

RSG International Ltd

Consolidated financial statements

For the year ended 31 December 2016

Contents

General information

Management report

Independent auditors' report

Consolidated statement of operations	1
Consolidated statement of comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of cash flows	4
Consolidated statement of changes in equity	5

Notes to the consolidated financial statements

1. Corporate information.....	6
2. Significant accounting policies	7
3. Changes in accounting policies and disclosures	21
4. Business combinations, acquisitions and disposals	24
5. Investment in associates	26
6. Income and expenses	27
7. Income tax.....	30
8. Property, plant and equipment	33
9. Intangible assets other than goodwill	34
10. Investment properties.....	35
11. Taxes recoverable.....	36
12. Interest-bearing loans receivable	36
13. Inventories.....	37
14. Trade and other receivables.....	38
15. Prepayments	39
16. Cash and cash equivalents	39
17. Equity	39
18. Interest-bearing loans and borrowings	40
19. Debt securities issued	43
20. Trade and other payables	44
21. Other liabilities.....	44
22. Advances from customers.....	45
23. Provisions.....	46
24. Balances and transactions with related parties	46
25. Contingencies, commitments and operating risks	47
26. Financial risk management objectives and policies.....	49
27. Segment information	54
28. Subsequent events.....	55

General information**Board of Directors**

Savvas Lazarides
Georgios Fisentzides (appointed on 21 June 2016)
Stelios Trikou (appointed on 13 April 2016)
Marios Nikolaides (resigned on 13 April 2016)

Company secretary

A.J.K. Management Services Limited
1 Naousis, Karapatakis bldg
Larnaca, 6018
Cyprus

Registered office

16, Spyrou Kyprianou Avenue, H&S Centre, First Floor, Office 104
Larnaca, 6018
Cyprus

Independent auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
6 Stasinou Avenue P.O. Box 21656
1511 Nicosia
Cyprus

Management report

The Board of Directors of RSG International Ltd (the "Company") presents herewith its report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

Principal activities

The Group is involved in real estate development in the Russian Federation. There were no changes in the Group's activities from last year.

Examination of the development, position and performance of the activities of the Group

The Board of Directors has assessed the risks set out in this report and believes that steps taken to mitigate the risks are sufficient to prevent their material adverse effect on the financial performance and financial position of the Group. Therefore: (i) the current financial position as presented in the consolidated financial statements is considered satisfactory; (ii) the Board of Directors does not expect major changes in the principal activities of the Group in the foreseeable future.

Financial results and dividends

The results of the Group for the respective periods are set out in the Statement of Operations and Statement of Comprehensive Income on pages 1 and 2 of the consolidated financial statements.

During 2015, the Company distributed dividends for the year 2014 in the amount of \$14,687. The Board of Directors did not recommend the payment of a dividend for the year 2015 and the net profit for the year was retained. On 31 January 2017, the Group declared dividends for the year 2016 in total amount \$5,968 (at the exchange rate at 31 December 2016). Dividends were repaid on 9 March 2017.

Main risks and uncertainties

In the ordinary course of business activity, the Group is exposed to a variety of risks the most important of which are credit risk, liquidity risk and market risk. These risks are identified, measured and monitored through various control mechanisms at the operating level of subsidiaries. Detailed information relating to these risks is set out in Note 26, financial risk management objectives and policies.

Share capital

There were no changes in the share capital of the Company during the year ended 31 December 2016.

The authorized and issued share capital of RSG International Ltd as of 31 December 2016 consists of 6,786,205 ordinary shares of \$1 each.

Branches

The Company did not operate through any branches during the year.

Events subsequent to the reporting date

Events subsequent to the statement of financial position date are disclosed in Note 28, Subsequent Events.

Board of Directors

As at the date of this report the members of the Board of Directors are listed as follows:

Savvas Lazarides (Cypriot) – appointed on 17 February 2012.

Georgios Fisentzides (Cypriot) – appointed on 21 June 2016.

Stelios Trikou (Cypriot) – appointed on 13 April 2016.

All directors were members of the Board throughout the twelve months 2016, except Mr. Marios Nicolaides, who resigned on 13 April 2016, and Mr. Stelios Trikou, who was appointed in his place on the same date.

The Company's Articles of Association do not provide for the rotation of directors. Each appointed director shall hold office until the next annual general meeting and shall be eligible for re-election.

Auditors

The independent auditors of the Company, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing their re-appointment and authorizing the Board of Directors to fix their remuneration will be submitted to the Members at the Annual General Meeting of the Company.

By order of the Board



A.J.K. Management Services Limited
Secretary

Larnaca,
11 April 2017

Independent auditors' report

To the Members of RSG International Ltd

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of RSG International Ltd (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 1 to 54 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- ▶ Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- ▶ We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- ▶ In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- ▶ The consolidated financial statements are in agreement with the books of account.
- ▶ In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- ▶ In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- ▶ In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Nicolas Pavlou.



Nicolas Pavlou
Certified Public Accountant and Registered Auditor
For and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
11 April 2017

Consolidated statement of operations**For the year ended 31 December 2016***(in thousands of US dollars)*

	<i>Notes</i>	<i>Years ended 31 December</i>	
		<i>2016</i>	<i>2015*</i>
Revenue	6.1	307,147	377,906
Cost of sales	6.3	(232,725)	(282,527)
Gross profit		74,422	95,379
General and administrative expenses	6.4	(15,317)	(15,649)
Gain on sale of the subsidiary	4.3	85,204	-
Other operating income	6.6	2,770	3,966
Other operating expenses	6.6	(61,346)	(34,699)
Change in fair value of investment property	10	(15,814)	(9,880)
Operating profit		69,919	39,117
Finance income	6.5	8,286	10,486
Finance costs	6.5	(20,120)	(13,122)
Foreign exchange losses, net		(588)	(1,656)
Share of (losses)/gain of associates	5	(25)	187
Profit before income tax		57,472	35,012
Income tax expense	7	(19,871)	(13,549)
Net profit for the year		37,601	21,463
Attributable to:			
Equity holders of the parent		37,420	21,210
Non-controlling interests		181	253

* The amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2015 and reflect adjustments described in Note 3.3.

Consolidated statement of comprehensive income**For the year ended 31 December 2016***(in thousands of US dollars)*

	Years ended 31 December	
Notes	2016	2015*
Net profit	37,601	21,463
Other comprehensive income/(loss)		
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		
Effect of translation to presentation currency – attributable to non-controlling interests	1,857	(2,875)
Effect of translation to presentation currency – attributable to equity holders of the parent	53,006	(80,964)
Other comprehensive income/(loss), net of tax	54,863	(83,839)
Total comprehensive income/(loss), net of tax	92,464	(62,376)
Attributable to:		
Equity holders of the parent	90,426	(59,754)
Non-controlling interests	2,038	(2,622)

* The amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2015 and reflect adjustments described in Note 3.3.

Consolidated statement of financial position**At 31 December 2016***(in thousands of US dollars)*

	Notes	31 December 2016	31 December 2015*	31 December 2014*
Assets				
Non-current assets				
Property, plant and equipment	8	9,438	14,380	17,675
Intangible assets	9	24,091	3,157	10,792
Investments in associates	5	487	435	354
Investment properties	10	184,448	183,089	283,981
Interest-bearing loans receivable	12	10,721	7,726	3,454
Inventories	13	22,490	16,959	232
Other long-term receivables		1,955	584	–
Deferred tax asset	7	6,258	8,932	12,163
		259,888	235,262	328,651
Current assets				
Income tax receivable		3,523	2,359	3,555
Inventories	13	346,277	325,864	359,097
Trade and other receivables	14	22,883	37,794	29,388
Prepayments	15	16,187	13,479	12,546
Interest-bearing loans receivable	12	7,953	1,074	20,598
Taxes recoverable	11	6,284	7,095	9,671
Cash and cash equivalents	16	145,938	54,111	51,346
		549,045	441,776	486,201
Investment properties held for sale	10	4,190	–	–
		553,235	441,776	486,201
Total assets		813,123	677,038	814,852
Equity and liabilities				
Equity				
Issued capital	17	6,787	6,787	6,787
Share premium		671,712	671,712	671,712
Capital contribution reserve	17	(70,256)	(22,006)	(22,478)
Business combination reserve		112,009	112,009	112,009
Accumulated losses		(67,289)	(103,484)	(110,007)
Foreign currency translation reserve		(338,682)	(391,688)	(310,724)
Equity attributable to equity holders of the parent		314,281	273,330	347,299
Total non-controlling interest		10,483	10,276	12,898
Total equity		324,764	283,606	360,197
Non-current liabilities				
Interest-bearing loans and borrowings	18	52,000	33,472	15,721
Debt securities issued	19	84,364	22,276	53,056
Provisions	23	399	291	881
Other liabilities	21	33,156	20,982	19,290
Deferred income tax liabilities	7	46,364	44,255	59,249
		216,283	121,276	148,197
Current liabilities				
Trade and other payables	20	40,749	30,061	44,885
Advances from customers	22	112,932	114,731	100,951
Debt securities issued	19	44,012	38,772	46,250
Interest-bearing loans and borrowings	18	49,243	52,718	59,139
Income taxes payable		9,308	2,984	2,386
Other taxes payable		2,362	1,898	3,363
Provisions	23	83	21,466	10,057
Other liabilities	21	13,387	9,526	39,427
		272,076	272,156	306,458
Total liabilities		488,359	393,432	454,655
Total equity and liabilities		813,123	677,038	814,852

On 11 April 2017, the Board of Directors of RSG International Ltd authorized these financial statements for issue.

Georgios Fisentzides  Director

Stelios Trikou  Director

Savvas Lazarides  Director

* The amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2015 and 31 December 2014 and reflect adjustments described in Note 3.3.

The accompanying notes on pages 6 to 54 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2016***(in thousands of US dollars)*

	Year ended 31 December 2016	Year ended 31 December 2015*
Cash flows from operating activities		
Profit before tax	57,472	35,012
<i>Adjustments for:</i>		
Depreciation and amortization (Note 6.2)	1,494	1,064
Finance income (Note 6.5)	(8,286)	(10,486)
Finance expenses (Note 6.5)	20,120	13,122
Change in fair value of investment properties (Note 10)	15,814	9,880
Loss on sale of property, plant and equipment and investment property (Note 6.6)	95	1,273
Write off of projects Preobrazhensky and Rozhdestvenskaya naberezhnaya (Note 13)	7,742	-
Write-down of inventory to net realizable value (Note 13)	3,474	11,472
Impairment loss recognized on trade and other receivables, prepayments (Note 6.6)	11,010	145
Change in provisions (Note 6.6)	(15)	15
Impairment of property, plant and equipment (Note 6.6, Note 8)	7,238	-
Foreign exchange losses	588	1,656
Change in bonuses and unused vacation accruals	(403)	(1,412)
Losses from write-off of VAT receivable	814	2,703
Share of losses/(profits) of associates (Note 5)	25	(187)
Gain on derecognition of accounts payable (Note 6.6)	(58)	(526)
Gain on sale of Top Project (Note 4.3)	(85,204)	-
Gain on sale of Iskra project (Note 6.6)	(534)	-
Other non-cash operations	5,218	678
Operating cash flow before working capital changes	36,604	64,409
Decrease in provisions	(28)	(2)
Decrease in trade and other receivables	2,959	8,930
Decrease/(increase) in inventories	43,452	(72,773)
(Decrease)/increase in trade and other payables	(7,875)	3,006
Decrease/(increase) in prepayments	911	(5,725)
Decrease/(increase) in VAT receivable	1,530	(2,733)
(Decrease)/increase in advances received	(20,802)	46,547
Decrease in other taxes payable	(1,653)	(436)
Decrease in other liabilities	(8,748)	(4,446)
Cash flows from operating activities	46,350	36,777
Income tax paid	(17,173)	(13,188)
Interest paid	(26,255)	(25,509)
Net cash flows from/(used in) operating activities	2,922	(1,920)
Cash flows from investing activities		
Purchase of investment properties	(206)	(1,454)
Purchase of property, plant and equipment	(688)	(2,706)
Aquisition of Blosscrown Investments Ltd, net of cash acquired (Note 4.1)	7,833	-
Payments for acquisition of ZPIF (Note 4.2)	(7,500)	-
Disposal of subsidiaries, net of cash disposed (Note 4.3)	38,635	(17)
Purchase of intangible assets	(5)	-
Issuance of loans receivable	(11,330)	(17,898)
Proceeds from sale of investment properties, property, plant and equipment	4,468	1,995
Repayment of loans receivable	1,128	43,242
Disposal of Iskra project, net of cash disposed	(2)	-
Interest received	147	23
Net cash from investing activities	32,480	23,185
Cash flows from financing activities		
Proceeds from borrowings and bonds	189,322	231,047
Repayment of borrowings and bonds	(145,337)	(234,322)
Dividends paid to shareholders	-	(14,687)
Purchase of non-controlling interest (Note 17)	(691)	-
Repayment of finance lease obligation	(139)	(226)
Net cash flows from / (used in) financing activities	43,155	(18,188)
Effect of exchange rate changes on cash and cash equivalents	13,270	(312)
Net increase in cash and cash equivalents	91,827	2,765
Cash and cash equivalents at the beginning of the year	54,111	51,346
Cash and cash equivalents at the end of the year	145,938	54,111

* The amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2015 and reflect adjustments described in Note 3.3.

