Etalon Group

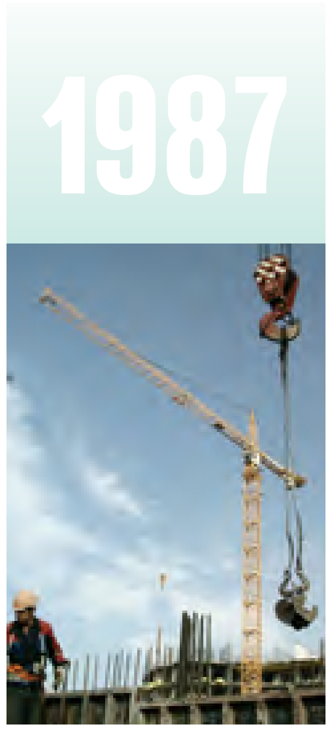
30 YEARS OF BUILDING THE FUTURE

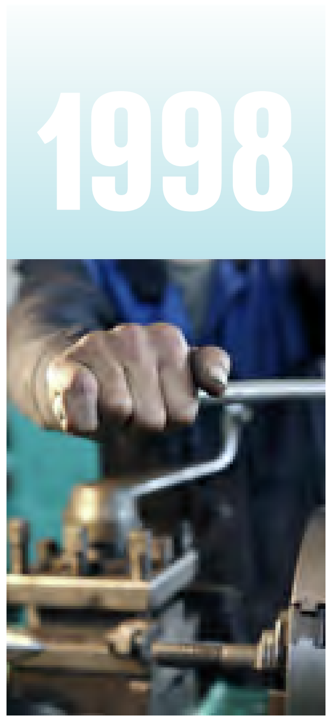
Annual report 2016

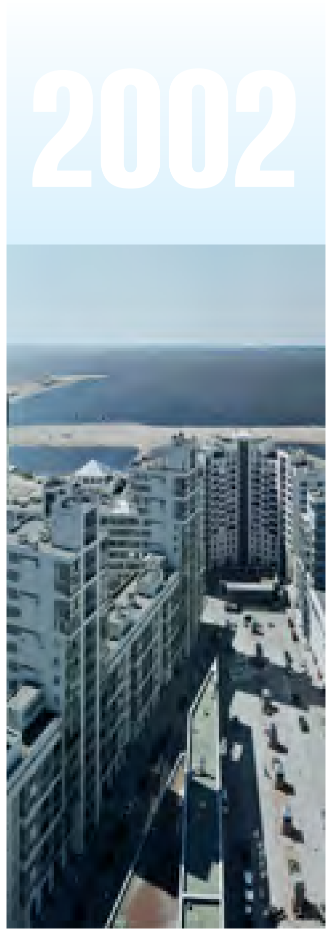
Contents

Introduction to Etalon Group

Etalon Group was founded in 1987 in what is now St Petersburg, and has become one of Russia's leading real estate development and construction companies. Now in our 30th year of operations, we have established a long track record for reliability and quality.







1987

The Soviet Ministry of Electronics forms the Leningrad Special Construction and Maintenance Directorate (LSCMD). Headed by Etalon Group's founding shareholder, Viacheslav Zarenkov, the LSCMD is a special unit within the Ministry primarily engaged in providing construction and maintenance services in the North-West region of Russia.

1991

The state-owned LSCMD is reorganised into a privately owned enterprise, LenSpetsSMU.

1996

The Company's first major real estate development project is commissioned. The Company begins expanding its operations through strategic acquisitions and establishing new subsidiaries.

1998

Investments into the construction materials production business are made to supply the needs of the Company's growing development volumes, with the acquisition of brick production facilities in the Leningrad region.

2002

The Company takes significant steps towards implementing a vertically integrated structure, including creation of an entity operating under the brand Etalon Group.

The first building of the Sea Facade project is delivered. Sea Facade is the first project in St Petersburg to undertake comprehensive development of a new area.

2005

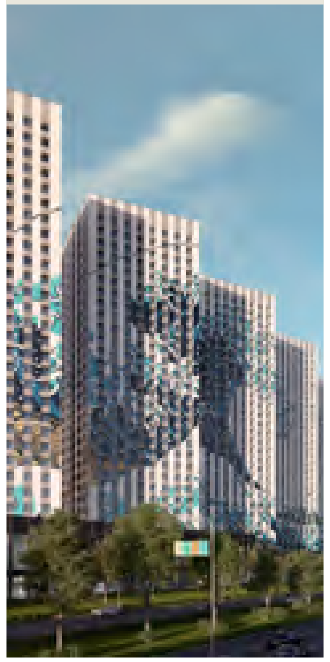
The Company's first mortgage programme is established in partnership with Rosbank.

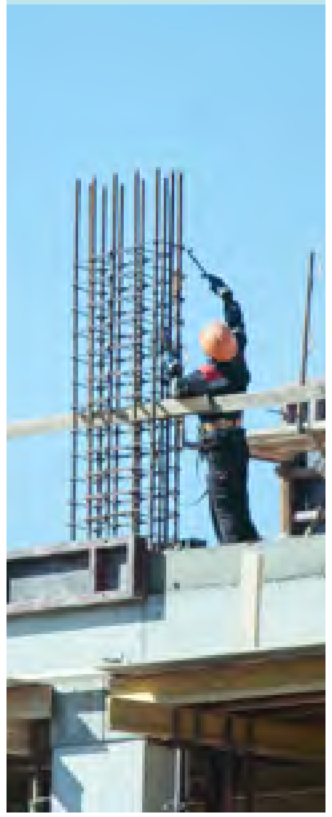
2006

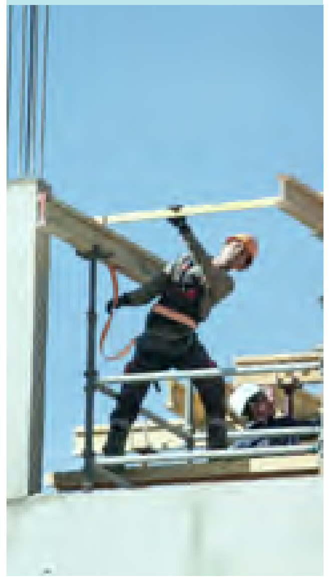
Etalon Group expands into the Moscow metropolitan area, establishing the real estate development company Etalon-Invest. Standard & Poor's gives LenSpetsSMU its first international credit rating (B/Stable).

2008

Baring Vostok becomes a cornerstone investor in Etalon Group by acquiring a 15% stake in the Company and providing expansion capital. Etalon Group enters the Moscow market with the Emerald Hills project.







2010

Etalon Group commences Etalon City, the second project in the Moscow metropolitan area.

2011

Etalon Group successfully completes its IPO, listing GDRs on the Main Market of the London Stock Exchange in April 2011. The IPO raises USD 575 million, making Etalon Group the first real estate company from Russia to go public since 2007.

2012

Etalon Group completes its post-IPO acquisition programme, acquiring four projects in the Moscow and St Petersburg metropolitan areas. This adds another 887 ths sqm to the landbank, securing Etalon's construction programme through 2017.

2013

Etalon Group delivers 468 ths sqm of NSA. The Board of Directors approves a dividend policy under which the Company aims to pay out between 15% and 30% of IFRS net profit.

2014

Etalon Group deliveries reach 580 ths sqm of NSA, a new record for the Company. Etalon Group completes the first stage of ExpoForum, one of the largest commercial construction projects in St Petersburg.

2015

Etalon Group continues to pay dividends and outperforms its sales guidance despite the challenging macroeconomic environment.

2016

Etalon Group's Board of Directors increases the Company's dividend payout range to 30% to 50% of IFRS net profit. New contract sales reach 496 ths sqm and RUB 47.4 bln, setting new records for annual sales in the Company's history. Construction of the flagship Galactica project in St Petersburg is started.

2017

Portfolio value as of 31.12.2016 increases 33% to USD 1.9 bln, with several new acquisitions planned for 2017 to ensure sufficient resources for further expansion. As we ramp up sales on projects launched in 2016 and prepare to start several new projects this year, we expect 2017 sales to grow by 20% year-on-year in RUB terms.

Our core business is building comfort housing for middle-class buyers in Russia's two most attractive residential markets: the Moscow metropolitan area and St Petersburg.

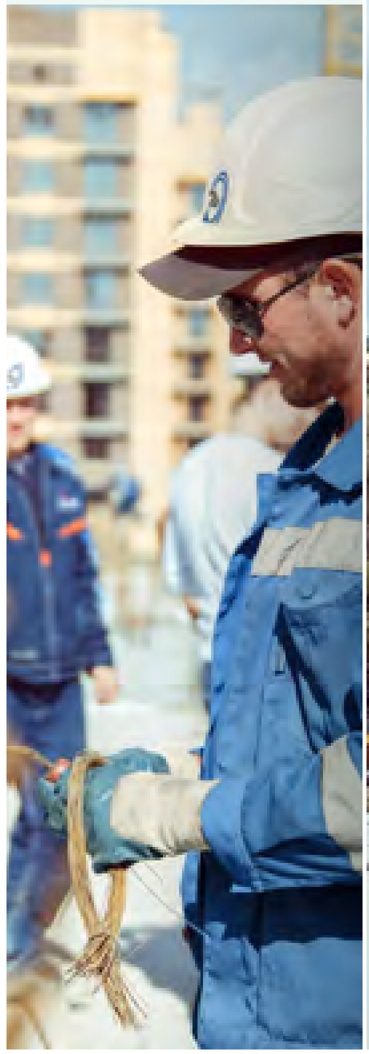
Delivering stable, sustainable growth

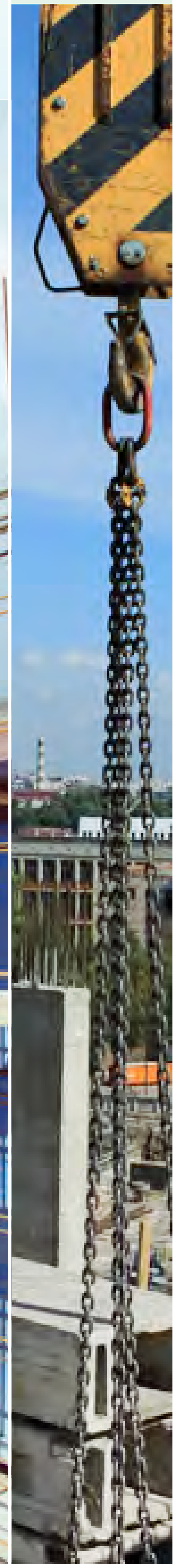
In the 5 years since our IPO, we have delivered significant, sustainable growth in our business while maintaining one of the strongest balance sheets in the sector.

	2010	2016	Change
New contract sales	RUB 14 bln	RUB 47 bln	22% CAGR 2010-2016
Diversification	10% of areas sold linked to MMA	43% of areas sold linked to MMA	Approaching target 50/50 balance
Deliveries	209 ths sqm	420 ths sqm	12% CAGR 2010-2016 despite macro slowdown
Strong balance sheet	0.6x Net debt/EBITDA	1.1x Net debt/EBITDA	Maintained strong balance sheet despite significant growth in business
Returns to shareholders	No dividends paid	30%-50% of net profit paid out semi-annually	Introduced dividend policy
Landbank value (according to JLL valuation)	RUB 43.2 bln[1]	RUB 115.8 bln	18% CAGR 2010-2016
Transparency and disclosure	Private company with minimal disclosure	Public company with award-winning investor relations practice	Implemented best practice in investor communications

Thanks to our flexible business model and our continued focus on the most stable segments of the residential real estate market, Etalon Group has navigated challenging macro headwinds and emerged ready to embark on a new phase of profitable growth.

In this report, we discuss Etalon Group's results for 2016, and focus on the new strategy that has been approved by the Board of Directors, which we believe will deliver shareholders a new kind of profitable and sustainable growth in the years ahead.





1 USD/RUB fx rate as of 31 December 2010 30.48.

1996

KOMENDANTSKIY PROSPEKT, 39

St Petersburg

10 THS SQM

NET SELLABLE AREA

13-14

STOREY RESIDENTIAL COMPLEX WITH BUILT-IN PREMISES

169

APARTMENTS

150

OVER 150 SHARE PARTICIPATION AGREEMENT BUYERS

Viacheslav Zarenkov

PRESIDENT AND CEO
OF ETALON GROUP

Our first apartment building in St Petersburg was built at the beginning of the 90s, at Komendantskiy Prospekt 39. Our debut was not profitable, but it gave us experience in residential construction, and enabled us to maintain and strengthen our team. It was at this time that our Company signed the first-ever share participation agreement in Russia. When we started building our first project, we worked with Bank Petrovskiy as a partner. They really helped us with the organisation of the share participation agreement system by finding buyers and collecting and paying out money. Later, we created our own share participation agreement department and started selling apartments this way on our own.

Komendantskiy Prospekt, 39

The house at Komendantskiy Prospekt was Etalon Group's first development project. It is situated in Primorsky, one of the most prestigious regions of St Petersburg, which is in a green area just 10-minutes' walk from the Yuntolovskiy nature park. The 13- to 14-storey residential building houses 169 apartments, as well as commercial and office facilities. Nearby infrastructure includes shops, hospitals, schools, a kindergarten and a guarded car park.

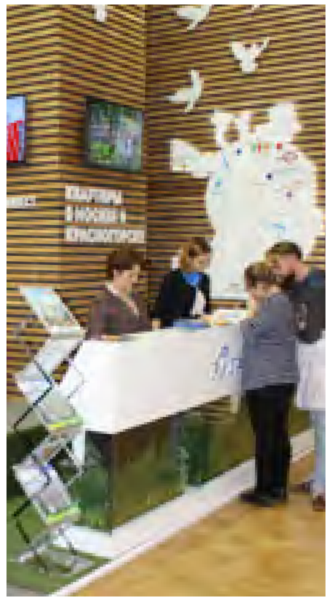
2016

1996

1989

2016 highlights

FIRST QUARTER



- Etalon launches sales for the second phase of its Etalon City project and at its Summer Garden project in Moscow.
- 1Q 2016 operating results: new sales increase to RUB 12.9 billion and 135 ths sqm, up by 238% and 187% year-on-year, respectively.

SECOND QUARTER

- The Board of Directors recommends a final dividend for the year ended 31 December 2015 that represents 29% of the Company's consolidated net profit for 2H 2015, and decides to increase the target dividend payout range to 30%-50% of consolidated IFRS net income.
- Etalon acquires land plots in the Mytishchinskiy district of the Moscow region and in the Moskovskiy district of St Petersburg.
- Etalon Group's subsidiary LenSpetsSMU places exchange-traded bonds in the amount of RUB 5 billion with a five-year term. The coupon rate is set at 11.85%.
- 1H 2016 results: new sales increase by 165% year-on-year to 236 ths sqm, and by 192% year-on-year to RUB 23.1 billion. Consolidated revenue for the first half of 2016 is RUB 19.7 billion.

THIRD QUARTER

- Etalon acquires and launches for sales its project on Obruchevykh Street in the Kalininskiy district of St Petersburg.
- Etalon Group Founder Viacheslav Zarenkov returns to the role of CEO.
- 3Q 2016 operating results: new sales amount to 107 ths sqm and RUB 10.6 billion.

FOURTH QUARTER

- Etalon launches sales for Galactica, the Company's largest project in St Petersburg.
- Etalon acquires three new projects in Moscow and two projects in St Petersburg with a total planned NSA of 554 ths sqm.
- Etalon completes its Tsar's Capital project in the Central district of St Petersburg.
- The Board of Directors reviews the Company's strategic plan for 2017-2021 and approves its key principles.
- 2016 results: new sales grow 29% and 35% year-on-year to 496 ths sqm and RUB 47.4 billion, respectively. Etalon delivers a total of 420 ths sqm. Consolidated revenue amounts to RUB 49 billion.

Operating highlights

New contract sales
RUB **47,443** mln
2016

New contract sales
496 ths sqm
2016

Cash collections
RUB **39,723** mln
2016

Number of new contracts
9,590
2016

Financial highlights

Revenue
RUB **49,022** mln
2016

EBITDA
RUB **7,301** mln
2016

Gross profit
RUB **12,209** mln
2016

Net income
RUB **4,902** mln
2016

Strategic highlights

Portfolio diversified:

In 2016, Etalon Group acquired eight new projects with a total NSA of 682 ths sqm in St Petersburg and the Moscow metropolitan area, and also launched four new projects, including the landmark Summer Garden project in Moscow and the Galactica project in St Petersburg.

Share of MMA sales increased:

Share of sales in the Moscow metropolitan area is approaching the target level, reaching 43% in 2016, up from 40% in 2015.

Market share increased:

Etalon Group increased its share in total supply in the Moscow metropolitan area and St Petersburg residential real estate market from 4.3% to 7.0%.[1]

Strong financial position maintained:

Despite actively acquiring new projects and paying out dividends, Etalon Group kept its net debt levels stable year-on-year, at RUB 7.8 billion, and made tangible progress on further reducing its average cost of borrowing.

1 The Moscow metropolitan area refers to Moscow, New Moscow and the Moscow region within 30 km of the Moscow Ring Road. Data based on Knight Frank and IRN research and Company estimates.

Statement by the President and CEO of Etalon Group

As we near the 30th anniversary of Etalon Group, the Company I founded back in 1987, it is time to reflect on what we have achieved in the past three decades. We have focused on building homes in Russia since the start. As of today, we have commissioned over 5.4 million sqm of space and earned a reputation as a reliable and high-quality residential real estate developer in St Petersburg and Moscow. In 2016, we celebrated five years as a public company, with global depositary receipts listed on the London Stock Exchange, we have introduced and adhered to a dividend policy that now aims to pay out between 30% and 50% of net profit, and we are continuously working hard to earn and maintain the trust and respect of our investors.

496 ths sqm

RECORD-SETTING NEW SALES PERFORMANCE IN 2016

8 new projects

ETALON GROUP ACQUIRED EIGHT NEW RESIDENTIAL REAL ESTATE PROJECTS IN ST PETERSBURG AND THE MOSCOW METROPOLITAN AREA WITH A TOTAL NSA OF 682 THS SQM.

2016 – record operating results

We launched four new projects during 2016, including landmark projects in both Moscow (Summer Garden) and St Petersburg (Galactica). This continued diversification of our sales portfolio supported record-setting new sales performance in 2016, which reached 496 ths sqm and RUB 47.4 billion, beating even our upgraded and very ambitious guidance for new contract sales for the year. Deliveries were exactly in line with our construction programme, with 420 ths sqm of NSA, and we transferred 332 ths sqm to customers during 2016.

One area of focus during 2016 was to achieve successful inventory optimisation: we sold nearly 50% of completed apartments held as of the end of 2015, contracting 155 ths sqm of the 321 ths sqm of the residential inventory on our books as of 31 December 2015. By the end of 2016, even taking into account additions from new deliveries in the last quarter of the year, the total inventory of completed apartments declined to 244 ths sqm.

Etalon Group acquired eight new residential real estate projects in St Petersburg and the Moscow metropolitan area with a total NSA of 682 ths sqm. This, combined with the stabilisation of the Russian macro environment and progress made during the year on existing projects, contributed to a 33% year-on-year increase in the open market value of Etalon Group's portfolio in 2016 to USD 1.9 billion.

Financial performance

Etalon Group proved its ability to maintain a strong and profitable business during 2016, and especially in the second half of the year, even as the residential real estate market is still only beginning to show the first signs of recovery. Despite the challenging macro situation in recent years, we delivered significant year-on-year growth in the second half of 2016, with revenue up 21%, residential gross margin returning to its normal level of 39%. This, combined with tight costs discipline, helped bring our EBITDA margin up to 19% during the second half, which is the highest level seen in several years.

Looking at the full-year results, revenue grew by 16% year-on-year to RUB 49 billion, and we had positive operating cash flow, less interest paid, of RUB 4,040 million. We maintained a strong balance sheet as well, with a net debt/EBITDA ratio of 1.1 as of 31 December 2016. I am pleased with this performance, especially taking into account the fact that Etalon Group made eight acquisitions and launched four projects, in Moscow and St Petersburg, during the year.

Stabilising market environment

Some elements of the challenging macro environment that our sector faced in 2015 continued to affect the residential real estate market in 2016. At the same time, there were positive developments as well, and our operating performance is perhaps the best evidence of that.

With slowing inflation and less volatility in the RUB exchange rate, we see signs of consumer confidence returning. This was supported by a government programme, introduced in 2015, to subsidise mortgage rates at 12%. Since then, we have seen market rates drop even lower, nearing single-digit territory.

As a major player with a strong balance sheet, we have been able to turn this challenging situation into opportunities. First, we continued to deliver all of our projects on time and in accordance with plans, which has further strengthened our reputation as one of the most reliable builders in the market. Second, we have been able to acquire a number of new projects, while continuing to pay our dividends and maintaining low net debt levels.

Strategic review and opportunities for growth

Etalon Group continued to deliver on its strategic priorities throughout 2016, increasing its number of projects in the MMA to achieve a nearly 50/50 split in our portfolio between the two cities. We continued to focus on the comfort-class segment in Russia's two key economic regions, and maintained our conservative approach to balance sheet management.

At the same time, management and the Board of Directors undertook a strategic review during 2016 in order to identify new opportunities for growth that will deliver value for our stakeholders in the years ahead. This new strategy is discussed in more detail on pages 32-35.

New motivation system

As part of the new strategy, the management team will now have a new motivation policy aimed at encouraging breakthrough developments, shifting the focus of KPIs from operational to financial performance, further aligning the interests of management and shareholders.

In the years ahead, Etalon Group's GDR price and net profit will be two of the most important KPIs for the management team. Remuneration will be split between cash payments and allocations of GDRs with a set vesting period. I am confident that this new incentive programme will help keep management's focus on building sustainable value for shareholders as we launch into a new stage of strategic development.

RUB 49 billion

IN 2016, REVENUE GREW BY 16% YEAR-ON-YEAR TO RUB 49 BILLION

Outlook

We are entering a new phase of development in 2017, with internal transformations already under way, and a promising outlook for growth in our key geographies of St Petersburg and the MMA. Our target for the year ahead is to increase new sales by over 20% year-on-year, with the help of new projects launched at the end of 2016 and throughout the year ahead. We will also focus on further sell-down of inventory, which will support higher sales volumes even as deliveries remain at or around 2016 levels.

With a streamlined company structure, the right incentives in place to continue doing what we do best, and strong market fundamentals, Etalon Group is poised to deliver significant value to its customers and shareholders in the years ahead.

Viacheslav Zarenkov

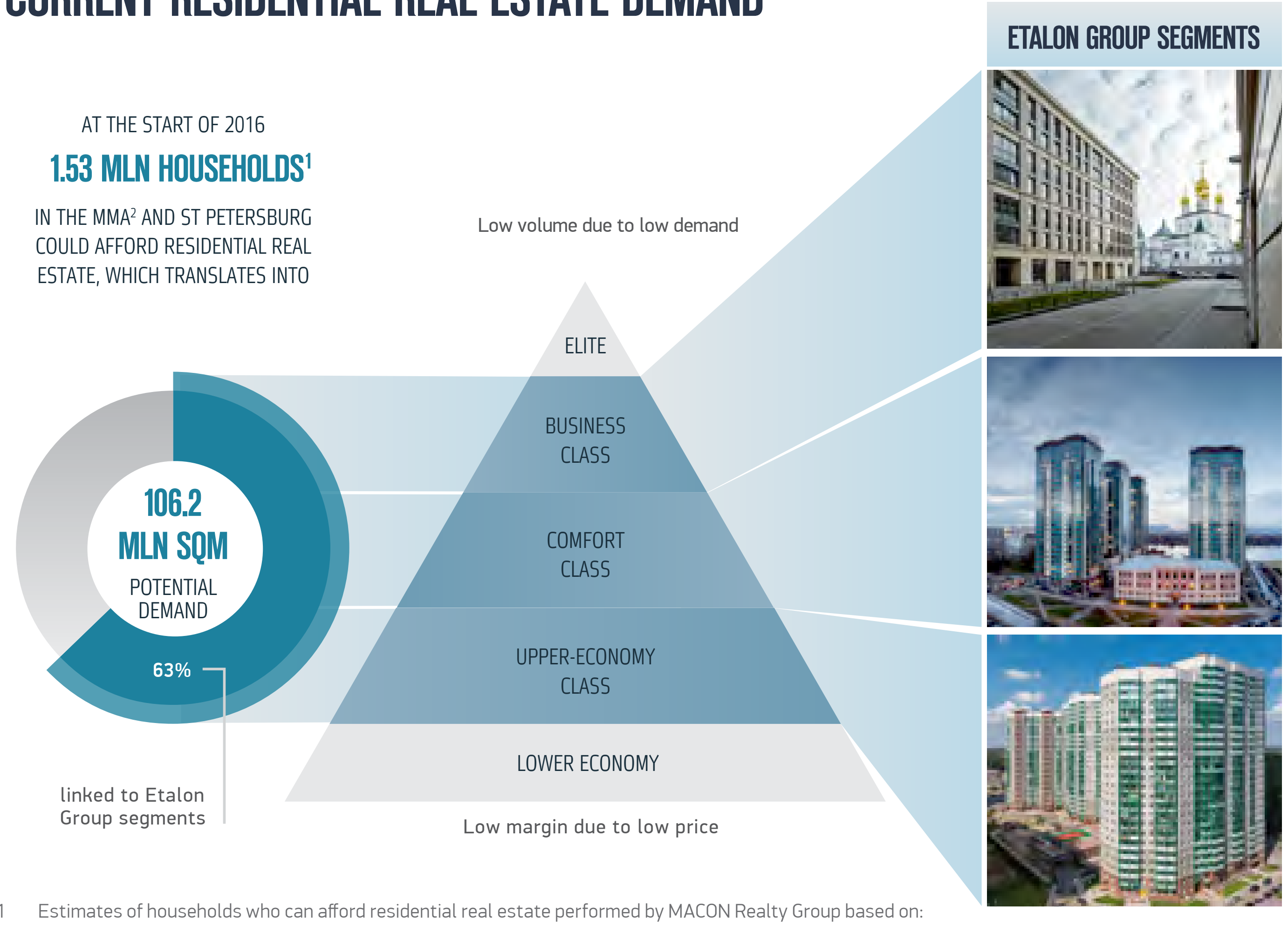
President and CEO of Etalon Group

Market review

Our updated strategy maintains our focus on the St Petersburg and MMA markets for the medium term, as we believe these two geographies hold significant potential for growth.

