PJSC PIK Group
Consolidated Financial Statements
for 2016
and Independent Auditors' Report

Contents

Consolidated Statement of Financial Position

In million RUB	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	23,176	7,752
Intangible assets	14	3,113	144
Investment property	15	26,581	-
Equity accounted investees		289	170
Other investments	17	1,913	169
Deferred tax assets	18	7,079	1,211
Total non-current assets		**62,151**	**9,446**
Current assets			
Inventories	19	253,644	69,933
Other investments	17	409	-
Income tax receivable		572	346
Trade and other receivables	20	15,896	9,958
Cash and cash equivalents		24,812	17,022
Total current assets		**295,333**	**97,259**
Total assets		**357,484**	**106,705**
EQUITY AND LIABILITIES			
Equity	21		
Share capital		41,295	41,295
Additional paid-in capital		(8,470)	(8,470)
Retained earnings		22,398	(886)
Total equity attributable to owners of the Company		**55,223**	**31,939**
Non-controlling interests	9	76	808
Total equity		**55,299**	**32,747**
Non-current liabilities			
Loans and borrowings	22	55,111	12,894
Trade and other payables	23	9,752	988
Deferred tax liabilities	18	16,413	1,078
Total non-current liabilities		**81,276**	**14,960**
Current liabilities			
Loans and borrowings	22	10,420	270
Trade and other payables	23	195,930	50,319
Provisions	24	13,559	7,801
Income tax payable		1,000	608
Total current liabilities		**220,909**	**58,998**
Total liabilities		**302,185**	**73,958**
Total equity and liabilities		**357,484**	**106,705**

These consolidated financial statements were approved by Management on 17 April 2017 and were signed on its behalf by:

Sergey E. Gordeev
President

Alexander V. Titov
Vice-President, Economics and Finance

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 53.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	**Note**	**2016**	**2015**
Revenue		60,090	51,132
Cost of sales		(41,541)	(33,495)
Gross profit		**18,549**	**17,637**
Gain on disposal of subsidiaries and development rights, net	10	50	91
Distribution expenses		(2,919)	(1,600)
Administrative expenses		(4,820)	(3,645)
Change in fair value of investment property	15	4,629	-
Reversal of impairment loss/ (impairment loss), net	16	2,872	(630)
Gain on bargain purchase of subsidiaries	9	7,346	-
Other expenses, net		(593)	(285)
Results from operating activities		**25,114**	**11,568**
Finance income	11	2,519	5,615
Finance costs	11	(4,461)	(3,949)
Net finance (costs)/ income		**(1,942)**	**1,666**
Share of (loss)/ profit of equity accounted investees, net of income tax		(18)	48
Profit before income tax		**23,154**	**13,282**
Income tax expense	12	(2,689)	(1,833)
Profit and total comprehensive income for the year		**20,465**	**11,449**
Attributable to:			
Owners of the Company		20,082	11,172
Non-controlling interests		383	277
Profit and total comprehensive income for the year		**20,465**	**11,449**
Basic and diluted profit per share, RUB	21	**30.40**	**16.91**

The consolidated statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 53.

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					
In million RUB	**Share capital**	**Additional paid-in-capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	**41,295**	**(8,470)**	**(12,058)**	**20,767**	**546**	**21,313**
Profit and total comprehensive income for the year	-	-	11,172	**11,172**	277	**11,449**
Transactions with owners of the Company						
Disposal of subsidiaries	-	-	-	**-**	(15)	**(15)**
Balance at 31 December 2015	**41,295**	**(8,470)**	**(886)**	**31,939**	**808**	**32,747**
Balance at 1 January 2016 according to consolidated statement for the previous year	**41,295**	**(8,470)**	**(886)**	**31,939**	**808**	**32,747**
Effect of change in accounting policies (Note 5)	-	-	3,916	**3,916**	**-**	**3,916**
Balance at 1 January 2016 (restated)	**41,295**	**(8,470)**	**3,030**	**35,855**	**808**	**36,663**
Profit and total comprehensive income for the year	-	-	20,082	**20,082**	383	**20,465**
Transactions with owners of the Company						
Acquisition and disposal of subsidiaries with non-controlling interests, net	-	-	-	**-**	(36)	**(36)**
Acquisition of non-controlling interests without change in control (Note 9)	-	-	(714)	**(714)**	(1,079)	**(1,793)**
Balance at 31 December 2016	**41,295**	**(8,470)**	**22,398**	**55,223**	**76**	**55,299**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 53.

Consolidated Statement of Cash Flows

In million RUB	**2016**	**2015**
OPERATING ACTIVITIES		
Profit for the year	**20,465**	**11,449**
Adjustments for:		
Depreciation and amortisation	930	1,124
(Reversal of impairment loss)/ impairment loss, incuding those in cost of sales, net	(2,064)	746
Impairment loss on financial assets, net	366	208
Gain on disposal of subsidiaries	(9)	(20)
Loss on disposal of property, plant and equipment and other assets	72	122
Change in fair value of investment property	(4,629)	-
Foreign exchange loss/ (gain), net	893	(4,015)
Write-off of accounts payable	(156)	(225)
Share of loss/ (profit) of equity accounted investees, net of income tax	18	(48)
Change in non-controlling interests in limited liability companies	17	(37)
Interest expense	3,185	3,741
Interest income	(2,356)	(1,338)
Income tax expense	2,689	1,833
Gain on bargain purchase of subsidiaries	(7,346)	-
Changes in:	**12,075**	**13,540**
Inventories	(30,658)	(5,235)
Trade and other receivables	(1,074)	(4,178)
Trade and other payables	43,060	12,452
Provision for cost to complete	(737)	(2,101)
Cash flows from operations before income taxes and interest paid	**22,666**	**14,478**
Income tax paid	(2,526)	(1,793)
Interest paid	(1,373)	(3,489)
Net cash from operating activities	**18,767**	**9,196**
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	313	126
Interest received	2,143	1,333
Acquisition of property, plant and equipment and other intangible assets	(948)	(467)
Acquisition of subsidiaries, net of cash acquired	(15,766)	-
Pre-acquisition financing advanced to subsidiaries	(23,874)	-
Loans advanced to third parties	(226)	-
Acquisition of equity accounted investees	(138)	-
Acquisition of other investments, net	(18)	(112)
Other proceeds, net	4	-
Acquisition of investment property	(6,644)	-
Repayment of loans advanced	-	395
Net cash (used in)/ from investing activities	**(45,154)**	**1,275**
FINANCING ACTIVITIES		
Proceeds from borrowings	6,044	-
Repayment of borrowings	(3,010)	(16,575)
Proceeds from issue of long-term bonds	34,000	14,905
Repurchase of long-term bonds	-	(10,000)
Acquisition of non-controlling interests	(1,799)	(5)
Dividends paid by a subsidiary to non-controlling interests	(208)	-
Net cash from/ (used in) financing activities	**35,027**	**(11,675)**
Net increase/ (decrease) in cash and cash equivalents	8,640	(1,204)
Effect of exchange rate fluctuations on cash and cash equivalents	(850)	3,987
Cash and cash equivalents at 1 January	17,022	14,239
Cash and cash equivalents at 31 December	**24,812**	**17,022**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 53.

1 Reporting Entity

(a) Organisation and operations

PJSC PIK Group (the "Company") and its subsidiaries (together referred to as the "Group") comprise joint stock companies and limited liability companies incorporated under requirements of the Civil Law of the Russian Federation and entities located abroad. The Company was established as a privately owned enterprise in 1994. Since 1 June 2007 and the Company's shares are traded on the London Stock Exchange (in the form of global depositary receipts) and Moscow Exchange (MOEX) in Russia.

The Company's registered office is 19 Barrikadnaya st., Moscow, 123242, Russian Federation.

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2016 and 2015 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2016, entities affiliated with Sergey Gordeev, Group CEO, owned 29.9% of the Company's ordinary shares.

(b) Business environment

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

The conflict in Ukraine and related events have increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit facilities. The long term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

2 Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for investment property, which is measured at fair value on each reporting date.

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

4 Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 9 *Acquisition of businesses and non-controlling interests*
- Note 15 *Investment property*
- Note 16 *Impairment losses on non-financial assets*
- Note 18 *Deferred tax assets and liabilities*
- Note 20 *Trade and other receivables*
- Note 24 *Provisions*
- Note 26 *Contingencies*.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 9 *Acquisition of businesses and non-controlling interests*
- Note 15 *Investment property*
- Note 16 *Impairment losses on non-financial assets*;
- Note 24 *Provisions*
- Note 26 *Contingencies*.

