PJSC LSR Group

Consolidated Financial Statements
for the year ended 31 December 2016

Contents

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Independent Auditors' Report

To the Shareholders and the Board of Directors of PJSC LSR Group

Opinion

We have audited the consolidated financial statements of PJSC LSR Group (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.

Audited entity: Public Joint Stock Company LSR Group

Registration No. in the Unified State Register of Legal Entities 5067847227300.

Saint Petersburg, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No.11603053203.

Valuation of inventories of Development	
Please refer to Notes 3 and 17 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The Group's inventories are represented by real estate items both under construction and completed. In the consolidated financial statements, the inventories (finished goods and work in progress) are stated at the lower of cost and net realisable value which is the forecast selling price less the estimated costs of completion and the estimated costs necessary to make the sale. The valuation of inventories is a Key Audit Matter due to: - the size of the inventory balance, which relates to development, being 62% of total assets; and - the level of judgment required for us to evaluate management's assessment of the net realisable value of those inventories; - increased estimation uncertainty resulting from the current economic environment characterized by decreasing demand for real estate and increased competition and price pressure.	Among other procedures we tested the controls over budgeting for construction and development costs, including approval of project budgets, inspection and authorization of subsequent changes to project budgets, to evaluate the reliability of costs to complete used by the Group's management in assessing the net realisable value of inventories. We assessed the calculation of the net realisable value prepared by the Group to determine the allowance for obsolete inventory by performing the following procedures: - challenging the Group's forecast selling prices by comparing on a sample basis the forecast selling prices to actual selling prices and list prices for comparable premises as published by competitors and real estate agents in subsequent period; - in the absence of historical data, assessing the reasonableness of the Group's forecast prices by comparing them to current prices for similar items of residential property; - evaluating the reasonableness of the Group's forecast construction costs per square meter by comparing them to the construction costs incurred by the Group for similar units on other sites. The above analysis was performed separately for the following groups of Inventory: - elite projects with unique location, - mass market development objects, - parking places, and - infrastructure. We focused on the sites with lower turnover that are considered most sensitive to the Group's assumptions.

<table>
<tr><th colspan="2">Valuation of property, plant and equipment and goodwill</th></tr>
<tr><td colspan="2">Please refer to the Note 14 in the consolidated financial statements.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group's business activities include production of building materials and provision of construction services. This part of the Group accounts for 67% of the Group's property, plant and equipment, 61% of the Group's goodwill and include seven cash-generating units.

The impairment of goodwill and property, plant and equipment is a Key Audit Matter due to the level of judgment involved in our evaluation of management's impairment analysis and increased estimation uncertainty in respect of the abovementioned units driven by the current economic environment.</td><td>We involved our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group.

In particular, our audit procedures included:
- analysing the Group's internal budgeting process and assessing the relevant controls including budget approval and analysis of budget execution;
- assessing the historical accuracy of the Group's previous forecasts to support our evaluation of forecasts incorporated in the discounted cash flow model,
- evaluating the principles and the integrity of the Group's discounted cash flow model,
- our valuation specialists compared the Group's assumptions on revenue growth, projected profit margins and discount rates to the market and industry trends using externally derived data as well as our own assessments.</td></tr>
</table>

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:

Sergey Kharichkin

JSC "KPMG"

Moscow, Russia

17 March 2017

mln RUB	**Note**	**2016**	**2015**
Revenue		98,072	86,830
Cost of sales		(69,327)	(60,733)
Gross profit		28,745	26,097
Distribution expenses		(6,251)	(5,189)
Administrative expenses	7	(8,020)	(7,023)
Other income	8	362	123
Other expenses	8	(805)	(245)
Results from operating activities		14,031	13,763
Finance income	10	2,022	2,634
Finance costs	10	(3,455)	(2,434)
Profit before income tax		12,598	13,963
Income tax expense	11	(3,435)	(3,317)
Profit for the year		9,163	10,646
Other comprehensive (loss) / income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(761)	143
Total comprehensive income for the year		8,402	10,789

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 76.

mln RUB	**Note**	**2016**	**2015**
Profit attributable to:			
Shareholders of the Company		9,163	10,649
Non-controlling interest		-	(3)
Profit for the year		9,163	10,646
Total comprehensive income attributable to:			
Shareholders of the Company		8,402	10,792
Non-controlling interest		-	(3)
Total comprehensive income for the year		8,402	10,789
Basic and diluted earnings per share	21	90.72 RUB	104.60 RUB

These consolidated financial statements were approved by management on 17 March 2017 and were signed on its behalf by:

A.Y. Molchanov
Chief Executive Officer

D.V. Kutuzov
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 76.

mln RUB	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	30,234	29,021
Intangible assets	14	4,310	4,373
Other investments	15	490	27
Deferred tax assets	16	2,760	2,277
Trade and other receivables	18	253	317
Total non-current assets		38,047	36,015
Current assets			
Other investments	15	1,565	85
Inventories	17	158,901	121,270
Trade and other receivables	18	20,877	26,577
Cash and cash equivalents	19	25,630	20,434
Total current assets		206,973	168,366
Total assets		245,020	204,381

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 16 to 76.

mln RUB	Note	31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity	20		
Share capital		35	35
Treasury shares		(1,404)	(1,383)
Share premium		26,408	26,408
Additional paid in capital		16,824	16,703
Foreign currency translation reserve		(24)	737
Retained earnings		26,653	25,527
Total equity attributable to shareholders of the Company		68,492	68,027
Non-controlling interest		(33)	(33)
Total equity		68,459	67,994
Non-current liabilities			
Loans and borrowings	22	46,666	21,904
Deferred tax liabilities	16	2,297	1,812
Trade and other payables	24	17,906	13,670
Provisions	23	55	61
Total non-current liabilities		66,924	37,447
Current liabilities			
Loans and borrowings	22	9,029	11,114
Trade and other payables	24	98,995	86,933
Provisions	23	1,613	893
Total current liabilities		109,637	98,940
Total liabilities		176,561	136,387
Total equity and liabilities		245,020	204,381

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 16 to 76.

mln RUB	**2016**	**2015**
OPERATING ACTIVITIES		
Profit for the year	9,163	10,646
Adjustments for:		
Depreciation and amortisation	2,960	2,997
Gain on disposal of property, plant and equipment	(93)	(21)
Portion of excess of fair value over purchase price of assets*	1,532	1,682
Capitalized interest recognized in cost of sales	775	190
Net finance costs / (income)	1,433	(200)
Income tax expense	3,435	3,317
Operating profit before changes in working capital and provisions	19,205	18,611
Increase in inventories net of non-cash items	(32,225)	(15,749)
Decrease / (increase) in trade and other receivables	5,368	(108)
Increase / (decrease) in trade and other payables	9,276	(3,485)
Increase / (decrease) in provisions	714	(770)
Cash flows from / (utilised by) operations before income taxes and interest paid	2,338	(1,501)
Income taxes paid	(3,937)	(3,668)
Interest paid	(4,619)	(3,162)
Cash flows utilised by operating activities	(6,218)	(8,331)

* Portion of excess of fair value over purchase price of land plot acquired from entities under common control and revaluation of assets, included in cost of development object, which was sold in the period and recognised at cost of sales.

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 16 to 76.

mln RUB	**2016**	**2015**
INVESTING ACTIVITIES		
Proceeds from disposal of non-current assets	171	235
Interest received	1,907	2,545
Acquisition of property, plant and equipment	(2,867)	(3,239)
Decrease in restricted cash	23	20
Acquisition of intangible assets	(4)	(66)
Loans given	(2,275)	(160)
Loans repaid	401	2,277
Disposal of subsidiaries	-	5,000
Acquisition of other investments	-	(24)
Cash flows (utilised by) / from investing activities	(2,644)	6,588
FINANCING ACTIVITIES		
Proceeds from borrowings	74,026	25,740
Proceeds from bonds	5,160	450
Repayment of borrowings	(55,147)	(18,182)
Repayment of bonds	(1,319)	(2,318)
Payment of finance lease liabilities	(58)	(57)
Payment of outstanding balance for own shares	(89)	(847)
Dividends paid	(8,037)	(8,036)
Cash flows from / (utilised by) financing activities	14,536	(3,250)
Net increase / (decrease) in cash and cash equivalents	5,674	(4,993)
Cash and cash equivalents at the beginning of the year	20,434	25,278
Effect of exchange rate fluctuations on cash and cash equivalents	(478)	149
Cash and cash equivalents at the end of the year (note 19)	25,630	20,434

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 16 to 76.

mln RUB	Attributable to shareholders of the Company								
	Share capital	**Treasury share reserve**	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	35	(751)	26,408	16,644	594	22,914	65,844	(15)	65,829
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	10,649	10,649	(3)	10,646
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	-	143	-	143	-	143
Total comprehensive income/(loss) for the year	-	-	-	-	143	10,649	10,792	(3)	10,789
Transactions with owners recorded directly in equity									
Acquisition of subsidiaries	-	-	-	-	-	-	-	(13)	(13)
Write off of the excess of book values of net assets acquired from entities under common control over consideration paid	-	-	-	61	-	-	61	-	61
Excess of consideration paid over non-controlling interest acquired	-	-	-	(2)	-	-	(2)	(2)	(4)
Treasury shares acquired	-	(694)	-	-	-	-	(694)	-	(694)
Treasury shares sold	-	62	-	-	-	-	62	-	62
Dividends to shareholders	-	-	-	-	-	(8,036)	(8,036)	-	(8,036)
Balance at 31 December 2015	35	(1,383)	26,408	16,703	737	25,527	68,027	(33)	67,994

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 16 to 76.

mln RUB	**Attributable to shareholders of the Company**								
	Share capital	**Treasury share reserve**	**Share premium**	**Additional paid in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016	35	(1,383)	26,408	16,703	737	25,527	68,027	(33)	67,994
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	9,163	9,163	-	9,163
Other comprehensive income									
Foreign currency translation differences for foreign operations	-	-	-	-	(761)	-	(761)	-	(761)
Total comprehensive (loss) / income for the year	-	-	-	-	(761)	9,163	8,402	-	8,402
Transactions with owners recorded directly in equity									
Disposal of the subsidiary to the entity under common control via withdrawal from the participants	-	-	-	121	-	-	121	-	121
Treasury shares acquired	-	(73)	-	-	-	-	(73)	-	(73)
Treasury shares sold	-	52	-	-	-	-	52	-	52
Dividends to shareholders	-	-	-	-	-	(8,037)	(8,037)	-	(8,037)
Balance at 31 December 2016	35	(1,404)	26,408	16,824	(24)	26,653	68,492	(33)	68,459

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 16 to 76.