A combination of Russian macro factors and local supply-demand developments mean that the upper-economy, comfort-class, and business-class segments in which we operate should see robust, sustainable growth for years to come. We are already among the leading players in both of these geographies, with a strong reputation as a reliable developer of high-quality housing. Etalon Group's strategic aim is to leverage its strong position to deliver profitable and rapid growth in the years ahead.

CURRENT RESIDENTIAL REAL ESTATE DEMAND



1 Estimates of households who can afford residential real estate performed by MACON Realty Group based on: Rosstat income distribution data, households consumption patterns, GDP growth and inflation; current prices for residential real estate; mortgage conditions; IMF and MinEc forecasts.

2 Moscow, New Moscow and the Moscow region within 30 km of the Moscow Ring Road.

Demand

There are four key factors that will drive demand in the MMA and St Petersburg residential real estate markets: urbanisation, better working conditions, access to financing and improving standards of living.

Urbanisation

BY 2031, THE POPULATIONS OF MOSCOW AND ST PETERSBURG ARE EXPECTED TO GROW BY 17% AND 20%, RESPECTIVELY[3].

Historically, Moscow and St Petersburg have been Russia's two main centres of economic activity. This has attracted migrants from other parts of the country and helped these cities grow faster than the Russian average, including in terms of the employed population.

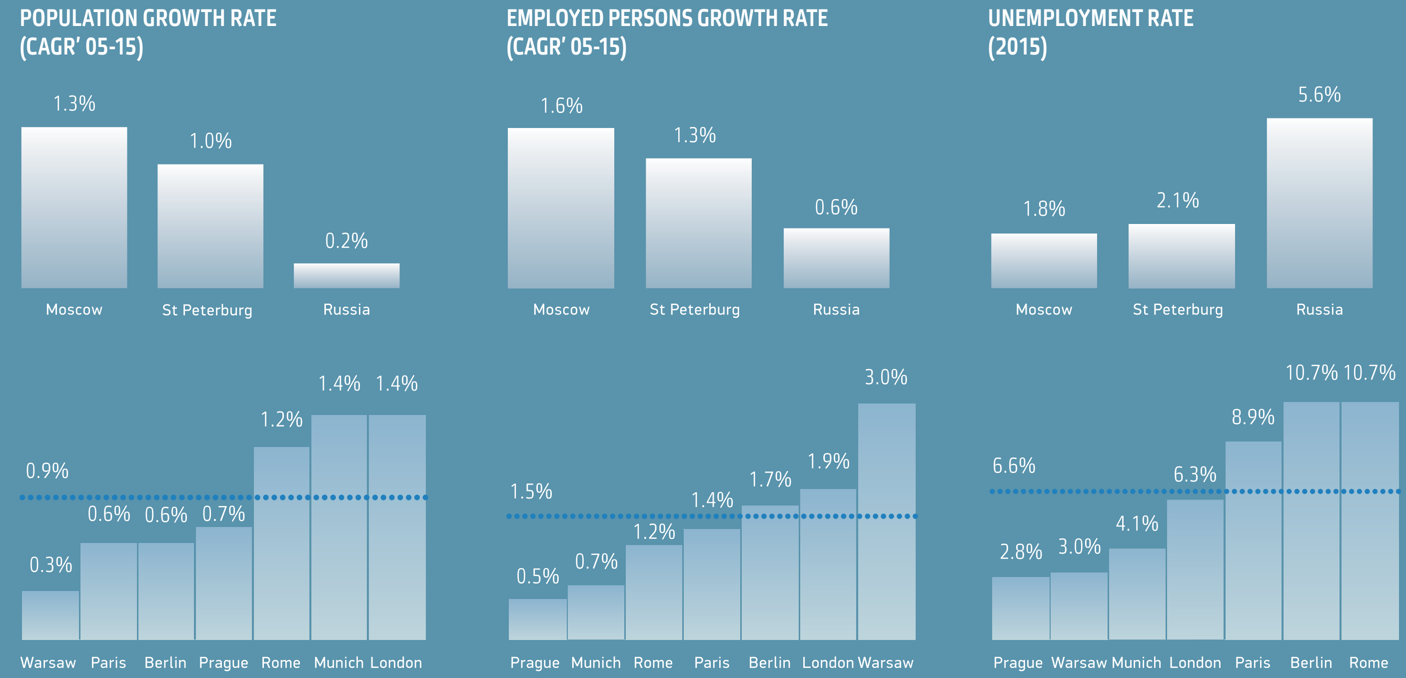
Population growth in Moscow and St Petersburg is significantly higher than the Russian average and above that of many major European cities as well.

Moreover, the number of employed people has expanded at a higher rate than the overall population.

This has helped keep unemployment rates in Russia's two largest cities significantly below the national average and well below the levels seen in other European capitals.

GROWING POPULATION, WITH EVEN HIGHER GROWTH RATE FOR EMPLOYED PERSONS

UNEMPLOYMENT STILL LOW



Source: Rosstat, Petrostat, Mosstat, Eurostat, ONS, Greater London Authority, INSEE, CSO, ITSTAT, DESTATIS, Statistik Berlin Brandenburg

3 Source: Rosstat, Petrostat, Mosstat.

Better working conditions

EVEN AS THE NUMBER OF PEOPLE IN OUR TWO CORE MARKETS INCREASES RAPIDLY, UNEMPLOYMENT WILL REMAIN WELL BELOW THE AVERAGES SEEN IN RUSSIA AND IN OTHER MAJOR EUROPEAN CITIES.

SALARIES IN MOSCOW AND ST PETERSBURG ARE ALSO HIGHER AND ARE GROWING FASTER THAN IN THE REST OF RUSSIA.

Our core geographies enjoy robust employment levels, which are well above the Russian average and above those in other major European cities. This indicates the potential for stronger, more sustainable demand compared to other markets.

Among Russian population centres, Moscow and St Petersburg also enjoy higher average monthly salaries, with RUB 64 ths in Moscow and of RUB 46 ths in St Petersburg, while other regions of Russia average just RUB 34 ths.

Affordability and access to financing

WITH MORTGAGE RATES FALLING AND EXPECTED TO REACH THE SINGLE-DIGIT RANGE IN 2017, MORE AND MORE RUSSIANS WILL BE ABLE TO AFFORD FINANCING FOR THE PURCHASE OF NEW REAL ESTATE.

Housing in Russia has become significantly more affordable than in the past, reaching levels that are near the EU average, while the availability of housing stock still lags far behind.

Increasingly accessible mortgage financing will be one of the keys to the further development of the Russian residential housing market, and the trend is positive: mortgage rates decreased by 2.5 p.p. to 12.5% in 2016, and are expected to reach the single-digit range in 2017.

Mortgage issuance as a % of GDP	30 September 2016
Russia	5%
Romania	8%
Hungary	13%
Czech Republic	20%
Poland	21%
France	41%
Germany	43%
United Kingdom	59%

Source: EMF- HYPOSTAT, Eurostat

As mortgages become increasingly accessible, this is likely to bring new buyers to the market (not just enable existing borrowers to refinance at lower rates). Russia still lags significantly behind other European countries in terms of the volume of mortgages issued as a portion of the overall economy. As of the end of 3Q 2016, mortgages in Russia represented only 5% of the country's GDP, whereas in developed economies like France, Germany and the UK, mortgages amounted to 41%, 43% and 59% of GDP, respectively.

Access to mortgage financing in our core markets is enhanced by the number of banks offering mortgage products compared to other regions of Russia: 96 banks in St Petersburg and 371 in Moscow compared to an average of 42 banks operating in other regional centres across Russia.

The potential for mortgage-funded growth in the housing market is further enhanced by the fact that Russians maintain a relatively high level of savings in bank deposits. As interest rates fall, however, bank deposits will become less attractive at the same time as mortgages start to become more affordable. Russian bank deposits held by individuals, which amounted to RUB 11.7 trillion as of 31 December 2012, increased by 57% to RUB 18.5 trillion as of 31 December 2016. However, interest rates for savings accounts (on a one-year term deposit) have declined in the last two years from an average of 13.11% in January 2015 to just 7.57% in December 2016[4]. These two parallel dynamics are likely to provide further stimulus for potential buyers of residential real estate.

4 CBR data.

Improving standards of living

MOSCOW AND ST PETERSBURG ATTRACT SIGNIFICANT INTERNAL MIGRATION, WITH HIGH-QUALITY HEALTH, EDUCATION AND CULTURAL INFRASTRUCTURE.

Moscow and St Petersburg have well-developed leisure infrastructure, with more than 300 museums and 100 theatres in the two cities. They are also home to 41 of Russia's top 100 universities, and residents have access to high-quality medical services. This has helped to support an increase in the average lifespan to 74.4 and 76.8 years in St Petersburg and Moscow, respectively, compared to the Russian average of 72.3 years.

HEALTHCARE

MOSCOW

- Over **877** medical institutions, including 240 inpatient facilities
- Over 83,000 beds.

ST PETERSBURG

- Over **500** medical institutions, including 113 inpatient facilities
- Over 45,000 beds

EDUCATION

MOSCOW

- Over **1,700** educational facilities, including:
  - 834 schools
  - 120 universities

ST PETERSBURG

- Over **2,000** educational facilities, including:
  - 735 schools
  - 36 universities

CULTURE

MOSCOW

- Over **1,800** organisations active in the cultural sphere, including:
  - 67 museums
  - 88 theatres

ST PETERSBURG

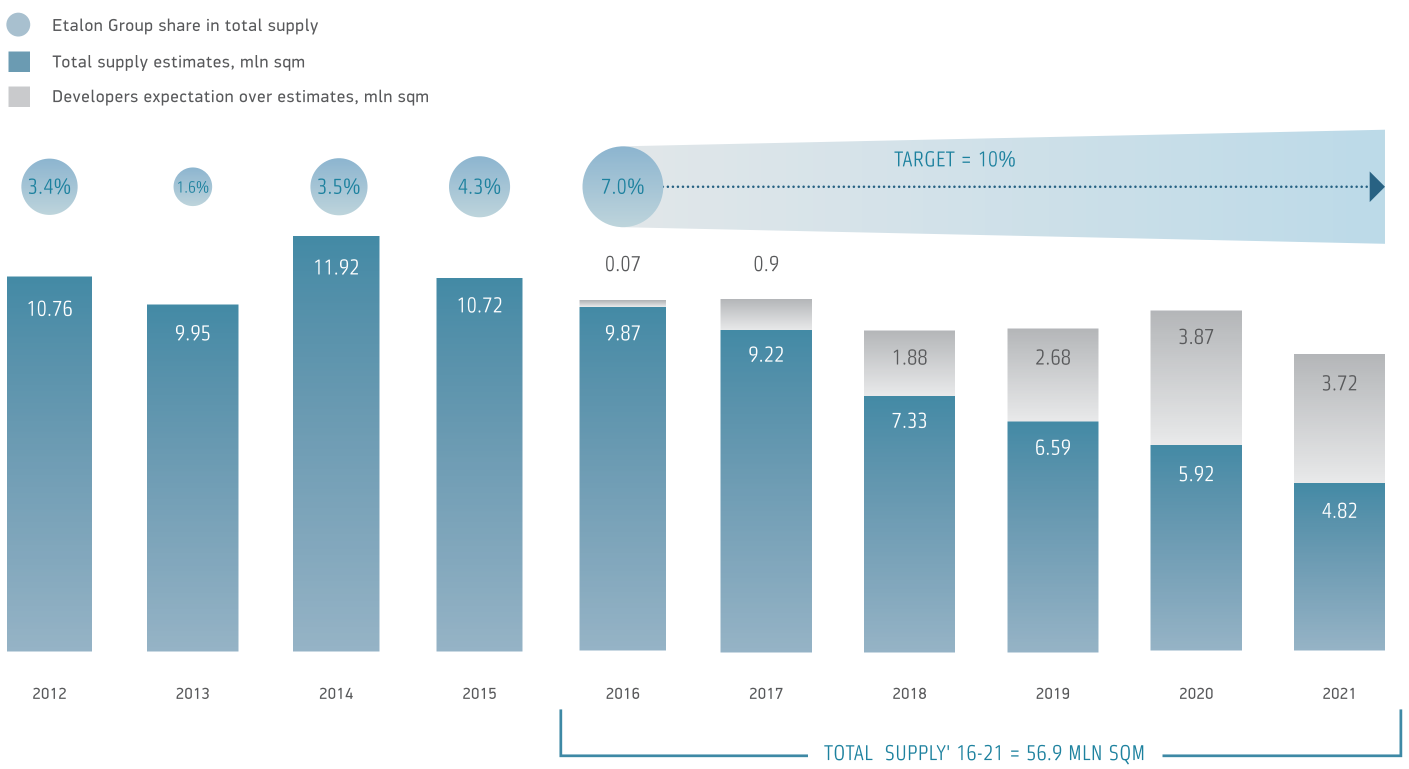
- Over **1,000** organisations active in the cultural sphere, including:
  - 201 museums
  - 78 theatres

Supply

The Russian real estate development market has historically been highly fragmented, with only a small number of larger players controlling significant shares of the market.

This is changing, though, as the biggest players have managed to consolidate the market, supported by many smaller players struggling to survive economic cycles, as well as regulatory changes that favour the market leaders. Over the years, the largest and most reliable players have also earned better reputations among customers, and they have developed internal know-how that gives them advantages over other players. As of the end of 2016, Etalon Group's shares in the Moscow and St Petersburg markets were 2.1% and 12.4%[5], respectively, and we aim to increase these figures to 7% and 15%, respectively, by 2021.

Both the Moscow and St Petersburg markets remain undersupplied, with housing stock per capita significantly below European averages (see the chart on page 19). Based on current estimates, there is no risk of this supply deficit being overcome in the medium term, giving Etalon Group an excellent opportunity to leverage its strong financial position and outstanding reputation to increase its market share in St Petersburg and the MMA.



5 Source: research by Knight Frank and IRN.

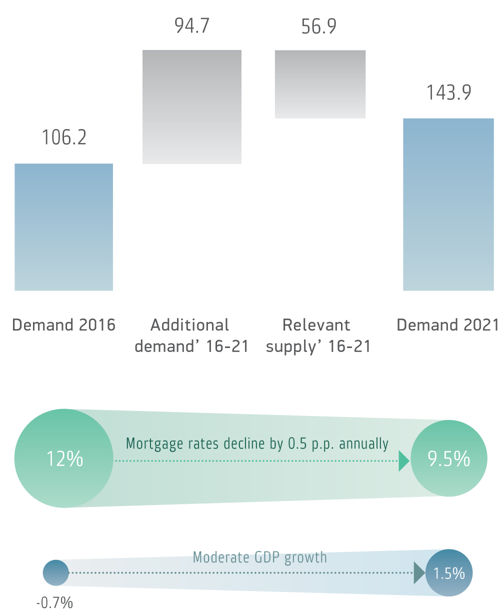
Significant potential for years to come

Looking ahead to 2021 and beyond, there is a strong case for new demand to develop faster than supply in our key markets.

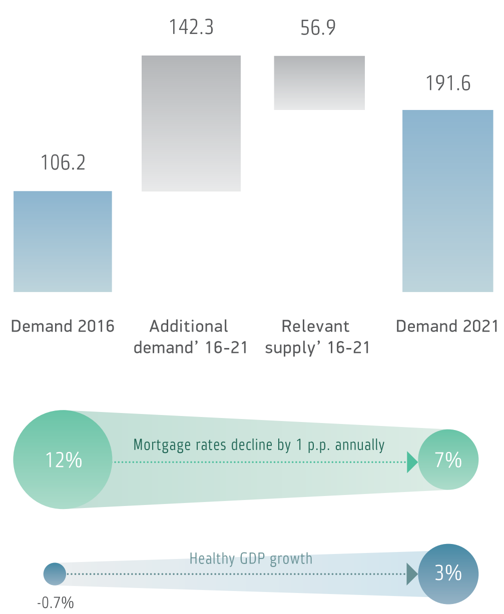
Even in a conservative base case, assuming GDP growth of just 1.5% and mortgage rates declining to just 9.5% by 2021, we forecast new demand of 94.7 million sqm, compared to new supply of just 56.9 million sqm.

Using more optimistic forecasts, a 'base+' case foresees even more significant demand growth of 142.3 million sqm by 2021, suggesting even more significant opportunities for growth.

BASE CASE



BASE+ CASE



Etalon Group prides itself on its 30 years of experience in the residential real estate market in St Petersburg and its recent expansion into the Moscow metropolitan area. We have built an excellent reputation among our customers and other stakeholders for reliability and quality. Going forward, we aim to leverage the significant opportunities that these two markets hold to deliver value for the residents of Russia's two capitals and for our shareholders.

NO RISK

NO OVERSUPPLY RISK IN MEDIUM TERM

GROWING DEMAND

GROWTH IN NEW DEMAND SUPPORTED BY DECLINING MORTGAGE RATES

49% VS 77%

THE SHARE OF ETALON GROUP'S TARGET SEGMENTS IN NEW SUPPLY IS 49%, WHEREAS IT AMOUNTS TO 77% IN DEMAND GROWTH

2005

INVIGORATING SPRING

St Petersburg

101 THS SQM

NET SELLABLE AREA

12-25

STOREY RESIDENTIAL COMPLEX
WITH BUILT-IN PREMISES

1,159

APARTMENTS

BOILER HOUSE

FIRST IMPLEMENTATION
OF AN UNDERGROUND BOILER HOUSE

Aleksey Ryzhkin

OPERATIONS DIRECTOR
OF LENSPECSMU-COMFORT LLC

Etalon Group was, I believe, the first company in St Petersburg to use ventilated facades. Our first building that used this technology was called Invigorating Spring, located at 99 Engels Avenue. Naturally, we faced some challenges when learning to use this new technology, but soon everything was running smoothly. We went on to set up our own production lines for facade components, and we started using this technology for all our projects. This is how, step by step, we became industry leaders, gaining authority in the eyes of our customers and colleagues.

Invigorating Spring

Invigorating Spring is situated in one of the greenest regions of St Petersburg, right next to the Sosnovka nature park. Etalon Group, in cooperation with the Yuri Mityurev architectural studio, tried to preserve the features of the local landscape. Landscaping was done around the spring-fed lake in the centre of the complex. Its granite embankment is surrounded by comfortable residential buildings of varying heights. The residents of the complex have their own recreational area, underground parking, shops, cafes and beauty salons.

2005

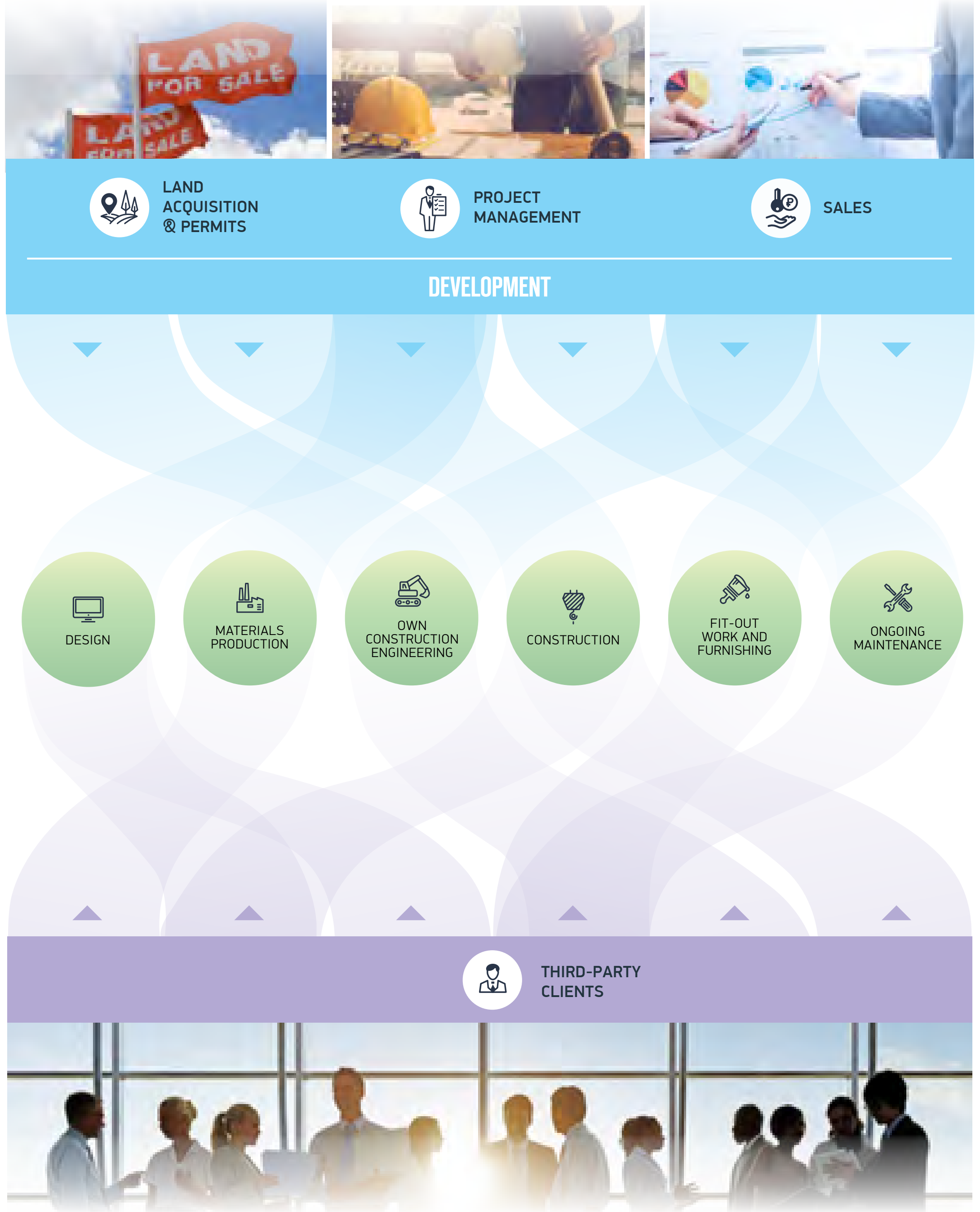
2003

2001

Our evolving business model

Vertical integration and flexibility are the two core principles of our business model, and they have helped Etalon Group achieve sustainable, solid growth even in challenging times.

This model provided for independence from external suppliers of key construction materials, while enabling us to effectively recycle capital collected through our sales network. At the same time, Etalon Group maintained a high degree of flexibility, and was able to quickly ramp up construction volumes as and when market conditions require. In addition to our homebuilding activities, the superior quality of Etalon's offering meant that the Group has become a trusted industrial construction partner for clients that include the Hermitage Museum, General Motors, Toyota, Ford, Bosch, Siemens, Nissan, Suzuki and Gazprom.



Adapting to a changing market

Under our new strategy to 2021, we aim to adapt our business model to create more streamlined operations, with the potential to increase income and decrease costs. We aim to establish our construction and maintenance operations as a separate division of the Company that will compete alongside external contractors for the projects we build. This new structure will help to eliminate duplicate functions, while also increasing the efficiency of our construction operations by introducing competitive bidding for our own projects.

New business model

Geographic focus

St Petersburg and the Moscow metropolitan area remain our core geographies, and we see significant potential for further growth in these markets. The MMA and SPMA account for 18% of Russia's population[1] and 24% of the country's GDP[2].

Page 18

For more information about our key markets, see the 'Market review' section on pages 18–23.

These two regions represent the principal centres of Russia's economic and political activity, making them both more stable through challenging economic times and the source of significant potential demand when economic conditions improve.

We aim to achieve significant growth in these markets by acting as a market consolidator and continuing to grow market share. With a focus on high-quality products that are at an advanced stage of readiness to launch construction, we will move quickly to address the significant deficit in housing that remains in St Petersburg and the MMA.

