RSG International Ltd

Consolidated financial statements

For the year ended 31 December 2017

Contents

General information

Board of Directors

Georghios Fisentzides (appointed on 21 June 2016)
Savvas Lazarides (appointed on 17 February 2012, resigned on 6 April 2018)
Stelios Trikou (appointed on 13 April 2016, resigned on 6 April 2018)

Company secretary

Georghios Fisentzides (appointed 6 April 2018)
5 Miaouli, Larnaka, 6017
Cyprus

A.J.K. Management Services Limited (resigned on 6 April 2018)
1 Naousis, Karapatakis bldg
Larnaca, 6018

Registration number

C226111

Registered office

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

Independent auditors

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

Consolidated Management Report

The Board of Directors of RSG International Ltd (the "Company") presents herewith its report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

Principal activities

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

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

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

Financial results and dividends

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

On 31 January 2017, the Group declared dividends for the year 2016 in total amount $6,017 (at the exchange rate at the date of announcement). Dividends were paid on 9 March 2017. On 12 October 2017, the Group declared interim dividends in total amount $10,342 (at the exchange rate at the date of announcement). Dividends were paid on 30 October 2017.

Main risks and uncertainties

In the ordinary course of business activity, the Group is exposed to a variety of risks the most important of which are credit risk, liquidity risk and market risk. These risks are identified, measured and monitored through various control mechanisms at the operating level of subsidiaries. Detailed information relating to these risks is set out in Note 27, financial risk management objectives and policies.

Share capital

There were no changes in the share capital of the Company during the year ended 31 December 2017.

The authorized and issued share capital of RSG International Ltd as of 31 December 2017 consists of 6,786,205 ordinary shares of $1 each.

Branches

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

Events subsequent to the reporting date

Events subsequent to the statement of financial position date are disclosed in Note 29 "Subsequent events".

Board of Directors

The members of the Company's Board of Directors as at 31 December 2017 and at the date of this report are presented on page 1.

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

During the year, there were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Consolidated Management Report (continued)

Auditors

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

By order of the Board

RSG INTERNATIONAL LTD

Georghios Fisentzides
Secretary

Larnaca,
19 June 2018

EY
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Independent Auditor's Report

To the Members of RSG International Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of RSG International Ltd (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 1 to 55 and comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia

19 June 2018

Consolidated statement of profit or loss

For the year ended 31 December 2017

(in thousands of US dollars)

	Notes	*Years ended 31 December* 2017	2016*
Continuing operations			
Revenue	3.3, 7.1	300,006	294,761
Cost of sales	3.3, 7.3	(231,759)	(222,071)
Gross profit		**68,247**	**72,690**
General and administrative expenses	7.4	(18,236)	(15,258)
Gain on sale of the subsidiary	4.3	–	85,204
Other operating income	7.6	1,193	2,730
Other operating expenses	7.6	(42,993)	(58,884)
Change in fair value of investment property	11	(3,756)	(15,814)
Operating profit		**4,455**	**70,668**
Finance income	7.5	17,104	8,154
Finance costs	3.3, 7.5	(38,996)	(20,103)
Foreign exchange losses, net		(292)	(588)
Share of gain/(losses) of associates	6	240	(25)
(Loss)/profit before income tax from continuing operations		**(17,489)**	**58,106**
Income tax expense	3.3, 8	(5,318)	(19,458)
Net (loss)/profit for the year from continuing operations		**(22,807)**	**38,648**
Discontinued operations			
Loss after tax for the year from discontinued operations	3.3, 5	**(6,458)**	**(1,047)**
(Loss)/profit for the year		**(29,265)**	**37,601**
Attributable to:			
Equity holders of the parent		(29,424)	37,420
Non-controlling interests		159	181

* *The amounts shown here do not correspond to the consolidated statement of profit or loss for the year ended 31 December 2016 and reflect adjustments from discontinued operations described in Note 5.*

The accompanying notes on pages 6 to 55 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

(in thousands of US dollars)

	Notes	Years ended 31 December 2017	2016
Net (loss)/profit		**(29,265)**	**37,601**
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		495	1,857
Effect of translation to presentation currency − attributable to equity holders of the parent		16,110	53,006
Other comprehensive income, net of tax		**16,605**	**54,863**
Total comprehensive (loss)/income, net of tax		**(12,660)**	**92,464**
Attributable to:			
Equity holders of the parent		(13,314)	90,426
Non-controlling interests		654	2,038

The accompanying notes on pages 6 to 55 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2017

(in thousands of US dollars)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	9	10,617	9,438
Investment properties	11	192,285	184,448
Investments in associates	6	758	487
Intangible assets	10	26,955	24,091
Inventories	14	24,436	22,490
Trade and other receivables	15	2,678	1,955
Interest-bearing loans receivable	13	13,989	10,721
Deferred tax assets	3.3, 8	9,727	6,258
		281,445	**259,888**
Current assets			
Inventories	3.3, 14	333,515	346,277
Trade and other receivables	15	23,032	22,883
Contract assets	3.3	6,554	–
Prepayments	16	23,621	16,187
Income tax receivable		4,330	3,523
Taxes recoverable	12	7,120	6,284
Interest-bearing loans receivable	13	38,522	7,953
Cash and cash equivalents	17	135,307	145,938
		572,001	**549,045**
Investment properties held for sale	11	868	4,190
Assets held for sale	3.3, 5	4,805	–
		577,674	**553,235**
Total assets		**859,119**	**813,123**
Equity and liabilities			
Equity			
Issued capital	18	6,787	6,787
Share premium		671,712	671,712
Capital contribution reserve	18	(68,731)	(70,256)
Business combination reserve		112,009	112,009
Accumulated losses		(115,074)	(67,289)
Foreign currency translation reserve		(322,572)	(338,682)
Equity attributable to equity holders of the parent		**284,131**	**314,281**
Total non-controlling interest		11,137	10,483
Total equity		**295,268**	**324,764**
Non-current liabilities			
Interest-bearing loans and borrowings	19	51,986	52,000
Debt securities issued	20	173,267	84,364
Provisions	24	–	399
Other liabilities	22	36,219	33,156
Deferred income tax liabilities	3.3, 8	50,938	46,364
		312,410	**216,283**
Current liabilities			
Interest-bearing loans and borrowings	19	25,197	49,243
Debt securities issued	20	62,516	44,012
Trade and other payables	21	31,311	40,749
Contract liabilities	3.3, 23	110,791	112,932
Income taxes payable		6,973	9,308
Other taxes payable		2,093	2,362
Provisions	3.3, 24	1,377	83
Other liabilities	22	9,827	13,387
Liabilities directly associated with the assets held for sale	3.3, 5	1,356	–
		251,441	**272,076**
Total liabilities		**563,851**	**488,359**
Total equity and liabilities		**859,119**	**813,123**

On 19 June 2018, the Board of Directors of RSG International Ltd authorized these financial statements for issue.

Georghios Fisentzides ____________ Director

The accompanying notes on pages 6 to 55 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

(in thousands of US dollars)

	Year ended 31 December 2017	*Year ended 31 December 2016*
Cash flows from operating activities		
(Loss)/profit before tax from continuing operations	(17,489)	58,106
Loss before tax from discontinuing operations	(6,580)	(634)
(Loss)/profit before tax	**(24,069)**	**57,472**
Adjustments for:		
Depreciation and amortization (Note 7.2)	848	1,494
Finance income (Note 7.5)	(17,104)	(8,154)
Finance costs (Note 7.5)	38,996	20,103
Change in fair value of investment properties (Note 11)	3,756	15,814
(Gain)/loss on sale of property, plant and equipment (Note 7.6)	(116)	325
Write off of uncompleted project (Note 14)	–	5,551
Write-down of inventory to net realizable value (Note 14)	6,671	3,474
Impairment loss recognized on trade and other receivables, prepayments (Note 7.6)	291	11,006
Change in legal provisions (Note 7.6)	200	(7)
Impairment of property, plant and equipment (Note 7.6, Note 9)	–	7,238
Foreign exchange losses	292	588
Change in bonuses and unused vacation accruals	(205)	(425)
Losses from write-off of VAT receivable	1,008	748
Share of (profits)/losses of associates (Note 6)	(240)	25
Gain on derecognition of accounts payable (Note 7.6)	(256)	(56)
Gain on sale of subsidiary (Note 4.3)	–	(85,204)
Gain on sale of uncompleted project (Note 7.6)	–	(534)
Barter revenue (Note 7.1)	(3,244)	(3,551)
Cost of capitalized development rights (Note 7.3)	2,343	7,059
Capitalized significant financing component on advances from customers, recognised in cost of sales	1,142	–
Significant financing component on advances from customers, recognised in revenue	(7,542)	–
Other non-cash operations	404	1,710
Non-cash adjustments for discontinued operations	6,241	1,928
Operating cash flow before working capital changes	**9,416**	**36,604**
Decrease in inventories	29,244	36,234
Changes in trade and other receivables, contract assets	7,735	3,075
(Increase)/decrease in prepayments	(7,914)	1,425
(Increase)/decrease in VAT receivable	(1,752)	1,586
Decrease in trade and other payables	(13,349)	(7,811)
Decrease in contract liabilities	(14,846)	(16,060)
Decrease in other taxes payable	(203)	(1,642)
Decrease in provisions	(68)	(28)
Decrease in other liabilities	(3,256)	(8,748)
Cash flows from operating activities	**5,007**	**44,635**
Income tax paid	(9,398)	(17,173)
Interest paid (Note 27)	(34,132)	(26,198)
Net cash flows used in operating activities from continuing operations	**(38,184)**	**(30)**
Net cash flows (used in) / from operating activities from discontinued operations	**(113)**	**2,952**
Net cash flows (used in) / from operating activities	**(38,297)**	**2,922**
Cash flows from investing activities		
Purchase of investment properties	(1,373)	(206)
Purchase of property, plant and equipment and intangible assets	(1,056)	(693)
Aquisition of subsidiary, net of cash acquired (Note 4.1)	–	7,833
Payments for aquisition of ZPIF (Note 4.2)	–	(7,500)
Disposal of subsidiaries, net of cash disposed (Note 4.3)	–	38,635
Issuance of loans receivable	(43,419)	(11,330)
Proceeds from sale of investment properties, property, plant and equipment	2,655	4,468
Repayment of loans receivable	14,329	1,104
Disposal of projects, net of cash disposed	2	(2)
Interest received	1,099	146
Net cash flows (used in) / from investing activities from continuing operations	**(27,763)**	**32,455**
Net cash flows (used in) / from investing activities from discontinued operations	**(10)**	**25**
Net cash (used in) / from investing activities	**(27,773)**	**32,480**
Cash flows from financing activities		
Proceeds from borrowings and bonds (Note 27)	193,353	188,872
Repayment of borrowings and bonds (Note 27)	(127,763)	(143,523)
Dividends paid to shareholders (Note 27)	(16,526)	–
Purchase of non-controlling interest (Note 18)	–	(691)
Repayment of finance lease obligation (Note 27)	(281)	(134)
Net cash flows from financing activities from continuing operations	**48,783**	**44,524**
Net cash flows used in financing activities from discontinued operations (Note 27)	**(22)**	**(1,369)**
Net cash flows from financing activities	**48,761**	**43,155**
Effect of exchange rate changes on cash and cash equivalents	7,073	13,270
Net (decrease)/increase in cash and cash equivalents	**(10,236)**	**91,827**
Excluding the effect of cash and cash equivalents change for discontinued operations	395	–
Cash and cash equivalents at the beginning of the year	145,938	54,111
Cash and cash equivalents at the end of the year	**135,307**	**145,938**

