Etalon Group Limited

Consolidated Financial Statements

For the year ended 31 December 2016

Contents

DIRECTORS' REPORT

Principal activity

The principle activity of Etalon Group Limited and its subsidiaries (together referred to as the "Group") is residential development in Saint-Petersburg metropolitan area and Moscow metropolitan area.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the consolidated financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to Auditors

The Directors confirm that so far as they are aware, there is no information relevant to the audit of which the Company's auditors are unaware. The Directors also confirm that they have taken all steps they ought to have taken as Directors to make themselves aware of any information relevant to the audit and to establish that the Company's auditors are aware of that information.

Directors' Responsibility Statement

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

(a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and

(b) The financial statements, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

Charalampos Avgousti

Director

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Independent Auditors’ Report

To Shareholders and the Board of Directors

Opinion

We have audited the consolidated financial statements of Etalon Group Limited and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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;

— are in accordance with International Financial Reporting Standards; and

— comply with the Companies (Guernsey) Law, 2008.

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 *Auditors’ 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 the Auditing Practices Board’s Ethical Standards for auditors (APB’s Ethical Standards), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and APB’s Ethical Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of parking places	
Please refer to Note 17 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The balance of parking places is increasing year on year. Due to the current economic environment, the demand for parking places is rather low. Therefore, the parking places' sales are much slower than the sales of other types of the Group's inventory. In the financial statements, the parking places (finished parking places and parking places under construction) are stated at the lower of cost and net realisable value (i.e. the forecasted selling price less the remaining costs to build and sell). The assessment of the net realisable value of the parking places depends on the Group's estimate of forecasted selling prices and building costs. Accordingly, a change in the Group's estimate of selling prices and building cost could have a material impact on the carrying value of parking places in the Group's financial statements. Thus, there is a risk that parking places may be overstated as at the reporting date.	Among other procedures, we tested the controls over budgeting and accounting for construction and development costs. We also assessed the model used by the Group to calculate the net realisable value by: – testing the Group's expected period of sales of parking places by comparing it with years of turnover of parking places determined based on historical information on contracts entered into with customers; – assessing the appropriateness of inflation rates used by comparing them to external independent sources; – assessing the appropriateness of discount rates involving our own valuation specialists; – challenging the Group's forecasted selling prices by comparing the forecasted and actual selling prices for a sample of the parking places and comparing the forecasted selling prices to listed prices for comparable parking places as published by competitors and real estate agents; – assessing the reasonableness of the Group's considerations on selecting similar parking places which were assumed comparable objects sold previously in the cases where there was no historical information on sales of certain parking places; – testing the Group's forecasted building costs per square meter by comparing them to the actual building costs for similar units on other sites.

	Our audit work was focused on the sites with lower turnover that are considered most sensitive to the Group's assumptions. We also considered the adequacy of the Group's disclosures on the allowance for obsolete inventory and assessed whether they meet the requirements of the relevant accounting standards.

Recognition of revenue in appropriate period	
Please refer to Note 6 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The Group mainly enters into several types of contracts with customers for sale of residential and commercial premises. For each type of these contracts, the criteria for revenue recognition are met at different moments; thus, different terms should be met and different evidence (documentation) should exist for revenue recognition for each type of contract. There is a risk that, due to manual recording of sales transactions combined with the complexity arising from different types of sales contracts, revenue is not recognized in the appropriate period.	Our audit procedures included assessing the existence and appropriateness of the evidence and documentation proving that transfers of risks and rewards associated with sold properties to the buyers were reflected in the appropriate period. This was achieved through physical observation of completed properties and inspecting Acts of acceptance of the State commission, Acts of acceptance of cooperatives as well as other documents, which confirm that the criteria for revenue recognition were met.

Disposal of Investment Property in connection with land acquisition (barter arrangement).	
Please refer to Note 14 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
In 2016, the Group concluded contracts to acquire certain land plots in Moscow. In accordance with those contracts the consideration for the land plots should be settled by a transfer of an item of investment property and by a transfer of a certain percentage of flats to be constructed in future on the acquired land plots (i.e., a barter arrangement). The complexity of this transaction required thorough consideration of the contractual arrangements, including the valuation of	As part of our audit procedures we inspected various contracts and other documents related to the acquisition of the land plots in order to assess the nature of the arrangement and the accounting treatment suggested by directors. We obtained an understanding of the economic substance of the arrangement. We assessed the allocation of the fair value of the land plots to be received by the Group under the barter transaction to

the land plots by an independent appraiser. This complexity increases the risk of inappropriate accounting for the arrangements by the Group.	proceeds from disposal of the investment property and proceeds from future transfer of flats. We challenged the underlying assumptions applied by independent appraisers to determine the fair value of the land plots and, inter alia: – tested the projected cash flows, including future sales prices and construction costs, by comparing them to the business plans for construction of residential and commercial property; – assessed the appropriateness of the discount rates by considering the risk factors of the construction project; – assessed the appropriateness of the inflation rates by comparing them to external independent sources. We also considered the adequacy of the Group's disclosures in relation to the barter transaction and assessed whether they meet the requirements of the relevant accounting standards.

Other Information

Directors are responsible for the other information. The other information comprises the information included in the Annual report but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and applicable law, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for being satisfied that the consolidated financial statements give a true and fair view.

In preparing the consolidated financial statements, directors are 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 directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 management.

— Conclude on the appropriateness of management's 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 auditors' 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 auditors' 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 fair presentation.

— 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Matters on Which We Are Required to Report by Exception

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

We have nothing to report in respect of these matters.

The engagement partner on the audit resulting in this independent auditors' report is:

Maxim Samarin

Director

For and on behalf of JSC "KPMG"

Recognized auditor

3 April 2017

mln RUB	Note	2016	2015
Revenue	6	49 022	42 404
Cost of sales		(36 813)	(29 405)
Gross profit		12 209	12 999
General and administrative expenses	8	(4 454)	(4 348)
Selling expenses		(1 984)	(1 411)
Other expenses, net	9	(753)	(991)
Results from operating activities		5 018	6 249
Finance income	11	1 857	1 686
Finance costs	11	(319)	(504)
Net finance income		1 538	1 182
Profit before income tax		6 556	7 431
Income tax expense	12	(1 654)	(2 002)
Profit for the year		4 902	5 429
Total comprehensive income for the year		4 902	5 429
Profit attributable to:			
Owners of the Company		4 902	5 399
Non-controlling interest		-	30
Profit for the year		4 902	5 429
Total comprehensive income attributable to:			
Owners of the Company		4 902	5 399
Non-controlling interest		-	30
Total comprehensive income for the year		4 902	5 429
Earnings per share			
Basic and diluted earnings per share (RUB)	22	16,77	18,48

These consolidated financial statements were approved by the Board of Directors on 3 April 2017 and were signed on its behalf by:

Charalampos Avgousti

Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 57.

mln RUB	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	2 889	2 479
Investment property	14	561	538
Other long-term investments	15	545	578
Trade and other receivables	18	5 063	3 308
Deferred tax assets	16	1 414	1 159
Total non-current assets		**10 472**	**8 062**
Current assets			
Inventories under construction	17	47 742	40 934
Inventories - finished goods	17	22 580	26 124
Other inventories	17	939	664
Trade receivables	18	7 341	6 460
Advances paid to suppliers	18	9 970	8 269
Other receivables	18	4 098	3 505
Short-term investments	19	793	733
Cash and cash equivalents	20	10 206	11 532
Total current assets		**103 669**	**98 221**
Total assets		**114 141**	**106 283**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	15 070	14 999
Retained earnings		43 052	39 697
Total equity attributable to equity holders of the Company		**58 122**	**54 696**
Non-controlling interest		28	147
Total equity		**58 150**	**54 843**
Non-current liabilities			
Loans and borrowings	23	12 415	13 138
Trade and other payables	25	859	923
Provisions	24	107	117
Deferred tax liabilities	16	1 557	1 810
Total non-current liabilities		**14 938**	**15 988**
Current liabilities			
Loans and borrowings	23	5 639	6 276
Trade and other payables	25	10 083	8 860
Advances from customers	25	23 583	16 770
Provisions	24	1 748	3 546
Total current liabilities		**41 053**	**35 452**
Total equity and liabilities		**114 141**	**106 283**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 57.

