O1 Properties Group

Management Report and Consolidated Financial Statements
31 December 2016

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BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Mr. Dmitriy Mints Mr. Tomasz Zamiara Mr. Alexander Erdman (from 14.03.2016) Mr. Alexander Ostrovskiy Mr. Richard Gregson Mr. Timothy Fenwick Mr. Andrey Barinskiy (from 14.03.2016) Mr. Konstantin Yanakov Mr. Norbert Kickum (from 29.01.2015) Mr. John Nacos (resigned on 14.03.2016) Mr. Michael Stanton (resigned on 14.03.2016)
Secretary:	Theonitsa Constantinou
Independent Auditors:	KPMG Limited, Cyprus Certified Public Accountants and Registered Auditors
Registered office:	18 Spyrou Kyprianou 2nd floor 1075 Nicosia Cyprus
Bankers:	Bank of Cyprus UBS AG Russian Commercial Bank (Cyprus) Ltd Credit Europe Bank N.V. Rigensis Bank AS
Registration number:	HE 272334

MANAGEMENT REPORT

The Board of Directors presents its report and audited consolidated financial statements of O1 Properties Limited (the "Company") and its subsidiaries ("O1 Properties Group" or the "Group") for the year ended 31 December 2016.

Incorporation and status

O1 Properties Limited was incorporated in Cyprus on 24 August 2010 as a limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. On 28 March 2012 the Company was reconstituted from a private limited liability company to a public limited company under the name O1 Properties plc. On 10 July 2012 the Company was reconstituted from public limited company to a private limited liability company under the name O1 Properties Limited.

Principal activities

The principal activities of the Company are the holding and financing of investments. The Group operates in the Russian real estate market. In particular, the Group is focused on buying both active and developing investment properties in the Russian Federation to derive profit from their activities.

Review of the development and current position of the Group and description of the major risks and uncertainties

The loss of the Group for the year ended 31 December 2016 was USD 224 360 thousand (2015: USD 379 417 thousand) while total comprehensive loss for the year was USD 80 227 thousand (2015: USD 176 837 thousand). At 31 December 2016 the total assets of the Group were USD 4 241 528 thousand and the total equity was USD 995 181 thousand (31 December 2015: USD 4 281 646 thousand and USD 1 075 407 thousand respectively). The Group's development to date, financial results and position as presented in the consolidated financial statements are considered satisfactory, in the light of the current economic environment.

The main risks and uncertainties faced by the Group and the steps taken to manage these risks are described in Notes 2, 4, 20, 21 and 22 to the consolidated financial statements.

Results and Dividends

The Group's results for the year ended 31 December 2016 are set out on page 8. During 2016 the Directors did not recommend the payment of dividends.

Share capital

At 31 December 2016 and 31 December 2015 the authorized share capital of the Company was 21 694 704 class "A" shares of nominal value USD 0.01 each at par and 200 000 000 class "B" shares of nominal value EUR 0.01 each at par.

Refer to Note 15 to the consolidated financial statements for the information on changes in the issued share capital of the Company during the year.

Board of Directors

The members of the Company's Board of Directors at the date of this report are presented on page 1.

There were no changes in the assignment of responsibilities of the Board of Directors since 1 January 2015 except in January 2015 new director Mr. Norbert Kickum was appointed and in March 2016 Mr. John Nacos and Mr. Michael Stanton resigned from the Board of Directors and new directors Mr. Alexander Erdman and Mr. Andrey Barinskiy were appointed by unanimous resolution of the Board of Directors of the Company pursuant to the Articles of Association of the Company.

MANAGEMENT REPORT (Continued)

Significant events after the reporting period

Significant events that occurred after the end of the reporting period are described in Note 28 to the consolidated financial statements.

Existence of branches

During the year ended 31 December 2016 the Company did not operate through any branches.

Independent Auditors

The Independent Auditors, KPMG Limited, have expressed their willingness to continue in office and a resolution proposing their re-appointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,

25 April 2017

Dmitriy Mints, Director

KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

OF

O1 PROPERTIES LIMTIED

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of O1 Properties Limited (the "Company"), and its subsidiaries (the "Group"), which are presented on pages 7 to 64 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the "*Report on other legal requirements*" section.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is 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 the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 a true and fair view.

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

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

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

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:
- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 2 and 3, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.

KPMG

- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Antonis I. Shiammoutis, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

25 April 2017

In thousands of US Dollars	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	22 091	21 261
Investment property	8	3 674 942	3 698 590
Investment in joint venture	9	10 103	13 081
Loans issued	10	289 105	174 871
Prepayments and deferred expenses		4 792	11 883
Deferred income tax asset	19	79 587	76 315
Total non-current assets		**4 080 620**	**3 996 001**
Current assets			
Derivative financial instruments	22	1 369	2 092
Loans issued	10	644	1 594
Prepayments and deferred expenses		5 508	18 610
VAT receivable		2 510	1 997
Trade and other receivables	11	42 111	49 260
Current income tax prepayments		778	1 453
Cash and cash equivalents	12	107 988	210 639
Total current assets		**160 908**	**285 645**
TOTAL ASSETS		**4 241 528**	**4 281 646**
LIABILITIES			
Non-current liabilities			
Borrowings	13	2 850 177	2 691 930
Tenant deposits		47 022	48 712
Deferred income tax liability	19	88 171	107 400
Total non-current liabilities		**2 985 370**	**2 848 042**
Current liabilities			
Borrowings	13	67 477	176 374
Derivative financial instruments	22	7 942	40 288
Tenant deposits		4 558	5 266
Deferred rental income		85 979	75 469
Current income tax liability		1 290	1 752
Trade and other payables and other liabilities	14	93 731	59 048
Total current liabilities		**260 977**	**358 197**
TOTAL LIABILITIES		**3 246 347**	**3 206 239**
EQUITY			
Share capital and share premium	15	1 194 359	1 194 358
Property revaluation reserve	7	15 898	18 215
Currency translation reserve		(60 063)	(192 258)
Retained earnings		(200 004)	11 946
Equity attributable to the owners of the Company		**950 190**	**1 032 261**
Non-controlling interest	26	**44 991**	**43 146**
TOTAL EQUITY		**995 181**	**1 075 407**
TOTAL LIABILITIES AND EQUITY		**4 241 528**	**4 281 646**

Approved for issue by the Board of Directors and signed on its behalf on 25 April 2017.

Dmitriy Mints, Director

Tomasz Zamiara, Director

Alexander Ostrovskiy, Director

Alexander Erdman, Director

In thousands of US Dollars	Note	2016	2015
Rental revenue		316 201	368 166
Operating expenses of investment property	16	(32 387)	(42 928)
Net rental income	16	**283 814**	**325 238**
Net (loss)/gain from fair value adjustment on investment property	8	(734 120)	654 599
General and administrative expenses	17	(13 704)	(15 050)
Other operating expenses	17	(7 444)	(4 940)
Other operating income		1 182	2 032
Net loss from disposal of subsidiaries and joint venture, including reclassification of exchange difference on disposal of the investments from other comprehensive income/loss to the profit or loss	27	-	(336 514)
Finance income	18	26 418	13 532
Finance costs	18	(240 112)	(276 006)
Share of result of joint venture	9	(14 288)	6 929
Foreign exchange translation gains less losses/(losses less gains)	2	468 778	(719 098)
Loss before income tax		**(229 476)**	**(349 278)**
Income tax credit/(expense)	19	5 116	(30 139)
Loss for the year		**(224 360)**	**(379 417)**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Effect of translation to presentation currency of the financial statements of foreign operations		135 140	(261 822)
Reclassification of exchange difference on disposal of the investments from other comprehensive income/loss to the profit or loss	27	-	449 561
Share of other comprehensive income/(loss) of joint venture	9	11 310	(17 451)
Reclassification of exchange difference on disposal of joint venture from other comprehensive income/loss to the profit or loss		-	27 448
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	7	(2 896)	5 813
Deferred tax asset/(liability) on the property revaluation	19	579	(969)
Total other comprehensive income for the year		**144 133**	**202 580**
Total comprehensive loss for the year		**(80 227)**	**(176 837)**
Loss is attributable to:			
- Owners of the Company		(211 950)	(374 976)
- Non-controlling interest		(12 410)	(4 441)
Total comprehensive (loss)/income is attributable to:			
- Owners of the Company		(82 072)	(158 073)
- Non-controlling interest		1 845	(18 764)

In thousands of US Dollars	Note	Attributable to owners of the Company: Share capital	Share premium	Property revaluation reserve	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015		**1 026**	**1 075 601**	**13 371**	**(404 317)**	**446 030**	**1 131 711**	**52 126**	**1 183 837**
Loss for the year		-	-	-	-	(374 976)	(374 976)	(4 441)	(379 417)
Other comprehensive income/(loss) for the year		-	-	4 844	212 059	-	216 903	(14 323)	202 580
Total comprehensive income/(loss) for the year		-	-	4 844	212 059	(374 976)	(158 073)	(18 764)	(176 837)
Business combinations	27	-	-	-	-	-	-	17 319	17 319
Share issue	15	123	142 604	-	-	-	142 727	-	142 727
Shares issued to top management	15	4	-	-	-	-	4	-	4
Equity reduction	15	(14)	(24 986)	-	-	-	(25 000)	-	(25 000)
Dividends declared	15	-	-	-	-	(59 108)	(59 108)	(7 535)	(66 643)
Balance at 31 December 2015		**1 139**	**1 193 219**	**18 215**	**(192 258)**	**11 946**	**1 032 261**	**43 146**	**1 075 407**
Loss for the year		-	-	-	-	(211 950)	(211 950)	(12 410)	(224 360)
Other comprehensive (loss)/income for the year		-	-	(2 317)	132 195	-	129 878	14 255	144 133
Total comprehensive (loss)/income for the year		-	-	(2 317)	132 195	(211 950)	(82 072)	1 845	(80 227)
Shares issued to top management	15	1	-	-	-	-	1	-	1
Balance at 31 December 2016		**1 140**	**1 193 219**	**15 898**	**(60 063)**	**(200 004)**	**950 190**	**44 991**	**995 181**