The accompanying notes on pages 6 to 55 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

(in thousands of US dollars)

	Attributable to the equity holders of the parent								
	Issued capital	***Share premium***	***Capital contribution reserve***	***Business combination reserve***	***Accumulated losses***	***Foreign currency translation reserve***	***Total***	***Non-controlling interest***	***Total equity***
As at 31 December 2015	**6,787**	**671,712**	**(22,006)**	**112,009**	**(103,484)**	**(391,688)**	**273,330**	**10,276**	**283,606**
Profit for the year	–	–	–	–	37,420	–	**37,420**	181	**37,601**
Other comprehensive income	–	–	–	–	–	53,006	**53,006**	1,857	**54,863**
Total comprehensive income	**–**	**–**	**–**	**–**	**37,420**	**53,006**	**90,426**	**2,038**	**92,464**
Non-controling interest arising on business combination (Note 4.2)	–	–	–	–	–	–	**–**	10	**10**
Acquisition of non-controlling interest in ZPIF (Note 18)	–	–	–	–	(681)	–	**(681)**	(10)	**(691)**
Acquisition of non-controlling interest in ZHSPK (Note 18)	–	–	–	–	(529)	–	**(529)**	(2,007)	**(2,536)**
Disposal of subsidiaries (Note 18)	–	–	–	–	–	–	**–**	176	**176**
Acquisition of subsidiary (Note 4.1)	–	–	(46,946)	–	–	–	**(46,946)**	–	**(46,946)**
Capital distributions to shareholder (Note 18)	–	–	(1,813)	–	–	–	**(1,813)**	–	**(1,813)**
Capital contributions from shareholder (Note 18)	–	–	509	–	–	–	**509**	–	**509**
Other	–	–	–	–	(15)	–	**(15)**	–	**(15)**
As at 31 December 2016	**6,787**	**671,712**	**(70,256)**	**112,009**	**(67,289)**	**(338,682)**	**314,281**	**10,483**	**324,764**
As at 1 January 2017	**6,787**	**671,712**	**(70,256)**	**112,009**	**(67,289)**	**(338,682)**	**314,281**	**10,483**	**324,764**
Impact of adopting IFRS 15 (Note 3.3)	–	–	–	–	(2,002)	–	**(2,002)**	–	**(2,002)**
Restated opening balance as at 1 January 2017 under IFRS 15	**6,787**	**671,712**	**(70,256)**	**112,009**	**(69,291)**	**(338,682)**	**312,279**	**10,483**	**322,762**
Net loss for the year	–	–	–	–	(29,424)	–	**(29,424)**	159	**(29,265)**
Other comprehensive income	–	–	–	–	–	16,110	**16,110**	495	**16,605**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(29,424)**	**16,110**	**(13,314)**	**654**	**(12,660)**
Dividends paid to the equtiy holders of the parent (Note 18)	–	–	–	–	(16,359)	–	**(16,359)**	–	**(16,359)**
Capital contributions from shareholders (Note 18)	–	–	1,525	–	–	–	**1,525**	–	**1,525**
As at 31 December 2017	**6,787**	**671,712**	**(68,731)**	**112,009**	**(115,074)**	**(322,572)**	**284,131**	**11,137**	**295,268**

The accompanying notes on pages 6 to 55 form an integral part of these consolidated financial statements.

(in thousands of US dollars)

1. Corporate information

The consolidated financial statements of RSG International Ltd (hereinafter “the Company”) and its subsidiaries (hereinafter, “RSG International” or “the Group”) for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 19 June 2018.

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

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

Principal activities

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

The consolidated financial statements include the financial statements of RSG International Ltd and its more than forty wholly owned subsidiaries and one subsidiary representing the Group’s Ural Federel Districtin in which a minority shareholder holds 3% interest.

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. For the year ended 31 December 2017, the Group reported operating cash outflow from continuing operations of $38,184 and net loss from continuing operations of $22,807. For the year ended 31 December 2016, the Group reported operating cash outflow from continuing operations of $30 and net profit from continuing operations of $38,648.

Abovementioned cash outflows does not create going concern risks as current assets exceed current liabilities by $326 233 as at 31 December 2017 (31 December 2016: $281 159). In addition the Group has unused borrowing facilities in the amount of $73 380 as at 31 December 2017 (31 Decenber 2016: $152 438).

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

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

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

These consolidated financial statements of the Group for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Basis of preparation

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

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated. The functional currency of the Company and its subsidiaries is the national currency of the Russian Federation, Russian ruble ("RUR"). At 31 December 2017, the principal rate of exchange used for translating the balances on the Group's consolidated statement of financial position from functional currency to presentation currency was 57.6002 RUR/US dollars (USD) (2016: 60.6569 RUR/USD). The average rate used for translation of the Group's consolidated statement of profit or loss from functional currency to presentation currency for the first half-year of 2017 was 57.9862 RUR/USD and for the second half-year of 2017 was 58.7137 RUR/USD (2016: 70.2583 RUR/USD and 63.8465 RUR/USD, respectively). Whenever a significant individual transaction can be attributed to a specific date, it was translated into the US dollars using the rate of the date of the transaction.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017.

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

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Acquisition of companies

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Litigations

The Group exercises judgement in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 26.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

Fair value of investment properties

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

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

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

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

Techniques used for valuing investment property

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

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

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

Fair value of financial instruments

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

Fair values of assets and liabilities acquired in business combinations

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

Such estimates are based on valuation techniques (the Discounted Cash Flow Method or Market approach), which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2016, an impairment loss of $7,238 was identified and recognized by the Group. In 2017, no impairment loss was identified.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.2 Significant accounting judgements, estimates and assumptions (continued)

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

Development costs

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

Current taxes

The Group recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses in the period in which the determination is made. More details are provided in Note 26.

Allowances

Inventory is stated at the lower of cost and net realizable value (NRV) (Note 14). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Group's sales and marketing managers. Estimates of NRV of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period. As of 31 December 2017 and 2016, allowance for net realizable value in respect of inventories amounted to $30,609 and $34,892, respectively.

The Group makes allowances for doubtful accounts receivable and loans receivable to account for estimated losses resulting from inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Allowances for doubtful accounts in respect of accounts receivable and prepayments had been made in the amount of $10,989 and $1,472 as of 31 December 2017, and $11,752 and $1,093 as of December 2016, respectively (Note 15, Note 16).

Deferred income tax assets

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

2.3 Business combinations and goodwill

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.3 Business combinations and goodwill (continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group determines whether goodwill is impaired at least on an annual basis. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Acquisition of non-controlling interest

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

Business combinations under common control

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

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

2.4 Investments in associates

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

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

2.5 Foreign currency translation

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

The functional currency of the Group is the Russian ruble ("RUR"). The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the users of the consolidated financial statements.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.5 Foreign currency translation (continued)

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

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

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

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

2.6 Financial instruments

i) Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investments

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

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

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

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

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

Derecognition

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

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

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

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

ii) Impairment of financial assets

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

Financial assets carried at amortized cost

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

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

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

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

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

Available-for-sale financial investments

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

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

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

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

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

iii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans, borrowings and debt securities issued

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

2.7 Cash and cash equivalents

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.8 Inventories

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

Completed property and property under development

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

- Freehold and leasehold rights for land;
- Planning and design costs, costs of site preparation;
- Cost of raw materials;
- Labor costs and amounts paid to subcontractors for construction;
- Construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- Borrowing costs.

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

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

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

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

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

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

2.9 Property, plant and equipment

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

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

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

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

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

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

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

2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over the useful economic life on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

2.12 Investment property

Investment property comprises the land with currently undetermined future use and completed property (principally offices, commercial warehouse and residential property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held to earn rentals or for capital appreciation or both.

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

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

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

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.13 Deferred income taxes

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

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

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

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

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

2.14 Leases

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

Group as a lessee

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

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

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

Operating lease contracts − Group as lessor

The Group has entered into commercial property leases on its property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

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

2.15 Provisions

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

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

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.16 Equity

Issued capital and share premium

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

Capital contribution reserve

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

Business combination reserve

Business combination reserve represents:

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

Foreign currency translation reserve

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

Dividends

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

2.17 Revenue recognition

The Group recognises revenue from the following major sources:

- Construction of residential properties;
- Sales of uncompleted projects;
- Lease of commercial property;
- Heating, water, electricity and energy services;
- Agency services;
- Barter revenue.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Construction of residential properties

Amount of revenue is determined on the basis of the consideration promised in a contract with a customer, excluding amounts collected on behalf of third parties and adjusted for the effects of a significant financing component. Financing component represent amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (i.e. the cash selling price).

Amount of financing component is estimated using the discount rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception. Interest expense recognized as a result of adjustments for a significant financing component is presented in the same way as financing costs. As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers property to a customer and when the customer pays for that property is one year or less.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.17 Revenue recognition (continued)

Revenue is recognised when the customer obtains control over residential properties. Moment of transfer of control depends on the conditions of the contract. The Group constructs and sells residential properties to customers under two major types of contracts: (a) sales contracts and (b) long-term co-investment contracts.

(a) Revenues from sales contracts is recognized at point in time when the act of delivery and acceptance is signed by the Group and the customer.

(b) Co-investment contracts are usually entered into at the early stages of construction of the residential properties. Under the terms of these contracts, the Group is contractually restricted from redirecting the properties to another customer:

- (i) Revenue under co-investment contracts signed before 1 January 2017 is recognized at point in time when the act of delivery and acceptance is signed by the Group and the customer.
- (ii) Starting from 1 January 2017 the Group has an enforceable right to payment for work done due to changes in Federal Law *On Participation in the Joint-share Construction of Apartment Buildings and Other Real Properties* No. 214-FZ. Therefore, revenue on co-investment contracts signed after 1 January 2017 is recognized over time using input method. Under the input method revenue is recognized on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. The Group considers that input method using costs is an appropriate measure of the progress towards complete satisfaction of these performance obligations. The Group calculates progress of completion based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. For the purpose of measuring progress towards complete satisfaction of these performance obligations the cost of land plots and permissions are excluded from actual costs incurred and estimated total contract costs, as such costs does not contribute to the progress of properties construction, and treated as a fulfilment costs.