	Attributable to equity holders of the Company				
mln RUB	**Share capital**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	14 983	36 537	51 520	351	**51 871**
Total comprehensive income for the year					
Profit for the year	-	5 399	5 399	30	**5 429**
Total comprehensive income for the year	-	5 399	5 399	30	**5 429**
Transactions with owners, recorded directly in equity					
Dividends to equity holders	-	(2 452)	(2 452)	-	**(2 452)**
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Transactions with own shares	16	-	16	-	**16**
Changes in ownership interest in subsidiaries	-	213	213	(234)	**(21)**
Total transactions with owners	16	(2 239)	(2 223)	(234)	(2 457)
Balance at 31 December 2015	**14 999**	**39 697**	**54 696**	**147**	**54 843**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 57.

	Attributable to equity holders of the Company				
mln RUB	**Share capital**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016	14 999	39 697	54 696	147	**54 843**
Total comprehensive income for the year					
Profit for the year	-	4 902	4 902	-	**4 902**
Total comprehensive income for the year	-	4 902	4 902	-	**4 902**
Transactions with owners, recorded directly in equity					
Dividends to equity holders	-	(1 504)	(1 504)	-	**(1 504)**
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	-	28	28	(119)	**(91)**
Other reclassifications	71	(71)	-	-	**-**
Total transactions with owners	71	(1 547)	(1 476)	(119)	(1 595)
Balance at 31 December 2016	**15 070**	**43 052**	**58 122**	**28**	**58 150**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 57.

mln RUB	**Notes**	**2016**	**2015**
OPERATING ACTIVITIES:			
Profit for the year		4 902	5 429
Adjustments for:			
Depreciation	13, 14	434	406
Gain on disposal of property, plant and equipment	9	(52)	(65)
Gain on disposal of investment property	9	(267)	-
(Decrease)/increase of impairment of investment property	9	(41)	215
Write down on inventories	9	430	514
Finance income, net	11	(1 538)	(1 182)
Income tax expense	12	1 654	2 002
Cash from operating activities before changes in working capital and provisions		**5 522**	**7 319**
Change in inventories		(1 780)	(8 255)
Change in accounts receivable		(3 746)	(3 899)
Change in accounts payable		7 812	2 369
Change in provisions	24	(1 808)	1 315
Cash generated from operating activities		**6 000**	**(1 151)**
Income tax paid		(1 960)	(2 146)
Interest paid		(2 603)	(2 516)
Net cash from/(used in) operating activities		**1 437**	**(5 813)**
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		93	188
Interest received		1 153	1 311
Acquisition of property, plant and equipment		(711)	(369)
Loans given		(435)	(123)
Loans repaid		25	66
Acquisition of other investments		(265)	-
Disposal of other investments		507	1 155
Net cash from investing activities		**367**	**2 228**
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		(94)	(20)
Proceeds from borrowings		9 016	9 480
Repayments of borrowings		(10 404)	(6 281)
Acquisition of own shares		-	16
Dividends paid		(1 504)	(2 452)
Net cash from financing activities		**(2 986)**	**743**
Net decrease in cash and cash equivalents		(1 182)	(2 842)
Cash and cash equivalents at the beginning of the year		11 532	14 631
Effect of exchange rate fluctuations on cash and cash equivalents		(144)	(257)
Cash and cash equivalents at the end of the year	20	**10 206**	**11 532**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 57.

1 Background

a) Organisation and operations

Etalon Group Limited (or the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open and closed joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad. The Company was incorporated on 8 November 2007 in the Bailiwick of Guernsey.

The Company's registered office is located at:
Redwood House,
St. Julian Avenue
St. Peter Port
Guernsey
GY1 1WA

The Group's principal activity is residential development in Saint-Petersburg metropolitan area and Moscow metropolitan area, the Russian Federation.

In April 2011, the Company completed initial public offering and placed its ordinary shares in the form of global depository receipts ("GDR") on the London Stock Exchange's Main Market.

b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). They show a true and fair view of the assets, liabilities, financial position and profit of the Group and are in compliance with the Companies (Guernsey) Law, 2008.

b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. The functional currency of the Group’s subsidiaries, including foreign operations, is RUB, as the activities of foreign operations are carried out as an extension of the activities of the Group in the Russian Federation.

All financial information presented in RUB has been rounded to the nearest million.

d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, as well as information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 17 – inventories – barter transactions, obsolescence provisions;
- Note 24 – provisions;
- Note 29 – contingencies;
- Note 14 – investment property

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group's significant subsidiaries are disclosed in Note 31.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

c) Financial instruments

(i) Financial assets

The Group's financial assets comprise investments in equity and debt securities, loans given, trade and other receivables, and cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the

Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(ii) Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for loans given and receivables at a specific asset level. All receivables and loans are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

d) Advances received and paid

Due to the nature of its activities the Group receives significant advances from customers, and makes significant prepayments to sub-contractors and other suppliers. Advances received and paid are recognised on an undiscounted basis.

e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment loss.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2008, the date of transition to IFRSs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings and constructions 7-30 years;
- Machinery and equipment 5-15 years;
- Vehicles 5-10 years;
- Other assets 3-7 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2016.

f) Inventories

Inventories comprise real estate properties under construction (including residential premises, stand-alone and built-in commercial premises) when the Group acts in the capacity of a developer, finished goods, and construction and other materials.

The Group accounts for stand-alone and built-in commercial properties within inventories because it does not intend to engage in renting-out those assets and keeping those as investment properties to generate rental income and benefit from appreciation. Properties classified as inventory may be rented out on a temporary basis while the Group is searching for a buyer. Inventories are measured 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.

The cost of real estate properties under construction is determined on the basis of specific identification of their individual costs. The costs of individual residential units and built-in commercial premises are arrived at by allocating the costs of a particular development project to individual apartments and built-in premises on a pro rata basis relative to their size.

The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project, including finance costs.

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

The Group's inventory is not limited to 12 months and may be of longer term since the development cycle exceeds 12 months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the reporting date.

g) Revenue

(i) Revenue from sale of real estate properties (including flats, commercial premises and parking places)

Revenue from the sale of real estate properties is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Group generally considers that risks and rewards have been transferred on the date when a buyer signs the act of acceptance of the property. However, transfer of risks and rewards may vary depending on the individual terms of the sales contracts.

When sales are contracted under share participation agreements the significant risks and rewards of ownership are considered to have been transferred to individual buyers when the construction is completed and the building has been approved by the State commission for acceptance of finished buildings.