In thousands of US Dollars	Note	2016	2015
Loss before income tax		**(229 476)**	**(349 278)**
Adjustments for:			
Depreciation	17	605	589
Loss/(gain) from change in fair value of investment property	8	734 120	(654 599)
Net loss on disposal of subsidiaries and joint venture	27	-	336 514
Finance costs	18	240 112	276 006
Finance income	18	(26 418)	(13 532)
Share of result of joint venture	9	14 288	(6 929)
Foreign exchange translation gains less losses/(losses less gains)		(468 778)	719 098
Other non-cash adjustments		(1 705)	(3 277)
Operating cash flows before working capital changes		**262 748**	**304 592**
Net (increase)/decrease in VAT receivable		(513)	533
Net decrease/(increase) in trade and other receivables		11 511	(4 780)
Net (increase)/decrease in prepayments		(279)	6 915
Net decrease in tenant deposits		(11 356)	(23 790)
Net increase/(decrease) in deferred rental income		13 111	(6 294)
Net (decrease)/increase in trade and other payables		(9 595)	2 869
Effect of translation to presentation currency		(2 974)	(17 659)
Changes in working capital		**(95)**	**(42 206)**
Income tax paid		(5 194)	(2 681)
Net cash from operating activities		**257 459**	**259 705**
Cash flow used in investing activities			
Expenditures on subsequent improvements of investment property	8	(2 515)	(7 605)
Payments for land leases		(3 631)	(3 877)
Cash inflow/(outflow) on acquisition of subsidiaries	27	89	(58 036)
Cash outflow on acquisition of share in joint venture	27	-	(100)
Cash outflow from sale of shares in subsidiary, net of cash disposed	27	-	(997)
Decrease in non-current VAT receivable		2	463
Loans issued		(204 092)	(187 805)
Repayment of loans issued		86 286	15 742
Interest received		10 211	4 001
Net cash used in investing activities		**(113 650)**	**(238 214)**
Cash flows used in financing activities			
Proceeds from shares issued	15	-	142 727
Proceeds from borrowings		564 153	263 215
Repayment of borrowings		(591 099)	(165 044)
Interest paid		(214 653)	(198 037)
Dividends paid	15	-	(40 695)
Net cash (used in)/from financing activities		**(241 599)**	**2 166**
Effect of foreign exchange rate changes on cash and cash equivalents		(4 861)	24
Net (decrease)/increase in cash and cash equivalents		**(102 651)**	**23 681**
Cash and cash equivalents at beginning of the year		210 639	186 958
Cash and cash equivalents at the end of the year	12	**107 988**	**210 639**

Refer to Notes 15 and 27 for the information on significant non-cash transactions.

1 General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap 113, for O1 Properties Limited (the "Company") and its subsidiaries (the "Group").

The Company was incorporated on 24 August 2010 as a private limited liability company and is domiciled in Cyprus. The address of its registered office is 18, Spyrou Kyprianou, 2nd floor, 1075 Nicosia, Cyprus.

At 31 December 2016 the Company's principal immediate shareholders were Nori Holding Limited (Cyprus) and some other companies which owned 88.596% and 11.404% of Class "A" shares respectively (31 December 2015: 94.117% of Class "A" shares were owned by Nori Holding Limited and 5.883% of Class "A" shares were owned by some individual Shareholders) and Centimila Services Ltd (Cyprus) which owned 51.275% of class "B" shares (31 December 2015: 54.774% of Class "B" shares were owned by Centimila Services Ltd (Cyprus)). At 31 December 2016 other owners of Class "B" shares included ICT Holding Ltd (Cyprus), Goldman Sachs International (UK), some other companies and some members of the key management personnel. The Group is ultimately controlled by Mr. Boris Mints, citizen of the Russian Federation (the "Ultimate Controlling Shareholder"). See Note 15 for an overview of the differences in rights and obligations of "A" and "B" shareholders.

Principal activity: The principal activities of the Company are the holding and financing of investments. The Group operates in the Russian real estate market. Refer to Note 6 for the segment information.

At 31 December 2016 the Company's long-term corporate credit rating assigned by the international agency Standard & Poor's is B+ (2015: B+).

At 31 December 2016 and 2015 the consolidated subsidiaries and joint ventures of the Group were as follows:

Entity	Country of incorporation	Principal activity	% of effective ownership at 31 December 2016	% of effective ownership at 31 December 2015
Almos CJSC	Russian Federation	Investment property	82.34	82.34
Avrasis Limited (Note 27)	Cyprus	Investment property	100	-
Bolshevik OJSC	Russian Federation	Investment property	49.81[3]	49.81[3]
Business Center Stanislavsky (Cyprus) Limited (Note 27)	Cyprus	Investment property	100 [1]	100 [1]
Finance Marekkon Limited (Note 27)	Cyprus	Investment property	50+1 share[1,3]	50+1 share[1,3]
Firma "Morava" LLC	Russian Federation	Investment property	85	85
Gasheka Realty Limited (Note 27)	Russian Federation	Investment property	100 [1]	100 [1]
Goldstyle Holdings Limited (Note 27)	Cyprus	Investment property	50.5[1]	50.5[1]
Krugozor Business Center (Cyprus) Limited (Note 27)	Cyprus	Investment property	100 [1]	100 [1]
Kvartal 674-675 LLC	Russian Federation	Investment property	100 [1]	70 [1]
Le Fortaco Limited (Note 27)	Cyprus	Investment property	100 [1]	100 [1]
Levisoma Trading Limited	Cyprus	Investment property	100 [1]	100 [1]
Levium Limited	Russian Federation	Investment property	50.52[1]	50.52[1]
Merissania Holding Limited (Note 27)	Cyprus	Investment property	50+1 share[1,3]	50+1 share[1,3]
Mervita Holdings Limited	Cyprus	Investment property	100 [1]	100 [1]
Meteolook Investments Limited	Cyprus	Investment property	100 [1]	100 [1]
Nezoral Limited (Note 27)	Cyprus	Investment property	50+1 share[1,3]	50+1 share[1,3]
Pianconero Investments Limited	Cyprus	Investment property	100 [1]	100 [1]
"Silver city" LLC	Russian Federation	Investment property	100 [1]	100 [1]
Tzortis Limited	Cyprus	Investment property	100 [1]	100 [1]
VKS Invest LLC	Russian Federation	Investment property	100	100
Zarechie LLC (Note 27)	Russian Federation	Investment property	100 [1]	100 [1]
Afelmor Overseas Limited	Cyprus	Holding company	100 [1]	70 [1]
Amortilla Holding Limited	Cyprus	Holding company	100 [1]	100 [1]
Argam Limited (Note 27)	Cyprus	Holding company	100 [1]	100 [1]
Asabelle Limited (Note 27)	Cyprus	Holding company	50+1 share[1,3]	50+1 share[1,3]
Bayroad Group Limited	British Virgin Islands	Holding company	50+1 share[1,3]	50+1 share[1,3]
Bitlena Holdings Limited	Cyprus	Holding company	100	100
Blandid Limited (Note 27)	Cyprus	Holding company	100	100

1 General Information (Continued)

Entity	Country of incorporation	Principal activity	% of effective ownership at 31 December 2016	% of effective ownership at 31 December 2015
Celera Corporation (Note 27)	British Virgin Islands	Holding company	-	100
Cemvertia Investments Ltd	Cyprus	Holding company	100	100
Collins Crest Limited	British Virgin Islands	Holding company	100	100
Filmotinia Ventures Limited (Note 27)	Cyprus	Holding company	100 [1]	100 [1]
Freyamoon Limited	Cyprus	Holding company	100 [1]	100 [1]
Granisforth Investment Limited	Cyprus	Holding company	50.52[1]	50.52[1]
Gunilla Limited (Note 27)	Cyprus	Holding company	50.5	50.5
Isida Limited	Russian Federation	Holding company	50.52[1]	50.52[1]
Labiumo Holdings Ltd	Cyprus	Holding company	50.52[1]	50.52[1]
Letvion Investments Limited	Cyprus	Holding company	85	85
Lillix Limited (Note 27)	Cyprus	Holding company	50+1 share [3]	50+1 share [3]
Minesign Limited	Cyprus	Holding company	100 [1]	100 [1]
Mistalda Holdings Limited	Cyprus	Holding company	50.52[1]	50.52[1]
Mokati Limited (Note 27)	Cyprus	Holding company	100	100
Moonbow Limited (Note 27)	Cyprus	Holding company	100	-
Mooncrown Limited	Cyprus	Holding company	100	100
Moonpeak Limited	Cyprus	Holding company	100	100
Narvi Finance Limited (Note 27)	Cyprus	Holding company	50.5[1]	50.5[1]
Paremos Limited	Cyprus	Holding company	100	100
Quotex Limited (Note 27)	Cyprus	Holding company	100 [1]	100 [1]
Ratado Holding Limited	Cyprus	Holding company	100 [2]	100 [2]
Sabaton Holdings Limited (Note 27)	Cyprus	Holding company	100	100
Sharezone Capital Limited (Note 27)	Cyprus	Holding company	100 [1]	100 [1]
Silverflair Limited	Cyprus	Holding company	100	-
Simeona Limited	Cyprus	Holding company	100	100
Solorita Holding Limited (Note 27)	Cyprus	Holding company	50+1 share[1,3]	50+1 share[1,3]
Taavo Enterprises Limited	Cyprus	Holding company	85	85
Talisia Investments Limited	British Virgin Islands	Holding company	-	100
Thabit Holdings Limited	Cyprus	Holding company	100	100
Theochristel Limited	Cyprus	Holding company	100	100
Unisure Limited	Cyprus	Holding company	50.52[1]	50.52[1]
Vielle Limited	Cyprus	Holding company	100	100
Vivaldi Holdings Limited	Cayman Islands	Holding company	100 [1]	100 [1]
Wakovia Limited	Cyprus	Holding company	100 [1]	70 [1]
White Estate Investments Limited (Note 27)	British Virgin Islands	Holding company	-	100
Wizgate Holding Limited	Cyprus	Holding company	100 [1]	100 [1]
Starglance Limited (former Balaton Holding S.à r.l.)	Cyprus	Financing company	100 [1]	100 [1]
Belegar Limited	Cyprus	Financing company	100 [1]	100 [1]
Chainlord Limited (former Vardarac S.à.r.l.) (Note 27)	Cyprus	Financing company	50.5[1]	50.5[1]
Dipotravi Holdings Limited (Note 27)	Cyprus	Financing company	50+1 share[1,3]	50+1 share[1,3]
Eagleman Limited	Cyprus	Financing company	100	100
Fundin Investments Limited	Cyprus	Financing company	100	100
Glenston Investments Limited (Note 27)	British Virgin Islands	Financing company	-	70
Gisoral Holdings Limited (Note 27)	Cyprus	Financing company	50+1 share[3]	50+1 share[3]
Kinevart Investments Limited	Cyprus	Financing company	100 [1]	70 [1]
Lermondo Limited	Cyprus	Financing company	100 [1]	100
Lomnia Services Limited (Note 27)	Cyprus	Financing company	100 [1]	100 [1]
Margo S.à r.l.	Luxembourg	Financing company	50.52[1]	50.52[1]
Mistmoores Holding Limited (former Silver City Finance S.à r.l.)	Cyprus	Financing company	100 [1]	100 [1]
Nightsky S.à.r.l. (Note 27)	Luxembourg	Financing company	-	100 [1]
O1 Properties Finance Plc (former Pareso Limited)	Cyprus	Financing company	100	100
Vivaldi Plaza Finance S.à r.l.	Luxembourg	Financing company	100 [1]	100 [1]
Wallasey Limited	Cyprus	Financing company	100 [1]	100 [1]
Yellow Wall S.à r.l. (Note 27)	Luxembourg	Financing company	-	100 [1]
City-Developer LLC	Russian Federation	Management company	100	100
Nash Standart CJSC	Russian Federation	Management company	100	100
O1 Advisory Limited	Cyprus	Management company	100	100
O1 Properties Management CJSC	Russian Federation	Management company	100	100