Notes to the Consolidated Financial Statements……………………………………………..Page

1 Background

(a) Organisation and operations

PJSC LSR Group (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian limited liability and joint stock companies as defined in the Civil Code of the Russian Federation, and companies located in other countries. The Company's shares are traded on the London Stock Exchange and Moscow Exchange.

The Company's registered office is at 36 B, Kazanskaya Ulitsa, office 15 N, Saint Petersburg, 190031, Russia.

The Group's principal activities include real estate development in Saint Petersburg, Munich, Yekaterinburg and Moscow, prefabricated panel construction in Saint Petersburg, Moscow and Yekaterinburg, commercial real estate development in Saint Petersburg and Moscow and Yekaterinburg, the production of building materials at plants located in Russia (Saint Petersburg, Moscow, Leningrad region and Urals Region) and Ukraine, the extraction and processing of aggregates in different areas of Leningrad region, and the provision of construction services. These products and services are sold mainly in Russia.

The Group's significant subsidiaries are detailed in note 30.

The Group is ultimately controlled by an individual, Andrey Molchanov. Related party transactions are detailed in note 29.

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

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

The Group additionally presents the consolidated financial statements in Russian language in accordance with the Federal law No. 208-FZ “On consolidated financial reporting”.

(b) Basis of measurement

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

The carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 may include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented.

Starting 2016, all financial information is presented in the Russian Rouble and has been rounded to the nearest million, except if otherwise indicated.

Prior to 2016, consolidated financial statements were also presented in United States Dollars (“USD”), all financial information presented had been rounded to the nearest thousand, except if otherwise indicated.

Management believes that the new presentation is more compact and transparent for the financial statements users.

(d) Use of estimates and judgments

The preparation of the 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 could differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 3 – useful lives of property, plant and equipment;
- Note 14 – impairment;
- Note 17 – inventories;
- Note 18 – allowances for trade receivables;
- Note 23 – provisions (for site finishing and environment restoration; warranty and litigation; for unprofitable contracts);
- Note 28 – contingencies.

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) (refer to note 4).

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.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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. 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. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

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 acquire; 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) Subsidiaries

Subsidiaries are entities controlled by the Group. 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.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS1. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(iv) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised as a contribution from or a distribution to shareholders.

Any difference between the consideration received upon disposal of a minority portion of the Group's interest in a subsidiary, and the carrying amount of that portion of the Group's interest in the subsidiary, including attributable goodwill, is recognised as a distribution to, or a contribution from, shareholders.

(v) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 foreign currency translated at the exchange rate 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 that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the statement of profit or loss and other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at the weighted average exchange rate for the period which approximates the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the statement of profit or loss and other comprehensive income as part of profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss and other comprehensive income) 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 to right to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss and other comprehensive income, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables comprise trade and other receivables and loans issued.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised in other comprehensive income and presented within equity in the additional paid-in capital. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of profit or loss and other comprehensive income.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities

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

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

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

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

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

(d) Share capital

Ordinary shares

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

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit of the transaction is transferred to/from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are 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 its intended use, and 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.

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

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

(ii) Reclassification of owner occupied property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain or loss on remeasurement is recognised in equity.

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

- Buildings 20 to 50 years;
- Machinery and equipment 5 to 29 years;
- Transportation equipment 8 to 20 years;
- Other fixed assets 5 to 20 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(f) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition (refer to note 3(a)(i)).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in the statement of profit or loss and other comprehensive income as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

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

(iv) 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 statement of profit or loss and other comprehensive income as incurred.

(v) Amortisation

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

Amortisation is recognised in the statement of profit or loss and other comprehensive income 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 the future economic benefit s embodied in the asset.

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

(g) Leased assets

Leases in terms of which the Group assumes 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 in the Group's statement of financial position. Acquired rights to lease of land for development are recognised at cost in inventory or investment property under development.

(h) Investment property under development

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.

Investment property under development consists of two components: land and buildings. Land and buildings are measured at fair value with any change therein recognised in the statement of profit or loss and other comprehensive income.

In the absence of current prices in an active market, the fair values of investment property under development are established by considering the aggregate of the estimated cash flows expected to be received from renting out the property less the estimated costs, including developer's profit margin, to complete the individual projects to the stage where they could be marketed. Discount rate that reflects the specific risks inherent in the net cash flows is applied to the net annual cash flows to arrive at the property valuation.

(i) 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 the production or supply of goods or services or for administrative purposes. In the case when investment property forms part of a larger property unit, it is distinguished on the basis of the area which it occupies in the total area of the property unit. Investment property is measured at fair value with any change therein recognised in the statement of profit or loss and other comprehensive income.

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

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle 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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (refer to note 3(p) (iii)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as trade and other payables in the statement of financial position.

(l) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss and other comprehensive income is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be 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 asset (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, 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.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities 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 then suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in the statement of profit or loss and other comprehensive income and reflected in an allowance account against receivables.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss and other comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the additional paid-in capital in equity, to the statement of profit or loss and other comprehensive income. The cumulative loss that is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income is the difference between the acquisition cost, net of any principal repayments and amortisation, and the current fair value, less any impairment loss previously recognised in the statement of profit or loss and other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the statement of profit or loss and other comprehensive income, then the impairment loss is reversed, with the amount of the reversal recognised in the statement of profit or loss and other comprehensive income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties, investment properties under development, 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, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit 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. 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 groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) 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.

Goodwill that forms part of the carrying amount of an investment in associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(m) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in statement of profit or loss and other comprehensive income. Gains are not recognised in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

(n) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in the statement of profit or loss and other comprehensive income when they are due.

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.

(o) 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) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data.

(ii) Site and environment restoration

In accordance with the Group's environmental policy and applicable statutory requirements, provision is made for the Group's obligation to incur additional costs including costs associated with clean up the surrounding area after sand extraction and finishing the construction of apartment building. The related expense is recognised in the statement of profit or loss and other comprehensive income.

(iii) Litigation provision

A provision is recognized, if the probability is high that the Group will lose lawsuit in which the Group is a defendant, and there will be a need (requirement) to settle the obligation.

(iv) Provision for unprofitable contracts

A provision is recognized in the amount of the expected loss when the expected revenue is less than the planned costs of completion.

(p) Revenues

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Sales may be contracted under share participation agreements. In such instances, the significant risks and rewards of ownership are considered to have been transferred to individual buyers when the construction is completed, and the building has been approved by the State commission for acceptance of finished buildings.

(ii) Services

Revenue from services, rendered by the Group's companies is recognised in the statement of profit and loss and other comprehensive income using percentage-of-completion method when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

(iii) Construction contracts and designing

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the statement of profit and loss and other comprehensive income in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed as the proportion that contract costs incurred for work performed to date bear to estimated total contract costs. An expected loss on a contract is recognised immediately in the statement of profit and loss and other comprehensive income.

(iv) Rental income

Rental income from investment property is recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(q) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the term of the lease. Lease rights 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(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 statement of profit and loss and other comprehensive income as incurred.

(r) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the statement of profit or loss and other comprehensive income, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, 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 the statement of profit or loss and other comprehensive income using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss and other comprehensive income 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 on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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 the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, 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.

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

(t) Earnings per share

The Group presents basic 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.

(u) 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. An operating segment’s operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment pricing is determined on an arm’s length basis.

(v) New Standards and Interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018 and will replace International Financial Reporting Standard IAS 39 *Financial Instruments:*

Recognition and Measurement. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group does not intend to adopt this standard early.

- IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2018. The new standard is replace International Financial Reporting Standard IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, SIC 31 *Revenue - Barter Transactions Involving Advertising Services*. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements.

  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 effects of financing (interest expense) should be presented separately from revenue from contracts with customers. The Group does not expect the adjustment for a significant financing component to have a significant impact on its financial results as the interest expense in respect of prepayments from customers is likely to qualify for capitalization as part of work in progress, construction of buildings.

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

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

  The Group has started an initial assessment of the 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

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / 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 and investment property under development

The fair value of investment property and the investment property under development 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 the Discounted Cash Flow technique for investment property under development and market approach for investment property, undertaken according to the requirements of the United Kingdom’s Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

(c) Intangible assets

The fair value of patents and trademarks 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 determined 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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has five reportable segments as described below which are the Group’s strategic business units. The strategic business units offer different products and services and are managed separately, because they require different technology and marketing strategies. The format of reporting segments is based on Group’s management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other assets and revenue, interest-bearing loans, borrowings, and corporate assets, liabilities and expenses.

(a) Operating segments

The following summary describes the operations in each of the Group’s segments:

LSR. Building Materials. The building materials business units are engaged in the production of brick, concrete and reinforced concrete items, ready-mix concrete, aerated concrete blocks, crushed stone production, land-based and marine-dredged sand extraction. These business units are located in Saint Petersburg, Leningrad region and Moscow.

LSR. Construction. The construction business units specialize in panel construction, providing of construction contracting services, transportation of construction materials. These business units are located in Saint Petersburg, Moscow, and Ural region.

LSR. Project management. Business units specialize in providing of construction contracting services. This business unit is located in Saint Petersburg.

LSR. Cranes. Business unit specialize in providing of tower cranes services. This business unit is located in Saint Petersburg.

LSR. Real Estate. The Real Estate business units specialize in the development of elite, mass-market and business class residential real estate and commercial real estate. These business units are located in Saint Petersburg, Moscow, Ural region and Germany.

There are varying levels of integration between the *LSR. Building Materials*, *LSR. Construction* and *LSR. Real Estate* reportable segments. This integration includes transfers of raw materials and services, respectively. Inter-segment pricing is determined on an arm's length basis. The accounting policies of the reportable segments are the same as described in notes 2 and 3.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment 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.