In relation to sales via housing cooperatives, revenue is recognised on the date when sold real estate property is transferred to, and accepted by, the cooperative. Before that date, the respective building has to be approved by the State commission for acceptance of finished buildings.

(ii) Revenue from construction services

For accounting purposes the Group distinguishes two types of construction contracts:

1) Contracts for provision of construction services;

2) Contracts for construction of an asset falling within the scope of IAS 11 *Construction Contracts*.

For the first type of contracts revenue from construction services rendered is recognised in the consolidated statement of Profit or Loss and Other Comprehensive Income when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. These contracts are normally short-term, therefore revenue is recognised when the customer signs the act of acceptance of the construction service.

For the second type of contracts revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group recognises the following assets and liabilities related to construction contracts:

- unbilled receivables represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Unbilled receivables are presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings;
- billings in excess of work completed are recognised as a part of trade and other payables if progress billings exceed costs incurred plus recognised profits.

(iii) Revenue from sale of construction materials

Revenue from the sale of construction materials produced by the Group is recognised in the consolidated statement of profit or loss and other comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.

(iv) Rental income

Rental income from stand-alone and built-in commercial properties (see note 3(f)) is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

h) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing this consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018 and will replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group does not intend to adopt this standard early.
- IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2018. The new standard is replace International Financial Reporting Standard IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfers of Assets from Customers,* SIC 31 *Revenue - Barter Transactions Involving Advertising Services*. The Group uses funds obtained from customers in the form of prepayments to construct real estate properties. IFRS 15 requires adjusting the promised amount of consideration for a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. The effects of financing (interest expense) should be presented separately from revenue from contracts with customers. The Group does not expect the adjustment for a significant financing component to have a significant impact on its financial results as the interest expense in respect of prepayments from customers is likely to qualify for capitalization as part of work in progress, construction of buildings.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The Group has started an initial assessment of the possible impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land plots for development purposes. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge

for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2017. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Non-derivative financial assets

The fair value of trade and other receivables, excluding construction work in progress and held to maturity investments, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

b) Derivatives

For the contracts concluded before April 2015 the Group denominates its trade receivables from sales of commercial and residential properties in conditional units that are linked to RUB/USD exchange rate. The upper and lower ranges of possible fluctuations of exchange rate are fixed in the sales contracts.

Due to current market conditions the Group suspends applying upper and lower ranges of exchange rate (corridor 32 RUB – 36 RUB per a conditional unit, prescribed by sales contracts) for its settlements and used conversion rate equal to 33 RUB per a conditional unit.

Starting from April 2015 all sales are denominated in RUB.

c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- *Residential Development*. Includes construction of residential real estate including flats, built-in premises and parking places.
- *Construction services*. Includes construction services for third parties and for internal purpose.
- *Other operations.* Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments during the year ended 31 December 2016 or 2015.

As at 31 December 2016 the Group has changed the presentation of reportable segments according to the management's requirements: gross profit is reported net of intra-group margin; segments' assets and segments' liabilities are reported without unrealised gain and without intra-group balances respectively. Comparative figures have been changed accordingly.

a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External revenues	33 499	32 474	8 526	4 877	6 997	5 053	**49 022**	**42 404**
Inter-segment revenue	-	-	9 900	10 251	581	829	**10 481**	**11 080**
Total segment revenue	33 499	32 474	18 426	15 128	7 578	5 882	**59 503**	**53 484**
Gross profit	11 434	12 465	605	333	170	201	**12 209**	**12 999**
Interest in cost of sales (note 11)	1 241	897	-	-	-	-	**1 241**	**897**
Gross profit adjusted for interest in cost of sales	12 675	13 362	605	333	170	201	**13 450**	**13 896**
Gross profit adjusted, %	38%	41%						
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Reportable segment assets: inventories	69 436	66 470	622	515	1 203	737	**71 261**	**67 722**
Reportable segment liabilities: advances from external customers	22 292	13 929	1 233	2 734	69	127	**23 594**	**16 790**

b) Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of properties.

	Revenues		Non-current assets	
mln RUB	**2016**	**2015**	**2016**	**2015**
St. Petersburg metropolitan area	31 908	35 051	6 068	5 460
Moscow metropolitan area	17 114	7 353	4 546	2 602
	49 022	**42 404**	**10 614**	**8 062**

c) Major customer

Revenue from one customer of the Group, recognised within the segment "Construction services", amounted to RUB 3 002 million or 6% of the Group's total revenue for the year ended 31 December 2016 (revenue from major customer within the segment "Residential development" for the year ended 31 December 2015: RUB 3 541 million or 8 % of the Group's total revenue).

d) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

mln RUB

	2016	2015
Revenues		
Total revenue for reportable segments	59 503	53 079
Elimination of inter-segment revenue	(10 481)	(10 675)
Consolidated revenue	**49 022**	**42 404**
Profit or loss		
Gross profit for reportable segments	12 209	12 999
General and administrative expenses	(4 454)	(4 348)
Selling expenses	(1 984)	(1 411)
Other expenses, net	(753)	(991)
Finance income	1 857	1 686
Finance costs	(319)	(504)
Consolidated profit before income tax	**6 556**	**7 431**

	2016	2015
Assets		
Total assets for reportable segments: inventories	71 261	67 722
Total inventories	71 261	67 722
Liabilities		
Total liabilities for reportable segments: advances from external customers	23 594	16 790
Total advances from external customers	**23 594**	**16 790**

Performance of the reporting segments is measured by the management based on gross profits as the most relevant in evaluating the results of certain segments. General and administrative expenses, selling expenses, finance income and finance costs are treated as equally attributable to all reporting segments and are not analysed by the Group and therefore not reported for each individual segment.

Segments' assets and segments' liabilities being analysed by the Board of Directors include inventories and advances received from customers as the key indicators relevant for segment performance measurement. Therefore, other assets and liabilities are not allocated between the segments.

6 Revenue

mln RUB	2016	2015
Sale of flats	31 487	30 132
Sale of built-in commercial premises	1 104	1 519
Sale of parking places	908	823
Total revenue of segment Residential development (note 5 (a))	33 499	32 474
Construction contracts (note 7)	7 277	4 242
Other construction services	1 249	635
Total revenue of segment Construction services (note 5 (a))	8 526	4 877
Sale of construction materials	3 228	1 991
Sale of stand-alone commercial premises	205	284
Rental revenue	825	686
Other revenue	2 739	2 092
Total other revenue (note 5 (a))	6 997	5 053
Total revenues	**49 022**	**42 404**

7 Construction contracts

mln RUB	2016	2015
Revenue recognised during the year	7 277	4 242
Costs incurred	(6 910)	(4 023)
Recognised profits during the year	**367**	**219**

	2016	2015
For contracts in progress - aggregate amount of costs incurred and recognised profits to date	6 997	7 656
Advances for which the related work has not started	1 105	1 730
Unbilled receivables	955	1 142
Billings in excess of work completed	710	210
Retentions relating to construction contracts	34	11

Revenue recognised during the year is included into the line “Construction services” in note 6.

Unbilled receivables under construction contracts and retentions relating to construction contracts in progress are included into accounts receivable (see note 18).

Advances for which the related work has not started, and billings in excess of costs incurred and recognised profits, are presented as accounts payable (see note 25).