Under co-investment contracts customers ordinary pay the full consideration up-front and the Group concluded that all such contracts contain significant financing component.

Sales of uncompleted projects

The Group considers real estate investments (purchase of land plots) and sales as its principal activity and, consequently, recognizes such income as revenue at a point of land plot transfer to a customer.

Lease of commercial property

The Group leases out commercial premises and land plots to related and third parties. Rental income receivable under operating leases is recognized on a straight-line basis over the term of the lease, except for contingent rental income which is recognized when it arises. Premiums received to terminate leases are recognized in the statement of operations when they arise.

Heating, water, electricity and energy supply services

The Group provides heating, water, electricity and energy supply services to related and third parties and recognizes revenue when respective services are supplied.

Technical supervision services

The Group performs technical construction supervision services to related and third parties and recognizes revenue when respective services are supplied.

Barter revenue

The Group concludes 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 or construct social objects and transfer them to local authorities free of charge in exchange of the development rights. Such exchange of assets represents barter transaction. Transfer of the apartments and social objects constitutes sale, and deferred revenue is recognized at the estimated fair value of the apartments/social objects to be transferred as of the date of gaining of the development rights. The barter revenue is recognized at a point of time when apartment or social objects are accepted by local authorities and/or transferred to third parties.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.18 Interest income

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

2.19 Exchange transactions

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

2.20 Employee benefits

State pension scheme

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

2.21 Classification of assets and liabilities

Assets and liabilities are classified as current if they are expected to be realized or settled within the twelve months after the balance sheet date, except for the Inventory and contract liabilities, which are classified as current if the Company expects to realise them or intends to settle them in its normal operating cycle, which may exceed 12 months. All other assets and liabilities are classified as non-current.

3. Changes in accounting policies and disclosures

3.1 New and amended standards and interpretations

During the current year the Group applied certain new and revised International Financial Reporting Standards (IFRS) and amendments adopted by the EU, which are relevant to its operations and effective for annual periods beginning on or after 1 January 2017.

The following new standards and amendments became effective as of 1 January 2017 as adopted by the EU:

- Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*. The Group has provided the information for both the current and the comparative period in Note 27.
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*: clarification of the scope of disclosure requirements in IFRS 12 from Annual improvements cycle − 2014-2016.
- Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*.

Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective except for IFRS 15 *Revenue from Contracts with Customers*. Refer to Note 3.3.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

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

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

Issued by the IASB and adopted by the European Union

- IFRS 9 *Financial Instruments: Classification and Measurement* (tentatively effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2018).
- Annual improvements to IFRS standards 2014-2016 cycle (effective for annual periods beginning on or after 1 January 2018).

The Group does not expect significant impact on its financial statements after applying the requirements of abovementioned standards, amendments and improvements.

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

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date is postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting).
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018).
- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021).
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019).
- Annual improvements to IFRS standards 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after 1 January 2019).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group is currently evaluating the potential impact of this standard and the amendments to the consolidated financial statements when it becomes effective.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.3 Application of new and revised International Financial Reporting Standards (IFRSs)

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) in advance of its effective date using the modified retrospective method starting from 1 January 2017 (the date of initial application).

Under modified retrospective method the Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of accumulated losses of the annual reporting period that includes the date of initial application. The Group elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group used practical expedient described in paragraph C5(c) of IFRS 15 and reflected the aggregate effect of all of the modifications that occured before the date of initial application.

The application of IFRS 15 has had a significant impact on the financial position and financial performance of the Group. The reasons for significant changes were as follows:

(a) The date of revenue recognition for co-investment contracts has significantly changed. Under previous policy revenue was recognized at point in time when the act of delivery and acceptance was signed by the Group and the customer. Starting from 1 January 2017 the Group has an enforceable right to payment for work done due to changes in Federal Law *On Participation in the Joint-share Construction of Apartment Buildings and Other Real Properties* No. 214-FZ. Therefore, revenue on co-investment contracts signed after 1 January 2017 is recognized over time using input method (i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs).

(b) Under co-investment contracts customers ordinary pay the full consideration up-front and the Group concluded that co-investment contracts, where the period between when the Group transfers property to a customer and when the customer pays for that property exceeds one year, contain significant financing component. Amount of financing component is estimated using the discount rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception. Interest expense recognized as a result of adjustments for a significant financing component is presented in the same way as financing costs.

(c) Recognition of the impact on deferred income tax of the above adjustments.

(d) Presentation of advances from customers as contract liabilities starting from 1 January 2017.

The amounts by which each financial statement line item is affected in the current reporting period by the application of IFRS 15 as compared to IAS 11, IAS 18 and related Interpretations that were in effect before the change are presented in the tables below.

In accordance with IFRS 15 requirements, the disclosure of impact of adoption of IFRS 15 on the consolidated financial statements is as follows:

		For the year ended 31 December 2017		
		As reported	*Balances without adoption of IFRS 15*	*Effect of change*
Statement of profit or loss				
Revenue	(a)	300,006	218,584	81,422
Cost of sales	(a)	(231,759)	(176,919)	(54,840)
Gross profit		**68,247**	**41,665**	**26,582**
Operating profit/(loss)		**4,455**	**(22,127)**	**26,582**
Finance expense	(b)	(38,996)	(31,047)	(7,949)
Loss before income tax		**(17,489)**	**(36,122)**	**18,633**
Income tax expense	(c)	(5,318)	557	(5,875)
Loss for the year from continuing operations		**(22,807)**	**(35,565)**	**12,758**
Loss for the year from discontinued operations		**(6,458)**	**(6,458)**	**–**

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.3 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

		Balances at 31 December 2016	*Adjustments due to IFRS 15*	*Balances at 1 January, 2017*
Statement of financial position				
Assets				
Defered tax assets	(c)	6,258	(442)	5,816
Equity				
Accumulated losses	(b)	(67,289)	(2,002)	(69,291)
Liabilities				
Contract liabilities	(b), (d)	–	115,434	115,434
Advances from customers	(d)	112,932	(112,932)	–
Deferred income tax liabilities	(c)	46,364	(942)	45,422

		As of 31 December 2017		
		As reported	*Balances without adoption of IFRS 15*	*Effect of change*
Statement of financial position				
Assets				
Inventories	(b)	333,515	385,748	(52,233)
Contract assets	(a)	6,554	–	6,554
Defered tax assets	(c)	9,727	11,323	(1,596)
Assets held for sale		4,805	6,896	(2,091)
Liabilities				
Contract liabilities	(a), (b)	110,791	–	110,791
Advances from customers	(d)	–	173,126	(173,126)
Provisions		1,377	1,086	291
Deferred income tax liabilities	(c)	50,938	47,083	3,855
Liabilities directly associated with the assets held for sale		1,356	3,447	(2,091)
Equity				
Foreign currency translation reserve		(322,572)	(322,730)	158
Accumulated losses		(115,074)	(125,830)	10,756

		For the year ended 31 December 2017		
		As reported	*Flows without adoption of IFRS 15*	*Effect of change*
Statement of cash flows				
Loss before tax from continuing operations		(17,489)	(36,122)	18,633
Adjustments for:				
Finance costs	(b)	38,966	31,047	7,949
Capitalized significant financing component on advances from customers, recognised in cost of sales	(b)	1,142	–	1,142
Significant financing component on advances from customers, recognised in revenue	(b)	(7,542)	–	(7,542)
Other non-cash operations		290	–	290
Operating cash flow before working capital changes		**9,416**	**(11,056)**	**20,472**
Change in inventories	(b)	29,244	(24,165)	53,409
Changes in trade and other receivables, contract assets		7,735	14,165	(6,430)
Change in contract liabilities	(a), (b)	(14,846)	–	(14,846)
Change in advances received	(d)	–	52,605	(52,605)

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.3 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

The Group decided to apply IFRS 15 after it had issued interim financial statements for the six month period ended 30 June 2017. Therefore, interim financial statements for the six month period ended 30 June 2017 were prepared in accordance with requirements if IAS 18 *Revenue*. Impact of application of IFRS 15 *Revenue from Contracts with Customers* to the interim financial statements for the six month period ended 30 June 2017 is as follows:

		For the period ended 30 June 2017		
		As reported (unaudited)	*Balances with adoption of IFRS 15 (unaudited)*	*Effect of change*
Statement of profit or loss				
Revenue	(a)	85,941	115,663	(29,722)
Cost of sales	(a)	(71,964)	(95,786)	23,822
Gross profit		**13,977**	**19,877**	**(5,900)**
Operating loss		**(20,635)**	**(14,735)**	**(5,900)**
Finance expense	(b)	(15,921)	(22,803)	6,882
Loss before income tax		**(27,696)**	**(28,678)**	**982**
Income tax expense	(c)	894	396	498
Loss for the period		**(26,802)**	**(28,282)**	**1,480**

		As of 30 June 2017		
		As reported (unaudited)	*Balances with adoption of IFRS 15 (unaudited)*	*Effect of change*
Statement of financial position				
Assets				
Inventories	(b)	379,950	357,046	22,904
Defered tax assets	(c)	10,704	10,573	131
Liabilities				
Contract liabilities	(a), (b)	–	132,364	(132,364)
Advances from customers	(d)	152,216	–	152,216
Provisions		540	1,009	(469)
Deferred income tax liabilities	(c)	48,557	48,401	156
Equity				
Foreign currency translation reserve		(329,949)	(329,963)	14
Retained earnings		(100,155)	(103,637)	3,482

		For the period ended 30 June 2017		
		As reported	*Flows with adoption of IFRS 15*	*Effect of change*
Statement of cash flows				
Loss before tax from continuing operations		(27,696)	(28,678)	(982)
Adjustments for:				
Finance costs	(b)	15,921	22,803	6,882
Capitalized significant financing component on advances from customers, recognised in cost of sales		–	322	322
Significant financing component on advances from customers, recognised in revenue	(b)	–	(458)	(458)
Other non-cash operations		–	469	469
Operating cash flow before working capital changes		**(13,156)**	**(6,923)**	**6,233**
Change in inventories	(b)	(18,309)	4,713	23,022
Change in contract liabilities	(a), (b)	–	4,788	4,788
Change in advances received	(d)	34,043	–	(34,043)

(in thousands of US dollars)

4. Business combinations, acquisitions and disposals

4.1 Acquisition of subsidiary from company under common control

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

	10 October 2016
Property, plant and equipment	126,388
Inventories	776
Trade and other receivables	626
Taxes recoverable	304
Prepayments	85
Loans receivable	12
Cash	7,833
Loans payable	(177,154)
Trade and other payables	(3,668)
Taxes payable	(1,760)
Advances received	(388)
Net assets	**(46,946)**
Purchase consideration paid	0.001
Difference between the carrying value of net assets acquired and consideration transferred (Note 18)	(46,946)

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

4.2 Acquisition of ZPIF

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

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

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

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

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

	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)

4.2 Acquisition of ZPIF (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**

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

4.3 Disposal of subsidiary

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

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

The table below sets the carrying values of the sold assets and liabilities at the date of disposal:

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

(in thousands of US dollars)

5. Discontinued operations

In the second half of 2017, the Group decided to close its operating segment in the Central Federal District of the Russian Federation, which is represented by the one subsidiary of the Group. At 31 December 2017, assets and liabilities of the company were classified as a disposal group held for sale and as a discontinued operations. The business of the company represented the entirety of the Group's Central region operating segment until 1 July 2017. With subsidiary being classified as discontinued operations, the Central region segment is no longer presented in the segment note (Note 28).