The operations of the Group are conducted and managed primarily in North-West region, Moscow, Ural and in Germany, where the production facilities and sales offices of the Group are located. The Group has also operations in Ukraine, the volume of which is not significant to total operations of the Group. Accordingly, no geographical segmental information is presented.

The Group has aerated concrete production facilities in Ukraine. Net assets of Ukrainian subsidiary amounts to 0.65% of total net asset of the Group (31 December 2015: 0.39%) and EBITDA equals to 2.82% of EBITDA of the Group (31 December 2015: 2.18%). Ukraine is currently suffering from political and economic crisis, combined with social unrest and regional tensions. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's Ukrainian subsidiary's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the subsidiary's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the subsidiary. The future business environment may differ from management's assessment.

(b) Major customers

Revenues from the largest customer of the Group represents approximately RUB 2,416 million (31 December 2015: RUB 1,130 million).

Revenue from the next four significant customers of the Group amounts approximately to RUB 3,986 million (31 December 2015: RUB 2,748 million).

(i) Operating segments

For the year ended 31 December 2016 mln RUB	**LSR. Building Materials**	**LSR. Construction**	**LSR. Project management**	**LSR. Cranes**	**LSR. Real Estate**	**Other entities**	**Total**
Revenue from external customers	16,652	5,725	874	1,105	68,805	228	93,389
Inter-segment revenue	525	23,085	44	205	5	-	23,864
Total segment revenue	17,177	28,810	918	1,310	68,810	228	117,253
Segment result	2,569	785	(19)	129	13,576	-	17,040
Depreciation/amortisation	1,759	669	1	177	116	238	2,960
Capital expenditure	1,278	248	2	75	245	1,374	3,222

For the year ended 31 December 2015 mln RUB	**LSR. Building Materials**	**LSR. Construction**	**LSR. Project management**	**LSR. Cranes**	**LSR. Real Estate**	**Other entities**	**Total**
Revenue from external customers	15,705	5,001	787	1,249	61,023	241	84,006
Inter-segment revenue	537	27,927	120	177	187	-	28,948
Total segment revenue	16,242	32,928	907	1,426	61,210	241	112,954
Segment result	1,676	1,987	10	249	13,562	-	17,484
Depreciation/amortisation	1,848	689	-	176	67	217	2,997
Capital expenditure	595	507	-	43	612	1,395	3,152

As at 31 December 2016 **mln RUB**	**LSR. Building Materials**	**LSR. Construction**	**LSR. Project management**	**LSR. Cranes**	**LSR. Real Estate**	**Other entities**	**Total**
Segment assets, excluding net financial position*	24,064	10,452	2,335	1,205	199,966	-	238,022
Segment liabilities, excluding net financial position*	8,450	12,371	2,184	274	114,484	-	137,763
Net financial position*	5,865	(7,754)	(145)	(61)	40,678	17,112	55,695

As at 31 December 2015 **mln RUB**	**LSR. Building Materials**	**LSR. Construction**	**LSR. Project management**	**LSR. Cranes**	**LSR. Real Estate**	**Other entities**	**Total**
Segment assets, excluding net financial position*	23,999	13,901	278	1,373	166,038	-	205,589
Segment liabilities, excluding net financial position*	7,941	13,723	110	281	93,008	-	115,063
Net financial position*	7,896	(6,855)	(162)	6	28,321	3,812	33,018

* Net financial position is debt of the Group allocated to Operating Segments. Net financial positions is calculated as Loans and Borrowings, including finance lease payables, minus Loans given and receivables from finance leasing to Group companies.

Reconciliations of reportable segment revenues, profit, assets and liabilities and other material items

Revenue

mln RUB	**2016**	**2015**
Total revenue for reportable segments	117,253	112,954
Other revenue	2,398	373
Transportation revenue	2,285	2,451
Elimination of intersegment revenue	(23,864)	(28,948)
Consolidated revenue	98,072	86,830

Profit for the year

mln RUB	**2016**	**2015**
Total segment result	17,040	17,484
Other result	522	(1,002)
Unallocated expenses and income, net	(3,531)	(2,719)
Finance income	2,022	2,634
Finance costs	(3,455)	(2,434)
Income tax expense	(3,435)	(3,317)
Profit for the year	9,163	10,646

Assets

mln RUB	**31 December 2016**	**31 December 2015**
Segment assets, excluding net financial position	238,022	205,589
Elimination of intersegment assets	(10,312)	(14,089)
Unallocated assets	17,310	12,881
Total assets	245,020	204,381

Liabilities

mln RUB	31 December 2016	31 December 2015
Segment liabilities, excluding net financial position	137,763	115,063
Elimination of intersegment liabilities	(20,508)	(14,253)
Unallocated liabilities	3,611	2,559
Consolidated loans and borrowings	55,695	33,018
Total liabilities	176,561	136,387

Other material items

mln RUB	2016	2015
Capital expenditure	3,222	3,152
Elimination of intersegment purchases	(12)	(12)
Consolidated capital expenditure	3,210	3,140

6 Acquisitions and disposals of subsidiaries and non-controlling interests

(a) Acquisition of subsidiaries

During the 12-month period ended 31 December 2015 and the 12-month period ended 31 December 2016 the Group has not acquired any subsidiaries.

(b) Disposal of subsidiaries

During the 12-month period ended 31 December 2015 and the 12-month period ended 31 December 2016 the Group has not disposed any subsidiaries.

7 Administrative expenses

mln RUB	**2016**	**2015**
Wages and salaries	4,234	3,806
Services	907	1,006
Social expenditure	718	497
Insurance	554	89
Taxes other than profit tax	374	379
Overhead expenses on finished projects	333	193
Depreciation and amortisation	224	165
Materials	197	139
Change in allowance recognised for doubtful debts	-	259
Other administrative expenses	479	490
	8,020	7,023

8 Other income and expenses

mln RUB	**2016**	**2015**
Other income:		
Gain on disposal of property, plant and equipment	93	21
Other income	269	102
Total other income	362	123
Other expenses:		
Loss on disposal of other assets	(20)	-
Other expenses	(785)	(245)
Total other expenses	(805)	(245)
Net other expenses	(443)	(122)

9 Total personnel costs

mln RUB	**2016**	**2015**
Wages and salaries:		
Cost of sales	8,344	8,439
Administrative expenses	4,234	3,806
Distribution expenses	556	302
	13,134	12,547

10 Finance income and finance costs

mln RUB	2016	2015
Recognised in profit or loss		
Finance income		
Interest income	1,907	2,545
Foreign exchange gain	43	75
Unwind of discount	40	13
Gain from write off payables / recovery of receivables	31	-
Other finance income	1	1
	2,022	2,634
Finance costs		
Interest expense	(3,190)	(2,112)
Foreign exchange loss	(163)	(226)
Change in allowance recognised for doubtful debts	(65)	-
Unwind of discount	(32)	(91)
Repurchase of own bonds	(5)	(5)
	(3,455)	(2,434)
Net finance (costs) / income recognised in profit or loss	(1,433)	200
Recognised in other comprehensive income		
Finance (costs) / income		
Foreign currency translation differences for foreign operations	(761)	143
Finance costs recognised in other comprehensive income, net of tax	(761)	143
Attributable to:		
Equity holders of the Company	(761)	143

In addition to borrowing costs recognised as an expense during 2016, interest in the amount of RUB 1,445 million (31 December 2015: RUB 1,033 million) has been capitalized using a capitalization rate of 12.26% (31 December 2015: 11.38%) as part of the objects under construction.

In addition to unwind of discount for long-term payables for land plots and lease incentives, recognized as finance costs during the year ended 31 December 2016, unwind of discount in the amount of RUB 1,659 million (31 December 2015: RUB 1,794 million) has been capitalized as part of the objects under construction.

11 Income tax expense

mln RUB	2016	2015
Current tax expense		
Current period	3,533	3,972
Deferred tax expense		
Origination and reversal of temporary differences	(98)	(655)
Income tax expense	3,435	3,317

The majority of the Group activities are taxed in Russia at a corporate income tax rate of 20.00% (2015: 20.00%).

Reconciliation of effective tax rate:

	2016 mln RUB	%	2015 mln RUB	%
Profit for the year	9,163		10,646	
Income tax expense	3,435		3,317	
Profit before income tax	12,598	100	13,963	100
Income tax at applicable tax rate	2,520	(20)	2,792	(20)
Non-taxable income	(137)	1	(119)	1
Tax effect on sale of shares	-	-	(342)	2
Non-deductible expenses	1,044	(8)	949	(7)
Current period (reversals of losses) losses for which no deferred tax asset was recognised	22	-	38	-
Tax incentives	(14)	-	(1)	-
Total income tax expenses for the year	3,435	(27)	3,317	(24)

12 Construction contracts

Significant share of the Group’s revenue relates to construction services, provided under long-term construction contracts. Respective revenue and gross margin mainly relate to LSR. Construction segment and are presented below:

mln RUB	2016	2015
Contract revenue	6,967	4,768
Contract costs	(6,047)	(3,885)
Gross profit	920	883