8 General and administrative expenses

mln RUB	2016	2015
Payroll and related taxes	3 314	3 142
Services	295	258
Audit and consulting services	141	267
Bank fees and commissions	133	95
Other taxes	136	177
Materials	62	57
Depreciation	62	63
Repair and maintenance	37	39
Other	274	250
Total	**4 454**	**4 348**

9 Other expenses, net

mln RUB *Other income*	2016	2015
Gain on disposal of investment property	267	-
Gain on disposal of property, plant and equipment	52	65
Gain on disposal of inventory	-	13
Other income	21	13
Fees and penalties received	42	-
Decrease of impairment of investment property (Note 14)	41	-
	423	**91**
Other expenses		
Impairment loss on inventories (Note 17)	(430)	(514)
Other expenses	(363)	(299)
Loss on disposal of inventories	(312)	-
Charity	(71)	(10)
Loss on disposal of subsidiaries	-	(44)
Impairment of investment property (Note 14)	-	(215)
	(1 176)	**(1 082)**
Other expenses, net	**(753)**	**(991)**

10 Personnel costs

mln RUB	2016	2015
Wages and salaries, incured during the period	5 704	5 101
Contributions to State pension fund	1 193	1 119
	6 897	**6 220**

Remuneration to employees in respect of services rendered during the year is recognised on an undiscounted basis as an expense in the consolidated statement of profit or loss and other comprehensive income as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or other profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Group pays fixed contributions to Russia's State pension fund and has no legal or constructive obligation to pay further amounts.

During the year ended 31 December 2016 personnel costs and related taxes included in cost of production amounted to RUB 2 907 million (year ended 31 December 2015: RUB 2 707 million). The remaining part of personnel expenses was subsumed within general and administrative expenses (see note 8) and selling expenses in the amount of RUB 676 million (year ended 31 December 2015: RUB 371 million).

11 Finance income and finance costs

mln RUB	2016	2015
Recognised in profit or loss		
Finance income		
Interest income on bank deposits	839	1 089
Unwinding of discount on trade receivables	638	356
Interest income on loans and receivables	314	222
Gain on write-off of accounts payable	55	19
Decrease in allowance for doubtful accounts receivable	11	-
Finance income	**1 857**	**1 686**
Finance costs		
Increase in allowance for investments	(137)	-
Net foreign exchange loss	(78)	(138)
Loss on write-off of accounts receivable	(71)	(59)
Interest expense on finance leases	(10)	(16)
Other finance costs	(21)	-
Increase in allowance for doubtful accounts receivable	-	(288)
Interest expense on loans	(2)	(3)
Finance costs	**(319)**	**(504)**
Net finance income recognised in profit or loss	**1 538**	**1 182**

In addition to interest expense recognised in the consolidated statement of profit or loss and other comprehensive income, the following amounts of borrowing costs have been capitalised into the cost of real estate properties under construction:

mln RUB	2016	2015
Borrowing costs capitalised during the year	2 625	2 561
Weighted average capitalisation rate	13,8%	13,8%

During the year ended 31 December 2016, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 1 241 million (year ended 31 December 2015: RUB 897 million), were included into the cost of sales upon completion of construction and sale of those properties.

12 Income tax expense

The Company's applicable tax rate under the Income Tax (0%/10%) (Guernsey) Law, 2007 is 0%.

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2015: 20%).

mln RUB	**2016**	**2015**
Current tax expense		
Current year	2 124	1 902
Under-provided/(over-provided) in prior year	38	20
	2 162	1 922
Deferred tax expense		
Origination and reversal of temporary differences	(508)	80
Income tax expense	**1 654**	**2 002**

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2015: 20%):

mln RUB	**2016**	**2015**
Profit before income tax	6 556	7 431
Theoretical income tax at statutory rate of 20%	1 311	1 486
Adjustments due to:		
Effect of 15,5 % Rate*	(260)	-
Expenses not deductible and income not taxable for tax purposes, net	603	516
Income tax expense	**1 654**	**2 002**

* - the operations of JSC "SSMO LenSpecSMU" are taxable at a rate of 15,5% due to applied tax concession.

13 Property, plant and equipment

During the year ended 31 December 2016, depreciation expense of RUB 321 million (year ended 31 December 2015: RUB 284 million) has been charged to cost of sales, RUB 44 million (year ended 31 December 2015: RUB 20 million) to cost of real estate properties under construction, RUB 4 million (year ended 31 December 2015: RUB 6 million) to selling expenses and RUB 62 million (year ended 31 December 2015: RUB 63 million) to general and administrative expenses.

a) Security

At 31 December 2016 no properties are pledged to secure bank loans (31 December 2015: RUB 72 million) (see note 23).

b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2016 the net book value of leased plant and machinery was RUB 205 million (31 December 2015: RUB 223 million). The leased equipment secures lease obligations.

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2015	999	2 572	130	154	126	306	**4 287**
Additions	186	73	17	23	3	67	**369**
Reclassification from inventories	45	-	-	-	-	203	**248**
Disposals	(180)	(184)	(37)	(26)	(12)	-	**(439)**
Transfer to inventories	(142)	-	-	-	-	-	**(142)**
Transfers	30	1	-	12	-	(43)	**-**
Balance at 31 December 2015	938	2 462	110	163	117	533	**4 323**
Balance at 1 January 2016	938	2 462	110	163	117	533	**4 323**
Additions	141	105	29	24	-	412	**711**
Reclassification from inventories	171	-	-	-	-	-	**171**
Disposals	(119)	(143)	(5)	(8)	-	-	**(275)**
Transfers	24	1	-	10	-	(35)	**-**
Balance at 31 December 2016	1 155	2 425	134	189	117	910	**4 930**
Depreciation and impairment losses							
Balance at 1 January 2015	(311)	(1 321)	(58)	(94)	-	-	**(1 784)**
Depreciation for the year	(80)	(251)	(23)	(19)	-	-	**(373)**
Disposals	136	142	21	14	-	-	**313**
Balance at 31 December 2015	(255)	(1 430)	(60)	(99)	-	-	**(1 844)**
Balance at 1 January 2016	(255)	(1 430)	(60)	(99)	-	-	**(1 844)**
Depreciation for the year	(135)	(246)	(23)	(27)	-	-	**(431)**
Disposals	94	129	3	8	-	-	**234**
Balance at 31 December 2016	(296)	(1 547)	(80)	(118)	-	-	**(2 041)**
Carrying amounts							
Balance at 1 January 2015	688	1 251	72	60	126	306	**2 503**
Balance at 31 December 2015	683	1 032	50	64	117	533	**2 479**
Balance at 1 January 2016	683	1 032	50	64	117	533	**2 479**
Balance at 31 December 2016	859	878	54	71	117	910	**2 889**

14 Investment property

mln RUB	2016	2015
Cost		
Balance at 1 January	1 456	1 463
Transfers from inventories	292	-
Transfers to inventories	-	(7)
Disposals	(942)	-
Balance at 31 December	**806**	**1 456**
Accumulated depreciation and impairment losses		
Balance at 1 January	(918)	(655)
Depreciation for the year	(42)	(48)
Impairment gain/(loss)	41	(215)
Disposals	674	-
Balance at 31 December	**(245)**	**(918)**
Carrying amount at 1 January	538	808
Carrying amount at 31 December	**561**	**538**

The Group's investment properties represent various commercial property. The Group accounts for investment properties at cost less accumulated depreciation and impairment losses.

The Group determines fair value of its investment properties on an annual basis. As at 31 December 2016 fair value amounted to RUB 771 million, which was determined based on discounted cash flows from the use of the property using the income approach. During year ended 31 December 2016 the Group has recognised a gain from reversal of impairment in amount of RUB 41 million (year ended 31 December 2015: an impairment loss of RUB 215 million).