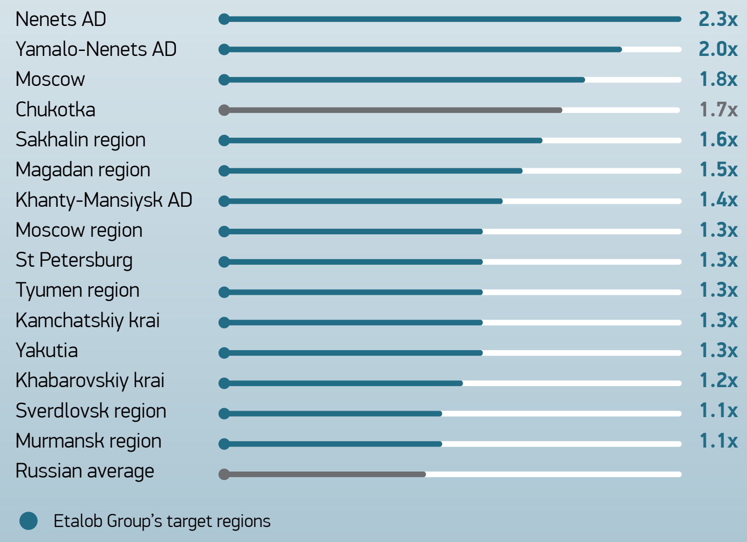
Regional sales network

Regional buyers are one of our key sources of stable demand for the apartments we build in St Petersburg and the Moscow metropolitan area. The MMA and St Petersburg are Russia's two main centres of internal migration, and Etalon Group's regional sales force focuses on regions with the highest per capita income.

The Group's apartments are sold in 14 of Russia's 15 wealthiest regions.

1 Preliminary estimates by Rosstat as of 1 January 2017.
2 Preliminary estimates for 2016 GDP and GRP by Rosstat and forecasts for the social and economic development of Moscow, the Moscow region, St Petersburg and the Leningrad region for 2017-2019.

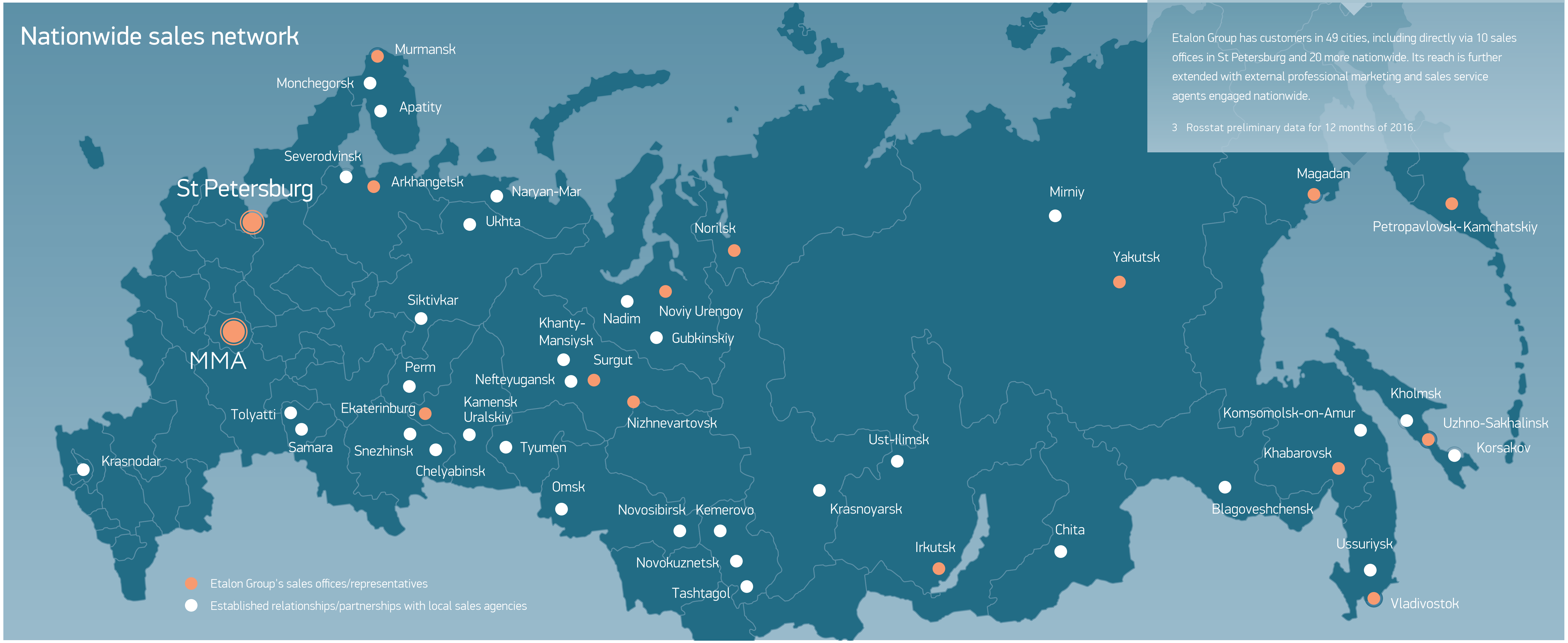
Regional per capita income compared to Russia's national average[3]



Etalon Group has customers in 49 cities, including directly via 10 sales offices in St Petersburg and 20 more nationwide. Its reach is further extended with external professional marketing and sales service agents engaged nationwide.

3 Rosstat preliminary data for 12 months of 2016.

Nationwide sales network



Strategic review

Throughout Etalon Group's nearly 30-year history, the Company's core strategic principles have helped it to deliver sustainable growth while maintaining financial stability.

A new strategy for a new stage of growth

The Company has grown faster than the market since its IPO in 2011, with a five-year CAGR for deliveries in square metres of 8%, versus a total market CAGR for St Petersburg and the MMA of just 3.3% during the same period.[1] We maintained a strong reputation as a reliable partner and developer, while building a stable and sustainable business.

Following a detailed strategic review undertaken by the Board of Directors and management during 2016, the Company has developed a new strategy to 2021. Etalon Group aims to capture the significant growth opportunities available in its current home markets, further improve financial stability, restructure its business model to improve governance and profitability, deliver significant value to shareholders and lay the groundwork for expansion into new regions in the years ahead.

LEADERSHIP IN THE ST PETERSBURG AND MOSCOW RESIDENTIAL MARKETS:

further growth in core markets by leveraging our reputation as a reliable developer

Short-term targets

- Continued new contract sales growth with an average annual growth rate of 20% until target market share is reached
- Accelerate sales launches in accordance with growth in contract sales, schedule launches of acquired projects within 18 months after acquisition
- Brand enhancement: launch a new, unified brand, implement marketing and advertising, communications strategy
- Continued expansion of regional sales network with a focus on Russia's wealthiest regions
- Acquisition of a high-quality projects for the landbank, with a focus on projects ready to launch in 18 months or less after acquisition

Long-term targets

- Grow market share in new sales by 2021[2]:
  - St Petersburg: 15% (from 12.4% today);
  - Moscow: 7% (from 2.1%)
- Continue to grow construction volumes in Russia's most attractive residential real estate markets in line with sales growth

FINANCIAL STABILITY:

commitment to maintaining a strong liquidity position

Short-term targets

- Further inventory release, positive operating cash flow
- Aim to cover all construction costs with cash collections from pre-sales by the time of project completion
- Structure new land plot acquisitions using a variety of payment methods, providing a good balance between high returns and low cash requirements
- Continued reduction of borrowing costs

Long-term targets

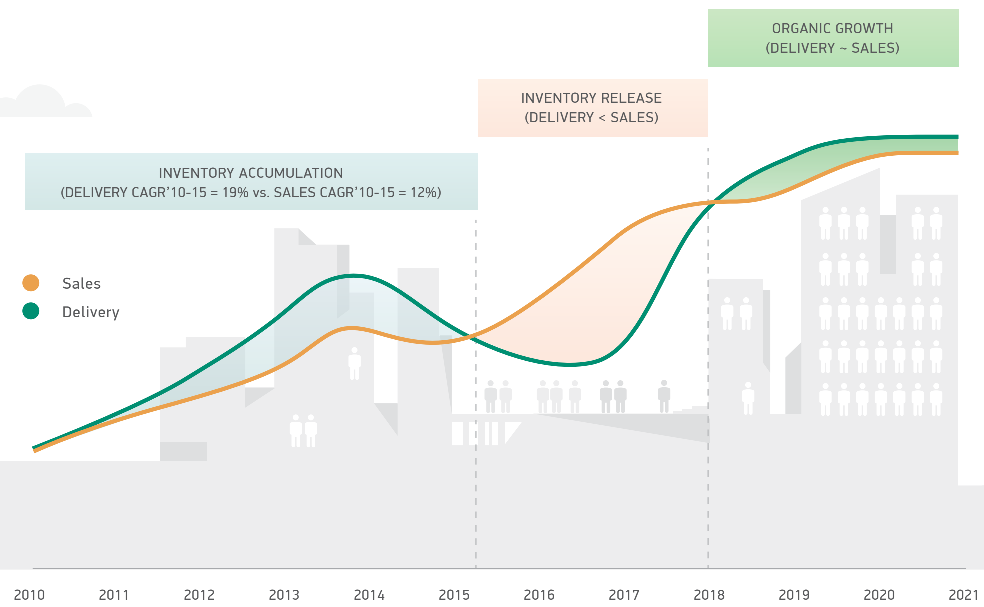
- Maintain strong liquidity position
- Maintain net debt/EBITDA below ceiling of 2x
- Target cost of debt of OFZ + 2 p.p.

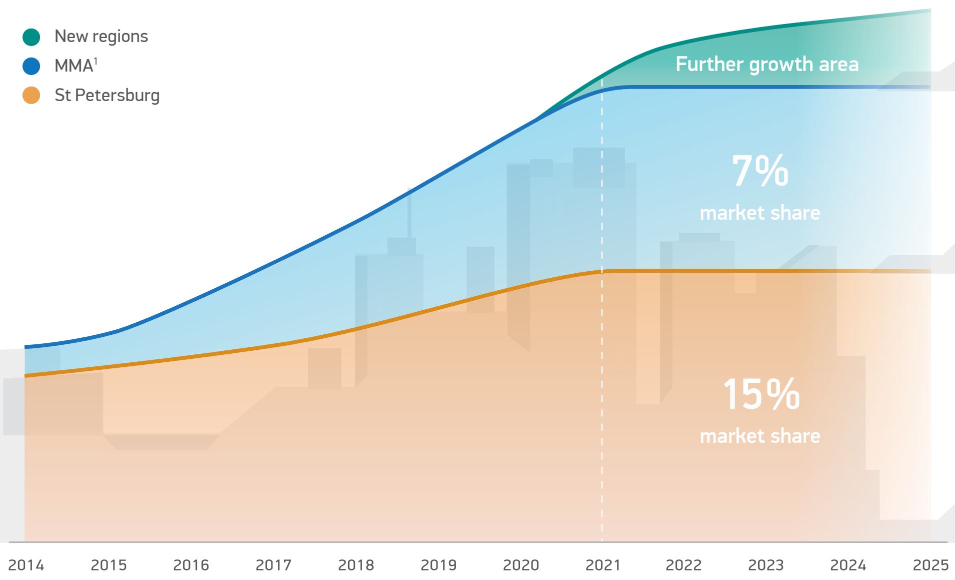
1 Based on Rosstat data.

2 Company estimates based on Knight Frank and IRN research.

Under this new strategy, the Company will focus on maintaining a balance between sales volumes, construction and launch of new projects, with the goal of maintaining deliveries roughly on the same level as sales and avoiding the accumulation of significant inventory under normal market conditions.

OUR STRATEGIC APPROACH WILL RESULT IN SIGNIFICANT INVENTORY RELEASE AND FURTHER ORGANIC GROWTH, THS SQM





PROFITABILITY:

Improved profitability through operational discipline and business model reorganisation

Short-term targets

- Tighten control over SG&A expenses
- Implement new business model (described on page 29)
- Improve product and refine pricing policy to increase profitability in residential development segment

Long-term targets

- **Maintain project portfolio IRR at a level higher than WACC +2 p.p.**
- Consider option to spin off the construction business (on 10-year horizon) to minimise dilution of profitability
- Increase income from additional services provided to buyers or residents of homes built by the Company

DISTRIBUTION OF VALUE TO SHAREHOLDERS:

Sustainable growth in dividend distribution

Short-term targets

- Leverage growth, best-in-class profitability, and low debt levels to continue implementation of generous dividend policy

Long-term targets

- Focus on return on invested capital and increasing dividend payments by combining high payout ratios with significant growth in profits

READY FOR FURTHER EXPANSION:

Bring our expertise to new markets with high growth potential

Long-term targets

- Consider expansion outside of St Petersburg and MMA in medium term with focus on Russian cities with a population of over 1 million, and/or foreign markets with high growth potential

  Main criteria:

  – Target market shares

  – Same return on invested capital and profitability as current portfolio

  – Entry into market through JV with strong local player or by buying a company with strong expertise and a high-quality portfolio

1 Moscow, New Moscow and the Moscow region within 30 km from the Moscow Ring Road.

2006

SEA FACADE

St Petersburg

6.8 HA
LAND PLOT

5.8 HA
CONSTRUCTION SITE

237 THS SQM
NET SELLABLE AREA

7-25
STOREYS

1,700
APARTMENTS

Evgeny Gerasimov

CEO OF THE GERASIMOV AND PARTNERS ARCHITECTURAL STUDIO

The scale of Sea Facade and Sea Cascade alone made these projects unusual. The fact that we were building two entire blocks at once, creating almost 400 ths sqm on top of a single underground car park was unique at the time. But including a shopping area, pre-schools, a dentist's office, a gym, essentially all the required infrastructure right in the residential quarter, this had simply never been done before. The venture was absolutely revolutionary in its scale. On the other hand, we were building housing within a certain price range, which meant we had to constantly look for compromises. To the best of our ability, we tried to resolve the questions we got from our customer, who was very clearly aware of the ratio of permissible costs and potential profits.

Sea Facade

Sea Facade is a residential neighbourhood made up of six brick buildings of varying heights that use an original architectural style. This was St Petersburg's first comprehensive development project. The residential complex is located in the western part of Vasilyevskiy Island and lies adjacent to the Morskoy Embankment. Thanks to its unique location, the windows of apartments looking towards the Gulf of Finland offer a view of the waterfront. The closed internal spaces have been landscaped with gardens and trees.
The first few stories of the buildings are occupied by commercial and service organisations. The surroundings of the complex offer social, shopping and entertainment facilities.

2006

2004

2002

Customer profile

Etalon Group's core customers are middle-aged professionals in St Petersburg and the Moscow metropolitan area looking to upgrade housing conditions for themselves and/or their family.

We believe that our ability to meet the needs of this target audience with affordable, high-quality housing that gives them better value for money is one of the keys to our sustainable business model, even under challenging macro conditions like Russia experienced in 2014-2015.

St Petersburg

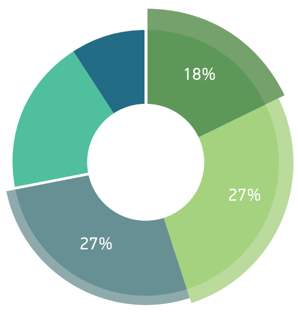
Highlights

81%
WHITE-COLLAR PROFESSIONALS OR BUSINESS OWNERS

91%
BUYING HOUSING FOR SELF OR FAMILY

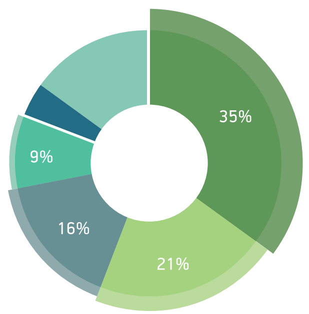
72%
UNDER THE AGE OF 50

AGE



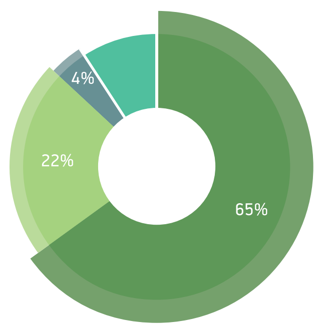
Under 30	18%
30-39	27%
40-49	27%
50-59	19%
60 and over	9%

PROFESSION



Mid-level management	35%
Senior management	21%
Entrepreneur or business owner	16%
Government employee	9%
Student	4%
Other	15%

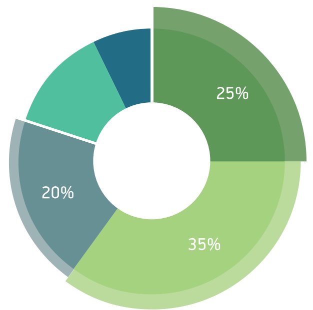
REASON FOR BUYING



Apartment for me and my family	65%
Apartment for my children	22%
Apartment for my parents	4%
Buying as an investment	9%

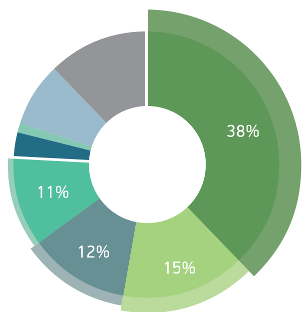
Moscow

AGE



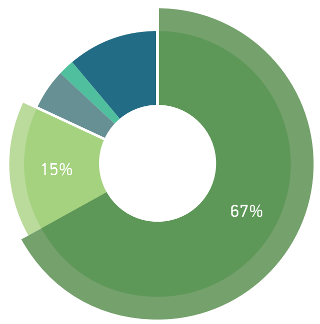
up to 30	25%
31-40	35%
41-50	20%
51-60	13%
60 and over	7%

PROFESSION



Mid-level management	38%
Entrepreneur or business owner	15%
Senior management	12%
Government employee	11%
Pensioner	3%
Student	1%
Other	8%
No data	12%

REASON FOR BUYING



Apartment for me	67%
Apartment for family member(s)	15%
Buying as an investment	5%
Other/mixed	2%
No data	11%

Highlights

76%
WHITE-COLLAR PROFESSIONALS OR BUSINESS OWNERS

82%
BUYING HOUSING FOR SELF OR FAMILY

80%
UNDER THE AGE OF 50

Portfolio review

We have focused on diversifying our portfolio in recent years, with new projects addressing new segments of the market in Moscow and St Petersburg being added on a regular basis.

In 2016, we launched sales at Galactica, the House on Obruchevykh and the House on Kosmonavtov in St Petersburg, as well as Summer Garden in Moscow. We also expanded our landbank in 2016, acquiring the rights to eight new projects in Moscow and St Petersburg with a total planned NSA of 682 ths sqm. With a strategic goal of quickly launching sales for projects currently in our portfolio, Etalon Group's assortment will continue to diversify.

Portfolio highlights

35 PROJECTS

As of 31 December 2016, Etalon Group's portfolio comprised 35 projects in the Moscow metropolitan area and St Petersburg.

2.8 MLN SQM

Landbank volume increased by 5% year-on-year to 2.8 mln sqm of unsold NSA, which is sufficient for 5.7 years based on Etalon's record new contract sales volumes in 2016.

RUB 116 BLN

The market value of Etalon Group's portfolio grew by 11% year-on-year in RUB terms, reaching RUB 116 bln, or RUB 396 per share/GDR.

49% SHARE OF MMA PROJECTS

The share of MMA projects in Etalon Group's portfolio reached 49%, up 6 p.p. year-on-year.

512 THS SQM OF COMPLETED AND AVAILABLE FOR SALE PROPERTY

Our portfolio includes 512 ths sqm of completed property available for sale at projects that are completed or still under way, including 244 ths sqm of apartments that have been completed and available for sale. JLL estimates potential income from the sale of these properties at RUB 35,082 million and RUB 25,600 million, respectively.

New contract sales in 2015, sqm:

New sales

385 THS SQM

New sales in MMA

156 THS SQM, OR 40% OF TOTAL NEW SALES

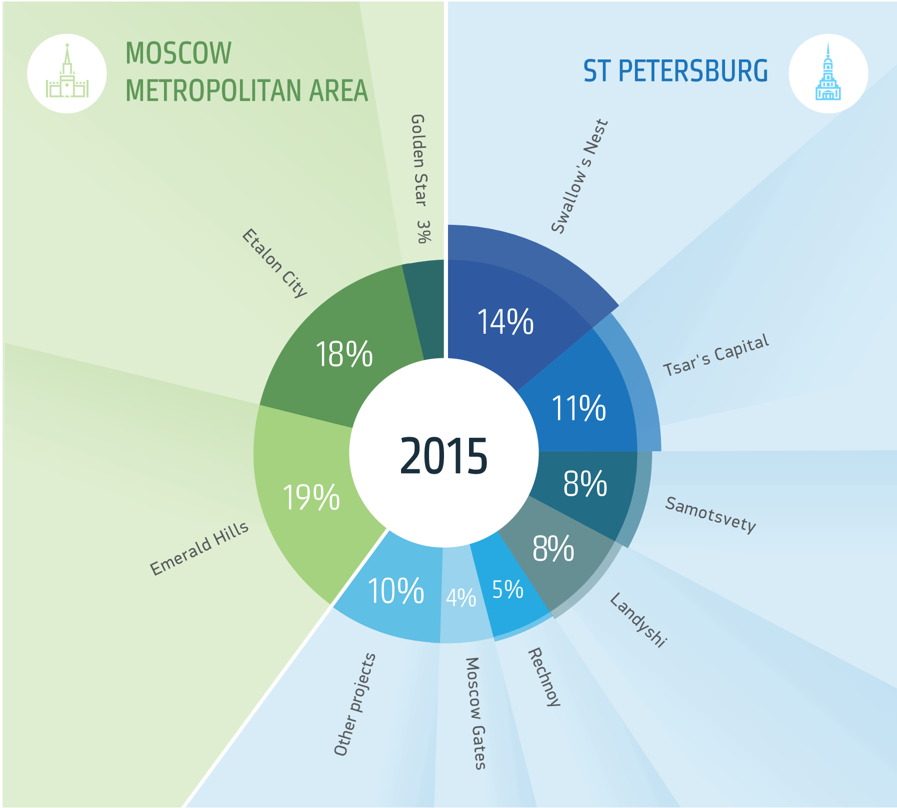
New sales split between

COMFORT AND BUSINESS-CLASS PROJECTS

New launches totalled

580 THS SQM, including Landyshi and Golden Star

LANDYSHI AND GOLDEN STAR launched in 2H 2015 and brought 11% OF NEW CONTRACT SALES



New contract sales in 2016, sqm:

New sales

496 THS SQM

New sales in MMA

211 THS SQM, OR 43% OF TOTAL NEW SALES

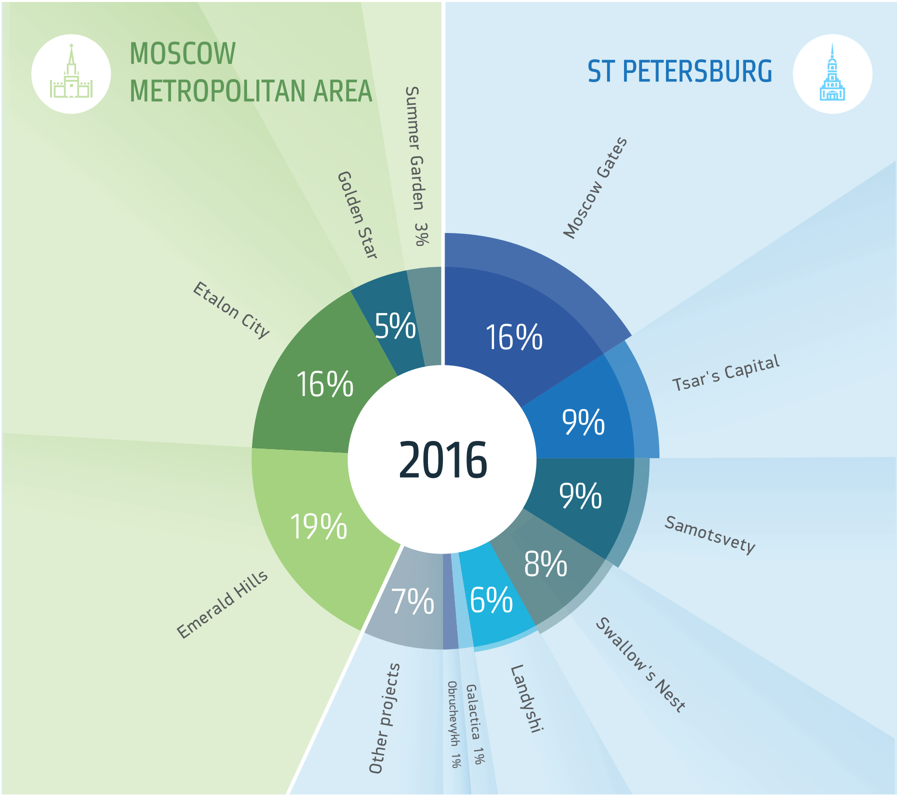
Projects in prime locations brought

43% OF NEW SALES

New launches totalled

640 THS SQM, including four new projects

Launched in late October 2016, the Galactica project had 123 new contracts in just two months



Projects in St Petersburg Metropolitan Area[1]

Under construction

1 Samotsvety
2 Moscow Gates
3 Galactica
4 Landyshi
5 House on Prospekt Kosmonavtov
6 House on Obruchevykh Street

Design stage

7 Kalininskiy district
8 Project in the Primorskiy district
9 Krapivniy Lane
10 Korolyova Prospekt
11 Krasnogvardeiskiy district

Completed

Projects in Moscow Metropolitan Area[1]

Under construction

1 Emerald Hills
2 Etalon City
3 Golden Star
4 Summer Garden

Design stage

5 Silver Fountain
6 Normandy
7 Project in the Mytishchinsky district
8 Project in the Perovo region
9 Project in the Nizhegorodskiy district
10 Project near Ryazanskiy Prospekt

1 As of 31 December 2016.

Project	Status	Total NSA (ths sqm)	Unsold NSA Etalon's share (ths sqm)[1]	Unsold parking (lots), #	OMV (mln RUB)	Income from sales (mln RUB)[2]	Construction budget (mln RUB)[3]	Outstanding budget (mln RUB)[3]
CURRENT PROJECTS								
St Petersburg (SPMA)								
1. Galactica	Construction	841.1	660.1	4,395	15,174	69,618	44,064	38,877
2. Moscow Gates	Construction	234.6	101.6	804	8,004	21,642	10,849	1,854
3. Samotsvety	Construction	212.8	94.7	785	5,903	18,252	9,360	2,742
4. Kalininskiy district	Design stage	95.9	81.9	496	1,596	8,022	4,388	4,378
5. Landyshi	Construction	91.8	34.1	397	1,806	7,551	4,092	2,121
6. Krasnogvardeiskiy district	Design stage	50.0	50.0	197	1,239	4,795	2,710	2,710
7. House on Obruchevykh Street	Construction	42.3	36.8	476	1,949	5,153	2,438	2,288
8. Beloostrovskaya (Primorskiy district)	Design stage	33.5	33.5	210	614	4,088	2,467	2,458
9. House on Kosmonavtov	Construction	26.3	24.1	198	788	2,319	1,224	1,216
10. Krapivniy Lane	Design stage	14.0	14.0	83	719	1,800	810	806
11. Korolyova Prospekt	Design stage	6.0	6.0	35	177	562	362	331
Total SPMA		**1,648**	**1,137**	**8,076**	**37,969**	**143,803**	**82,765**	**59,780**
Moscow Metropolitan Area (MMA)								
1. Emerald Hills	Construction	855.9	321.2	2,136	18,415	65,149	38,793	9,527
2. Etalon City	Construction	365.1	133.5	1,163	7,512	27,827	20,324	8,919
3. Summer Garden	Construction	283.4	207.1	1,053	6,880	29,328	17,640	16,034
4. Silver Fountain	Design stage	182.9	169.6	2,160	9,573	25,085	9,700	9,489
5. Ryazanskiy Prospekt	Design stage	185.3	149.9	1,446	3,603	19,976	11,330	11,330
6. Perovo region	Design stage	172.9	138.4	1,335	3,564	18,791	10,382	10,381
7. Normandy (Losinoostrovskiy district)	Design stage	91.5	83.9	851	3,727	10,221	4,833	4,703
8. Nizhegorodskiy region	Design stage	86.2	72.0	734	1,719	9,231	5,389	5,388
9. Golden Star	Construction	85.1	41.2	264	3,005	10,054	5,343	2,598
10. Mytishchinskiy district	Design stage	59.6	52.2	212	1,142	5,080	2,852	2,847
Total MMA		**2,368**	**1,369**	**11,354**	**59,140**	**220,741**	**126,586**	**81,216**
Total Current Projects		**4,016**	**2,506**	**19,430**	**97,109**	**364,544**	**209,351**	**140,996**
COMPLETED PROJECTS								
Residential property in completed projects		2,088	302.6	5,373	18,440	145,105		
Completed stand-alone commercial properties		9.9	9.9	55	269	401		
Total Completed Projects		**2,098**	**313**	**5,428**	**18,709**	**145,506**		
ALL PROJECTS								
Total Etalon Group Projects		**6,114**	**2,819**	**24,858**	**115,818**	**510,050**	**209,351**	**140,996**

All numbers based on JLL estimates as of 31 December 2016.