The results of the disposal segment are presented below:

	For the years ended 31 December	
	2017	***2016***
Revenue	3,627	12,386
Cost of sales	(3,583)	(10,654)
Gross profit	**44**	**1,732**
General and administrative expenses	(69)	(59)
Other operating income	–	40
Other operating expenses	(783)	(2,462)
Operating loss	**(808)**	**(749)**
Finance income	54	132
Finance cost	–	(17)
Impairment loss recognised	(5,826)	–
Loss for the year before income tax from discontinued operations	**(6,580)**	**(634)**
Tax benefit/(expense)		
Related to pre-tax loss from the ordinary activities for the period	122	(413)
Loss for the year from discontinued operations	**(6,458)**	**(1,047)**

The major classes of assets and liabilities classified as held for disposal as at 31 December 2017 are, as follows:

	2017
Assets	
Property, plant and equipment	6
Deferred tax assets	115
Inventories	3,318
Trade and other receivables	75
Prepayments	837
Taxes recoverable	59
Cash and cash equivalents	395
Assets held for sale	**4,805**
Liabilities	
Trade and other payables	(101)
Contract liabilities	(1,255)
Liabilities directly associated with assets held for sale	**(1,356)**
Net assets directly associated with disposal group	**3,449**

The net assets directly associated with disposal group in the amount of $3,449 represent the fair value less costs to sell of the disposal group.

(in thousands of US dollars)

6. Investment in associates

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

The Group has 25% + 1 share in the entity that provides services to citizens of Ural Region of the Russian Federation.

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

	For the years ended 31 December	
	2017	***2016***
Opening balance as at 1 January	**487**	**435**
Share of profit for the year	240	(25)
Translation difference	31	77
Closing balance at 31 December	**758**	**487**

7. Income and expenses

7.1 Revenues

Revenues include the following:

	For the years ended 31 December	
	2017	***2016***
Revenue from contracts with customers		
Sales of residential property	287,691	267,622
Sales of uncompleted projects	–	7,947
Sales of other projects	–	3,422
Barter revenue	3,244	3,551
Agency services	2,906	233
Sales of heating energy and electricity	2,876	5,778
Other revenue	1,990	5,278
Total revenue from contracts with customers	**298,707**	**293,831**
Rental income	1,299	930
Total	**300,006**	**294,761**

Revenues from contracts with customers include the following:

	For the years ended 31 December	
	2017	***2016***
Revenue recognized over time		
Sales of residential property	81,444	–
Total revenue recognized over time	**81,444**	**–**
Revenue recognized at point in time		
Sales of residential property	206,247	267,622
Sales of uncompleted projects	–	7,947
Sales of other projects	–	3,422
Barter revenue	3,244	3,551
Agency services	2,906	233
Sales of heating energy and electricity	2,876	5,778
Other revenue	1,990	5,278
Revenue recognized at point in time	**217,263**	**293,831**
Total revenue from contracts with customers	**298,707**	**293,831**

Revenue of each reportable segment, presented in the Note 28, mainly comprise of revenue from sales of residential property, except for the segment "Management company" which revenue mainly comprise of rental income.

In 2016, the Group sold land plots in Ural Region of the Russian Federation and recognized revenue from sale of uncompleted projects in the amount of $7,947 and related expenses as cost of sales in the amount of $4,964 (Note 7.3) in the consolidated statement of profit or loss.

(in thousands of US dollars)

7. Income and expenses (continued)

7.1 Revenues (continued)

In the second half of 2016, the Group sold a hotel complex to a third party and recognized a revenue related to sale of other projects in the amount of $3,422 and related expenses as cost of sales in the amount of $3,540 (Note 7.3). The Group considers real estate investments and sales as its principal activity and, consequently, recognizes such income as revenue.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	For the years ended 31 December	
	2017	***2016***
Receivables, which are included in "Trade and other receivables"	5,296	6,293
Contract assets	6,554	–
Contract liabilities	110,791	112,932

In 2017 there was no revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods.

The contract assets primarily relate to the Group enforceable right to payment for work performed as at reporting date. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advances consideration received from customers. Significant changes in the contract assets and the contract liabilities described in Note 23.

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period amounts to $104,237 and is going to be recognized within subsequent one or two years.

7.2 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 years ended 31 December	
	2017	***2016***
Staff costs, including social security taxes	11,233	8,604
- Payroll costs and other staff costs	*9,258*	*6,908*
- Social security taxes	*1,975*	*1,696*
Depreciation and amortisation	848	1,494

Staff costs capitalized as a part of additions to inventories amounted to $12,665 during the year ended 31 December 2017 (2016: $16,981).

An average annual number of employees for the year ended 31 December 2017 was 526 (2016: 491).

7.3 Cost of sales

Cost of sales includes the following:

	For the years ended 31 December	
	2017	***2016***
Cost of sales of residential property (Note 14)	226,907	204,223
Cost of sales of uncompleted projects	–	4,964
Cost of sales of other projects	–	3,540
Cost of sales for rent	165	44
Other costs	4,687	9,300
Total	**231,759**	**222,071**

For the year ended 31 December 2016, the Group recognized cost of sold land plots in Ural Region of the Russian Federation in cost of sales of uncompleted projects in the amount of $4,964.

(in thousands of US dollars)

7. Income and expenses (continued)

7.3 Cost of sales (continued)

For the year ended 31 December 2016, the Group recognized disposal of a hotel complex in cost of sales of other projects in the amount $3,540.

For the years ended 31 December 2017 and 2016, cost of sales of residential property contain non-cash cost related to capitalized development rights in the amount of $2,343 and $7,059 respectively.

7.4 General and administrative expenses

The structure of general and administrative expenses was the following:

	For the years ended 31 December	
	2017	***2016***
Staff costs, including social security taxes	6,528	4,378
Consulting	4,111	3,775
Rent	1,719	1,110
Security	1,147	986
Taxes other than income tax	970	817
Depreciation of property, plant and equipment	610	463
Statutory audit	555	588
Repair and maintenance	396	371
Telecommunications	353	276
Materials	268	278
Other assurance services	258	221
Representation expenses	197	384
Other professional services	127	277
Tax services	98	18
Utilities services	79	457
Amortization of intangible assets	32	25
Other	788	834
Total	**18,236**	**15,258**

7.5 Finance income and costs

The components of finance income were as follows:

	For the years ended 31 December	
	2017	***2016***
Interest on bank accounts and deposits	13,895	6,115
Interest on loans receivable	2,456	1,307
Income on unwinding of discount on receivables	753	732
Total	**17,104**	**8,154**

The components of finance costs were as follows:

	For the years ended 31 December	
	2017	***2016***
Interest expense	37,452	18,654
Other financial expenses	1,544	1,449
Total	**38,996**	**20,103**

(in thousands of US dollars)

7. Income and expenses (continued)

7.6 Other operating income and expenses

The components of other operating income were as follows:

	For the years ended 31 December	
	2017	***2016***
Gain on sale of heating and electricity networks	762	395
Gain on derecognition of accounts payable	256	56
Gain on sale of property plant and equipment	116	−
Penalty fees income	−	1,457
Gain on sale of uncompleted project (Note 16)	−	534
Decrease in legal provisions	−	7
Other income	59	281
Total	**1,193**	**2,730**

The components of other operating expenses were as follows:

	For the years ended 31 December	
	2017	***2016***
Commercial expenses	25,702	18,062
Write-down of inventories to net realizable value (Note 14)	6,671	3,474
Rent and maintenance of completed real estate property	3,214	2,484
Charity	2,620	7,342
Penalties fees	1,338	−
Other taxes (excluding income tax)	1,076	839
Impairment loss recognized on trade and other receivables, prepayments (Notes 15, 16)	291	11,006
Bank services	201	274
Increase in legal provisions	200	−
Write-off of irrecoverable accounts receivable	1	438
Impairment of property plant and equipment (Note 9)	−	7,238
Write off of uncompleted project (Note 14)	−	5,551
Loss on sale of property plant and equipment	−	325
Other expenses	1,679	1,851
Total	**42,993**	**58,884**

8. Income tax

Corporate tax

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

	2017	***2016***
The Russian Federation (ordinary rate)	20.00%	20.00%
The Republic of Cyprus	12.50%	12.50%

Major components of income tax expense for the years ended 31 December 2017 and 2016, were as follows:

	For the years ended 31 December	
	2017	***2016***
Income tax expense − current	6,679	16,285
(Reversal)/accrual of tax risks provision	(847)	6,110
Deferred tax benefit – origination and reversal of temporary differences, net	(514)	(2,937)
Income tax expense reported in consolidated statement of profit or loss	**5,318**	**19,458**
Income tax (benefit)/expense attributable to discontinued operations	**(122)**	**413**

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

(in thousands of US dollars)

8. Income tax (continued)

Corporate tax (continued)

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

	For the years ended 31 December 2017	2016
(Loss)/profit before income tax from continuing operations	**(17,489)**	**58,106**
(Loss)/profit of companies taxable at income tax rate:		
20%	11,774	8,194
12.5%	(29,263)	49,912
Loss before income tax from discontinued operations	**(6,580)**	**(634)**
At the Russian statutory income tax rate of 20%	**4,814**	**(11,494)**
Deferred income tax benefit/(expense) resulting from reduction in tax rate	159	(8)
Effect of income exempt from tax (i)	910	11,153
Effect of non-deductible expenses	(4,498)	(5,980)
Effect of the difference in tax rates in countries other than the Russian Federation	(2,195)	3,705
Unrecognised deferred tax assets	(6,228)	(11,167)
Benefit from a previously unrecognised deferred tax asset on tax losses carried forward	225	31
Income tax benefit/(expense) for previous years	770	(1)
Reversal/(accrual) of tax risks provision	847	(6,110)
Income tax expense reported in consolidated statement of profit or loss	**(5,196)**	**(19,871)**
Income tax expense attributable to continuing operations	(5,318)	(19,458)
Income tax benefit/(expense) attributable to discontinued operations	122	(413)