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or

liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- _Level 3_: inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see Note 6).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities with exception of changes described in Note 5(a).

(a) Change in accounting policy

The Group early adopted IAS 40 Investment Property with Amendments issued in December 2016. The Amendments are effective for annual periods beginning on or after 1 January 2018, however, early application is permitted.

The Group believes that land plots which are not part of the business operational construction plan for the upcoming 2 years represent land plots with undetermined use and, therefore, meet the definition of investment property described in IAS 40 Investment Property including Amendments. Accordingly, an appropriately approved decision to change the business plan in respect of a land plot may be regarded as a change in use and may result in its reclassification to the appropriate category of assets.

The Group applied the amendments to changes in use that occurred on or after 1 January 2016 (the date of initial application). At the date of initial application, the Group revised the classification of properties held at that date, reclassified three land plots from inventory to investment property, and recognised the difference between the fair value of the land plots and their previous carrying amounts that would have otherwise been recognised in profit or loss, as an adjustment to the opening balance of retained earnings at the date of initial application.

The reclassification described above had the following impact on the Group's consolidated financial statements:

mln RUB	
The fair value of inventory at 1 January 2016 reclassified to investment property	8,270
The carrying amount of inventory reclassified to investment property at 1 January 2016	(3,375)
Deffered tax liability related to change in fair value of investment property	(979)
Adjustment to retained earnings at the date of initial application of IFRS 40	**3,916**

(b) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see Note 9).

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Interests in equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

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

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(d) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

(ii) Non-derivative financial assets – measurement

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: loans issued, trade and other receivables as presented in note 20.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(iii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iv) Financial guarantee agreements

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such in accordance with IFRS 4 Insurance contracts.

(e) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

- buildings 20-60 years;
- plant and equipment 5-25 years;
- fixtures and fittings 5-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Intangible assets

(i) Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in construction or for administrative purposes.

Investment property also includes land plots with undetermined future use. Land plots on which construction is planned according to two-year construction plan do not meet investment property definition.

Investment property is measured at fair value with any change therein recognised in the statement of profit or loss.

Investment property under development consists of plots of land, wholly or partly owned by the Group or leased to the Group, on which commercial properties are being, or will be, built. These properties will be leased to third parties on completion.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Group reclassifies land plots from investment property to inventory when such land plots are included in the two-year operational construction plan.

(i) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(j) Inventories

Inventories include construction work in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments intended for sale, raw materials, other work in progress, finished goods and development rights.

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.

The cost of real estate properties under construction is determined on the basis of their specifically identified individual costs. These costs are allocated to completed individual apartments on a pro rata basis relative to their size. The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project.

When realizing the construction of residential real estate, the Group may assume additional obligations, including:

- for no consideration delivers certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc.
- constructs certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;
- constructs certain objects for public use where the expected compensation from the buyers will not reimburse the Group with the costs to be incurred, e.g., certain parking spaces;
- enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

If the fulfilment of the terms of such obligations is directly related to the construction of the residential real estate by the Group for sale, the costs to complete the construction are included in the total costs of construction of properties which these obligations relate to.

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

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

The Group’s normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the balance sheet date.

(k) Impairment

Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

(l) Employee benefits

(i) Contributions to state pension fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Tax provisions

The Group provides for tax exposures including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or cost of sales.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(n) Revenues

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings ("State commission"). The revenue received in connection with sales of apartments to individuals is recognized when a prepayment is more than 95% of the sale price.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(ii) Revenue from construction services

Revenues from construction comprise construction services which are rendered to a specific customer's request.

Revenue from construction services rendered is recognised in the profit or loss on a monthly basis according to the following principles:

- If the outcome of a construction contract can be estimated reliably the contract revenue is recognised in proportion to the stage of completion of the contract. The Management believes that, the outcome of a construction contract is deemed reliable when the actual costs to budgeted costs exceed certain threshold.
- If the ratio of actual costs to budgeted costs is below the threshold the revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable.

The stage of completion is assessed monthly as a ratio of actual costs to budgeted costs and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as a developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs.

(iii) Other sales

Revenue from the sale of construction materials and other sales is recognised in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.

(o) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit or loss as incurred.

(p) Finance income and costs

Finance income comprises interest income on funds invested gains on the disposal of financial assets, foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, losses on disposal of financial assets, foreign exchange losses, and impairment losses recognised on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The Group uses exemption for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis, therefore borrowing costs related to construction of mass residential premises are not capitalised.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(q) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

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

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

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(r) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 7).

(t) New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018 and will replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The Group recognises that the new standard introduces many changes to the accounting for financial instruments however does not expect that the standard would have significant impact on Group's consolidated financial statements. The Group does not intend to adopt this standard early.

- IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2018. The new standard is replace International Financial Reporting Standard IAS *11 Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, SIC *31 Revenue - Barter Transactions Involving Advertising Services*. The Group recognises that the new standard introduces many changes to the accounting and is likely to have a significant impact on Group's consolidated financial statements. Under shared construction participation agreements the Group uses funds obtained from customers in the form of prepayments to construct multi-unit residential properties. IFRS 15 requires adjusting the promised amount of consideration for a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. The Group began evaluating the potential impact on the consolidated financial statements.

- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

  The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land plots for development purposes. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions.

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

6 Measurement of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between market participants in an orderly transaction. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation (via application of discounted cash flow method), and obsolescence.

(b) Investment property

The fair value of investment property is based on valuations, performed by external independent valuation companies, who hold recognized and relevant professional qualifications and who have recent experience in the location and category of the investment property being valued. The valuations are based primarily on comparable rents, discount rates, yields and sales prices from recent market transactions on an arm's lengths basis, using market approach.

(c) Intangible assets

The fair value of client base acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(d) Inventories

The fair value of inventories acquired in a business combination is based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(e) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and other comprehensive income, held to maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(f) Trade and other receivables

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

(g) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

7 Operating segments

The Group has four reportable segments which are the Group's strategic business units:

- *Real estate development*: The implementation of developments planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing real estate projects to potential buyers.
- *Construction segment*: Contracting activities, production and assembly of prefabricated panel buildings and related activities.
- *Industrial segment:* Production of concrete panels, window frames and other construction materials.
- *Other:* Real estate maintenance services provided to tenants, rental services and other activities.

There are varying levels of integration between the Real estate development, Construction and Industrial reportable segments. This integration includes construction services provided during the construction of the real estate for further reselling, production of construction materials.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit/ (loss), as included in the internal management reports that are reviewed by the Group's CEO. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Segments profit and losses

	Real estate development		Construction segment		Industrial segment		Other		Total	
mln RUB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External revenues	54,013	42,936	1,503	4,001	682	1,538	3,892	2,657	**60,090**	**51,132**
Inter-segment revenue	1,570	410	11,369	10,320	865	1,002	1,207	529	**15,011**	**12,261**
Total revenue for reportable segments	**55,583**	**43,346**	**12,872**	**14,321**	**1,547**	**2,540**	**5,099**	**3,186**	**75,101**	**63,393**
Reportable segment gross profit	**17,205**	**16,716**	**178**	**63**	**83**	**164**	**1,083**	**694**	**18,549**	**17,637**
Gross profit margin	**32%**	**39%**	**12%**	**2%**	**12%**	**11%**	**28%**	**26%**	**31%**	**34%**

During the reporting period ended 31 December 2016 the gross profit of real estate segment includes the positive effect of change in estimates in respect of construction budgets of certain development projects in the total amount of RUB 315 million (2015: positive effect of RUB 2,562 million).

(ii) Geographical information

The Real estate development, Construction segment, Industrial segment and Other segments operations are located in Russia and operate in three principal geographical areas: Moscow, the Moscow Region and the Other Regions.

In presenting information on the basis of geography, external revenues of the Real estate development are based on the geographical location of development sites.

