KORTROS LLC

Unaudited interim condensed consolidated financial statements

For the six month period ended 30 June 2017

Contents

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улучшаем мир

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Report on Review of Interim Financial Information

To the Members and Board of Directors of
Limited Liability Company "Area Based Development,
Renovation, Development" (KORTROS LLC)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Limited Liability Company "Area Based Development, Renovation, Development" (hereinafter KORTROS LLC) and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2017 and the interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of KORTROS LLC is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

M.V. Dolgiy-Trach
Senior manager
Ernst & Young LLC

13 October 2017

Details of the entity

Name: Limited Liability Company "Area Based Development, Renovation, Development" (KORTROS LLC)
Record made in the State Register of Legal Entities on 28 October 2015, State Registration Number 1157746987903.
Address: Russia, 123317, Moscow, Presnenskaya naberezhnaya, building 6, structure 2.

Details of the auditor

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

Interim condensed consolidated statement of financial position

At 30 June 2017

(in thousands of US dollars)

	Notes	30 June 2017 (unaudited)	31 December 2016 (audited)
Assets			
Non-current assets			
Property, plant and equipment	8	9,692	9,438
Intangible assets	9	24,406	24,091
Investments in associates	5	494	487
Investment properties	10	185,971	184,448
Interest-bearing loans receivable	11	6,679	10,721
Inventories	12	22,386	22,490
Trade and other receivables		2,110	1,959
Deferred tax assets		10,705	6,259
		262,443	**259,893**
Current assets			
Income tax receivable		5,506	3,523
Inventories	12	379,950	346,277
Trade and other receivables	13	24,226	22,883
Prepayments	14	18,316	16,191
Interest-bearing loans receivable	11	5,942	7,953
Taxes recoverable		7,304	6,284
Cash and cash equivalents	15	181,295	145,939
		622,539	**549,050**
Investment properties held for sale	10	4,648	4,190
		627,187	**553,240**
Total assets		**889,630**	**813,133**
Equity and liabilities			
Equity			
Issued capital	16	715,994	715,994
Share premium		671,712	671,712
Capital contribution reserve	16	(68,709)	(70,233)
Business combination reserve		(597,198)	(597,198)
Accumulated losses		(100,516)	(67,300)
Foreign currency translation reserve		(329,514)	(338,679)
Equity attributable to equity holders of the parent		**291,769**	**314,296**
Total non-controlling interests		10,799	10,482
Total equity		**302,568**	**324,778**
Non-current liabilities			
Interest-bearing loans and borrowings	17	59,001	52,000
Debt securities issued	18	106,408	84,364
Provisions	21	437	399
Other liabilities	20	33,727	33,156
Deferred income tax liabilities		48,557	46,363
		248,130	**216,282**
Current liabilities			
Trade and other payables	19	37,143	40,747
Advances from customers		152,216	112,930
Debt securities issued	18	97,606	44,012
Interest-bearing loans and borrowings	17	30,174	49,243
Income taxes payable		6,802	9,308
Other taxes payable		1,874	2,362
Provisions	21	540	83
Other liabilities	20	12,577	13,388
		338,932	**272,073**
Total liabilities		**587,062**	**488,355**
Total equity and liabilities		**889,630**	**813,133**

On 13 October 2017, the Director of KORTROS LLC has authorized these financial statements for issue.

Kiselev Stanislav ______________ Director

The accompanying notes on pages 10 to 30 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of profit or loss

For the six months ended 30 June 2017

(in thousands of US dollars)

	Notes	*Six months ended 30 June 2017 (unaudited)*	*Six months ended 30 June 2016 (unaudited)*
Revenue	6.1	85,939	139,733
Cost of sales	6.3	(71,964)	(90,993)
Gross profit		**13,975**	**48,740**
General and administrative expenses	6.4	(9,813)	(5,879)
Other operating income	6.6	721	244
Other operating expenses	6.6	(21,558)	(14,116)
Change in fair value of investment property	10	(3,979)	(1,869)
Operating (loss)/profit		**(20,654)**	**27,120**
Finance income	6.5	9,024	3,356
Finance costs	6.5	(15,922)	(7,216)
Foreign exchange losses, net		(125)	(73)
Share of losses of associates	5	(7)	(78)
(Loss)/profit before income tax		**(27,684)**	**23,109**
Income tax benefit/(expense)	7	890	(9,078)
Net (loss)/profit for the reporting period		**(26,794)**	**14,031**
Attributable to:			
Equity holders of the parent		(26,837)	13,710
Non-controlling interests		43	321

The accompanying notes on pages 10 to 30 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2017

(in thousands of US dollars)

	Six months ended 30 June 2017 (unaudited)	*Six months ended 30 June 2016 (unaudited)*
Net (loss)/profit	**(26,794)**	**14,031**
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Effect of translation to presentation currency − attributable to non-controlling interests	274	1,334
Effect of translation to presentation currency − attributable to equity holders of the parent	9,165	37,924
Other comprehensive income, net of tax	**9,439**	**39,258**
Total comprehensive (loss)/income, net of tax	**(17,355)**	**53,289**
Attributable to:		
Equity holders of the parent	(17,672)	51,634
Non-controlling interests	317	1,655

The accompanying notes on pages 10 to 30 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2017

(in thousands of US dollars)

	Issued capital	*Share premium*	*Capital contribution reserve*	*Business combination reserve*	*Accumulated losses*	*Foreign currency translation reserve*	*Total*	*Non-controlling interests*	*Total equity*
As at 31 December 2015 (audited)	**715,994**	**671,712**	**(21,991)**	**(597,198)**	**(103,484)**	**(391,688)**	**273,345**	**10,276**	**283,621**
Profit for the reporting period	–	–	–	–	13,710	–	**13,710**	321	**14,031**
Other comprehensive income	–	–	–	–	–	37,924	**37,924**	1,334	**39,258**
Total comprehensive income	**–**	**–**	**–**	**–**	**13,710**	**37,924**	**51,634**	**1,655**	**53,289**
Non-controlling interest arising on business combination (Note 4)	–	–	–	–	–	–	**–**	10	**10**
Capital distributions to shareholder (Note 16)	–	–	(1,813)	–	–	–	**(1,813)**	–	**(1,813)**
Other	–	–	–	–	(16)	–	**(16)**	–	**(16)**
As at 30 June 2016 (unaudited)	**715,994**	**671,712**	**(23,804)**	**(597,198)**	**(89,790)**	**(353,764)**	**323,150**	**11,941**	**335,091**
As at 31 December 2016 (audited)	**715,994**	**671,712**	**(70,233)**	**(597,198)**	**(67,300)**	**(338,679)**	**314,296**	**10,482**	**324,778**
(Loss)/profit for the reporting period	–	–	–	–	(26,837)	–	**(26,837)**	43	**(26,794)**
Other comprehensive income	–	–	–	–	–	9,165	**9,165**	274	**9,439**
Total comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(26,837)**	**9,165**	**(17,672)**	**317**	**(17,355)**
Dividends paid to the equtiy holders of the parent (Note 16)	–	–	–	–	(6,379)	–	**(6,379)**	–	**(6,379)**
Capital contributions from shareholder (Note 16)	–	–	1,524	–	–	–	**1,524**	–	**1,524**
As at 30 June 2017 (unaudited)	**715,994**	**671,712**	**(68,709)**	**(597,198)**	**(100,516)**	**(329,514)**	**291,769**	**10,799**	**302,568**