In 2016 the Group entered into transaction for acquisition of investment rights for land plots where a part of acquisition price has to be paid by means of transfer an object of investment property and transfer of certain percentage of flats constructed on this land plots. As at 31 December 2016 the Group has transferred the object of investment property as prepayment for investment rights for land plots. The fair value of land plots was determined by an independent appraiser based on discounted cash flows from the construction and sale of properties. Proceeds from disposal of the investment property object were determined by pro rata allocation of fair value of the investment rights for land plots between the investment property object and flats to be transferred based on their relative fair values.

As a result, the Group has recognized proceeds from the disposal of the investment property in amount of RUB 526 million. The following key assumptions were used for determination of the fair value of land plots:

- Cash flows were projected based on business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum;
- Discount rates – 25% per annum.

15 Other long-term investments

mln RUB	2016	2015
Bank promissory notes	541	563
Loans, at amortised cost	4	15
	545	**578**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26. Bank promissory notes are pledged as security of secured bank loans and as security for liability for acquisition of land plot.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
mln RUB	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	318	180	(629)	(252)	(311)	(72)
Investments	9	14	-	-	9	14
Inventories	1 931	1 229	(865)	(308)	1 066	921
Trade and other receivables	646	724	(2 536)	(2 656)	(1 890)	(1 932)
Deferred expenses	139	51	(469)	(574)	(330)	(523)
Loans and borrowings	30	15	(9)	(3)	21	12
Provisions	119	188	8	(9)	127	179
Trade and other payables	1 625	1 007	(702)	(443)	923	564
Tax loss carry-forwards	134	144	(3)	1	131	145
Other	138	63	(27)	(22)	111	41
Tax assets/(liabilities)	5 089	3 615	(5 232)	(4 266)	(143)	(651)
Set off of tax	(3 675)	(2 456)	3 675	2 456	-	-
Net tax assets/(liabilities)	**1 414**	**1 159**	**(1 557)**	**(1 810)**	**(143)**	**(651)**

(b) Unrecognised deferred tax liability

At 31 December 2016 a deferred tax liability arising on temporary differences of RUB 44 528 million (31 December 2015: RUB 37 425 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

mln RUB	1 January 2016	Recognised in profit or loss	31 December 2016
Property, plant and equipment	(72)	(239)	(311)
Investments	14	(5)	9
Inventories	921	145	1 066
Trade and other receivables	(1 932)	42	(1 890)
Deferred expenses	(523)	193	(330)
Loans and borrowings	12	9	21
Provisions	179	(52)	127
Trade and other payables	564	359	923
Tax loss carry-forwards	145	(14)	131
Other	41	70	111
	(651)	**508**	**(143)**

mln RUB	1 January 2015	Recognised in profit or loss	31 December 2015
Property, plant and equipment	(177)	105	(72)
Investments	13	1	14
Inventories	1 109	(188)	921
Trade and other receivables	(2 302)	370	(1 932)
Deferred expenses	(283)	(240)	(523)
Loans and borrowings	10	2	12
Provisions	362	(183)	179
Trade and other payables	545	19	564
Tax loss carry-forwards	97	48	145
Other	55	(14)	41
	(571)	**(80)**	**(651)**

17 Inventories

mln RUB	2016	2015
Inventories under construction		
Own flats under construction	35 596	28 595
Built-in commercial premises under construction	4 830	5 179
Parking places under construction	8 294	7 561
	48 720	**41 335**
Less: Allowance for inventories under construction	(978)	(401)
Total inventories under construction	**47 742**	**40 934**
Inventories - finished goods		
Own flats	16 180	21 029
Built-in and stand-alone commercial premises	3 176	3 103
Parking places	3 650	2 569
	23 006	**26 701**
Less: Allowance for inventories - finished goods	(426)	(577)
Total inventories - finished goods	**22 580**	**26 124**
Other inventories		
Construction materials	719	582
Other	232	90
	951	**672**
Less: Allowance for other inventories	(12)	(8)
Total other inventories	**939**	**664**
Total	**71 261**	**67 722**

Following amendments of IAS 1 effective from 1 January 2016 the Group changed the presentation of Inventories to make it more relevant for understanding of the Group's financial position and adjusted the comparatives for consistency. As a result, the Group disaggregated total Inventories equal to RUB 67 722 million as at 31 December 2015 into Inventories under construction equal to RUB 40 934 million, Inventories - finished goods equal to RUB 26 124 million and Other inventories equal to RUB 664 million.

a) Barter transactions

Project 1

The Group entered into transaction for acquisition of land plots (3 lots) where a part of acquisition price has to be paid by means of transfer of certain percentage of flats constructed on this land plot. In 2013-2016, the Group has recognized the land component of this construction project within inventories at fair value of land plot acquired: in 2013 - RUB 1 862 million, in 2014 - RUB 3 835 million, in 2015 - RUB 3 105 million, in 2016 - RUB 222 million.

The fair value of land plot was determined by an independent appraiser based on discounted cash flows from the construction and sale of properties.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum, a rate within this range was used, depending on year of recognition of land component;
- Discount rates – within 11,5% - 25% per annum, a rate within this range was used, depending on year of recognition of land component and stage of the project.

Project 2

The Group entered into transaction for acquisition of investment rights for land plots where a part of acquisition price has to be paid by means of transfer of certain premises constructed on these land plots. The Group has recognized the land component of this construction project within inventories at fair value of investment rights acquired.

The fair value of the investments rights acquired equal to RUB 4 522 million was determined based on discounted cash flows from the construction and sale of properties.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum;
- Discount rates – 23% per annum.

Accordingly, at 31 December 2016 the cost of land plots (Project 1) measured as described above and related to sold premises was recognised in cost of sales of 2013 - 2016 years in the amount of RUB 6 220 million, the remaining balance of RUB 2 264 million is included to finished goods and RUB 540 million to inventories under construction.

As at 31 December 2016 Project 2 is under construction, therefore no cost of land component was recognised in cost of sales during the year 2016.

In the course of implementation of several development projects the Group has to construct and then transfer certain social infrastructure to the City Authorities. As at 31 December 2016 the cost of such social infrastructure amounts RUB 2 461 million and is included in the balance of finished goods and inventories under construction (31 December 2015: RUB 2 296 million). This costs are recoverable as part of projects they relate to.

b) Allowance for obsolete inventory

The following is movement in the allowance for obsolete inventory:

mln RUB	**2016**	**2015**
Balance at the beginning of the year	986	472
Change in allowance for obsolete inventory	430	514
Balance at end of the year	**1 416**	**986**

As at 31 December 2016 the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 1 416 million (31 December 2015: RUB 986 million) and the respective allowance was recognised in other expenses, see note 9. As at 31 December 2016 the allowance of RUB 1 404 million relates to parking places.

The balance of parking places is equal to RUB 11 944 million as at 31 December 2016 (31 December 2015: RUB 10 130 million). An impairment allowance was made based on the following key assumptions:

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;

- Discount rates –12,68% per annum;
- Inflation rates – 4,6 – 5,8% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogues.

