estate held for sale		**Investment property**		**Hospitality**		
	ready for use by the buyer	**under construction**	**under construction**	**submitted to the operating lease**	**under construction**	**rented apartments**	**Total**
Segment revenue	**3,382**	**3,585**	–	**2,640**	**–**	**243**	**9,850**
Accrual vrs. cash basis	–	–	–	–	–		187
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**10,037**

	Real estate held for sale		**Investment property**		**Hospitality**		
	ready for use by the buyer	**under construction**	**under construction**	**submitted to the operating lease**	**under construction**	**rented apartments**	**Total**
Segment result	**451**	**(472)**	**(2,744)**	**1,637**	**–**	**89**	**(1,039)**
Accrual vrs. cash basis	–	–	–	–	–	–	954
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(85)**

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

31. Segment information (continued)

The six-month period ended 30 June 2016

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construc-tion	under construc-tion	submitted to the operating lease	under construc-tion	rented apart-ments	Total
Segment revenue	**638**	**5,872**	**–**	**5,027**	**–**	**508**	**12,045**
Accrual vrs. cash basis	–	–	–	–	–	–	**(7,603)**
Revenue per IFRS consolidated financial statements*	**–**	**–**	**–**	**–**	**–**	**–**	**4,442**

	Real estate held for sale		Investment property		Hospitality		
	ready for use by the buyer	under construc-tion	under construc-tion	submitted to the operating lease	under construc-tion	rented apart-ments	Total
Segment result	**394**	**(2,966)**	**(146)**	**3,092**	**(17)**	**(330)**	**27**
Accrual vrs. cash basis	–	–	–	–	–	–	**(1,041)**
Loss before tax per IFRS consolidated financial statements**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,014)**

* Includes rental income, sales assets classified as held for sale, sales of inventory property, revenue from room charges and other hotel services and other sales per the consolidated statement of comprehensive income.

** Including valuation losses on investment property and other adjustments.

32. 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.

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

32. Guarantees and pledges (continued)

Pledges

As at 30 June 2017 and 31 December 2016 common shares of the Group's entities have been pledged as follows:

		30 June 2017		31 December 2016	
Group's company	**Projects**	**Number of shares pledged**	**Number of shares pledged as a percentage of total shares**	**Number of shares pledged**	**Number of shares pledged as a percentage of total shares**
JSC Lubyanka-Development	CDM na Lubyanke	22,004,320	100%	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%	4,680,000	100%
OJSC Beiging-Invest	Peking Gardens	–	–	1350	90%
CJSC EZNCh	Literator	100	100%	100	100%
CJSC Kuntsevo-Invest	Solntse	–	–	5,000	100%
CJSC Hals-Tehnopark	Teatralny Dom	–	–	3,782,000	100%
CJSC StroyPromOb'ekt	Teatralny Dom	–	–	10,000	100%
CJSC Ekvivalent	Nevskaja ratusha	500	50%	500	50%
CiTer Invest B.V.	IQ-quarter	101	50%+1 share	101	50%+1 share
CJSC Pansionat Kamelia	Kamelia	13,000	100%	13,000	100%

Group's company	**Projects**	**Number of shares pledged**	**Number of shares pledged as a percentage of total shares**
JSC Lubyanka-Development	CDM na Lubyanke	22,004,320	100%
OJSC Sistema-Temp	Bol`shaya Tatarskaya, 35	4,680,000	100%
CJSC EZNCh	Literator	100	100%
CJSC Ekvivalent	Nevskaja ratusha	500	50%
CiTer Invest B.V.	IQ-quarter	101	50%+1 share
CJSC Pansionat Kamelia	Kamelia	13,000	100%

As at 30 June 2017 and 31 December 2016 the Group pledged a 100% interest in its subsidiary LLL Iskra Park under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 3,600 million and RUR 3,600 million, respectively.

As at 30 June 2017 and 31 December 2016 the Group pledged CDM na Lubyanke (investment property under construction) with a carrying amount of RUR 12,015 million and RUR 13,553 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 7,190 million and RUR 7,190 million, respectively.

As at 30 June 2017 and 31 December 2016 the Group pledged Danilovskiy Fort (investment property) with a carrying amount of RUR 3 744 million and RUR 3,789 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 18,508 million and RUR 18,508 million, respectively.

32. Guarantees and pledges (continued)

Pledges (continued)

As at 31 December 2016 the Group pledged Leto (completed investment property, classified as assets as held for sale) with a carrying amount of RUR 9,056 million, and the office building on B. Tatarskaya street (property, plant and equipment) with a carrying amount of RUR 146 million, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 1,979 million. As at 31 December 2016 the loan was fully repaid. The registration of deposit termination was in February 2017.

As at 30 June 2017 and 31 December 2016 the Group pledged the project IQ-quarter (investment property under construction, inventory property, and assets classified as held for sale) with a carrying amount of RUR 14,384, RUR 11,950, and RUR 324 million, respectively, and RUR 12,243, RUR 11,717, and RUR 263 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 4,174 million and RUR 4,174 million respectively.

As at 30 June 2017 and 31 December 2016 the Group pledged the project Kamelia (property, plant and equipment and inventory property) with a carrying amount of RUR 256 million and RUR 49 million, respectively, and RUR 256 and RUR 75 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 2,064 million and RUR 2,136 million respectively.

As at 30 June 2017 and 31 December 2016 the Group pledged the project Iskra-Park (investment property under construction and inventory property) with a carrying amount of RUR 3,902 million and RUR 3,419 million, respectively, and RUR 3,481 million and RUR 2,667 million, respectively, as security under the credit line from VTB (principal amount without interest accrued) in the amount of RUR 470 million and RUR 470 million, respectively.

33. 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.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high.
The combination of the above resulted in reduced access to capital, a higher cost of capital 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.

33. Commitments and contingencies (continued)

Operating environment in the Russian Federation (continued)

Taxation

Possible liabilities identified by the management as at 30 June 2017 as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these interim condensed consolidated financial statement could be approximately RUR 1,888 million (31 December 2016: RUR 1,992 million).

Commitments under construction contracts

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent as at 30 June 2017. A summary of significant commitments under construction contracts (including VAT) is provided below:

CDM na Lubyanke – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to RUR 219 million and RUR 224 million as at 30 June 2017 and 31 December 2016, respectively.

Kamelia – The Group entered contractual agreements for construction of hotel complex in Sochi. Commitments under these contracts amounted to RUR 485 million and RUR 502 million as at 30 June 2017 and 31 December 2016, 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 829 million and RUR 1,037 million as at 30 June 2017 and 31 December 2016, 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 2,848 million and RUR 6,354 million as at 30 June 2017 and 31 December 2016, respectively.

Wine House – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 248 million and RUR 608 million as at 30 June 2017 and 31 December 2016, respectively.

Nasledie – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 3,631 million and RUR 4,803 million as at 30 June 2017 and 31 December 2016, respectively.

Teatralny Dom – The Group entered contractual agreements for construction of residential house in Moscow. Commitments under these contracts amounted to RUR 1,635 million and RUR 2,048 million as at 30 June 2017 and 31 December 2016, respectively.

Iskra-Park – The Group entered contractual agreements for construction of the complex of apartments and offices with private parking and own infrastructure. Commitments under these contracts amounted to RUR 14,423 million and RUR 16,231 million as at 30 June 2017 and 31 December 2016, respectively.

Dostoyanie – The Group entered into contractual agreements for construction of complex of residential houses in Moscow. Commitments under these contracts amounted to RUR 4,729 million and RUR 5,927 million as at 30 June 2017 and 31 December 2016, respectively.