The accompanying notes on pages 10 to 30 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

For the six months ended 30 June 2017

(in thousands of US dollars)

	Six months ended 30 June 2017 (unaudited)	*Six months ended 30 June 2016 (unaudited)*
Cash flows from operating activities		
(Loss)/profit before tax	**(27,684)**	**23,109**
Adjustments for:		
Depreciation and amortization (Note 6.2)	371	424
Finance income (Note 6.5)	(9,024)	(3,356)
Finance costs (Note 6.5)	15,922	7,216
Change in fair value of investment properties (Note 10)	3,979	1,869
Loss on disposal of property, plant and equipment and inventory (Note 6.6)	94	57
Write-down of inventory to net realizable value (Note 6.6)	944	2,094
Impairment loss recognized on trade and other receivables, prepayments (Note 6.6)	225	913
Change in provisions (Note 6.6)	475	95
Foreign exchange losses	125	73
Change in bonuses and unused vacation accruals	1,942	(927)
Write-off of non-recoverable VAT	615	451
Share of losses of associates (Note 5)	7	78
Gain on derecognition of of interest-bearing loans and borrowings (Note 6.6)	(258)	–
Other non-cash operations	(908)	(289)
Operating cash flow before working capital changes	**(13,175)**	**31,807**
Decrease in provisions	(12)	(10)
Decrease in trade and other receivables	7,559	4,034
(Increase)/decrease in inventories	(18,309)	33,691
Decrease in trade and other payables	(10,401)	(5,848)
Increase in prepayments	(1,749)	(30,744)
Increase in VAT receivable	(1,461)	(1,041)
Increase/(decrease) in advances received	34,043	(3,776)
(Decrease)/increase in other taxes payable	(615)	146
Increase/(decrease) in other liabilities	955	(8,692)
Cash flows (used in) / from operating activities	**(3,165)**	**19,567**
Income tax paid	(7,232)	(17,396)
Interest paid	(17,186)	(12,567)
Net cash flows used in operating activities	**(27,583)**	**(10,396)**
Cash flows from investing activities		
Purchase of investment properties	(394)	(167)
Purchase of property, plant and equipment	(249)	(263)
Proceeds from sale of property, plant and equipment	6	42
Payments for aquisition of subsidiary, net of cash acquired (Note 4)	–	(7,500)
Issuance of loans receivable	(5,853)	(10,803)
Repayment of loans receivable	14,100	919
Interest received	1,052	250
Net cash from / (used in) from investing activities	**8,662**	**(17,522)**
Cash flows from financing activities		
Proceeds from borrowings and bonds	118,874	81,705
Repayment of borrowings and bonds	(61,626)	(45,013)
Dividends paid to the equtiy holders of the parent (Note 16)	(6,379)	–
Repayment of finance lease obligations	(146)	(60)
Net cash flows from financing activities	**50,723**	**36,632**
Effect of exchange rate changes on cash and cash equivalents	3,554	8,090
Net increase in cash and cash equivalents	**35,356**	**16,804**
Cash and cash equivalents at 1 January	145,939	54,125
Cash and cash equivalents at 30 June	**181,295**	**70,929**

The accompanying notes on pages 10 to 30 form an integral part of these interim condensed consolidated financial statements.

(in thousands of US dollars)

1. Corporate information

The interim condensed consolidated financial statements of Limited Liability Company “Area Based Development, Renovation, Development” (hereinafter “the Company”) and its subsidiaries (hereinafter, “KORTROS” or “the Group”) for the six months ended 30 June 2017 were authorized for issue in accordance with a resolution of the Director on 13 October 2017.

On 5 October 2017 the Company changed its full name from Limited Liability Company “KORTROS” to Limited Liability Company “Area Based Development, Renovation, Development”, while abbreviated name of the Company did not change − KORTROS LLC.

KORTROS LLC was incorporated in the Russian Federation on 28 October 2015 as a limited liability company under the Russian Federation Law and inserted at the top of an existing group RSG International Ltd. The Company issued capital to the existing shareholder of RSG International Ltd in exchange for the shares already held in that entity. Consolidated financial statements of KORTROS LLC are presented as continuation of the consolidated financial statements of RSG International Ltd. Difference between issued capital of the Company and RSG International Ltd is reflected as an adjustment of Business combination reserve.

The Company’s registered office is located at 6-2 Presnenskaya naberezhnaya, 123317, Moscow, Russian Federation.

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

Principal activities

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

The interim condensed consolidated financial statements include the financial statements of KORTROS LLC and its subsidiaries. The major subsidiaries are listed in the following table:

№	*Entity*	*Country of incorporation*	*Activity*	*Effective ownership interest at 30 June 2017*	*Effective ownership interest at 31 December 2016*
1	RSG International Ltd.	Cyprus	Holding company	100%	100%
2	JSC “Regional Construction Group-Akademicheskoe”	Russia	Real estate development	97%	97%
3	LLC “ElitComplex”	Russia	Real estate development	100%	100%
4	LLC “EnkoInvest”	Russia	Real estate development	100%	100%
5	LLC “Stroitel”	Russia	Real estate development	100%	100%
6	LLC “Perkhushkovo-Development”	Russia	Real estate development	100%	100%
7	LLC “Petrovskiy Aliance”	Russia	Real estate development	100%	100%
8	LLC “MegaStroy Invest”	Russia	Real estate development	100%	100%
9	LLC “Contractor Relations Center”	Russia	Management services	100%	100%
10	LLC “RSG-Finance”	Russia	Financial services	100%	100%
11	LLC “RSG-Business Service”	Russia	Management services	100%	100%

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. For the six months ended 30 June 2017, the Group reported operating cash outflow of $27,583 and net loss of $26,794. For the six months ended 30 June 2016, the Group reported operating cash outflow of $10,396 and net profit of $14,031.