The accompanying notes on pages 6 to 54 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2016***(in thousands of US dollars)*

	Issued capital	Share premium	Capital contribution reserve	Business combination reserve	Accumulated losses	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
As at 31 December 2014*	6,787	671,712	(22,478)	112,009	(110,007)	(310,724)	347,299	12,898	360,197
Profit for the year	-	-	-	-	21,210	-	21,210	253	21,463
Other comprehensive income	-	-	-	-	-	(80,964)	(80,964)	(2,875)	(83,839)
Total comprehensive income	-	-	-	-	21,210	(80,964)	(59,754)	(2,622)	(62,376)
Dividends paid to shareholders	-	-	-	-	(14,687)	-	(14,687)	-	(14,687)
Capital distributions to shareholder (Note 17)	-	-	(220)	-	-	-	(220)	-	(220)
Capital contributions from shareholder (Note 17)	-	-	692	-	-	-	692	-	692
As at 31 December 2015*	6,787	671,712	(22,006)	112,009	(103,484)	(391,688)	273,330	10,276	283,606
Profit for the year	-	-	-	-	37,420	-	37,420	181	37,601
Other comprehensive income	-	-	-	-	-	53,006	53,006	1,857	54,863
Total comprehensive income	-	-	-	-	37,420	53,006	90,426	2,038	92,464
Non-controlling interest arising on business combination (Note 4.2)	-	-	-	-	-	-	-	10	10
Acquisition of non-controlling interest in ZPIF (Note 17)	-	-	-	-	(681)	-	(681)	(10)	(691)
Acquisition of non-controlling interest in ZHSPK (Note 17)	-	-	-	-	(529)	-	(529)	(2,007)	(2,536)
Disposal of subsidiaries (Note 17)	-	-	-	-	-	-	-	176	176
Acquisition of Blosscrown Investments Ltd (Note 4.1)	-	-	(46,946)	-	-	-	(46,946)	-	(46,946)
Capital distributions to shareholder (Note 17)	-	-	(1,813)	-	-	-	(1,813)	-	(1,813)
Capital contributions from shareholder (Note 17)	-	-	509	-	-	-	509	-	509
Other	-	-	-	-	(15)	-	(15)	-	(15)
As at 31 December 2016	6,787	671,712	(70,256)	112,009	(67,289)	(338,682)	314,281	10,483	324,764

* The amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2015 and reflect adjustments described in Note 3.3.

The accompanying notes on pages 6 to 54 form an integral part of these consolidated financial statements.

*(in thousands of US dollars)***1. Corporate information**

The consolidated financial statements of RSG International Ltd (hereinafter "the Company") and its subsidiaries (hereinafter, "RSG International" or "the Group") for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 11 April 2017.

RSG International Ltd was incorporated in the Republic of Cyprus on 24 March 2008 as a limited liability company under the Republic of Cyprus Companies Law, Cap.113. The Company's registered office is located at 16, Spyrou Kyprianou Avenue, H&S Centre, First Floor, Office 104, 6018, Larnaca, Republic of Cyprus. In December 2015, the parent company of the Group has changed from Kortros Holding Ltd to Kortros LLC.

Mr. Victor Vekselberg is the ultimate controlling party of the Group.

Principal activities

Principal activities of the Group include investments in and construction of real estate properties for their further sale, rent or holding for capital appreciation purposes and construction of business and residential property in Moscow, Yekaterinburg, Yaroslavl, Krasnodar, Perm and other regions in the Russian Federation. The Group specializes on projects of Complex Territories Development (CTD), which envisage the creation of balanced city-building solution (residential properties, infrastructure, work, social sphere, leisure) and its implementation on the specific land plot.

The consolidated financial statements include the financial statements of RSG International Ltd and its subsidiaries. The major subsidiaries are listed in the following table:

<i>No</i>	<i>Entity</i>	<i>Country of incor- poration</i>	<i>Activity</i>	<i>Effective ownership interest at 31 December 2016</i>	<i>Effective ownership interest at 31 December 2015</i>
1	JSC "Regional Construction Group-Akademicheskoe" (before "Renova-StroyGroup-Akademicheskoe")	Russia	Real estate development	97%	97%
2	LLC "ElitComplex"	Russia	Real estate development	100%	100%
3	LLC "EnkoInvest"	Russia	Real estate development	100%	100%
4	LLC "Stroitel"	Russia	Real estate development	100%	100%
5	LLC "Perkhushkovo-Development"	Russia	Real estate development	100%	100%
6	LLC "Petrovskiy Alliance"	Russia	Real estate development	100%	100%
7	LLC "MegaStroy Invest"	Russia	Real estate development	100%	100%
8	LLC "Contractor Relations Center"	Russia	Management services	100%	100%
9	LLC "RSG-Finance"	Russia	Financial services	100%	100%
10	LLC "RSG-Business Service"	Russia	Management services	100%	100%

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. For the year ended 31 December 2016, the Group reported operating cash inflow of \$2,922 and net profit of \$37,601. For the year ended 31 December 2015, the Group reported operating cash outflow of \$1,920 and net profit of \$21,463.

In the next twelve months, the Group expects to finance its operating and investing activities primarily with cash generated from operations, through attraction of additional borrowings from banks and renegotiating of its short-term loans. Management believes that necessary financing will be available to the Group and it will be able to pay debts as they become due.

Based on the current market conditions the Board and the management have reasonable expectations that the Group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparation of these consolidated financial statements.

(in thousands of US dollars)

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

These consolidated financial statements of the Group for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except when otherwise stated further.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated. At 31 December 2016, the principal rate of exchange used for translating foreign currency balances on the Group's consolidated statement of financial position was 60.6569 RUR/US dollars (USD) (2015: 72.8827 RUR/USD). The average rate used for translation of the Group's consolidated statement of operations for the first half-year of 2016 was 70.2583 RUR/USD and for the second half-year of 2016 was 63.8465 RUR/USD (2015: 57.3968 RUR/USD and 64.4609 RUR/USD, respectively). Whenever a significant individual transaction can be attributed to a specific date, it was translated into the US dollars using the rate of the date of the transaction.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company's, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated.

To correspond to the 2016 presentation of the Statement of Financial Position and Income Statement, certain reclassifications were made for 2015 comparative amounts. Therefore, certain amounts shown for the comparative period do not correspond to the financial statements for the years ended 31 December 2015 and 2014.

2.2 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 disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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:

Acquisition of companies

The Group exercises judgment in deciding whether the acquisition of companies is an acquisition of asset or a business combination, considering relevant factors, analyzing transaction terms and applying the definitions of asset and business combination stated in respective IFRS.

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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Litigations

The Group exercises judgement in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 25.

Fair value of investment properties

Investment property is stated at fair value as at the reporting date. Gains or losses arising from changes in the fair values are included in the statement of operations in the year in which they arise.

The fair value of investment properties is determined based on valuations performed by an accredited independent valuer. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Estimates to determine the fair value are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions. The Group performed selection of the method of valuation considering the following methods:

- Income approach / discounted cash flow (DCF) method;
- Market approach.

In the course of this analysis the advantages and disadvantages of each applied technique were considered in relationship to the property being appraised and to the market. In the end the final conclusions on the Investment property market and fair values are made based on all relevant factors and best judgment.

Techniques used for valuing investment property

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property.

The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Market approach includes collection of data of sales and offers of properties similar to evaluated properties. The prices for similar properties are then adjusted for significant parameters which differentiate the properties. After adjustment prices may be used for determining market prices of the evaluated properties. The market approach takes into account the supply and demand parity on the market, as well as other external factors.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates.

Such estimates are based on valuation techniques which require considerable judgment in forecasting future cash flows and developing other assumptions.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's 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 group of assets. Where the carrying amount of an asset 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 assessment of the time value of money and the risks specific to the assets. In 2016, an impairment loss of \$7,238 was identified and recognized by the Group. In 2015, no impairment loss was identified.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a CGU involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in used and, ultimately, the amount of any impairment.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis as of 31 December, or whenever indicators of impairment are present. This requires an estimation of the value in use of the CGU 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 CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group assesses whether the indicators of goodwill impairment exist as of 31 December each year.

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

Current taxes

The Group recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses in the period in which the determination is made. More details are provided in Note 25.

Allowances

Inventory is stated at the lower of cost and net realizable value (NRV) (Note 13). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Group's sales and marketing managers. Estimates of NRV of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period. As of 31 December 2016 and 2015, allowance for net realizable value in respect of inventories amounted to \$34,892 and \$35,409, respectively.

The Group makes allowances for doubtful accounts receivable and loans receivable to account for estimated losses resulting from inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Allowances for doubtful accounts in respect of accounts receivables and prepayments had been made in the amount of \$11,752 and \$1,093 as of 31 December 2016, and \$540 and \$541 as of December 2015, respectively (Note 14, Note 15).

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Deferred income tax assets

Deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the statement of operations.

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The non-controlling interest (formerly known as minority interest) is measured at the proportionate share of the acquiree's identifiable net assets.

Consideration transferred in a business combination is initially measured at its fair value calculated as the sum of the acquisition-date fair values of the assets transferred and the liabilities incurred to the former owners of the acquired company and the equity interest issued.

Goodwill is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of acquiree's acquisition-date identifiable assets acquired and liabilities assumed. If the sum above is lower than the fair value of acquiree's acquisition-date identifiable assets acquired and liabilities assumed, the difference is recognized in profit or loss as gain on a bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group determines whether goodwill is impaired at least on an annual basis. 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 combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of the CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Acquisition of non-controlling interest

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity in business combination reserve and attributed to the owners of the parent.

Business combinations under common control

Business combinations involving transactions with parties under common control with the Group are accounted for using the pooling of interests method.

The assets and liabilities of entities transferred under common control are recorded at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in the financial statements. Any difference between the total carrying values of the acquired net assets, and the consideration paid is accounted for within equity in the consolidated financial statements. Assets, liabilities, income and expenses of the acquired entity are included in the consolidated financial statements from the date of the business combination.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.4 Investments in associates

The Group's investments in its associates are accounted for using the equity method and are initially recognized at cost, including goodwill. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in other comprehensive income is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Foreign currency translation

The companies of the Group which are incorporated in the Republic of Cyprus and in other jurisdictions (primarily in the Russian Federation) maintain their accounting records in Russian rubles ("rubles") and prepare their statutory financial statements in accordance with IFRS as adopted by the European Union (EU) and the requirements of the Republic of Cyprus Companies Law, Cap.113 and in accordance with the Regulations on Accounting and Reporting of the Russian Federation, respectively. These financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with the Group's accounting policies. The principal adjustments relate to use of fair values and income taxes.

The functional currency of the Group's subsidiaries is the Russian ruble. The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

As at the reporting date, the assets and liabilities of the subsidiaries with functional currency other than the US dollar are translated into the presentation currency at the rate of exchange effective at the statement of financial position date, and their income and expenses for the first half of the year are translated at the weighted average exchange rate for the first six months, and statements of operations for the second half of the year are translated at the weighted average exchange rate for the second half of the year. The exchange differences arising on translation into presentation currency are taken to a separate component of equity through other comprehensive income. On disposal of a subsidiary with a functional currency other than the US dollar, the cumulative amount recognized in equity relating to that particular subsidiary is recognized in the statement of operations.

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate effective at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are recorded in the functional currency using the exchange rates at the date when the fair value was determined.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. All resulting differences are taken to the statement of operations as foreign exchange gains/losses.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.6 Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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

*(in thousands of US dollars)***2. Significant accounting policies (continued)****2.6 Financial instruments (continued)**

Purchases or sales of financial assets that require delivery of assets within a period established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR). 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 income in the statement of operations. The losses arising from impairment are recognised in the statement of operations in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statement of operations in finance costs and removed from the available-for-sale reserve.

The Group evaluates whether its ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management intends significantly change to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity investments is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statement of operations.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

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 recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of operations.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations – is removed from other comprehensive income and recognized in the statement of operations.

Impairment losses on equity investments are not reversed through the statement of operations; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of operations.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of operations, the impairment loss is reversed through the statement of operations.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, debts securities issued, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of operations.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

*(in thousands of US dollars)***2. Significant accounting policies (continued)****2.6 Financial instruments (continued)***Loans, borrowings and debt securities issued*

After initial recognition, interest bearing loans and borrowings, debt securities issued are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of operations when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized 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 amortization is included in finance cost in the statement of operations.

iv) Offsetting of financial instruments

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

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

2.7 Cash and cash equivalents

Cash in the statement of financial position comprises cash at banks and in hand, short-term deposits with an original maturity of three months or less.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Completed property and property under development

Completed property and property under development is property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Such property is stated at the lower of cost or net realizable value. Cost is based on the individual cost method and includes the following:

- freehold and leasehold rights for land;
- planning and design costs, costs of site preparation;
- cost of raw materials;
- labor costs and amounts paid to subcontractors for construction;
- construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- borrowing costs.

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

Inventories are classified as current when the following conditions are met: i) construction is ongoing; ii) the completion and the sale of the asset is anticipated to occur in near future and as part of the normal construction period, which is longer than one calendar year, and no significant delays in construction are expected. Otherwise, the inventory is classified as non-current.

*(in thousands of US dollars)***2. Significant accounting policies (continued)****2.8 Inventories (continued)**

The operating cycle of a construction project may exceed 12 months. Inventories are classified as current, even if within 12 months after the reporting date their sale is not expected.

The Group concludes investment and co-investment contracts for construction of residential premises with local authorities. These investment contracts could impose on the Group the requirements to construct and transfer to the local authorities:

- certain social objects, such as schools and kindergartens, after the completion;
- certain infrastructure objects (water, heat and electricity supply systems, roads and etc.) related to constructing residential districts.

If such costs are directly attributable to buildings under construction, then costs for the construction of abovementioned objects are included in total costs of construction of buildings, to which these investment rights are related.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the statement of operations.

An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	30 to 50
Fitting and fixtures	30
Office equipment and others	3 to 10
Leasehold improvements	Lower of useful life and operating lease term

An item of property, plant and equipment and any its significant part initially recognized is derecognized 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 statement of operations when the asset is derecognized.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired.