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

Deferred income tax assets and liabilities and their movements during the year ended 31 December 2017 were as follows:

	31 December 2017	*Change recognised in statement of profit or loss*	*Translation difference*	*Restated opening balance as at 1 January 2017 under IFRS 15*	*Impact of adopting IFRS 15 (Note 3.3)*	*31 December 2016*
Deferred income tax assets						
Property, plant and equipment, intangible assets	2,560	(231)	137	2,654	–	2,654
Investment property	646	(139)	37	748	–	748
Inventory	7,758	2,553	312	4,893	–	4,893
Accounts receivable and loans receivable	541	(252)	3	790	–	790
Accounts payable and accruals	935	(625)	52	1,508	–	1,508
Tax losses carried forward	11,590	6,168	341	5,081	–	5,081
Other	387	240	13	134	–	134
Total deferred tax assets	**24,417**	**7,714**	**895**	**15,808**	**–**	**15,808**
Deferred income tax liabilities						
Property, plant and equipment, intangible assets	(904)	(712)	(21)	(171)	–	(171)
Investment property	(37,877)	1,735	(1,980)	(37,632)	–	(37,632)
Inventory	(11,587)	4,099	(687)	(14,999)	–	(14,999)
Accounts receivable and loans receivable	(1,317)	(1,288)	(24)	(5)	–	(5)
Accounts payable and accruals	(13,646)	(10,836)	(302)	(2,508)	500	(3,008)
Investments	(151)	(48)	(6)	(97)	–	(97)
Other	(31)	(28)	(1)	(2)	–	(2)
Total deferred tax liabilities	**(65,513)**	**(7,078)**	**(3,021)**	**(55,414)**	**500**	**(55,914)**
Total deferred tax assets/(liability)	**(41,096)**	**636**	**(2,126)**	**(39,606)**	**500**	**(40,106)**
Represented by the following						
Net deferred income tax asset	9,727	3,566	345	5,816	(442)	6,258
Net deferred income tax liability	**(50,938)**	**(3,045)**	**(2,471)**	**(45,422)**	**942**	**(46,364)**

(in thousands of US dollars)

8. Income tax (continued)

Corporate tax (continued)

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

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

The following table discloses the breakdown between deferred tax from continuing and discontinued operations:

	31 December 2017	*31 December 2016*
Deferred tax assets	**9,842**	**6,258**
Continuing operations	9,727	6,258
Discontinued operations	115	–
Deferred tax liabilities	**(50,938)**	**(46,364)**
Deferred tax liabilities, net	**(41,096)**	**(40,106)**

As at 31 December 2017, the balance of tax losses carried forward which is available for offset against future taxable profits, but for which deferred asset is recognised in the statement of financial position amounts to $57,950 (2016: $25,403). Deferred tax asset on unused tax losses in the amount of $29,666 (31 December 2016: $23,825) have not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. For assessment of deferred tax assets relizability where the utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences management of the Group used business plans prepared by the management of specific projects.

Taxable differences of $63,140 and $50,546 as of 31 December 2017 and 31 December 2016, respectively, were associated with investments in subsidiaries. At 31 December 2017 and 2016, the Group did not recognise any deferred tax liability in respect of these temporary differences, as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There is no withholding tax on payments of dividends by the Company to non-resident shareholders or shareholders that are companies resident in Cyprus.

(in thousands of US dollars)

9. Property, plant and equipment

Property, plant and equipment consisted of the following:

	Land	*Buildings*	*Fittings and fixtures*	*Leasehold improve-ments and other equipment*	*Assets under construc-tion*	*Total*
Cost						
Balance as at 31 December 2015	**27**	**3,653**	**8,068**	**2,897**	**2,363**	**17,008**
Additions	–	–	–	298	921	**1,219**
Disposals	–	(410)	(22)	(723)	(8)	**(1,163)**
Purchase of subsidiary	–	123,569	–	2,819	–	**126,388**
Disposal of subsidiary	–	(126,879)	–	(2,890)	–	**(129,769)**
Transfers	–	–	2,545	122	(2,667)	**–**
Transfer from inventory (Note 14)	–	62	(404)	–	18	**(324)**
Translation difference	5	4,028	1,939	639	211	**6,822**
Balance as at 31 December 2016	**32**	**4,023**	**12,126**	**3,162**	**838**	**20,181**
Additions	–	22	–	291	1,264	**1,577**
Disposals	–	(554)	–	(273)	–	**(827)**
Reclass to assets held for sale	–	–	–	(55)	–	**(55)**
Transfers	–	151	865	142	(1,158)	**–**
Transfer from inventory (Note 14)	–	316	30	–	–	**346**
Translation difference	3	211	652	160	52	**1,078**
Balance as at 31 December 2017	**35**	**4,169**	**13,673**	**3,427**	**996**	**22,300**
Accumulated depreciation and impairment						
Balance as at 31 December 2015	**–**	**(272)**	**(690)**	**(1,666)**	**–**	**(2,628)**
Depreciation charge	–	(586)	(329)	(655)	–	**(1,570)**
Disposals	–	65	6	520	–	**591**
Impairment	–	–	(7,238)	–	–	**(7,238)**
Disposal of subsidiary	–	418	–	236	–	**654**
Transfer from inventory (Note 14)	–	–	42	–	–	**42**
Translation difference	–	(69)	(169)	(356)	–	**(594)**
Balance as at 31 December 2016	**–**	**(444)**	**(8,378)**	**(1,921)**	**–**	**(10,743)**
Depreciation charge	–	(386)	(187)	(433)	–	**(1,006)**
Disposals	–	412	–	208	–	**620**
Reclass to assets held for sale	–	–	–	49	–	**49**
Transfers	–	(71)	–	71	–	**–**
Translation difference	–	(60)	(446)	(97)	–	**(603)**
Balance as at 31 December 2017	**–**	**(549)**	**(9,011)**	**(2,123)**	**–**	**(11,683)**
Net book value						
At 31 December 2016	**32**	**3,579**	**3,748**	**1,241**	**838**	**9,438**
At 31 December 2017	**35**	**3,620**	**4,662**	**1,304**	**996**	**10,617**

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

Additions to construction in progress for the year ended 31 December 2017 in the total amount of $1,264 (31 December 2016: $921) were mainly represented by construction costs incurred on continued construction of utilities networks in the amount of $649 and expenditures on modernization of new offices during 2017 in the amount of $518.

Additions to leasehold improvements and other equipment for the year 2017 in the total amount of $291 (2016: $298) were mainly represented by cars leasing in the amount of $206 (2016: $275).

Interest (net of the interest reimbursed by the governmental bodies), capitalized as part of additions to property, plant and equipment, amounted to $222 in 2017 (2016: $409). The weighted average rate for the borrowings which were obtained for construction purposes (either in part, or in full) for the year ended 31 December 2017 equals 14.38% (2016: 9.55%).

(in thousands of US dollars)

9. Property, plant and equipment (continued)

For the 12 months ended 31 December 2017 the Group recognized depreciation charge of $1,006 (for the 12 months ended 31 December 2016: $1,570).

During 2017, the Group disposed one of sales office in Ural Region of the Russian Federation a net book value of $142.

The Group identified a disposal group as of 31 December 2017 and reclassified other equipment related to this project to assets held for sale having a gross book value of $55 and accumulated depreciation of $49.

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

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

These indicators triggered the Group to perform an impairment test for cash generating unit Engineering Infrastructure, which assets are represented by electricity networks in Ural Region of the Russian Federation. In order to determine the recoverable amount the Group used a pre-tax discount rate of 15.34%. As a result, the Group determined value in use of $3,781 which was below the carrying amount as at 31 December 2016, and therefore the Group recognized an impairment loss of $7,238 for electricity networks of Engineering Infrastructure segment for 2016.

In December 2017, the Group assessed whether there is any indication that an impairment loss recognised in 2016 for property, plant and equipment should be reversed. No such indications noted.

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

10. 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	**1,433**	**17,298**	**154**	**18,885**
Additions	−	22,776	5	**22,781**
Disposals	(1,025)	(17,663)	−	**(18,688)**
Translation difference	235	3,755	33	**4,023**
Balance as at 31 December 2016	**643**	**26,166**	**192**	**27,001**
Additions	−	4,431	−	**4,431**
Disposals	(673)	(2,293)	−	**(2,966)**
Translation difference	30	1,458	10	**1,498**
Balance as at 31 December 2017	**−**	**29,762**	**202**	**29,964**
Accumulated amortization and impairment				
Balance as at 31 December 2015	**(1,321)**	**(14,354)**	**(53)**	**(15,728)**
Amortization charge	(78)	(3,065)	(28)	**(3,171)**
Disposals	978	17,663	−	**18,641**
Translation difference	(222)	(2,416)	(14)	**(2,652)**
Balance as at 31 December 2016	**(643)**	**(2,172)**	**(95)**	**(2,910)**
Amortization charge	−	(2,847)	(32)	**(2,879)**
Disposals	673	2,293	−	**2,966**
Translation difference	(30)	(151)	(5)	**(186)**
Balance as at 31 December 2017	**−**	**(2,877)**	**(132)**	**(3,009)**
Net book value as at 31 December 2016	**−**	**23,994**	**97**	**24,091**
Net book value as at 31 December 2017	**−**	**26,885**	**70**	**26,955**

(in thousands of US dollars)

10. Intangible assets other than goodwill (continued)

Leasehold rights (land) were mainly represented by contractual rights for rent of land plots. During 2016 contractual rights for rent of several land plots were written-off due to decision not to develop project in South Russia. During 2016 and 2017 contractual rights for rent of land were also written-off due to completion of construction works in the several projects.

In prior periods, the Group concluded investment contracts with local authorities for construction of residential districts. As a result, the Group obtained development rights of $22,776 in 2016 (mostly related to Moscow region projects) and recognized them as intangible assets in exchange for obligation to transfer residential premises to certain number of individuals or constructed social objects to administration free of charge. Carrying value of recognized development rights was determined as market value of residential premises / social objects to be transferred. Disposal of development rights in 2017 relates to settlement of the obligations to transfer residential premises to individuals.

In 2017, the Group concluded a contract with local authorities to construct some social objects such as park, kindergarten, sports ground and a monument as a part of project in Ural Region of the Russian Federation. These obligations were accounted for as development rights in the amount of $4,516 as of 31 December 2017, depreciation charge amounted to $1,828 for the year 2017.