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

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

(in thousands of US dollars)

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and adopted by European Union.

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

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

The interim condensed consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated. At 30 June 2017, the principal rate of exchange used for translating foreign currency balances on the Group's interim condensed consolidated statement of financial position was 59.0855 RUR/US dollars (USD) (30 June 2016: 64.2575 RUR/USD). The average rate used for translation of the Group's interim condensed consolidated statement of profit or loss for the first half-year of 2017 was 57.9862 RUR/USD (2016: 70.2583 RUR/USD). Whenever a significant individual transaction can be attributed to a specific date, it was translated into the US dollars using the rate of the date of the transaction.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016. There were no changes in new and amended standards and interpretations issued by IASB and adopted by the European Union since 1 January 2017.

4. Business combinations, acquisitions and disposals

Acquisition ZPIF "RSG-Strategy Novoe Zilye"

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

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

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

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

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

(in thousands of US dollars)

4. Business combinations, acquisitions and disposals (continued)

Acquisition ZPIF “RSG-Strategy Novoe Zilye” (continued)

Purchase consideration comprised of settlement of preexisting relationships.

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

No goodwill arose as a result of this transaction.

Analysis of cash flows on acquisition is as follows:

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

5. Investment in associates

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

CJSC UK Akademichesky

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

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

	CJSC UK Akademichesky	
	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Opening balance as at 1 January	**487**	**435**
Share of loss for the reporting period	(7)	(78)
Translation difference	14	51
Closing balance at 30 June	**494**	**408**

6. Income and expenses

6.1 Revenues

Revenues include the following:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Sales of residential property	80,646	126,822
Sales of other projects	–	7,947
Rental income	681	450
Other revenue	4,612	4,514
Total	**85,939**	**139,733**

In the first half of 2016, the Group sold land plots in Akademicheskiy district and recognized revenue from sale of uncompleted projects in the amount of $7,947 and related expenses as cost of sales in the amount of $4,961 (Note 6.3) in the interim condensed consolidated statements of profit or loss.

(in thousands of US dollars)

6. Income and expenses (continued)

6.1 Revenues (continued)

Other revenue is mainly represented by sales of heating energy and electricity in the amount of $1,968 (for the six months ended 30 June 2016: $3,134) and sales of Customer services in the amount of $1,686 (for the six months ended 30 June 2016: $33).

The Group concluded investment contracts with local authorities for development and construction of residential districts. According to these investment contracts the Group is required to provide apartments to a number of individuals free of charge in exchange of the development rights. Such exchange of assets represents barter transaction. Transfer of the apartments to individuals constitutes sale, and deferred revenue is recognized at the estimated fair value of the apartments to be transferred as of the date of gaining of the development rights. For the six months periods ended 30 June 2017 and 2016, the Group transferred apartments to individuals and recognized revenues in the amount of $1,723 and $423 respectively.

6.2 Employee benefits, depreciation and amortization

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

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Staff costs, including social security taxes	7,605	2,364
- Payroll costs and other staff costs	*6,424*	*1,741*
- Social security taxes	*1,181*	*623*
Depreciation and amortisation	371	424

Staff costs capitalized as a part of additions to inventories amounted to $9,285 during six months ended 30 June 2017 (during six months ended 30 June 2016: $6,900).

Weighted average annual number of employees for the six months periods ended 30 June 2017 was 526 (for the six months ended 30 June 2016: 504).

6.3 Cost of sales

Cost of sales includes the following:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Cost of sales of residential property	68,516	82,835
Cost of sales of other projects	–	4,961
Cost of sales for rent	94	36
Other costs	3,354	3,161
Total	**71,964**	**90,993**

(in thousands of US dollars)

6. Income and expenses (continued)

6.4 General and administrative expenses

The structure of general and administrative expenses was the following:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Staff costs, including social security taxes	4,296	948
Consulting	1,977	1,925
Rent	862	450
Security	538	426
Taxes other than income tax	499	603
Other assurance services	275	264
Depreciation of property, plant and equipment	246	212
Repair and maintenance	181	202
Telecommunication	175	142
Representation expenses	130	196
Materials	125	142
Other professional services	96	51
Utilities services	55	45
Tax services	42	3
Amortization of intangible assets	16	39
Other	300	231
Total	**9,813**	**5,879**

6.5 Finance income and costs

The components of finance income were as follows:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Interest on bank accounts and deposits	7,585	2,627
Interest on loans receivable	910	408
Income on unwinding of discount on receivables	529	321
Total	**9,024**	**3,356**

The components of finance costs were as follows:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Interest expense	12,875	5,602
Other financial expenses	3,047	1,614
Total	**15,922**	**7,216**

6.6 Other operating income and expenses

The components of other operating income were as follows:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Gain on derecognition of interest-bearing loans and borrowings	258	–
Penalty fees income	76	52
Other income	387	192
Total	**721**	**244**

(in thousands of US dollars)

6. Income and expenses (continued)

6.6 Other operating income and expenses (continued)

The components of other operating expenses were as follows:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Commercial expenses	15,206	6,469
Rent and maintenance of completed real estate property	1,843	1,157
Write-down of inventories to net realizable value (Note 12)	944	2,094
Other taxes (excluding income tax)	649	508
Charity	556	2,373
Penalty fees	546	−
Bank services	250	164
Impairment loss recognized on trade and other receivables, prepayments (Note 13, 14)	225	913
Legal provision	475	95
Loss on disposal of property plant and equipment and inventories	94	57
Other expenses	770	286
Total	**21,558**	**14,116**

7. Income tax

Corporate tax

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

	For the six months ended 30 June	
	2017	***2016***
The Russian Federation (ordinary rate)	20.00%	20.00%
The Republic of Cyprus	12.50%	12.50%

Major components of income tax (benefit)/expense for the six months period ended 30 June 2017 and 2016, were as follows:

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Income tax expense − current	2,231	10,324
Tax risks provision accrued	259	−
Income tax for previous years	2	1
Deferred tax benefit − origination and reversal of temporary differences, net	(3,382)	(1,247)
Income tax (benefit)/expense reported in the interim condenced consolidated statement of profit or loss	**(890)**	**9,078**

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

8. Property, plant and equipment

Additions to construction in progress for the six months ended 30 June 2017 in the total amount of $374 (for the six months ended 30 June 2016: $319) were mainly represented by construction costs incurred on continued construction of utilities networks in amount of $169 (for the six months ended 30 June 2016: $246).