	Real estate development	
	2016 mln RUB	2015 mln RUB
Moscow	16,544	15,591
Moscow Region	31,528	22,623
Other regions	5,941	4,722
	54,013	**42,936**

(iii) Reconciliations of reportable segment revenues and profit or loss

	2016 mln RUB	2015 mln RUB
Reconciliation of Revenue		
Total revenue for reportable segments	75,101	63,393
Elimination of inter-segment revenue	(15,011)	(12,261)
Group Revenue	**60,090**	**51,132**
Gross profit or loss reconciliation		
Reportable segment profit	18,549	17,637
Group Gross profit	**18,549**	**17,637**
Unallocated amounts		
Gain on disposal of subsidiaries and development rights, net	50	91
Distribution expenses	(2,919)	(1,600)
Administrative expenses	(4,820)	(3,645)
Change in fair value of investment property	4,629	-
Reversal of impairment loss/ (impairment loss), net	2,872	(630)
Gain on bargain purchase of subsidiaries	7,346	-
Other expenses, net	(593)	(285)
Finance income	2,519	5,615
Finance costs	(4,461)	(3,949)
Share of (loss)/ profit of equity accounted investees, net of income tax	(18)	48
Consolidated profit before income tax	**23,154**	**13,282**

(iv) Major customers

In 2016 and 2015, no customer represented more than 10% of the Group's total revenue.

8 Personnel costs

	2016 mln RUB	2015 mln RUB
Salaries and wages		
Cost of sales	4,483	4,376
Administrative expenses	2,966	2,056
Distribution expenses	398	266
	7,847	**6,698**
Social charges		
Cost of sales	1,161	1,204
Administrative expenses	534	371
Distribution expenses	93	58
	1,788	**1,633**
Total	**9,635**	**8,331**

9 Acquisition of businesses and non-controlling interests

(a) Acquisition of the Morton Group and other businesses

In October 2016, the Horus Real Estate Fund I B.V, an entity affiliated with Sergey Gordeev, the Group CEO acquired 100% interest in the Morton Group, a privately owned leading developer of large-scale residential projects.

In December 2016, the Group purchased the 100% interest in the Morton Group from the Horus Real Estate Fund I B.V. for a consideration of RUB 11,664 million settled in cash, which had originally been paid by Horus Real Estate Fund I B.V. to acquire the business.

In addition in December 2016, the Group acquired a 100% interests in other companies to obtain control over significant assets, comprising land plots, property, plant and equipment and companies which provide maintenance services to customers in completed residential properties. The total consideration payable was RUB 7,135 million of which RUB 6,543 million was settled in cash prior to 31 December 2016.

The above transactions are complimentary and have been performed to achieve an overall commercial effect within a short period of time. Therefore, the Group accounted for the above multiple arrangements as a single transaction and calculated the result thereof on a general basis.

The above transactions were accounted for as a business combination and resulted in recognition of gain from bargain purchase (negative goodwill) of RUR 7,346 million.

The Group Management engaged an independent appraiser to perform purchase price allocation for these acquisitions.

The acquisition of the above businesses had the following effect on the Group's assets and liabilities at the dates of acquisition:

	31 December 2016 mln RUB
Property, plant and equipment	15,021
Intangible assets	2,939
Investment property	7,038
Deferred tax assets	5,038
Inventories	155,651
Other investments	2,006
Trade and other receivables	5,421
Cash and cash equivalents	2,441
Deferred tax liabilities	(14,399)
Loans and borrowings	(29,872)
Trade and other payables	(119,449)
Provisions	(5,690)
Net identifiable assets, liabilities and contingent liabilities	**26,145**
Total amount of consideration	**18,799**
Gain on bargain purchase of subsidiaries	(7,346)
Consideration paid	18,207
Unpaid consideration included in accounts payable	592
Cash acquired	(2,441)
Acquisition of subsidiaries, net	**15,766**

The balance of trade payables and loans and borrowings includes pre-acquisition financing advanced by the Group amounted to RUB 23,874 million.

The Group believes it's impracticable to disclose information, on the revenue and profit and loss of the combined entity for the year ended 31 December 2016 as though the acquisition date for the business combination had been as of 1 January 2016. The acquired entities did not have proper IFRS reporting systems in 2016, therefore, the Group management considered that cost of creating such information exceeded the benefits of its use.

Measurement of fair values

The valuation techniques used to measure the fair value of significant assets acquired are described in Note 6.

Trade receivables comprise gross contractual amounts due of RUB 3,057 million, of which RUB 709 million was expected to be uncollectable at the acquisition date.

There were no acquisitions of businesses in 2015.

(b) Acquisition of non-controlling interest

In August 2016 the Group acquired 25% of non-controlling interest in Viniso Investments limited, a parent company of entities operating a project to develop residential housing in Mytishy, Moscow Region. The acquisition increased the Group's interest in a subsidiary to 100%. The consideration of RUB 1,793 million was settled in cash. The difference between the carrying amount of the non-controlling interest and consideration paid was recognized directly in equity.

10 Gain on disposal of subsidiaries and developments rights

	2016 mln RUB	2015 mln RUB
Property, plant and equipment	-	(246)
Inventories	(866)	(127)
Trade and other receivables	(72)	(527)
Deferred tax assets	(54)	(40)
Deffered tax liabilities	22	88
Trade and other payables	983	476
Other	(1)	1
Net identifiable assets	**12**	**(375)**
Consideration received/receivable	15	421
Cash and cash equivalents of the disposed subsidiaries	(18)	(26)
Gain on disposal of subsidiaries, net	**9**	**20**
Gain on disposal of development rights, net	41	71
Gain on disposal of subsidiaries and development rights, net	**50**	**91**

In 2016 and 2015 the Group revised its portfolio of construction projects and decided to sell certain development rights. The gain of disposal amounted to RUB 41 million (2015: RUB 71 million).

11 Finance income and costs

Finance income

	2016 mln RUB	2015 mln RUB
Interest income	2,356	1,338
Foreign exchange gains, net	-	4,015
Write-off of accounts payable	156	225
Other finance income, net	7	-
Change in non-controlling interest in limited liability companies	-	37
	2,519	**5,615**

Finance costs

	2016 mln RUB	2015 mln RUB
Interest expense	(3,185)	(3,741)
Foreign exchange losses	(893)	-
Impairment of financial assets, net	(366)	(208)
Change in non-controlling interest in limited liability companies	(17)	-
	(4,461)	**(3,949)**

12 Income tax expense

The income tax expense consists of the following:

	2016 mln RUB	2015 mln RUB
Current tax expense		
Current year	(2,337)	(2,456)
Underprovided in prior years	(60)	(12)
Tax provisions (net of reversals)/reverlals	(805)	628
	(3,202)	**(1,840)**
Deferred tax expense		
Origination and reversal of temporary differences	513	7
	513	7
	(2,689)	**(1,833)**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2015: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate of 12.5%.

Reconciliation of effective tax rate:

	2016 mln RUB	%	2015 mln RUB	%
Profit before income tax	23,154	100	13,282	100
Income tax expense at applicable tax rate	(4,631)	20	(2,656)	20
Effect of unrecognised deferred tax assets	693	(3)	331	(2)
Underprovided in prior years	(60)	-	(12)	-
Non-deductible income/(expenses)	1,804	(8)	(656)	5
Effect of tax rates in foreign jurisdictions	310	(1)	532	(4)
Tax provisions (net of reversals)	(805)	3	628	(5)
	(2,689)	**12**	**(1,833)**	**14**