Amortization of development and leasehold rights in amount of $2,847 was included in the carrying amount of constructed property as at 31 December 2017 (2016 $3,065).

11. Investment properties

Investment property consisted of the following:

	2017	*2016*
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)	2,327	744
Transfer to inventory (Note 14)	(131)	(7,837)
Disposal	(3,867)	(6,859)
Translation difference	9,942	35,315
Decrease in fair value of investment property	(3,756)	(15,814)
Closing balance at 31 December − investment property	**192,285**	**184,448**
Closing balance at 31 December − investment property − held for sale	**868**	**4,190**

Interest capitalized as part of subsequent expenditure to investment properties amounted to $954 and $538 for the years ended 31 December 2017 and 2016, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in 2017 year was 6.11% (2016: 1.82%). The Group had income from rent of investment property of $213 and direct operating expenses arising from investment property that generated rental income of $71 in 2017 (2016: $225 and $90 respectively).

During the years ended 31 December 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.

As at 31 December 2017 and 2016, the Group had an intention to sell land plots in Ural Region of the Russian Federation. 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 $868 and $4,190, respectively. The Group estimates to complete the sales by the end of June 2018.

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 27.

(in thousands of US dollars)

11. Investment properties (continued)

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

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

Below are the major projects of the Group and description of valuation techniques for each as at 31 December 2017 and 2016. The investment properties are represented by the land plots for project of Complex Territories Development (CTD) in Ural Region of the Russian Federation.

Project of CTD in Ural Region of the Russian Federation had the fair value of investment property of $184,312 and 95.42% share in total consolidated value of investment property as of December 2017 (2016: $176,300 and 93.46% respectively).

Unobservable inputs for project 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 cash flows	19.00%	Increase of investor's cash flows discount rate to 1%, 2% and 3% would decrease fair value by $4,722, $9,306 and $13,733
		Discount rate for developer's cash flows	25.00%	Increase of developer's discount rate to 1%, 2% and 3% would decrease fair value by $6,701, $12,969 and $18,819
		Annual change of sales price for residential areas	6.3%, 5.0%, 10.5%, 3.0%	Annual change of sales price for residential areas by 5.9%, 3.6%, 3%, 1.5% would decrease fair value by $44,132
		Sales volume of land plot	0.41-0.84	Decrease of sales volume of land plot to 0.06-0.09 and 0.16-0.19 land plot per annum would decrease fair value by $3,003-$5,799 and $8,299-$10,937 respectively. Increase of sales volume of land plot to 0.01-0.04 land plot per annum would increase fair value by $990-$1,493

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.

12. Taxes recoverable

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

The management of the Group periodically reviews the recoverability of the balance of input value added tax and believes that VAT balance of $6,589 as at 31 December 2017 (2016: $5,585) is fully recoverable during 12 months following the respective reporting date.

VAT recoverable balance was denominated in rubles as of 31 December 2017 and 2016.

(in thousands of US dollars)

13. Interest-bearing loans receivable

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

	Effective interest rate 2017	*31 December 2017*	*Effective interest rate 2016*	*31 December 2016*
Non-current loans receivable				
Loans receivable from third parties	12.00-17.00%	7,205	10.00-14.63%	301
Loans receivable from related parties (Note 25)	12.50%	6,784	14.63%	10,420
Total non-current loans receivable		**13,989**		**10,721**
Current loans receivable				
Loans receivable from third parties	12.35-24.00%	38,522	10.00-14.63%	7,953
Total current loans receivable		**38,522**		**7,953**

14. Inventories

Inventories consisted of the following as of:

	31 December 2017	*31 December 2016*
Inventory properties under construction		
- at cost	277,192	254,159
- at net realizable value	14,250	7,422
Constructed inventory properties		
- at cost	46,604	88,513
- at net realizable value	18,066	16,369
Other inventory, at cost	1,839	2,304
Total	**357,951**	**368,767**
Including:		
- current	333,515	346,277
- non-current	24,436	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 31 December 2017 and 2016, non-current inventory mainly represents one of the Group's construction projects, which is currently suspended due to the change of construction plans.

As of 31 December 2017 and 2016, the cumulative write-down to net realizable value in respect of inventories amounted to $30,609 and $34,892, respectively.

(in thousands of US dollars)

14. Inventories (continued)

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

	31 December 2017	*31 December 2016*
Opening balance at 1 January	**368,767**	**342,823**
Construction costs incurred	199,946	143,308
Purchase of assets (new project)	–	33,997
Purchase of subsidiary	–	776
Other costs incurred	1,367	4,387
Interest capitalized	15,833	14,591
Transfer to property, plant and equipment (Note 9)	(346)	282
Transfer from investment property (Note 11)	131	7,837
Write-down to net realizable value (Note 7.6)	(6,671)	(3,474)
Disposals (recognized in cost of sales of residential property) (Note 7.3)	(228,361)	(214,877)
Disposals (recognized in cost of other sales and other expenses)	(1,445)	(7,658)
Disposal of uncompleted projects	–	(8,371)
Disposal of subsidiary	–	(671)
Disposal of uncompleted project	–	(1,379)
Write-off of uncompleted projects	–	(7,742)
Reclass to assets held for sale	(10,127)	–
Translation difference	18,857	64,938
Closing balance at 31 December	**357,951**	**368,767**

In 2016, the Group sold land plots in Ural Region of the Russian Federation, disposal has been recognized in cost of sales of uncompleted projects in the amount of $4,964 (at historical exchange rates (Note 7.3)).

In 2016, the Group acquired non-controlling stake in the Group's subsidiary from a third party (the seller). As a result, the Group transferred lease rights to a land plot and construction in progress of $3,408 to this third party (Note 18).

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in 2017 year was 14.38% (2016: 15.79%).

15. Trade and other receivables

Trade and other receivables consisted of the following as at:

	31 December 2017	*31 December 2016*
Trade accounts receivable due from third parties	4,548	5,634
Trade accounts receivable due from related parties (Note 25)	748	659
Other accounts receivable due from third parties	21,723	25,497
Other accounts receivable due from related parties (Note 25)	7,002	2,845
Impairment loss for on trade and other receivables	(10,989)	(11,752)
	23,032	**22,883**

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

	2017	*2016*
At 1 January	**11,752**	**540**
(Reversal)/charge for the year, net (Note 7.6)	(46)	10,396
Utilised	(1,346)	(10)
Acquisition of subsidiary (Note 4.1)	–	72
Translation differences	629	754
At 31 December	**10,989**	**11,752**

(in thousands of US dollars)

16. Prepayments

Prepayments consisted of the following as at:

	31 December 2017	*31 December 2016*
Prepayments made to third parties	23,020	13,011
Prepayments made to third party for investment project	–	41
Prepayments made to related parties (Note 25)	2,073	4,228
Impairment loss	(1,472)	(1,093)
	23,621	**16,187**

As of 31 December 2015, the Group recognized $6,902 of prepayments made to third party for investment project, which Group was planning to undertake in the future. In October 2016, the Group sold this investment project to a third party. The sale of the investment project was arranged through the sale of 100% stake in subsidiary with its indirect partly owned subsidiaries that constituted a group of assets and liabilities, rather than business as defined in IFRS 3. Total sale consideration of $9,254 is to be settled in cash in 2018. As a result of the transaction, the Group recognised gain on sale of investment project of $534 in 2016 (Note 7.6). However, as of 31 December 2016, the management assessed the recoverability of consideration receivable and recognised impairment loss of $5,002.

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

	2017	*2016*
At 1 January	**1,093**	**541**
Charge for the year (Note 7.6)	337	610
Utilised	(19)	(194)
Translation differences	61	136
At 31 December	**1,472**	**1,093**

17. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	31 December 2017	*31 December 2016*
Cash	129,285	134,461
Short-term deposits	6,022	11,477
	135,307	**145,938**

18. Equity

Total number of outstanding shares is comprised of the following:

Authorized, issued and fully paid	***Number of shares***	***Share capital***
At 31 December 2016	6,786,205	6,787
At 31 December 2017	6,786,205	6,787

In October 2016, the Group purchased 100% of ordinary shares of subsidiary which is directly ownes 100% stake in the hotel complex project from an entity under common control and recorded as capital contribution reserve in the consolidated statement of changes in equity of the Group and amounted to $46,946 for the 2016 (Note 4.1).

In October 2016, the Group sold 100% stake in the Group's subsidiary (Note 16) with its indirect partly owned uncompleted project to third party for cash consideration of $9,254 (at the exchange rate at 31 December 2016). As a result of this transaction, disposal of non-controlling interest related to these subsidiaries with carrying amount of $176 was recognized in the consolidated statement of changes in equity of the Group.

As at 31 December 2016, the provision for the guarantee provided by the Group in relation to the loan received by the entity under common control was reversed due to acquisition of subsidiary in Sochi as at 10 October 2016 (Note 4.1). This was recognized as contribution from shareholders in the amount of $193 for 2016.

(in thousands of US dollars)

18. Equity (continued)

In August 2016, the Group acquired 7.6% stake in the Group's subsidiary ZPIF for cash consideration of $691 (Note 4.2). The carrying value of non-contrroling interest acquired amounted to $10. The excess of consideration paid over the carrying value of non-controlling interest acquired amounting to $681 was debited to accumulated losses.

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

In previous periods, the Group provided a loan to an entity under common control maturing at 31 December 2017. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue, the difference between the fair value and the nominal value of the loan was recorded as distribution to shareholders. The loan receivable outstanding amounted to $2,429 at 31 December 2015 and was fully repaid in 2016.

Net effect of this repayment was reflected as contribution from shareholders in the consolidated statement of changes in equity of the Group and amounted to $316 for the twelve months ended 31 December 2016.

On 31 January 2017, the Group declared dividends to shareholders for the year 2016 in the amount of $6,017 (at the date of announcement). Dividends were paid in Russian rubles on 9 March 2017. Dividend per share: 0.89 dollars. On 12 October 2017, the Group declared interim dividends to shareholders in total amount $10,342 (at the date of announcement). Dividends were paid in Russian rubles on 30 October 2017. Dividend per share: 1.52 dollars. No dividends were declared in 2016.

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 consolidated statement of changes in equity of the Group and amounted to $1,813 for the year ended as of 31 December 2016. The loan receivable outstanding amounted to $5,556 at 31 December 2016 and was fully repaid in 2017. Net effect of this repayment was reflected as contribution from shareholders in the consolidated statement of changes in equity of the Group and amounted to $1,525 for the year ended as of 31 December 2017.