Additions to leasehold improvements and other equipment for the six months ended 30 June 2017 in the total amount of $183 (for the six months ended 30 June 2016: $78) were mainly represented by cars leasing in the amount of $142 (for the six months ended 30 June 2016: $78).

(in thousands of US dollars)

8. Property, plant and equipment (continued)

Interest (net of the interest reimbursed by the governmental bodies), capitalized as part of additions to property, plant and equipment, amounted to $92 during six months ended 30 June 2017 (during six months ended 30 June 2016: $180). The weighted average rate for the borrowings which were obtained for construction purposes (either in part, or in full) for the six months period ended 30 June 2017 equals 14.40% (for the six months ended 30 June 2016: 9.39%).

For the six months ended 30 June 2017, the Group recognized depreciation charge of $452 (for the six months ended 30 June 2016: $385).

As of 30 June 2017 and 30 June 2016, the Group assessed whether there is any indication that its property, plant and equipment may be impaired. The Group used external and internal sources of information for its analysis, and no impairment indicators were identified.

9. Intangible assets other than goodwill

Intangible assets other than goodwill consisted of the following:

	Leasehold rights (land)	*Development rights*	*Other*	*Total*
Cost				
Balance as at 31 December 2015 (audited)	**1,433**	**17,298**	**154**	**18,885**
Additions	–	–	1	**1**
Translation difference	193	2,322	20	**2,535**
Balance as at 30 June 2016 (unaudited)	**1,626**	**19,620**	**175**	**21,421**
Balance as at 31 December 2016 (audited)	**643**	**26,166**	**192**	**27,001**
Disposals	(673)	(2,293)	–	**(2,966)**
Translation difference	30	739	4	**773**
Balance as at 30 June 2017 (unaudited)	**–**	**24,612**	**196**	**24,808**
Accumulated amortization and impairment				
Balance as at 31 December 2015 (audited)	**(1,321)**	**(14,354)**	**(53)**	**(15,728)**
Amortization charge	(26)	(2,750)	(13)	**(2,789)**
Translation difference	(180)	(2,184)	(9)	**(2,373)**
Balance as at 30 June 2016 (unaudited)	**(1,527)**	**(19,288)**	**(75)**	**(20,890)**
Balance as at 31 December 2016 (audited)	**(643)**	**(2,172)**	**(95)**	**(2,910)**
Amortization charge	–	(315)	(16)	**(331)**
Disposals	673	2,293	–	**2,966**
Translation difference	(30)	(95)	(2)	**(127)**
Balance as at 30 June 2017 (unaudited)	**–**	**(289)**	**(113)**	**(402)**
Net book value as at 31 December 2016 (audited)	**–**	**23,994**	**97**	**24,091**
Net book value as at 30 June 2017 (unaudited)	**–**	**24,323**	**83**	**24,406**

Leasehold rights (land) were mainly represented by contractual rights for rent of land in Krasnodar and Moscow region (Sherbinka, Shelkovo, and Ivanteevka). During 2016 and 2017 contractual rights for rent of land in Krasnodar and Sherbinka were written-off due to decision not to develop project Rozhdestvenskaya naberezhnaya in Krasnodar and completion of construction works in Sherbinka.

In prior periods, the Group concluded investment contracts with local authorities for construction of residential districts. As a result, the Group obtained development rights (mostly related to Moscow region projects) and recognized them as intangible assets in exchange for obligation to transfer residential premises to certain number of individuals or constructed social objects to administration free of charge. Carrying value of recognized development rights was determined as market value of residential premises / social objects to be transferred. Disposal of development rights during the six months period ended 30 June 2017 relates to settlement of the obligations to transfer residential premises to individuals in project in Sherbinka.

(in thousands of US dollars)

10. Investment properties

Investment property consisted of the following:

	30 June 2017 (unaudited)	***30 June 2016 (unaudited)***
Opening balance as at 1 January − investment property	**184,448**	**183,089**
Opening balance as at 1 January − investment property − held for sale	**4,190**	**–**
Additions (subsequent expenditure)	886	655
Transfer to inventory (Note 12)	–	3
Translation difference	5,074	24,463
Decrease in fair value of investment property	(3,979)	(1,869)
Closing balance at 30 June − investment property	**185,971**	**202,489**
Closing balance at 30 June − investment property − held for sale	**4,648**	**3,852**

Interest capitalized as part of subsequent expenditure to investment properties amounted to $492 and $488 for the six months ended 30 June 2017 and 2016, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization for the six months ended 30 June 2017 was 6.47% (for the six months ended 30 June 2016: 2.97%).

During the six month period ended 30 June 2017, the Group had income from rent of investment property of $105 and direct operating expenses arising from investment property that generated rental income of $36 (for the six months ended 30 June 2016: $121 and $66 respectively).

As at 30 June 2017 and 31 December 2016, the Group had an intention to sell land plots in Akademicheskiy district in Ekaterinburg and Chelyabinsk. Therefore, the Group transferred following land plots to the Investment property held for sale, the fair value of the assets was measured based on the expected sale price of $4,648 and $4,190, respectively. The Group estimates to complete the sales by the end of June 2018.

During the six months ended 30 June 2017 and 2016, the fair value of investment property was primary determined based on valuation performed by an accredited independent appraiser, who holds recognised and relevant professional qualification and who has had recent experience in the locations and category of the investment property being valued.

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

Investment property fair values relate to the Level 3 of fair value hierarchy. Fair value hierarchy disclosures for investment properties have been provided in Note 24.

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

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

Below are the major projects of the Group and description of valuation techniques for each as at 30 June 2017 and 2016. The investment properties are represented by the land plots for RSG-Akademicheskoe project.

RSG-Academicheskoe project had the fair value of investment property of $177,800 and 93.28% share in total consolidated value of investment property as of 30 June 2017 (31 December 2016: $176,300 and 93.46% respectively).