1 General Information (Continued)

Entity	Country of incorporation	Principal activity	% of effective ownership at 31 December 2016	% of effective ownership at 31 December 2015
Teplovik LLC	Russian Federation	Management company	100	-
Aldino Holding Limited	Cyprus	Inactive	100	100
Annabeth Services Limited	Cyprus	Inactive	85	85
Barkmere Limited	Cyprus	Inactive	100	100
Boxar Holdings Limited (Note 27)	Cyprus	Inactive	-	100
Construction-Invest LLC (Note 27)	Russian Federation	Inactive	50+1 share[3]	50+1 share[3]
Dawson Int'l Inc. (Note 27)	British Virgin Islands	Inactive	-	100
Goldflavour Limited	Cyprus	Inactive	100	-
Hannory Holdings Limited	Cyprus	Inactive	100	100
Jale Holdings Limited	Cyprus	Inactive	100	100
Kolston Group Limited	British Virgin Islands	Inactive	100	100
Nikkon Global Ltd	British Virgin Islands	Inactive	100	100
Nokana Limited	Cyprus	Inactive	100	100
Quintiliano Limited	Cyprus	Inactive	100	100
Silvershade Limited	Cyprus	Inactive	50+1 share[3]	-
Starye serebryaniki CJSC	Russian Federation	Inactive	100	100

1 Pledged in relation to borrowings (Note 13).

2 Refer to Note 22 for the information on pledge of shares in Ratado Holding Limited.

3 Investment of the Group in these entities is classified as a joint venture.

Refer to Note 27 for the information on acquisitions and disposals by the Group during 2016 and 2015.

2 Operating Environment of the Group

The Group through its operations has a significant exposure to the economic, legal and tax conditions in the Russian Federation and in Cyprus. The management of the Group constantly monitors the developments in the operating environment of the Group in order to estimate the full impact that these developments may have on the business of the Group.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 22). During 2015 and 2016 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2016:

- the CBRF exchange rate was RR 72.9299 and RR 60.6569 per USD as of 1 January 2016 and 31 December 2016 respectively and varied between 60.273 and 83.5913 during the year;
- the CBRF key refinancing interest rate decreased from 11.0% p.a. to 10% p.a.;
- bank lending activity decreased as banks continued to reassess the business models of their borrowers and their ability to withstand the increased volatility of exchange rates; and
- in 2016, Fitch Ratings stated Russia's credit rating at BBB-, Standard & Poor's at BB+, and Moody's Investors Service at Ba1. Fitch Ratings improved the outlook from "negative" to "stable" and kept Russia's sovereign rating at the investment grade. Standard & Poor's improved the outlook from "negative" to "stable" and kept Russia's sovereign rating below the investment grade. Moody's Investors Service provided "negative" outlooks for the future;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2016:

2 Operating Environment of the Group (Continued)

- the CBRF exchange rate fluctuated between RR 55.894 per USD and RR 60.6569 per USD;
- the CBRF key refinancing interest rate decreased from 10.0% p.a. to 9.75% p.a;
- Standard & Poor's improved the outlook from "stable" to "positive" and Moody's Investors Service improved the outlook from "negative" to "stable"

Whilst a significant percentage of the Group's rental income is denominated in US dollars the tenants are operating in Russia and earning a significant proportion of their income in Russian Roubles.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Cyprus. According to the Cyprus Statistical Service, economic growth for 2016 was estimated at + 2,8% compared to 2015. Even though the financial services sector showed negative growth, there has been an increase in the Gross Domestic Product which is mainly attributed to the hotels, construction, manufacturing and the wholesale and retail trade sectors. The economic growth was mainly driven by the increase in private consumption, which benefited from the reduction in unemployment and the consequent increase in disposable income. The growth was also supported by the slower pace of reductions in public spending and the increase in investments. On 17 March 2017 the credit rating of the country rose from BB to BB +.

Despite the significant steps towards economic recovery, a degree of uncertainty still exists, as certain issues remain to be resolved, such as the high index of non-performing loans, the high unemployment and the implementation of privatization and reforms of the public services sector.

The above could affect, among others, the Company's ability to obtain new loans on favorable terms and conditions or/and its ability to achieve satisfactory turnover.
The Company's management believes that it takes all the necessary measures to maintain the viability of the Company and expand its operations in the current business and economic environment.

3 Basis of Preparation and Summary of Significant Accounting Policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, under the historical cost convention as modified to include the fair value of premises, investment property and derivative financial instruments.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Functional currency. The individual financial statements of each of the companies within the Group are prepared in the currency of the primary economic environment in which they operate (functional currency). The functional currency of the Company is the US Dollar ("USD"). The functional currency of the property holding companies is the Russian Rouble ("RR"). Refer to Note 4.

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of USD.

At 31 December 2016 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 60.6569 (31 December 2015: USD 1 = RR 72.8827) and the average exchange rate calculated on daily basis used for translating income and expenses was USD 1 = RR 67.0349 (2015: USD 1 = RR 60.9579).

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than a majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries that meet the definition of a business. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred to the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition of a business are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill or deferred taxes.

Investment in jointly controlled entities. Under IFRS 11 "Joint Arrangements" investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interests. Any difference between the purchase consideration and the carrying amount of non-controlling interests acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interests sold as a capital transaction in the consolidated statement of changes in equity.

Disposals of subsidiaries, jointly controlled entities and associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the difference in carrying amount recognised in profit or loss. The fair value of any retained interest in the entity is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 23.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination) if any, are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: loans and receivables, financial assets at fair value through profit or loss.

Classification of financial liabilities. The Group classifies its financial liabilities except for derivatives into financial liabilities carried at amortised cost.

Initial recognition of financial instruments. All financial instruments carried at amortised cost are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instruments.

The Group uses discounted cash flow valuation techniques to determine the fair value of derivative financial instruments, loans to and from related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the derivative financial instruments, loans to and from related parties.

The changes in the fair value of derivatives are recognised immediately in the profit or loss as finance income or finance cost.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. The Group derecognises a financial liability or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

Derivative financial instruments. Derivatives are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Property, plant and equipment. Property, plant and equipment is stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of property, plant and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation of buildings are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit and loss for the year.

The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss as other operating income or other operating expenses.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Computer equipment	5
Office equipment	10

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is the property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from the sale of the asset in an orderly transaction, without deduction of any transaction cost. The best evidence of fair value is given by current prices in an active market for the similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows; and

(d) sale proposals from the market players.

The market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in valuation of property of similar location and category.

Investment property that is being developed or redeveloped for continuing use as investment property continues to be measured at fair value.

Net gains from fair value adjustment on investment property are recorded in the consolidated statement of profit or loss. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure (other than fit-out compensations to the Group's tenants which is recorded as reduction of rental revenues on a straight-line basis over the total rent period) is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment property also includes long-term leasehold land held under an operating lease, which is accounted for as a finance lease in accordance with IAS 40 "Investment Property" and IAS 17 "Leases". Each lease payment on the long-term leasehold land is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liability on leasehold land. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Loans issued. Loans are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. After initial recognition loans and receivables are measured at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are recognised in profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

Input VAT from goods or services received and VAT receivable from tax authorities are presented as VAT receivable in the consolidated statement of financial position. Payables to tax authorities for VAT are shown as part of trade and other payables.

Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. A provision for impairment of financial assets carried at amortised cost is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recorded in the consolidated statement of profit or loss and other comprehensive income within other operating expenses.

The primary factors that the Group considers when determining whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents include cash in hand and balances with banks with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Restricted balances are excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flow.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or where the Group is a lessee in an operating lease, which is classified as investment property, the assets leased are capitalised in investment property at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the profit or loss over the lease period using the effective interest method.

Tenant deposits. Tenant deposits represent advances made by lessees as guarantees during the lease period and are repayable by the Group upon termination of lease contracts. Tenant deposits are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method. Any difference between the amount at initial recognition and the redemption amount is treated as deferred revenue and amortised on a straight line basis over the period of the lease. The tenant deposit is subsequently measured at amortised cost and the interest expense is recorded over the period of the lease term within finance costs.

Income tax. Income tax has been provided for in the consolidated financial statements in accordance with tax legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised directly in other comprehensive income or directly in equity because it relates to transactions that are recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within general and administrative expenses and operating expenses of investment property.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax losses will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses are recorded only to the extent that it is probable that future taxable profits will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, joint venture and associates, except where the Group controls the investee's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Property tax. Property tax has been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The property tax charge is recognised in operating expenses. The tax base of the properties is their cadastral value.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of reporting period.

Trade and other payables. Trade and other payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost, using the effective interest method.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Share capital and share premium. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium represents the excess of contribution received over the nominal value of shares issued. Share premium is not available for distribution by way of dividends.

Preference shares are classified as equity if, and only if, both conditions (a) and (b) below are met: (a) the shares include no contractual obligation (i) to deliver cash or another financial asset to another entity, or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, and (b) the shares will or may be settled in the issuer's own equity instruments and the shares are (i) non-derivatives that include no contractual obligation for the issuer to deliver a variable number of its own equity instruments, or (ii) derivatives that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Shares of the Company not paid and subject to approval of Shareholders and Board of Directors can be cancelled at any time.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Dividends. Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Revenue and expense recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of services and goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Rental revenue. Rental revenue is recorded in the profit or loss on a straight-line basis over the lease term. Rental revenue received in advance is recognised as deferred rental income in the consolidated statement of financial position.

The Group has lease agreements with tenants that are mostly denominated in USD. The lease payments are settled in RR using the official exchange rate fixed by CBR on the date of payment. In certain cases the Group has signed addendums to the lease agreements that either (1) fix the exchange rate to be used to settle the due payment or (2) agree on a cap and collar for the exchange rates to be used to settle the due payment, the top and bottom end of which are applied when the current exchange rates fall out of this range on the payment date.

The Group treat the reduced payments received arising from the above mentioned caps as discounts and recognises them on a straight line basis over the remaining lease term. Also the Group recognised an embedded derivative for the above exchange rate fixations, because the derivatives are not closely related to the host contract. The Group uses forward exchange rates to value the derivative. Refer to Note 22.

Operating expenses of investment property. The operating expenses associated with investment properties are charged to the profit or loss as incurred. These expenses include only expenses that directly refer to investment property which generated rental income during the year.

Interest income and expenses. Interest income and expenses are recorded using the effective interest method.

Other income and expenses. All other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid and unpaid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group and are included in general and administrative expenses. Group companies do not operate their own pension schemes.