19. Interest-bearing loans and borrowings

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

	Effective interest rate 2017	***31 December 2017***	***Unused borrowing facilities***	***Effective interest rate 2016***	***31 December 2016***	***Unused borrowing facilities***
Non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	10.67-13.94%	48,853	73,380	10.53-16.53%	51,891	129,342
Loans and borrowings from related parties	13.94%	3,133	–	13.94%	109	15
Total non-current interest-bearing loans and borrowings		**51,986**	**73,380**		**52,000**	**129,357**
Current portion of non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	13.22-13.34%	24,825	–	16.11-16.53%	39,259	–
Total current portion of non-current interest-bearing loans and borrowings		**24,825**	**–**		**39,259**	**–**
Current interest-bearing loans and borrowings						
Loans and borrowings from third parties	10.67-13.34%	372	–	10.53-16.30%	7,379	23,081
Loans and borrowings from related parties		–	–	13.94%	2,605	–
Total current interest-bearing loans and borrowings		**372**	**–**		**9,984**	**23,081**
Total interest-bearing loans and borrowings		**77,183**	**73,380**		**101,243**	**152,438**

(in thousands of US dollars)

19. Interest-bearing loans and borrowings (continued)

Compliance with covenants

According to loan agreements terms, the companies of the Group are required to comply with debt covenants. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. The Group complied with all covenants as at 31 December 2017.

Pledged assets

As at 31 December 2017, investment property with the carrying value of $89,567 (2016: $139,832), inventory with the carrying value of $164,068 (2016: $161,249) and property plant and equipment with the carrying value of $420 at 31 December 2017 (2016: $50) are pledged as a collateral for loans and borrowings.

As at 31 December 2017, the Group had pledged shares in its subsidiaries:

As at 31 December	***Share of pledged subsidiaries in the total consolidated assets of the Group***	***Share of pledged subsidiaries in the total consolidated revenue of the Group***	***Net assets of pledged subsidiaries (including intra-group balances)***
2017	52.03%	40.82%	352,829
2016	58.68%	39.18%	345,463

20. Debt securities issued

In 2013-2015 the Group issued the third and fourth tranches of 6 billion ruble denominated bonds with par value of 1,000 ruble each. These securities were issued at par value, mature in 2016-2017, bear interest rates of 12.75-15.00% per annum, payable semi-annually, and were guaranteed by the Company. Debt issuance costs paid by the Group in relation to the arrangement of eight issue of bonds in the amount of $506 represented agent commission and arrangement costs.

In 2016, the Group announced extension of the maturity date of the third tranche by 9 years with a new maturity date in 2025 and a buy-back date set in 2018. The interest rate was changed and amounted to 13.5% p.a. In 2016, debt securities of the third tranche in the total number of 1,484,022 were partially repurchased from the market at their par value of 1,000 ruble each for $24,466 (at the exchange rate as of 31 December 2016).

In 2016 the Group issued the fifth and sixth tranches of 4 billion ruble denominated bonds with par value of 1,000 ruble each. These securities were issued at par value, mature in 2019-2021, bear interest rate of 14.50% per annum, payable semi-annually, and were guaranteed by the Company. Debt issuance costs paid by the Group in relation to the arrangement of eight issue of bonds in the amount of $477 represented agent commission and arrangement costs.

In 2017, the Group put previously repurchased third tranche of debt securities to the market, with the total par value of $25,764 (at the exchange rate as of 31 December 2017) on the same terms – buy-back date was set in 2018, the coupon rate, payable semi-annually, set at 13.5% per annum.

In 2017, the Group 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 in March 2017, the date of buy-back option, so the period of bonds circulation was extended till September 2018.

In 2017, the Group issued the seventh, eighth and ninth tranches of 10 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature in 2020-2022, bear interest rate of 11.00-13.50% 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, eighths and ninths issues of bonds in the amount of $1,187 represented agent commission and arrangement costs.

As of 31 December 2017, debt securities of the third, fourth, sixth and seventh issue in the total number 6,704,799 amounting to $116,402 at amortized cost (31 December 2016: 976,924 and $16,106) were repurchased by the Group's subsidiary.

(in thousands of US dollars)

21. Trade and other payables

Trade and other payables consisted of the following as of:

	31 December 2017	*31 December 2016*
Trade accounts payable due to third parties	20,019	23,357
Trade accounts payable due to related parties (Note 25)	786	835
Other accounts payable due to third parties	8,934	9,691
Other accounts payable due to related parties (Note 25)	9	158
Bonus accrual	433	5,347
Unused vacation accrual	1,130	1,361
Total	**31,311**	**40,749**

22. Other liabilities

Other liabilities consisted of the following as of:

	31 December 2017	*31 December 2016*
Non-current non-financial liabilities		
Liabilities for investment contracts with local authorities (a)	21,428	20,349
Liabilities for purchasing of land lease rights and assets (b)	10,546	10,015
Liabilities for construction of social objects (c)	3,397	−
Non-current financial liabilities		
Liabilities for permitted use of land alteration (d)	656	1,114
Liabilities for purchasing of land lease rights and assets	−	71
Liabilities for purchasing of land lease rights, related parties (Note 25) (e)	−	1,415
Lease obligations	192	192
	36,219	**33,156**
Current non-financial liabilities		
Liabilities for investment contracts with local authorities (a)	1,615	4,385
Liabilities for construction of social objects (c)	251	−
Current financial liabilities		
Liabilities associated with sale of subsidiary (Note 4.3) (f)	4,687	4,451
Liabilities for purchasing of land lease rights, related parties (Note 25) (e)	1,502	2,909
Liabilities for permitted use of land alteration − current portion (d)	665	728
Liabilities for purchase of land lease rights and assets − current portion (b)	336	350
Liabilities to finance social object construction (g)	174	363
Lease obligations − current portion	171	166
Other current liabilities	426	35
	9,827	**13,387**

(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 $1,615 and $4,385 as of 31 December 2017 and 31 December 2016, respectively. Decrease in these current non-financial liabilities in 2017 is related to transfer of apartments in projects to individuals. Non-curent non-financial liability represents provision for constrction of social objects under investment contract of new CTD project in the amount if $21,428 and $20,349 as of 31 December 2017 and 31 December 2016, respectively.

(b) As of 31 December 2017, the Group had outstanding non-current liabilities in respect of the purchase of new CTD project (purchase of asset performed in 2015) represented by an obligation to transfer 16% of constructed real estate property after completion of the construction in amount of $10,546 (31 December 2016: $10,015) and short term payable represents the payable to the seller in the amount of $250 (31 December 2016: $250).

(c) In 2017, the Group concluded a contract with local authorities for construction of social objects such as park, kindergarten, sports ground and a monument as a part of the further project in Ural Region development. As of 31 December 2017, the Group had outstanding non-current non-financial liability of $3,397 and current non-financial liability of $251 (31 December 2016: $nil) according to this contract.

(in thousands of US dollars)

22. Other liabilities (continued)

(d) In 2016, the Group changed the permitted use of land to land for residential construction for the one of its project and became liable to local authorities for this. The Group accrued a financial liability for $1,321 (31 December 2016: $1,842).

(e) As of 31 December 2017, the Group had outstanding accounts payable in respect of the purchase of the project (purchase of land lease right in 2012 and subsequent sale in 2015) in the amount of $1,502 payable until the end of 2018 (31 December 2016: $4,324). In April 2016, the right to demand the financial liability for acquisition of the project was transferred to a related party.

(f) In second half of 2016, the Group sold its subsidiary 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 $4,687 as of 31 December 2017 (31 December 2016: $4,451).

(g) In 2016, the Group reported a financial liability to fund a fire station construction related to the one of its project in the amount of $363 as of 31 December 2016; in 2017, the liability was fulfilled. In 2017, the Group obliged to pay $1,066 to Educational and sports complex for possibility to connect to transit engineering communications of the new project. As of 31 December 2017, the Group had outstanding liability of $174 (31 December 2016: $nil).

23. Contract liabilities

At 31 December 2017 and 2016, contract liabilities in the amount of $110,791 and $112,932, respectively, mainly related to advance payments received from individuals and legal entities for residential properties.

See below for the movements in contract assets and contract liabilities:

	Contract assets	*Contract liabilities*
At 1 January 2017	**–**	**(112,932)**
Revenue recognised that was included in contract liability balance at the beginning of the period	–	59,454
Increases due to cash received,excluding amounts recognized as revenue during the perioad	–	(73,702)
Repaiment of advances received	–	27,866
Recognition of financial component	–	(6,063)
Reclassification of subsidiary to discontinued operations	–	533
Recognition od contract assets	6,475	–
Translation differences	79	(5,947)
At 31 December 2017	**6,554**	**(110,791)**

24. Provisions

Provisions consisted of the following:

	Onerous contracts	*Legal claims*	*Construction of social objects*	*Provision for recons-truction*	*Guarantee issued*	*Total*
At 31 December 2015	**–**	**100**	**333**	**725**	**20,599**	**21,757**
Accrued	–	61	–	–	–	**61**
Used amounts	–	(28)	(26)	(363)	–	**(417)**
Unused amounts reversed	–	(77)	(20)	(389)	–	**(486)**
Unwinding of discounting	–	–	46	–	–	**46**
Translation differences	–	27	66	27	769	**889**
Write-off provision under guarantee (Note 26)	–	–	–	–	(21,368)	**(21,368)**
At 31 December 2016	**–**	**83**	**399**	**–**	**–**	**482**
Accrued	561	586	854	–	–	**2,001**
Used amounts	(107)	(68)	–	–	–	**(175)**
Unused amounts reversed	(163)	(386)	(411)	–	–	**(960)**
Unwinding of discounting	–	–	–	–	–	**–**
Translation differences	(1)	1	29	–	–	**29**
At 31 December 2017	**290**	**216**	**871**	**–**	**–**	**1,377**

(in thousands of US dollars)

24. Provisions (continued)

In 2017, the Group concluded onerous contracts for sale of commercial property and parking places in several projects. The respective provision as at 31 December 2017 amounted to $290.

Additions to construction of social objects in 2017 in the amount of $854 are related to constructive obligation for contruction of kindergarten and represent costs to be incurred in the future periods to finish the construction works.

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

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

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

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

25. Balances and transactions with related parties

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

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

31 December 2017	*Loans receivable*	*Trade and other receivables*	*Advances issued*	*Interest-bearing loans and borrowings*	*Trade and other payables, other liabilities*	*Advances received*
Associates	–	17	1,068	–	271	38
Entities under common control	6,784	7,733	1,005	3,133	2,026	88
Total	**6,784**	**7,750**	**2,073**	**3,133**	**2,297**	**126**

31 December 2016	*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**

(in thousands of US dollars)

25. Balances and transactions with related parties (continued)

For the year ended 31 December 2017	*Revenue*	*Finance income*	*Costs*	*Finance costs*	*Other expenses*	*Purchases*
Associates	27	2,078	302	2,047	(771)	–
Entities under common control	5,121	1,361	212	556	(30)	4,627
Total	**5,148**	**3,439**	**514**	**2,603**	**(801)**	**4,627**

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

The balances with related parties as at 31 December 2017 and 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 except for a guarantee issued to the bank for the third party. Faive value of the guarantee was insignificant and not presented in these financial statements.