(in thousands of US dollars)

10. Investment properties (continued)

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

Unobservable inputs for project RSG-Academicheskoe were as follows:

Description	*Methods of assessment*	*Unobservable inputs for project*	*Range (weighted average)*	*Sensitivity of the fair value to the inputs*
Land plots	Income approach, discounted cash flow method	Discount rate for investor's cashflows	19.00%	Increase of investor's cashflows discount rate to 1%, 2% and 3% would decrease fair value by $5,941, $11,695 and $17,280.
		Discount rate for developer's cashflows	25.00%	Increase of developer's discount rate to 1%, 2% and 3% would decrease fair value by $6,516, $12,609 and $18,296.
		Annual change of sales price for residential areas	1.8%, 3.8%, 5.8%, 1.3%	Annual change of sales price for residential areas by 0%, 3.8%, 4%, 1.3% would decrease fair value by $6,550.
		Sales volume of land plot	0.95	Decrease of sales volume of land plot to 0.05, 0.15 and 0.25 land plot per annum would decrease fair value by $11,356, $25,827 and $45,189. Increase of sales volume of land plot to 0.05 land plot per annum would increase fair value by $9,325.

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

11. Interest-bearing loans receivable

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

	Effective interest rate 2017	*30 June 2017 (unaudited)*	*Effective interest rate 2016*	*31 December 2016 (audited)*
Non-current loans receivable				
Loans receivable from third parties	14.63%	26	10.00-14.63%	301
Loans receivable from related parties (Note 22)	14.63%	6,653	14.63%	10,420
Total non-current loans receivable		**6,679**		**10,721**
Current loans receivable				
Loans receivable from third parties	13.94-14.63%	1,428	11.17-14.63%	7,953
Loans receivable from related parties (Note 22)	14.40%	4,514	–	–
Total current loans receivable		**5,942**		**7,953**

As of 30 June 2017 and 30 December 2016, loans receivable were denominated in Russian rubles.

(in thousands of US dollars)

12. Inventories

Inventories consisted of the following as of:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Inventory properties under construction:		
- at cost	317,944	254,159
- at net realizable value	4,681	7,422
Constructed inventory properties:		
- at cost	57,020	88,513
- at net realizable value	19,571	16,369
Other inventory, at cost	3,120	2,304
Total	**402,336**	**368,767**
Including:		
- current	379,950	346,277
- non-current	22,386	22,490

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

As of 30 June 2017 and 31 December 2016, non-current inventory represents one of the Group's construction projects, which is currently suspended due to the change of a construction plan.

As of 30 June 2017 and 31 December 2016, the cumulative write-down to net realizable value in respect of inventories amounted to $32,191 and $34,892, respectively.

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

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
Opening balance at 1 January (audited)	**368,767**	**342,823**
Construction costs incurred	88,037	60,742
Other costs incurred	1,035	1,735
Interest capitalized	5,692	6,774
Transfer to property, plant and equipment	(98)	(18)
Transfer from investment property (Note 10)	–	(3)
Write-down to net realizable value (Note 6.6)	(944)	(2,094)
Disposals (recognized in cost of sales of residential property) (Note 6.3)	(68,516)	(82,835)
Disposals (recognized in cost of other sales and other expenses)	(993)	(1,735)
Disposal of other and uncompleted projects	–	(4,961)
Translation difference	9,356	43,761
Closing balance as at 30 June (unaudited)	**402,336**	**364,189**

During the first half of 2016, the Group sold three land plots in Akademicheskiy district, disposal has been recognized in cost of sales of uncompleted projects in the amount of $4,961 (at historical exchange rates (Note 6.3).

13. Trade and other receivables

Trade and other receivables consisted of the following as at:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Trade accounts receivable due from third parties	5,373	5,634
Trade accounts receivable due from related parties (Note 22)	1,076	659
Other accounts receivable due from third parties	24,943	25,497
Other accounts receivable due from related parties (Note 22)	5,145	2,845
Impairment loss on trade and other receivables	(12,311)	(11,752)
	24,226	**22,883**

(in thousands of US dollars)

13. Trade and other receivables (continued)

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

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
RUR	15,719	14,429
USD	8,507	8,454
	24,226	**22,883**

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

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
At 1 January	**11,752**	**540**
Charge for the reporting period (Note 6.6)	247	913
Amounts reversed (Note 6.6)	–	(164)
Utilised	4	–
Translation differences	308	142
At the end of period	**12,311**	**1,431**

14. Prepayments

Prepayments made consisted of the following as at:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Prepayments made to third parties	16,246	13,011
Prepayments made to third party for investment project	–	45
Prepayments made to related parties (Note 22)	3,170	4,228
Impairment loss	(1,100)	(1,093)
	18,316	**16,191**

Prepayments were mainly denominated in Russian rubles.

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

	30 June 2017 (unaudited)	*30 June 2016 (unaudited)*
At 1 January	**1,093**	**541**
(Reversal)/charge for the reporting period (Note 6.6)	(22)	164
Translation differences	29	87
At the end of period	**1,100**	**792**

15. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Cash	169,448	134,462
Short-term deposits	11,847	11,477
	181,295	**145,939**

Cash and cash equivalents were mainly denominated in Russian rubles.

(in thousands of US dollars)

16. Equity

Charter capital

The Company was incorporated as a limited liability company and its charter capital represents contributions made by the sole participant of the Company. Under Russian legislation the sole participant in a Russian limited liability company does not have the unilateral right to withdraw his capital from the company. Accordingly, charter capital is classified as equity. As of 30 June 2017 the Company's authorized charter capital amounted $715,994 (30 June 2016: $715,994).

Share premium and business combination reserve

Share premium and business combination reserve are related to reorganization under common control occurred in prior years.

Capital contributions and distributions

In April 2016, the Group provided a loan to an entity under common control maturing at 30 April 2019. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue, the difference between the fair value and the nominal value of the loan was recorded as distribution to shareholders in the interim condensed consolidated statement of changes in equity of the Group and amounted to $1,813 for the six months ended 30 June 2016. The loan receivable outstanding amounted to $5,886 at 31 December 2016 and was fully repaid in first half of 2017. Net effect of this repayment was reflected as contribution from shareholders in the interim condensed consolidated statement of changes in equity of the Group and amounted to $1,524 for the six months ended 30 June 2017.

Dividends

On 31 January 2017, the Group declared dividends for the year 2016 in total amount $6,379. Dividends were paid in Russian rubles on 3 April 2017.

17. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings as at 30 June 2017 and 31 December 2016:

Non-current interest-bearing loans and borrowings	*Effective interest rate 2017*	*30 June 2017 (unaudited)*	*Unused borrowing facilities*	*Effective interest rate 2016*	*31 December 2016*	*Unused borrowing facilities*
Loans and borrowings from third parties	10.67-15.00%	58,889	158,830	10.53-16.53%	51,891	129,342
Loans and borrowings from related parties (Note 22)	13.94%	112	15	13.94%	109	15
Total non-current interest-bearing loans and borrowings		**59,001**	**158,845**		**52,000**	**129,357**

Current portion of non-current interest-bearing loans and borrowings	*Effective interest rate 2017*	*30 June 2017 (unaudited)*	*Unused borrowing facilities*	*Effective interest rate 2016*	*31 December 2016*	*Unused borrowing facilities*
Loans and borrowings from third parties	13.29-14.00%	15,602	5,924	16.11-16.53%	39,259	–
Total current portion of non-current interest-bearing loans and borrowings		**15,602**	**5,924**		**39,259**	**–**

Current interest-bearing loans and borrowings	*Effective interest rate 2017*	*30 June 2017 (unaudited)*	*Unused borrowing facilities*	*Effective interest rate 2016*	*31 December 2016*	*Unused borrowing facilities*
Loans and borrowings from third parties	13.10-13.99%	11,712	–	10.53-16.3%	7,379	23,081
Loans and borrowings from related parties (Note 22)	13.94%	2,860	–	13.94%	2,605	–
Total current interest-bearing loans and borrowings		**14,572**	**–**		**9,984**	**23,081**
Total interest-bearing loans and borrowings		**89,175**	**164,769**		**101,243**	**152,438**

All borrowings bear fixed interest rate as at 30 June 2017 and 31 December 2016 and were denominated in Russian rubles.

(in thousands of US dollars)

17. Interest-bearing loans and borrowings (continued)

Compliance with covenants

According to terms of the loan agreements, the Group and its subsidiaries are required to comply with various financial and non-financial covenants. These covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. As of 30 June 2017, the Group complied with covenants or in case of non-compliance obtained waivers prior to 30 June 2017.

Pledged assets

As at 30 June 2017, investment property with the carrying value of $141,028 (31 December 2016: $139,832), inventory with the carrying value of $259,010 (31 December 2016: $161,249) and property plant and equipment with the carrying value of $37 (31 December 2016: $50) are pledged as a collateral for loans and borrowings.

As at 30 June 2017, the Group had pledged shares of the following subsidiaries:

Lender	*Subsidiary pledged*	*Pledged share of subsidiary*	*Share of pledged subsidiary in the total consolidated assets of the Group*	*Share of pledged subsidiary in the total consolidated revenue of the Group*	*Net assets of pledged subsidiary (before inter-company eliminations)*
PAO "Sberbank of Russia"	JSC Regional Construction Group-Akademicheskoe	97%	40.81%	48.78%	323,274
PJSC "St. Petersburg Bank"	LLC Petrovskiy Aliance	100%	6.94%	–	30,918
PAO "Sberbank of Russia"	LLC PSP Express	100%	1.31%	1.26%	1,740
PAO AKB "Absolut Bank"	JSC Kortros-Perm	100%	7.03%	0.19%	4,088
PAO "Sberbank of Russia"	LLC Stroitel	100%	9.91%	–	32,087
					392,107

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

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

(in thousands of US dollars)

18. Debt securities issued

On 3 February 2017, LLC "RSG-Finance" made an additional issue of the third issue of its bonds, with the total par value of $ 25,117 (at the exchange rate as of 30 June 2017) with the same terms as for the main issue − maturity date set on 22 May 2018, the coupon rate, payable semi-annually, set at 13.5% per annum.

On 10 March 2017, LLC "RSG-Finance" announced the interest rate for the fourth, fifth and sixth coupon periods for the fourth tranche of bonds amounting to 15.0% p.a. No bonds of the fourth tranche were presented for redemption on 23 March 2017, the date of buy-back option, so the period of bonds circulation was extended till 18 September 2018.

On 7 April 2017, LLC "RSG-Finance" issued the seventh tranche of 3 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature on 1 April 2022, bear interest rate of 13.50% per annum, payable semi-annually, and were guaranteed by the Company. Debt issuance costs paid by the Group in relation to the arrangement of sevenths issue of bonds in the amount of $776 represented agent commission and arrangement costs.

As of 30 June 2017, debt securities of the third, fourth and sixth issue in the total number 1,264,001 amounting to $21,393 at amortized cost (31 December 2016: 976,924 and $16,106) were repurchased by the Group.

19. Trade and other payables

Trade and other payables consisted of the following as of:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Trade accounts payable due to third parties	19,716	23,356
Trade accounts payable due to related parties (Note 22)	408	835
Other accounts payable due to third parties	7,447	9,690
Other accounts payable due to related parties (Note 22)	203	158
Bonus accrual	8,024	5,347
Unused vacation accrual	1,345	1,361
Total	**37,143**	**40,747**

Trade and other payables were mainly denominated in Russian rubles.

20. Other liabilities

Other liabilities consisted of the following as of:

	30 June 2017 (unaudited)	*31 December 2016 (audited)*
Non-current non-financial liabilities		
Liabilities for investment contracts with local authorities (a)	20,890	20,349
Liabilities for purchasing of land lease rights and assets (b)	10,281	10,015
Non-current financial liabilities		
Liabilities for purchasing of land lease rights, related parties (Note 22) (c)	1,391	1,415
Liabilities for permitted use of land alteration (d)	904	1,114
Liabilities for purchasing of land lease rights and assets	26	71
Lease obligations	235	192
	33,727	**33,156**
Current non-financial liabilities		
Liabilities for investment contracts with local authorities (a)	2,823	4,385
Current financial liabilities		
Liabilities associated with sale of subsidiary (e)	4,570	4,451
Liabilities for purchasing of land lease rights, related parties (Note 22) (c)	3,030	2,909
Liabilities to finance social object construction (f)	880	363
Liabilities for permitted use of land alteration − current portion (d)	696	728
Liabilities for purchase of land lease rights and assets − current portion	357	350
Lease obligations − current portion	169	166
Other current liabilities	52	36
	12,577	**13,388**

(in thousands of US dollars)

20. Other liabilities (continued)

(a) The Group concluded a number of investment contracts with local authorities for development and constructions of residential districts. According to these investment contracts, the Group is required to provide apartments to individuals or construct social objects and transfer them to local authorities free of charge. Current non-financial liabilities represent liabilities of the Group for provision of apartments and social objects under these investment contracts in amount of $2,823 and $4,385 as of 30 June 2017 and 31 December 2016, respectively. Decrease in these current non-financial liabilities for the six months ended 30 June 2017 is related to transfer of apartments in projects in Ivanteevka and Scherbinka to individuals. Non-current non-financial liability represents provision for constraction of social objects under investment contract of Perchushkovo Development LLC in the amount of $20,890 and $20,349 as of 30 June 2017 and 31 December 2016, respectively.