1 Including parking with an average area of c. 30 sqm.

2 Income from sales includes potential and received incomes as of 31 December 2016.

3 Excluding land acquisition costs.

St Petersburg

Projects launched in 2016

Galactica

GALACTICA	Total NSA	Open market value[1]	Income from sales[1]
St Petersburg	**841** ths sqm	**15,174** mln RUB	**69,618** mln RUB

Galactica is the crown jewel of Etalon Group's St Petersburg portfolio. The Galactica project will create an entire new comfort-class residential district. Situated on a 38 hectare plot near Moskovskiy Prospekt and Naberezhnaya Obvodnogo Kanala, this is the largest redevelopment project to take place in St Petersburg's recent history. With a convenient location just south of central St Petersburg, it is a prestigious spot both for living and for business. The nearest metro stations, Frunzenskaya and Moskovskiye Vorota, are situated 10-15 minutes from the development.

2016

2022

1 JLL estimate as of 31 December 2016.

COMPLETION DUE IN **2022**

House on Obruchevykh Street

OBRUCHEVYKH STREET St Petersburg	Total NSA	Open market value[1]	Income from sales[1]
	42 ths sqm	1,949 mln RUB	5,153 mln RUB

This project is located within walking distance of the Polytekhnicheskaya and Akademicheskaya metro stations in a well-developed district, with stores, entertainment and fitness centres, as well as schools and kindergartens, all in close proximity. The Sosnovka and St Petersburg Polytechnic University parks are both within walking distance of the development.

2016

2018

COMPLETION DUE IN **2018**

House on Prospekt Kosmonavtov

PROSPEKT KOSMONAVTOV St Petersburg	Total NSA	Open market value[1]	Income from sales[1]
	26 ths sqm	788 mln RUB	2,319 mln RUB

Located in the Moskovskiy district of St Petersburg, this project is 10 minutes' walk from the Zvezdnaya metro station and has access to major roads, including Moskovskiy Prospekt, Vitebskiy Prospekt and Prospekt Kosmonavtov. The complex is situated close to a number of stores, educational, and sports facilities, as well as Pulkovskiy park.

2019

2016

COMPLETION DUE IN **2019**

1 JLL estimate as of 31 December 2016.

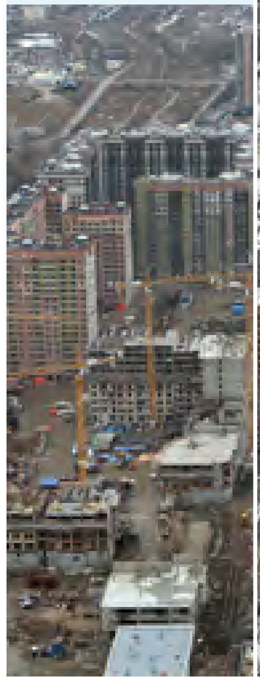
Ongoing projects

Moscow Gates

MOSCOW GATES St Petersburg	Total NSA	Open market value[1]	Income from sales[1]
	235 ths sqm	8,004 mln RUB	21,642 mln RUB

Located in the Moskovskiy district of St Petersburg, Moscow Gates has easy access to both the centre of St Petersburg and Pulkovo Airport. There are a number of bus stops situated within walking distance, as well as the Moskovskiye Vorota metro station.

2015



2016

2017

COMPLETION DUE IN **2017**

1 JLL estimate as of 31 December 2016.

Samotsvety

SAMOTSVETY	Total NSA	Open market value[1]	Income from sales[1]
St Petersburg	213 ths sqm	5,903 mln RUB	18,252 mln RUB

Samotsvety is located in the Vasileostrovskiy district of St Petersburg. The district's proximity to the centre of the city makes it a prestigious location both for living and for business. The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.

2015

2016

2018

COMPLETION DUE IN **2018**

Landyshi

LANDYSHI	Total NSA	Open market value[1]	Income from sales[1]
St Petersburg	92 ths sqm	1,806 mln RUB	7,551 mln RUB

Situated on Polyustrovskiy Prospekt in the Kalininskiy district of St Petersburg, Landyshi is located within walking distance of the Lesnaya metro station and is 4 kilometres from central St Petersburg. The development will consist of a residential complex with built-in commercial areas and parking.

2015

2016

2017

COMPLETION DUE IN **2017**

1 JLL estimate as of 31 December 2016.

Projects due to launch in 2017

Project on Krapivniy Lane

KRAPIVNIY LANE	Total NSA	Open market value[1]	Income from sales[1]
St Petersburg	14 ths sqm	719 mln RUB	1,800 mln RUB

The project will comprise a nine-storey building with 110 apartments, an 83-place parking garage, and a preschool. The site is located near the historic centre of St Petersburg and the Neva embankment, on a quiet side street on the border of the Vyborgskiy and Petrogradskiy districts. Grenaderskiy Garden and Sampsonievskiy Garden are just around the corner. The Vyborgskaya metro station is within five minutes' walk.

2019

COMPLETION DUE IN **2019**

1 JLL estimate as of 31 December 2016.

Moscow metropolitan area

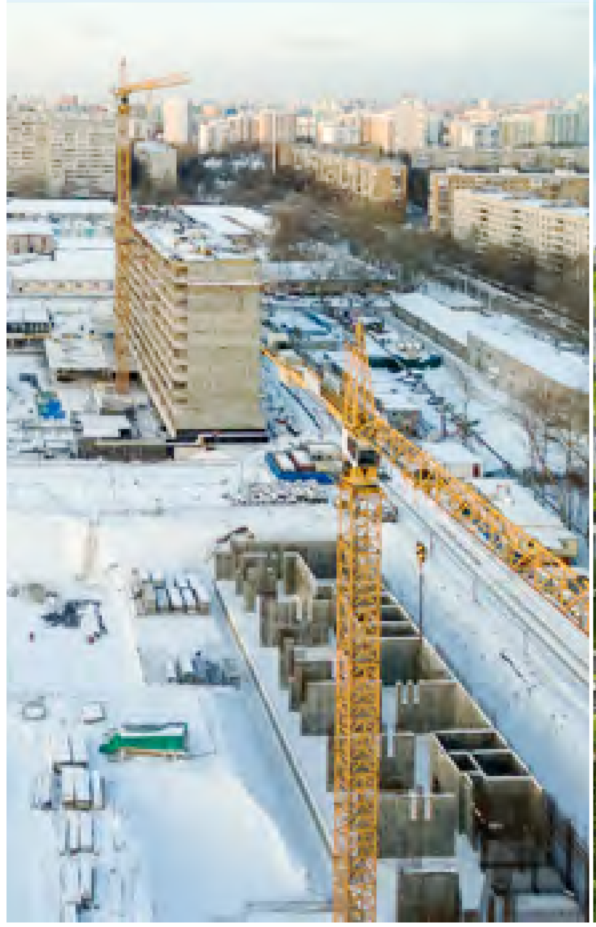
Projects launched in 2016

Summer Garden

SUMMER GARDEN	Total NSA	Open market value[1]	Income from sales[1]
Moscow	283 ths sqm	6,880 mln RUB	29,328 mln RUB

Summer Garden is situated in a pleasant area close to Dmitrovskiypark and the Veteran Theme park. The project can be easily accessed from the Yahromskiy passage and the Dmitrovskoye Highway. The Beskudnikovo railway station is just 1.5 kilometres from the complex, and there are plans to build a metro station, Yubileinaya, adjacent to the site.

2016



2020

1 JLL estimate as of 31 December 2016.

COMPLETION DUE IN **2020**

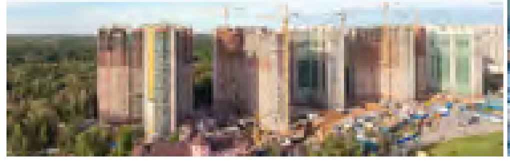
Ongoing projects

Emerald Hills

EMERALD HILLS	Total NSA	Open market value[1]	Income from sales[1]
Moscow region	856 ths sqm	18,415 mln RUB	65,149 mln RUB

Emerald Hills is Etalon Group's flagship project in the MMA. This comfort-class residential complex includes several commercial buildings (business centres, supermarkets, a fitness centre, a multi-purpose shopping and leisure centre and a sport park). The project also includes social infrastructure such as kindergartens, elementary and high schools, and a fitness and health complex.

2015



2016

2019

COMPLETION DUE IN **2019**

Etalon City

ETALON CITY	Total NSA	Open market value[1]	Income from sales[1]
Moscow	365 ths sqm	7,512 mln RUB	27,827 mln RUB

Emerald Hills is Etalon Group's flagship project in the MMA. This comfort-class residential complex includes several commercial buildings (business centres, supermarkets, a fitness centre, a multi-purpose shopping and leisure centre and a sport park). The project also includes social infrastructure such as kindergartens, elementary and high schools, and a fitness and health complex.

2016

2018

1 JLL estimate as of 31 December 2016.

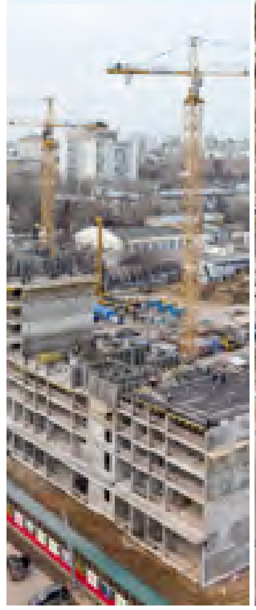
COMPLETION DUE IN **2018**

Golden Star

GOLDEN STAR	Total NSA	Open market value[1]	Income from sales[1]
Moscow	85 ths sqm	3,005 mln RUB	10,054 mln RUB

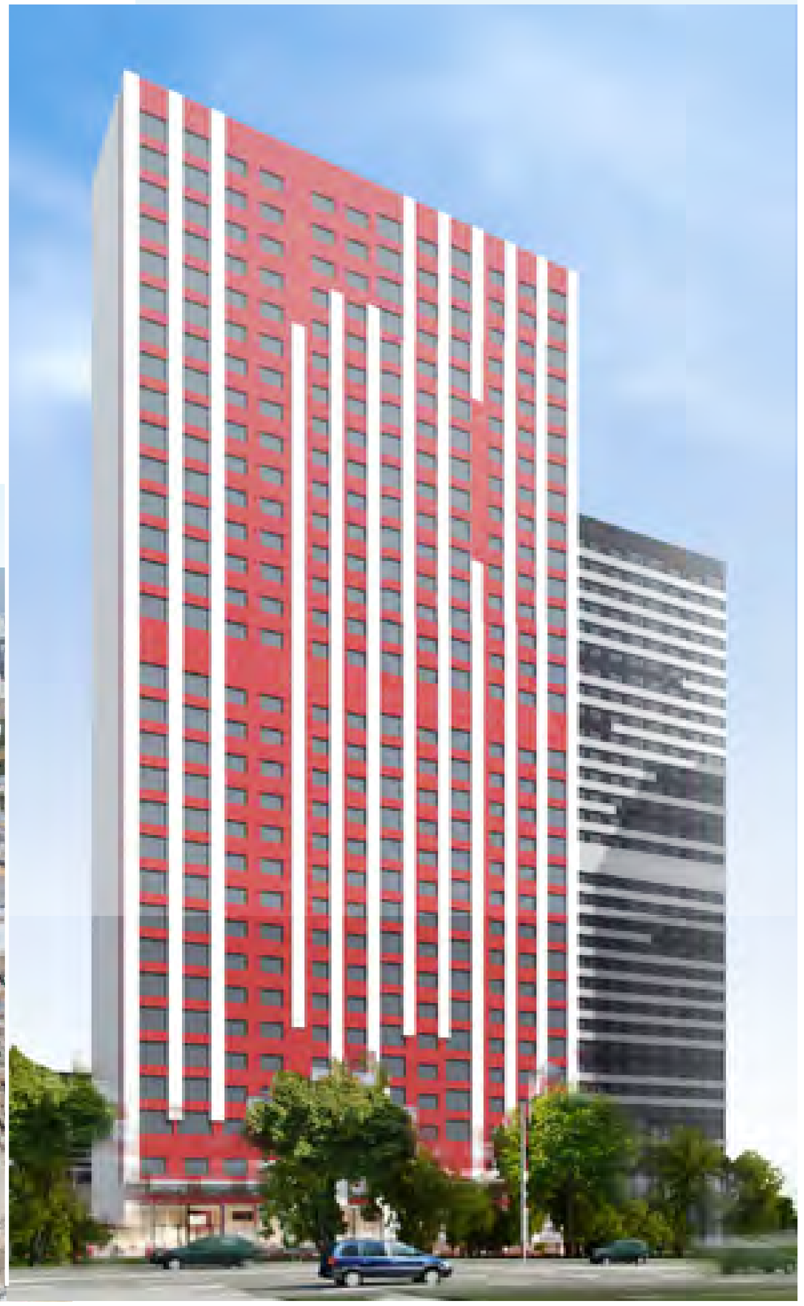
Located in the Sokolinaya Gora district (Eastern administrative division of Moscow), the Golden Star project benefits from good access to central Moscow by metro and by car: the nearest metro station, Shosse Entuziastov, is within a 10-minute walk, while driving to the centre should take no more than 15 minutes. The completion of the north-east section of the Fourth Transport Ring will further improve access for Golden Star residents. Golden Star is situated in an area with well-developed infrastructure and is approximately 800 metres from Izmaylovskiy park, one of Moscow's largest parks.

2015



2016

2017



1 JLL estimate as of 31 December 2016.

COMPLETION DUE IN **2017**

Projects due to launch in 2017

Silver Fountain

SILVER FOUNTAIN	Total NSA	Open market value[1]	Income from sales[1]
Moscow	183 ths sqm	9,573 mln RUB	25,085 mln RUB

Silver Fountain is located in Moscow's North-Eastern administrative division, close to Prospekt Mira. The district is characterized by developed residential, business and transport infrastructure. The site has good transportation access: the nearest metro station is Alekseevskaya (10 minutes by public transport), while the city centre is within a 15-20-minute drive by car.

2020

COMPLETION DUE IN **2020**

Normandy

NORMANDY	Total NSA	Open market value[1]	Income from sales[1]
Moscow	92 ths sqm	3,727 mln RUB	10,221 mln RUB

The project is a comfort-class residential complex, located in the North-East District of Moscow. The nearest metro stations to the property are Medvedkovo and Babushkinskaya, both within 2 km. The site is accessible from Tayninskaya Street. Normandy is surrounded mainly by multistorey residential blocks. The development concept stipulates construction of a comfort-class residential complex with commercial premises and underground parking.

2020

1 JLL estimate as of 31 December 2016.

COMPLETION DUE IN **2020**

Construction services portfolio

Etalon Group is a leading industrial construction contractor in the North-West region of Russia, with a reputation for high-quality project management and construction services among well-known international and local companies.

200 ths sqm
TOTAL AREA

50 ths sqm
CONGRESS CENTRE AREA

441 rooms
4-STAR HILTON HOTELS & RESORTS AND A 3-STAR HAMPTON BY HILTON

We have participated in a number of major projects in and around St Petersburg, including a heat and power station, two hotels, business centres, four car assembly plants, shipyards, a machinery plant and a fitness and sports centre, etc.

One of Etalon Group's most recent construction services projects was ExpoForum, St Petersburg's new exhibition centre, which hosted the St Petersburg International Economic Forum in 2016.

With a total area of 200 ths sqm, including a 50 ths sqm congress centre, ExpoForum is the largest exhibition centre in Eastern Europe. The complex is located on a 56 hectare plot of land between the Pulkovskiy and Peterburgskiy highways, conveniently near Pulkovo Airport and other logistics infrastructure.

The facility has three exhibition pavilions, an arcade building, two hotels with a total of 441 rooms (a 4-star Hilton Hotels & Resorts and a 3-star Hampton by Hilton), parking, three helicopter pads and utilities infrastructure.

Other highlights of the Company's construction services projects include:

Ongoing projects

Restoration and Storage Centre for the State Hermitage Museum

PLANNED COMPLETION: **1H 2017**

Etalon Group's subsidiary EtalonPromstroy is the general contractor for construction of part of the Restoration and Storage Centre for the State Hermitage Museum in St Petersburg. This entails turnkey delivery of the engineering and laboratory buildings, including purchase and installation of laboratory equipment, utilities connections, parking lots and landscaping for the surrounding territory of the State Hermitage Museum's new facility. EtalonPromstroy won the project, worth RUB 1.6 billion, in an open competition.

Recently completed projects

Zvezda-Reduktor

COMPLETED: **DECEMBER 2016**

In 2015, EtalonPromstroy won a contract for the overhaul of production lines and the renovation of administrative and service buildings for Zvezda-Reduktor, a subsidiary of Zvezda, Russia's largest manufacturer of compact, high-RPM diesel engines. The contract covered a total area of around 9,900 sqm and also included the connection of water, electricity and natural gas supplies, as well as heating, ventilation and air conditioning for the buildings.

Centre for Ship Building and Ship Repair Technology

COMPLETED: **DECEMBER 2016**

EtalonPromstroy won a contract to act as the technical coordinator and general contractor for the construction of a 1,537 sqm engineering and laboratory building for the Centre for Ship Building and Ship Repair Technology.

2006

NEAR ROSTRAL COLUMNS

St Petersburg

27 JUNE 2012

PROJECT INCLUDED IN THE 'WHITE BOOK' OF MODERN ARCHITECTURE THAT ADHERES TO THE ARTISTIC, URBAN PLANNING AND ARCHITECTURAL TRADITIONS OF ST PETERSBURG

20 THS SQM

A PORTION OF THE ELISEYEV WINE CELLARS WAS RESTORED BY ETALON GROUP AS PART OF THIS PROJECT

50 THS SQM

NEW CONSTRUCTION

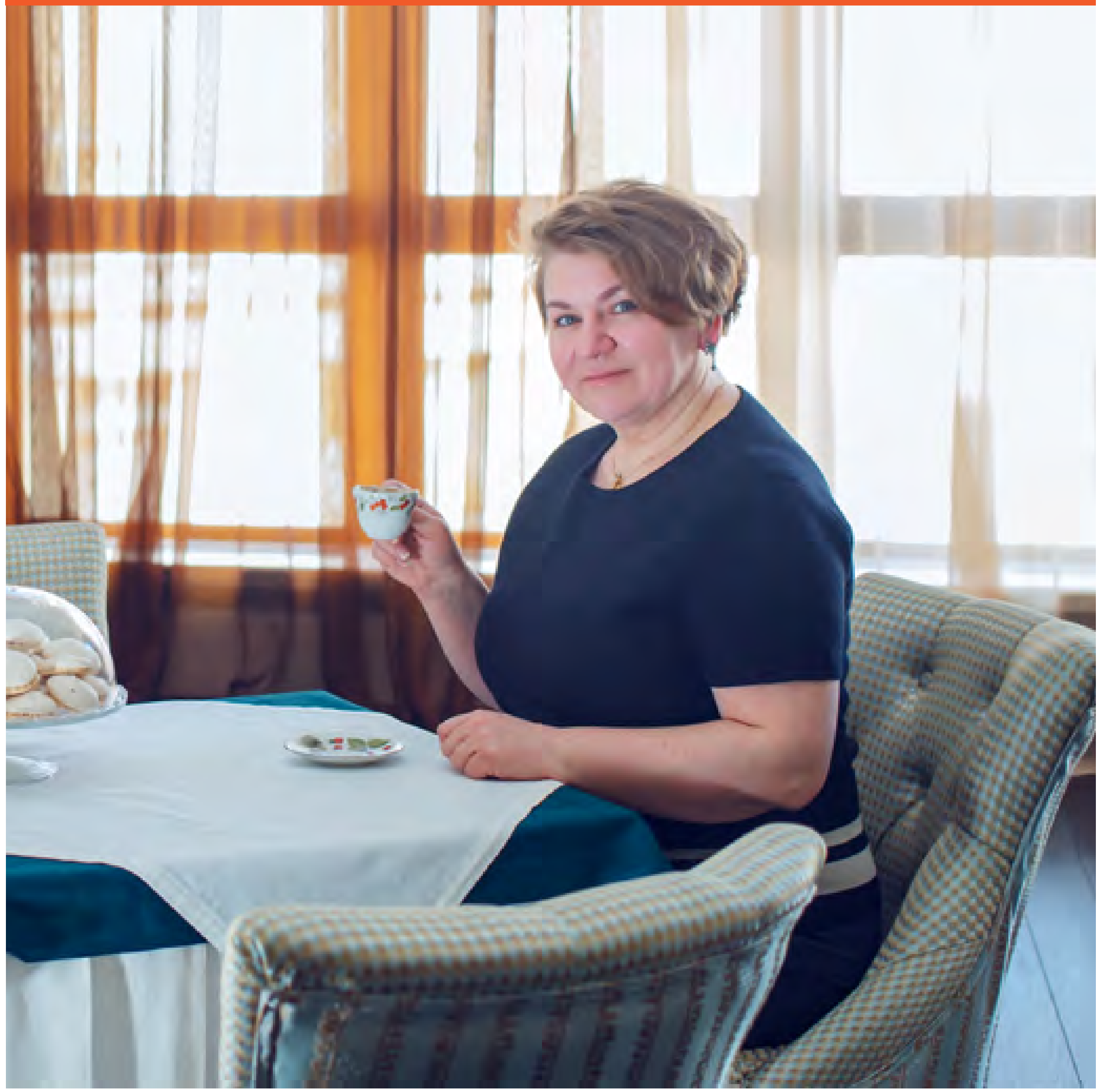
324 ROOMS

THE RENOVATED BUILDING NOW HOUSES THE SOLO SOKOS PALACE BRIDGE FIVE-STAR HOTEL WITH 324 ROOMS

Marina Maslenok

RESIDENT OF NEAR ROSTRAL COLUMNS

This residential complex is very well situated in a historic part of the city. Living here is a great pleasure, especially with all the amenities at hand. We have an underground car park, which, I suspect, was very difficult to build, but the Company managed to do it. It is always warm inside the buildings thanks to the boiler house being located just a few metres away. In winter, I sometimes even turn off some of the radiators in the apartment. Even though the complex is in the centre of the city, the neighbourhood is very quiet: noises from cars and the streets are not audible because there are no major roadways nearby. All the residents notice this. It really is comfortable here, with a safe environment, guarded territory and a spa just next door. I am very pleased.