13 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2015	**11,245**	**3,996**	**986**	**616**	**16,843**
Additions	-	-	-	823	823
Disposals	(104)	(169)	(180)	(68)	(521)
Disposal of subsidiaries	(1,313)	(94)	(218)	(3)	(1,628)
Reclassification to inventories	(42)	-	-	-	(42)
Transfers	255	160	87	(502)	-
At 31 December 2015	**10,041**	**3,893**	**675**	**866**	**15,475**
Acquisitions through business combinations	10,065	3,688	1,181	87	15,021
Additions	-	-	-	1,511	1,511
Disposals	(454)	(1,234)	(86)	(120)	(1,894)
Reclassification to inventories	(61)	-	-	-	(61)
Transfers	861	250	129	(1,240)	-
At 31 December 2016	**20,452**	**6,597**	**1,899**	**1,104**	**30,052**
Accumulated depreciation and impairment losses					
At 1 January 2015	**(5,170)**	**(2,230)**	**(726)**	**(123)**	**(8,249)**
Impairment losses (see note 16)	(97)	-	-	-	(97)
Impairment provision related to disposed assets	16	3	3	-	22
Impairment provision related to disposed subsidiaries	947	44	211	-	1,202
Depreciation charge	(258)	(659)	(85)	-	(1,002)
Disposals	27	50	128	-	205
Disposal of subsidiaries	135	42	1	-	178
Reclassification to inventories	18	-	-	-	18
Transfers	(3)	4	(1)	-	-
At 31 December 2015	**(4,385)**	**(2,746)**	**(469)**	**(123)**	**(7,723)**
Impairment losses (see note 16)	(20)	(54)	-	(77)	(151)
Reversal of impairment losses	403	9	1	-	413
Impairment provision related to disposed assets	18	4	-	126	148
Depreciation charge	(251)	(486)	(86)	-	(823)
Disposals	79	1,095	63	-	1,237
Reclassification to inventories	23	-	-	-	23
At 31 December 2016	**(4,133)**	**(2,178)**	**(491)**	**(74)**	**(6,876)**
Net book value					
At 1 January 2015	**6,075**	**1,766**	**260**	**493**	**8,594**
At 31 December 2015	**5,656**	**1,147**	**206**	**743**	**7,752**
At 31 December 2016	**16,319**	**4,419**	**1,408**	**1,030**	**23,176**

(a) Security

At 31 December 2016, property, plant and equipment with a carrying value of RUB 4,978 million (2015: RUB 2,191 million) was pledged to secure bank loans (refer to note 22).

(b) Depreciation expense

Depreciation expense of RUB 376 million has been charged to cost of goods sold, RUB 32 million to distribution expenses, RUB 153 million to administrative expense, and RUB 262 million has been included to inventories (2015: RUB 547 million, RUB 8 million, RUB 161 million, RUB 286 million accordingly).

(c) Leased plant and machinery

As part of business combination, the Group acquired the equipment under a number of finance lease agreements. At 31 December 2016 the net book value of leased plant and machinery was RUB 326 million (31 December 2015: nil).

(d) Measurement of fair value of property, plant and equipment

As part of the business combination, the Group recognized identifiable items of property, plant and equipment acquired at fair value which had been determined by an independent appraiser engaged by the Group's management.

Property, plant and equipment of engineering networks

The main assets of this category are boiler equipment, water supply and sewerage networks, power grids, as well as minor fixed assets necessary for the operation of the infrastructure facilities. Since most of the assets are of specialized nature and there is no active market for such property, the Group used replacement cost as a basis to determine the fair value. Under this approach, the fair value is defined as expenditure required to replace the assets as adjusted for physical, functional and economic depreciation and impairment. This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Since the vast majority of assets were built or acquired over the recent seven years, inflation-adjusted indices were applied to the original historical costs in order to determine cost of replacement. The physical obsolescence of the equipment is based on the Iowa deterioration curves, where as Marshall & Swift life expectancy guidelines have been applied to buildings and networks. Functional obsolescence has not been identified, since the assets are relatively new and meet modern technological requirements. All assets related to cash generated unit Electricity, Water supply and Heating are of specialized nature, and, therefore they were tested for impairment as part of the test for adequate profitability. For the purposes of the impairment test, the recoverable amount was determined on the basis of the value-in-use, where the estimated future cash flows from the use of the assets of the cash generating unit, were discounted to their present value. The value in use was compared to the total cost of replacement as of the valuation date. In determining the value in use, the following main assumptions were used:

- The revenue forecast was based on the actual data for 2016, taking into account the forecasted inflation rates and average historical data for the previous three years, as well as on the basis of the approved tariffs for water, heat and electricity according to the data of the Ministry of Economic Development;
- The forecast for expenses was based on actual data for 2016, as well as on the basis of approved budgets for the year, taking into account the growth rates of certain types of expenditures according to the data of the Ministry of Economic Development and Oxford Economics;
- Capital expenditure in the heat supply and water supply was not considered necessary, since maintenance costs were included in operating expenses. For electricity supply capital expenditure was projected on the basis of the approved investment program for 2017, taking into account the producer price index;
- The tax rate was set at the level of the statutory rate in Russian Federation equaled to 20%;
- The forecast of net working capital is based on actual turnover of accounts payable and receivable, as well as inventories for 2016;

- A discount rate of 13.3% was applied, the cash flows were discounted as of mid of the years.

Sensitivity analysis

The management has determined the discount rate is the key assumption which is subject to a reasonable change.

An increase in the discount rate by 1 percentage point would result in a decrease in the fair value of property, plant and equipment by RUB 118 million. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on the fair value of assets.

Property, plant and equipment of LLC DSK Grad

DSC Grad is a house-building plant built and launched at the end of 2014. It produces reinforced concrete panels for housing construction.

The assets of this cash generating unit are primarily of a specialized nature. There is no active market for such property, therefore, the Group used replacement cost as a basis to determine the fair value. Under this approach, the fair value is defined as expenditure required to replace the assets as adjusted for physical, functional and economic depreciation and impairment. This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Since the property, plant and equipment of this cash generating unit had been purchased over the recent three-years period, inflation-adjusted indices were applied to the original historical costs in order to determine cost of replacement. The historic book value of the assets was adjusted using price indices based on the Russian State Service for Statistics (Rosstat) (for domestic production), and Eurostat indices (for equipment of European origin). Price indices for foreign equipment were adjusted for changes in the Euro / Ruble exchange rate. The physical obsolescence is based on the Iowa deterioration curves, where as Marshal & Swift life expectancy guidelines have been applied to buildings and networks. Functional obsolescence was not identified, because the property, plant and equipment of this cash generating unit are relatively new and meet modern technological requirements. All individual assets, except for land and vehicles (for which a comparative approach was used) are of specialized nature, and therefore, were tested for impairment on the basis of adequate return test. For the purposes of the impairment test, the recoverable amount was determined on the basis of the value-in-use, where the estimated future cash flows from the use of the assets of the cash generating unit, were discounted to their present value.

In determining the value in use, the following main assumptions were used:

- Sales volume: 100% utilization is forecasted to be achieved in 2018 and the 100% utilization will be maintained over the life of the assets;
- The sales prices are based the actual average price for 2016, adjusted for inflation (Producers’ price index);
- The projected EBITDA margin varies from 15% to 16.5%;
- The tax rate was applied is the Russian statutory income tax rate of 20%;
- The forecast is based on the assumption that the turnover of working capital will correspond to the values for 2016;
- The discount rate of 16.4% was applied, the cash flows were discounted as of mid of the years.

Sensitivity analysis

The management has determined the inflation rate is the key assumption which is subject to a reasonable change.

Decrease in the index by 1 % would lead to a decrease in the fair value of the assets by RUB 90 million. An increase in the in the index by 1 % would have equal but opposite effect on the fair value of the assets.

14 Intangible assets

mln RUB	Client base	Other	Total
Balance at 1 January 2016	-	144	144
Acquisitions through business combinations	2,807	132	2,939
Additions	-	140	140
Amortisation charge	-	(107)	(107)
Disposals	-	(3)	(3)
Balance at 31 December 2016	**2,807**	**306**	**3,113**

The client base was acquired as part of business combinations and are related to the subsidiaries that provide maintenance services to customers in completed residential properties. The Client base, mainly represented by contracts with tenants of residential buildings, are recognized as an intangible asset with an indefinite useful life, therefore depreciation is not accrued. The Group tests them for impairment annually.

Measurement of the fair value of intangible assets

As part of the business combination, the Group recognized Client base as an identifiable intangible asset at their fair value, which was determined by an independent appraiser engaged by the Group's management.

The fair value of these intangible assets was determined using the multi-period model of excess earnings method based on the following assumptions:

- The revenue forecast is based on the tariffs of 2016, as adjusted for the changes in the consumer price index and the volume of serviced areas;
- EBITDA margin was set up to 16% for the existing client base taking into account the expectations of the management;
- The client base has unlimited useful life;
- The retirement ratio was set at 0;
- The discount rate applied is the cost of equity of 15%;
- The tax rate applied is the Russian statutory income tax rate of 20%;;

This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Sensitivity analysis

The management has determined the expected EBITDA and the discount rate as key assumptions subject to reasonable change.

The decrease in EBITDA margin by 1 percentage point would result in a decrease in the fair value of the client base by RUB 181 million. The increase in EBITDA margin by 1 percentage point would have equal but opposite effect on the fair value of client base.