13 Property, plant and equipment

mln RUB	Land and buildings	Machinery and equipment	Transpor-tation equipment	Other fixed assets	Assets under construction	Total
Cost/Deemed cost						
At 1 January 2015	20,133	18,495	3,566	764	1,004	43,962
Additions	1,895	386	363	83	413	3,140
Disposals	(76)	(213)	(137)	(37)	(52)	(515)
Reclassifications from/ to inventories	812	-	-	-	(11)	801
Reclassifications from assets held for sale	304	216	318	2	7	847
Transfers and reclassifications	379	321	6	4	(710)	-
Effect of movements in exchange rates	(117)	(107)	(6)	(3)	12	(221)
At 31 December 2015	23,330	19,098	4,110	813	663	48,014
At 1 January 2016	23,330	19,098	4,110	813	663	48,014
Additions	1,102	402	204	1,018	484	3,210
Disposals	(127)	(209)	(182)	(34)	(54)	(606)
Reclassifications to / from inventories	1,458	-	-	-	-	1,458
Transfers and reclassifications	72	292	(53)	14	(325)	-
Effect of movements in exchange rates	(315)	(208)	(15)	(4)	(32)	(574)
At 31 December 2016	25,520	19,375	4,064	1,807	736	51,502
Depreciation and impairment losses						
At 1 January 2015	(3,945)	(9,043)	(2,302)	(582)	-	(15,872)
Depreciation charge	(731)	(1,741)	(370)	(95)	-	(2,937)
Disposals	47	180	122	34	-	383
Reclassifications from assets held for sale	(191)	(174)	(272)	(1)	-	(638)
Transfers and reclassifications	(1)	(5)	-	6	-	-
Effect of movements in exchange rates	28	40	3	-	-	71
At 31 December 2015	(4,793)	(10,743)	(2,819)	(638)	-	(18,993)
At 1 January 2016	(4,793)	(10,743)	(2,819)	(638)	-	(18,993)
Depreciation charge	(777)	(1,654)	(382)	(84)	-	(2,897)
Disposals	81	176	166	32	-	455
Reclassifications to / from inventories	2	-	-	-	-	2
Transfers and reclassifications	(24)	(53)	74	3	-	-
Effect of movements in exchange rates	60	94	8	3	-	165
At 31 December 2016	(5,451)	(12,180)	(2,953)	(684)	-	(21,268)
Net book value						
At 1 January 2015	16,188	9,452	1,264	182	1,004	28,090
At 31 December 2015	18,537	8,355	1,291	175	663	29,021
At 31 December 2016	20,069	7,195	1,111	1,123	736	30,234

Depreciation expense of RUB 2,589 million has been charged in cost of goods sold (31 December 2015: RUB 2,706 million), RUB 87 million in distribution expenses (31 December 2015: RUB 69 million) and RUB 220 million in administrative expenses (31 December 2015: RUB 161 million).

(a) Impairment

Property, plant and equipment were tested for impairment; the basis for impairment is disclosed in note 14.

(b) Security

Properties with a carrying amount of RUB 8,018 million are subject to a registered debenture to secure bank loans (31 December 2015: RUB 8,640 million) (refer to note 22).

Properties with a carrying amount of RUB 269 million are pledged to secure payments under the purchase contracts with payments by instalments. (31 December 2015: RUB 274 million).

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2016 the net book value of leased plant and machinery was RUB 103 million (31 December 2015: RUB 157 million).

14 Intangible assets

mln RUB	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2015	3,728	1,371	5,099
Additions	-	66	66
Disposals	-	(8)	(8)
Balance at 31 December 2015	3,728	1,429	5,157
Balance at 1 January 2016	3,728	1,429	5,157
Additions	-	4	4
Disposals	-	(225)	(225)
Effects of movement in exchange rates	-	(1)	(1)
Balance at 31 December 2016	3,728	1,207	4,935
Amortisation and impairment losses			
Balance at 1 January 2015	(281)	(442)	(723)
Amortisation charge	-	(62)	(62)
Disposals	-	1	1
Balance at 31 December 2015	(281)	(503)	(784)
Balance at 1 January 2016	(281)	(503)	(784)
Amortisation charge	-	(59)	(59)
Disposals	-	218	218
Balance at 31 December 2016	(281)	(344)	(625)
Net book value			
At 1 January 2015	3,447	929	4,376
At 31 December 2015	3,447	926	4,373
At 31 December 2016	3,447	863	4,310

Other intangible assets mainly include licences for extraction of sand and crushed granite in Leningrad region and Urals region.

(a) Impairment testing of goodwill, other intangible assets and property, plant and equipment

Goodwill is allocated to the Group's entities or business units when appropriate. For the purpose of impairment testing these units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each entity or business unit (BU) and the related impairment losses recognised are as follows:

Entity / Business Unit mln RUB	**Operating Segment**	**Allocated goodwill**	**Impairment losses**	**Net book value at 31 December 2016**
PJSC "Aeroc Obuchow"(Ukraine)	LSR. Building Materials	819	(164)	655
LSR Europe GmbH	LSR. Real Estate	50	-	50
BU LSR. Reinforced Concrete - North-West	LSR. Building Materials	17	-	17
JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG"	LSR. Real Estate	23	-	23
BU Other	Other	128	(117)	11
BU LSR. Construction - Ural	LSR. Construction	736	-	736
BU LSR. Real Estate - Ural	LSR. Real Estate	1,277	-	1,277
BU LSR. Basic Materials	LSR. Building Materials	155	-	155
OOO "LSR.Stroitelstvo-M"	LSR. Construction	11	-	11
BU LSR. Wall Materials	LSR. Building Materials	512	-	512
		3,728	(281)	3,447

Impairment review was conducted by the Group as of 31 December 2016.

The following key assumptions were used in determining the recoverable amounts of the respective companies as at 31 December 2016 and have not significantly changed compared to those that were used as at 31 December 2015.

Segment “LSR. Building Materials”:

- Cash flows were projected based on budgeted operating results for 2017 and three – six years business plans;
- Cash flows for further years were extrapolated assuming 2.00% further growth in production;
- Pre-tax discount rate of 20.20% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 48.54% at a market interest rate of 12.76% p.a. and an industry average beta-coefficient.

Segment “LSR. Construction”:

- Cash flows were projected based on budgeted operating results for 2017 and three years business plans;
- Plan for 2017 is prepared based on the actual contract portfolio and the actual prices;
- Cash flows for further years were assuming 2.00% further growth in production;
- Pre-tax discount rate of 19.68% was applied in determining the recoverable amount of the plants. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 50.07% at a market interest rate of 10.56% p.a. and an industry average beta-coefficient.

Segment “LSR. Real Estate”:

- Cash flows were determined for the existing and planned investment projects on the basis of 4-year budgeted operating results.
- Cash flows for further years were assuming 2.00% further growth.
- Pre-tax discount rate of 19.68% was applied in determining the recoverable amount of the assets. The discount rate was estimated based on the Group weighted average cost of capital, which was based on a possible range of debt leveraging of 50.07% at a market interest rate of 10.56% p.a. and an industry average beta-coefficient.

The values assigned to the key assumptions represent management’s assessment of future trends in the construction, development and construction materials production industry and are based on both external sources and internal sources.

No impairment loss was recognised in respect of goodwill allocated to the entities and business units above and other non-financial assets, as the impairment test demonstrates that for these entities and business units’ values in use are significantly higher than carrying amounts in aggregate and individually.

The estimates made for goodwill impairment test are sensitive in the following area:

- A 10.00% decrease in undiscounted net cash inflows would have caused the impairment loss in respect of the following entities/BU:

Entity / Business unit	**mln RUB**
BU LSR. Wall Materials	991
BU LSR.Construction. Ural	183

- An increase of one percentage point in the discount rate used would have caused the impairment loss in respect of the following entities/BU:

Entity / Business unit	**mln RUB**
BU LSR. Wall Materials	450
BU LSR.Construction. Ural	65

15 Other investments

mln RUB	**31 December 2016**	**31 December 2015**
Non-current		
Available-for-sale investments:		
Stated at cost	28	27
Originated loans	462	-
	490	27
Current		
Originated loans	1,565	85
	1,565	85

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 25.

16 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	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	(227)	(262)	910	1,073	683	811
Intangible assets	(3)	(2)	68	79	65	77
Inventories	(9,892)	(8,991)	283	197	(9,609)	(8,794)
Trade and other receivables	(302)	(564)	430	547	128	(17)
Loans and borrowings	(24)	(26)	-	-	(24)	(26)
Trade and other payables	(157)	(149)	10,070	8,950	9,913	8,801
Tax loss carry-forwards	(1,619)	(1,317)	-	-	(1,619)	(1,317)
Tax (assets)/liabilities	(12,224)	(11,311)	11,761	10,846	(463)	(465)
Set off of tax	9,464	9,034	(9,464)	(9,034)	-	-
Net tax (assets)/liabilities	(2,760)	(2,277)	2,297	1,812	(463)	(465)

Deferred tax assets on tax losses carry-forwards recognised as at 31 December 2016 represent tax effect of accumulated unused tax losses recoverable by the future taxable profit. In assessing recoverability of deferred tax assets on tax losses carry-forward the Group applied the same data as it used for impairment testing of goodwill and property, plant and equipment (refer to note 14).The major part of those tax losses relates to business segments LSR.Building Materials and Other.

(b) Movement in temporary differences during the period

mln RUB	1 January 2016	Recognised in profit or loss	Acquired/ disposed	Effect of movements in exchange rate	31 December 2016
Property, plant and equipment	811	(127)	(1)	-	683
Intangible assets	77	(12)	-	-	65
Inventories	(8,794)	(812)	(3)	-	(9,609)
Trade and other receivables	(17)	127	18	-	128
Loans and borrowings	(26)	2	-	-	(24)
Trade and other payables	8,801	1,112	-	-	9,913
Tax loss carry-forwards	(1,317)	(388)	83	3	(1,619)
	(465)	(98)	97	3	(463)

mln RUB	1 January 2015	Recognised in profit or loss	Acquired/ disposed	Effect of movements in exchange rate	31 December 2015
Property, plant and equipment	891	(75)	(2)	(3)	811
Intangible assets	89	(12)	-	-	77
Inventories	(7,797)	(997)	-	-	(8,794)
Trade and other receivables	154	(153)	(18)	-	(17)
Loans and borrowings	(21)	(5)	-	-	(26)
Trade and other payables	7,794	1,007	-	-	8,801
Tax loss carry-forwards	(889)	(420)	(8)	-	(1,317)
	221	(655)	(28)	(3)	(465)

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

mln RUB	31 December 2016	31 December 2015
Tax losses	135	113
Deductible temporary differences on intercompany sales of investments	84	84
Total deferred tax assets have not been recognised	219	197

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that the Group will sell investments in the foreseeable future and can utilize the benefits therefrom.

17 Inventories

mln RUB	31 December 2016	31 December 2015
Work in progress, construction of buildings	117,394	83,939
Lease rights	21,858	22,129
Finished goods, construction of buildings	12,135	8,207
Finished goods and goods for resale	3,472	3,325
Raw materials and consumables	3,044	2,355
Work in progress	1,266	1,537
	159,169	121,492
Less: allowance for obsolete inventory	(268)	(222)
	158,901	121,270

Work in progress, construction of buildings represents the investments incurred into the construction of buildings before they are put into operation. The investments are financed by prepayments received for flats (refer to note 24), loans and borrowings (refer to note 22), and profit of the developer.