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

2.10 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 amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of operations in the year in which the expenditure is incurred.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.10 Intangible assets (continued)

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is either recognized in the statement of operations in the expense category consistent with the function of the intangible asset or is capitalized in cost of inventories being under construction.

Investment contracts with local authorities for the rights of development and construction may require the Group to provide apartments or other constructed real estate free of charge. Such an exchange of assets may represent barter transaction (Note 2.19). Development rights are amortized on a straight-line basis proportionally to stage of completion of the related project. Leasehold rights are amortized using straight-line method over duration of rent agreement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. When there is an indication that the carrying value of these assets may be impaired, the test for impairment is performed immediately. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 recognized in the statement of operations when the asset is derecognized.

2.11 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 CGU's 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

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

2.12 Investment property

Investment property comprises completed property and property under construction (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 to earn rentals or for capital appreciation or both, or the land with currently undetermined future use.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.12 Investment property (continued)

A property interest that is held by a Group under an operating lease is classified and accounted for as an investment property if the property meets the definition of an investment property and the Group uses the fair value model for the asset recognised.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains and losses arising from changes in the fair values of investment properties are included in the statement of operations in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of operations in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party. 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.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the statement of operations.

Interest costs on borrowings to finance the construction and development of investment property are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2.13 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the statement of financial position method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.14 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*(in thousands of US dollars)***2. Significant accounting policies (continued)****2.14 Leases (continued)***Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of operations.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of operations on a straight line basis over the lease term.

Operating lease contracts – Group as lessor

The Group has entered into commercial property leases on its 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.

Operating lease payments from lessees are recognized as revenue in the statement of operations on a straight line basis over the lease term.

2.15 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

2.16 Equity*Issued capital and share premium*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as a share premium.

Capital contribution reserve

Capital contribution reserve includes the effect of discounting of loans received from and granted to the entities under common control under the terms different from the market terms, and distribution to and contribution from shareholders.

Business combination reserve

Business combination reserve represents:

- The difference between net assets of the acquired subsidiaries and consideration paid at the acquisition, that have been accounted for using the pooling of interests method, and also the effect of changes in group structure including the reorganization of parent company.
- The differences between the carrying values of non-controlling interest in entities acquired and the consideration given for such increase.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.16 Equity (continued)

Foreign currency translation reserve

Foreign currency translation reserve reflects the effect of translation of accounts from functional currency to presentation currency.

Dividends

Dividends are recognized as a liability and deducted from equity at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the financial statements are authorized for issue.

2.17 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventory are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from rendering of services is recognized in the period the services are provided based on the total contract value and the percentage completed. The percentage of completion is determined by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date to the total costs incurred and the estimated costs to complete.

Other revenue includes the following types: revenue from heating, water, electricity and energy sales, agency fees, which is recognized in the period when the service is actually rendered.

Rental income receivable under operating leases is recognized on a straight-line basis over the term of the lease, except for contingent rental income which is recognized 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.

Premiums received to terminate leases are recognized in the statement of operations when they arise.

2.18 Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of operations.

2.19 Exchange transactions

The Group enters into investment agreements to construct buildings, where a certain number of apartments and/or commercial area should be given away to the local authorities (as well as certain infrastructure facilities should be constructed) in exchange for development rights. This exchange is regarded as a transaction that generates revenue. When the fair value of developments rights received can be measured reliably the revenue is measured at the fair value of the developments rights, adjusted for any cash or cash equivalents transferred. When the fair value of developments rights received cannot be measured reliably the revenue is measured at the fair value of real estate properties given up, adjusted for any cash or cash equivalents transferred.

2.20 Employee benefits

State pension scheme

In the normal course of business the Group contributes to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. Mandatory contributions to the governmental pension scheme are expensed when incurred. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

*(in thousands of US dollars)***2. Significant accounting policies (continued)****2.21 Classification of assets and liabilities**

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, except for the Inventory and advances received from customers, which are classified as current if the Company expects to realise them or intends to settle them in its normal operating cycle, which may exceed 12 months. All other assets and liabilities are classified as non-current.

3. Changes in accounting policies and disclosures**3.1 New and amended standards and interpretations**

During the current year the Group applied certain new and revised International Financial Reporting Standards (IFRS) and amendments adopted by the EU, which are relevant to its operations and effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group.

The following new standards and amendments became effective as of 1 January 2016 as adopted by the EU:

- ▶ Annual improvements to IFRSs 2010-2012 cycle.
- ▶ Amendments to IAS 19: *Defined Benefit Plans: Employee Contributions*.
- ▶ Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*.
- ▶ Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*.
- ▶ Amendments to IAS 27: *Equity Method in Separate Financial Statements*.
- ▶ Annual improvements 2012-2014 cycle.
- ▶ Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*.
- ▶ Amendments to IAS 1 *Disclosure Initiative*.

This adoption did not have a material effect on the accounting policies of the Group and its financial statements.

3.2 Standards, interpretations and amendments to published standards that are issued but not yet effective

Up to the date of approval of the financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted, as follows:

Issued by the IASB and adopted by the European Union

- ▶ IFRS 9 *Financial Instruments: Classification and Measurement* (tentatively effective for annual periods beginning on or after 1 January 2018).
- ▶ IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018).
- ▶ Amendments to IAS 16 and IAS 41: *Bearer Plants* (issued on 30 June 2014).

Issued by the IASB but not yet adopted by the European Union

- ▶ IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016 but the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard).
- ▶ Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017).
- ▶ IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019).
- ▶ Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date is postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting).

*(in thousands of US dollars)***3. Changes in accounting policies and disclosures (continued)****3.2 Standards, interpretations and amendments to published standards that are issued but not yet effective (continued)**

- ▶ Amendments to IAS 7: *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017).
- ▶ Clarifications to IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018).
- ▶ Amendments to IFRS 2: *Classification and Measurement of Share based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018).
- ▶ Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2018).
- ▶ Annual improvements to IFRS standards 2014-2016 cycle (effective for annual periods beginning on or after 1 January 2017 and 2018).
- ▶ IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018).
- ▶ Amendments to IAS 40: *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018).

The Group is currently assessing the potential effect of the above standards and amendments on its consolidation financial statements when they become effective.

3.3 Correction of errors in comparative information

In the process of preparation of consolidated financial statements for the year ended 31 December 2016, the Group changed the approach to the moment of transfer of the land plots from Investment property to Inventories with the view of development and further sale and corrected certain errors related to the prior periods.

Change in approach and correction of errors were made by the retrospective restatement of comparative information as of 31 December 2015. All the other changes in the comparative information present the result of reclassifications for presentation purposes only and do have no any material effect on the financial statements.

The Group believes that the new approach and changed presentation provide reliable and more relevant information for the users of its financial statements and ensures better comparability with its peers and it is likely that new presentation will continue in to the future. The nature and effect of changes and corrections are presented below:

- a. The Group transferred the land plots from investment property to inventory on the basis of inclusion of land plots into the Construction plan and start of activities in accordance with Construction plan. Previously, land plots were transferred to inventory when significant design and construction costs are incurred. As a result, inventory increased by \$13,115 and \$11,494, investment property decreased by \$12,205 and \$11,568 as of 31 December 2015 and 31 December 2014, respectively, with net effect on Group's profit of \$902 for the twelve months ended 31 December 2015.
- b. Correction of error related to the improper foreign exchange rate used for the translation to presentation currency of the amounts of income recognized on derecognition of social liability of one of it's subsidiaries in 2014 and disposal one of the Group's companies in 2012. As a result of correction, accumulated losses increased and translation difference reserves decreased within Equity for \$1,283 both as at 31 December 2015 and 31 December 2014.
- c. Correction of error related to the incorrect revaluation of advance issued for the inventory represented by a non-monetary asset with the recognition of respective foreign exchange profit/(loss) in the income statement during 2013-2015. As a result, current prepayments decreased by \$1,098 and \$ 836, translation difference reserves changed by \$555 and \$297 as of 31 December 2015 and 31 December 2014, respectively, foreign exchange loss increased for the twelve months ended 31 December 2015 by \$523.
- d. In 2015 and 2014, certain mathematical mistakes have occurred in the calculations of foreign currency translation reserve, which resulted in overstatement of currency translation reserve and overstatement of non-controlling interest as of 31 December 2015 for \$3,341 and \$ 2,378, and understatement of other operational expenses for the twelve months ended 31 December 2015 by \$960. For 2014, such corrections resulted in change of foreign currency translation reserve and decrease of non-controlling interest as of 31 December 2014 for \$1,840.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)**3.3 Correction of errors in comparative information (continued)**

The comparative figures included in the previously issued consolidated financial statements of the Group for the year ended 31 December 2015, authorized for issue on 1 April 2016, and for the year ended 31 December 2014, authorized for issue on 30 April 2015, have been restated as follows:

<i>Statement of operations lines</i>	<i>Twelve months ended 31 December 2015 (as previously reported)</i>	<i>(a)</i>	<i>(b, c, d)</i>	<i>Twelve months ended 31 December 2015 (as restated)</i>
Cost of sales	(282,813)	286	-	(282,527)
Other operating expenses	(34,287)	548	(960)	(34,699)
Change in fair value of investment property	(10,174)	294	-	(9,880)
Foreign exchange loss	(1,133)	-	(523)	(1,656)
Income tax expense	(13,323)	(226)	-	(13,549)
Net profit for the year	22,044	902	(1,483)	21,463
<i>Statement of comprehensive income lines</i>	<i>Twelve months ended 31 December 2015 (as previously reported)</i>	<i>(a)</i>	<i>(b, c, d)</i>	<i>Twelve months ended 31 December 2015 (as restated)</i>
Effect of translation to presentation currency – attributable to non-controlling interest	(2,337)	-	(538)	(2,875)
Effect of translation to presentation currency – attributable to equity holders of the parent	(82,607)	(116)	1,759	(80,964)
Total comprehensive income/(loss), net of tax				
Attributable to:				
Equity holders of the parent	(60,816)	(116)	1,178	(59,754)
Non-controlling interest	(2,084)	-	(538)	(2,622)
<i>Statement of financial position lines</i>	<i>31 December 2015 (as previously reported)</i>	<i>(a)</i>	<i>(b, c, d)</i>	<i>31 December 2015 (as restated)</i>
Investment properties	195,294	(12,205)	-	183,089
Inventories – current assets	312,749	13,115	-	325,864
Prepayments	14,577	-	(1,098)	13,479
Accumulated losses	(100,428)	843	(3,899)	(103,484)
Foreign currency translation reserve	(396,751)	(116)	5,179	(391,688)
Total non-controlling interest	12,654	-	(2,378)	10,276
Deferred income tax liabilities	44,072	183	-	44,255

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)**3.3 Correction of errors in comparative information (continued)**

<i>Statement of financial position lines</i>	<i>31 December 2014 (as previously reported)</i>	<i>(a)</i>	<i>(b, c, d)</i>	<i>31 December 2014 (as restated)</i>
Investment properties	295,549	(11,568)	–	283,981
Inventories – current assets	347,603	11,494	–	359,097
Prepayments	13,382	–	(836)	12,546
Accumulated losses	(107,532)	(59)	(2,416)	(110,007)
Foreign currency translation reserve	(314,144)	–	3,420	(310,724)
Total non-controlling interest	14,738	–	(1,840)	12,898
Deferred income tax liabilities	59,264	(15)	–	59,249

<i>Statement of cash flows</i>	<i>Twelve months ended 31 December 2015 (as previously reported)</i>	<i>(a)</i>	<i>(b, c, d)</i>	<i>Twelve months ended 31 December 2015 (as restated)</i>
Profit before tax	35,367	1,128	(1,483)	35,012
Foreign exchange (gains)/losses	1,133	–	523	1,656
Change in fair value of investment properties	(10,174)	294	–	(9,880)
Write-down of inventory to net realizable value	(12,020)	548	–	(11,472)
Decrease/(increase) in inventories	(71,970)	(803)	–	(72,773)
Purchase of investment properties	(1,972)	518	–	(1,454)
Effect of exchange rate changes on cash and cash equivalents	(1,272)	–	960	(312)

4. Business combinations, acquisitions and disposals**4.1 Acquisition of Blosscrown Investments Ltd.**

On 10 October 2016, the Group acquired 100% of ordinary shares of Blosscrown Investments Ltd. (Cyprus) and its 100% subsidiary LLC Top Project (the Russian Federation) from company under common control of the ultimate beneficiary of the Group for the purchase consideration of \$0.001. The net assets of mentioned companies at the date of acquisition were negative and amounted to \$46,946. The business combination under common control was accounted for under the pooling of interests method from the date of business combination. Difference between the carrying value of net assets acquired and consideration paid amounted to \$46,946 and was recognized within equity.

	<i>10 October 2016</i>
Property, plant and equipment	126,388
Inventories	776
Trade and other receivables	626
Taxes recoverable	304
Prepayments	85
Loans receivable	12
Cash	7,833
Loans payable	(177,154)
Trade and other payables	(3,668)
Taxes payable	(1,760)
Advances received	(388)
Net assets	(46,946)
Purchase consideration paid	0.001
Difference between the carrying value of net assets acquired and consideration transferred (Note 17)	(46,946)

At the date of business combination the gross amount of trade receivables amounted to \$698, net of impairment loss \$72.

*(in thousands of US dollars)***4. Business combinations, acquisitions and disposals (continued)****4.2 Acquisition ZPIF "RSG-Strategy Novoe Zilye"**

In the first half of 2016, the Group acquired 92.4% in investment fund ZPIF "RSG-Strategy Novoe Zilye" for cash consideration of \$7,555. Financial position and the financial results of operations of ZPIF "RSG-Strategy Novoe Zilye" were included in the Group's consolidated financial statements starting from 14 March 2016.