Share based payments plan. Certain directors of the Company are entitled to the share based payments plan. The Group has a liability to settle the plan in cash and therefore the plan is accounted for as a cash-settled share based payment transaction. The calculation of the plan related liabilities and expense are based on (1) vesting period, (2) estimated fair value of the unit options, (3) the number of unit options expected to satisfy vesting conditions, and (4) estimated timing of exercise of the unit options. At each end of the reporting period the plan related liability is remeasured to its fair value through profit or loss to the extent the award is vested. The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

Foreign currency translation. Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at period-end official exchange rates are recognised in the profit and loss as foreign exchange differences.

Translation at period-end rates does not apply to non-monetary items, which are translated at the exchange rate at the date of the transaction. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each Group entity are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historical rate; and

(iv) all resulting exchange differences are recognised separately in other comprehensive income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Valuation of investment properties. Refer to Note 23.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, the Group evaluates among other factors, the location of activities, the sources of revenue and expense, risks associated with activities, and denomination of currencies of operations of different entities.

The Group concluded that the functional currency of O1 Properties Limited, the parent company of the Group, is the US Dollar, the currency in which (1) funds are obtained and invested, (2) receipts from activities are retained, (3) the business risks and exposures are measured and (4) performance of the business is measured. The Group concluded that the functional currency of the property holding subsidiaries of the Group is the Russian Rouble since the primary economic environment in which these entities generate and spend cash is the Russian Federation where the properties are located. The Group concluded that the functional currency of other, mainly financing, subsidiaries of the Group is either the Russian Rouble or the US Dollar depending on their operations. The above analysis and conclusions were based on consideration of own activities of respective entities and not on the basis of consideration of activities of their subsidiaries, if any.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Given the significant exposure of the Group to the economy and markets of the Russian Federation, the alternative to the US Dollar functional currency of the Company and some of its subsidiaries would have been the Russian Rouble. In such case the Company and respective subsidiaries would have recorded foreign exchange translation gains less losses related to the US Dollar balances in the profit or loss.

Foreign exchange translation gains less losses are attributable mostly to the borrowings.

Tax, currency and customs legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

Acquisitions of investment property. The Group concluded that the acquisitions of subsidiaries holding properties constituted acquisition of assets and liabilities rather than acquisition of businesses as defined in IFRS 3 “Business combinations”. The Group purchased assets and not the accompanying processes. The Group identified and recorded the individual identifiable assets acquired and liabilities assumed. The purchase price was allocated to those assets and liabilities on the basis of their relative fair values at the date of acquisition. The Group has not recorded any goodwill or deferred taxation arising from the assets acquired and liabilities assumed (including those paid by shares of the Company) as no business combination was recognised.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Recognition of reimbursement of operating expenses on investment property. Certain operating expenses related to investment property (security, utilities, cleaning, etc.) are reimbursed by tenants to the Group. Such receipts from the tenants are recorded by the Group as rental revenues since (1) usually there is a significant time period between respective payments and receipts and (2) the expenses are allocated to the tenants on the basis stipulated by a respective lease agreement which does not completely reflect the volume of specific services actually consumed by a particular tenant.

At the date of the authorisation of the Group’s consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that were effective at 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

5 Adoption of New or Revised Standards and Interpretations

As from 1 January 2016, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by EU which are relevant to its operations. This adoption did not have a material effect on the financial statements of the Group.

At the date of approval of the Group’s consolidated financial statements the following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early:

Standards and Interpretations adopted by the European Union

- IFRS 9 “Financial Instruments: Classification and Measurement” (issued in July 2014).

  IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 under IAS 39.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, and loans issued.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Currently, the Group's assets in the scope of the IFRS 9 impairment model relate to loans issued and trade and other receivables.

After its preliminary assessment in relation to trade and other receivables, the Group considers that IFRS 9 new requirements for impairment will not have a material impact on its consolidated financial statements.

In relation to loans issued, the Group is still assessing the impact on the consolidated financial statements and has not yet finalised the impairment methodologies that it will apply under IFRS 9.

- IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014).

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not early adopted IFRS 15 in its consolidated financial statements for the year ended 31 December 2016.

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 and concluded that there will be no material impact on its consolidated financial statements from the adoption of this Standard.

- IFRS 16 "Leases" (issued in January 2016).

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. The Group does not plan to early adopt IFRS 16 in its consolidated financial statements for the year ended 31 December 2016.

Currently, the Group does not have significant lease arrangements as a lessee, except from the land lease arrangements which are currently treated as finance leases. The Group has completed an initial assessment of the potential impact of the adoption of IFRS 16 and concluded that there will be no material impact on its consolidated financial statements from the adoption of this Standard.

Standards and Interpretations not adopted by the EU

- IAS 7 (Amendments) “Disclosure Initiative” (effective for annual accounting periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) “Recognition of Deferred Tax Assets for Unrealised Losses” (effective for annual accounting periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)).
- IFRS 2 (Amendments) “Classification and Measurement of Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2018).
- IFRS 4 (Amendments) “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 (Clarifications) “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).

The Group is currently assessing the impact of the above new accounting pronouncements on its consolidated financial statements.

6 Segment Information

The Group has determined that its Chief Operating Decision Maker (“CODM”) is the Board of Directors of the Company.

As the property under development is considered insignificant compared to the yielding property the CODM considers all operations of the Group as one segment “Investment Property”.

As the Group’s activities are concentrated in Moscow, the Group’s portfolio of investment property is not geographically diversified. Investment decisions of the CODM are based on analysis of the local Moscow market and on the characteristics of a building within its local environment in terms of location, size and quality.

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of US Dollars	Premises	Computers	Office equipment	Total
Cost/valuation at 1 January 2015	23 640	320	590	24 550
Accumulated depreciation	(1 180)	(252)	(252)	(1 684)
Carrying amount at 1 January 2015	**22 460**	**68**	**338**	**22 866**
Additions	-	41	2	43
Revaluation gain (recorded in other comprehensive income)	5 813	-	-	5 813
Depreciation charge (Note 17)	(435)	(33)	(121)	(589)
Disposals	-	(12)	-	(12)
Effect of translation to presentation currency	(6 813)	(3)	(44)	(6 860)
Carrying amount at 31 December 2015	**21 025**	**61**	**175**	**21 261**
Cost/valuation at 31 December 2015	22 604	290	475	23 369
Accumulated depreciation	(1 579)	(229)	(300)	(2 108)
Carrying amount at 31 December 2015	**21 025**	**61**	**175**	**21 261**
Acquisition through business combination	-	-	422	422
Additions	-	1	-	1
Revaluation loss (recorded in other comprehensive loss)	(2 896)	-	-	(2 896)
Depreciation charge (Note 17)	(492)	(20)	(93)	(605)
Effect of translation to presentation currency	3 881	2	25	3 908
Carrying amount at 31 December 2016	**21 518**	**44**	**529**	**22 091**
Cost/valuation at 31 December 2016	23 644	344	1 021	25 009
Accumulated depreciation	(2 126)	(300)	(492)	(2 918)
Carrying amount at 31 December 2016	**21 518**	**44**	**529**	**22 091**

Premises represent the area occupied by the Group in Lighthouse building (Note 8).

The premises were last revalued at 31 December 2016 by the independent firm of valuers CB Richard Ellis (2015: by Cushman & Wakefield). The valuation was made on the basis of the income approach.

At 31 December 2016 and 2015 premises with carrying value of USD 21 518 thousand (2015: USD 21 025 thousand) were pledged as collateral with respect to borrowings (Note 13).

The carrying amount that would have been recognized had the assets been carried under the cost model is USD 12 452 thousand (2015: USD 7 247 thousand).

8 Investment Property

In thousands of US Dollars	Note	2016	2015
Total investment property at 1 January		**3 698 590**	**4 020 665**
Acquisition	27	46 734	1 658 353
Subsequent expenditure		2 515	7 605
Disposal of investment property	27	-	(1 585 621)
Fair value adjustment		(734 120)	654 599
Effect of translation to presentation currency		661 223	(1 057 011)
Total investment property at 31 December		**3 674 942**	**3 698 590**

8 Investment Property (Continued)

The investment property represents land and office buildings located in Moscow, Russia. Land is leased from the Moscow City Authorities under renewable leases (from 4 to 47 years). Under the relevant Russian legislation and the lease contract the owner of the building has priority right to lease and renew the lease of the land on which the building is located. The lease rates are indexed year on year.

Investment property comprises the following premises intended for use as Class A, Class B+ and Class B office accommodation:

		31 December 2016		31 December 2015	
Property name	**Note**	**Net rentable area (square metres)**	**Amount (in thousands of US Dollars)**	**Net rentable area (square metres)**	**Amount (in thousands of US Dollars)**
WHITE SQUARE - Lesnaya Str., 5, Butyrsky Val st., 10	27	76 407	876 600	76 408	913 800
LeFORT - Elektrozavodskaya Str., 27, bldg. 1, 1A, 2, 3, 3A, 3D, 4-11	27	55 375	172 400	56 170	183 200
KRUGOZOR - Obrucheva Str., 30/1, bldg. 1-3	27	50 965	259 100	50 954	297 700
VIVALDI PLAZA - Letnikovskaya Str., 2, bldg. 1-3		48 150	372 800	48 042	377 600
SILVER CITY - Serebryanicheskaya Emb., 29		41 926	262 300	41 917	288 200
LEGENDA TSVETNOGO - Tsvetnoy Boulevard, 2	27	40 277	356 900	40 296	360 000
WHITE STONE (formerly “LESNAYA PLAZA”) - 4th Lesnoy Lane, bldg. 4		39 681	249 500	39 691	255 900
STANISLAVSKY FACTORY - Stanislavskogo Str. 21, bldg. 1-3, 5, 16-20	27	34 585	204 900	34 585	217 600
DUCAT III - Gasheka Str., 6	27	33 464	362 200	33 462	365 600
LIGHTHOUSE - Valovaya Str., 26		27 464	235 300	27 492	229 900
ICUBE - Nakhimovsky Prospect, 58	27	19 164	79 400	19 153	100 300
ZARECHIE - Novokuznetskya str. 7/11 bldg. 1, 3, Staryi Tolmachevskiy Pereulok 5	27	15 517	122 900	15 517	118 700
AVRASIS - Sadovnicheskaya embank, 82	27	9 223	110 880[1]	-	-
GREENDALE - Oktyabrskaya Str., 98		under development	24 670	under development	20 200
KUTUZOV - Vasilisy Kozhinoy Str., 25		under development	11 900	under development	10 400
Total fair value of property per valuation reports		**492 198**	**3 701 750**	**483 687**	**3 739 100**
Less: Reclassification of owner occupied premises in LIGHTHOUSE	7	-	(21 518)	-	(21 025)
Total investment property at fair value		**-**	**3 680 232**	**-**	**3 718 075**
Add: Finance lease liabilities accounted for separately	13	**-**	22 529	**-**	18 862
Less: Straight line adjustment on rental income accounted for separately within trade and other receivables	11	**-**	(27 819)	**-**	(38 347)
Total carrying value of investment property		**-**	**3 674 942**	**-**	**3 698 590**

[1] This amount includes an investment property under development amounting to USD 47 080 thousand.