Lease rights represent the amount paid to obtain the right of development of land plot which are capitalized into the cost of object upon completion of development. Lease rights are recognized at the present value (refer to note 24).

Inventories with a carrying amount of RUB 1,339 million are subject to a registered debenture to secure bank loans (31 December 2015: RUB 1,381 million) (refer to note 22).

Inventories with a carrying amount of RUB 1,135 million are pledged to secure payments under the purchase contracts with payment by instalments (31 December 2015: RUB 3,075 million).

The following is movement in the allowance for obsolete inventory:

mln RUB	**2016**	**2015**
Balance at 1 January	222	346
Change in the allowance for obsolete inventory	46	(124)
Balance at 31 December	268	222

As at 31 December 2016 the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 268 million (31 December 2015: RUB 222 million) and the respective allowance was recognized in cost of sales. As at 31 December 2016 major part of the allowance of RUB 254 million (31 December 2015: RUB 200 million) relates to finished goods and goods for resale.

The impairment allowance was made based on the following key assumptions:

- Cash inflows were projected as total of contracted revenue and forecasted revenue determined based on current prices or prices of objects considered analogues;
- Cash outflows include costs accumulated to date and budgeted costs to finish construction.

18 Trade and other receivables

mln RUB	**31 December 2016**	**31 December 2015**
Non-current		
Notes receivable on disposals of subsidiaries	165	274
Accounts receivable - trade	57	43
Other receivables	31	-
	253	317
Current		
Prepayments to suppliers	11,482	18,422
Receivables from share participation agreements	3,251	1,897
Accounts receivable – trade	2,210	2,158
VAT receivable	1,000	523
Amounts due from customers for contract work	999	1,393
Notes receivable	370	80
Current receivables on disposals of subsidiaries	229	20
Income tax receivable	128	220
Deferred expenses	82	104
Employee receivables	45	3
Other receivables	2,130	2,804
	21,926	27,624
Provision for doubtful debtors	(1,049)	(1,047)
	20,877	26,577

Non-current receivables on disposals of subsidiaries include discounted amount of receivables from sale of subsidiaries with discount rate 4.42%.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 25.

19 Cash and cash equivalents

mln RUB	**31 December 2016**	**31 December 2015**
Petty cash	2	2
Current accounts	22,792	6,532
Call deposits	2,836	13,900
Cash and cash equivalents in the consolidated statement of financial position	25,630	20,434
Cash and cash equivalents in the consolidated statement of cash flows	25,630	20,434

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

The Group's ability to use funds on current accounts is not restricted by the covenant disclosed in note 22.

As at 31 December 2015 within call deposits were classified deposits of RUB 9,500 million, ending in 2017, as the Group had the right to withdraw the contracts at any time. The Group's ability to use these deposits is not restricted by the covenant disclosed in note 22.

20 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**	
	31 December 2016	**31 December 2015**
Par value	RUB 0.25	RUB 0.25
On issue at beginning of the year	100,974,172	102,030,215
On issue at end of the year, fully paid	100,966,635	100,974,172

The holders of ordinary shares are entitled to receive dividends which can be declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Treasury share reserve

The reserve for the Company's treasury shares comprises the cost of the Company's shares held by the Company. At the reporting date the Company held 2,063,580 (31 December 2015: 2,056,043) of its own shares.

(c) Dividends

In accordance with 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. As at 31 December 2016 the Company had retained earnings, including the profit for the current year, of RUB 16,299 million (as at 31 December 2015: RUB 16,938 million).

In April 2016 the Group distributed dividends in the amount of RUB 8,036 million at value RUB 78.00 per share for financial year ended 31 December 2015.

The dividends include RUB 155 million distributed to the Group's related party, a single individual, which had acquired respective shares and, therefore, had legal rights as at the distribution date, afterwards the purchase contract was cancelled due to breach of payment terms by the buyer. Transactions described above took place during the year 2016.

21 Earnings per share

The calculation of earnings per share is based on profit attributable to the shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the year, refer to note 20 (a). The Company has no dilutive potential ordinary shares.

	2016	**2015**
Issued shares at 1 January	100,974,172	102,030,215
Effect of own shares transferred to management / (held)	31,559	(228,257)
Weighted average number of shares for the year ended 31 December	101,005,731	101,801,958

22 Loans and borrowings

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

mln RUB	**31 December 2016**	**31 December 2015**
Non-current		
Secured bank loans	14,987	10,357
Unsecured bank loans	26,626	11,442
Unsecured bond issues	5,000	-
Finance lease liability	53	105
	46,666	21,904
Current		
Secured bank loans	5,377	4,162
Unsecured bank loans	3,586	5,735
Unsecured other loans	14	14
Unsecured bond issues	-	1,154
Finance lease liability	52	49
	9,029	11,114

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
mln RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured facility	RUB	2.50% - 15.00%	2017 - 2021	20,364	20,364	14,519	14,519
Unsecured facility	RUB	0.00% - 12.00%	2017 - 2021	35,226	35,226	18,345	18,345
Finance lease liability	-	11.81% - 21.24%	2017 - 2019	105	105	154	154
				55,695	55,695	33,018	33,018

Covenants and other matters

The Credit Agreements require the Group to comply with certain general, informational and financial covenants, including:

- a limitation on the Group ability to incur additional debt beyond certain financial ratios;
- maintaining by the Group of some of financial coefficients on a fixed level;
- subject to certain exceptions, a prohibition restricting the Group ability to issue significant borrowings, provide guarantees or indemnities to the third party;
- an obligation to provide to the Banks with such financial and other information, the Banks may reasonably require in relation to the loan contracts, including the Group's annual audited and unaudited consolidated financial statements, prepared in accordance with IFRS.

Credit arrangements for unsecured bank loans of RUB 13,900 million (31 December 2015: RUB 8,500 million) require Group to keep the ratio of bank account (31 December 2015: deposit) opened in the bank-lender to loan principal at no less than one.

The Group complies with covenants described above.

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of RUB 8,018 million is pledged as collateral to secure bank loans (31 December 2015: RUB 8,640 million) – refer to note 13(b).
- Inventories with a carrying amount of RUB 1,339 million are pledged as collateral to secure bank loans (31 December 2015: RUB 1,381 million) – refer to note 17.

The finance lease liabilities are secured by the leased assets (refer to note 13(c)).

Bank loans are secured by the pledge of the following shares in subsidiary companies as at 31 December 2016:

- 100.00% JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT PETERSBURG";
- 100.00% of LSR. Wall Materials Ltd;
- 100.00% of AO "Industrial leasing".

23 Provisions

mln RUB	Site finishing	Environ-ment restoration	Warranty provision	Provision for unprofitable contracts	Litigation provision	Total
Current						
Balance at 1 January 2016	844	18	9	1	21	893
Provisions made during the year	1,713	26	-	36	78	1,853
Provisions used during the year	(1,020)	(12)	(1)	-	(17)	(1,050)
Unused provisions	(13)	-	-	-	(68)	(81)
Exchange differences (+/-)	-	-	(2)	-	-	(2)
Balance at 31 December 2016	1,524	32	6	37	14	1,613
Non-current						
Balance at 1 January 2016	-	61	-	-	-	61
Provisions made during the year	-	13	-	-	-	13
Provisions used during the year	-	(11)	-	-	-	(11)
Unused provisions	-	(8)	-	-	-	(8)
Balance at 31 December 2016	-	55	-	-	-	55

(a) Site finishing

The Group records provisions in respect of the Group’s obligation to incur additional costs including costs associated with cleaning up the surrounding area after finishing the construction of apartment buildings in Saint Petersburg, Moscow, Yekaterinburg and Leningrad region.

(b) Environment restoration

The Group records provisions in respect of the Group’s obligation to clean up the surrounding area after quarrying sand in water and forested areas. The damage caused during quarrying is cleaned up after quarrying is completed. The amount of provision is estimated based on the available information. The Group expects the resulting outflow of economic benefits over the next five years.

(c) Warranty provision

The provision for warranties relates mainly to the residential units sold during the period. The provision is based on estimates made from historical warranty data associated with similar products and services and is required under the German legislation. The Group expects the resulting outflow of economic benefits over the next year. For the production companies warranty provision relates to the construction works done.

(d) Provision for unprofitable contracts

Provisions for unprofitable contracts are recognized when the expected revenues are lower than the expected costs to completion.

(e) Litigation provision

The Group recognises provision on legal obligations that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

24 Trade and other payables

mln RUB	31 December 2016	31 December 2015
Non-current payables		
Accounts payable – trade	17,258	13,670
Taxes and other payables to the budget	648	-
	17,906	13,670
Current payables		
Prepayments received for flats	70,239	66,447
Accounts payable – trade	16,724	11,352
Advances from customers	4,784	3,441
Taxes and other payables to the budget	3,475	1,855
Accounts due to customers for contract work	1,907	859
Employee-related liabilities	1,119	1,068
Income tax payable	154	671
Interest payable	124	108
Deferred income	7	39
Dividends payable	-	2
Other payables	462	1,091
	98,995	86,933

Prepayments received for flats represent funds obtained under share participation agreements that include RUB 10,542 million for flats, which are expected to be delivered after 12 months from the reporting date (31 December 2015: RUB 22,873 million).

Trade payables include payables for land plots and lease rights to be repaid in instalments. Payables for land plots and lease incentives are discounted at rates 10.60% and 10.70%, respectively.

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

25 Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk;
- operational 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 this consolidated financial statement.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit Committee, which is responsible for developing and monitoring the Group's risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities.

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.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(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) Trade and other receivables

Trade receivables from the largest five debtors of the Group represents approximately RUB 538 million (31 December 2015: RUB 698 million) of the Group's total Trade receivables. Geographically there is concentration of credit risk as the most significant part of Group's operations is located in Russia.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Managing Directors; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Most of the Group's customers in the "LSR. Building Materials"," LSR. Construction" operating segments have been transacting with the Group for over four years, and losses have occurred infrequently. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group does not have a unified policy for management of credit risk in place. Due to significant differences in operations at different business units specific credit policies are developed at the level of operational companies. Each of the operating companies has established procedures in place to review and collect outstanding receivables. New customers, as well as customers with significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place. All companies involved in the extraction and production of building materials have in place credit control procedures which require them to cancel despatching goods in case of the absence of a signed contract, previous fail to pay or previous violations of contract conditions. Also certain limits for the accounts receivable are established for particular customers.