Before acquisition, ZPIF "RSG-Strategy Novoe Zilye" has given an advance to the Group under a real estate purchase agreement and as at the date of acquisition, the Group has recognized a non-financial liability in the carrying amount of \$6,075. Fair value of this liability at acquisition date was \$7,435.

Settlement of pre-existing relationships resulted in loss in the amount of \$1,360 recognized in the Group's consolidated statement of profit or loss.

The fair values of the identifiable assets and liabilities and contingent liabilities of the acquired subsidiary were finalised and recognised within 12 months from the date of the business combination.

The overall effect of the business combination effected during the year ended 31 December 2016 is summarised as follows:

	<i>Fair values at the date of acquisition</i>
Cash	55
Trade and other receivables and prepayments	110
Financial assets	896
Trade and other payables	(931)
Net assets	130
Non-controlling interest	(10)
Total net assets less NCI	120

Purchase consideration comprised of settlement of preexisting relationships.

Cash consideration	7,555
Less settlement of pre-existing relationships	(7,435)
Total consideration	120

No goodwill arose as a result of this transaction.

Analysis of cash flows on acquisition is as follows:

Cash consideration	7,555
Less cash acquired	(55)
Net cash flow on acquisition	7,500

From the dates of acquisition newly acquired subsidiary contributed \$70 to the net profit of the Group for the year ended 31 December 2016.

4.3 Disposal of LLC Top Project

On 29 December 2016, the Group sold to a third party 100% share of the authorized and issued shares of LLC Top Project. The Group and the Buyer agreed to the following:

- Consideration payable by the Buyer comprised cash of \$41,209 plus working capital adjustment of \$1,734.
- The Group is obliged to transfer \$4,451 to Charity Fund on behalf of the Buyer.

*(in thousands of US dollars)***4. Business combinations, acquisitions and disposals (continued)****4.3 Disposal of LLC Top Project (continued)**

The table below sets the carrying values of LLC Top Project assets and liabilities at the date of disposal:

	29 December 2016
Property, plant and equipment	129,115
Inventories	671
Trade and other receivables	201
Taxes receivable	185
Prepayments	160
Cash	2,574
Loans payable	(177,875)
Trade and other payables	(1,016)
Taxes payable	(273)
Advances received	(454)
Net assets	(46,712)
Total disposal consideration, including	38,492
- Cash consideration	41,209
- Plus adjustment for working capital	1,734
- Payable to Charity Fund	(4,451)
Income on disposal of subsidiary	85,204

4.4 Disposal of other insignificant subsidiaries

In December 2015, the Group transferred to a company under common control 100% share of the authorized and issued capital of its 18 subsidiaries. The transaction was classified as distribution of funds to shareholders.

The table below sets the carrying values of disposed entities' assets and liabilities at the dates of disposal:

	At the dates of disposal
Property, plant and equipment	1
Trade and other receivables	10,725
Other taxes receivable	14
Income tax receivable	2
Cash	17
Trade and other payables	(10,537)
Loans and borrowings	(2)
Net assets	220
Purchase consideration	0.002
Distribution of funds to shareholders (Note 17)	220

5. Investment in associates

The Group accounts for investments in associates under the equity method.

CJSC UK Akademichesky

The Group has 25% + 1 share in CJSC UK Akademichesky, acquired in 2011. The entity provides services to citizens of Academic city (Russian Federation, Ural Region).

*(in thousands of US dollars)***5. Investment in associates (continued)****CJSC UK Akademichesky (continued)**

The effect on financial statements of movement of investment in the associate was as follows:

	CJSC UK Akademichesky	
	For the years ended 31 December	
	2016	2015
Opening balance as at 1 January	435	354
Share of profit for the year	(25)	187
Translation difference	77	(106)
Closing balance at 31 December	<u>487</u>	<u>435</u>

6. Income and expenses**6.1 Revenues**

Revenues include the following:

	For the years ended 31 December	
	2016	2015
Sales of residential property	283,538	210,258
Sales of uncompleted projects	7,947	31,226
Sales of other projects	3,422	126,598
Rental income	933	843
Other revenue	11,307	8,981
Total	<u>307,147</u>	<u>377,906</u>

In 2016, the Group sold land plots in Akademicheskiy district and recognized revenue from sale of uncompleted projects in the amount of \$7,947 and related expenses as cost of sales in the amount of \$4,964 (Note 6.3) in the consolidated statement of operations.

In the second half of 2016, the Group sold a children center in Sochi that was constructed by a Group company to a third party and recognized a revenue related to sale of other projects in the amount of \$3,422 and related expenses as cost of sales in the amount of \$3,540 (Note 6.3). The Group considers real estate investments and sales as its principal activity and, consequently, recognizes such income as revenue.

In the first half of 2015, the Group purchased hotel complex from the company under common control – LLC Top Project – and sold it to an unrelated party. The Group had previously provided the hotel complex development services under an agency agreement to the seller during the construction period. The Group considers real estate investments and sales as its principal activity and, consequently, recognizes such income as revenue in the amount of \$126,598 and related expenses as cost of sales in the amount of \$117,744 (Note 6.3) in the consolidated statement of operations.

In June 2015, the Group sold inventories (construction in progress) of Aristovo project. Sale of inventories was arranged through the sale of 100% share in the capital of its subsidiary LLC Zolotoy Vozrast. The only significant asset of the subsidiary was the right to lease the land, classified as construction in progress. Total assets of the subsidiary at the date of disposal amounted to \$15,165 (including assets under construction in the amount of \$14,628) and liabilities amounted to \$10,293 (including social obligations in the amount of \$2,189 and payable to the Buyer in the amount of \$6,567, which originated before the sale of 100% share in the capital and represents the loan given by the Buyer to LLC Zolotoy Vozrast to repay intragroup loans). Since the substance of the transaction was the sale of the Group's assets under construction and transfer of the related social obligations, this transaction was presented as the sale of inventories for the total amount of \$26,299. Cost of the disposed inventories was reduced by the amount of the related social obligations.

Other revenue is mainly represented by sales of heating energy and electricity in the amount of \$5,778 (2015: \$6,034).

The Group concluded investment contracts with local authorities for development and construction of residential districts. According to these investment contracts the Group is required to provide apartments to a number of individuals free of charge in exchange of the development rights. Such exchange of assets represents barter transaction. Transfer of the apartments to individuals constitutes sale, and deferred revenue is recognized at the estimated fair value of the apartments to be transferred as of the date of gaining of the development rights. For the years ended 31 December 2016 and 2015, the Group transferred apartments to individuals and recognized revenues in the amount of \$3,551 and \$177 respectively.

*(in thousands of US dollars)***6. Income and expenses (continued)****6.2 Employee benefits, depreciation and amortization**

Staff costs, depreciation of property, plant and equipment and amortization of intangible assets included in cost of sales, general and administrative expenses and other expenses amounted to the following:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Staff costs, including social security taxes	8,604	8,380
- Payroll costs and other staff costs	6,908	6,818
- Social security taxes	1,696	1,562
Depreciation and amortisation	1,494	1,064

Weighted average annual number of employees for the year ended 31 December 2016 was 491 (2015: 557).

6.3 Cost of sales

Cost of sales includes the following:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Cost of sales of residential property (Note 13)	214,874	143,722
Cost of sales of uncompleted projects	4,964	13,824
Cost of sales of other projects	3,540	117,744
Cost of sales for rent	47	135
Other costs	9,300	7,102
Total	232,725	282,527

For the year ended 31 December 2016, the Group recognized disposal of a children center in Sochi in cost of sales of other projects in the amount \$3,540.

For the year ended 31 December 2015, the Group recognized cost of sold hotel complex in Sochi and uncompleted project Aristovo as cost of sales in the amount of \$117,744 and \$11,439, respectively.

6.4 General and administrative expenses

The structure of general and administrative expenses was the following:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Staff costs, including social security taxes	4,378	4,741
Consulting	3,775	3,323
Rent	1,110	1,058
Security	989	914
Taxes other than income tax	824	581
Statutory audit	588	495
Utilities services	468	326
Depreciation of property, plant and equipment	463	596
Representation expenses	384	685
Repair and maintenance	374	466
Other professional services	290	316
Telecommunication	286	366
Materials	285	200
Other assurance services	221	320
Amortization of intangible assets	25	89
Tax services	18	203
Other	839	970
Total	15,317	15,649

*(in thousands of US dollars)***6. Income and expenses (continued)****6.5 Finance income and expenses**

The components of finance income were as follows:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Interest on bank accounts and deposits	6,247	7,325
Interest on loans receivable	1,307	1,370
Income on accounts payable discounting	577	1,449
Income on unwinding of discount on receivables	155	342
Total	8,286	10,486

The components of finance expenses were as follows:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Interest expense	18,661	11,518
Other financial expenses	1,459	1,604
Total	20,120	13,122

6.6 Other operating income and expenses

The components of other operating income were as follows:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Penalty fees income	1,487	2,902
Gain on sale of Iskra project (Note 15)	534	–
Derecognition of accounts payable	58	526
Decrease in legal provisions	15	–
Other income	676	538
Total	2,770	3,966

The components of other operating expenses were as follows:

	<i>For the years ended 31 December</i>	
	<i>2016</i>	<i>2015</i>
Commercial expenses	18,343	9,950
Impairment loss recognized on trade and other receivables, prepayments (Note 14, 15)	11,010	145
Impairment of property plant and equipment (Note 8)	7,238	–
Write off of projects Preobrazhensky and Rozhdestvenskaya naberezhnaya (Note 13)	7,742	–
Charity	7,342	5,125
Write-down of inventories to net realizable value (Note 13)	3,474	11,472
Rent and maintenance of completed real estate property	2,497	1,021
Other taxes (excluding income tax)	930	3,095
Write-off of irrecoverable accounts receivable	438	390
Bank services	313	211
Loss on sale of property plant and equipment	95	1,273
Legal provision	–	15
Other expenses	1,924	2,002
Total	61,346	34,699

*(in thousands of US dollars)***7. Income tax****Corporate tax**

The Group's income was subject to tax at the following tax rates:

	2016	2015
The Russian Federation (ordinary rate)	20.00%	20.00%
The Russian Federation (special tax regime area – The Perm Territory)	15.50%	15.50%
The Republic of Cyprus	12.50%	12.50%
Belize, BVI	0%	0%

Major components of income tax expense for the years ended 31 December 2016 and 2015, were as follows:

	<i>For the years ended 31 December</i>	
	2016	2015
Income tax expense – current	16,284	13,677
Tax risks provision accrued/(reversed)	6,110	(92)
Income tax for previous years	1	123
Deferred tax benefit – origination and reversal of temporary differences, net	(2,524)	(159)
Income tax expense reported in the consolidated statement of operations	19,871	13,549

The major part of income taxes is paid in the Russian Federation.

A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended 31 December is as follows:

	<i>For the years ended 31 December</i>	
	2016	2015
Profit before income tax	57,472	35,012
The profit of subsidiaries taxable at income tax rate:		
20%	7,560	55,614
15.5%	–	391
12.5%	49,912	(1,443)
0%	–	(19,550)
At the Russian statutory income tax rate of 20%	(11,494)	(7,002)
Effect of income exempt from tax (i)	11,153	81
Effect of non-deductible expenses	(6,688)	(3,161)
Effect of the difference in tax rates in countries other than the Russian Federation	3,705	(3,639)
Unrecognised deferred tax asset on loss carry forward	(10,437)	80
Tax risks provision	(6,110)	92
Income tax expense reported in the consolidated income statement of operations	(19,871)	(13,549)

- (i) Included gain on disposal of qualifying titles (including shares, bonds, debentures etc.) that are exempt from Cyprus income tax.

*(in thousands of US dollars)***7. Income tax (continued)****Corporate tax (continued)**

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2016, were as follows:

	31 December 2016	Change recognised in income statement	Disposal of subsidiaries	Translation difference	31 December 2015
Deferred income tax assets					
Property, plant and equipment, intangible assets	2,654	1,083	-	295	1,276
Investment property	748	(405)	-	137	1,016
Inventory	4,893	389	-	882	3,622
Accounts receivable and loans receivable	790	244	(226)	134	638
Accounts payable and accruals	1,508	(76)	(3)	231	1,356
Investments	-	(2,381)	-	385	1,996
Tax losses carried forward	5,081	(3,113)	(110)	1,345	6,959
Other	134	192	(384)	42	284
Total deferred tax assets	15,808	(4,067)	(723)	3,451	17,147
Deferred income tax liabilities					
Property, plant and equipment, intangible assets	(171)	33	-	(34)	(170)
Investment property	(37,632)	7,294	236	(6,971)	(38,191)
Inventory	(14,999)	(3,451)	26	(2,188)	(9,386)
Accounts receivable and loans receivable	(5)	92	-	(14)	(83)
Accounts payable and accruals	(3,008)	996	-	(682)	(3,322)
Investments	(97)	1,627	-	(407)	(1,317)
Other	(2)	-	-	(1)	(1)
Total deferred tax liabilities	(55,914)	6,591	262	(10,297)	(52,470)
Total deferred tax assets/ (liability)	(40,106)	2,524	(461)	(6,846)	(35,323)
Represented by the following					
Net deferred income tax asset	6,258	(4,768)	-	2,094	8,932
Net deferred income tax liability	(46,364)	7,292	(461)	(8,940)	(44,255)

*(in thousands of US dollars)***7. Income tax (continued)****Corporate tax (continued)**

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2015 were as follows:

	31 December 2015	Change recognised in income statement	Disposal of subsidiaries	Translation difference	31 December 2014
Deferred income tax assets					
Property, plant and equipment, intangible assets	1,276	310	-	(339)	1,305
Investment property	1,016	250	-	(267)	1,033
Inventory	3,622	1,859	-	(1,076)	2,839
Accounts receivable and loans receivable	638	(1,139)	-	(209)	1,986
Accounts payable and accruals	1,356	(3,528)	(348)	(541)	5,773
Investments	1,996	(94)	-	(604)	2,694
Tax losses carried forward	6,959	1,004	(469)	(1,955)	8,379
Other	284	89	(1)	(115)	311
Total deferred tax assets	17,147	(1,249)	(818)	(5,106)	24,320
Deferred income tax liabilities					
Property, plant and equipment, intangible assets	(170)	95	-	71	(336)
Investment property	(38,191)	4,408	-	11,600	(54,199)
Inventory	(9,386)	(2,344)	1,722	2,682	(11,446)
Accounts receivable and loans receivable	(83)	(18)	-	42	(107)
Accounts payable and accruals	(3,322)	(962)	-	826	(3,186)
Investments	(1,317)	179	-	583	(2,079)
Other	(1)	50	-	2	(53)
Total deferred tax liabilities	(52,470)	1,408	1,722	15,806	(71,406)
Total deferred tax assets/ (liability)	(35,323)	159	904	10,700	(47,086)
Represented by the following					
Net deferred income tax asset	8,932	(3,234)	800	(797)	12,163
Net deferred income tax liability	(44,255)	3,393	104	11,497	(59,249)

As at 31 December 2016, the balance of tax losses carried forward which is available for offset against future taxable profits, but for which deferred asset is recognised in the statement of financial position amounts to \$25,405 (2015: \$34,794). Deferred tax asset on unused tax losses in the amount of \$21,321 (31 December 2015: \$11,719) have not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Losses, which are available for offset against future taxable profits of the companies in which the losses arose, will expire during 2017-2021. For assessment of deferred tax assets reliability where the utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences management of the Group used business plans prepared by the management of specific projects.