8 Investment Property (Continued)

At 31 December 2016 the valuation of investment property was carried out by the independent firm of valuers CB Richard Ellis (2015: by Cushman & Wakefield). The basis used for the valuation was mainly the income approach using the discounted cash flow technique. The critical assumptions used in the valuation are disclosed in Note 23.

IAS 40 requires the fair value of investment property to exclude prepaid lease income because the entity recognises it as a separate liability. The Group already considered the prepaid lease income in determining the fair value of investment property and thus no additional adjustment for deferred rental income is required to arrive to the carrying value of investment property.

The minimum future rental income of the Group under non-cancellable operating leases was as follows:

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
- not later than one year	315 383	338 831
- later than 1 year and not later than 5 years	882 052	980 287
- later than 5 years	128 135	180 222
Total future rental income	**1 325 570**	**1 499 340**

9 Investments in Joint Venture

Investment in joint venture. Investment in joint venture represents 50% +1 share interest in a group of companies involved in construction of Bolshevik property (Note 27). Movements in the Group's investment in joint venture were as follows:

In thousands of US Dollars	**2016**	**2015**
Total investment in joint venture at 1 January	**13 081**	**7 099**
Acquisition of joint venture (Note 27)	-	28 100
Share of result of joint venture	(14 288)	6 929
Share of other comprehensive income/(loss) of joint venture	11 310	(17 451)
Disposal of joint venture (Note 27)	-	(11 596)
Total investment in joint venture at 31 December	**10 103**	**13 081**

Solorita Holding Limited, Bayroad Group Limited and their subsidiaries are involved in the construction of the Bolshevik property in Moscow. The main financing and operating decisions of Bayroad Group Limited and Solorita Holding Limited require unilateral approval of the shareholders. Investment of the Group in Bayroad Group Limited and Solorita Holding Limited was classified as joint venture (jointly controlled entity) and accounted for in these consolidated financial statements using the equity method of accounting.

At 31 December 2016 the total consolidated assets of Solorita Holding Limited, Bayroad Group Limited and their subsidiaries amounted to USD 366 885 thousand, represented mainly by investment property under development and the total consolidated liabilities amounted to USD 346 721 thousand represented mainly by borrowings (31 December 2015: USD 282 397 thousand and USD 256 200 thousand respectively). For the year ended 31 December 2016 the joint venture received USD 11 076 thousand revenue and USD 28 519 thousand loss (2015: USD 6 067 thousand and USD 13 830 thousand of gain respectively). At 31 December 2016 capital commitments of the joint venture approximated USD 6 248 thousand (31 December 2015: USD 12 515 thousand).

10 Loans Issued

In thousands of US Dollars	31 December 2016	31 December 2015
Loans issued - due in more than 12 months	289 105	174 871
Loans issued - current portion	644	1 594
Total loans issued	**289 749**	**176 465**
Loans issued to related parties (Note 25)	189 500	86 495
Loans issued to other companies	100 249	89 970
Total loans issued	**289 749**	**176 465**

At 31 December 2016 the Group had two counterparties (31 December 2015: three counterparties) with balances of loans issued above 10% of the aggregate balances of loans issued. Aggregate balances of loans issued to the above counterparties as at 31 December 2016 amounted to USD 244 946 thousand (31 December 2015: USD 146 340 thousand).

At 31 December 2016 and 2015 loans issued were neither past due nor impaired, were not secured, were denominated in USD and RR, had maturity dates from 15 February 2017 to 28 December 2020 (31 December 2015: from 31 March 2016 to 28 December 2020) and fixed interest at rates from 7% to 14% per annum.

The fair value of loans issued is disclosed in Note 23.

11 Trade and Other Receivables

In thousands of US Dollars	31 December 2016	31 December 2015
Straight-line adjustment on rental income (Note 8)	27 819	38 347
Rent receivable	7 448	4 338
Receivables from related parties (Note 25)	1 761	2 273
Other receivables	5 083	4 302
Total trade and other receivables	**42 111**	**49 260**

Trade and other receivables balances are neither past due nor impaired except as disclosed in the table below:

In thousands of US Dollars	31 December 2016	31 December 2015
Past due but not impaired		
- less than 30 days overdue	507	162
- 30 to 90 days overdue	739	1 276
- 91 to 180 days overdue	425	679
- 181 to 360 days overdue	765	1 216
- over 360 days overdue	791	224
Total past due but not impaired	**3 227**	**3 557**
Individually determined to be impared		
- 91 to 180 days overdue	-	262
- 181 to 360 days overdue	-	357
- over 360 days overdue	762	180
Total individually impaired	762	799
Less impairment provision	(762)	(799)
Total after impairment	**3 227**	**3 557**

11 Trade and Other Receivables (Continued)

The above balances that are not impaired are mainly secured by the tenant deposits.

The fair value of trade and other receivables is disclosed in Note 23.

12 Cash and Cash Equivalents

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
Cash on hand	5	2
Current and demand accounts	28 432	19 443
Deposits with banks	79 551	191 194
Total cash and cash equivalents	**107 988**	**210 639**

At 31 December 2016 the Group had two counterparties (31 December 2015: two counterparties) with balances of deposits with banks above 10% of the aggregate balances of deposits with banks. Aggregate balances of deposits with banks to the above counterparties as at 31 December 2016 amounted to USD 51 837 thousand (31 December 2015: USD 114 612 thousand).

Analysis of cash balances with banks by credit ratings at respective dates was as follows:

In thousands of US Dollars		**31 December 2016**	**31 December 2015**
Neither past due nor impaired			
A1	Moody's	-	5 455
A3	Moody's	-	115
A	Standard & Poor's	16 680	-
BBB+	Fitch Ratings	43	-
BBB-	Fitch Ratings	42 624	48 814
BB+	Fitch Ratings, Standard & Poor's	9 335	11 865
BB-	Fitch Ratings, Standard & Poor's	22 124	78 786
Ba1	Moody's	8 913	-
Ba2	Moody's	7 487	7 741
Ba3	Moody's	-	40
B3	Moody's	292	-
B+	Fitch Ratings, Standard & Poor's	-	57 077
Caa1	Moody's	-	219
Caa3	Moody's	179	184
Other		306	341
Total cash balances with banks		**107 983**	**210 637**

Information on the balances with the related parties is disclosed in Note 25.

The fair value of cash and cash equivalents is disclosed in Note 23.

13 Borrowings

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
Non-current borrowings		
Loans from banks	2 146 914	2 387 139
Loans from related parties	9 656	13 237
Loans from other companies and individuals	1 000	249
Rouble bonds financing	332 251	205 577
Eurobonds financing	340 614	-
Redeemable preference shares	-	68 776
Finance lease liabilities	19 742	16 952
Total non-current borrowings	**2 850 177**	**2 691 930**
Current borrowings		
Loans from banks	44 591	83 213
Loans from related parties	240	197
Loans from other companies and individuals	72	1 243
Rouble bonds financing	12 605	89 762
Eurobonds financing	7 182	-
Redeemable preference shares	-	49
Finance lease liabilities	2 787	1 910
Total current borrowings	**67 477**	**176 374**

Rouble bonds financing represents funding received by the Group as a result of the issue of Rouble bonds by a company controlled by the Ultimate Controlling Shareholder. The Rouble bonds are guaranteed by the Company.

Redeemable preference shares balance as at 31 December 2015 represents the financial liability element of preference shares of Afelmor Overseas Limited ("Afelmor", a subsidiary of the Group holding White Square property (Notes 1)). The redeemable preference shares: (1) have minimum cumulative dividends of 7% per annum payable quarterly in priority to any other distribution, (2) have voting rights, (3) give the holder a right to require Afelmor to redeem all the redeemable preference shares for the calculable amount during the period from February 2018 to August 2018 or if any of the specified events occur, (4) give the Group a right to require the holder to sell all of the redeemable preference shares to Afelmor for the calculable amount during the period from March 2018 to July 2018, (5) are automatically convertible into ordinary shares of Afelmor in August 2018.

13 Borrowings (Continued)

The detailed information on borrowings at 31 December 2016 is presented below:

Name of Lender	Facility	Carrying amount in thousands of US Dollars	Currency	Contractual interest rate,	% per annum	Repayment terms	Investment property pledged
Sberbank Russia	Facility Agreement dated 5 December 2012	587 034	USD	3 months LIBOR + 5.5%	payable quarterly	by quarterly installments to 5 December 2023	WHITE SQUARE
Sberbank Russia	Facility Agreement dated 20 March 2013	234 350	USD	3 months LIBOR + 5.6%	payable quarterly	by quarterly installments to 20 March 2023	VIVALDI PLAZA
Sberbank Russia	Facility Agreement dated 13 March 2014	161 735	USD	6.9%	payable quarterly	by quarterly installments to 13 March 2022	WHITE STONE
Aareal Bank	Facility Agreement dated 20 July 2007	337 330	USD	3 months LIBOR + 4.45%	payable quarterly	by quarterly installments to 31 January 2020	KRUGOZOR, STANISLAVSKY FACTORY, LeFORT
Eurobonds	Agreement dated 23 September 2016	347 796	USD	8.25%	payable semi-annualy	by 27 September 2021	-
VTB PJSC	Facility Agreement dated 16 August 2016	149 310	RR	CBR Key Rate + 2.0%	payable quarterly	by 2 August 2022	SILVER CITY
VTB Bank (Deutchland) AG	Facility Agreement dated 29 May 2013	141 882	USD	6.5%	payable quarterly	by quarterly installments by 2 August 2022	LIGHTHOUSE
UniCredit Bank AG London	Facility Agreement dated 3 June 2013	223 483	USD	3 months LIBOR + 5.0%	payable quarterly	by 27 November 2018	DUCAT III
UniCredit Bank Austria AG	Facility Agreement dated 17 April 2014	71 935	USD	3 months LIBOR + 6.2%	payable quarterly	by quarterly installments by 4 June 2021	ICUBE
Gazprombank	Facility Agreement dated 16 December 2013	226 299	USD	3 months LIBOR + 5.25%	payable quarterly	by quarterly installments to 16 December 2019	LEGENDA TSVETNOGO
Rouble bonds financing	Agreement dated 5 October 2015	254 707	RR	13.0%	payable semi-annualy	by 2 October 2020	-
Rouble bonds financing	Agreement dated 7 August 2013	90 149	RR	12.0%	payable semi-annualy	by 8 August 2018	-
PPF Banka A.S.	Facility Agreement dated 14 April 2015	58 147	USD	8.0%	payable quarterly	by quarterly installments to 15 April 2020	ZARECHIE
Other	-	10 968	-	from 10.0% to 14.0%	payable at maturity date	-	-
Finance lease liabilities	-	22 529	RR	-	-	-	-
Total borrowings		**2 917 654**					

13 Borrowings (Continued)

The detailed information on borrowings at 31 December 2015 is presented below:

Name of Lender	Facility	Carrying amount in thousands of US Dollars	Currency	Contractual interest rate, % per annum		Repayment terms	Investment property pledged
Sberbank Russia	Facility Agreement dated 5 December 2012	661 578	USD	3 months LIBOR + 5.9%	payable quarterly	by quarterly installments to 5 December 2019	WHITE SQUARE
Sberbank Russia	Facility Agreement dated 20 March 2013	273 921	USD	3 months LIBOR + 6.2%	payable quarterly	by quarterly installments to 20 March 2020	VIVALDI PLAZA
Sberbank Russia	Facility Agreement dated 13 March 2014	163 361	USD	6.9%	payable quarterly	by quarterly installments to 13 March 2022	WHITE STONE
Sberbank Investments Limited (Cyprus)	Subscription and Shareholders' Agreement dated 5 December 2012	68 825	USD	13.5%	payable quarterly	-	-
Aareal Bank	Facility Agreement dated 20 July 2007	354 539	USD	6.12%	payable quarterly	by quarterly installments to 31 January 2020	KRUGOZOR, STANISLAVSKY FACTORY, LeFORT
Aareal Bank	Facility Agreement dated 20 July 2007	64 862	USD	3 months LIBOR + 5.1%	payable quarterly	by quarterly installments to 31 January 2020	
VTB Capital Plc	Facility Agreement dated 2 August 2013	212 280	USD	3 months LIBOR + 6.05%	payable quarterly	by 2 August 2020	SILVER CITY
VTB Bank (Deutchland) AG	Facility Agreement dated 29 May 2013	144 412	USD	7.0%	payable quarterly	by quarterly installments by 23 October 2019	LIGHTHOUSE
UniCredit Bank AG London	Facility Agreement dated 3 June 2013	229 424	USD	3 months LIBOR + 5.0%	payable quarterly	by 1 December 2018	DUCAT III
UniCredit Bank Austria AG	Facility Agreement dated 17 April 2014	75 041	USD	3 months LIBOR + 6%	payable quarterly	by quarterly installments by 31 January 2021	ICUBE
Gazprombank	Facility Agreement dated 16 December 2013	230 948	USD	3 months LIBOR + 5.25%	payable quarterly	by quarterly installments to 16 December 2019	LEGENDA TSVETNOGO
Rouble bonds financing	Agreement dated 5 October 2015	211 771	RR	13.0%	payable semi-annualy	by 2 October 2020	-
Rouble bonds financing	Agreement dated 7 August 2013	83 568	RR	12.0%	payable semi-annualy	by 8 August 2016[1]	-
PPF Banka A.S.	Facility Agreement dated 14 April 2015	59 986	USD	8.0%	payable quarterly	by quarterly installments to 15 April 2020	ZARECHIE
Other	-	14 926	-	from 10.0% to 14.0%	payable at maturity date	-	-
Finance lease liabilities	-	18 862	RR	-	-	-	-
Total borrowings		**2 868 304**					

[1] The Rouble bonds with agreement dated 7 August 2013 provide the right to the bond holders to request repayment either in August 2016 or at maturity date in August 2018.

13 Borrowings (Continued)

At 31 December 2016 the undrawn facilities totalled USD 50 000 thousand (2015: USD 50 000 thousand).

The Group is subject to a number of financial covenants related to its borrowings including the following key ratios and indices:

- Loan to Value Ratios – represented by different types of ratios expressed as a percentage of the aggregate loans outstanding under the specific credit facility (subject to certain adjustments and depending on the amount of the committed loan facility) to the aggregate market value of a specific property or the property portfolio according to the most recent valuation;
- Debt Service Cover Ratios – represented by different types of ratios expressed as a percentage of the net rental income of the Group or its subsidiaries for the specified period to the aggregate of principal, interest and other amounts payable under the specific credit facility for the same period;
- Equity ratios – expressed as a percentage of total equity to the aggregate amount of debt; and
- Minimum amounts of total equity.

The Group is also subject to compliance with a number of various non-financial covenants. Additional information on covenants is disclosed in Note 22.

The Group was in compliance with or had waivers on all covenants related to borrowings at 31 December 2016 and 2015.

The finance lease liabilities are related to the lease of land under investment properties (Note 8). The reconciliation between the total future minimum lease payments and their present value is set out below:

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
Minimum lease payments:		
- not later than one year	2 589	1 856
- later than 1 year and not later than 5 years	9 862	8 450
- later than 5 years	76 053	66 406
Total minimum lease payments	**88 504**	**76 712**
Less future finance charges	(65 975)	(57 850)
Present value of minimum lease payments	**22 529**	**18 862**

At 31 December 2016 the interest rate implicit in the leases was 11.25% (2015: 11.25%). The fair value of borrowings is disclosed in Note 23.

14 Trade and Other Payables and Other Liabilities

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
Payables from assignment deed	33 900	-
VAT and taxes payables other than on income	19 526	13 912
Dividends payable	18 178	18 178
Payables for acquisition of subsidiaries	10 104	304
Payables for expenditure on and aquisition of investment property	4 308	16 848
Payables for professional fees	3 775	1 033
Payables for borrowings novation	1 351	-
Payable to related parties (Note 25)	809	2 917
Accrued employees compensation	739	2 956
Guarantee issued liabilities	489	2 279
Other	552	621
Total trade and other payables and other liabilities	**93 731**	**59 048**

15 Share Capital and Share Premium

Share capital issued and fully paid comprises:

In thousands of US Dollars	**Number of class A shares issued**	**Number of class B shares issued**	**Nominal amount**	**Share premium**	**Total**
Balance at 1 January 2015	**20 418 480**	**62 058 603**	**1 026**	**1 075 601**	**1 076 627**
New shares issued	1 276 224	8 017 920	123	142 604	142 727
Shares issued to top management (Subscribed in June 2013)	-	74 114	1	-	1
Shares issued to top management (Subscribed in April 2014)	-	88 751	1	-	1
Shares issued to top management (Subscribed in January 2015)	-	125 000	2	-	2
Shares cancelled		(1 278 119)	(14)	(24 986)	(25 000)
Balance at 31 December 2015	**21 694 704**	**69 086 269**	**1 139**	**1 193 219**	**1 194 358**
Balance at 1 January 2016	**21 694 704**	**69 086 269**	**1 139**	**1 193 219**	**1 194 358**
Shares issued to top management (Subscribed in April 2014)	-	88 748	1	-	1
Balance at 31 December 2016	**21 694 704**	**69 175 017**	**1 140**	**1 193 219**	**1 194 359**

15 Share Capital and Share Premium (Continued)

In accordance with the Articles of Association of the Company class “A” shares (1) do not have voting rights in the event that the holders of class A shares do receive dividends in the preceding calendar quarter, (2) are entitled to non-cumulative quarterly dividends at the absolute discretion of directors of the Company not exceeding USD 2.17 per share p.a. and in priority to other shares, (3) receive maximum USD 18.11 per share upon liquidation and (4) give the holder the right to convert its class “A” shares into class “B” shares. Class “B” shares (1) have voting rights, (2) may receive dividends only if at least minimum amount of dividends has been distributed to the holders of class “A” shares within the same period, and (3) are entitled to distributions upon liquidation.

2016 events. On 1 January 2016 in accordance with the Subscription agreement dated 17 April 2014 the installment of 88 748 class “B” shares was registered in the name of certain members of top management of the Group or legal entities they control.

The Board of Directors does not recommend the payment of dividends for the results for the year ended 31 December 2016.

2015 events. On 1 January 2015 in accordance with the Subscription agreements signed in June 2013 and 17 April 2014 the instalments of 74 114 and 88 751 class “B” shares respectively were registered in the name of certain members of top management of the Group or their subsidiaries.

On 1 January 2015 the Company issued 125 000 class “B” shares to Top Management with a nominal value EUR 0.01.

On 30 June 2015 the Company issued 3 953 794 class “B” shares to ICT Holding Ltd with a nominal value of EUR 0.01 and a share premium of USD 14.59 per share.

On 27 July 2015 the shareholders of the Company resolved to extinguish through the cancellation 1 278 119 Class B shares issued to Centimila Services Limited at a total price of USD 19.56 per share. Following the reduction of capital, the amount of USD 25 000 007.64 constituting the total value of share capital extinguished, was payable to Centimila Services Limited, which liability was settled by the Company returning to Centimila Services Limited the promissory notes issued by Centimila Services Limited to the Company.

On 28 December 2015 the Company issued 1 276 224 class “A” shares and 4 064 126 class “B” shares to new shareholders Mr. Barinskiy and Mr. Zubrilin with a nominal value of USD 0.01 and EUR 0.01 respectively and a share premium of USD 18.10 for class “A” and USD 15.21 per class “B” share.

During the year 2015 the shareholders of the Company approved dividends in the amount of USD 44 308 thousand on Class “A” shares and USD 14 800 thousand on Class “B” shares.

Dividends for the year 2015 were declared in the amount of USD 2.17 per class “A” shares and USD 0.23 per class “B” shares.

During the year 2015 dividends in amount of USD 11 606 thousand on Class “A” shares and in amount of USD 7 301 thousand on Class “B” shares were netted-off with loans issued.

Nature and purpose of reserves

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property.

16 Net Rental Income

In thousands of US Dollars	Note	2016	2015
White Square		66 740	73 024
Legenda Tsvetnogo	27	33 640	27 948
Vivaldi Plaza		29 393	38 658
Ducat III	27	26 981	28 051
White Stone		23 253	25 841
Krugozor	27	21 326	26 757
Silver City		20 802	24 482
Stanislavsky Factory	27	17 424	22 015
Lighthouse		17 226	17 901
Zarechie	27	13 172	6 233
LeFort	27	11 450	18 268
Icube		91	9 118
Avion	27	-	5 553
Other		2 316	1 389
Total net rental income		**283 814**	**325 238**

The operating expenses for the year ended 31 December 2016 and 2015:

In thousands of US Dollars	2016	2015
Property management fees	11 698	11 462
Cleaning and utilities	8 893	9 066
Security	2 245	2 612
Repairs and maintenance	1 385	1 987
Insurance	970	1 080
Property tax	6 119	15 025
Other	1 077	1 696
Total operating expenses of investment property	**32 387**	**42 928**

All operating expenses relate to the Investment property generating the revenue.

17 General and Administrative Expenses and Other Operating Expenses

In thousands of US Dollars	Note	2016	2015
Employees compensation and related social contributions		7 118	5 505
Professional services		1 807	2 367
Marketing and advertising		956	374
Bank fees		701	798
Depreciation of property, plant and equipment	7	605	589
Own premises related expenses		512	701
Taxes other than income		417	580
Travel		264	242
Information services		200	222
Non-recurring expenses		-	1 681
Other		1 124	1 991
Total general and administrative expenses		**13 704**	**15 050**

17 General and Administrative Expenses and Other Operating Expenses (Continued)

The non-recurring expenses for 2015 stated above, include mainly the legal fees related to raising funds.