In the "LSR. Real Estate" operating segment most sales are on prepayment and cash basis, as the customers are individuals.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. This allowance represents a specific loss component that relates to individually significant exposures.

(ii) Investments

The Group limits its exposure to credit risk by investing in credit notes of trade counterparties (customers and suppliers of the Group) that have an appropriate reputation in the market. The Group does not invest any of its assets in traded securities.

(iii) Guarantees

As at 31 December 2016 guarantees made to third parties were RUB 2,528 million (31 December 2015: RUB 3,525 million), including guarantees in amount of RUB 2,304 million for LLC "Peterburgcement" (till 2015 known as LLC "LSR.Cement-NW), which was disposed of to a third party in 2014.

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:

mln RUB	**Carrying amount**	
	31 December 2016	**31 December 2015**
Available-for-sale financial assets	28	27
Loans and receivables	7,463	6,229
Cash and cash equivalents	25,630	20,434
	33,121	26,690

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

mln RUB	**Carrying amount**	
	31 December 2016	**31 December 2015**
Domestic	2,008	1,840
Euro-zone countries	45	64
Other CIS countries	5	10
	2,058	1,914

The Group’s most significant trade debtor, IC IÇTAŞ INŞAAT SANAYI VE TICARET A.Ş accounts for RUB 237 million of the trade receivables carrying amount at 31 December 2016 (31 December 2015 OOO “Potential”: RUB 289 million).

The total amount of impaired trade receivables at the reporting date was RUB 233 million (31 December 2015: RUB 287 million).

The ageing of trade receivables at the reporting date was:

mln RUB	**Gross 31 December 2016**	**Impairment 31 December 2016**	**Gross 31 December 2015**	**Impairment 31 December 2015**
Not past due	718	-	1,000	-
Past due 0-30 days	476	-	475	-
Past due 31-180 days	473	(5)	311	(17)
Past due more than 180 days	600	(228)	415	(270)
	2,267	(233)	2,201	(287)

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

mln RUB	**2016**	**2015**
Balance at 1 January	(287)	(192)
Impairment reversal / (loss)	54	(95)
Balance at 31 December	(233)	(287)

The impairment loss at 31 December 2016 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and internal analysis on the underlying customers’ credit ratings.

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

mln RUB	2016	2015
Balance at 1 January	(760)	(618)
Impairment loss	(56)	(142)
Balance at 31 December	(816)	(760)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses cash flow budgets which are prepared for each year and quarter to forecast potential liquidity deficit and identify sources of covering that deficit. As at 31 December 2016 the Group's undrawn credit facilities amount is RUB 15,174 million (31 December 2015: RUB 8,623 million). Interest would be payable at the rate of 11.00% to 12.94%.

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

31 December 2016	Average interest rate					
mln RUB	Contractual	Effective	Less than 1 year	1-5 years	Over 5 years	Total
Secured bank loans:						
RUB*	2.50% - 15.00%	11.60%	5,377	14,987	-	20,364
Unsecured bank loans:						
RUB*	9.46% - 12.00%	10.37%	3,586	25,285	-	28,871
RUB	CBR rate + 1.79%	11.79%	-	1,341	-	1,341
Unsecured other loans:						
RUB*	0.00% - 10.50%	3.02%	14	-	-	14
Unsecured bond issues:						
RUB*	0.10%-10.75%	10.75%	-	5,000	-	5,000
Finance lease liabilities						
RUB*	11.81% - 21.24%	13.27%	52	53	-	105
Trade and other payables		-	17,310	17,906	-	35,216
Future interests**		-	7,050	10,029	-	17,079
Guarantees***		-	2,528	-	-	2,528
			35,917	74,601	-	110,518

*Fixed rate

** Future interests contain not charged, expected interests. Future interests do not reflect current payables of the Group. Future interests are calculated based on current credit facilities, which the Group had on 31 December 2016.

*** Guarantees contain guarantees made to third parties. Guarantees do not reflect current payables of the Group.

31 December 2015	**Average interest rate**					
mln RUB	**Contractual**	**Effective**	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Secured bank loans:						
RUB*	2.00% - 12.18%	10.41%	4,162	9,898	459	14,519
Unsecured bank loans:						
RUB*	12.22% - 14.00%	13.26%	5,735	11,442	-	17,177
Unsecured other loans:						
RUB*	0.00% - 10.50%	3.19%	14	-	-	14
Unsecured bond issues:						
RUB*	0.10% - 10.15%	9.44%	1,154	-	-	1,154
Finance lease liabilities						
RUB*	12.84% - 14.14%	13.23%	48	104	-	152
Other*	21.99% - 23.00%	22.08%	1	1	-	2
Trade and other payables		-	12,553	13,670	-	26,223
Future interests**		-	4,866	6,774	23	11,663
Guarantees***		-	3,525	-	-	3,525
			32,058	41,889	482	74,429

*Fixed rate

** Future interests contain not charged, expected interests. Future interests do not reflect current payables of the Group. Future interests are calculated based on current credit facilities, which the Group had on 31 December 2015.

*** Guarantees contain guarantees made to third parties. Guarantees do not reflect current payables of the Group.

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUB), but also Euro and Ukrainian Hryvna (UAH). The currencies in which these transactions primarily are denominated in Euro and USD.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB. This provides an economic hedge and no derivatives are entered into.

Exposure to currency risk

The Group's exposure to currency risk was based on the following principal amounts:

31 December 2016 **mln RUB**	**EUR-denominated**	**USD-denominated**
Trade and other receivables	259	1
Trade and other payables	(7)	(419)
Gross balance sheet exposure	252	(418)

31 December 2015 **mln RUB**	**EUR-denominated**	**USD-denominated**
Trade and other receivables	471	52
Trade and other payables	(14)	(5)
Gross balance sheet exposure	457	47

The following significant exchange rates applied during the year:

	31 December 2016 **RUB**	**31 December 2015** **RUB**
1 USD equals	60.6569	72.8827
1 EUR equals	63.8111	79.6972
1 UAH equals	2.2383	3.0463

Sensitivity analysis

A 10.00% strengthening of RUB against the above currencies would have increased profit by RUB 17 million. A 10.00% weakening of the RUB against the above currencies would have the equal but opposite effect 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:

mln RUB	**Carrying amount**	
	31 December 2016	**31 December 2015**
Fixed rate instruments		
Financial assets	2,055	112
Financial liabilities	(54,354)	(33,018)
	(52,299)	(32,906)
Variable rate instruments		
Financial liabilities	(1,341)	-

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 other comprehensive income, 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 the statement of profit or loss and other comprehensive income.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and the statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

mln RUB	**Profit or loss**	
	100 bp increase	**100 bp decrease**
Year ended 31 December 2016		
Variable rate instruments	(13)	13
Cash flow sensitivity	(13)	13

(e) Fair values versus carrying amounts

The fair value of unquoted equity investments is discussed in note 4. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

mln RUB	**Note**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
		31 December 2016	**31 December 2016**	**31 December 2015**	**31 December 2015**
Financial assets					
Available-for-sale financial assets	15	28	28	27	27
Loans and receivables		7,463	7,463	6,229	6,229
Cash and cash equivalents	19	25,630	25,630	20,434	20,434
		33,121	33,121	26,690	26,690
Financial liabilities					
Secured bank loans	22	(20,364)	(20,645)	(14,519)	(13,700)
Unsecured bank loans	22	(30,212)	(29,936)	(17,177)	(16,924)
Unsecured other loans	22	(14)	(13)	(14)	(13)
Unsecured bond issues	22	(5,000)	(4,966)	(1,154)	(1,104)
Trade and other payables	24	(35,216)	(35,216)	(26,223)	(26,223)
Finance lease liabilities	22	(105)	(105)	(154)	(154)
		(90,911)	(90,881)	(59,241)	(58,118)

The interest rates used to discount estimated cash flows, where applicable, are based on incremental borrowing rates, available for the Group as at:

	31 December 2016	**31 December 2015**
Loans and borrowings	3.01%-10.96%	4.75% - 13.78%
Leases	11.81 % - 21.24 %	12.84% - 23.00%

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of the transactions;
- requirements for the reconciliation and monitoring of the transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessments of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit, to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(g) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

The Group's liabilities to adjusted capital ratio at the end of the reporting period were as follows:

mln RUB	**31 December 2016**	**31 December 2015**
Total liabilities	176,561	136,387
Less: cash and cash equivalents	(25,630)	(20,434)
Net liabilities	150,931	115,953
Total equity	68,459	67,994
Net liabilities to capital ratio	2.20	1.71

26 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	**31 December 2016**	**31 December 2015**
Less than one year	2,076	1,349
Between one and five years	1,188	2,162
More than five years	2,774	7,271
	6,038	10,782

The Group leases a number of land plots under operating leases. The leases typically vary from an initial period of four to forty nine years, with an option to renew the lease after that date. Lease payments are usually fixed.

For the production entities lease payments are expensed as incurred, while for the real estate construction entities lease payments are capitalised to the construction costs of the properties, located on the respective land plots. During the year ended 31 December 2016 an amount of RUB 151 million was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of non-cancellable operating leases. An amount of RUB 3,672 million was capitalized to the construction cost of the properties, located on the respective land plots.

27 Commitments

At 31 December 2016 the Group is not committed to purchase property, plant and equipment.

At 31 December 2015 the Group was committed to purchase property, plant and equipment in amount of RUB 24 million net of VAT.

At 31 December 2016 the Group was committed to purchase lease rights with the purpose of future development of real estate, which therefore will be classified as Inventory, of RUB 15,100 million. The payment is to be performed by instalments till 2024.

28 Contingencies

(a) Insurance

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

(b) Litigation

Existing litigations include a number of small claims relating to purchases from domestic customers. Based on experience in resolving such claims, management believes that they will be settled without significant cost to the Group. Accordingly, no provision has been made for such amounts.

(c) Taxation contingencies

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

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

The Group companies entered into transactions involving other Group companies at prices which management believed were consistent with applicable tax law. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess 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.