Taxable differences of \$50,546 and \$47,371 as of 31 December 2016 and 31 December 2015, respectively, were associated with investments in subsidiaries. At 31 December 2016 and 2015, the Group did not recognise any deferred tax liability in respect of these temporary differences, as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There is no withholding tax on payments of dividends by the Company to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividends to shareholders that are individual tax resident in Cyprus are subject to a 17% Special Contribution for the Defence Fund of the Republic, i.e. "Defence Tax" (generally on a withholding basis).

(in thousands of US dollars)

8. Property, plant and equipment

Property, plant and equipment consisted of the following:

	<i>Land</i>	<i>Buildings</i>	<i>Fittings and fixtures</i>	<i>Leasehold improve- ments and other equipment</i>	<i>Assets under construc- tion</i>	<i>Total</i>
Cost						
Balance as at 31 December 2014	11	5,362	8,476	4,135	2,677	20,661
Additions	–	–	–	189	3,378	3,567
Disposals	–	(1,425)	–	(1,171)	(179)	(2,775)
Transfers	–	851	1,899	623	(3,373)	–
Transfer from inventory (Note 13)	23	–	–	–	609	632
Translation difference	(7)	(1,135)	(2,307)	(879)	(749)	(5,077)
Balance as at 31 December 2015	27	3,653	8,068	2,897	2,363	17,008
Additions	–	–	–	298	921	1,219
Disposals	–	(410)	(22)	(723)	(8)	(1,163)
Purchase of Blosscrown Investments	–	123,569	–	2,819	–	126,388
Disposal of Top Project	–	(126,879)	–	(2,890)	–	(129,769)
Transfers	–	–	2,545	122	(2,667)	–
Transfer from inventory (Note 13)	–	62	(404)	–	18	(324)
Translation difference	5	4,028	1,939	639	211	6,822
Balance as at 31 December 2016	32	4,023	12,126	3,162	838	20,181
Accumulated depreciation and impairment						
Balance as at 31 December 2014	–	(457)	(678)	(1,851)	–	(2,986)
Depreciation charge	–	(171)	(309)	(548)	–	(1,028)
Disposals	–	360	–	268	–	628
Translation difference	–	(4)	297	465	–	758
Balance as at 31 December 2015	–	(272)	(690)	(1,666)	–	(2,628)
Depreciation charge	–	(586)	(329)	(655)	–	(1,570)
Disposals	–	65	6	520	–	591
Impairment	–	–	(7,238)	–	–	(7,238)
Disposal of Top Project	–	418	–	236	–	654
Transfer from inventory (Note 13)	–	–	42	–	–	42
Translation difference	–	(69)	(169)	(356)	–	(594)
Balance as at 31 December 2016	–	(444)	(8,378)	(1,921)	–	(10,743)
Net book value						
At 31 December 2015	27	3,381	7,378	1,231	2,363	14,380
At 31 December 2016	32	3,579	3,748	1,241	838	9,438

Fittings and fixtures represent electricity networks used by the Group to provide public facility services, buildings represent offices for employees.

Additions to construction in progress for the year ended 31 December 2016 in the total amount of \$921 (31 December 2015: \$3,378) were represented by construction costs incurred on continued construction of utilities networks in amount of \$770.

Interest (net of the interest reimbursed by the governmental bodies), capitalized as part of additions to property, plant and equipment, amounted to \$409 in 2016 (2015: \$422). The weighted average rate for the borrowings which were obtained for construction purposes (either in part, or in full) for the year ended 31 December 2016 equals 9.55% (2015: 13.22%).

(in thousands of US dollars)

8. Property, plant and equipment (continued)

In December 2016, the Group assessed whether there is any indication that its property, plant and equipment may be impaired. The Group used external and internal sources of information and the following impairment indicators were identified for one of the cash generating units (Engineering Infrastructure):

- significant changes with an adverse effect on the entity have taken place during 2016, and are to be expected in the near future, in the market and economic environment in which the entity operates.

These indicators triggered the Group to perform an impairment test for cash generating unit Engineering Infrastructure, which assets are represented by electricity networks in Ekaterinburg. In order to determine the recoverable amount the Group used a pre-tax discount rate of 15.34%.

As a result, the Group determined value in use of \$3,781 which was below the carrying amount as at 31 December 2016, and therefore the Group recognized an impairment loss of \$7,238 for electricity networks of Engineering Infrastructure segment.

On 10 October 2016, the Group purchased the hotel complex in Sochi (LLC Top Project) which consisted of buildings in the amount of \$123,569 and other equipments of \$2,819. On 29 December 2016 the hotel complex was sold, the Group recognized depreciation charge of \$654.

9. Intangible assets other than goodwill

Intangible assets other than goodwill consisted of the following:

	<i>Leasehold rights (land)</i>	<i>Development rights</i>	<i>Other</i>	<i>Total</i>
Cost				
Balance as at 31 December 2014	1,857	22,899	200	24,956
Additions	–	–	–	–
Disposals	–	(427)	–	(427)
Translation difference	(424)	(5,174)	(46)	(5,644)
Balance as at 31 December 2015	1,433	17,298	154	18,885
Additions	–	22,776	5	22,781
Disposals	(1,025)	(17,663)	–	(18,688)
Translation difference	235	3,755	33	4,023
Balance as at 31 December 2016	643	26,166	192	27,001
Accumulated amortization and impairment				
Balance as at 31 December 2014	(1,594)	(12,534)	(36)	(14,164)
Amortization charge	(110)	(5,522)	(30)	(5,662)
Disposals	–	–	–	–
Translation difference	383	3,702	13	4,098
Balance as at 31 December 2015	(1,321)	(14,354)	(53)	(15,728)
Amortization charge	(78)	(3,065)	(28)	(3,171)
Disposals	978	17,663	–	18,641
Translation difference	(222)	(2,416)	(14)	(2,652)
Balance as at 31 December 2016	(643)	(2,172)	(95)	(2,910)
Net book value as at 31 December 2015	112	2,944	101	3,157
Net book value as at 31 December 2016	–	23,994	97	24,091

In 2015, leasehold rights (land) were mainly represented by contractual rights for rent of land in Krasnodar and Moscow region (Sherbinka, Shelkovo, and Ivanteevka). During 2016 contractual rights for rent of land in Krasnodar and Sherbinka were written-off due to decision not to develop project Rozhdestvenskaya naberezhnaya in Krasnodar and completion of construction works in Sherbinka.

The Group concluded investment contracts with local authorities for construction of residential districts. As a result, the Group obtained development rights of \$22,776 in 2016 (mostly related to Moscow region projects) and recognized them as intangible assets in exchange for obligation to transfer residential premises to certain number of individuals or constructed social objects to administration free of charge. Carrying value of recognized development rights was determined as market value of residential premises / social objects to be transferred. Disposal of development rights in 2016 relates to completion of construction works in Ivanteevka.

*(in thousands of US dollars)***9. Intangible assets other than goodwill (continued)**

Amortization of development and leasehold rights in amount of \$3,066 was included in the carrying amount of constructed property as at 31 December 2016 (2015 \$5,573).

10. Investment properties

Investment property consisted of the following:

	2016	2015
Opening balance as at 1 January	195,294	295,549
Opening balance adjustment	(12,205)	(11,568)
Opening balance at 1 January adjusted	183,089	283,981
Additions (acquisitions)	–	–
Additions (subsequent expenditure)	744	2,111
Transfer to inventory (Note 13)	(7,837)	(33,254)
Disposal	(6,859)	(978)
Translation difference	35,315	(58,891)
Decrease in fair value of investment property	(15,814)	(9,880)
Closing balance at 31 December – Investment property	184,448	183,089
Closing balance at 31 December – Investment property – held for sale	4,190	–

Interest capitalized as part of subsequent expenditure to investment properties amounted to \$538 and \$658 for the years ended 31 December 2016 and 2015, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in 2016 year was 1.82% (2015: 4.20%). The Group had income from rent of investment property of \$225 and direct operating expenses arising from investment property that generated rental income of \$90 in 2016 (2015: \$313 and \$176 respectively).

During the years ended 31 December 2016 and 2015, the fair value of investment property was primarily determined based on valuation performed by an accredited independent appraiser, who holds recognised and relevant professional qualification and who has had recent experience in the locations and category of the investment property being valued.

The fair value of investment property was determined using the income approach and/or the sales comparison approach. The income approach is based on the assumption that the value of the property is conditional on the future benefits that the property will bring the owner within a certain period of time, and the risks associated with receiving the benefits. The sales comparison approach is based on comparative analysis of actual sales and/or asking prices for comparable properties.

Investment property fair values relate to the Level 3 of fair value hierarchy. Fair value hierarchy disclosures for investment properties have been provided in Note 26.

Description of valuation techniques used and key inputs to valuation on investment properties

The Group used income and comparable approaches for valuation of investment property.

Below are the major projects of the Group and description of valuation techniques for each as at 31 December 2016 and 2015. The investment properties are represented by the land plots for RSG-Akademicheskoe project.

RSG-Akademicheskoe project had the fair value of investment property of \$176,300 and 93.46% share in total consolidated value of investment property as of December 2016 (2015: \$162,295 and 88.64% respectively).

(in thousands of US dollars)

10. Investment properties (continued)**Description of valuation techniques used and key inputs to valuation on investment properties (continued)**

Unobservable inputs for project RSG-Academicheskoe were as follows:

<i>Description of assessment</i>	<i>Methods</i>	<i>Unobservable inputs for project</i>	<i>Range (weighted average)</i>	<i>Sensitivity of the fair value to the inputs</i>
Land plots	Income approach, discounted cash flow method	Annual change of sales price for land plot	10.00%	Decrease of sales price growth to 5% and 10% would decrease fair value by \$5,902 and \$11,788
		Discount rate for investor's cashflows	19.00%	Increase of investor's cashflows discount rate to 1%, 2% and 3% would decrease fair value by \$5,968, \$11,755 and \$17,376
		Discount rate for developer's cashflows	25.00%	Increase of developer's discount rate to 1%, 2% and 3% would decrease fair value by \$6,726, \$13,008 and \$18,860
		Annual change of cost of construction	2.00%	Increase of cost of construction to 2% and 4% would decrease fair value by \$7,897 and \$15,959
		Annual change of sales price for residential areas	3.6%, 1.8%, 4.3%, 0.6%	Annual change of sales price for residential areas by 0%, 1.8%, 4.3%, 0.6% would decrease fair value by \$21,927
		Sales volume of land plot	0.95	Decrease of sales volume of land plot to 0.05, 0.15 and 0.25 land plot per annum would decrease fair value by \$8,573, \$25,850 and \$45,139. Increase of sales volume of land plot to 0.05 land plot per annum would increase fair value by \$9,298

Significant increases (decreases) in price adjustments to the comparable plots and discount rate in isolation would result in a significantly higher (lower) fair value of the properties.

11. Taxes recoverable

Other taxes recoverable are mainly represented by value added tax balances. Value added tax ("VAT") represents amounts payable or paid to suppliers that are recoverable from the tax authorities via offset against VAT payable to the tax authorities for the Group's revenue or direct cash receipts from the tax authorities. This VAT relates to investment property, general and administrative and other expenses, while VAT related to residential property is capitalized.

The management of the Group periodically reviews the recoverability of the balance of input value added tax and believes that VAT recoverable balance of \$5,585 as at 31 December 2016 (2015: \$6,884) is fully recoverable during 12 months following the respective reporting date.

VAT recoverable balance was denominated in rubles as of 31 December 2016 and 2015.