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:

	31 December 2017	*31 December 2016*
Salary	4,126	3,268
Performance bonuses	1,350	1,858
Compensations in respect of loss of office	414	–
Other compensations	16	353
Social security taxes	201	169
Total	**6,107**	**5,648**

26. 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 ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

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

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

(in thousands of US dollars)

26. Contingencies, commitments and operating risks (continued)

Taxation (continued)

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

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

The Group estimated that as of 31 December 2017 it had possible obligations from exposures to various tax risks primarily related to new deoffshorization rules, financing and investment arrangements of the Group's companies. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and its practical application in the Russian Federation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative.

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

Insurance policies

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

Contractual commitments

The Group has signed a number of contracts for the construction works as of 31 December 2017. The Group had firm contractual commitments for the construction works for an approximate amount of $121,563 (including VAT) as at 31 December 2017 (31 December 2016: $132,924).

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

Legal proceedings

The Group is involved in a number of legal proceedings. All legal proceedings which, individually or in aggregate, may have a significant effect on the Group's financial operations or financial position, have been accrued in these consolidated financial statements (Note 24).

The Group is also involved in legal proceedings with the total maximum possible risk estimated at $928 (including $712 for discontinuing operations) as at 31 December 2017 (2016: $177).

27. Financial risk management objectives and policies

Credit risk

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

To manage credit risk related to cash, the Group maintains its available cash, mainly in rubles, in reputable Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

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

(in thousands of US dollars)

27. Financial risk management objectives and policies (continued)

Credit risk (continued)

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

	31 December 2017	*31 December 2016*
Non-current assets		
Interest-bearing loans receivable	13,989	12,324
Non-current receivables	3,953	2,953
Total non-current assets	**17,942**	**15,277**
Current assets		
Cash and cash equivalents	135,702	145,938
Interest-bearing loans receivable	38,522	7,953
Trade and other receivables	23,174	22,872
Total current assets	**197,398**	**176,763**

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

			Past due but not impaired			
	Total	*Neigther past due nor impaired*	*Less than 6 months*	*6 months − 1 year*	*Over 1 year*	*Past due and impaired*
2017	**90,670**	77,972	695	−	1,014	10,989
2016	**57,847**	45,201	526	7	368	11,745

Liquidity risk

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

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

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

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

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

31 December 2017

	Less than 12 months	*1-2 years*	*2-5 years*	*More than 5 years*	*Total*
Non-interest bearing debt					
Trade and other payables	30,979	−	−	−	**30,979**
Interest bearing debt					
Other liabilities	8,078	842	−	−	**8,920**
Interest-bearing loans and borrowings	32,590	50,838	9,616	−	**93,044**
Debts securities issued	88,236	189,640	18,527	−	**296,403**
Total	**159,883**	**241,320**	**28,143**	**−**	**429,346**

(in thousands of US dollars)

27. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

31 December 2016

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

Changes in liabilities arising from financing activities

The Group provides disclosures in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	1 January 2017	*Cash inflows*	*Cash outflows*	*Cash flow from discon-tinued operations*	*New leases*	*Cash flows from interest paid*	*Effect of reclassi-fications*	*Other*	*Translation difference*	*31 December 2017*
Current interest-bearing loans and borrowings	49,243	1	(47,730)	–	–	(11,982)	21,589	12,497	1,579	25,197
Debt securities issued (current portion)	44,012	–	–	–	–	(16,081)	16,658	15,423	2,504	62,516
Current obligations under finance leases	166	–	(281)	(22)	108	–	108	85	7	171
Non-current interest-bearing loans and borrowings	52,000	98,352	(80,033)	–	–	(11)	(21,589)	732	2,535	51,986
Debt securities issued (non-current portion)	84,364	95,000	–	–	–	(6,058)	(16,658)	11,111	5,508	173,267
Non-current obligations under finance leases	192	–	–	–	98	–	(108)	–	10	192
Dividends payable	–	–	(16,526)	–	–	–	–	16,359	167	–
Total liabilities from financing activities	**229,977**	**193,353**	**(144,570)**	**(22)**	**206**	**(34,132)**	**–**	**56,207**	**12,310**	**313,329**

	1 January 2016	*Cash inflows*	*Cash outflows*	*Cash flow from discon-tinued operations*	*New leases*	*Cash flows from interest paid*	*Effect of reclassi-fications*	*Other*	*Translation difference*	*31 December 2016*
Current interest-bearing loans and borrowings	52,718	19,278	(70,700)	(1,364)	–	(12,943)	37,454	16,698	8,102	49,243
Debt securities issued (current portion)	38,772	16,351	–	–	–	(6,694)	(18,934)	7,445	7,072	44,012
Current obligations under finance leases	69	–	(134)	(5)	114	–	46	53	23	166
Non-current interest-bearing loans and borrowings	33,472	99,656	(50,733)	–	–	(1,559)	(37,454)	2,406	6,212	52,000
Debt securities issued (non-current portion)	22,276	53,587	(22,090)	–	–	(5,002)	18,934	6,710	9,949	84,364
Non-current obligations under finance leases	59	–	–	–	156	–	(46)	–	23	192
Dividends payable	–	–	–	–	–	–	–	–	–	–
Total liabilities from financing activities	**147,366**	**188,872**	**(143,657)**	**(1,369)**	**270**	**(26,198)**	**–**	**33,312**	**31,381**	**229,977**

The *Other* column includes the accrual of special dividends that were not yet paid at the year-end, and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings and debt securities issued. The Group classifies interest paid as cash flows from operating activities.

(in thousands of US dollars)

27. Financial risk management objectives and policies (continued)

Market risk

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

Fair value sensitivity analysis for interest bearing instruments

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

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

Currency risk

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

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

Fair value of financial instruments

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

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

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

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

	31 December 2017		***31 December 2016***	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Assets				
Interest-bearing loans receivable	52,511	50,304	18,674	17,031
Total assets	**52,511**	**50,304**	**18,674**	**17,031**
Liabilities				
Interest-bearing loans and borrowings	77,183	70,993	101,243	97,771
Debts securities issued	235,783	232,930	128,376	126,713
Total liabilities	**312,966**	**303,923**	**229,619**	**224,484**

The fair value of long-term 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.

(in thousands of US dollars)

27. Financial risk management objectives and policies (continued)

Market risk (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.

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, Level 2 and Level 3 during the period.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2017:

	Total	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at fair value				
Investment property	**192,285**	−	−	192,285
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	**50,304**	−	−	50,304
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**70,993**	−	−	70,993
Debts securities issued	**232,930**	−	232,930	−

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

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

(in thousands of US dollars)

27. Financial risk management objectives and policies (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize the return to shareholders. Capital includes equity attributable to the equity holders of the parent entity. There were no changes in the objectives, policies and processes during 2017.

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

28. Segment information

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

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

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

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

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

Year ended 31 December 2017

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment revenue	**177,332**	**4,611**	**53,123**	**55,316**	**1,024**	**291,406**
Intersegment revenue	2,804	–	–	10	–	**2,814**
Total segment revenue	**180,136**	**4,611**	**53,123**	**55,326**	**1,024**	**294,220**

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment operating profit/(loss)	**12,931**	**(985)**	**9,414**	**71**	**(17,855)**	**3,576**
Intersegment operations	(926)	14	1,078	(308)	(44)	**(186)**
Total segment operating profit/(loss)	**12,005**	**(971)**	**10,492**	**(237)**	**(17,899)**	**3,390**

(in thousands of US dollars)

28. Segment information (continued)

Year ended 31 December 2016*

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Management company*	*Total*
External segment revenue	**121,499**	**–**	**41**	**154,929**	**2,121**	**278,590**
Intersegment revenue	3,726	–	–	1,461	9,786	**14,973**
Total segment revenue	**125,225**	**–**	**41**	**156,390**	**11,907**	**293,563**

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Management company*	*Total*
External segment operating profit/(loss)	**6,734**	**(883)**	**(3,675)**	**39,133**	**61,828**	**103,137**
Intersegment operations	(279)	(53)	(2,261)	(2,086)	8,570	**3,891**
Total segment operating profit/(loss)	**6,455**	**(936)**	**(5,936)**	**37,047**	**70,398**	**107,028**

* *The amounts shown here do not correspond to the segment information in the consolidated financial statements for the year ended 31 December 2016 and do not include operating segment in the Central Federal District of the Russian Federation, which was classified as discontinued operations (Note 5).*

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.

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

	For the years ended 31 December	
	2017	*2016**
Revenue reconciliation		
Total revenue from reportable segments	294,220	293,563
Elimination of intersegment revenue	(2,814)	(14,973)
Revenue from non-reportable segments	8,600	16,171
Total Group revenue	**300,006**	**294,761**
Operating profit reconciliation		
Total operating profit from reportable segments	3,576	107,028
Elimination of intersegment operations	186	(3,891)
Operating profit/(loss) from non-reportable segments	4,449	(16,665)
Change in fair value of investment property	(3,756)	(15,814)
Total Group operating profit	**4,455**	**70,668**
Finance income	17,104	8,154
Finance costs	(38,996)	(20,103)
Foreign exchange losses, net	(291)	(588)
Share of profits/(losses) of associates	240	(25)
(Loss)/profit before income tax	**(17,489)**	**58,106**
Income tax expense	(5,318)	(19,458)
Net (loss)/profit for the year from continuing operations	**(22,807)**	**38,648**
Loss after tax for the year from discontinued operations	**(6,458)**	**(1,047)**

* *The amounts shown here do not correspond to the consolidated statement of profit or loss for the year ended 31 December 2016 and reflect adjustments from discontinued operations described in Note 5.*

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 7.6, 14) and other provisions, accrued under IFRS.

(in thousands of US dollars)

29. Subsequent events

During January-June 2018 the Group partially repaid its obligations under existing loans and borrowings in the total amount of $29,312 (at the exchange rate at 31 December 2017).

In January-June 2018 the Group received loan facilities in the total amount of $26,424 (at the exchange rate at 31 December 2017).

On 6 April 2018, the US Department of the Treasury authorized sanctions on a number of citizens and legal entities of the Russian Federation, including the ultimate beneficiary of the Group. The sanctions imposed limit the ability to conduct business with the Group companies for the US companies and individuals. The Group does not expect that these sanctions will have significant effect on its consolidated financial statements.

In March 2018 RSG International Ltd increased its Share capital for 100 ordinary shares of USD 1 each with a premium of USD 105,103 per share.