An increase in the discount rate by 1 percentage point would result in a decrease in the cost of the recognized intangible asset by RUB 191 million. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on cost of the recognized intangible asset.

15 Investment property

(a) Reconciliation of carrying amount

mln RUB	
	-
Balance at 31 December 2015	8,270
Acquisitions	6,644
Acquisitions through business combinations	7,038
Change in fair value	4,629
Balance at 31 December 2016	**26,581**

(b) Measurement of fair value

The fair value of investment property was determined by external, independent real estate appraisers who have the appropriate recognized professional qualifications and recent experience in evaluating this category of real estate at that location.

The main method for estimating the fair value of land plots of investment property is the comparative method based on an analysis of all available information on sales of similar properties, with adjustments applied to reflect the differences between compared objects and the valuation objects. Within this approach, current bids on sites similar to the objects of evaluation were analyzed. The sales prices have been adjusted in accordance with the differences in characteristics between the valuation objects and the compared land plots. The main adjustments were:

- Adjustment for a location of 5% to 10%;
- Adjustment for the object square size of 10% to 30%;
- Adjustment for utilities availability up to 30%;
- Adjustment for bargaining to 30%.

In cases where there is no reliable information about the analogue objects, which makes it impossible to apply the exclusively comparative method, the Group uses the discounted cash flow method to determine the fair value of land plots. When applying this method, the Group uses the following assumptions:

- It is highly probable that all required authorizations would be received in due course to develop residential properties;
- Prices for residential real estate were forecasted based on market prices for similar properties in December 2016;
- In determining the value in use of the projects, Ruble based cash flows were discounted at an actual pre-tax rate of 20-25% on average;
- The growth of prices and investment costs were adjusted for the forecasted level of inflation;
- The duration of sales corresponds to sales durations achieved by the Group on similar projects;
- The forecasted density of land plot development corresponds to the average for similar projects of the Group.

This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Sensitivity analysis

The management has determined the discount rate and the basic sale price are key assumptions subject to reasonable changes.

A decrease in the rate of price growth by 5 percentage point would lead to a decrease in the fair value of investment property by 2,554 million rubles. An increase in the basic sale price by 5 percentage point would have equal but opposite effect on the fair value of investment property.

An increase in the discount rate by 1 percentage point would result in a decrease in the fair value of investment property by 665 million rubles. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on the fair value of investment property.

16 Impairment loss on non-financial assets

At each reporting date the Group assesses if there is any indication of impairment for the following assets:

- property, plant and equipment;
- inventories;
- advances paid for construction work and other advances.

As a result of the testing, the following amounts of impairment and reversal of impairment were recognized in 2016 and in 2015:

	Note	2016 mln RUB	2015 mln RUB
Impairment loss and write downs			
Property, plant and equipment	13	(151)	(97)
Inventories	19	(800)	(643)
Advances paid		(29)	(204)
		(980)	**(944)**
Reversal of impairment			
Property, plant and equipment	13	413	-
Intangible assets	14	-	63
Inventories	19	2,563	182
Advances paid		68	(47)
		3,044	**198**
		2,064	**(746)**

Additional impairment losses of RUB 808 million (2015: RUB 116 million) were included in the cost of sales and reversal of impairment losses of RUB 2,872 million (2015: RUB 630 million of impairment loss) were included in reversal of impairment losses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

17 Other investments

	2016 mln RUB	2015 mln RUB
Non-current		
Loans advanced to third parties in RUB at fixed rate 9.0%-17.5%	1,045	-
Promissory notes recievable from associates at fixed rate 16%	608	-
Banks deposits	260	-
Equity investments available for sale	-	169
	1,913	**169**
Impairment losses	(224)	-
Current		
Loans advanced to third parties in RUB at fixed rate 9.0%-17.0%	404	-
Promissory notes	4	-
Other investments	1	-
	409	-
Impairment losses	(28)	-

Fair value

As at 31 December 2016 and 31 December 2015, the fair value of the loans receivable approximated their carrying amounts.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

mln RUB	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	682	39	(1,402)	(177)	(720)	(138)
Investment property	343	-	(3,732)	-	(3,389)	-
Investments	267	19	-	(4)	267	15
Intangible assets	5	-	(594)	-	(589)	-
Inventories	6,861	1,595	(15,454)	(929)	(8,593)	666
Trade and other receivables	5,023	739	(71)	(474)	4,952	265
Trade and other payables	2,082	1,012	(6,486)	(1,956)	(4,404)	(944)
Loans and borrowings	1	-	(68)	-	(67)	-
Tax loss carry-forwards	3,209	269	-	-	3,209	269
Tax assets/(liabilities)	18,473	3,673	(27,807)	(3,540)	(9,334)	133
Set off of tax	(11,394)	(2,462)	11,394	2,462	-	-
Net tax assets/(liabilities)	**7,079**	**1,211**	**(16,413)**	**(1,078)**	**(9,334)**	**133**

(b) Unrecognised deferred tax assets

Deferred tax assets of RUB 6,151 million (2015: RUB 4,376 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(c) Unrecognised deferred tax liabilities related to investments in subsidiaries

At 31 December 2016 a deferred tax liability for temporary differences of RUB 8,392 million (2015: RUB 9,269 million) related to investments in a subsidiaries was not recognized. The Group controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

(d) Movement in temporary differences during the year

mln RUB	1 January 2016	Deffered taxes related to change in fair value of investment property	Recognised in profit and loss	Disposed	Acquired	31 December 2016
Property, plant and equipment	(138)	-	26	-	(608)	(720)
Investment property	-	(979)	(918)	-	(1,492)	(3,389)
Investments	15	-	75	-	177	267
Intangible assets	-	-	(117)	-	(472)	(589)
Inventories	666	-	184	15	(9,458)	(8,593)
Trade and other receivables	265	-	398	-	4,289	4,952
Trade and other payables	(944)	-	(90)	-	(3,370)	(4,404)
Loans and borrowings	-	-	(68)	-	1	(67)
Tax loss carry-forwards	269	-	1,023	(47)	1,964	3,209
	133	**(979)**	**513**	**(32)**	**(8,969)**	**(9,334)**

mln RUB	1 January 2015	Recognised in profit and loss	Disposed	Acquired	31 December 2015
Property, plant and equipment	(173)	23	12	-	(138)
Investments	16	(1)	-	-	15
Inventories	600	68	(2)	-	666
Trade and other receivables	(217)	452	30	-	265
Trade and other payables	(334)	(621)	11	-	(944)
Tax loss carry-forwards	169	86	(3)	17	269
	61	**7**	**48**	**17**	**133**

19 Inventories

	2016 mln RUB	2015 mln RUB
Construction work in progress, intended for sale, stated at fair value at the date of business combinations	150,540	-
Construction work in progress, intended for sale, stated at historical cost	91,137	63,124
Finished goods and goods for resale	9,146	5,209
Raw materials and consumables	2,803	1,566
Work in progress	18	34
	253,644	**69,933**
Write down	(1,723)	(4,279)

In 2016 the Group reviewed the carrying amount of construction work in progress and finished goods. The Group used the discounted cash flow method to determine the recoverable amount. The net realizable value was used for finished goods.

As result of impairment test the Group reversed impairment losses related to construction-in-progress and finished goods in the amount of RUB 2,563 million (2015: RUB 182 million) and recognized additional impairment loss of RUB 808 million (2015: RUB 643 million). The reversal of loss and additional loss in the amount of RUB 808 million (2015: RUB 116 million) were recognized in the cost of sales. The reversal of loss in the amount of RUB 2,521 million (2015: a loss of RUB 345 million) was included in the Reversal of loss and loss from impairment in the Consolidated Statement of Income or Loss and Other Comprehensive Income (see Note 16).

(a) Measurement of fair value

Finished goods

Finished goods include residential and non-residential premises and trade centres for sale.

The fair value of finished goods was determined by external independent real estate appraisers who have the appropriate recognized professional qualifications and recent experience in evaluating this category of assets.

Comparative approach was primarily used to estimate the fair value of finished products.

The income approach was used to estimate the fair value of trade centres.

The income method was used to estimate the fair value of commercial centres.

This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Construction work in progress intended for sale

The fair value of construction work in progress was determined by external independent real estate appraisers who have the appropriate recognized professional qualifications and recent experience in evaluating this category of assets.