12. Interest-bearing loans receivable

Current and non-current interest-bearing loans receivable were as follows as of:

	<i>Effective interest rate 2016</i>	<i>31 December 2016</i>	<i>Effective interest rate 2015</i>	<i>31 December 2015</i>
Non-current loans receivable				
Loans receivable from third parties	10.00-14.63%	301	5.91-11.17%	4,989
Loans receivable from related parties (Note 24)	14.63%	10,420	9.25-14.64%	2,737
Total non-current loans receivable		10,721		7,726
Current loans receivable				
Loans receivable from third parties	11.17-14.63%	7,953	13.94-14.64%	1,074
Total current loans receivable		7,953		1,074

*(in thousands of US dollars)***12. Interest-bearing loans receivable (continued)**

Loans receivable were denominated in currencies as presented below:

	<i>Effective interest rate 2016</i>	<i>31 December 2016</i>	<i>Effective interest rate 2015</i>	<i>31 December 2015</i>
RUR	10.00-14.63%	18,674	5.91-14.64%	6,371
USD	—	—	9.25%	2,429

13. Inventories

Inventories consisted of the following as of:

	<i>31 December 2016</i>	<i>31 December 2015</i>
Inventory properties under construction		
- at cost	254,159	236,360
- at net realizable value	7,422	10,197
Constructed inventory properties		
- at cost	88,513	74,819
- at net realizable value	16,369	14,613
Other inventory, at cost	2,304	6,834
Total	368,767	342,823
Including:		
- current	346,277	325,864
- non-current	22,490	16,959

As of 31 December 2016 and 2015, the cumulative write-down to net realizable value in respect of inventories amounted to \$34,892 and \$35,409, respectively.

A summary of movement in inventories is set out in the table below:

	<i>31 December 2016</i>	<i>31 December 2015</i>
Opening balance at 1 January	329,708	347,835
Opening balance adjustment	13,115	11,494
Opening balance at 1 January adjusted	342,823	359,329
Construction costs incurred	143,308	187,927
Purchase of other projects from related party (Note 24)	—	109,983
Purchase of assets (project Zhivopisnaya)	33,997	—
Purchase of assets (project Perhushkovo)	—	9,354
Purchase of assets (Top project)	776	—
Other costs incurred	4,387	3,777
Interest capitalized	14,591	16,396
Transfer to property, plant and equipment (Note 8)	282	(632)
Transfer from investment property (Note 10)	7,837	33,254
Write-down to net realizable value (Note 6.6)	(3,474)	(11,472)
Disposals (recognized in cost of sales of residential property) (Note 6.3)	(214,874)	(143,722)
Disposals (recognized in cost of other sales and other expenses)	(7,658)	(125,653)
Disposal of uncompleted projects	(8,371)	(17,014)
Disposal of Top project	(671)	—
Disposal of Iskra project	(1,379)	—
Write-off of projects Preobrazhenskiy and Rozhdestvenskaya naberezhnaya	(7,742)	—
Translation difference	64,935	(78,704)
Closing balance at 31 December	368,767	342,823

In 2016, the Group sold land plots in Akademicheskiy district, disposal has been recognized in cost of sales of uncompleted projects in the amount of \$4,964 (at historical exchange rates (Note 6.3)).

*(in thousands of US dollars)***13. Inventories (continued)**

In 2016, the Group acquired non-controlling stake in the Group's subsidiary ZHSPK Akademicheskoy-Ug from a third party (the seller). As a result, the Group transferred lease rights to a land plot and construction in progress of \$3,408 to this third party (Note 17).

In 2015, the Group acquired from related party the hotel in the amount of \$102,210 (at historical exchange rate), night club in the amount of \$4,131 and youth animation centre in amount of \$3,642. Disposals recognized in cost of other sales and other expenses represent mainly the cost of the hotel complex sold to a third party in the amount of \$117,744 (at historical exchange rate) and night club in the amount of \$4,145 donated to a third party (Note 6.3, 6.6).

On 20 August 2015, the Group purchased investment in project located in Perhushkovo area of Moscow region. The cost of purchased asset amounted to \$9,354.

In 2015, the Group sold Aristovo project, which main asset was represented by an uncompleted construction property with carrying amount of \$14,628 (Note 6.1).

14. Trade and other receivables

Trade and other receivables consisted of the following as at:

	31 December 2016	31 December 2015
Trade accounts receivable due from third parties	5,634	3,022
Trade accounts receivable due from related parties (Note 24)	659	498
Other accounts receivable due from third parties	25,497	10,671
Reimbursement asset under guarantee with related party (Note 24)	–	20,599
Other accounts receivable due from related parties (Note 24)	2,845	3,544
Impairment loss for on trade and other receivables	(11,752)	(540)
	22,883	37,794

Trade and other receivables were mainly denominated in Russian rubles.

Trade and other receivables were denominated in currencies as presented below:

	31 December 2016	31 December 2015
RUR	14,429	37,398
USD	8,454	302
EUR	–	94
	22,883	37,794

See below for the movements in the provision for impairment of receivables:

	2016	2015
At 1 January	540	622
Charge for the year (Note 6.6)	10,400	129
Acquisition of subsidiary (Note 4.1)	72	–
Utilised	(10)	–
Translation differences	750	(211)
At 31 December	11,752	540

(in thousands of US dollars)

15. Prepayments

Prepayments made consisted of the following as at:

	31 December 2016	31 December 2015
Prepayments made to third parties	13,011	5,491
Prepayments made to third party for investment project	41	6,902
Prepayments made to related parties (Note 24)	4,228	1,627
Impairment loss	(1,093)	(541)
	16,187	13,479

As of 31 December 2015, the Group recognized \$6,902 of prepayments made to third party for investment project "Iskra", which Group was planning to undertake in the future. In October 2016, the Group sold this investment project to a third party. The sale of the investment project was arranged through the sale of 100% stake in Armio Ltd. with its indirect partly owned subsidiaries that constituted a group of assets and liabilities, rather than business as defined in IFRS 3. Total sale consideration of \$9,254 is to be settled in cash in October 2017. As a result of the transaction, the Group recognised gain on sale of Iskra project of \$564 (Note 6.6). However, as of 31 December 2016, the management assessed the recoverability of consideration receivable and recognised impairment loss of \$5,002.

See below for the movements in the provision for impairment of prepayments:

	2016	2015
At 1 January	541	692
Charge for the year (Note 6.6)	610	16
Utilised	(194)	—
Translation differences	136	(167)
At 31 December	1,093	541

16. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	31 December 2016	31 December 2015
Cash	134,461	37,332
Cash in JSC "Metcombank" (Note 24)	—	15,383
Short-term deposits	11,477	1,396
	145,938	54,111

Cash and cash equivalents were mainly denominated in Russian rubles.

17. Equity

Total number of outstanding shares is comprised of the following:

<i>Authorized, issued and fully paid</i>	<i>Number of shares</i>	<i>Share capital</i>
At 31 December 2015	6,786,205	6,787
At 31 December 2016	6,786,205	6,787

In October 2016, the Group purchased 100% share of the authorized and issued capital of LLC Top Project from an entity under common control and recorded as capital contribution reserve in the consolidated statement of changes in equity of the Group and amounted to \$46,946 for the 2016 (Note 4).

*(in thousands of US dollars)***17. Equity (continued)**

In October 2016, the Group sold 100% stake in the Group's subsidiary Armio Trading Ltd. (Note 15) with its indirect partly owned subsidiaries Daygotar Investments Ltd and LLC Iskra Development for cash consideration of \$9,254 (at the exchange rate at 31 December 2016). As a result of this transaction, disposal of non-controlling interest related to these subsidiaries with carrying amount of \$176 was recognized in the consolidated statement of changes in equity of the Group.

On 31 December 2015, the maximum amount of guarantee provided by the Group in relation to the loan received by the entity under common control (Note 24) was reduced to 1.5 billion rubles (\$20,599). This was recognized as contribution from shareholders in the amount of \$162 for 2015. As at 31 December 2016, the provision for the guarantee was reversed due acquisition of LLC Top Project as at 10 October 2016. This was recognized as contribution from shareholders in the amount of \$193 for 2016.

In August 2016, the Group acquired 7.6% stake in the Group's subsidiary LLC ZPIF "RSG-Strategy Novoe Zilye" for cash consideration of \$691. The carrying value of non-controlling interest acquired amounted to \$10. The excess of consideration paid over the carrying value of non-controlling interest acquired amounting to \$681 was debited to accumulated losses.

In 2016, a third party non-controlling owner of ZHSPK Akademichesky-Ug sold its share in the company to the Group. The fair value of total consideration paid for the acquired non-controlling interest amounted to \$2,536 (transfer of lease rights in the amount of \$3,408 less liabilities of the Group to this party in the amount of \$872). The carrying value of non-controlling interest acquired amounted to \$2,007. The excess of consideration paid over the carrying value of non-controlling interest acquired amounting to \$529 was debited to accumulated losses.

In December 2015, the Group transferred to an entity under common control 100% share of the authorized and issued capital of its subsidiaries (Note 4). Carrying values of identifiable assets and liabilities of mentioned companies at the date of disposal amounting to \$220 was classified as distribution of funds to shareholders as at 31 December 2015.

In July 2015, the Group declared dividends to shareholders in the amount of \$14,687. Dividend per share for 2015: 2.16 dollars. No dividends were declared in 2016.

In 2015, the Group received two loans from an entity under common control maturing at 31 December 2017. These loans were recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of receipt. The loan payable outstanding amounted to \$2,605 at 31 December 2016 (31 December 2015: \$1,880). The difference between the fair value and the nominal value of the loan on initial recognition is recorded as contribution to parent in the consolidated statement of changes in equity of the Group and amounted to \$530 for the 2015.

In previous periods, the Group provided a loan in US dollars to an entity under common control maturing at 31 December 2017. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue, the difference between the fair value and the nominal value of the loan was recorded as distribution to shareholders. The loan receivable outstanding amounted to \$2,429 at 31 December 2015 and was fully repaid in 2016. Net effect of this repayment was reflected as contribution from shareholders in the consolidated statement of changes in equity of the Group and amounted to \$316 for the twelve months ended 31 December 2016.

In April 2016, the Group provided loan to an entity under common control maturing at 30 April 2019. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of receipt. The loan receivable outstanding amounted to \$4,283 at 31 December 2016. The difference between the fair value and the nominal value of the loan on initial recognition is recorded as distribution to shareholders in the consolidated statement of changes in equity of the Group and amounted to \$1,813 for the twelve months ended 31 December 2016.

18. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings as at 31 December 2016 and 31 December 2015:

<i>Non-current interest-bearing loans and borrowings</i>	<i>Effective interest rate 2016</i>	<i>31 December 2016</i>	<i>Unused borrowing facilities</i>	<i>Effective interest rate 2015</i>	<i>31 December 2015</i>	<i>Unused borrowing facilities</i>
Loans and borrowings from third parties	10.53-16.53%	51,891	129,342	13.94-16.3%	23,427	56,676
Loans and borrowings from related parties	13.94%	109	15	13.94-15.4%	10,045	12
Total non-current interest-bearing loans and borrowings		52,000	129,357		33,472	56,688

(in thousands of US dollars)

(in thousands of US dollars)

18. Interest-bearing loans and borrowings (continued)

<i>Current portion of non-current interest-bearing loans and borrowings</i>	<i>Effective interest rate 2016</i>	<i>31 December 2016</i>	<i>Unused borrowing facilities</i>	<i>Effective interest rate 2015</i>	<i>31 December 2015</i>	<i>Unused borrowing facilities</i>
Loans and borrowings from third parties	16.11-16.53%	39,259	–	15.84-16%	28,762	–
Total current portion of non-current interest-bearing loans and borrowings		39,259	–		28,762	–
<i>Current interest-bearing loans and borrowings</i>	<i>Effective interest rate 2016</i>	<i>31 December 2016</i>	<i>Unused borrowing facilities</i>	<i>Effective interest rate 2015</i>	<i>31 December 2015</i>	<i>Unused borrowing facilities</i>
Loans and borrowings from third parties	10.53-16.3%	7,379	23,081	10.8-17.9%	23,731	83,258
Loans and borrowings from related parties	13.94%	2,605	–	14.7-15.4%	225	9,604
Total current interest-bearing loans and borrowings		9,984	23,081		23,956	92,862
Total interest-bearing loans and borrowings		101,243	152,438		86,190	149,550

All borrowings bear fixed interest rate as at 31 December 2016 and 31 December 2015 and were mainly denominated in Russian rubles.

Compliance with covenants

According to loan agreements terms, the Group and its subsidiaries are required to comply with debt covenants. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. The Group complied with financial ratios covenants and obtained waivers prior to 31 December 2016, in instances of not matching procedural/operating covenants.

Pledged assets

As at 31 December 2016, investment property with the carrying value of \$139,832 (2015: \$120,176), inventory with the carrying value of \$161,249 (2015: \$127,857) and property plant and equipment with the carrying value of \$50 at 31 December 2016 (2015: \$19) are pledged as a collateral for loans and borrowings.

As at 31 December 2016, the Group had pledged shares of the following subsidiaries:

<i>Lender</i>	<i>Subsidiary pledged</i>	<i>Pledged share of subsidiary</i>	<i>Share of pledged subsidiary in the total consolidated assets of the Group</i>	<i>Share of pledged subsidiary in the total consolidated revenue of the Group</i>	<i>Net assets of pledged subsidiary (including intra-group balances)</i>
PAO "Sberbank of Russia"	JSC Regional Construction Group-Akademicheskoe	97%	41.53%	35.07%	308,996
PJSC "St. Petersburg Bank"	LLC Petrovskiy Aliance	100%	6.84%	–	30,451
PAO "Sberbank of Russia"	LLC PSP Express	100%	1.31%	4.02%	1,937
AKB Absolut Bank	JSC Kortros-Perm	100%	4.58%	0.09%	3,410
PAO "Sberbank of Russia"	LLC Stroitel	100%	4.42%	–	669
					345,463

*(in thousands of US dollars)***18. Interest-bearing loans and borrowings (continued)****Pledged assets (continued)**

As at 31 December 2015, the Group had pledged shares of the following subsidiaries:

<i>Lender</i>	<i>Subsidiary pledged</i>	<i>Pledged share of subsidiary</i>	<i>Share of pledged subsidiary in the total consolidated assets of the Group</i>	<i>Share of pledged subsidiary in the total consolidated revenue of the Group</i>	<i>Net assets of pledged subsidiary (including intra-group balances)</i>
PAO "Sberbank of Russia"	JSC Regional Construction Group-Akademicheskoe	100%	49.21%	29.85%	254,613
PAO "Sberbank of Russia"	LLC ElitComplex	100%	6.61%	15.02%	43,076
PAO "BANK Uralsib"	LLC Enko Invest	100%	9.65%	10.40%	34,034
PAO "Sberbank of Russia"	LLC Story Region Holding	100%	3.08%	–	2,810
PAO "Sberbank of Russia"	LLC PSP Express	100%	2.53%	4.30%	2,428
AKB Absolut Bank	JSC Kortros-Perm	100%	1.11%	–	1,474
					338,435

19. Debt securities issued

On 14 October 2015, LLC "RSG-Finance" settled its obligations in the amount of 2.5 billion rubles in relation of the second issue of debt securities according to the repayment schedule.