(d) Environmental liabilities

The Group is engaged in dredging sand from the sea bed and quarrying sand in the 8 areas. There is no liability to perform any restoration work in relation to the sea bed after the dredging is complete.

The Group is engaged in crushed stone production in the 6 areas and extraction of clay in 3 areas.

According to existing legislation and the terms of licenses obtained by the Group, there is a liability for the Group to restore these sites when quarrying is complete. In case the planned restoration costs can be identified before the quarrying is completed and the licence is used, the reserve for restoration is recognized.

The costs associated with restoration cannot be determined if, in accordance with existing licences on crushed stone production, the methods of restoration and its cost will be determined in the future. In this case, the reserve for restoration is not recognized.

It is planned that quarrying of the one of the seventeen areas will be completed not earlier that in 2018, the quarrying of the other areas will be completed after 2020.

29 Related party transactions

(a) Control relationships

The Company is ultimately controlled by Andrey Molchanov.

(b) Transactions with management and close family members

The management and their close family members control 5.00% of the voting shares of the Group. (31 December 2015: 5.00%).

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (refer to note 9):

mln RUB	**31 December 2016**	**31 December 2015**
Salaries and bonuses	988	801

(ii) Other transactions with management and close family members

mln RUB	**Transaction value year ended**		**Outstanding balance**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Sale of goods and services	-	63	(4)	(7)
Loans received (included into unsecured other loans – refer to note 22)	-	-	-	(2)
Loans given to related parties	-	-	-	-
Dividends paid as a result of transaction described in note 20(c))	155	-	-	-

As at 31 December 2016 there were no loans to executive directors (31 December 2015: nil).

(c) Transactions with other related parties

The Group’s other related party transactions are disclosed below:

(i) Revenue

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Sale of goods and services provided to:				
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	43	35	45	46
Companies significantly influenced by the Group key management	19	-	123	-
	62	35	168	46

All outstanding balances with related parties are to be settled in cash within the 12-month of the balance sheet date. None of the balances is secured.

(ii) Expenses and capital expenditures

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Purchase of goods and services from:				
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group’s ultimate beneficial owners	41	431	(1)	(2)
Companies significantly influenced by the Group key management	354	-	(89)	-
	395	431	(90)	(2)

All outstanding balances with related parties are to be settled in cash within the 12-month of the balance sheet date. None of the balances are secured.

Other expenses to companies controlled or significantly influenced by or on behalf of the Group’s ultimate beneficial owners as at 31 December 2016 amounts to RUB 134 million (other expenses 31 December 2015: RUB 94 million). Outstanding balance – RUB 2 million (31 December 2015: nil).

(iii) Loans

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loans received (included into unsecured other loans – refer to note 22):				
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	-	24	12	12
	-	24	12	12

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loans given (included into other investments – originated loans category– refer to note 15):				
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	1,046	72	1,025	-
Companies significantly influenced by the Group key management	47	-	111	-
	1,093	72	1,136	-

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Interest receivable (included into other receivables):				
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	44	1	44	-
Companies significantly influenced by the Group key management	7	-	-	-
	51	1	44	-

(iv) Transactions with shares / promissory notes

Purchase of shares/promissory notes from

mln RUB	Transaction value period ended		Outstanding balance	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Beneficial owner and companies controlled or significantly influenced by or on behalf of, the Group's ultimate beneficial owners	-	2,257	21	-
Companies significantly influenced by the Group key management	-	-	61	-
	-	2,257	82	-

Above transaction of 2015 relates to purchase of shares, which represents purchase of lease rights of land plot.

30 Subsidiaries

Entity	Country of incorporation	Ownership/ voting interest 31 December 2016	Ownership/ voting interest 31 December 2015
JOINT-STOCK COMPANY “CONSTRUCTION CORPORATION “REVIVAL OF SAINT-PETERSBURG”	Russia	100.00%	100.00%
OOO “LSR.Nedvizimost-SZ”	Russia	100.00%	100.00%
AO “LSR.Zelezobeton-SZ”	Russia	100.00%	100.00%
OOO “LSR.Stroitelstvo-SZ”	Russia	100.00%	100.00%
OAO “LSR.Krany-SZ”	Russia	100.00%	100.00%
AO “LSR.Nedvizimost-M”	Russia	100.00%	100.00%
LSR. Wall Materials Ltd (LSR. Wall Materials-NW Ltd)	Russia	100.00%	100.00%
LLC “AEROC”	Ukraine	100.00%	100.00%
AO “Industrial Leasing” (ZAO “Industrial Leasing”)	Russia	100.00%	100.00%
OOO “SPB GDC “YUNA”***	Russia	-	100.00%
OOO “MSR-Butovo”	Russia	100.00%	100.00%
Limited Liability Company Smolniy District	Russia	100.00%	100.00%
OOO “LSR. Bazovye-M”**	Russia	-	100.00%
LSR Europe GmbH	Germany	100.00%	100.00%
Saargemunder Straße Wohnbau GmbH & Co.KG***	Germany	-	70.00%
Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH	Germany	94.80%	94.80%
LSR - Vermögensverwaltungs GmbH	Germany	100.00%	85.00%
Oefelestraße Projektentwicklungsgesellschaft mbH & Co. KG	Germany	100.00%	85.00%
Projektgesellschaft Bayerstraße 79 mbH	Germany	80.00%	80.00%
Aignerstraße Projektentwicklungsgesellschaft mbH	Germany	100.00%	100.00%
Kirchenstraße Verwaltungs GmbH	Germany	100.00%	-
Kirchenstraße Projektentwicklungs GmbH & Co. KG	Germany	100.00%	-
JSC “A Plus Estate”	Russia	100.00%	100.00%
OAO “Stroicorporatciya”	Russia	100.00%	100.00%
OAO MTO “ARHPROEKT”*	Russia	25.00%	25.00%
OOO “Velikan - XXI vek”	Russia	100.00%	100.00%
OOO “LSR.Stenovye-M”****	Russia	-	100.00%
Lsr Group Ltd	Russia	100.00%	100.00%
LSR.Construction-Urals Ltd	Russia	100.00%	100.00%
ZAO “LSR.Nedvizimost-Ural”	Russia	100.00%	100.00%
PJSC “Uralscheben”	Russia	100.00%	100.00%
PJSC “Aeroc Obuchow”	Ukraine	97.36%	97.36%
OOO “LSR.Stroitelstvo-M”	Russia	100.00%	100.00%
OOO “LSR-Stroy”	Russia	100.00%	100.00%
Limited Liability Company “KUZZhBI”	Russia	100.00%	100.00%
ZAO “LSR-Bazovye”	Russia	100.00%	100.00%
OOO “Kamenskoe-3”	Russia	100.00%	100.00%
OOO “Oktyabrskaya, 42”****	Russia	-	100.00%
OOO “Landshaft”	Russia	100.00%	100.00%
OOO “Zagorodnaya, 9”	Russia	99.99%	99.99%
OOO “Royal Gardens Hotel”	Russia	100.00%	100.00%
AO “Tsementnyy Elevator”**	Russia	-	98.27%
“LSR. Object-M” Ltd	Russia	100.00%	100.00%

Entity	Country of incorporation	Ownership/ voting interest 31 December 2016	Ownership/ voting interest 31 December 2015
OOO “Ravan”****	Russia	-	100.00%
OOO “Oblastnye proekty”*	Russia	49.00%	100.00%
LLC “Sanatorium Dunes”*	Russia	49.00%	100.00%
OAO “Zavod ZhBI-6”	Russia	59.11%	59.11%
“LSR. Real Estate” Ltd	Russia	100.00%	100.00%
OOO “RAZVITIE”	Russia	50.00%	50.00%
OOO “LSR. Beton”	Russia	100.00%	-
OOO “ZhBI-1”	Russia	100.00%	-
OOO “Naziya”	Russia	100.00%	-

* The Group retained de facto control.

** Not significant subsidiaries disposed to third or related parties during the year ended 31 December 2016.

*** Not significant subsidiaries liquidated during the year ended 31 December 2016.

**** Subsidiaries merged to the Group companies during the year ended 31 December 2016.

31 Events subsequent to the reporting date

(a) Financing events

In February 2017 the Group subsidiaries entered into a loan agreements with Joint stock company “Bank “Saint Petersburg”. The total amount of revolving credit lines granted are limited to RUB 2,000 million. The loans are to be repaid no later 14 February 2020.

In February 2017 the Group subsidiaries entered into a loan agreements with Joint stock company Russian Agricultural Bank. The total amount of loans granted is limited to RUB 2,600 million. The loans are to be repaid no later 26 February 2019.

On the 2 February 2017 one of the Group subsidiaries repaid revolving credit line in Joint stock company “MBSP” with a nominal value of RUB 2,000 million.

(b) Operating events

There were no operating events subsequent to reporting date.