The fair value of construction in progress was determined on the basis of discounted cash flow method. The following key assumptions were used to estimate fair value:

- Cash flows were projected for each individually significant project;
- Sales prices for the apartments are based on market prices effective in December 2016 for similar properties;
- The sales prices and investment costs were adjusted for the effect of expected rate of inflation;

- The duration of sales corresponds to duration achieved by the Group on similar projects;
- The forecasted density of land plot development corresponds to the average for similar projects of the Group;
- A real pre-tax discount rate of 21.4% for RUB-based cash flows was applied in determining recoverable amounts.

This fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used (see note 6).

Sensitivity analysis

The management has determined the discount rate and the sale prices as key assumptions subject to reasonable change.

A reduction in the sale price by 5 % would lead to a decrease in the fair value of inventory by RUB 11,420 million. An increase in the sale price by 5 percentage point would have equal but opposite effect on the fair value of inventories.

An increase in the discount rate by 1 percentage point would result in a decrease in the fair value of investment property by RUB 1,396 million. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on the fair value of inventories.

20 Trade and other receivables

(a) Construction contracts in progress

	2016 mln RUB	2015 mln RUB
Cost incurred to date	6,500	5,455
Profits recognized to date	645	469
Revenue recognized to date	7,145	5,924
Progress payments received	(7,843)	(5,438)
	(698)	486
Amounts due to customers	(966)	(110)
Amounts due from customers	268	596

(b) Trade and other receivables

	2016 mln RUB	2015 mln RUB
Trade accounts receivable	6,156	2,812
Advances paid	5,996	6,114
Taxes receivable	2,797	622
Others	948	410
	15,897	**9,958**
Impairment losses	(2,432)	(2,155)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 25.

21 Equity

(a) Share capital

The total number of ordinary shares issued and outstanding as at 31 December 2016 is 660,497 thousand with the nominal value of RUB 62.50 per share (31 December 2015: 660,497 thousand).

(b) Dividends

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

(c) Earnings per share

The calculation of earnings per share is based on the profit for the year attributable to the ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	2016	**2015**
Profit for the year attributable to the owners of the Company, mln RUB	20,082	11,172
Weighted average number of shares for the year ended , thousand shares	660,497	660,497
Basic and diluted earnings per share, RUB	**30.40**	**16.91**

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 25.

	2016 mln RUB	**2015 mln RUB**
Non-current		
Secured bank loans	12,833	7,989
Unsecured bank loans	3,019	-
Bonds	39,058	4,905
Finance lease liabilities	201	-
	55,111	**12,894**
Current		
Secured bank loans	8,348	-
Interest payable	1,932	270
Finance lease liabilities	140	-
	10,420	**270**
	65,531	**13,164**

As at 31 December 2016 and 2015, the bank loans were secured by:

- property, plant and equipment with a carrying value of RUB 4,978 million (2015: RUB 2,191 million);
- the rights to lease land plots with a total area million 197 thousand square meters (2015: nil);
- investment property with a carrying value of RUB 2,403 million;

- shares of the certain subsidiaries.

During August-December 2016 the Group issued new coupon bonds of RUB 24,000 million. The bonds mature in 10 years, and are callable in three years. The coupon rate is 13% or 64,82 roubles per bond, payable semi-annually.

In October 2016 the Group made a secondary offering of bonds which had been redeemed in 2015 of RUB 10,000 million. In December 2016, the Group received a long-term bank loan of RUB 3,035 million with a credit limit of up to RUB 10,000 million and the interest rate at 13% to restructure the loan portfolio assumed as part of the business combination.

In December 2016, the Group received a long-term bank loan of RUB 3,035 million with a credit limit of up to RUB 10,000 million and the interest rate at 13% to restructure the loan portfolio assumed as part of the business combination.

Terms and conditions of outstanding debt

Terms and conditions of outstanding loans were as follows:

	2016 mln RUB	2015 mln RUB
Secured bank loans		
RUB - fixed at 12,00%-12,50%	12,856	7,989
RUB - fixed at 13,00%-13,50%	5,764	-
RUB - fixed at 15,00%-15,54%	2,386	-
RUB - fixed at 16,00%-19,00%	175	-
Unsecured bank loans		
RUB - fixed at 13,00%	3,019	-
Bonds		
RUB - fixed at 13,00%-14,25%	39,058	4,905
Interest payable	1,932	270
Finance lease liabilities	341	-
	65,531	**13,164**

Finance lease liabilities are payable as follows:

mln RUB	31 December 2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	140	51	89
Between one and five years	201	40	161
	341	**91**	**250**

23 Trade and other payables

	2016 mln RUB	2015 mln RUB
Non-current		
Accounts payable for the acquisition of development rights	8,363	-
Amounts due to customers on construction contracts	602	-
Other liabilities	787	988
	9,752	**988**
Current		
Advances from customers	164,783	42,857
Accounts payable for construction works and other trade payables	18,552	4,761
Accounts payable for acquisition of development rights	1,881	-
Amounts due to customers on construction contracts	966	110
Other taxes payable	2,308	1,429
Other payables	7,440	1,162
	195,930	**50,319**

Other non-current liabilities include a non-controlling interest in Russian limited liability companies.

A significant share of the current liabilities are expected to be settled within 12 months of the reporting period.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 25.

24 Provisions

mln RUB	Provision for costs to complete	Provision for tax	Total
As at 1 January 2016	**7,259**	**542**	**7,801**
Additional provisions	3,642	969	4,611
Releases of provisions	(1,061)	(164)	(1,225)
Utilized provision	(3,318)	-	(3,318)
Acquired from business combinations	3,929	1,761	5,690
As at 31 December 2016	**10,451**	**3,108**	**13,559**
As at 1 January 2015	**9,360**	**1,170**	**10,530**
Additional provisions	3,708	370	4,078
Releases of provisions	(3,340)	(998)	(4,338)
Utilized provision	(2,469)	-	(2,469)
As at 31 December 2015	**7,259**	**542**	**7,801**

Estimated costs to complete represent the Group's estimate of future costs which are expected to be incurred in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its building permit requirements. The provision is recognized upon completion of the construction of each individual housing of the microdistrict, directly related to the infrastructure objects described above. The provision for construction completion costs is recognized in proportion to the areas of completed properties to the total expected area for microdistrict developed.

These estimates are particularly dependent on the changes in the city development regulations, which may trigger changes in the investment contracts with the Group, changes in prices for construction materials and labor.

The tax provisions relating to deductibility for tax purposes of certain expenses primarily comprise of a provision for income tax of RUB 2,876 million (2015: RUB 542 million) and other taxes RUB 232 million and include penalties. In 2016 the Group reversed tax provision of RUB 164 million (2015: RUB 998 million) recognised in prior periods because the respective period open for tax audit expired.

25 Financial instruments

(a) Overview

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Sale of apartments to individuals

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are significantly on a prepayment basis.

(ii) Trade receivables from organisations

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each contractor.

The Group has established a credit policy under which each new contractor is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These provide for penalties in the event of late payment or late delivery.

In monitoring customer credit risk, contractors are grouped according to their credit characteristics, including whether type of contract, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to the Group's subsidiaries and associates.

Exposure to credit risk

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

Credit risk	**2016 mln RUB**	**2015 mln RUB**
Loans and receivables	9,557	3,509
Cash and cash equivalents	24,812	17,022
	34,369	20,531

The cash and cash equivalents are held with banks and financial institutions which are rated top 10 (based on assets) financial institutions of Russian Federation.

Impairment losses

The aging of trade receivables and loans receivable at the reporting date was:

Impairment losses	**Gross 2016 mln RUB**	**Impairment 2016 mln RUB**	**Gross 2015 mln RUB**	**Impairment 2015 mln RUB**
Not past due	7,008	-	2,580	-
Past due 90 days	327	(203)	86	(64)
Past due 91-180 days	56	(45)	55	(54)
Past due 181 days-1 year	316	(264)	105	(104)
More than one year	583	(550)	537	(524)
	8,290	**(1,062)**	**3,363**	**(746)**

The change in the allowance for impairment in respect of trade receivables and loans receivable during the year was as follows:

	2016 mln RUB	**2015 mln RUB**
Balance at beginning of the year	746	1,047
Increase during the year	366	208
Amounts written off against financial assets	(50)	(509)
Balance at end of the year	**1,062**	**746**

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans issued. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(c) 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, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Group's treasury carries out liquidity risk management including risks which the Group would face in the long-, medium- and short-term periods under governance approved and provided by the Board that is reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balances available at any time.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants and, in case of the risk of default, approaches the lenders to amend the respective facility agreement, before any event of default occurs.