On 22 November 2013, LLC "RSG-Finance" issued the third tranche of 3 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, with maturity on 18 November 2016, bore interest rate of 12.75% per annum and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost.

Debt issuance costs paid by the Group in relation to the arrangement of third issue of bonds in the amount of \$439 represented agent commission and arrangement costs. In October 2016, LLC "RSG-Finance" announced extension of the maturity date of the third tranche by 9 years with a new maturity date on 11 November 2025. Since 23 November 2016 the interest rate was changed and amounted to 13.5% p.a. On 24 November 2016, debt securities of the third tranche in the total number of 1,484,022 were partially repurchased on the market at their par value of 1,000 ruble each for \$24,466.

On 22 September 2015, LLC "RSG-Finance" issued the fourth tranche of 3 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 21 March 2017, bear interest rate of 15.00% per annum, payable semi-annually, and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost. Debt issuance costs paid by the Group in relation to the arrangement of fourth issue of bonds in the amount of \$67 represented agent commission and arrangement costs.

On 24 June 2016, LLC "RSG-Finance" issued the fifth tranche of 1 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 18 June 2021, bear interest rate of 14.50% per annum, payable semi-annually, and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost. Debt issuance costs paid by the Group in relation to the arrangement of fifth issue of bonds in the amount of \$72 represented agent commission and arrangement costs.

On 25 August 2016, LLC "RSG-Finance" issued the sixth tranche of 3 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 22 February 2018, bear interest rate of 14.50% per annum, payable semi-annually, and were guaranteed by the Company. The liabilities under the bonds were accounted for at amortised cost. Debt issuance costs paid by the Group in relation to the arrangement of sixth issue of bonds in the amount of \$405 represented agent commission and arrangement costs.

As of 31 December 2016 debt securities of the fourth issue in the total number 429,263 amounted to \$7,077 were purchased by the Group's subsidiary (31 December 2015: 1,491,000 and \$20,458).

*(in thousands of US dollars)***19. Debt securities issued (continued)**

As of 31 December 2016 debt securities of the fifth issue in the total number 477,660 amounted to \$7,875 were purchased by the Group's subsidiary.

As of 31 December 2016 debt securities of the six issue in the total number 70,001 amounted to \$1,154 were purchased by the Group's subsidiary.

20. Trade and other payables

Trade and other payables consisted of the following as of:

	31 December 2016	31 December 2015
Trade accounts payable due to third parties	23,357	19,406
Trade accounts payable due to related parties (Note 24)	835	198
Other accounts payable due to third parties	9,691	5,031
Other accounts payable due to related parties (Note 24)	158	179
Bonus accrual	5,347	4,322
Unused vacation accrual	1,361	925
Total	40,749	30,061

Trade and other receivables were mainly denominated in Russian rubles.

21. Other liabilities

Other liabilities consisted of the following as of:

	31 December 2016	31 December 2015
Non-current non-financial liabilities		
Liabilities for purchasing of land lease rights and assets	10,015	16,761
Liabilities for investment contracts with local authorities	20,349	-
Non-current financial liabilities		
Liabilities for purchasing of land lease rights	-	3,468
Liabilities for purchasing of land lease rights, related parties (Note 24)	1,415	-
Liabilities for permitted use of land alteration	1,114	-
Liabilities for purchasing of land lease rights and assets	71	504
Lease obligations	192	59
Other non-current liabilities	-	190
	33,156	20,982
Current non-financial liabilities		
Liabilities for investment contracts with local authorities	4,385	6,018
Current financial liabilities		
Liabilities associated with sale of subsidiary (Note 4.3)	4,451	-
Liabilities for purchasing of land lease rights	-	3,000
Liabilities for purchasing of land lease rights, related parties (Note 24)	2,909	-
Liabilities for permitted use of land alteration – current portion	728	-
Liabilities to finance social object construction	363	-
Liabilities for purchase of land lease rights and assets – current portion	350	394
Lease obligations – current portion	166	69
Other current liabilities	35	45
	13,387	9,526

*(in thousands of US dollars)***21. Other liabilities (continued)**

In 2013, the Group acquired Petrovskiy Alliance LLC representing purchase of land lease right. As of 31 December 2016, the Group had outstanding non-current liabilities in respect of this purchase represented by an obligation to transfer 20% of apartments after completion the construction in amount of \$nil (31 December 2015: \$8,427) and long term payable to Saint Petersburg Administration in amount of \$71 (31 December 2015: \$125), the short term payable represents the payable to Saint Petersburg Administration in the amount of \$100 (31 December 2015: \$77) accordingly.

In 2015, the Group acquired Perchushkovo Development LLC representing purchase of assets. As of 31 December 2015, the Group had outstanding non-current liabilities in respect of this purchase represented by an obligation to transfer 16% of constructed real estate property after completion the construction in amount of \$10,015 (31 December 2015: \$8,334) and long term payable to the seller in amount of \$nil (31 December 2015: \$379), the short term payable represents the payable to the seller in the amount of \$250 (31 December 2015: \$317).

In July 2012, the Group concluded agreement with a third party to acquire 100% stake of Zolotoy Vozrast LLC, by substance representing purchase of land lease right. Under this agreement the consideration is repayable in accordance with the schedule until 2018. Subsequently, in 2015, Zolotoy Vozrast LLC was sold to a third party (Note 6.1). As of 31 December 2016, the Group had outstanding accounts payable in respect of this purchase in the amount of \$4,324 (31 December 2015: \$6,468). In April 2016, the right to demand the financial liability for acquisition of Zolotoy Vozrast LLC was transferred to the related party, Renova Assets Ltd.

In 2016, the Group changed the permitted use of land to land for residential construction for the project 40 Let Oktyabrya (Moscow) and became payable to local authorities for this. The Group accrued a financial liability for \$1,842.

In 2016, the Group reported a financial liability to fund a fire station construction related to the project in Schelkovo (Moscow region) for \$363.

The Group concluded a number of investment contracts with local authorities for development and constructions of residential districts. According to these investment contracts, the Group is required to provide apartments to individuals or construct social objects and transfer them to local authorities free of charge. Current non-financial liabilities represent liabilities of the Group for provision of apartments and social objects under these investment contracts in amount of \$4,385 and \$6,018 as of 31 December 2016 and 31 December 2015, respectively. Non-current non-financial liability represents provision for construction of social objects under investment contract of Perchushkovo Development

LLC in the amount of \$20,349 and \$nil as of 31 December 2016 and 31 December 2015, respectively.

22. Advances from customers

At 31 December 2016 and 2015, advances received in the amount of \$112,932 and \$114,731, respectively, mainly related to advance payments received from individuals and legal entities for construction of residential property. The amount of advances received from related parties as at 31 December 2016 and 2015 was \$22 and \$165, respectively.

(in thousands of US dollars)

23. Provisions

Provisions consisted of the following:

	<i>Provisions for tax liability</i>	<i>Legal claims</i>	<i>Construction of social objects</i>	<i>Provision for recons- truction</i>	<i>Guarantee issued</i>	<i>Total</i>
At 31 December 2014	955	142	6,120	3,721	-	10,938
Accrued	-	147	23	-	-	170
Used amounts	-	(2)	(5,127)	(2,418)	-	(7,547)
Unused amounts reversed	-	(132)	(446)	(393)	-	(971)
Unwinding of discounting	-	-	46	279	-	325
Translation differences	(218)	(55)	(283)	(464)	-	(1,020)
Reclass to income tax payable	(737)	-	-	-	-	(737)
Provision under guarantee (Note 25)	-	-	-	-	20,599	20,599
At 31 December 2015	-	100	333	725	20,599	21,757
Accrued	-	61	-	-	-	61
Used amounts	-	(28)	(26)	(363)	-	(417)
Unused amounts reversed	-	(77)	(20)	(389)	-	(486)
Unwinding of discounting	-	-	46	-	-	46
Translation differences	-	27	66	27	769	889
Write-off provision under guarantee (Note 25)	-	-	-	-	(21,368)	(21,368)
At 31 December 2016	-	83	399	-	-	482

Provision for income tax liabilities was reclassified to income tax payable as of 31 December 2015 in the amount of \$737.

On 29 June 2012, the Group acquired 100% of ordinary shares of LLC Stroy Region Holding from third party. The Group is required to perform reconstruction works for the acquired assets. As of 31 December 2015, the Group recognized current provision in respect of reconstruction works in the amount of \$725. In the year 2016 reconstruction works were finished and provision for reconstruction amounted to \$nil.

24. Balances and transactions with related parties

Related parties may enter into transactions which unrelated parties might not enter into, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding on 31 December 2016 and 31 December 2015 are detailed below:

	<i>Loans receivable</i>	<i>Trade and other receivables</i>	<i>Advances issued</i>	<i>Cash and cash equivalents</i>	<i>Interest- bearing loans and borrowings</i>	<i>Trade and other payables, other liabilities</i>	<i>Advances received</i>
31 December 2016							
Associates	-	47	989	-	-	231	-
Entities under common control	10,420	3,457	3,239	-	2,714	5,086	22
Total	10,420	3,504	4,228	-	2,714	5,317	22

(in thousands of US dollars)

24. Balances and transactions with related parties (continued)

<i>31 December 2015</i>	<i>Loans receivable</i>	<i>Trade and other receivables</i>	<i>Advances issued</i>	<i>Cash and cash equivalents</i>	<i>Interest- bearing loans and borrowings</i>	<i>Trade and other payables, other liabilities</i>	<i>Advances received</i>
Associates	–	1	137	–	–	144	23
Entities under common control	2,737	24,640	1,490	15,383	10,270	233	142
Total	2,737	24,641	1,627	15,383	10,270	377	165

<i>For the year ended 31 December 2016</i>	<i>Revenue</i>	<i>Finance income</i>	<i>Costs</i>	<i>Finance costs</i>	<i>Other income/ (expenses)</i>	<i>Purchases</i>
Associates	183	–	324	–	(606)	–
Entities under common control	5,518	3,418	251	1,625	(41)	2,171
Total	5,701	3,418	575	1,625	(647)	2,171

<i>For the year ended 31 December 2015</i>	<i>Revenue</i>	<i>Finance income</i>	<i>Costs</i>	<i>Finance costs</i>	<i>Other income/ (expenses)</i>	<i>Purchases</i>
Associates	95	–	356	–	(275)	–
Entities under common control	5,653	6,757	443	2,772	1,988	109,983
Total	5,748	6,757	799	2,772	1,713	109,983

The balances with related parties as at 31 December 2016 and 2015, are unsecured and settlement occurs in cash. Loans and borrowings are interest bearing, while trade receivables, cash and advances granted are not interest bearing. The terms of the transactions are disclosed in other corresponding Notes. There have been no guarantees provided or received for any related party receivables or payables.

Compensation to key management personnel

Key management personnel include top managers of the Group and major subsidiaries.

Total compensation to key management personnel was included in general and administrative expenses in the consolidated statement of operations and consisted of short-term employee benefits:

	<i>31 December 2016</i>	<i>31 December 2015</i>
Salary	3,268	3,070
Performance bonuses	1,858	2,308
Other compensations	353	871
Social security taxes	169	193
Total	5,648	6,442

25. Contingencies, commitments and operating risks**Operating environment of the Group**

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 2016, the Russian economy continued to be negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble 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.

*(in thousands of US dollars)***25. Contingencies, commitments and operating risks (continued)****Taxation**

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods in the Russian Federation remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

Separately, changes in tax legislation which may have significant influence on tax consequences of the Group should be mentioned, including the following:

- New deoffshorization rules, which came into force starting 1 January 2015. In accordance with these rules the Russian tax authorities have right to challenge application of the double tax treaty benefits (beneficial ownership concept) and define foreign companies as the Russian tax residents if these companies are effectively managed from Russia. These amendments as well as the introduction of taxation of controlled foreign companies and the concept of taxation of capital gains from indirect sale of property-rich companies may have significant negative impact on interpretation of different transactions performed by the Group.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

The Group estimated that as of 31 December 2016 it had possible obligations from exposures to various tax risks primarily related to financing and investment arrangements of the Group's companies. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and its practical application in the Russian Federation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative.

Uncertainties in interpretation of applicable legislation and its practical application in Russian Federation may also lead to possible non-recoverability of certain tax assets. Russian members of our Group may be affected by this development of tax practice, which could have a significant effect on the Group's financial condition and results of operations.

Insurance policies

The Group holds insurance policies in relation to its assets, covering a number of cases such as accidents, fire, wrongful actions, force majeure, etc., as well as insurance policies covering vehicles and voluntary medical insurance of employees of the Group's entities.