32 Supplementary disclosures

The following Group entities are included in Segments and Business unit disclosures:

Division	Segment	Business unit	Product	Entity
Building Materials	LSR. Building Materials	LSR. Basic Materials	Sand	OOO "Landshaft" OOO "Ravan" ZAO "LSR-Bazovye" Sand
			Crushed Granite	ZAO "LSR-Bazovye" Crushed Granite
		LSR. Ready-mix Concrete	Ready-mix Concrete	OOO "LSR. Bazovye-M" OOO "LSR. Beton"
		LSR. Wall Materials	Brick	LSR. Wall Materials Ltd (LSR. Wall Materials-SZ Ltd) OOO "LSR.Stenovye-M"
			Aerated Concrete	PJSC "Aeroc Obuchow" LLC "AEROC" LSR Stenovye (Aerated Concrete)
		LSR. Reinforced Concrete - North-West	Reinforced Concrete	AO "LSR.Zelezobeton-SZ" OOO "ZhBI-1" OOO "Naziya"
Real Estate and Construction	LSR. Construction	LSR. Construction - North-West	Construction	OOO "LSR.Stroitelstvo-SZ"
		LSR. Construction - Moscow	Construction	OOO "LSR.Stroitelstvo-M" OAO "Zavod ZhBI-6" AO "LSR.Nedvizimost-M"
		LSR. Construction - Ural	Construction	LSR.Construction-Urals Ltd Limited Liability Company "KUZZhBI" OOO "Kamenskoe-3"
	LSR. Project management	LSR. Project management	Project management	OOO "LSR-Stroy"
	LSR. Cranes	LSR. Cranes	Cranes	OAO "LSR.Krany-SZ"
	LSR. Real Estate	LSR. Real Estate - North-West	Real Estate	JOINT-STOCK COMPANY "CONSTRUCTION CORPORATION "REVIVAL OF SAINT-PETERSBURG" OOO "Oktyabrskaya, 42" Limited Liability Company Smolniy District OOO "SPB GDC "YUNA" AO "Tsementnyy Elevator" OAO "Stroicorporatciya" OOO "Royal Gardens Hotel" OOO "LSR.Nedvizimost-SZ"

Division	Segment	Business unit	Product	Entity
		LSR. Real Estate - Moscow	Real Estate	AO “LSR.Nedvizimost-M”
				“LSR. Object-M” Ltd
				OOO “MSR-Butovo”
				OOO “RAZVITIE”
				OOO “Velikan - XXI vek”
		LSR. Real Estate - Ural	Real Estate	ZAO “LSR.Nedvizimost-Ural”
		LSR - Europe	Real Estate	LSR Europe GmbH
				Max-Josephs-Hohe Immobilien und Projektentwicklungs GmbH
				LSR - Vermögensverwaltungs GmbH
				Oefelestraße Projektentwicklungsgesellschaft mbH & Co. KG
				Projektgesellschaft Bayerstraße 79 mbH
				Saargemunder Straße Wohnbau GmbH & Co.KG
				Kirchenstraße Verwaltungs GmbH
				Kirchenstraße Projektentwicklungs GmbH & Co. KG
				Aignerstraße Projektentwicklungsgesellschaft mbH
				“LSR. Real Estate” Ltd
Other	Other	Other	Other entities	AO “Industrial Leasing” (ZAO “Industrial leasing”)
				PJSC LSR Group
				OAO MTO “ARHPROEKT”
				Lsr Group Ltd
				JSC “A Plus Estate”
				OOO “Zagorodnaya, 9”
				OOO “Oblastnye proekty”
				LLC “Sanatorium Dunes”
				PJSC “Uralscheben”

Key financial performance indicators by business segment / business unit were as follows:

For the year ended 31 December 2016 mln RUB	Revenue from external customers	Inter-group revenue	Total revenue	Operating profit (excl. management fee)	Depreciation/ Amortisation	Capitalized interest recognized in cost of sales	Write off of change in fair value of the disposed asset	EBITDA*
Sand	1,943	323	**2,266**	637	131	-	-	**768**
Crushed Granite	2,522	686	**3,208**	569	248	-	-	**817**
Eliminations	-	-	**-**	-	-	-	-	**-**
LSR. Basic Materials	4,465	1,009	**5,474**	1,206	379	-	-	**1,585**
LSR. Ready-mix Concrete	2,702	219	**2,921**	(51)	153	-	-	**102**
Brick	3,157	10	**3,167**	260	801	-	-	**1,061**
Aerated Concrete	3,098	1	**3,099**	704	147	-	-	**851**
Eliminations	-	-	**-**	-	-	-	-	**-**
LSR. Wall Materials	6,255	11	**6,266**	964	948	-	-	**1,912**
LSR. Reinforced Concrete - North-West	3,230	113	**3,343**	451	279	-	-	**730**
Eliminations	-	(827)	**(827)**	(1)	-	-	-	**(1)**
Building Materials	**16,652**	**525**	**17,177**	**2,569**	**1,759**	**-**	**-**	**4,328**
LSR. Construction - North-West	474	17,080	**17,554**	628	407	(41)	-	**1,076**
LSR. Construction - Moscow	4,159	2,869	**7,028**	(182)	91	-	-	**(91)**
LSR. Construction - Ural	1,092	3,193	**4,285**	338	171	-	-	**509**
Eliminations	-	(57)	**(57)**	1	-	-	-	**1**
LSR. Construction	5,725	23,085	**28,810**	785	669	(41)	-	**1,495**
LSR. Project management	874	44	**918**	(19)	1	-	-	**(18)**
LSR. Cranes	1,105	205	**1,310**	129	177	-	-	**306**
LSR. Real Estate - North-West	42,412	-	**42,412**	12,792	87	(77)	(1,532)	**14,488**
LSR. Real Estate - Moscow	20,670	-	**20,670**	(124)	18	(644)	-	**538**
LSR. Real Estate - Ural	5,623	-	**5,623**	1,074	3	(13)	-	**1,090**
LSR - Europe	-	7	**7**	(81)	5	-	-	**(76)**
Eliminations	100	(2)	**98**	(85)	3	-	-	**(82)**
LSR. Real Estate	68,805	5	**68,810**	13,576	116	(734)	(1,532)	**15,958**
Eliminations	-	(23,275)	**(23,275)**	744	-	-	-	**744**
Real Estate Development and Construction	**76,509**	**64**	**76,573**	**15,215**	**963**	**(775)**	**(1,532)**	**18,485**
Other entities	228	-	**228**	-	238	-	-	**238**
Unallocated income and expenses	2,398	-	**2,398**	(3,531)	-	-	-	**(3,531)**
Transportation revenue	2,285	-	**2,285**	-	-	-	-	**-**
Eliminations	-	(589)	**(589)**	(222)	-	-	-	**(222)**
Consolidated	**98,072**	**-**	**98,072**	**14,031**	**2,960**	**(775)**	**(1,532)**	**19,298**

**EBITDA = Operating result + Depreciation/amortisation - Change in fair value of Investment property - Write off of change in fair value of the disposed asset - Impairment losses recognised during the reporting period - Capitalized interest recognized in cost of sales.*

For the year ended 31 December 2015 mln RUB	Revenue from external customers	Inter-group revenue	Total revenue	Operating profit (excl. management fee)	Depreciation/ Amortisation	Capitalized interest recognized in cost of sales	Write off of change in fair value of the disposed asset	EBITDA*
Sand	1,626	317	**1,943**	350	148	-	-	**498**
Crushed Granite	1,831	781	**2,612**	237	250	-	-	**487**
Eliminations	-	-	**-**	-	-	-	-	**-**
LSR. Basic Materials	3,457	1,098	**4,555**	587	398	-	-	**985**
LSR. Ready-mix Concrete	2,914	172	**3,086**	(192)	165	-	-	**(27)**
Brick	3,421	14	**3,435**	371	853	-	-	**1,224**
Aerated Concrete	2,897	7	**2,904**	643	138	-	-	**781**
Eliminations	-	(7)	**(7)**	-	-	-	-	**-**
LSR. Wall Materials	6,318	14	**6,332**	1,014	991	-	-	**2,005**
LSR. Reinforced Concrete - North-West	3,016	119	**3,135**	275	294	-	-	**569**
Eliminations	-	(866)	**(866)**	(8)	-	-	-	**(8)**
Building Materials	**15,705**	**537**	**16,242**	**1,676**	**1,848**	**-**	**-**	**3,524**
LSR. Construction - North-West	1,964	19,477	**21,441**	1,988	419	(82)	-	**2,489**
LSR. Construction - Moscow	2,356	4,778	**7,134**	(308)	94	-	-	**(214)**
LSR. Construction - Ural	681	3,716	**4,397**	311	176	-	-	**487**
Eliminations	-	(44)	**(44)**	(4)	-	-	-	**(4)**
LSR. Construction	5,001	27,927	**32,928**	1,987	689	(82)	-	**2,758**
LSR. Project management	787	120	**907**	10	-	-	-	**10**
LSR. Cranes	1,249	177	**1,426**	249	176	-	-	**425**
LSR. Real Estate - North-West	48,099	8	**48,107**	12,222	54	(29)	(1,682)	**13,987**
LSR. Real Estate - Moscow	5,844	-	**5,844**	(154)	7	(79)	-	**(68)**
LSR. Real Estate - Ural	6,597	-	**6,597**	1,413	3	-	-	**1,416**
LSR - Europe	482	185	**667**	(17)	3	-	-	**(14)**
Eliminations	1	(6)	**(5)**	98	-	-	-	**98**
LSR. Real Estate	61,023	187	**61,210**	13,562	67	(108)	(1,682)	**15,419**
Eliminations	-	(28,132)	**(28,132)**	(798)	-	-	-	**(798)**
Real Estate Development and Construction	**68,060**	**279**	**68,339**	**15,010**	**932**	**(190)**	**(1,682)**	**17,814**
Other entities	241	-	**241**	-	217	-	-	**217**
Unallocated income and expenses	373	-	**373**	(2,719)	-	-	-	**(2,719)**
Transportation revenue	2,451	-	**2,451**	-	-	-	-	**-**
Eliminations	-	(816)	**(816)**	(204)	-	-	-	**(204)**
Consolidated	**86,830**	**-**	**86,830**	**13,763**	**2,997**	**(190)**	**(1,682)**	**18,632**

**EBITDA = Operating result + Depreciation/amortisation - Change in fair value of Investment property - Write off of change in fair value of the disposed asset - Impairment losses recognised during the reporting period - Capitalized interest recognized in cost of sales.*

Net financial position**

mln RUB	31 December 2016	31 December 2015
LSR. Basic Materials	23	(165)
LSR. Ready-mix Concrete	(9)	(131)
LSR. Wall Materials	(7,081)	(7,515)
LSR. Reinforced Concrete - North-West	1,202	(85)
LSR. Building Materials	(5,865)	(7,896)
LSR. Construction - North-West	9,398	8,193
LSR. Construction - Moscow	(1,645)	(1,341)
LSR. Construction - Ural	1	3
LSR. Construction	7,754	6,855
LSR. Project management	145	162
LSR. Cranes	61	(6)
LSR. Real Estate - North-West	(12,012)	(8,874)
LSR. Real Estate - Moscow	(28,008)	(18,945)
LSR. Real Estate - Ural	-	-
LSR - Europe	(658)	(502)
LSR. Real Estate	(40,678)	(28,321)
Other entities	(17,112)	(3,812)
Consolidated	**(55,695)**	**(33,018)**

***NFP (Net financial position). Net financial position is debt of the Group allocated to Business Units. Calculated as Loans and Borrowings, including finance lease payables, minus Loans given and receivables from finance leasing to Group companies.*