The following are the contractual maturities of financial liabilities, including estimated interest payments.

2016	**Average interest rate**									
mln RUB	**Contra-ctual**	**Effective**	**Carrying value**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-5 yrs**	**5-10 yrs**	**Total**
Bank loans	12.00%-19.00%	12.98%	24,200	8,196	162	4,422	7,318	4,128	-	24,226
Bonds	13%-14.25%	13.00%	39,058	-	-	15,000	24,000	-	-	39,000
Interest payable	-	-	1,932	6,447	4,181	6,905	3,144	268	-	20,945
Trade and other payables	-	-	25,428	22,306	2,724	2,401	2,216	3,515	630	33,792
Finance lease lialilities	23.00%	23.00%	341	69	71	112	88	1	-	341
			90,959	**37,018**	**7,138**	**28,840**	**36,766**	**7,912**	**630**	**118,304**

2015	**Average interest rate**									
mln RUB	**Contra-ctual**	**Effective**	**Carrying value**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-5 yrs**	**5-10 yrs**	**Total**
Bank loans	13.5%	13.9%	7,989	-	-	8,025	-	-	-	8,025
Bonds	14.25%	14.57%	4,905	-	-	-	5,000	-	-	5,000
Interest payable			270	1,173	909	1,198	474	-	-	3,754
Trade and other payables			5,629	5,629	-	-	-	-	-	5,629
			18,793	**6,802**	**909**	**9,223**	**5,474**	**-**	**-**	**22,408**

(d) Market risk

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

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(i) Currency risk

The Group is exposed to currency risk on purchases and cash balances that are denominated in a currency other than the Russian Rouble (RUB). These transactions, which could be exposed to foreign currency risks are typically denominated in U.S. Dollars (USD).

Borrowings and arising interest payments are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in RUB. This provides a natural economic hedge and no currency derivatives are used by the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

mln RUB	2016 USD denominated	2015 USD denominated
Cash	172	143
Receivables	147	12
Trade payables	(4)	(1)
Other payables	(1)	-
Total	**314**	**154**

The RUB/USD exchange rates at 31 December 2016 and 31 December 2015 were 60.66 and 72.88 respectively. The average RUB/USD rates for the years were 67.03 and 60.96 respectively.

Sensitivity analysis

A 20% strengthening of the RUB against the USD at 31 December 2016 would have decreased equity and profit by RUB 63 million. The same strengthening effect of the RUB against USD at 31 December 2015 would have decreased equity and profit by RUB 31 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 20% weakening of the RUB against the USD at 31 December 2016, and 31 December 2015 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

Fixed rate instruments	2016 mln RUB	2015 mln RUB
Financial assets	22,008	15,266
Financial liabilities	(65,531)	(13,164)
	(43,523)	**2,102**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

As at 31 December 2016 and 31 December 2015 the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 6.

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 30.

During 2015 and 2016, the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates together with subsequent debt repayment. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

26 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional and financial risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

The Group does not have insurance in respect of any force majeure circumstances, which may arise in relation to constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer or acceptance act is signed in respect of shared construction contracts. The risk of damage in case of force majeure circumstances in these periods of time is borne by the Group.

In cases stipulated by the Federal Law №214-FZ, Group acting as the developer participates in the Society of mutual liability insurance builders. Under shared construction contracts the Group has insured its civil liability for any failure to transfer completed properties to customers.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUB 470 million related to accounts payable was claimed in court at the end of the 2016 (2015: RUB 247 million). The amount of RUB 434 million was included in accounts payable as at 31 December 2016 (2015: RUB 95 million). Management believes, based on legal advice, that the actions can be successfully defended and therefore no losses will be incurred. The legal claims are expected to be settled in the course of next reporting period.

(c) Taxation contingencies

Taxation system

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

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

The Group companies entered into transactions involving other Group companies at prices which management believed were consistent with applicable tax law. However, the tax authorities could take a different position to assess the market level of prices applied and attempt to claim additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules, but could be significant. Management has not made any provision because it believes there will be no outflow of funds relating to any such assessment.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, tax residency etc. These changes may potentially impact the Group’s tax position and create additional tax risks going forward. This legislation is still evolving and the practice of its application is very limited and may not be treated as representative. The impact of legislative changes should depend on the actual circumstances and hardly reliably predictable. However, the management believes that it is rather possible than probable that the Company would suffer material tax outflow as a result of successful challenge by the tax authorities.

Other tax contingencies

As at 31 December 2016 other contingent liabilities related to taxation amounted to approximately RUB 538 million (2015: RUB 232 million). This amount mainly includes contingent profit tax resulting from tax treatment of some income and expenses applied by the Group that may be challenged by the tax authorities.

(d) Warranties and guarantees for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based upon prior experience with warranty claims, which have not been significant, no liabilities have been recognised in the consolidated financial statements in relation to warranties and guarantees for work performed.

(e) Other guarantees

As at 31 December 2016 the Group has a guarantee provided to a bank in relation to the loan of RUR 1,014 million to its associate acted as a developer of large residential project. The loan bears the interest of 15 % and matures in 2019, however the loan can become payable earlier if certain circumstances occur.

27 Related party transactions

(a) Control relationships

As at 31 December 2015 and 2016 there were no immediate or ultimate parent companies of the Group.

As at 31 December 2016, entities affiliated with Sergey Gordeev, Group CEO, owned 29.9% of the Company's ordinary shares.

(b) Management remuneration

Salaries and bonuses

Key management received the following remuneration during the year:

	2016 mln RUB	2015 mln RUB
Salaries and bonuses	840	643
Contributions to State Pension Fund	134	100
	974	**743**

(c) Transactions with associates

Investments in equity accounted investees balances

	2016 mln RUB
Loans receivables	171
Advances paid	2
Trade and other receivables	25
Promissory notes	608
Advances received	(943)
Trade and other payables	(181)
Total	**(318)**

There were no such balances in 2015.

The Group provides a guarantee in respect of loan received by its associate. Refer to note 26.

(d) Transactions with other related parties

In December 2016, the Group purchased from Horus Real Estate Fund B.V. 100% interest in Morton Group for the consideration equalled to initial acquisition price amounting to RUB 11,664 million settled in cash (refer to Note 9).

Prior to the acquisition of the Morton Group of Companies from the Horus Real Estate Fund I B.V the Group provided financing to the acquired companies in the amount of RUB 19,728 million.

During 2016 executive directors and board members purchased from the Group residential property and parking lots in uncompleted buildings for the total amount of RUB 54 million (2015: nil). The amounts related to uncompleted properties are included in advances from customers as at 31 December 2016.

28 Significant subsidiaries

As at 31 December 2016 the Group controlled 244 legal entities (2015: 92). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements.

The following is a list of the most significant subsidiaries:

		Effective ownership		Voting rights	
	Country of incorporation	2016	2015	2016	2015
AO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
AO PIK-Industries	Russia	96%	95%	96%	95%
OOO DSK-Grad	Russia	100%	-	100%	-

29 Events subsequent to the reporting date

On 3 March 2017 the Group issued coupon bonds of RUB 13,000 million with a maturity in 5 years with a right of early redemption after a three-year period. The proceeds will be used to finance the Company's operating activities.

Following its new capital market strategy the Group re-purchased 49,990,198 GDRs US 255 million in March 2017.

30 Supplementary information: non-IFRS measures

As part of the additional information, management of the Group provided information on the adjusted EBITDA, as well as adjusted EBITDA excluding cost of land. This indicator is used by management in assessing the financial performance of the Group, and therefore management believes that its presentation is appropriate. Adjusted EBITDA is calculated by adjusting the profit from continuing operations to exclude the effects of taxation, net finance costs, depreciation, losses and restoration of impairment losses on goodwill, intangible assets and property, revaluation of disposal groups, share of profit of equity accounted investees. Adjusted EBITDA is not an established measure for assessing financial results under IFRS. Accordingly, the calculation procedure for the adjusted EBITDA used by the Group may not correspond to the calculation procedure for the same indicator used by other entities.