(b) As of 30 June 2017, the Group had outstanding non-current liabilities in respect of the purchase of “Perchushkovo Development” LLC (purchase of asset performed in 2015) represented by an obligation to transfer 16% of constructed real estate property after completion the construction in amount of $10,281 (31 December 2016: $10,015) and the short term payable that represents the payable to the seller in the amount of $250 (31 December 2016: $250).

(c) As of 30 June 2017, the Group had outstanding accounts payable in respect of the purchase of “Zolotoy Vozrast” LLC (purchase of land lease right in 2012 and subsequent sale in 2015) in the amount of $4,421 payable until the end of 2018 (31 December 2016: $4,324). In April 2016, the right to demand the financial liability for acquisition of “Zolotoy Vozrast” LLC was transferred to the related party, Renova Assets Ltd.

(d) In 2016, the Group changed the permitted use of land to residential construction purpose for the project 40 Let Oktyabrya (Moscow) and is obliged to pay to local authorities for this. The Group accrued a financial liability for $1,600 as of 30 June 2017 (31 December 2016: $1,842).

(e) In second half of 2016, the Group sold its subsidiary “Top Project” LLC to a third party. In connection with this deal, the Group is obliged to contribute to Charity Fund on behalf of the buyer. The Group accrued a financial liability for $4,570 as of 30 June 2017 (31 December 2016: $4,451).

(f) In 2016, the Group reported a financial liability to fund a fire station construction related to the project in Schelkovo (Moscow region) in the amount of $372 as of 30 June 2017 (31 December 2016: $363). In 2017, the Group is obliged to pay $1,066 to Educational and sports complex for possibility to connect to transit engineering communications of the project Zhivopisnoe (Moscow region). As of 30 June 2017, the Group had outstanding liability of $508 (31 December 2016: nil).

21. Provisions

Provisions consisted of the following:

	Legal claims	*Construction of social objects*	*Total*
At 31 December 2016 (audited)	**83**	**399**	**482**
Accrued	502	–	**502**
Used amounts	(11)	–	**(11)**
Unused amounts reversed	(27)	–	**(27)**
Unwinding of discounting	–	28	**28**
Translation differences	(7)	10	**3**
At 30 June 2017 (unaudited)	**540**	**437**	**977**

22. Balances and transactions with related parties

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

(in thousands of US dollars)

22. Balances and transactions with related parties (continued)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding on 30 June 2017 and 31 December 2016 are detailed below:

30 June 2017 (unandited)	***Loans receivable***	***Trade and other receivables***	***Advances issued***	***Interest-bearing loans and borrowings***	***Trade and other payables, other liabilities***	***Advances received***
Associates	–	80	1,021	–	104	–
Entities under common control	11,167	6,141	2,149	2,972	4,928	73
Total	**11,167**	**6,221**	**3,170**	**2,972**	**5,032**	**73**

31 December 2016 (audited)	***Loans receivable***	***Trade and other receivables***	***Advances issued***	***Interest-bearing loans and borrowings***	***Trade and other payables, other liabilities***	***Advances received***
Associates	–	47	989	–	231	–
Entities under common control	10,420	3,457	3,239	2,714	5,086	22
Total	**10,420**	**3,504**	**4,228**	**2,714**	**5,317**	**22**

Six months ended 30 June 2017 (unaudited)	***Revenue***	***Finance income***	***Costs***	***Finance costs***	***Other income/ (expenses)***	***Purchases***
Shareholder of the parent company	2	–	–	–	–	–
Associates	–	–	18	–	(543)	–
Entities under common control	2,979	646	177	314	(11)	2,330
Total	**2,981**	**646**	**195**	**314**	**(554)**	**2,330**

Six months ended 30 June 2016 (unaudited)	***Revenue***	***Finance income***	***Costs***	***Finance costs***	***Other income/ (expenses)***	***Purchases***
Associates	85	–	49	–	(348)	–
Entities under common control	2,793	1,428	128	711	(29)	835
Total	**2,878**	**1,428**	**177**	**711**	**(377)**	**835**

The balances with related parties as at 30 June 2017 and 31 December 2016, are unsecured and settlement occurs in cash. Loans and borrowings are interest bearing, while trade receivables, cash and advances granted are not interest bearing. The terms of the transactions are disclosed in other corresponding notes. There have been no guarantees provided or received for any related party receivables or payables.

Compensation to key management personnel

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

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

	30 June 2017 (unaudited)	***30 June 2016 (unaudited)***
Salary	2,105	1,573
Performance bonuses	1,345	1,022
Other compensations	1,193	31
Social security taxes	160	81
Total	**4,803**	**2,707**

(in thousands of US dollars)

23. Contingencies, commitments and operating risks

Operating environment of the Group

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

In 2017, the Russian economy continued to be negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

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

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

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

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

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

The Group estimated that as of 30 June 2017 it had possible obligations from exposures to various tax risks primarily related to financing and investment arrangements of the Group's companies. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and its practical application in the Russian Federation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative.

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

Insurance policies

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

Contractual commitments

The Group has signed a number of contracts for the construction works as of 30 June 2017. The Group had firm contractual commitments for the construction works for an approximate amount of $168,163 (including VAT) as at 30 June 2017 (31 December 2016: $133,175).

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

(in thousands of US dollars)

23. Contingencies, commitments and operating risks (continued)

Legal proceedings

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

The Group is also involved in legal proceedings with the total maximum possible risk estimated at $235 as at 30 June 2017 (31 December 2016: $177).

24. Fair value measurement

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

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values: long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.