Contractual commitments

The Group has signed a number of contracts for the construction works as of 31 December 2016. The Group had firm contractual commitments for the construction works for an approximate amount of \$133,175 (including VAT) as at 31 December 2016 (31 December 2015: \$59,614).

However, many of the contracts provide for payments stage-wise based on specifically agreed cost per stage. It is not practicable to measure the amount of these purchase commitments, though they constitute significant amount and concern most of the construction and investment projects of the Group.

Legal proceedings

The Group is involved in a number of legal proceedings. All legal proceedings which, individually or in aggregate, may have a significant effect on the Group's financial operations or financial position, have been accrued in these consolidated financial statements (Note 23).

The Group is also involved in legal proceedings with the total maximum possible risk estimated at \$177 as at 31 December 2016 (2015: \$156).

*(in thousands of US dollars)***25. Contingencies, commitments and operating risks (continued)****Guarantees**

In 2011, the entity under common control outside of the Group received loan facility from Bank for Development and Foreign Economic Affairs (Vnesheconombank). The loan matures in 2018. In connection with this loan, in April 2013 the Group provided guarantee with maximum amount of up to 2.4 billion rubles for the loan facility. Simultaneously with the conclusion of the guarantee, the Group received (as a beneficiary) a counter-guarantee, which indemnifies the Group of any possible negative cash outflows, which may occur under the guarantee agreement. The counter guarantee is issued by the parent company of the Group. The above-mentioned entity has significant assets, sources of income and cash flows sufficient to fulfill such an obligation.

Management of the Group concluded that as at 31 December 2015, it became probable that Vnesheconombank may execute the guarantee, therefore the Group recognized provision for the guarantee (Note 23) and corresponding receivable asset under the counter guarantee ("reimbursement asset", Note 14) in the amount of \$20,599 (1.5 billion rubles) as at 31 December 2015.

On 10 October 2016 the Group purchased LLC Top Project which was connected with the guarantee issue and on 29 December 2016 sold the company to a third party. On 27 December 2016, the guarantee was terminated and the provision for the guarantee was reversed.

26. Financial risk management objectives and policies**Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and loans receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in rubles, in reputable Russian banks – PAO "Sberbank of Russia" and PAO "Metcombank" (related party). Management periodically reviews the creditworthiness of the banks in which it deposits cash.

There are no significant concentrations of credit risk within accounts receivable balances of the Group, as the Group requires prepayments from the major part of its customers.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, without taking into account of any collateral held or other credit enhancements, which is disclosed below.

	<i>31 December 2016</i>	<i>31 December 2015</i>
Non-current assets		
Interest-bearing loans receivable	12,324	7,726
Non-current receivables	2,953	584
Total non-current assets	15,277	8,310
Current assets		
Cash and cash equivalents	145,938	54,111
Interest-bearing loans receivable	7,953	1,074
Trade and other receivables	22,872	17,195
Total current assets	176,763	72,380

As at 31 December, the ageing analysis of trade and other receivables and loans receivable is as follows:

		<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			<i>Past due and impaired</i>
	<i>Total</i>		<i>Less than 6 months</i>	<i>6 months – 1 year</i>	<i>Over 1 year</i>	
2016	57,846	45,200	526	7	368	11,745
2015	27,119	18,596	7,982	–	1	540

*(in thousands of US dollars)***26. Financial risk management objectives and policies (continued)****Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares monthly budgets which ensure that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

31 December 2016

	<i>Less than 12 months</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Non-interest bearing debt					
Trade and other payables	35,402	–	–	–	35,402
Fixed-rate debt					
Other liabilities	9,054	3,140	–	–	12,194
Interest-bearing loans and borrowings	67,408	53,264	109	–	120,781
Debt securities issued	59,137	72,907	19,983	–	152,027
Total	171,001	129,311	20,092	–	320,404

31 December 2015

	<i>Less than 12 months</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Non-interest bearing debt					
Trade and other payables	24,637	–	–	–	24,637
Fixed-rate debt					
Other liabilities	3,319	13,427	266	–	17,012
Interest-bearing loans and borrowings	63,801	29,287	9,002	119	102,209
Debt securities issued	48,888	21,402	–	–	70,290
Total	140,645	64,116	9,268	119	214,148

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest rate risk

The Group borrows on a fixed rate basis from related parties and third party banks. Due to the ongoing world liquidity crisis the Group has a limited ability to negotiate interest rates.

The Group does not have any financial assets or liabilities with variable interest rate. All the borrowings of the Group bear fixed interest rate.

*(in thousands of US dollars)***26. Financial risk management objectives and policies (continued)****Market risk (continued)***Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not significantly affect the Group's equity.

Currency risk

The Group's exposure to foreign currency is relates to the risks on loans receivable, payable from the related parties and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions are primarily denominated are rubles and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as the Group has very limited volume of transactions in currencies other than ruble.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	31 December 2016	31 December 2015
USD	(3,844)	(4,546)
EUR	43	(2,487)

As at 31 December 2016, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of \$4,615 and US dollar-denominated loans receivable in the amount of \$nil. As at 31 December 2015, the concentration of currency risk of the Group related to US dollar-denominated current accounts payable in the amount of \$7,278 and US dollar-denominated loans receivable in the amount of \$2,429.

As at 31 December 2016, the concentration of currency risk of the Group related to EURO-denominated current accounts payable in the amount of 48 EURO (\$51). As at 31 December 2015, the concentration of currency risk of the Group related to EURO-denominated current accounts payable in the amount of 2,252 EURO (\$2,463).

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In 2016 and 2015, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods. As at 31 December 2016 and 2015 the Group used the following reasonably possible changes:

	31 December 2016		31 December 2015	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	USD	%	USD
USD/RUR	(20.00)	769	(13.00)	(591)
USD/RUR	20.00	(769)	40.00	1,818

	31 December 2016		31 December 2015	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	EUR	%	EUR
EUR/RUR	(20.00)	(9)	(15.00)	(373)
EUR/RUR	20.00	9	43.00	1,069

*(in thousands of US dollars)***26. Financial risk management objectives and policies (continued)****Market risk (continued)***Fair value of financial instruments*

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is 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: Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.

Fair value of the bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The following table shows financial instruments which carrying amounts differ from fair values as at:

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Interest-bearing loans receivable	18,674	17,031	8,800	8,354
Prepayment for non-financial assets	–	–	6,000	5,860
Total assets	18,674	17,031	14,800	14,214
Liabilities				
Interest-bearing loans and borrowings	101,243	97,771	86,190	83,967
Debts securities issued	128,376	126,713	61,048	59,147
Total liabilities	229,619	224,484	147,238	143,114

The fair value of long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the market rates of interest at the reporting dates. The discount rates used for valuation of financial instruments were as follows:

<i>Currency in which financial instruments are denominated</i>	31 December 2016	31 December 2015
Current financial assets		
USD	–	2.39%
RUR	15.63%	13.32%
Non-current financial liabilities and assets		
USD	–	4.72%
RUR	15.70%	15.63%
Current financial liabilities		
USD	6.05%	5.88%
EUR	3.74%	4.66%
RUR	15.63%	13.32%

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

*(in thousands of US dollars)***26. Financial risk management objectives and policies (continued)****Market risk (continued)**

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 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.

There have been no transfers between Level 1 and Level 2 during the period.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2016:

	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets measured at fair value				
Investment property	184,448	–	–	184,448
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	17,031	–	–	17,031
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	97,771	–	–	97,771
Debts securities issued	126,713	–	126,713	–

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2015:

	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets measured at fair value				
Investment property	183,089	–	–	183,089
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	8,354	–	–	8,354
Prepayment for non-financial assets	5,860	–	–	5,860
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	83,967	–	–	83,967
Debts securities issued	59,147	–	59,147	–

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize the return to shareholders. Capital includes equity attributable to the equity holders of the parent entity. There were no changes in the objectives, policies and processes during 2016.

The Board of directors reviews the Group's performance and establishes key performance indicators.

(in thousands of US dollars)

27. Segment information

For management purposes, the Group is organized into business units based on construction projects. All business units are located in Russian Federation. Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment revenue is income from main activity reported in the Group's management accounts that are directly attributable to a segment being consideration received from customers for sale of residential or investment property being under construction, or for operating rent of premises and rendering of services.

Segment expense is expenses 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.

Segment result is segment revenue less segment expense for the reporting period.

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 net result per the consolidated financial statements prepared under IFRS:

Year ended 31 December 2016

	DPS	Akademic city	Engineering infrastructure	Yaroslavl	Perm	Schelkovo	Shcherbinka	Ivanteevka	40 let oktyabrya	Management company	Total
External segment revenue	49	100,660	7,439	12,631	13,400	45,752	86,267	22,910	41	2,121	291,270
Intersegment revenue	–	342	3,236	357	146	1,461	–	–	–	9,786	15,330
Total segment revenue	49	101,002	10,677	12,988	13,546	47,213	86,267	22,910	41	11,907	306,600
	DPS	Akademic city	Engineering infrastructure	Yaroslavl	Perm	Schelkovo	Shcherbinka	Ivanteevka	40 let oktyabrya	Management company	Total
External segment operating profit/(loss)	(57)	7,880	879	2,422	(2,025)	5,347	35,248	(1,462)	(2,337)	61,828	107,723
Intersegment operations	–	(2,136)	2,162	(285)	(305)	2,143	(3,577)	(652)	(25)	8,570	5,895
Total segment operating profit/(loss)	(57)	5,744	3,041	2,137	(2,330)	7,490	31,671	(2,114)	(2362)	70,398	113,618

Year ended 31 December 2015

	DPS	Akademic city	Engineering infrastructure	Yaroslavl	Aristovo	Perm	Schelkovo	Shcherbinka	Ivanteevka	40 let oktyabrya	Management company	Total
External segment revenue	126,614	100,141	6,818	15,937	26,299	–	52,669	34,958	6,714	36	230	370,416
Intersegment revenue	–	73	1,944	–	–	–	–	–	–	–	–	2,017
Total segment revenue	126,614	100,214	8,762	15,937	26,299	–	52,669	34,958	6,714	36	230	372,433
	DPS	Akademic city	Engineering infrastructure	Yaroslavl	Aristovo	Perm	Schelkovo	Shcherbinka	Ivanteevka	40 let oktyabrya	Management company	Total
External segment operating profit/(loss)	12,019	14,740	86	2,066	14,837	(1,270)	17,082	10,086	(459)	(509)	(13,982)	54,696
Intersegment operations	–	(2,129)	1,658	–	–	20	–	–	–	–	–	(451)
Total segment operating profit/(loss)	12,019	12,611	1,744	2,066	14,837	(1,250)	17,082	10,086	(459)	(509)	(13,982)	54,245

Finance income and expenses, fair value gains and losses on financial assets, forex exchange gains/(losses) are not allocated to individual segments as the underlying instruments are managed on a group basis.

*(in thousands of US dollars)***27. Segment information (continued)****Reconciliation of segments' results to net profit**

	<i>For the years ended 31 December</i>	
	2016	2015
Revenue reconciliation		
Total revenue from reportable segments	306,600	372,433
Elimination of intersegment revenue	(15,330)	(2,017)
Revenue from non-reportable segments	15,877	7,490
Total group revenue	307,147	377,906
Operating profit reconciliation		
Total operating profit from reportable segments	113,618	54,245
Elimination of intersegment operations	(5,895)	451
Operating profit/(loss) from non-reportable segments	(21,990)	(5,699)
Change in fair value of investment property	(15,814)	(9,880)
Total group operating profit	69,919	39,117
Finance income	8,286	10,486
Finance costs	(20,120)	(13,122)
Foreign exchange(losses)/gain, net	(588)	(1,656)
Share of profits/(losses) of associates	(25)	187
Impairment of goodwill	—	—
Profit before income tax	57,472	35,012
Income tax expense	(19,871)	(13,549)
Net profit for the period	37,601	21,463

The main differences between revenue and operating profit under IFRS and management accounts are represented by different amount of inventories write-down to net realizable value (Note 6.6, 13) and other provisions, accrued under IFRS.

28. Subsequent events

During January-April 2017 the Group partially repaid its obligations under existing credit facilities in the total amount of \$48,579 (at the exchange rate at 31 December 2016).

In January-April 2017 the Group received loan facilities in the total amount of \$21,821 (at the exchange rate at 31 December 2016).

As at 31 March 2017, the Group has entered into non-revolving credit line agreement with credit limit in amount of \$49,459 (at the exchange rate at 31 December 2016), under which the inventory with carrying value of \$50,098 pledged as collateral. No credit facilities have been received by the Group by 11 April 2017.

During January-April 2017 LLC RSG-Finance, the Group's subsidiary, made a coupon yield payment for the fourth and the six tranche of its bonds issued in the amount of \$7,275 (at the exchange rate at 31 December 2016).

On 3 February 2017, LLC RSG-Finance made an additional issue of the third issue of its bonds, with the total par value of \$ 24,466 (at the exchange rate of 31 December 2016) with the same terms as for the main issue - mature date set on 22 May 2018, the coupon rate, payable semi-annually, set at 13.5% per annum.

On 10 March 2017, LLC RSG-Finance announced coupon yield payments for the fourth tranche of its bonds for forth-sixth coupon periods in the amount of \$11,097 (at the exchange rate at 31 December 2016). The coupon rate, payable semi-annually, was set at 15.00% per annum. On 23 March 2017, no bonds of the fourth tranche were presented for redemption, maturity date was set on 18 September 2018.

On 7 April 2017, LLC RSG-Finance placed its seventh issue of bonds, with total par value \$49,459 (at the exchange rate of 31 December 2016) mature on 1 April 2022. The coupon rate, payable semi-annually, was set at 13.5% per annum.

On 31 January 2017, the Group declared dividends in total amount \$5,968 (at the exchange rate at 31 December 2016). Dividends were repaid on 9 March 2017.