Net debt:

	2016 mln RUB	2015 mln RUB
Loans and borrowings, current	10,420	270
Plus: Loans and borrowings, non-current	55,111	12,894
Less: Cash and cash equivalents	(24,812)	(17,022)
Net debt	**40,719**	**(3,858)**

Earnings before interest, taxes, depreciation and amortisation (EBITDA):

	2016 mln RUB	2015 mln RUB
Profit for the year	20,465	11,449
Plus: Depreciation and amortisation	930	1,124
Plus: Interest expense	3,185	3,741
Less: Interest income	(2,356)	(1,338)
Plus: Income tax expense	2,689	1,833
EBITDA	**24,913**	**16,809**
Reversal of impairment loss/ (impairment loss), net	(2,872)	630
Change in fair value of investment property	(4,629)	-
Gain on bargain purchase of subsidiaries	(7,346)	-
Impairment loss on financial assets, net	366	208
Write-off of accounts payable	(156)	(225)
Foreign exchange loss/(gain), net	893	(4,015)
Loss on disposal of property, plant and equipment and other assets	72	122
Penalties and fines, including reversals, net	65	64
Write-off of other materials	138	116
Adjusted EBITDA	**11,444**	**13,709**

Earnings before interest, taxes, depreciation and amortisation (EBITDA) excluding cost of land acquisition portion included in cost of sales

	2016 mln RUB	2015 mln RUB
EBITDA	24,913	16,809
Land acquisition portion included in cost of sales	1,484	1,389
EBITDA excluding cost of land	**26,397**	**18,198**
Reversal of impairment loss/ (impairment loss), net	(2,872)	630
Change in fair value of investment property	(4,629)	-
Gain on bargain purchase of subsidiaries	(7,346)	-
Impairment loss on financial assets, net	366	208
Write-off of accounts payable	(156)	(225)
Foreign exchange loss/(gain), net	893	(4,015)
Loss on disposal of property, plant and equipment and other assets	72	122
Penalties and fines, including reversals, net	65	64
Write-off of other materials	138	116
Adjusted EBITDA excluding cost of land	**12,928**	**15,098**

Net cash from operating activities before acquisition of development rights and prepayments for development rights

	2016 mln RUB	2015 mln RUB
Adjusted profit for the year	**12,075**	**13,540**
Changes in:		
Inventories before acqusitions and sale of development rights	(19,923)	(3,754)
Trade and other receivables excluding prepayments for development rights	(2,232)	(481)
Trade and other payables	43,060	12,452
Provision for cost to complete	(737)	(2,101)
Cash flows from operations before income taxes and interest paid	**32,243**	**19,656**
Income taxes paid	(2,526)	(1,793)
Interest paid	(1,373)	(3,489)
Net cash flows from operations before acquisitions and sale of development rights and prepayments for development rights	**28,344**	**14,374**
Acquisition, sale and prepayments for development rights	(9,577)	(5,178)
Net cash from operating activities	**18,767**	**9,196**

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Independent Auditors' Report

To the Shareholders and Board of Directors

PAO Group of Companies PIK

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and 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 requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

<table>
<tr><td colspan="2">Business combination</td></tr>
<tr><td colspan="2">Refer note 9 of the consolidated financial statements</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In December 2016 the Group acquired control over the assets and businesses of the Morton Group and other assets and businesses for a total consideration of RUB 18,799 million (refer note 9).

Management determined that the fair value of the net identifiable assets acquired is RUB 26,145 million with RUB 162,689 million relating to the land bank (classified as inventory and investment property and further referred to as the Land Bank) and RUB 2,939 million relating to intangible assets that arose from the business combination.

Purchase price allocation is a key audit matter due to the following:

— Professional judgement is required to identify and fair value assets and liablilties;
— The transaction had a material impact on the consolidated financial statements;
— Assumptions used in the valuation models involve significant uncertainties;
— The business combination was conducted as a series of sale and purchase agreements to acquire shares of a number of legal entities, and, therefore, had a complex structure.</td><td>We considered management's process to determine the fair value of the net identifiable assets acquired, including involvement of a qualified independent appraiser.

We inspected purchase agreements to evaluate the terms of the transaction and compared the consideration due in accordance with the agreements to the management's calculations.

We evaluated the competence, capabilities and objectivity of the appraiser.

We tested, with the assistance of our own valuation specialists, individual valuation models for significant items of the Land Bank, as prepared by the appraiser, challenged the key inputs used, including date of commencement of the projects and timing of their completion, sales forecasts and prices, as well as assumptions and judgements made on the basis of the available market information. We also used our own valuation tools to test accuracy of the models prepared by the appraiser.

We also tested the calculation of the negative goodwill arising from the acquisition and challenged the reasons for the gain on the bargain purchase recognised as a result.

We assessed the appropriateness of disclosures in Note 9 to the consolidated financial statements.</td></tr>
</table>

<table>
<tr><th colspan="2">Valuation of investment properties</th></tr>
<tr><td colspan="2">Refer note 15 of the consolidated financial statements</td></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Investment properties of the Group primarily comprise land plots with undetermined use. The carrying amounts of investment properties amounted to RUB 26,581 million as at 31 December 2016.

We identified the valuation of investment properties as a key audit matter as the gain on the revaluation of the investment properties amounting to RUB 4,629 million represented 20% of the Group's profit before tax for the year ended 31 December 2016 and significant judgement is required in determining the fair value.

The fair value was determined using discounted cash flow models. This involves establishing assumptions with respect to the future selling price of the properties, cost of construction, date of commencement of the projects and timing of their completion, and discount rates. Changes in the above assumptions and estimates could result in a significant change in the fair value.

The valuation of the investment property is a key audit matter due to the following:

— Professional judgement is required to determine the fair value;
— The gain on revaluation had a material effect on the financial statements;
— Inherent uncertainties are involved in forecasting and discounting future cash flows.</td><td>We assessed criteria used by management to initially classify or subsequently reclassify certain land plots into investment property category. We also inspected internal documentation provided by management to support undetermined use of the respective land plots.

We also considered management's process to determine the fair value of the investment property, including involvement of a qualified independent appraiser.

We evaluated the competence, capabilities and objectivity of the appraiser.

We tested, with the assistance of our own valuation specialists, individual valuation models supporting the fair values of the investment property, as prepared by the appraiser, challenged the key inputs used, including date of commencement of the projects and timing of their completion, sales forecasts and prices, as well as assumptions and judgements made on the basis of the available market information. We also used our own valuation tools to test accuracy of the models prepared by the appraiser.

We compared the values determined by the appraiser with the cost of acquisition and challenged the reasons for significant differences between the cost and the fair values.</td></tr>
</table>

Accuracy of provision for cost to complete	
Refer note 24 of the consolidated financial statements	
Key audit matter	**How the matter was addressed in our audit**
The Group's business model assumes that a significant share of costs associated with a development project is incurred subsequent to recognition of revenues. This happens due to long operating cycle of construction, specifically when the Group is involved in development of larger residential properties, where it assumes obligations to construct engineering networks, roads, kindergartens, schools and other items. When revenues from sales of residential properties are recognized, the Group allocates the costs to be incurred in construction of items described above to the properties sold on the basis of updated budgets. The provision for costs to complete is based on the share of the completed area to the total saleable area. At 31 December 2016 the balance of the provision amounted to RUB 10,451 million. It is further updated as of each balance sheet date to reflect any anticipated changes in the cost of construction. The balance of the provision depends on the individual characteristics of the assets to be constructed, management estimates of the building costs and the timing of construction. Inherent uncertainty is involved in estimation of the provision at each balance sheet date. Accordingly, any change in the Group's estimate of the above inputs could have a material impact on its carrying value in the Group's consolidated financial statements.	We tested the Group's budgeting procedures upon which the forecasts for costs to complete are based. On a sample basis, we compared details of the budgets for costs to complete with the characteristics of the projects as set out in the relevant authorisation documents as well as with the decisions made at the Group's investment committees. We compared the profitability of the construction budgets with other projects having similar characteristics and challenged inconsistencies identified. For buildings completed during the reporting period we challenged the Group's assumptions by comparing: — cost per square meter with the projects completed in previous periods; — actual costs versus budgeted costs; — changes to the assumptions from previous periods to the assumptions used in the current period.

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

M. Samarin
JSC "KPMG"
Moscow, Russian Federation
17 April 2017