Near Rostral Columns

Near Rostral Columns is part of a multipurpose complex built on Vasilyevskiy Island in St Petersburg in the courtyard of the Eliseyev Emporium wine warehouses. Neoclassical buildings of up to eight storeys house 185 apartments and provide underground parking space for 124 cars. Without leaving the closed security area, residents of the complex can make use of a shopping centre with its premium restaurants, a spa hotel, a swimming pool and a five-star fitness club. This project included a complete overhaul of the entire area, with partial restoration of old facades. The renovated 18th-century buildings were integrated into this elite residential complex, making up part of the perimeter. The project was ranked as one of the best examples of renovation and new development in the historic centre of the city.

2006

2005

2004

On track to market leadership

Etalon Group's new strategy sets out ambitious goals for the next five years. We are confident that the Company will be able to achieve them, but to do this we must take a number of steps.

The first is further improvement of our product. Our own design institute is working on this. In addition, we have involved external project teams, including by organising architectural competitions. Thus, we have been able to use both our own ideas, but also to be guided by industry best practices.

In early 2017, we created a special product competence centre. This was headed by Maria Kuksa. Maria has over 15 years of experience working on product development for leading companies in the real estate development sector in Russia. She will be responsible for enhancing Etalon Group's product, setting standards for all of the Company's projects, as well as product marketing.

As part of our focus on product improvement, we will continue to expand our assortment, which includes the traditional shell-and-core offering, as well as offer fully fit-out apartments at select projects. Buyers who prefer to speed up and simplify the process of renovations and moving are often very interested in our fit-out apartments.

In addition to further product improvement, we pay great attention to enhancing Etalon Group's sales system and using the latest communication technologies. We invited Andrey Ostanin to the team in order to establish a unified sales system in Moscow and St Petersburg. Andrey has been working in the field of retail sales, distribution and development for more than 20 years. Before joining Etalon Group, Andrey held executive positions at leading development, IT and retail companies. Andrey will be responsible for creating uniform standards for all the Company's projects and sales offices, further strengthening the sales team, interaction with counterparties such as real estate agencies, advertising agencies, key customers and the media.

We believe that achieving strong results also requires strengthening of the team as a whole. Therefore, we have hired Yaroslava Vasilieva, who has 20 years of experience in the field of HR in such well-known companies as PricewaterhouseCoopers, Ford Russia, Otis Lifts and Heinz. Yaroslava will lead the HR function and will be responsible for the development and implementation of a new HR strategy, as well as for the formation of the Company's staff reserve and effective management of the motivation system.

We are confident that our long-standing experience in the industry, the desire to grow, use of leading edge technologies and our highly-qualified team will enable us to achieve our goals.

Dmitry Kashinskiy
Vice President of Etalon Group

ANDREY OSTANIN,
HEAD OF SALES

YAROSLAVA VASILIEVA,
HR DIRECTOR

MARIA KUKSA,
HEAD OF PRODUCT DEVELOPMENT

Poured concrete with brick elements and ventilated facades

We primarily use poured concrete with brick elements and ventilated facades for our residential construction, which gives our customers high-quality properties that benefit from free-pattern planning, design flexibility, greater durability and a high level of thermal and noise insulation.

Poured-concrete construction typically involves the walls and slabs being constructed together by pouring fluid concrete into a formwork system, while using metallic reinforcement bars for strengthening and stabilisation purposes. Openings for doors, windows, electrical and plumbing elements are also in place before the concrete is poured.

This construction technique is also key to our business model: it is fast to set up, makes our operations more scalable, and generally produces superior results compared to prefab panel housing often seen in Russia.

Building Information Modelling

Building Information Modelling (BIM) is an innovative technology that we use throughout a project's lifecycle to generate and manage digital versions of buildings and infrastructure at project sites. The detailed three-dimensional models contain comprehensive, structured information about each property, which enables us to produce reports and analyse projects at the pre-design stage, to model construction plans and to continuously monitor progress, costs, safety and other parameters.

We have designed over 3 million sqm of residential real estate using BIM technology, and in 2016 over 1 million sqm was under construction or being monitored. As of February 2017, over 700 ths sqm of planned residential space was in the active stage of construction.

As a leader in BIM implementation, we launched a consulting service for third-party construction companies in 2015. In its first full year of operations, NTTs Etalon won recognition from Autodesk as a BIM leader in Russia. Clients of NTTs include developers, construction companies, investors, and planning institutes from all over Russia and Kazakhstan.

NTTs Etalon provides education and consulting services for clients, including assistance with implementing BIM at any stage of construction, monitoring volumes, timing, and workplace safety, building BIM models, auditing BIM models from architects and creating BIM models for implementation (electronic building passport).

Fit-out apartments

At select projects, in addition to the traditional shell-and-core offering, we sell fully fit-out apartments. Currently, this includes Swallow's Nest, Tsar's Capital, Moscow Gates, Samotsvety, Emerald Hills, and Etalon City. This additional service is especially convenient for the more than 30% of buyers from regions outside of MMA and St Petersburg who cannot travel regularly to monitor progress on fit-out arrangements they have made themselves.

BUILDING INFORMATION MODELLING SYSTEM

USED THROUGHOUT A PROJECT'S LIFECYCLE

OVER 3 MLN SQM

OF RESIDENTIAL REAL ESTATE DESIGNED USING BIM TECHNOLOGY

OVER 700 THS SQM

OF PLANNED RESIDENTIAL SPACE IN THE ACTIVE STAGE OF CONSTRUCTION

Operating review

Etalon Group's new sales of 496 ths sqm and RUB 47.4 billion in 2016 surpassed even management's upgraded and very ambitious guidance for new contract sales for the year. These numbers represent new records in the Company's history.

NEW RECORDS

NEW SALES IN 2016 AMOUNTED TO RUB 47.4 BLN AND 496 THS SQM

95,650 RUB/SQM

PRICES CONTINUED TO GROW BY 5% YEAR-ON-YEAR

RUB 39.7 BLN

CASH COLLECTIONS ROSE BY 54% YEAR-ON-YEAR

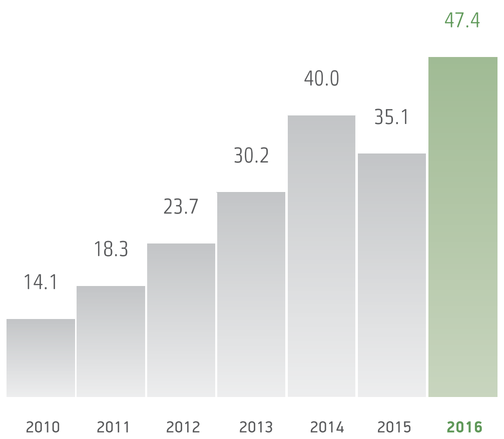
FY 2016 Operating Results

Operating Results	2016	2015	Change, %
Number of contracts	9,590	7,841	22%
New sales, sqm	496,008	385,252	29%
New sales, mln RUB	47,443	35,080	35%
Cash collections, mln RUB	39,723	25,845	54%
Average price, RUB/sqm	95,650	91,057	5%
Average price (apartments), RUB/sqm	107,959	102,258	6%

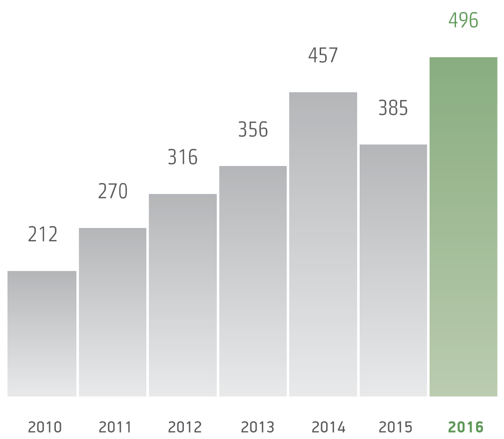
New sales

Etalon Group's new sales in 2016 amounted to RUB 47.4 bln and 496 ths sqm, setting new company records, with 9,590 contracts signed during the year.

NEW SALES, BLN RUB

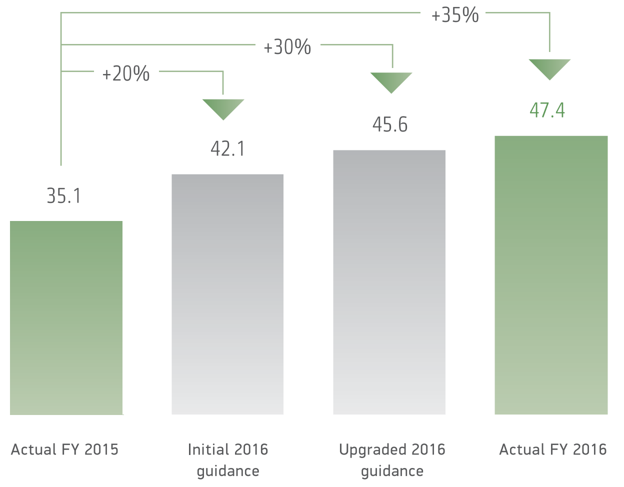


NEW SALES, THS SQM



Management's initial 2016 guidance was for a 20% year-on-year increase in new sales to RUB 42.1 billion, which was then upgraded to RUB 45.6 billion, and represented a 30% year-on-year increase. The final result for the full year 2016 exceeded the 2015 result by 35%.

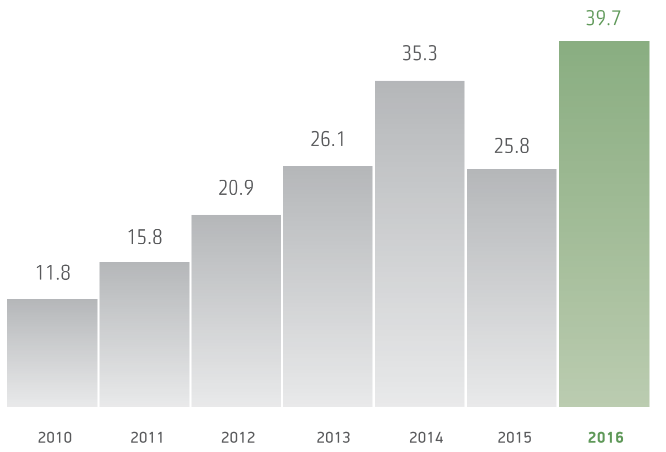
NEW CONTRACT SALES, BLN RUB



Cash collections

Cash collections grew by a strong 54% year-on-year to RUB 39.7 billion, driven by a further improvement in the average down payment, from 62% in 2015 to 68% in 2016.

CASH COLLECTIONS, BLN RUB



Deliveries and transfers to customers

We delivered 420 ths sqm of NSA in 2016, exactly in line with our construction programme for the year, and we transferred 332 ths sqm to customers during the year.

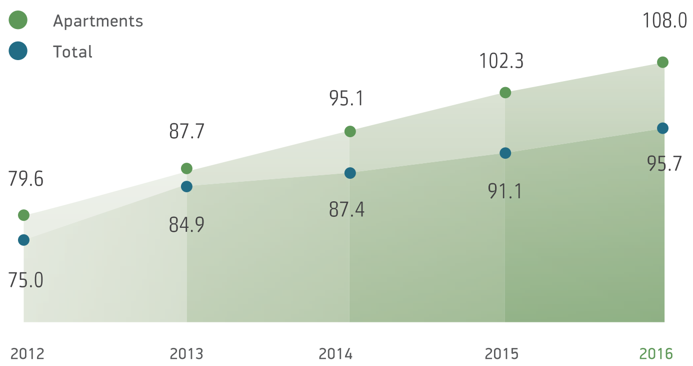
TSAR'S CAPITAL, DELIVERED IN 2016

EMERALD HILLS BUILDING 15, DELIVERED IN 2016

Average price per sqm

Prices continued to grow, with the average price for apartments (RUB per sqm) rising by 6% year-on-year, from RUB 102,258 per sqm in 2015 to RUB 107,959 per sqm in 2016.

AVERAGE PRICE, THS RUB PER SQM

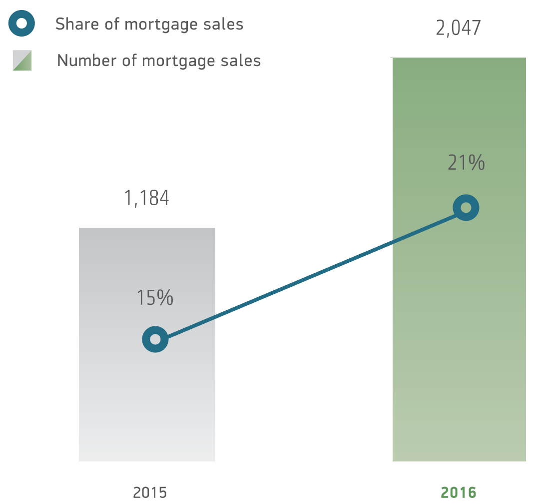


ETALON CITY BUILDING 2, DELIVERED IN 2016

Mortgage sales

The Russian Government's programme to subsidise mortgage rates for certain loans and developers (including Etalon Group) at 12% provided important support for the residential real estate market in 2015, and was continued into 2016. This, combined with a continued decline in mortgage rates and our long-term relationships with leading banks, helped to increase the share of mortgage sales for the full year 2016 to the pre-crisis level of 21%.

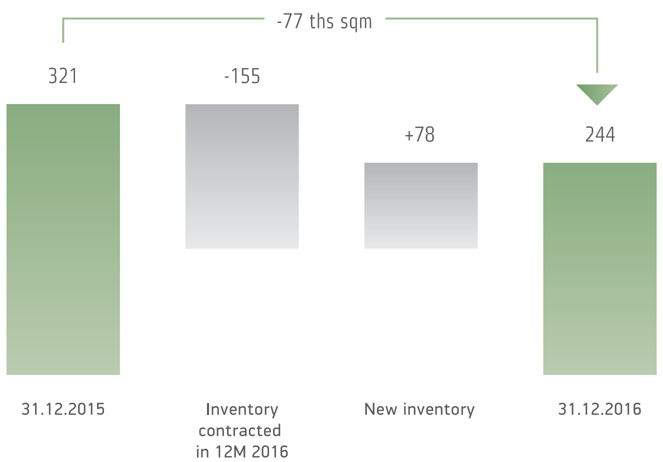
MORTGAGE SALES



Working capital

One of Etalon Group's key achievements during 2016 was the successful optimisation of the inventory of completed apartments: we sold nearly 50% of the inventory held as of the end of 2015, contracting 155 ths sqm of the 321 ths sqm of the completed apartments on our books as of 31 December 2015. Balanced by additions from new deliveries in 4Q 2016, the total inventory of completed apartments decreased by 77 ths sqm, and amounted to 244 ths sqm as of 31 December 2016.

INVENTORY OF COMPLETED AND AVAILABLE FOR SALE APARTMENTS, THS SQM



8 NEW PROJECTS
ACQUIRED IN 2016

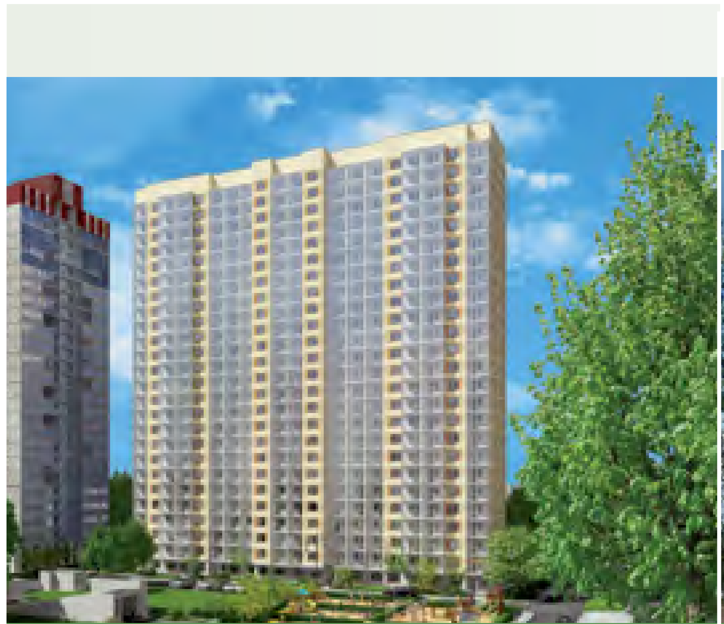
682 THS SQM
OF NEW NSA ADDED TO ETALON GROUP PORTFOLIO

4 PROJECTS
LAUNCHED DURING THE YEAR

Operating performance supported by further diversification of sales portfolio

New sales results were supported partly by further diversification of our sales portfolio, with four new projects launched during 2016. This included landmark projects in both Moscow (Summer Garden) and St Petersburg (Galactica).

Etalon Group also successfully diversified its landbank during the year, with the acquisition of eight new projects in Moscow and St Petersburg that add a total of 682 ths sqm of new NSA to our portfolio. Two of the newly acquired projects — the House on Obruchevykh Street and the House on Prospekt Kosmonavtov — were launched the same year.



HOUSE ON PROSPEKT KOSMONAVTOV, LAUNCHED IN 2016

HOUSE ON OBRUCHEVYKH STREET, LAUNCHED IN 2016

Financial review

49,022 RUB MLN

TOTAL REVENUE UP 16% YEAR-ON-YEAR

4,040 RUB MLN

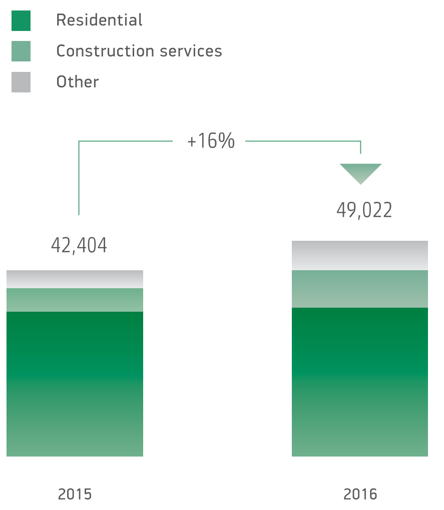
OPERATING CASH FLOW LESS INTEREST PAID

7,848 RUB MLN

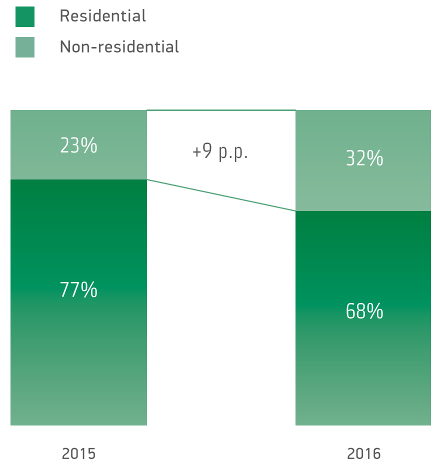
NET DEBT ALMOST UNCHANGED VS 31 DECEMBER 2015

Income statement

REVENUE, RUB MLN



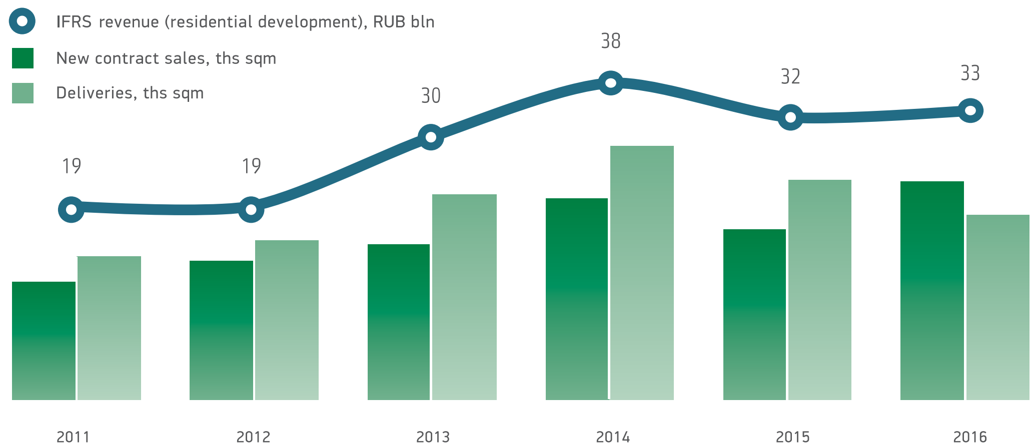
HIGHER SHARE OF NON-RESIDENTIAL[1] SEGMENTS IN REVENUE MIX



Total revenue increased 16% year-on-year in 2016 to RUB 49,022 million. Revenue from our primary segment of residential real estate development was stable in 2016, increasing by 3% year-on-year, while growth compared to 2015 was primarily driven by strong increases in construction services and other revenue.

Revenue from residential development is normally influenced by two key factors: deliveries and new contract sales. Due to Etalon Group's revenue recognition policy, there is often a lag between new contract sales and booking the revenue from these sales, which only takes place upon the transfer of property to customers.

DEVELOPMENT REVENUE GROWTH IS INFLUENCED BY BOTH NEW SALES AND DELIVERIES



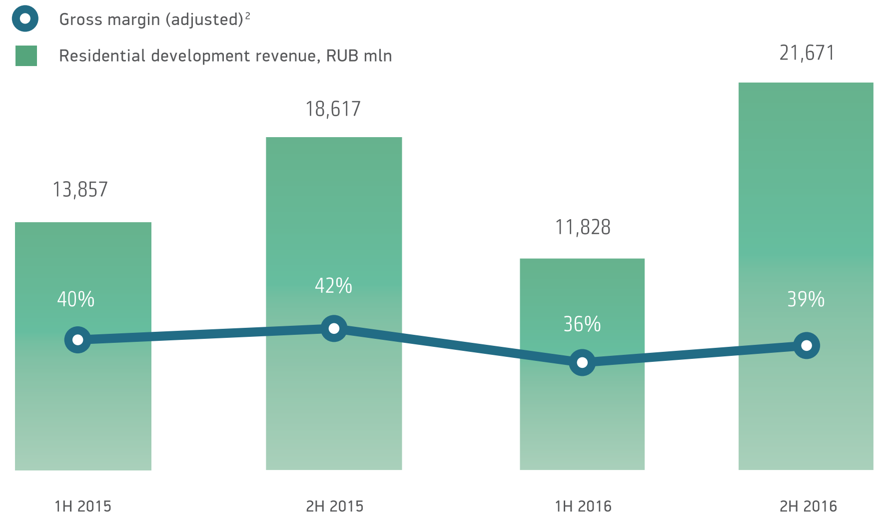
These factors meant that the decrease in new contract sales in 2015, combined with lower deliveries in 2016 in line with the revised construction programme, delayed transfers to customers and therefore led to lower growth in revenue from residential development.

Looking ahead, a substantial portion of the record-setting new contract sales in 2016 is related to projects that are due to be delivered in 2017 and 2018.

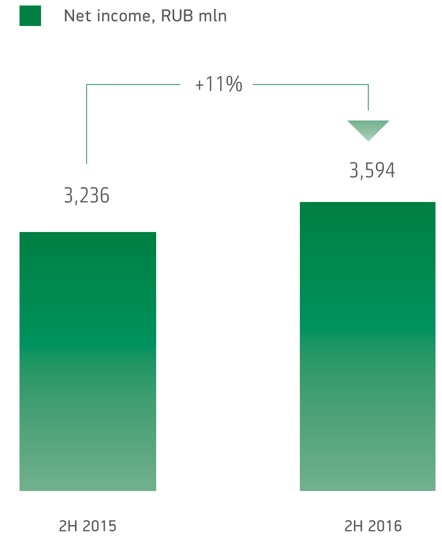
Etalon Group aims to adjust deliveries in line with growth in new contract sales, which will result in higher residential development revenue in line with the increase in sales.

2H 2016 performance

RESIDENTIAL DEVELOPMENT REVENUE AND GROSS MARGIN[2] IN 2015–2016



DIVIDEND BASE COMPARISON



In the second half of 2016, Etalon Group's performance improved significantly. Revenue from residential development increased by 16% year-on-year in 2H 2016 to RUB 21,671 million. Prices for residential real estate sold in 2016 increased by 6% year-on-year, supporting 9% year-on-year growth in adjusted gross profit[2] to RUB 8,475 million, which brought the residential gross margin back to its normal level of 39%.

EBITDA for 2H 2016 grew by 24% year-on-year to RUB 5,586 million, bringing the 2H 2016 EBITDA margin to 19%. This was supported by tight control over SG&A costs, which declined as a percentage of revenue by 0.7 p.p. to 12.2% in 2H 2016.