The determination of net realizable value for parking places is subject to significant estimation uncertainty and, as such, the impairment allowance is judgmental. Changes in the above assumptions – in particular the discount rate and the years of turnover of parking places - could have a material impact on the amount.

c) Rent out of property classified as inventories

The Group has temporarily rented out part of certain items of property classified as inventories in these consolidated financial statements. The total carrying value of these items of property was RUB 909 million as at 31 December 2016 (31 December 2015: RUB 1 282 million). The Group is actively seeking buyers for these properties.

d) Pledges

Inventories with a carrying amount of RUB 6 746 million (31 December 2015: RUB 7 367 million) are pledged as security for borrowings, see note 23.

18 Trade and other receivables

mln RUB	2016	2015
Long-term trade and other receivables		
Trade receivables	4 970	3 293
Advances paid to suppliers	8	2
Other receivables	85	13
	5 063	**3 308**
Short-term trade and other receivables		
Trade receivables	7 733	6 832
Less: Allowance for doubtful trade accounts receivable	(392)	(372)
Trade short-term less allowance	**7 341**	**6 460**
Advances paid to suppliers	10 058	8 444
Less: Allowance for doubtful Advances paid to suppliers	(88)	(175)
Advances paid to suppliers short-term less allowance	**9 970**	**8 269**
VAT recoverable	2 370	1 730
Income tax receivable	412	358
Unbilled receivables	984	1 142
Trade receivables due from related parties	12	36
Other taxes receivable	13	12
Other receivables due from related parties	9	1
Other receivables	394	267
	4 194	**3 546**
Less: Allowance for doubtful other accounts receivable	(96)	(41)
Other short-term less allowance	**4 098**	**3 505**
Total short-term trade and other receivables	**21 409**	**18 234**
Total	**26 472**	**21 542**

Following amendments of IAS 1 effective from 1 January 2016 the Group changed the presentation of Short-term trade and other receivables to make it more relevant for understanding of the Group's financial position and adjusted the comparatives for consistency. As a result, the Group disaggregated total Short-term trade and other receivables equal to RUB 18 234 million as at 31 December 2015 into Trade receivables equal to RUB 6 460 million, Advances paid to suppliers equal to RUB 8 269 million and Other receivables equal to RUB 3 505 million.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

19 Short-term investments

mln RUB	2016	2015
Bank deposits (over 3 months)	-	485
Bank promissory notes	385	121
Loans given	545	127
	930	**733**
Less: Allowance for doubtful loans given	(137)	-
Total	**793**	**733**

As at 31 December 2016 bank promissory notes in the amount of RUB 23 million are pledged as security for fulfilment of obligations under construction contract recognised within the segment “Construction services” (as at 31 December 2015: nil).

The Group’s exposure to credit and currency risks and impairment losses related to loans given are disclosed in note 26.

20 Cash and cash equivalents

mln RUB	2016	2015
Cash in banks, in RUB	3 483	2 993
Cash in banks, in USD	516	1 147
Cash in banks, in EUR	52	82
Petty cash	21	46
Cash in transit	20	10
Short-term deposits (less than 3 months)	6 114	7 254
Total	**10 206**	**11 532**

The Group keeps major bank balances in the following Russian banks - Bank St. Petersburg, Sberbank and London branch of Citibank.

At 31 December 2016 one of the banks that the group held its normal operating bank accounts with held a rating of BB- with Moody’s Investors Service. At 31 December 2016, cash and cash equivalents held with that bank totalled RUB 3 289 million (31 December 2015: RUB 4 423 million). At 31 December 2016, The Group also had outstanding loans and borrowings with the same bank of RUB 2 500 million (31 December 2015: RUB 2 500 million).

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

21 Capital and reserves

a) Share capital

The table below summarizes the information about the share capital of Etalon Group Limited.

Number of shares unless otherwise stated	**Ordinary shares**	
	2016	**2015**
Authorised shares		
Par value at the beginning of the year	0,00005 GBP	0,00005 GBP
On issue at the beginning of the year	292 229 971	292 129 971
Par value at the end of the year	0,00005 GBP	0,00005 GBP
Own shares distributed	-	100 000
On issue at the end of the year, fully paid	**292 229 971**	**292 229 971**

The holders of ordinary shares are entitled to receive dividends and to one vote per share at meetings of the Company.

b) Own shares

On 23 November 2011, the independent shareholders of the Company approved the purchase of Global Depositary Receipts (GDR's) representing ordinary shares of the Company of up to 9,25% of the Company's issued share capital. The Programme commenced on 24 November 2011 and was indefinitely suspended on 12 March 2012. As at 31 December 2016, the Group has acquired 2 728 000 own shares or 1% of issued share capital (as at 31 December 2015: 2 728 000 own shares or 1% of issued share capital) for the consideration of RUB 440 million (as at 31 December 2015: RUB 440 million).

The consideration paid for own shares, including directly attributable costs, net of any tax effects, are recognised as a deduction from equity. When own shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

c) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2016, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 43 469 million (31 December 2015: RUB 36 115 million). Dividends in the amount RUB 1 504 million have been declared and paid by the Company during the year ended 31 December 2016 (year ended 31 December 2015: RUB 2 452 million). Dividends per share amounted to 5,15 RUB during the year ended 31 December 2016.

d) Non-controlling interest in subsidiaries

During the year ended 31 December 2016 the Group has acquired certain interests in a number of its subsidiaries. The transactions resulted in a decrease of non-controlling interest of RUB 119 million during year ended 31 December 2016 (year ended 31 December 2015: a decrease in non-controlling interest of RUB 234 million).

22 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the year, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**2016**	**2015**
Issued shares at 1 January	292 229 971	292 129 971
Effect of own shares disributed	-	65 206
Weighted average number of shares for the year ended 31 December	**292 229 971**	**292 195 177**
Profit attributable to the owners of the Company, mln RUB	4 902	5 399
Basic and diluted earnings per share (RUB)	16,77	18,48

23 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

mln RUB	**2016**	**2015**
Non-current liabilities		
Secured bank loans	2 409	3 268
Unsecured bank loans	5 050	7 627
Unsecured bond issues	4 956	2 243
	12 415	**13 138**
Current liabilities		
Current portion of secured bank loans	2 650	3 273
Current portion of unsecured bank loans	712	778
Current portion of unsecured bond issues	2 277	2 225
	5 639	**6 276**

a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

mln RUB	Currency	Nominal interest rate	Year of maturity	2016 Face value	2016 Carrying amount	2015 Face value	2015 Carrying amount
Secured bank loans				**5 059**	**5 059**	**6 541**	**6 541**
Secured bank loan	RUB	15,00%	2017	1 804	1 804	3 386	3 386
Secured bank loan	RUB	15,00%	2020	1 574	1 574	-	-
Secured bank loan	RUB	12,40%	2021	986	986	1 261	1 261
Secured bank loan	RUB	13,20%	2017	455	455	450	450
Secured bank loan	RUB	12,40%	2021	240	240	440	440
Secured bank loan	RUB	14,50%	2016	-	-	333	333
Secured bank loan	RUB	13,00%	2017	-	-	671	671
Unsecured bank loans				**5 762**	**5 762**	**8 405**	**8 405**
Unsecured bank loan	RUB	11,50%	2018	1 500	1 500	1 500	1 500
Unsecured bank loan	RUB	11,50%	2020	1 300	1 300	1 300	1 300
Unsecured bank loan	RUB	11,50%	2019	1 000	1 000	1 000	1 000
Unsecured bank loan	RUB	11,50%	2020	1 002	1 002	-	-
Unsecured bank loan	RUB	12,40%	2019	506	506	607	607
Unsecured bank loan	RUB	12,00%	2021	250	250	-	-
Unsecured bank loan	RUB	13,20%	2017	174	174	300	300
Unsecured bank loan	RUB	12,90%	2017	30	30	201	201
Unsecured bank loan	RUB	12,90%	2017	-	-	1 200	1 200
Unsecured bank loan	RUB	12,00%	2017	-	-	600	600
Unsecured bank loan	RUB	14,00%	2017	-	-	506	506
Unsecured bank loan	RUB	12,10%	2018	-	-	500	500
Unsecured bank loan	RUB	12,00%	2017	-	-	400	400
Unsecured bank loan	RUB	11,95%	2016	-	-	291	291
Unsecured bond issues				**7 279**	**7 233**	**4 475**	**4 468**
Unsecured bonds	RUB	11,85%	2021	5 015	4 971	-	-
Unsecured bonds	RUB	12,90%	2017	2 264	2 262	4 475	4 468
				18 100	**18 054**	**19 421**	**19 414**