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

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

	30 June 2017 (unadited)		***31 December 2016 (audited)***	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Assets				
Interest-bearing loans receivable	12,621	10,901	18,674	17,031
Total assets	**12,621**	**10,901**	**18,674**	**17,031**
Liabilities				
Interest-bearing loans and borrowings	89,175	93,986	101,243	97,771
Debts securities issued	204,014	211,086	128,376	126,713
Total liabilities	**293,189**	**305,072**	**229,619**	**224,484**

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

Currency in which financial instruments are denominated	***30 June 2017 (unaudited)***	***31 December 2016 (audited)***
Current financial assets		
USD	–	–
RUR	13.50%	15.63%
Non-current financial liabilities and assets		
USD	–	–
RUR	15.14%	15.70%
Current financial liabilities		
USD	5.58%	6.05%
EUR	4.04%	3.74%
RUR	13.50%	15.63%

(in thousands of US dollars)

24. Fair value measurement (continued)

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

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

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

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

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

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Fair value hierarchy for assets and liabilities as at 30 June 2017:

	Total	***Level 1***	***Level 2***	***Level 3***
Assets measured at fair value				
Investment properties	**185,971**	−	−	185,971
Assets for which fair value is disclosed				
Interest-bearing loans receivable	**10,901**	−	−	10,901
Liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**93,986**	−	−	93,986
Debts securities issued	**211,086**	−	211,086	−

Fair value hierarchy for assets and liabilities as at 31 December 2016:

	Total	***Level 1***	***Level 2***	***Level 3***
Assets measured at fair value				
Investment properties	**184,448**	−	−	184,448
Assets for which fair value is disclosed				
Interest-bearing loans receivable	**17,031**	−	−	17,031
Liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**97,771**	−	−	97,771
Debts securities issued	**126,713**	−	126,713	−

(in thousands of US dollars)

25. Segment information

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

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

Segment expense is expenses reported in the Group's management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment.

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

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

Six months period ended 30 June 2017

	Akademic city	*Engineering infra-structure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcher-binka*	*Ivanteevka*	*40 Let Oktyabrya*	*Zivopis-naya*	*Manage-ment company*	*Total*
External segment revenue	**41,874**	**2,417**	**1,089**	**1,469**	**18,317**	**15,531**	**2,992**	**16**	**9**	**1,586**	**85,300**
Intersegment revenue	165	464	19	–	–	–	–	–	–	–	**648**
Total segment revenue	**42,039**	**2,881**	**1,108**	**1,469**	**18,317**	**15,531**	**2,992**	**16**	**9**	**1,586**	**85,948**

	Akademic city	*Engineering infra-structure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcher-binka*	*Ivanteevka*	*40 Let Oktyabrya*	*Zivopis-naya*	*Manage-ment company*	*Total*
External segment operating profit/ (loss)	**4,775**	**(302)**	**3**	**(815)**	**(898)**	**2,088**	**(245)**	**(603)**	**(3,132)**	**(10,993)**	**(10,122)**
Intersegment operations	(721)	25	7	9	(418)	–	–	–	1,101	(121)	**(118)**
Total segment operating profit/ (loss)	**4,054**	**(277)**	**10**	**(806)**	**(1,316)**	**2,088**	**(245)**	**(603)**	**(2,031)**	**(11,114)**	**(10,240)**

Six months period ended 30 June 2016

	Akademic city	*Engineering infra-structure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcher-binka*	*Ivanteevka*	*40 Let Oktyabrya*	*Zivopis-naya*	*Manage-ment company*	*Total*
External segment revenue	**39,999**	**3,537**	**1,514**	**2**	**21,035**	**67,711**	**154**	**15**	**–**	**430**	**134,397**
Intersegment revenue	–	–	–	90	688	–	–	–	–	–	778
Total segment revenue	**39,999**	**3,537**	**1,514**	**92**	**21,723**	**67,711**	**154**	**15**	**–**	**430**	**135,175**

	Akademic city	*Engineering infra-structure*	*Yaroslavl*	*Perm*	*Schelkovo*	*Shcher-binka*	*Ivanteevka*	*40 Let Oktyabrya*	*Zivopis-naya*	*Manage-ment company*	*Total*
External segment operating profit/ (loss)	**4,271**	**604**	**(342)**	**(780)**	**5,592**	**26,650**	**(290)**	**(633)**	**(62)**	**(9,091)**	**25,919**
Intersegment operations	(255)	1,338	–	181	2	212	–	–	–	–	**1,478**
Total segment operating profit/ (loss)	**4,016**	**1,942**	**(342)**	**(599)**	**5,594**	**26,862**	**(290)**	**(633)**	**(62)**	**(9,091)**	**27,397**

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

(in thousands of US dollars)

25. Segment information (continued)

Reconciliation of segments' results to net (loss)/profit

	For the six months ended 30 June	
	2017 (unaudited)	***2016 (unaudited)***
Revenue reconciliation		
Total revenue from reportable segments	85,948	135,175
Elimination of intersegment revenue	(648)	(778)
Revenue from non-reportable segments	639	5,336
Total group revenue	**85,939**	**139,733**
Operating profit reconciliation		
Total operating (loss)/profit from reportable segments	(10,240)	27,397
Elimination of intersegment operations	118	(1,478)
Operating (loss)/profit from non-reportable segments	(6,553)	3,070
Change in fair value of investment property	(3,979)	(1,869)
Total group operating (loss)/profit	**(20,654)**	**27,120**
Finance income	9,024	3,356
Finance costs	(15,922)	(7,216)
Foreign exchange losses, net	(125)	(73)
Share of losses of associates	(7)	(78)
(Loss)/profit before income tax	**(27,684)**	**23,109**
Income tax benefit/(expense)	890	(9,078)
Net (loss)/profit for the period	**(26,794)**	**14,031**

The main differences between revenue and operating profit under IFRS and management accounts are represented by different amount of inventories write-down to net realizable value (Note 6.6, 12) and other provisions, accrued under IFRS.

26. Subsequent events

In August 2017, September 2017 and October 2017, LLC "RSG-Finance", the Group's subsidiary, made a coupon yield payments for the sixth, fourth and seventh tranche of its bonds issued in the amount of $3,671, $3,797 and $3,418, respectively (at the exchange rate at 30 June 2017).

In July-September 2017, the Group partially purchased from the open market the fourth tranche of its bonds with par value $38,795 and the sixth tranche of bonds with par value $22,916 (at the exchange rate at 30 June 2017).

On 15 September 2017, LLC "RSG-Finance" placed its third tranche of bonds, with total par value $84,623 (at the exchange rate at 30 June 2017) mature on 11 September 2020. The coupon rate, payable semi-annually, was set at 13.25% per annum.

In July-October 2017, the Group partially repaid its obligations under existing credit facilities in the total amount of $18,048 (at the exchange rate at 30 June 2017).

In July-October 2017, the Group received loan facilities in the total amount of $22,365 (at the exchange rate at 30 June 2017).

In August 2017, LLC "Stroitel", the Group's subsidiary, has prematurely terminated a loan agreement with PAO "Sberbank of Russia" with the amount of unused borrowing facilities of $59,236 and no outstanding debt as of 30 June 2017 (at the exchange rate at 30 June 2017).

On 18 September 2017, LLC "RSG-Finance" has fully repaid its obligations under the loan agreement with PAO "MTS-Bank" in the amount of $6,976 (at the exchange rate at 30 June 2017).