Due to the increasing share of lower-margin construction services income during FY 2016, combined with weaker performance in the first half of the year, consolidated EBITDA and net income declined year-on-year by 5% and 10%, respectively. In 2H 2016, however, net income reached RUB 3,594 million, thus increasing the potential base for dividend payments by 11% year-on-year, in line with Etalon Group's updated dividend policy.

1 Construction services and other segments.

2 Adjusted for interest in cost of sales.

Cash flows

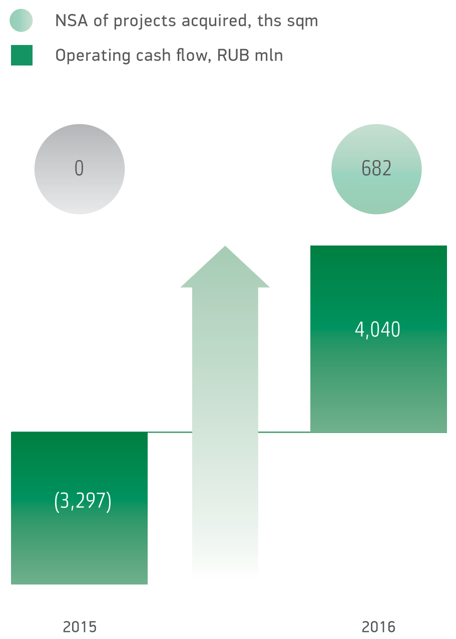
Etalon Group had positive operating cash flow of RUB 4,040 million[3] for FY 2016, despite eight project acquisitions totalling 682 ths sqm of NSA and the launch of two flagship projects, in Moscow and St Petersburg, during the year.

Positive operating cash flow is the result of improvements made by management during 2H 2015 and 2016, including acceleration of sales launches, a revision of the construction programme in order to increase the ratio of pre-sales and the share of construction costs covered by cash collections, and tight control over administrative costs. Maintaining a positive level of operating cash flow in the future is the key component of Etalon Group's updated strategy.

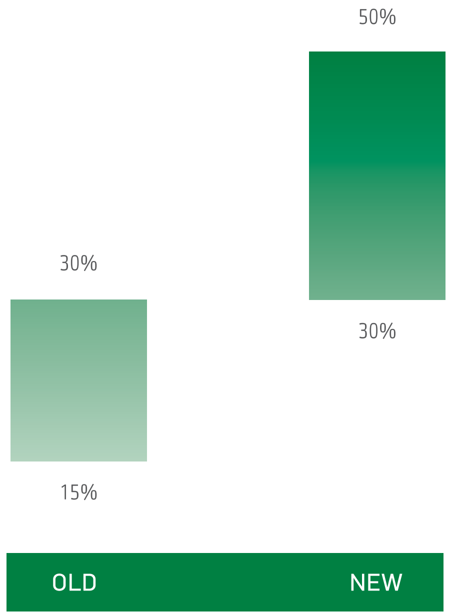
With its proven ability to generate positive operating cash flow, the Company remains well positioned to take advantage of interesting opportunities that continue to arise in the current market environment, with the possibility to expand and diversify Etalon Group's landbank for long-term development.

Combined with our low debt levels and strong profitability in the second half of 2016, the Company is in a good position to pay dividends in line with its upgraded dividend policy.

ANNUAL OPERATING CASH FLOW[3] CHANGES AND ACQUISITION PIPELINE



DIVIDEND PAYOUT RATIO INCREASED UNDER NEW DIVIDEND POLICY



3 Operating cash flow less interest paid.

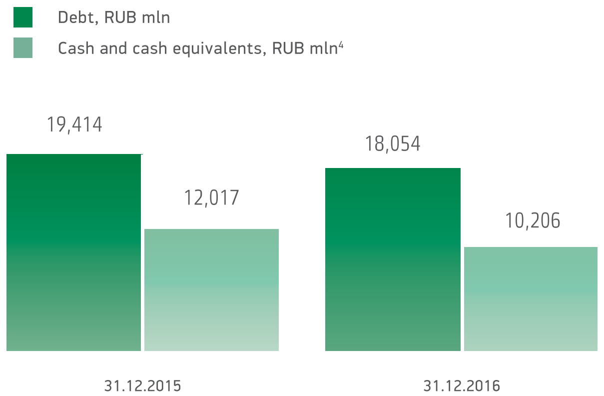
Balance sheet

Etalon Group adheres to a conservative financial policy, which has earned it one of the best credit ratings among its peers and provides for more stable performance through market cycles. Combined with a continued ability to generate cash thanks to its pre-sales business model, this helped us to maintain comfortable debt levels during 2016.

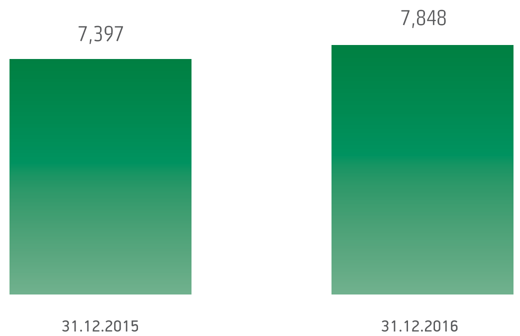
Net debt as of 31 December 2016 was RUB 7,848 million, and the net debt/EBITDA ratio was 1.1x. The Company held strong cash reserves of RUB 10,206 million as of the end of the year.

The Company enjoys zero foreign exchange risk exposure on its obligations: all debt remains nominated in Russian roubles.

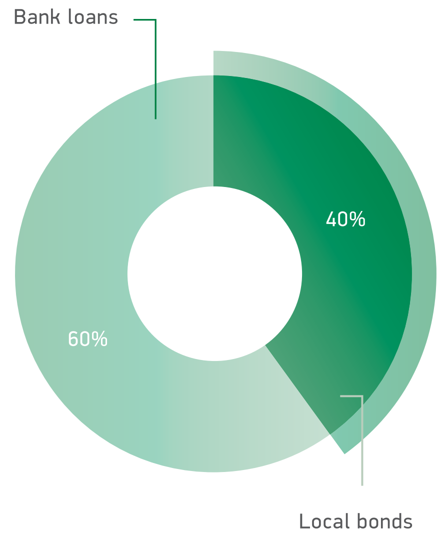
STRONG LIQUIDITY POSITION UNCHANGED



NET DEBT, RUB MLN



BALANCED GROSS DEBT COMPOSITION (AS OF 31 DECEMBER 2016)



4 Including bank deposits in short-term investments.

2016

EMERALD HILLS

Moscow region

856 THS SQM

NET SELLABLE AREA

100 HA

FOREST BORDERING THE RESIDENTIAL COMPLEX

8 HA

LANDSCAPE PARK

4 KM

OF WALKING PATHS

Daniil Seledchik

HEAD OF ETALON GROUP'S OPERATIONS IN MOSCOW

A person's comfort is greatly dependent on the environment. Residents of Emerald Hills are particularly fortunate in this regard, because not only does the complex border a 100-hectare forest, but we have also created a landscape park on the adjoining 8 hectares, which is enjoyed by all the inhabitants of Krasnogorsk. The park includes children's games and sports pitches, a wooden platform for organising recreational activities, a variety of small structures, including characters from children's stories, and all without causing any damage to the forest. The name of project was chosen to express its key characteristics: the use of natural materials, energy-efficient technologies and, of course, special attention to the area's landscaping.

Emerald Hills

The Emerald Hills residential district is Etalon Group's first project in the Moscow metropolitan area (MMA), just 9 km from the Moscow Ring Road on the Volokolamsk Highway. It is being built in the city of Krasnogorsk, one of the greenest areas in the MMA. This district is surrounded by a coniferous forest, with a landscape park on the border that has dedicated areas for recreation, as well as designated walking routes. The district already has three day pre-schools, an elementary school, a secondary school and a children's art school, as well as modern playgrounds and sports areas.

2016

2013

2009

Workplace health and safety

Etalon goes beyond merely maintaining strict compliance with the letter of applicable Russian regulations to ensure a healthy and safe working environment for all of our 4,800 employees. Our strategy in this sphere focuses on the following key areas:

Employee training

Employees regularly attend workshops on occupational safety, to ensure that they are aware of relevant issues and have appropriate knowledge of workplace safety procedures before they start working at a particular site or facility.

Equipment safety

All equipment is certified by relevant authorities for compliance with Russian labour safety regulations. In addition, Etalon conducts its own inspections to ensure that all equipment is properly installed and safely maintained.

Building modelling

We use Building Information Modelling (BIM) to produce 3D digital models that include comprehensive, structured information about all our buildings. This makes our construction sites safer, and BIM is a key input into our Safety Index.

Benchmarking and monitoring

Etalon has developed a Safety Index to give a clear picture of our performance against seven key indicators (see box below). Safety inspections of all sites and buildings under construction are carried out at least fortnightly. In 2017, we plan to extend the use of our Safety Index to our external contractors through an audit of their compliance with its criteria.

ETALON'S SAFETY INDEX

ETALON'S SAFETY INDEX COMBINES INFORMATION FROM ITS BUILDING INFORMATION MODELLING (BIM) WITH RUSSIAN AND EUROPEAN STANDARDS ON OCCUPATIONAL SAFETY AND RISK ASSESSMENT. IT MEASURES PERFORMANCE ON THE FOLLOWING KEY PARAMETERS:

- Fall protection;
- Working processes (availability of PPE, risk assessment procedures, etc.);
- Tidiness and waste removal;
- Machinery and equipment;
- Scaffolding;
- Catwalks and stepladders;
- Electricity and lighting;
- Fire safety.

85% AS OF THE END OF 2016, THE SAFETY INDEX SCORE ACROSS ALL OF ETALON'S SITES AND FACILITIES WAS 85%

We are happy to report zero fatalities across Etalon Group in 2016.

People

Etalon aims to provide more than 'just a job' for its 4,800 employees. Our HR strategy aims to recruit, develop and retain the best talent in the industry to support the long-term growth of the business.

4,800

TOTAL NUMBER OF EMPLOYEES (AS OF 31 DECEMBER 2016)

30%

WOMEN AS A PROPORTION OF TOTAL WORKFORCE

1,556

NEW JOBS CREATED IN 2016

With this in mind, we offer our employees:

- Attractive salary and benefits packages;
- Clear career development pathways;
- Ongoing opportunities for professional education;
- Work-life balance, for example through flexitime or homeworking;
- Additional financial and non-material support if personal circumstances change.

New employees undergo an induction programme to familiarise them with the Company and its history, its corporate values and expected standards of behaviour in dealings with colleagues and external partners, etc. More than 250 new members of staff passed through the initial orientation programme in 2016.

Educational and professional training opportunities constitute an important part of our offering to employees. During the year, two employees obtained higher educational qualifications entirely or partly funded by the Company. We also run a number of training programmes inside the Company: in 2016, 416 employees undertook individual further professional education programmes, while 689 completed training courses in line with Russian regulations.

We also offer educational programmes on topics outside of the field of construction. These may be tailored to individual needs in areas like IT, finance, accounting, or law. Etalon Group also provides external corporate education aimed at improving personal skills, ranging from English language courses to sales, public speaking and management skills training.

Education and training

Since 2015, we have held regular training programmes at our construction sites to familiarise employees with the latest materials and techniques that we use. In 2016, 299 employees attended such training programmes in the St Petersburg region, and 137 in the Moscow region. A further 212 employees completed online training courses via the Group's intranet.

Etalon also works with higher-educational institutions in St Petersburg to offer apprentice positions and internships. In 2016, 46 students were involved in these programmes, including a group of students from the St Petersburg State Academy of Architecture and Civil Engineering who spent nearly two months in June and July working at Etalon Group construction sites in St Petersburg.

1,227

TOTAL NUMBER OF EMPLOYEES WHO UNDERTOOK EDUCATIONAL AND PROFESSIONAL QUALIFICATION PROGRAMMES IN 2016

40,306

TOTAL NUMBER OF PERSON-HOURS INVESTED IN EDUCATION AND PROFESSIONAL QUALIFICATION PROGRAMMES BY ETALON EMPLOYEES IN 2016

Supporting our employees

Etalon Group supports its employees as their life circumstances change, with financial assistance available for major events such as the birth of a child, long-term illness or accidents that prevent an employee from working, the death of a close relative or loss of or damage to property (for example, as a result of flooding, fire, theft or natural disaster).

137 people

FINANCIAL ASSISTANCE AFTER THE BIRTH OF A CHILD

36 people

FINANCIAL ASSISTANCE FOR MEDICAL TREATMENT

172 people

FINANCIAL ASSISTANCE AFTER A DEATH IN THE FAMILY

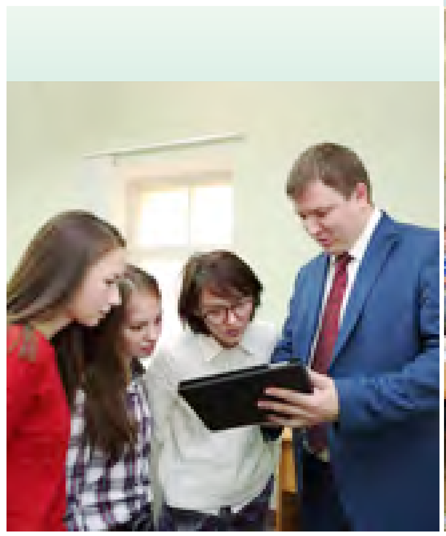
15 people

OTHER MATERIAL ASSISTANCE

We provide various types of insurance to employees, including:

- Life insurance – 1,100;
- Accident insurance for construction workers – 930;
- Medical programmes and private medical insurance – 1,100.

The Company also makes bonus payments to long-serving employees, to recognise significant contributions to the Company's development and upon retirement in honour of many years of service.



2014

RECHNOY

St Petersburg

111 THS SQM
NET SELLABLE AREA

UP TO 26
STOREYS IN HEIGHT

1,550
APARTMENTS

4 THS SQM
OF SPACE IN RESTORED ACADEMY

Alexey Zhukov

MANAGER OF INVESTMENT
AND CONSTRUCTION PROJECTS
AT ETALON GROUP

The Rechnoy project is truly unique. From its windows, residents have a fantastic view of the Neva River and the opposite embankment, which is free of tall or industrial buildings. We had to overcome certain difficulties related to excavation work we did near the Neva. Due to the lack of space and the uneven territory, we used a great deal of sheet piling and reinforcements. Situated on the territory of Rechnoy is a completely reconstructed academy that is an architectural monument. The building was constructed in 1909 based on a design by Leo Shishko. Sadly, the building was lost, but our Company rebuilt it in the same location and in its original form. Complex stone work, a great deal of stucco and the construction of the rabbet roof were all done by Etalon Group.

Rechnoy

Rechnoy is located in the Nevskiy district of St Petersburg and consists of six 26-storey residential buildings and two four-storey commercial buildings. Each building is equipped with heated underground parking accessible via lifts. One of the key advantages of the project is its proximity to transport links. The nearest metro station is Rybatskoe, which is within 20 minutes' walking distance from the complex. All forms of public transport are available. The complex also boasts good ecological conditions, being located on the banks of the Neva River, not far from a large forest.

2016

2013

2012

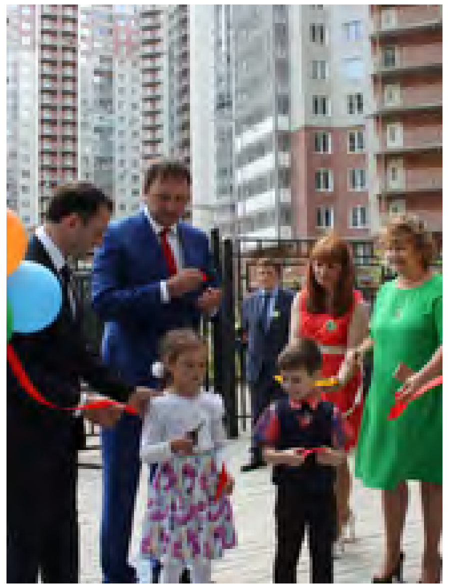
Community investment

Etalon's development projects are designed to include extensive social infrastructure, so that residents are able to move into an established and fully functioning community. In addition to housing, this means that we build the infrastructure for stores, entertainment facilities, fitness centres, schools, medical centres and so on.

Our strategy on developing social infrastructure focuses on working together with local authorities when we sign investment contracts. Sometimes, Etalon itself pays for the construction of social infrastructure (this is most common in projects with authorities in Moscow). In the case of privately acquired land plots, the planning permission may require the inclusion of social infrastructure in the project, and this is usually compensated from municipal budgets.

Educational facilities form an important component of our projects. We want to support families with children and thus encourage long-term sustainability of the communities created by our larger projects. A number of new educational facilities were opened during 2016.

New educational facilities in 2016



Emerald Hills

A new fully equipped preschool of 1,600 sqm and with 80 places for children, including children with disabilities, opened in June. In addition, Preschool No 8 at the same project was awarded special status by the Moscow region's Education Ministry in recognition of the innovative educational methods it has developed since opening in 2013. Advanced facilities available at Preschool No 8 include a swimming pool, sport and music rooms, an art studio and even a mini-museum devoted to Russian culture and traditions.

Swallow's Nest

School No 690 opened its doors on 1 September, the start of the new school year. The school has 825 places for children and a total floor area of 21 ths sqm. It also includes two swimming pools (one 6 m long and the other 25 m), two spacious sports halls, a football pitch, a basketball court and running tracks.

Molodezhny

A new preschool opened on 1 September, with places for 95 children.

In addition, in 2016, permission was obtained for the construction of a preschool at the Moscow Gates project.

In the future, Etalon plans to build a ballet school at the Emerald Hills project, with construction due to be completed in the third quarter of 2018.

The school will be a four-storey building of 3,960 sqm with nine specially equipped practice rooms, and space for up to 280 students.

On 15 March 2016, Etalon Group and the St Petersburg Committee on Investments signed a memorandum on construction of social infrastructure at the Group's investment projects in Russia's Northern Capital. Etalon plans to build 10 preschools (seven integrated and three stand-alone) at its Galactica project in St Petersburg, as well as three schools.

19 ths sqm

TOTAL AREA OF THE OKTYABRSKAYA RAILWAY MUSEUM

8 hectares

LANDSCAPE PARK FEATURING ATTRACTIONS FOR ALL AGE GROUPS

Vostok 1

SPACECRAFT MODULE INSTALLED AT COSMONAUTS ALLEY

Historical and cultural sites

Emerald Hills

On 12 April, a ceremony took place to mark the 55th anniversary of Yuri Gagarin's historic spaceflight at the Cosmonauts Alley open-air museum dedicated to the history of space travel. A full-scale mock-up of the Vostok 1 spacecraft module was installed at Cosmonauts Alley. In the future, models of the Soyuz TM crew transport vessels and Sputnik 1, the first artificial satellite to orbit the earth, will be added to the display.

Galactica

Construction of a museum dedicated to the history of Russian Railways at the site of the former Warsaw Station in St Petersburg was completed in 2016. This museum, with a total area of over 19 ths sqm, will contain over 100 railcars and locomotives. In addition to display pavilions, it will include a lecture hall, a children's zone, and interactive displays to attract a variety of age groups.

Emerald Hills

In November 2016, we finished work on a landscape park nearly 8 hectares in size in the Emerald Hills neighbourhood. The park features attractions for all age groups, from playgrounds and sporting facilities to park and forest areas. Another park area is dedicated to family activities.

Other activities

Etalon Group supports local communities in the areas where we operate and throughout Russia. For example, we place great importance on commemorating veterans of World War II and residents of Leningrad who survived the Nazi blockade.

In 2016, a number of holiday festivities and sporting events were organised by the Company for families at many of the Group's residential complexes.

Etalon provides financial assistance towards the costs of specialist treatment and care for children with serious illnesses, and also supports purchases by charitable foundations of medical supplies and equipment needed to treat and care for sick children.

Environment

Etalon Group adheres to best environmental management practices to ensure that it complies with Russia's strict environmental regulations and rules on waste management at construction sites. Etalon's environmental management system is certified to ISO 14001:2004 standards, with compliance assessed annually by an external auditor. Etalon's environmental strategy is set out in the Management Policy on Quality and the Environment.

WE AIM TO ENSURE THAT OUR PROJECTS DO NOT HAVE A SIGNIFICANT NEGATIVE IMPACT ON THE ENVIRONMENT AND THAT THEY ARE SAFE FROM AN ENVIRONMENTAL STANDPOINT FOR RESIDENTS. SOME OF THE SAFETY MEASURES WE TAKE INCLUDE:

- Inspections of building and other materials upon delivery to Etalon Group
- Environmental review of projects at the planning stage
- Surveying and testing environmental conditions at a site at all stages, from initial planning to project delivery

Project planning

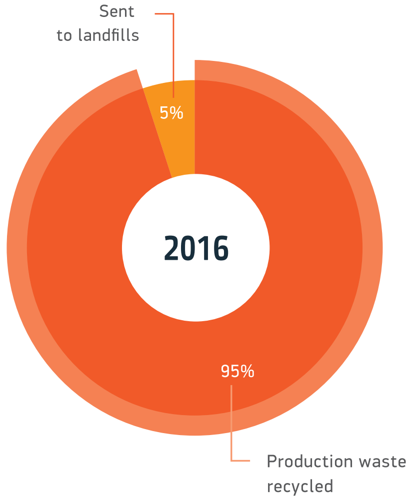
A comprehensive environmental assessment is carried out during the planning stage of all new projects, to assess air and soil quality, noise levels and physical characteristics of the site. Subsequent project documentation is drafted with due regard to the results of this assessment, and is designed to mitigate environmental impact both during the construction phase and after the facility is in use.

After construction is completed, buildings are assessed for compliance with regulatory standards for domestic air quality; radiation, noise and light levels; physical characteristic; microclimate etc., as well as soil quality post-construction.

Waste management

Etalon Group's environmental control systems monitor observance of standards for waste at all production units, as well as compliance with local limits established for water contamination and noise and air pollution in regulated zones.

Recycling production waste from our construction sites helps to reduce our environmental impact to a minimum. In 2016, we recycled 95% of such waste, with just 5% being sent to landfills.



Since 2014, we have installed special waste containers to sort paper, glass, plastic, fluorescent bulbs and batteries at all our residential complexes.

Environmental management standards

Etalon Group has had an integrated quality and environmental management system in place since 2008. The environmental management system is audited every three years for compliance with ISO 14001:2004 standards.

Following the publication of a new version of the ISO 14001:2015 standard, the management of Etalon's St Petersburg operations approved a resolution to upgrade the environmental management system to meet the requirements of the new standard. Certification under the new requirements is planned for 2017.

In addition to the three-yearly external assessments, the environmental management system is assessed by an internal audit every year for compliance with ISO 14001:2004 standards. Management also carries out its own annual analysis of the effectiveness of the environmental management system.

Energy and emissions

We have implemented measures to reduce emissions and electricity consumption at our construction sites, including replacing diesel generators with direct connections to the municipal power grid, and by installing LED lighting that consumes considerably less power than halogen or other lamps.

2015

EXPOFORUM

St Petersburg

10 THS PAX

TOTAL CAPACITY OF CONGRESS CENTRE HALLS

50 THS SQM

INDOOR EXHIBITION SPACE

441

HOTELS ROOMS AT THE HILTON ST PETERSBURG EXPOFORUM & HAMPTON BY HILTON ST PETERSBURG EXPOFORUM

73 THS SQM

TOTAL GLASS-PANELLED AREA

Yuri Borodin

TECHNICAL DIRECTOR AT ETALON GROUP'S OPERATING SUBSIDIARY IN ST PETERSBURG

Many of the innovative technologies that were used during the construction of ExpoForum were first applied in Russia by specialists from Etalon Group. Technologies included: pillarless spans of 90 metres in the main hall and pavilions; a suspension system allowing for the use of mobile partitions to create rooms of nearly any size, regulate the ceiling height and create unique microclimates; and raised floors allowing for the provision of power, plumbing and other utility connections to any point in the hall.

ExpoForum

The ExpoForum convention and exhibition centre is one of the largest of its kind in Europe and Russia. It opened in October 2014 as a space for business and cultural events of any size, including exhibitions, conventions, concerts, etc. The convenient and technically advanced exhibition and congress areas, which can easily be transformed to suit the needs of specific events, are complemented by well-developed infrastructure. The complex covers more than 56 hectares and includes all the necessary components: three exhibition pavilions, a congress centre, hotels, a business centre, customs offices and related infrastructure, as well as open and underground car parks.

2014

2013

2011

Corporate governance report

THE BOARD IS COLLECTIVELY RESPONSIBLE TO SHAREHOLDERS FOR THE SUCCESS OF THE COMPANY AND SETS AN ETHICAL TONE FOR THE REST OF THE ETALON ORGANISATION TO FOLLOW.

Etalon Group Limited was originally incorporated under Guernsey law with global depositary receipts (GDRs) admitted to the Official List of the UK Listing Authority and for trading on the London Stock Exchange under the ticker ETLN.

On 15 December 2016, an Extraordinary General Meeting of Shareholders held at Redwood House, St Julian's Avenue, St Peter Port, Guernsey approved a change of the Company's domicile. As a result of the re-domicile, Etalon Group migrated from Guernsey, and its name was removed from the Guernsey Register of Companies.