Bank loans are secured by:

- no property, plant and equipment (31 December 2015: RUB 72 million), see note 13;
- inventories with a carrying amount of RUB 6 746 million (31 December 2015: RUB 7 367 million), see note 17;
- bank promissory notes with a carrying amount of RUB 542 million (31 December 2015: RUB 542 million);
- pledge of 32% of shares in a subsidiary company CJSC “Zatonskoe” which represents RUB 2 333 million in its net assets (31 December 2015: pledge of 32% of shares in a subsidiary company CJSC “Zatonskoe” which represents RUB 2 374 million in its net assets).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. There has been no significant breach of any of the restrictive covenants during the reporting year.

24 Provisions

mln RUB	**Warranties**	**Provision for deferred works**	**Total**
Balance at 1 January 2015	114	2 234	2 348
Provisions made during the year	27	3 864	3 891
Provisions used during the year	(24)	(2 437)	(2 461)
Provision reversed during the year	-	(115)	(115)
Balance at 31 December 2015	**117**	**3 546**	**3 663**
Balance at 1 January 2016	117	3 546	3 663
Provisions made during the year	41	2 088	2 129
Provisions used during the year	(51)	(3 696)	(3 747)
Provision reversed during the year	-	(190)	(190)
Balance at 31 December 2016	**107**	**1 748**	**1 855**
Non-current	107	-	107
Current	-	1 748	1 748
	107	**1 748**	**1 855**

a) Warranties

The provision for warranties relates mainly to the residential units sold during the year. The provision is based on estimates made from historical experience from the sale of such units. The Group expects the expenses to be incurred over the next three years in average. The warranty provision relates to construction works done.

b) Provision for deferred works

The Group records provisions in respect of the Group’s obligation to incur additional costs associated with landscaping and other works after finishing the construction of apartment buildings. The provision is estimated based on historical experience. The Group expects the expenses to be incurred over the next year.

25 Trade and other payables

mln RUB	2016	2015
Long-term		
Trade payables	64	21
Finance lease liabilities	6	61
Advances from customers	11	20
Other payables	778	821
	859	**923**
Short-term		
Trade payables	2 999	3 468
VAT payable	2 134	1 646
Payroll liabilities	536	550
Other taxes payable	190	180
Billings in excess of work completed	737	261
Income tax payable	399	125
Finance lease liabilities	44	52
Other payables	3 044	2 578
	10 083	**8 860**
Advances from customers	23 583	16 770
	33 666	**25 630**
Total	**34 525**	**26 553**

Following amendments of IAS 1 effective from 1 January 2016 the Group changed the presentation of Short-term trade and other payables to make it more relevant for understanding of the Group's financial position and adjusted the comparatives for consistency. As a result, the Group disaggregated total Short-term trade and other payables equal to RUB 25 630 million as at 31 December 2015 into Trade and other payables equal to RUB 8 860 million and Advances from customers equal to RUB 16 770 million.

Long-term other payables and short-term other payables mainly consist of obligation equal to RUB 1 961 million (31 December 2015: RUB 2 293 million) to construct the social infrastructure objects recognised as part of inventory and liability of RUB 1 185 million (31 December 2015: RUB 852 million) to the City authorities for lease and change of intended use of land plot.

Advances from customers include amounts totalling RUB 4 051 million received for objects which will be put in use in more than 12 months after reporting date (31 December 2015: RUB 1 111 million).

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial instruments and risk management

a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

mln RUB	Carrying amount			Fair value			
31 December 2016	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	14 111	-	**14 111**	-	14 111	-	**14 111**
Bank deposits (over 3 months)	-	-	**-**	-	-	-	**-**
Bank promissory notes	926	-	**926**	-	930	-	**930**
Cash and cash equivalents	10 206	-	**10 206**	10 206	-	-	**10 206**
	25 243	**-**	**25 243**	**10 206**	**15 041**	**-**	**25 247**
Financial liabilities not measured at fair value							
Secured bank loans	-	(5 059)	**(5 059)**	-	(5 214)	-	**(5 214)**
Unsecured bank loans	-	(5 762)	**(5 762)**	-	(5 355)	-	**(5 355)**
Unsecured bond issues	-	(7 233)	**(7 233)**	(7 494)	-	-	**(7 494)**
Trade and other payables	-	(8 208)	**(8 208)**	-	(7 977)	-	**(7 977)**
	-	**(26 262)**	**(26 262)**	**(7 494)**	**(18 546)**	**-**	**(26 040)**

mln RUB	Carrying amount			Fair value			
31 December 2015	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	11 126	-	**11 126**	-	11 126	-	**11 126**
Bank deposits (over 3 months)	485	-	**485**	-	505	-	**505**
Bank promissory notes	684	-	**684**	-	489	-	**489**
Cash and cash equivalents	11 532	-	**11 532**	11 532	-	-	**11 532**
	23 827	**-**	**23 827**	**11 532**	**12 120**	**-**	**23 652**
Financial liabilities not measured at fair value							
Secured bank loans	-	(6 541)	**(6 541)**	-	(6 691)	-	**(6 691)**
Unsecured bank loans	-	(8 405)	**(8 405)**	-	(7 958)	-	**(7 958)**
Unsecured bond issues	-	(4 468)	**(4 468)**	(4 384)	-	-	**(4 384)**
Trade and other payables	-	(7 812)	**(7 812)**	-	(7 543)	-	**(7 543)**
	-	**(27 226)**	**(27 226)**	**(4 384)**	**(22 192)**	**-**	**(26 576)**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding trade and other receivables.

Credit risk with regards of cash and cash equivalents and deposits with banks is managed by placing funds primarily in the banks listed in note 20.

Credit risk connected with trade receivable arising from sale of apartments to individuals is managed by securing those receivables against sold apartments. A significant share of such sales is made on a prepayment basis.

To manage the credit risk of trade receivables from legal entities the Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are applied.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2016 the receivables of one customer was equal to RUB 996 million or 8% of the Group`s consolidated trade and other receivables. The Group has no customer accounting individually for more than 10% of the Group's balance of trade and other receivables as at 31 December 2015.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

As at 31 December 2016 the Group had not provided any financial guarantees to entities outside the Group (31 December 2015: nil).

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
mln RUB	**2016**	**2015**
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	15 037	11 810
Bank deposits (over 3 months)	-	485
Cash and cash equivalents	10 206	11 532
	25 243	**23 827**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was concentrated in the St. Petersburg region.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was concentrated on the industrial customers – legal entities included in the segment “Construction services”.