In thousands of US Dollars	2016	2015
Professional services	4 216	1 179
Leasing commissions	1 919	1 744
Impairement of receivables and other impairment	148	574
Other	1 161	1 443
Total other operating expenses	**7 444**	**4 940**

The professional services for 2016 stated above include the fees related to raising funds and incremental expenses related to administering of individual investment properties and related holding structures.

During 2016 the Company's statutory audit firm fees for audit services amounted to USD 488 thousand (2015: USD 403 thousand) and for other assurance services amounted to USD 115 thousand (2015: USD 157 thousand).

Information on transactions with related parties is presented in Note 25.

18 Finance Income and Finance Costs

In thousands of US Dollars	2016	2015
Interest income on loans	18 337	5 318
Interest income on deposits	6 046	3 927
Income from guarantees issued	1 790	1 975
income from bonds trading	-	1 776
Other	245	536
Total finance income	**26 418**	**13 532**
Interest expense on borrowings (excluding finance lease liability)	220 731	211 017
Impairment of loan issued	8 700	22 306
Interest expense on accretion of interest on tenants deposits	5 399	9 924
Finance charge on lease liabilities	2 081	2 314
Net loss from derivatives	1 896	29 398
Other	1 305	1 047
Total finance costs	**240 112**	**276 006**

Information on transactions with related parties is presented in Note 25.

19 Income Taxes

Income tax (credit)/expense comprises the following:

In thousands of US Dollars	2016	2015
Current tax	5 490	3 089
Deferred tax	(10 606)	27 050
Income tax (credit)/expense for the year	**(5 116)**	**30 139**

The income tax rate applicable to the majority of the Group's income (the Russian Federation) is 20%. The income tax rate on the Group's income in Cyprus is 12.5% (2015: 12.5%).

19 Income Taxes (Continued)

A reconciliation between the expected and the actual taxation charge is provided below:

In thousands of US Dollars	**2016**	**2015**
Loss before income tax	**(229 476)**	**(349 278)**
Tax credit using the Company's statutory rate	(28 685)	(43 660)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable income on disposal of subsidiaries (Note 27)	-	39 513
- Non-taxable (income)/non-deductible expenses related to foreign exchange losses	(20 623)	25 760
- Other non-deductible expenses	7 691	-
- Non-taxable income	(12 319)	-
- Net impact of difference in tax rates in different jurisdictions	(19 004)	31 315
- Unrecognized deferred tax asset related to investment property operating companies	68 322	-
- Result from Joint Venture	1 786	(866)
- Recognition of previously unrecognized losses brought forward	-	(24 449)
- Other	(2 284)	2 526
Income tax (credit)/expense for the year	**(5 116)**	**30 139**

Differences between IFRS and statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. As these differences relate to the activities in Russia and Cyprus the tax effect of the movement on these temporary differences is recorded at the rates of 20% or 12.5% respectively.

Taking into consideration the current Group structure the management of the Group does not expect that the transfer of earnings from operating companies of the Group to the Company will result in material tax expenses and therefore no deferred taxation has been recorded in these consolidated financial statements in respect of investments in subsidiaries.

19 Income Taxes (Continued)

In thousands of US Dollars	31 December 2014	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehen-sive income	Effect of translation to presentation currency	Disposal of subsidiary (Note 27)	31 December 2015	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehen-sive income	Effect of translation to presentation currency	Acquisition of subsidiary (Note 27)	31 December 2016
- Unrecognized Deferred tax asset	39 565	(39 565)	-	-	-	-	(68 322)	-	-	-	(68 322)
Total unrecognized deferred tax asset	**39 565**	**(39 565)**	**-**	**-**	**-**	**-**	**(68 322)**	**-**	**-**	**-**	**(68 322)**
Tax effect of taxable temporary differences/gross deferred tax assets/liabilities related to:											
- loss carry forward	124 102	86 353	-	(39 898)	-	170 557	(68 560)	-	25 522	7 049	134 568
- investment property and property plant and equipment	(288 988)	(117 428)	(969)	55 281	149 067	(203 037)	81 917	579	(24 042)	-	(144 583)
- other	4 400	4 025	-	(7 030)	-	1 395	(2 751)	-	2 787	-	1 431
Total net deferred tax asset/(liability) (including deferred tax asset/(liability) related to assets classified as held for sale)	**(160 486)**	**(27 050)**	**(969)**	**8 353**	**149 067**	**(31 085)**	**10 606**	**579**	**4 267**	**7 049**	**(8 584)**

In the context of the Group's current structure and Russian legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and same taxation authority.

The tax losses carried forward expire after 31 December 2020.

20 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, liquidity and market risks, including currency, interest rate and other price risks), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk

The Group takes on an exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's exposure to credit risk is reflected in the carrying amounts of the respective financial instruments.

The Group manages its trade receivables credit risks by performing credit checks of all new tenants. If tenants are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group's marketing department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. In certain cases the Group requires a guarantee from the parent. Rent receivable is secured by tenants deposits paid at the inception of each tenant's lease agreements.

The carrying amount of financial assets represents the maximum credit exposure (Refer to Notes 10, 12 and 14).

Also refer to Note 22 for the information on derivatives financial instruments and guarantees.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the top management of the Group. Management uses budgeting and cash forecasting to ensure that the Group has sufficient resources to meet its obligations.

The Group manages liquidity risk based on the following key components:

- As the Group has a long-term investment horizon, it strives for a sound capital structure and actively seeks long-term financing; and
- Weighted average loan maturity should exceed 3 years.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of reporting period.

20 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2016 was as follows:

In thousands of US Dollars	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowings	2 917 654	3 949 993	243 530	990 040	1 402 892	1 313 531
Tenant deposits	51 580	76 567	4 910	21 296	34 996	15 365
Derivative financial instruments	7 942	10 662	5 928	4 734	-	-
Trade and other payables, excluding taxes payable and advances received	73 466	73 466	73 466	-	-	-
Total potential future payments for financial obligations	**3 050 642**	**4 110 688**	**327 834**	**1 016 070**	**1 437 888**	**1 328 896**

The maturity analysis of financial liabilities at 31 December 2015 was as follows:

In thousands of US Dollars	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowings	2 868 305	3 751 997	358 761	812 542	2 294 500	286 194
Tenant deposits	53 978	78 076	5 664	24 292	32 113	16 007
Derivative financial instruments	40 288	38 154	21 926	16 228	-	-
Trade and other payables, excluding taxes payable and advances received	42 180	42 180	42 180	-	-	-
Total potential future payments for financial obligations	**3 004 751**	**3 910 407**	**428 531**	**853 062**	**2 326 613**	**302 201**

In addition to the above potential future payments for financial obligations the Group has certain other commitments as disclosed in Note 22.

Market risk

The Group takes on exposure to market risks. Market risks arise mainly from open positions in foreign currencies and interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Currency risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group limits its exposure to the effects of currency risk by maintaining the majority of rental revenues and the majority of borrowings denominated in US Dollars.

20 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as monitored by management at the end of reporting period:

	31 December 2016			31 December 2015		
In thousands of US Dollars	**USD**	**Euro**	**RR**	**USD**	**Euro**	**RR**
Monetary financial assets						
Loans issued	289 105	-	644	174 846	-	1 619
Cash and cash equivalents	75 842	271	31 875	98 056	423	112 160
Trade and other receivables	35 608	240	6 263	44 878	769	3 613
Effect of currency based derivatives	1 369	-	-	2 092	-	-
Total monetary financial assets	**401 924**	**511**	**38 782**	**319 872**	**1 192**	**117 392**
Monetary financial liabilities						
Borrowings	(2 389 963)	(8 416)	(519 275)	(2 553 660)	-	(314 645)
Tenant deposits	(47 607)	(1 548)	(2 425)	(51 830)	(1 675)	(473)
Trade and other payables, excluding taxes payable and accrued employees compensation	(69 343)	(36)	(4 087)	(37 526)	(30)	(4 624)
Effect of currency based derivatives	(7 942)	-	-	(40 288)	-	-
Total monetary financial liabilities	**(2 514 855)**	**(10 000)**	**(525 787)**	**(2 683 304)**	**(1 705)**	**(319 742)**
Net balance sheet and derivatives position at 31 December	**(2 112 931)**	**(9 489)**	**(487 005)**	**(2 363 432)**	**(513)**	**(202 350)**

The above analysis includes only monetary assets and liabilities.

The main operating entities of the Group have Russian Rouble functional currency (Note 4).

For the significant exchange rates which were applied refer to Note 2.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Exposure of the Group to the interest rate risk is related mainly to borrowings. Carrying value of borrowings categorized by the earlier of contractual interest repricing or maturity dates adjusted for the impact of interest rate derivatives was as follows:

Carrying value by maturity of financial liabilities exposed to interest rate fluctuations risk was as follows:

In thousands of US Dollars	**Less than 1 year**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**More than 5 years**	**Total**
31 December 2016							
Fixed interest rate and hedged by interest rate derivatives floating interest rate borrowings	-	(87 322)	(233)	(662 674)	(348 868)	(1 125 002)	(2 224 099)
Floating interest rate borrowings	(671 025)	-	-	-	-	-	(671 025)
Net interest sensitivity position in borrowings (excluding finance lease liabilities) at 31 December 2016	**(671 025)**	**(87 322)**	**(233)**	**(662 674)**	**(348 868)**	**(1 125 002)**	**(2 895 124)**

20 Financial Risk Management (Continued)

In thousands of US Dollars	Less than 1 year	Year 2	Year 3	Year 4	Year 5	More than 5 years	Total
31 December 2015							
Fixed interest rate and hedged by interest rate derivatives floating interest rate borrowings	(84 759)	(302)	(239 392)	(878 280)	(1 112 497)	(163 361)	(2 478 591)
Floating interest rate borrowings	(370 850)	-	-	-	-	-	(370 850)
Net interest sensitivity position in borrowings (excluding finance lease liabilities) at 31 December 2015	**(455 609)**	**(302)**	**(239 392)**	**(878 280)**	**(1 112 497)**	**(163 361)**	**(2 849 441)**

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The main interest rate risk of the Group is related to its borrowings. This risk arises mainly as a result of (1) originating borrowings at floating rates and (2) need to refinance the expiring borrowings. At 31 December 2016, if interest rates on borrowings of the Group had been 200 basis points higher (lower) with all other variables held constant profit before income tax expense for a year would have been USD 58 580 thousand lower (higher) (2015: USD 56 798 thousand lower (higher)).

Fixed interest rate and hedged by interest rate derivatives floating interest rate borrowings mainly consist of borrowings with floating interest rate hedged by interest rate swap with fixed interest rate.

The Group's overall policy is to minimize exposure to fluctuations in variable interest rates using financial instruments.

The Group performs a periodic analysis of the current interest rate environment and depending on this analysis at the time of raising new debt management makes decisions on whether obtaining finance on a fixed-rate or a variable-rate basis would be more beneficial to the Group over the expected period until maturity.