From 5 April 2017, the Company is registered in Cyprus under the name ETALON GROUP PUBLIC COMPANY LIMITED with registration number HE 368052 and its registered office at Arch. Makariou III, 2-4 CAPITAL CENTER, 9th floor 1065, Nicosia, Cyprus.

The Board of Directors continues to be committed to maintaining the highest standards of corporate governance and to conducting Board business with openness and transparency. Management of Etalon's business is delegated to the Board, who act in accordance with the Company's statutory documents, resolutions passed by shareholders at General Meetings and applicable legislation. The Company also complies with the relevant sections of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules.

Board of Directors

The Board provides leadership to the business and brings independent judgement to all matters of strategy, performance, conduct and accountability. To assist with this process, the Board has delegated specific responsibilities to the Audit Committee, Remuneration and Nomination Committee, Strategy Committee and to the Company's executive management team.

On 10 November 2016, the directors created an Information Disclosure Committee. The Committee is responsible for overseeing the information disclosure process.

DMITRY ZARENKOV

Chairman of the Board

Dmitry Zarenkov has 20 years of experience in the construction industry and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering and graduated from the Institute of Aeronautical Instrumentation, St Petersburg University of Architecture & Civil Engineering and St Petersburg University of Internal Affairs.

VIACHESLAV ZARENKOV

CEO, Founding shareholder and President

Viacheslav Zarenkov has 47 years of experience in the construction industry and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture and also holds the title of professor.

DMITRY KASHINSKIY

Vice President of Etalon Group

Dmitry Kashinskiy is Vice President of Etalon Group and has over 15 years of experience in the construction industry. Before joining Etalon Group in 2011, he worked at Barkli and AFI Development (Russia), where he served as CEO. Dmitry Kashinskiy graduated from the Moscow Aviation Institute.

KIRILL BAGACHENKO

Deputy CEO and Vice President

Kirill Bagachenko has over 12 years' experience in corporate finance and asset management. Prior to joining Etalon Group, he held the position of senior equity portfolio manager at TKB BNP Paribas Investment Partners. In 2013, he was voted one of the top three portfolio managers in Russia by Thomson Reuters Extel Survey. Kirill graduated from St Petersburg State University of Economics and Finance.

ALL MEMBERS OF THE BOARD, INCLUDING THE NON-EXECUTIVE DIRECTORS, ATTEND REGULAR MEETINGS OF THE GROUP'S SENIOR MANAGEMENT.

MARTIN COCKER

Independent non-executive director

Martin Cocker has over 20 years of experience in audit, and seven years' experience in the construction industry. He runs his own development business in Portugal and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the UK.
He graduated from the University of Keele.

BORIS SVETLICHNY

Independent non-executive director

Mr Svetlichny brings to the Company 27 years of international financial and senior management experience, and he has held various senior finance positions at Orange Business Services in Russia, VimpelCom and Golden Telecom. From March 2014 to August 2016, Mr Svetlichny served as CFO of Etalon Group. Mr Svetlichny has a BBA in Accounting from the University of Massachusetts, and received an MBA from Carnegie-Mellon University.

CHARALAMPOS AVGOUSTI

Independent non-executive director

Mr Avgousti is an experienced legal professional in the real estate, corporate and banking sectors. He is the founder and Managing Director of Ch. Avgousti & Partners LLC (Advocates & legal consultants). Previously, he worked at several law firms, including Totalserve Group and Nasos A. Kyriakides & Partners Advocates.
Mr Avgousti is a board member at Cyprus Telecommunication Authority, a member of the Advisory Council of Limassol for the Central Cooperative Bank. He graduated from the Democritus University of Thrace and has an LLM in International Commercial Law from the Northumbria University Newcastle.

MARIOS THEODOSIOU

Independent non-executive director

Mr Theodosiou is an experienced professional in international marketing and strategy. He is affiliated with several professional associations, including the American Marketing Association (AMA) and the Academy of International Business. In 2015, he won an Excellence in Global Marketing Research Award from the AMA's special interest group on Global Marketing. Mr Theodosiou is a member of the Working Group on Economic Matters for Cyprus talks. He graduated from the University of Cyprus (B.Sc. in Public and Business Administration) and the University of Wales, Cardiff (PhD in International Marketing and Strategy).

MICHAEL CALVEY

Non-executive director

Michael Calvey has been a Senior Partner at Baring Vostok Capital Partners since 1999. He is a board member at Europlan, Volga Gas and Gallery Media Group, among others. He previously worked at the EBRD, Salomon Brothers and Sovlink Corporation, and was a board member at CTC Media, Golden Telecom and Burren Energy. He graduated from the University of Oklahoma and the London School of Economics.

ALEXEY KALININ

Non-executive director

Alexey Kalinin is a Senior Partner at Baring Vostok Capital Partners, where he has been since 1999. Previously, he worked at Alfa Bank and Alfa Capital. He is Chairman of the Board of Directors at Volga Gas and a board member at Samarenergo and at two Russian glass companies. He graduated from the Moscow Power Engineering University and holds a PhD in Engineering.

As of 31 December 2016, the Board and its Committees were structured as follows:

SHAREHOLDERS

THE BOARD

LEADERSHIP, STRATEGY, RISK, GOVERNANCE, VALUES AND STANDARDS

AUDIT COMMITTEE

Chairman
Martin Cocker
Members
Boris Svetlichny
Viktor Vasenev
(appointed on 10.11.2016)
Gabbas Kazhimuratov
(appointed on 10.11.2016)

REMUNERATION AND NOMINATION COMMITTEE

Chairman
Viacheslav Zarenkov
Members
Alexey Kalinin
Martin Cocker
Charalampos Avgousti
(appointed on 10.11.2016)
Dmitry Zarenkov
Kirill Bagachenko
(appointed on 10.11.2016)
Michael Calvey

STRATEGY COMMITTEE

Chairman
Dmitry Kashinskiy
(appointed on 10.11.2016)
Members
Viacheslav Zarenkov
Dmitry Zarenkov
(appointed on 10.11.2016)
Alexey Kalinin
Kirill Bagachenko
Viktor Vasenev
(appointed on 10.11.2016)
Alexander Tyapin
(appointed on 10.11.2016)

INFORMATION DISCLOSURE COMMITTEE

Chairman
Kirill Bagachenko
Members
Viktoria Tcytrina
Ksenia Savchuk

EXECUTIVE MANAGEMENT

All members of the Board, including the Non-executive Directors, attend regular meetings of the Group's senior management. These meetings consider the Group's prospective projects, pipeline, buildings under construction, sales and cash flows and, where appropriate and necessary, they bring recommendations to the Board for approval.

After every meeting of the Board of Directors, formal minutes are prepared and circulated to all Board members for review prior to approval. Papers are circulated in advance of meetings, which allows the Directors to focus their time on matters of strategic and financial importance. Any matters requiring consideration or approval in the interim are, where deemed fit, approved by written resolution.

The Management Policy initially adopted in 2013 sets out the roles and responsibilities of the Directors, together with a schedule of matters reserved for Board approval. The matters specifically reserved for the Board include:

- approval of the Company's long-term objectives and corporate strategy;
- approval of material acquisitions, disposal, investment, contract, expenditure or other transactions;
- approval, following a recommendation from the Audit Committee, of interim and final results, the annual report and accounts, including the corporate governance statement, the dividend policy and any declaration of interim dividends and recommendation of final dividends;
- approval, following a recommendation from the Remuneration and Nomination Committee, of any appointments to the Board and other key senior management committee membership;
- review, following a recommendation from the Audit Committee, of the effectiveness of the internal control and risk management systems; and
- approval of the Company's corporate governance policies and procedures.

Roles and responsibilities

As previously announced, with effect from 1 August 2016, the roles and responsibilities of the Executive Directors changed following Viacheslav Zarenkov's suggestion to the Board to resume the role of Chief Executive Officer and to step down from his role as Chairman of the Board with effect from 1 August 2016.

On the recommendation of the Remuneration and Nomination Committee, the Board appointed Mr Viacheslav Zarenkov as Chief Executive Officer of the Company with effect from 1 August 2016 and Mr Dmitry Zarenkov as Chairman of the Board upon Mr Viacheslav Zarenkov's resignation. As a result Mr Anton Evdokimov relinquished his role as Chief Executive Officer and First Vice President.

Besides, on the recommendation of the Remuneration and Nomination Committee, the Board approved:

- appointment of Mr Dmitry Kashinskiy as Vice President accountable to the CEO and responsible for operational issues with effect from 1 August 2016;
- appointment of Mr Kirill Bagachenko as Deputy CEO and Vice President accountable to the CEO and responsible for investments and communications in the Group with effect from 1 August 2016;
- appointment of Mr Gennadiy Shcherbina as Vice President accountable to the CEO and responsible for the development and the St Petersburg business unit's affairs with effect from 1 August 2016;
- appointment of Mr Daniil Seledchik as Vice President accountable to the CEO and responsible for the development and the Moscow business unit's affairs with effect from 1 August 2016;
- appointment of Mr Viktor Vasenev as Chief Financial Officer responsible for finance and assets with effect from 1 August 2016, the date of Mr Boris Svetlichny's resignation;
- appointment of Mr Pavel Golovachev as Deputy CFO responsible for accounting, reporting and taxation of the Group with effect from 1 August 2016;

Moreover, during the last Board meeting, which was held on 10 November 2016, the corporate governance structure was revised substantively, in particular:

- The Board terminated the appointment of Mr Anton Poryadin, Mr Anton Evdokimov and Mr Andrew Howat as Directors of the Company;
- Mr Dmitry Kashinskiy was appointed as a Director of the Company and the Chairman of the Strategy Committee;
- The last two vacant Director positions were offered to Mr Charalampos Avgousti and Mr Marios Theodosiou whose appointments were unanimously approved by the Board.

Therefore, with effect from 10 November 2016 the roles and responsibilities of the Executive Directors are as follows:

Mr Viacheslav Zarenkov is the founder of Etalon Group. As Chief Executive Officer and President, he is responsible for implementing the strategic and commercial decisions of the Board and for identifying and executing new business opportunities outside the current core activities, in line with strategic plans, and for leading the communication programme with shareholders. He is also responsible for business effectiveness and legal support.

Mr Dmitry Zarenkov is the Chairman and a Non-executive Director and is responsible for the effective running of the Board and for ensuring that it plays a full and constructive role in the development and determination of our ongoing strategy. Together with the Chief Executive Officer, the Chairman sets the agenda for Board meetings, ensuring that accurate, timely and clear information is provided by Etalon's officers and external advisers and that sufficient time is allowed for the discussion of complex and contentious issues. The Chairman is also responsible for ensuring that new Directors are provided with a properly constructed induction programme and for identifying the development needs of individual Directors and of the Board as a whole.

Mr Kirill Bagachenko is an Executive Director, Deputy Chief Executive Officer and Vice President of the Company. Mr Bagachenko is responsible for strategic analysis of the capital markets environment, monitoring opportunities for the Company's business development, developing and implementing the Company's investor relations strategy and ensuring that there is effective communication with the Company's stakeholders.

Mr Dmitry Kashinskiy is an Executive Director and Vice-President of the Company. As such, he is responsible for control over Company's goals and strategy development with regard to the Company's obligations towards its shareholders, customers, employees and other related parties.

The Board recognises the importance of maintaining an ongoing and high-quality relationship with its shareholders and the wider investment community. Therefore, Mr Bagachenko together with the Chairman and Chief Executive Officer, meets regularly with the Group's investors and analysts to communicate strategies and objectives and to showcase current projects.

In addition, six Non-executive Directors have been appointed to the Board who, together, continue to bring a wealth of knowledge and business experience to the Group. Through their contributions, the Non-executive Directors provide Etalon with impartial views on matters of strategy, performance, risk and conduct.

As of 31 December 2016 and as of the date of this Report, the six Non-executive Directors were: Boris Svetlichny, Michael Calvey, Alexey Kalinin, Martin Cocker, Charalampos Avgousti and Marios Theodosiou, four of whom, namely Boris Svetlichny, Martin Cocker, Charalampos Avgousti and Marios Theodosiou are considered to be independent.

Board Committees

The Board of Directors has delegated certain of its responsibilities to four Board Committees: the Audit Committee, the Remuneration and Nomination Committee, the Strategy Committee and the Information Disclosure Committee. The four Committees report back to the Board after each meeting and make recommendations to the Board for approval in accordance with their respective terms of reference.

Audit Committee

The members of the Audit Committee were as follows:

UP TO 10 NOVEMBER 2016:

MR MARTIN COCKER
Committee Chairman and Independent Non-executive Director

MR ANTON PORYADIN
Independent Non-executive Director

MR ANTON EVDOKIMOV
Executive Director and Chief Executive Officer

MR BORIS SVETLICHNY
Executive Director and Chief Financial Officer

FROM 10 NOVEMBER 2016 AND TO THE DATE OF THIS REPORT:

MR MARTIN COCKER
Committee Chairman and Independent Non-executive Director

MR BORIS SVETLICHNY
Independent Non-executive Director

MR VIKTOR VASENEV
Chief Financial Officer of Etalon Group

MR GABBAS KAZHIMURATOV
Chief Financial Officer at Baring Vostok funds

While only members of the Audit Committee are entitled to attend meetings, the lead partner of the external auditor, head of Internal Audit and other members of senior management are invited to attend meetings as necessary and appropriate.

Responsibilities

The Audit Committee is responsible for:

- Monitoring the financial reporting process and the integrity of Etalon Group's financial statements;
- Reviewing internal controls, overseeing how management monitors compliance with our risk management policies and procedures, the effectiveness of our Internal Audit function and the independence, objectivity and the effectiveness of the external audit process;
- Considering the terms of appointment and remuneration of the external auditor.

The Audit Committee held a number of meetings in 2016, where the key matters for consideration were:

- The year-end financial results, together with the associated report of the external auditor;
- The half-year interim results, together with the associated report from the external auditor;
- Matters raised by the external auditor as part of the audit process requiring the attention of management and the actions taken by management to address those matters;
- Reviewing the performance and independence of the external auditor;
- Recommending to the Board the reappointment of the external auditor and the fee level for audit services;
- Approving any non-audit services proposed to be undertaken by the external auditor during the year;
- Reviewing the terms of reference of the Audit Committee and its responsibilities and recommending amendments to the Board;
- Receiving reports from Internal Audit on the results of their engagements and considering the remedial actions taken by management in respect of any matters arising;
- Reviewing the accounting policies adopted by the Group and approving any changes to those policies on the recommendation of management or the external auditor.

External Audit

The Audit Committee continues to be satisfied with the performance of KPMG and has recommended to the Board that they be reappointed as auditors. The Audit Committee also considered and approved non-audit services performed by the external auditor during the year to ensure that those services did not threaten auditor's independence. The Audit Committee regularly meets with the external auditor without management present.

Internal Audit

The Group's Internal Audit function provides independent objective assurance and advisory oversight of the business's operations and systems of internal control and helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Audit Committee commissioned a review of the Internal Audit function by the external auditor. Following consideration of the report, the Audit Committee accepted the recommendations made by the external auditor and continues to enhance the role and responsibility of the Internal Audit function.

In 2016, the engagements undertaken by Internal Audit focused on Etalon's major management systems and business processes and included HR, sales and purchases, among others.

The Audit Committee regularly meets with the head of Internal Audit without management present.

Internal Controls and Risk Management Systems

The Audit Committee, and the Board as a whole, continues to ensure that effective risk management systems are adopted to ensure that key risks faced by Etalon Group are identified and evaluated. Appropriate limits and controls are set, maintained and monitored to ensure compliance. In particular, the risk management framework identifies risks that might, if not appropriately managed, materially affect the ability of the Group to achieve its objectives or lead to a material misstatement in the Group's financial results.

Risk management policies and systems are reviewed periodically by the Audit Committee to ensure that they remain appropriate, relevant and comprehensive, taking into account any variations in market conditions and the Group's activities. The review also considers whether the identified risks are being managed effectively. The Audit Committee is responsible for overseeing how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework. In this, the Audit Committee is assisted by the Internal Audit function.

While progress continues to be made in this area, the Audit Committee continues to monitor the Group's risk management processes and to provide support for, and oversight to, the amendments undertaken.

Remuneration and Nomination Committee

The members of the Remuneration and Nomination Committee were as follows:

UP TO 10 NOVEMBER 2016:

MR VIACHESLAV ZARENKOV
Committee Chairman and Executive Director

MR DMITRY ZARENKOV
Executive Director

MR MARTIN COCKER
Independent Non-executive Director

MR MICHAEL CALVEY
Non-executive Director

MR ALEXEY KALININ
Non-executive Director

FROM 10 NOVEMBER 2016 AND TO THE DATE OF THIS REPORT:

MR VIACHESLAV ZARENKOV
Committee Chairman and Independent Non-executive Director

MR DMITRY ZARENKOV
Chairman of the Board and Non-executive Director

MR ALEXEY KALININ
Non-executive Director

MR MARTIN COCKER
Independent Non-executive Director

MR CHARALAMPOS AVGOUSTI
Independent Non-executive Director

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO and Vice President of Etalon Group

MR MICHAEL CALVEY
Non-executive Director

Responsibilities

The terms of reference of the Remuneration and Nomination Committee set out the Committee's responsibilities in detail. In summary, the Committee advises the Board of Directors on the remuneration of executive management and other senior employees and reviews the terms and conditions of employment agreements for all senior appointments.

The Committee is also responsible for drafting the selection criteria and appointment of members of the Board of Directors and for reviewing its structure, size and composition on a regular basis. In undertaking this role, the Committee considers the skills, knowledge and experience required at Etalon Group's stage of development and the requirements of current legislation and makes recommendations to the Board as to any changes.

The Committee also considers and makes recommendations regarding the membership of the Audit and Strategy Committees and of the Information Disclosure Committee.

The Committee held a number of meetings in 2016 at which it considered amendments to the Group's incentive plans, as well as changes to the membership of the Board and its Committees.

Strategy Committee

The members of the Strategy Committee were as follows:

UP TO 10 NOVEMBER 2016:

MR ANTON PORYADIN
Committee Chairman and Independent Non-executive Director

MR VIACHESLAV ZARENKOV
Executive Director

MR ANTON EVDOKIMOV
Executive Director

MR ALEXEY KALININ
Non-executive Director

MR KIRILL BAGACHENKO
Executive Director

FROM 10 NOVEMBER 2016 AND TO THE DATE OF THIS REPORT:

MR DMITRY KASHINSKIY
Committee Chairman and Vice President of Etalon Group

MR VIACHESLAV ZARENKOV
Chief Executive Officer and President of Etalon Group

MR DMITRY ZARENKOV
Chairman of the Board and Non-executive Director

MR ALEXEY KALININ
Non-executive Director

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO and Vice President of Etalon Group

MR VIKTOR VASENEV
Chief Financial Officer of Etalon Group

MR ALEXANDER TYAPIN
Investment Director at Baring Vostok funds

Responsibilities

The Strategy Committee's terms of reference set out its responsibilities in detail. In summary, the Strategy Committee's role is to assist the Board in fulfilling its oversight responsibilities relating to the medium- and long-term strategic direction and development of Etalon Group. The Strategy Committee provides advice and expertise so that strategic options may be explored fully before being tabled at Board meetings for deliberation and approval.

The Strategy Committee held several meetings in 2016, where the key matters for consideration were: review of Etalon Group's development priorities and strategic guidelines for the period from 2017 to 2023, further improvements in operational efficiency and consideration of new development opportunities.

Information Disclosure Committee

The members of the Information Disclosure Committee in 2016 and to the date of this Report were as follows:

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO and Vice President of Etalon Group

MS VIKTORIA TCYTRINA
Chief Legal Officer of Etalon Group

MS KSENIA SAVCHUK
Head of PR of GK Etalon ZAO

Responsibilities

The Information Disclosure Committee is responsible for overseeing the Company's information disclosure process, which includes identifying inside information, reviewing information and documents prior to disclosure, preparing announcements and defining the form of disclosure. The Committee analyses the Etalon Group Ltd Information Disclosure Policy on a regular basis, and makes recommendations to the Board regarding any changes. It also makes recommendations with regards to training for Etalon Group's management and staff to help ensure consistent implementation of the Information Disclosure Policy.

The Information Disclosure Committee held one meeting in 2016, where the key matter for consideration was agreement on a common approach to handling inside information by the Company.

Etalon Group and capital markets

Establishing long-term relationships with investors is one of our key priorities, and will help to create value for shareholders and other stakeholders over the long term.

30%-50%

CONSOLIDATED IFRS NET INCOME IS THE COMPANY'S TARGET DIVIDEND PAYOUT

MARKET CAP NEARLY DOUBLED

TO OVER USD 1 BLN BY YEAR-END

B+/B RATING BY S&P

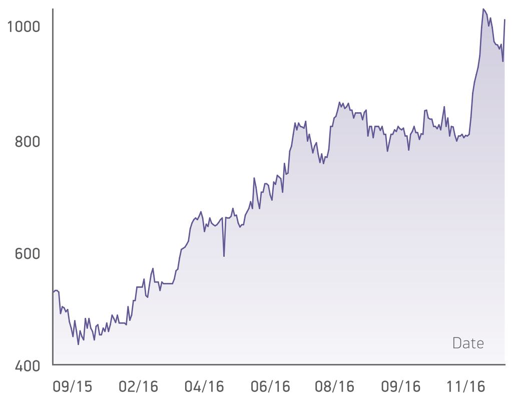
LONG- AND SHORT-TERM CREDIT RATINGS OF LENSPETSSMU

Etalon Group adheres to globally accepted good practices in its investor relations, regularly disclosing information that is material to the Company's performance and relevant to investors' understanding of its performance, as well as meeting with investors and analysts during road shows, conferences, and Company events. The Company's investor relations function is overseen by Deputy CEO and Vice President Kirill Bagachenko, who is also a member of the Board of Directors and Chairman of the Information Disclosure Committee.

Equity capital markets

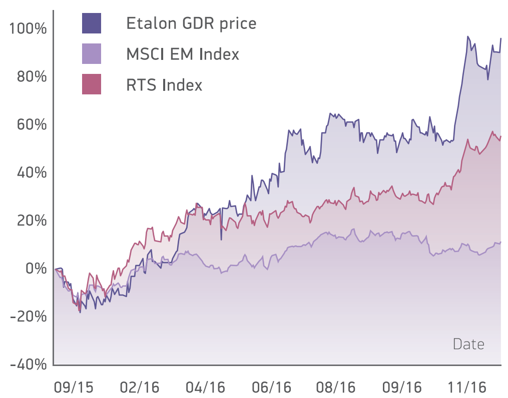
Etalon Group Limited's GDRs have been traded on the Main Market of the London Stock Exchange since 20 April 2011 under the ticker ETLN.

ETALON GROUP MARKET CAPITALISATION, USD MLN



Source: Bloomberg

ETALON GROUP GDR PRICE PERFORMANCE AGAINST BENCHMARKS



Source: Bloomberg

Dividend policy

On 20 May 2016, the Board of Directors of Etalon Group Limited resolved to increase the Company's target dividend payout range from the level of 15%-30% to 30%-50% of consolidated IFRS net income. Based on this new range, the Board of Directors continues to consider semi-annual dividend payments, taking into account the Company's pre-sales performance and funding needs for the Company's development programme. This policy took effect starting with Etalon Group's IFRS financial results for the first half of 2016.

Etalon Group celebrated five years as a public company in 2016, during which time we have developed an investor relations practice that has been repeatedly recognised as one of the best among its peers. Whether through good times or bad, we aim to maintain an open and honest dialogue with the market to maintain a relationship based on trust and transparency. I am very pleased to note the strong performance of Etalon Group's shares during 2016, with our market cap nearly doubling to over USD 1 billion at year-end, outperforming both the MSCI EM Index and Russia's RTS during the 12-month period. Looking ahead, we will consider refining our investor relations practices, regularly communicating our achievements against Etalon Group's updated strategic targets as we embark on a new phase of growth.

Kirill Bagachenko
Deputy CEO and Vice President

Analyst coverage

Etalon Group's GDRs are covered by analysts from leading international and Russian brokerages. The Company works with analysts on an ongoing basis, including holding special events for analysts after significant announcements, to help ensure accurate, high-quality coverage of the Company. As of 31 December 2016, the following analysts were covering Etalon Group:

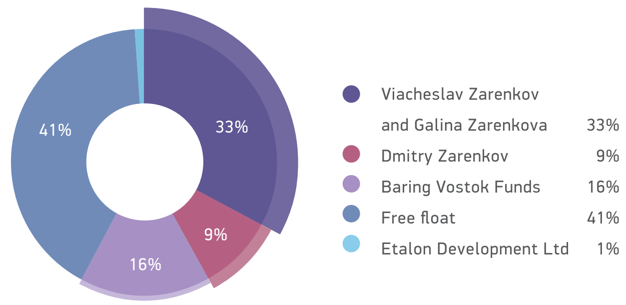
Organisation	Name	Email
Goldman Sachs	Daniil Fedorov	daniil.fedorov@gs.com
J. P. Morgan	Elena Jouronova	elena.jouronova@jpmorgan.com
Deutsche Bank	George Buzhenitsa	george.buzhenitsa@db.com
Credit Suisse	Victoria Petrova	victoria.petrova@credit-suisse.com
Citi	Barry Ehrlich	barry.ehrlich@citi.com
Sberbank CIB	Julia Gordeyeva	Julia_Gordeyeva@sberbank-cib.ru
VTB Capital	Maria Kolbina	maria.kolbina@vtbcapital.com
Renaissance Capital	David Ferguson	dferguson@rencap.com
Otkritie	Georgy Ivanin	georgy.ivanin@otkritie.com
BCS	Marat Ibragimov	mibragimov@bcsprime.com

Ownership structure

As of 15 April 2017, the Company was aware of the following interests in its shareholding structure:

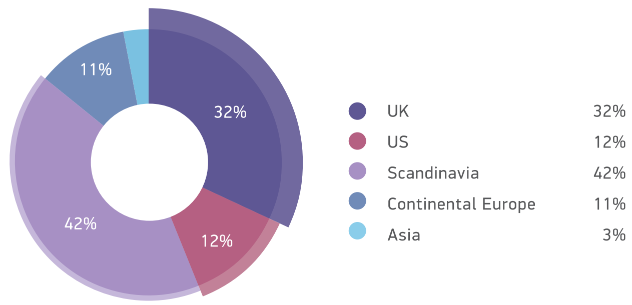
The Company's free float includes investors from all over the world, with a significant share concentrated in the UK, continental Europe and Scandinavia.