Impairment losses

The aging of trade receivables at the reporting date was:

mln RUB	Gross	Impairment	Gross	Impairment
	31 December 2016		31 December 2015	
Not past due	10 137	-	8 667	-
Past due 0-30 days	1 219	-	220	-
Past due 31-120 days	341	-	348	-
Past due more than 120 days	1 018	(392)	926	(372)
	12 715	**(392)**	**10 161**	**(372)**

The ageing of loans given at the the reporting date was:

mln RUB	Gross	Impairment	Gross	Impairment
	31 December 2016		31 December 2015	
Not past due	112	-	142	-
Past due 0-30 days	72	(72)	-	-
Past due 31-120 days	338	(38)	-	-
Past due more than 120 days	27	(27)	-	-
	549	**(137)**	**142**	**-**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

mln RUB	2016	2015
Balance at 1 January	372	277
Increase during the year	102	112
Decrease due to reversal	(82)	(17)
Balance at 31 December	**392**	**372**

The movement in the allowance for impairment in respect of advances paid to suppliers and other receivables during the year was as follows:

mln RUB	2016	2015
Balance at 1 January	216	23
Increase during the year	250	234
Decrease due to reversal	(281)	(41)
Balance at 31 December	**185**	**216**

The movement in the allowance for impairment in respect of loans given during the year was as follows:

mln RUB	**2016**	**2015**
Balance at 1 January	-	-
Increase during the year	137	-
Decrease due to reversal	-	-
Balance at 31 December	**137**	**0**

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, 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.

Each year the Group prepares cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Contractual maturities of financial liabilities were as follows:

31 December 2016

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	5 059	6 099	1 487	1 704	1 702	667	443	96	-
Unsecured bank loans	5 762	7 441	505	849	1 737	2 680	1 398	272	-
Unsecured bond issues	7 233	9 507	1 542	1 498	592	2 187	2 491	1 197	-
Trade and other payables (excluding taxes payable and advances from customers)	8 208	8 213	6 752	613	569	274	1	1	3
	26 262	**31 260**	**10 286**	**4 664**	**4 600**	**5 808**	**4 333**	**1 566**	**3**

mln RUB

31 December 2015

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	6 541	7 892	812	3 299	2 596	436	282	371	96
Unsecured bank loans	8 405	11 193	782	1 129	3 939	2 461	2 253	629	-
Unsecured bond issues	4 468	5 100	1 388	1 293	2 419	-	-	-	-
Trade and other payables (excluding taxes payable and advances from customers)	7 812	7 824	4 834	2 085	548	243	99	5	10
	27 226	**32 009**	**7 816**	**7 806**	**9 502**	**3 140**	**2 634**	**1 005**	**106**

d) 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 within acceptable parameters, while optimising the return.

(i) Currency risk

The Group's exposure to foreign currency risk is limited. As at 31 December the Group's net positions in foreign currency were as follows:

mln RUB	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
	2016		2015	
Cash and cash equivalents and bank deposits (over 3 months)	516	52	1 147	92
Net exposure	**516**	**52**	**1 147**	**92**

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2016	2015	31 December 2016	31 December 2015
USD 1	67,03	60,96	60,66	72,88
EUR 1	74,23	67,78	63,81	79,70

(ii) Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivative instruments to manage interest rate risk exposure.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

mln RUB	Carrying amount	
	2016	2015
Fixed rate instruments		
Financial assets	16 514	16 136
Financial liabilities	(18 104)	(19 527)
	(1 590)	**(3 391)**

Fair value sensitivity analysis for fixed rate instruments

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

e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with it.

The capital structure of the Group consists of net debt (borrowings as detailed in note 23 offset by cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as detailed in note 21). The Group is not subject to any externally imposed capital requirements.

The Group's debt to capital ratio at the end of the reporting year was as follows:

mln RUB	2016	2015
Total borrowings	18 054	19 414
Less: cash and cash equivalents	(10 206)	(11 532)
Less: bank deposits over 3 months, notes 19	-	(485)
Net debt	7 848	7 397
Total equity	58 150	54 843
Debt to capital ratio at year end	0,135	0,135

Finance lease liabilities RUB 50 million at 31 December 2016 (RUB 113 million at 31 December 2015) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	2016	2015
Less than one year	428	72
Between one and five years	1 598	207
More than five years	701	715
	2 727	**994**

The Group leases a number of land plots for the purpose of construction of residential and commercial premises for sale, as well as land plots occupied by its own production and office facilities under operating leases.

Lease payments for land plots occupied by residential and commercial premises under construction are capitalised into the cost of those premises.

The leases typically run for the years of construction of premises. After these properties are constructed and sold, lease rentals are paid by the owners of those properties. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2016 the amount of RUB 33 million (year ended 31 December 2015: RUB 54 million) was recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in respect of operating leases, while RUB 449 million (year ended 31 December 2015: RUB 52 million) were capitalised into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 31 December 2016 the Group has no capital commitments (31 December 2015: nil).

29 Contingencies

a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

b) Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Related party transactions

a) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

mln RUB	**2016**	**2015**
Salaries and bonuses	647	570
	647	**570**

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		**Outstanding balance**	
mln RUB	**2016**	**2015**	**2016**	**2015**
Sale of apartments and premises	106	3	(144)	(81)
	106	**3**	**(144)**	**(81)**

b) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

	Transaction value		**Outstanding balance**	
mln RUB	**2016**	**2015**	**2016**	**2015**
Other related parties	46	50	(14)	3
	46	**50**	**(14)**	**3**

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(ii) Expenses

	Transaction value		**Outstanding balance**	
mln RUB	**2016**	**2015**	**2016**	**2015**
Other related parties	125	103	(30)	(15)
	125	**103**	**(30)**	**(15)**

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(iii) Loans

	Amount loaned		**Outstanding balance**	
mln RUB	**2016**	**2015**	**2016**	**2015**
Loans received:				
Other related parties	-	-	-	(1)
	-	**-**	**-**	**(1)**

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2016	31 December 2015
CJSC "GK Etalon"	Russian Federation	100,00%	100,00%
LLC "EtalonAktiv"	Russian Federation	100,00%	100,00%
CJSC "TSUN LenSpetsSMU"	Russian Federation	100,00%	100,00%
JSC "SSMO LenSpetsSMU"	Russian Federation	100,00%	100,00%
CJSC "Novator"	Russian Federation	100,00%	100,00%
CJSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100,00%	100,00%
LLC "Etalon-Invest"	Russian Federation	100,00%	100,00%
CJSC "Zatonskoe"	Russian Federation	100,00%	100,00%
LLC "SPM-Zhilstroy"	Russian Federation	100,00%	100,00%

As at 31 December 2016 the Group controlled 138 legal entities (31 December 2015: 140). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

32 Events subsequent to the reporting date

a) Redomiciliation

On 15 December 2016 the Extraordinary General Meeting of Shareholders approved the domiciliation of the parent Company Etalon Group Limited from Guernsey to Cyprus. The Group plans to complete the process after the reporting date.

b) Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2016 for the total amount of RUB 1 910 million. Subsequent to the reporting date the Group has obtained an additional tranche of a loan for the total amount of RUB 366 million with the interest rate of 15,00% (repayable at 2020), additional tranche of a loan for the total amount of RUB 50 million with the interest rate of 12,20% (repayable at 2021).