SHAREHOLDER STRUCTURE



Source: Etalon Group

INSTITUTIONAL OWNERSHIP



Source: Ipreo

Debt capital markets

Public debt instruments

Etalon Group's subsidiaries have more than 12 years of history using public debt instruments, and the Company currently has two bonds in issue.

Issuer	LenSpetsSMU	LenSpetsSMU
Debt instrument	Series 02 bond issue	Series 001P-01 bond isssue
Amount, '000 RUB	5,000,000	5,000,000
Maturity	5 years	5 years
Issue date / maturity date	18.12.2012 / 12.12.2017	23.06.2016 / 17.06.2021

Credit ratings

Our St Petersburg operating subsidiary LenSpetsSMU has had credit ratings from Standard & Poor's in relation to its public debt issuance since 2006. Etalon Group has one of the highest credit ratings among its peers in Russia's residential real estate sector.

LenSpetsSMU's 'B+' long-term & 'B' short-term corporate credit ratings were last reconfirmed on 3 June 2016.

On 2 March 2016, the RAEX rating agency gave LenSpetsSMU a long-term credit rating of A+/stable.

Investor relations

Transparency & disclosure

Etalon Group discloses all material information about its activities, including:

- Monthly visual updates on the status of projects currently under construction;
- Quarterly updates on operating performance, including a press release, presentation and conference call;
- Semi-annual updates on IFRS financial results, including a press release, presentation and conference call;
- Annual updates on portfolio valuation, including a press release and a presentation.

The Company also discloses information about the results of key Board of Directors meetings, all Meetings of Shareholders and important milestones in its development projects (permitting, launch of sales, delivery of property).

Meetings, roadshows and conferences

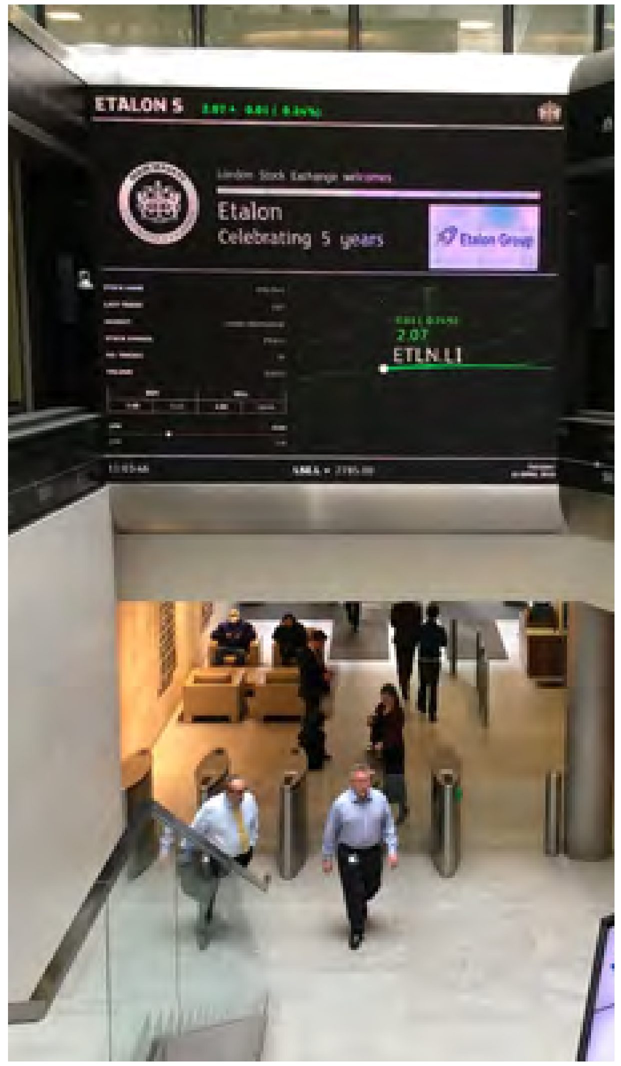
Throughout the year, Etalon Group's senior management and investor relations team engage with investors face to face at meetings and conferences around the world. In 2016, the Company held over 250 meetings with investors, including two roadshows, 12 investor conferences, group meetings for analysts or investors and site visits to selected projects currently under construction.

Awards and recognition

In recognition of the high quality and professional work done by Etalon Group's investor relations team, the Company won two awards in July 2016 at the IR Magazine Russia & CIS Awards. The Company was among the Grand Prix winners for best overall investor relations across all Russian public companies, and Kirill Bagachenko was recognised as the best Head of Investor Relations in the real estate sector. This is the third year in a row that the Company has been awarded in these two categories.

Investor calendar

Date	Events
April 2017	1Q 2017 Operating results
1- 3 June 2017	St Petersburg International Economic Forum
19-23 June 2017	Renaissance Capital 21st Annual Russia One-on-One Conference, Moscow
27-29 June 2017	UBS EMEA LatAm 1:1 Conference, London
mid-July 2017	1H 2017 Operating results
6-7 September 2017	Deutsche bank GEM One-on-One conference, New York
end-September 2017	1H 2017 Financial results
11-13 October 2017	VTB Russia Calling Forum, Moscow
mid-October 2017	9M 2017 Operating results
13-14 November 2017	Goldman Sachs One-on-One Conference, London
28-30 November 2017	UBS GEM One-on-One Conference, New York
8 December 2017	WOOD's Winter Wonderland, Prague
January 2018	12M 2017 Operating results



Contact information

Investor relations:

Email: ir@etalongroup.com
Tel: +44 (0)20 8123 1328

GDR depository bank:

The Bank of New York Mellon
101 Barclay Street
New York 10286
Attention: ADR Division
Fax: +1 212 571 3050

Etalon Group contacts:

Tel: +44 (0)20 8123 1328
Fax: +44 (0)20 8123 1328
Email: info@etalongroup.com

2016

TSAR'S CAPITAL

St Petersburg

387 THS SQM

THE LARGEST PROJECT RECENTLY CONSTRUCTED IN THE CENTRAL DISTRICT OF ST PETERSBURG

15

RESIDENTIAL BUILDINGS CONSTRUCTED USING POURED-CONCRETE TECHNOLOGY WITH VENTILATED FACADES

4,065

APARTMENTS

17 THS SQM

NSA OF TWO BUSINESS CENTRES

Gennadiy Shcherbina

HEAD OF ETALON
GROUP'S OPERATIONS
IN ST PETERSBURG

The Tsar's Capital residential complex was quite an ambitious project, one of our largest housing projects in the historic centre of St Petersburg and the result of a great deal of hard work. Before us stood a very important, but complicated task: to create a new complex that fit harmoniously with the existing style of the Central district of the Northern Capital, all the while making it modern and convenient for everyday living. I believe we succeeded in this task. During the construction of each of our facilities, we use a large team of professionals: designers, architects and builders. Looking at this team today, I can confidently say that we can tackle any task, no matter how difficult.

Tsar's Capital

Tsar's Capital is a business-class residential complex located in central St Petersburg, near Nevskiy and Ligovskiy prospekts, not far from the historic city centre. The project consists of 15 buildings of various heights, with on-site commercial premises and car parks. The complex is surrounded by numerous historical monuments and cultural centres, including theatres, museums and galleries. This excellent location allows residents to enjoy the area's well-developed infrastructure, including numerous pre-schools, schools, hospitals and shopping centres all close at hand. There are four metro stations within walking distance from the complex, allowing quick transit to any part of Russia's Northern Capital.

2016

2014

2013

Consolidated Financial Statements Etalon Group Limited

For the year ended 31 December 2016

Directors' report

Principal activity

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

Statement of Directors' responsibilities

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

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

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

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

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

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

Disclosure of information to Auditors

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

Directors' Responsibility Statement

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

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

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

Charalampos Avgousti
Director

JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To Shareholders and the Board of Directors

Opinion

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

In our opinion, the accompanying consolidated financial statements:

— give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended;

— are in accordance with International Financial Reporting Standards; and

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

Basis for Opinion

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

Etalon Group Limited
Independent Auditors' Report
Page 2

Key Audit Matters

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

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

Etalon Group Limited
Independent Auditors' Report
Page 3

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

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

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

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

Other Information

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

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

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

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

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

In preparing the consolidated financial statements, directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable,

matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

Etalon Group Limited
Independent Auditors' Report
Page 6

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

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

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

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

Matters on Which We Are Required to Report by Exception

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

— the Company has not kept proper accounting records; or

— the financial statements are not in agreement with the accounting records; or

— we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

We have nothing to report in respect of these matters.

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

Maxim Samarin
Director
For and on behalf of JSC "KPMG"
Recognized auditor
3 April 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

mln RUB	Note	2016	2015
Revenue	6	49,022	42,404
Cost of sales		(36,813)	(29,405)
Gross profit		**12,209**	**12,999**
General and administrative expenses	8	(4,454)	(4,348)
Selling expenses		(1,984)	(1,411)
Other expenses, net	9	(753)	(991)
Results from operating activities		**5,018**	**6,249**
Finance income	11	1,857	1,686
Finance costs	11	(319)	(504)
Net finance income		**1,538**	**1,182**
Profit before income tax		**6,556**	**7,431**
Income tax expense	12	(1,654)	(2,002)
Profit for the year		**4,902**	**5,429**
Total comprehensive income for the year		**4,902**	**5,429**
PROFIT ATTRIBUTABLE TO:			
Owners of the Company		4,902	5,399
Non-controlling interest		–	30
Profit for the year		**4,902**	**5,429**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		4,902	5,399
Non-controlling interest		–	30
Total comprehensive income for the year		**4,902**	**5,429**
EARNINGS PER SHARE			
Basic and diluted earnings per share (RUB)	**22**	**16.77**	**18.48**

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

Charalampos Avgousti
Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 123 to 155.

Consolidated Statement of Financial Position

as at 31 December 2016

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

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 123 to 155.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

mln RUB	Attributable to equity holders of the Company			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2015	**14,983**	**36,537**	**51,520**	**351**	**51,871**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	–	5,399	5,399	30	5,429
Total comprehensive income for the year	–	5,399	5,399	30	5,429
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Dividends to equity holders	–	(2,452)	(2,452)	–	(2,452)
CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL					
Transactions with own shares	16	–	16	–	16
Changes in ownership interest in subsidiaries	–	213	213	(234)	(21)
Total transactions with owners	**16**	**(2,239)**	**(2,223)**	**(234)**	**(2,457)**
Balance at 31 December 2015	**14,999**	**39,697**	**54,696**	**147**	**54,843**

mln RUB	Attributable to equity holders of the Company			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2016	**14,999**	**39,697**	**54,696**	**147**	**54,843**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	–	4,902	4,902	–	4,902
Total comprehensive income for the year	–	4,902	4,902	–	4,902
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Dividends to equity holders	–	(1,504)	(1,504)	–	(1,504)
CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL					
Changes in ownership interest in subsidiaries	–	28	28	(119)	(91)
Other reclassifications	71	(71)	–	–	–
Total transactions with owners	**71**	**(1,547)**	**(1,476)**	**(119)**	**(1,595)**
Balance at 31 December 2016	**15,070**	**43,052**	**58,122**	**28**	**58,150**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 123 to 155.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

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

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 123 to 155.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1 Background

a) Organisation and operations

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

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

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

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

b) Business environment

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

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

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

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

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

d) Use of estimates and judgments

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

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

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

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

3 Significant accounting policies

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

a) Basis of consolidation

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

b) Foreign currency

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

c) Financial instruments

(i) Financial assets

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

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

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

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

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

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

(ii) Financial liabilities

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

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

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

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

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

(iii) Impairment of financial assets

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

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

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

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

d) Advances received and paid

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

e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

f) Inventories

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

The Group accounts for stand-alone and built-in commercial properties within inventories because it does not intend to engage in renting-out those assets and keeping those as investment properties to generate rental income and benefit from appreciation. Properties classified as inventory may be rented out on a temporary basis while the Group is searching for a buyer. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

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

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

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

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

g) Revenue

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

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

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

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

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

(ii) Revenue from construction services

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

1) Contracts for provision of construction services;

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

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

For the second type of contracts revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

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

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

- billings in excess of work completed are recognised as a part of trade and other payables if progress billings exceed costs incurred plus recognised profits.

(iii) Revenue from sale of construction materials

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

(iv) Rental income

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

h) Income tax

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

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

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

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

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

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

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

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

i) New Standards and Interpretations not yet adopted

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

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

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

4 Determination of fair values

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

a) Non-derivative financial assets

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

b) Derivatives

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

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

Starting from April 2015 all sales are denominated in RUB.

c) Non-derivative financial liabilities

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

5 Operating segments

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

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

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

a) Information about reportable segments

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

b) Geographical information

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

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

c) Major customer

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

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

mln RUB	2016	2015
REVENUES		
Total revenue for reportable segments	59,503	53,079
Elimination of inter-segment revenue	(10,481)	(10,675)
Consolidated revenue	**49,022**	**42,404**
PROFIT OR LOSS		
Gross profit for reportable segments	12,209	12,999
General and administrative expenses	(4,454)	(4,348)
Selling expenses	(1,984)	(1,411)
Other expenses, net	(753)	(991)
Finance income	1,857	1,686
Finance costs	(319)	(504)
Consolidated profit before income tax	**6,556**	**7,431**
ASSETS		
Total assets for reportable segments: inventories	71,261	67,722
Total inventories	**71,261**	**67,722**
LIABILITIES		
Total liabilities for reportable segments: advances from external customers	23,594	16,790
Total advances from external customers	**23,594**	**16,790**

Performance of the reporting segments is measured by the management based on gross profits as the most relevant in evaluating the results of certain segments. General and administrative expenses, selling expenses, finance income and finance costs are treated as equally attributable to all reporting segments and are not analysed by the Group and therefore not reported for each individual segment. Segments' assets and segments' liabilities being analysed by the Board of Directors include inventories and advances received from customers as the key indicators relevant for segment performance measurement. Therefore, other assets and liabilities are not allocated between the segments.

6 Revenue

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

7 Construction contracts

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

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

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

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

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

8 General and administrative expenses

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

9 Other expenses, net

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

10 Personnel costs

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

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

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

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

11 Finance income and finance costs

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

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

mln RUB	2016	2015
Borrowing costs capitalised during the year	2,625	2,561
Weighted average capitalisation rate	13.8%	13.8%

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

12 Income tax expense

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

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

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

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

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

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

13 Property, plant and equipment

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

a) Security

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

b) Leased plant and machinery

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

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

14 Investment property

mln RUB	2016	2015
COST		
Balance at 1 January	1,456	1,463
Transfers from inventories	292	–
Transfers to inventories	–	(7)
Disposals	(942)	–
Balance at 31 December	**806**	**1,456**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Balance at 1 January	(918)	(655)
Depreciation for the year	(42)	(48)
Impairment gain/(loss)	41	(215)
Disposals	674	–
Balance at 31 December	**(245)**	**(918)**
Carrying amount at 1 January	538	808
Carrying amount at 31 December	**561**	**538**

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

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

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

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

- Cash flows were projected based on business plans for construction of residential property;
- Inflation rates – within 4.5%-6.4% per annum;
- Discount rates – 25% per annum.

15 Other long-term investments

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

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

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

(b) Unrecognised deferred tax liability

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

(c) Movement in temporary differences during the year

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

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

17 Inventories

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

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

a) Barter transactions

Project 1

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

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

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4.5%–6.4% per annum, a rate within this range was used, depending on year of recognition of land component;
- Discount rates – within 11.5%–25% per annum, a rate within this range was used, depending on year of recognition of land component and stage of the project.

Project 2

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

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

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4.5%-6.4% per annum;
- Discount rates – 23% per annum.

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

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

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

b) Allowance for obsolete inventory

The following is movement in the allowance for obsolete inventory:

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

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

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

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;
- Discount rates – 12.68% per annum;
- Inflation rates – 4.6–5.8% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogues.

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

c) Rent out of property classified as inventories

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

d) Pledges

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

18 Trade and other receivables

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

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

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

19 Short-term investments

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

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

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

20 Cash and cash equivalents

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

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

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

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

21 Capital and reserves

a) Share capital

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

Number of shares unless otherwise stated	Ordinary shares	
	2016	2015
AUTHORISED SHARES		
Par value at the beginning of the year	0.00005 GBP	0.00005 GBP
On issue at the beginning of the year	292,229,971	292,129,971
Par value at the end of the year	0.00005 GBP	0.00005 GBP
Own shares distributed	–	100,000
On issue at the end of the year, fully paid	**292,229,971**	**292,229,971**

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

b) Own shares

On 23 November 2011, the independent shareholders of the Company approved the purchase of Global Depositary Receipts (GDR's) representing ordinary shares of the Company of up to 9.25% of the Company's issued share capital. The Programme commenced on 24 November 2011 and was indefinitely suspended on 12 March 2012. As at 31 December 2016, the Group has acquired 2,728,000 own shares or 1% of issued share capital (as at 31 December 2015: 2,728,000 own shares or 1% of issued share capital) for the consideration of RUB 440 million (as at 31 December 2015: RUB 440 million).

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

c) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2016, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 43,469 million (31 December 2015: RUB 36,115 million). Dividends in the amount RUB 1 504 million have been declared and paid by the Company during the year ended 31 December 2016 (year ended 31 December 2015: RUB 2,452 million). Dividends per share amounted to 5.15 RUB during the year ended 31 December 2016.

d) Non-controlling interest in subsidiaries

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

22 Earnings per share

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

Number of shares unless otherwise stated	2016	2015
Issued shares at 1 January	292,229,971	292,129,971
Effect of own shares disributed	–	65,206
Weighted average number of shares for the year ended 31 December	**292,229,971**	**292,195,177**
Profit attributable to the owners of the Company, mln RUB	4,902	5,399
Basic and diluted earnings per share (RUB)	16.77	18.48

23 Loans and borrowings

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

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

a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

Bank loans are secured by:

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

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

24 Provisions

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

a) Warranties

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

b) Provision for deferred works

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

25 Trade and other payables

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

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

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

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

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

26 Financial instruments and risk management

a) Accounting classifications and fair values

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

mln RUB	Carrying amount			Fair value			
	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 DECEMBER 2016							
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**14,111**	**–**	**14,111**	**–**	**14,111**	**–**	**14,111**
Bank deposits (over 3 months)	–	–	–	–	–	–	–
Bank promissory notes	926	–	926	–	930	–	930
Cash and cash equivalents	10,206	–	10,206	10,206	–	–	10,206
	25,243	**–**	**25,243**	**10,206**	**15,041**	**–**	**25,247**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Secured bank loans	–	(5,059)	(5,059)	–	(5,214)	–	(5,214)
Unsecured bank loans	–	(5,762)	(5,762)	–	(5,355)	–	(5,355)
Unsecured bond issues	–	(7,233)	(7,233)	(7,494)	–	–	(7,494)
Trade and other payables	–	(8,208)	(8,208)	–	(7,977)	–	(7,977)
	–	**(26,262)**	**(26,262)**	**(7,494)**	**(18,546)**	**–**	**(26,040)**
31 DECEMBER 2015							
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**11,126**	**–**	**11,126**	**–**	**11,126**	**–**	**11,126**
Bank deposits (over 3 months)	485	–	485	–	505	–	505
Bank promissory notes	684	–	684	–	489	–	489
Cash and cash equivalents	11,532	–	11,532	11,532	–	–	11,532
	23,827	**–**	**23,827**	**11,532**	**12,120**	**–**	**23,652**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Secured bank loans	–	(6,541)	(6,541)	–	(6,691)	–	(6,691)
Unsecured bank loans	–	(8,405)	(8,405)	–	(7,958)	–	(7,958)
Unsecured bond issues	–	(4,468)	(4,468)	(4,384)	–	–	(4,384)
Trade and other payables	–	(7,812)	(7,812)	–	(7,543)	–	(7,543)
	–	**(27,226)**	**(27,226)**	**(4,384)**	**(22,192)**	**–**	**(26,576)**

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

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

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

Risk management framework

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

b) Credit risk

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

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

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

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

(i) Trade and other receivables

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

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

(ii) Guarantees

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

(iii) Exposure to credit risk

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

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

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

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

Impairment losses

The aging of trade receivables at the reporting date was:

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

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

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

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

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

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

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

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

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

c) Liquidity risk

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

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

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

Contractual maturities of financial liabilities were as follows:

mln RUB 31 December 2016	Carrying amount	Contractual cash flow	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
NON-DERIVATIVE FINANCIAL LIABILITIES									
Secured bank loans	5,059	6,099	1,487	1,704	1,702	667	443	96	–
Unsecured bank loans	5,762	7,441	505	849	1,737	2,680	1,398	272	–
Unsecured bond issues	7,233	9,507	1,542	1,498	592	2,187	2,491	1,197	–
Trade and other payables (excluding taxes payable and advances from customers)	8,208	8,213	6,752	613	569	274	1	1	3
	26,262	**31,260**	**10,286**	**4,664**	**4,600**	**5,808**	**4,333**	**1,566**	**3**

mln RUB 31 December 2015	Carrying amount	Contractual cash flow	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
NON-DERIVATIVE FINANCIAL LIABILITIES									
Secured bank loans	6,541	7,892	812	3,299	2,596	436	282	371	96
Unsecured bank loans	8,405	11,193	782	1,129	3,939	2,461	2,253	629	–
Unsecured bond issues	4,468	5,100	1,388	1,293	2,419	–	–	–	–
Trade and other payables (excluding taxes payable and advances from customers)	7,812	7,824	4,834	2,085	548	243	99	5	10
	27,226	**32,009**	**7,816**	**7,806**	**9,502**	**3,140**	**2,634**	**1,005**	**106**

d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

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

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

The following significant exchange rates applied during the year:

mln RUB	Average rate		Reporting date spot rate	
	2016	2015	31 December 2016	31 December 2015
USD 1	67.03	60.96	60.66	72.88
EUR 1	74.23	67.78	63.81	79.70

(ii) Interest rate risk

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

Profile

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

mln RUB	Carring amount	
	2016	2015
FIXED RATE INSTRUMENTS		
Financial assets	16,514	16,136
Financial liabilities	(18,104)	(19,527)
	(1,590)	**(3,391)**

Fair value sensitivity analysis for fixed rate instruments

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

e) Capital management

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

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

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

mln RUB	2016	2015
Total borrowings	**18,054**	**19,414**
Less: cash and cash equivalents	(10,206)	(11,532)
Less: bank deposits over 3 months, notes 19	–	(485)
Net debt	**7,848**	**7,397**
Total equity	**58,150**	**54,843**
Debt to capital ratio at year end	0.135	0.135

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

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

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

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

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

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

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

28 Capital commitments

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

29 Contingencies

a) Insurance

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

b) Litigation

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

c) Taxation contingencies

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

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

30 Related party transactions

a) Transactions with management

(i) Management remuneration

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

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

(ii) Other transactions

Sales to key management personnel are disclosed below:

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

b) Transactions with other related parties

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

(i) Revenue

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

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

(ii) Expenses

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

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

(iii) Loans

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

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2016	31 December 2015
CJSC "GK Etalon"	Russian Federation	100.00%	100.00%
LLC "EtalonAktiv"	Russian Federation	100.00%	100.00%
CJSC "TSUN LenSpetsSMU"	Russian Federation	100.00%	100.00%
JSC "SSMO LenSpetsSMU"	Russian Federation	100.00%	100.00%
CJSC "Novator"	Russian Federation	100.00%	100.00%
CJSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100.00%	100.00%
LLC "Etalon-Invest"	Russian Federation	100.00%	100.00%
CJSC "Zatonskoe"	Russian Federation	100.00%	100.00%
LLC "SPM-Zhilstroy"	Russian Federation	100.00%	100.00%

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

32 Events subsequent to the reporting date

a) Redomiciliation

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

b) Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2016 for the total amount of RUB 1,910 million. Subsequent to the reporting date the Group has obtained an additional tranche of a loan for the total amount of RUB 366 million with the interest rate of 15.00% (repayable at 2020), additional tranche of a loan for the total amount of RUB 50 million with the interest rate of 12.20% (repayable at 2021).

Etalon Group

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