The average interest rates for the principal financial instruments at the reporting date were as follows:

	31 December 2016		31 December 2015	
	Contractual rate	**Effective rate**	**Contractual rate**	**Effective rate**
Loans from banks (primarily in USD)	6.9%	7.0%	6.0%	6.6%
Loans from other companies (primarily in USD)	10.2%	10.2%	10.5%	10.2%
Rouble bonds financing (in RR)	13.0%	13.1%	12.0%	13.0%
Eurobonds financing (in USD)	8.2%	8.5%	-	-
Finance lease liabilities (all in RR)	-	11.2%	-	11.3%
Tenant deposits (primarily in USD)	-	9.0%	-	9.2%

To minimize interest rate risk the Group's management aims:

- to maintain average interest rates below expected cap rates if the project is to be highly leveraged;
- to maintain an optimal mix of floating and fixed rate financing for all financial commitments; and
- to use floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates (Notes 13 and 22).

21 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with the industry, the Group monitors capital on the basis of the gearing ratio.

Management's objective is to maintain the gearing ratio around 75%. This ratio is calculated as net debt divided by total capital and net debt.

In thousands of US Dollars	**31 December 2016**	**31 December 2015**
Borrowings (Note 13)	2 917 654	2 868 304
Less: cash and cash equivalents (Note 12)	(107 988)	(210 639)
Net debt	2 809 666	2 657 665
Total equity	995 181	1 075 407
Total	3 804 847	3 733 072
Gearing ratio	**73.84%**	**71.19%**

Refer to Note 15 for the information on the share capital structure and the description of classes of shares issued.

22 Contingencies, Commitments and Operating Risks

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of management's own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of any such claims, and accordingly no provision has been recorded in these consolidated financial statements.

Tax contingencies. Russian tax legislation which was recently enacted is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As Russian tax legislation does not provide definitive guidance in certain areas, from time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

22 Contingencies, Commitments and Operating Risks (Continued)

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), with certain specific features. This legislation allows tax authorities to assess additional taxes for controllable transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Company's operations.

Most of the Group's companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia, except for those entities that have registered commercial Branches in the Russian Federation.. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Certain changes into Russian Tax Code that came into force starting 1 January 2015, which introduced the following concepts: (i) the "controlled foreign companies rules" (the "CFC Rules"). Under the Russian CFC Rules, in certain circumstances, undistributed profits of foreign companies and non-corporate structures (e.g., trusts, funds or partnerships) domiciled in foreign jurisdictions, which are ultimately owned and/ or controlled by Russian tax residents (legal entities and individuals), shall be subject to taxation in Russia; (ii) the concept of tax residency for legal entities. Under this concept a legal entity may be recognized as Russian tax resident if such entity is in fact managed from Russia. When an entity is recognized as Russian tax resident it is obligated to register, calculate tax on its worldwide income and comply with other tax-related rules established for Russian entities; (iii) the concept of "beneficial ownership". Under the Federal Law, a beneficial owner is defined as a person holding directly, through its direct and/or indirect participation in other organizations or otherwise, the right to own, use or dispose of income, or the person on whose behalf another person is authorized to use and/or dispose of such income.

Tax liabilities of the Group companies are determined based on the underlying assumption that Group companies except registered in the Russian Federation are not Russian tax residents and are beneficial owners of income received from Russia. It is possible, with the evolution of the above concepts, that such approach could be challenged both for the reporting period and in certain cases for previous years open for tax audits. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Company's operations.

Management assessed the impact of these changes and believe that it is not probable that the manner of doing operations by and with the foreign Group companies may give rise to material tax liabilities other than those provided in these consolidated financial statements. The tax legislation in Russia is subject to varying interpretations which can change frequently and as such an unquantifiable risk remains that the tax authorities could seek to challenge this position in the future and levy additional tax on the Group. Accordingly as of 31 December 2016 no provision for potential tax liabilities had been recognized.

The Group is assessing the impact that the changes introduced by the above laws may have on its operations and/or reporting.

In addition to the above matters, management estimates that at 31 December 2016 the Group had possible obligations from exposures to other than remote tax risks of approximately up to USD 49 602 thousand (31 December 2015: approximately up to USD 62 848 thousand). In the event that these possible tax risks crystallise as liabilities in the near future, the tax losses could be used to settle these liabilities. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Based on various valid arguments Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

22 Contingencies, Commitments and Operating Risks (Continued)

Capital commitments. At 31 December 2016 the Group has contractual capital expenditure commitments in respect of properties under development approximating USD 3 130 thousand (31 December 2015: USD 6 270 thousand). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Assets pledged and restricted. At 31 December 2016 investment properties and owner occupied premises with a fair value of USD 3 532 782 thousand and USD 21 518 thousand respectively (31 December 2015: USD 3 688 599 thousand and USD 21 025 thousand respectively) and related land lease and lease proceeds were pledged in relation to borrowings (Notes 8 and 13). Also refer to Note 1 for the information on shares of subsidiaries of the Group pledged.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Refer to Note 13.

In relation to the Borrowings detailed above in the section “Assets pledged and restricted” the Company accepted an obligation to comply with certain covenants and conditions.

During 2016, the Group was in breach of some financial covenants. The Group received a waiver in respect of such covenants and as at 31 December 2016 was in compliance with all covenants.

During 2015 the Group was in breach of some financial covenants. The Group received a waiver in respect of such breach and at 31 December 2015 was in compliance with all covenants.

Management is currently in active discussion with a number of lenders with a view to amend certain covenants in order to introduce more favourable covenants for the Group in future.

Share based payments to employees. As at 31 December 2016 there is no liability from the directors’ share based payments plan. At 31 December 2015 the liabilities relating to the directors’ share based payments plan approximated to USD 31 thousand and were recorded through general and administrative expenses in the profit or loss (Note 17).

Also refer to Note 15 for the information on shares allocated to top management.

Derivatives. The Group uses derivatives to manage interest rate and currency risk. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The valuation of the derivatives is performed based on discounted cash flows models. The key inputs to the models are the interest rate curves and future foreign exchange rates which are based on the market information. The valuations are performed internally and for interest rate swap and interest rate cap contracts values are validated against the valuations of the transactions obtained independently from the counterparty banks.

At 31 December 2016 the Group had interest rate swap contracts with a total notional amount of USD 1 211 762 thousand (31 December 2015: USD 1 462 074 thousand) whereby the Group was paying a fixed interest rate in exchange for floating interest rate. At 31 December 2016 the positive fair value of these contracts was USD 1 301 thousand and the negative fair value of these contracts was USD 4 928 thousand (31 December 2015: USD 2 092 thousand positive fair value and USD 5 797 thousand negative fair value).

At 31 December 2016 the Group had an interest rate cap contract with a total notional amount of USD 73 062 thousand (31 December 2015: nil) whereby the Group fixes the highest level of the floating part of the interest rate. At 31 December 2016 the positive fair value of this contract was USD 68 thousand (31 December 2015: nil).

22 Contingencies, Commitments and Operating Risks (Continued)

In 2016 the Group issued number of discounts to tenants in a form of foreign currency exchange derivatives. As a result the Group recognised in 2016: (1) discounts issued in the amount of USD 73 thousand (2015: USD 40 774 thousand), accounted in Prepayments and deferred expenses; (2) foreign currency exchange derivatives in the amount of USD 73 thousand (2015: USD 40 774 thousand) whereby the Group had obligation to cover part of revenue related USD/RR exchange rate difference to number of tenants. At 31 December 2016 the negative fair value of these contracts was USD 3 014 thousand (31 December 2015: the negative value was USD 34 491 thousand) with a total notional amount of USD 12 722 thousand (31 December 2015: USD 98 397 thousand) and residual value of discounts issued was USD 842 thousand (31 December 2015: USD 23 113 thousand).

Guarantees. In relation to a USD 115.6 million borrowing (the "Borrowing") by a company (the "Intermediary Shareholder") which (1) is controlled by the Ultimate Controlling Shareholder (Note 1) and (2) owns and controls 100% interests in Centimila Services Limited (Note 1), the Group: (1) guaranteed performance of the Intermediary Shareholder with respect to the Borrowing, (2) pledged all shares in Ratado Holding Limited ("Ratado", a holding company for subsidiaries of the Group which own Vivaldi, Lighthouse, Silver City, Ducat III, Legenda Tsvetnogo, White Stone and Bolshevik properties (Notes 1)) as security with respect to the Borrowing, (3) pledged rights for balances receivable by the Group from Ratado as security with respect to the Borrowing, (4) subordinated its rights related to balances receivable by the Group from Ratado to rights of creditors under the Borrowing, (5) accepted subordination of liabilities of certain subsidiaries of the Group to the Intermediary Shareholder to rights of creditors under the Borrowing, (6) accepted obligation to comply with certain covenants and conditions and (7) guaranteed payment of certain fees. The earliest date that the guarantee could be called is 30 April 2017.

At 31 December 2016 the Group guaranteed liabilities of its joint venture (Note 9) in the amount of USD 126 944 thousand (31 December 2015: USD 141 018 thousand). The Group was indemnified by a guarantee issued by Cesium Limited for 49.9% of the guaranteed liability which amounts to USD 63 345 thousand. As a result, the total exposure of the Group in relation to this guarantee is USD 63 599 thousand.

23 Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values have been determined by the Group using available market information, when such information exists and is considered a reliable indicator, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market (Note 2). Market quotations may be outdated or reflect distressed sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

23 Fair Value (Continued)

Valuation of investment properties. The fair value of investment properties represents Level 3 measurement. In determining the fair value of the Group's investment property, management have regard to reports of independent appraisers who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category (Refer to Note 3). Since the information on current or recent prices of comparable investment properties was limited, the fair value of investment properties was determined mainly using discounted cash flow valuation techniques. The Group used assumptions that were mainly based on market conditions existing and contracted rental agreements as at each reporting date. Changes in assumptions used in the valuation techniques could affect reported fair values. The valuation recognised that most rental contracts are denominated in USD. During the year ended 31 December 2016 and 2015, the Management have signed amendments to some rental agreements to temporarily cap the rental payments when RR rate exceeded a specific USD level. If management in the future agree to extend similar adjustments in the remaining contractual period of leases signed by 31 December 2016, this may to have a negative impact on the valuation.

The methodology used for the valuation of investment property has not changed since 31 December 2015.

The valuation technique, inputs used in the fair value measurement of the investment property and premises, and related sensitivity to reasonably possible changes in those inputs were as follows at 31 December 2016:

In thousands of US Dollars	**Valuation technique**	**Inputs used**	**Range of inputs**	**Reasonable change (% of input)**	**Sensitivity of fair value measurement**	**Fair value**
Yielding Investment property	Discounted Cash Flow Technique	Discount rates	10.0 - 12.5%	+10 % -10 %	(140 500) 148 700	
		Estimated rental value	290-780 USD/ sq.m.	+10 % -10 %	229 400 (229 400)	
		Exit capitalization rates	8.5 - 10.5%	+10 % -10 %	(216 800) 265 300	3 618 100
Investment property under development	Discounted Cash Flow Technique	Discount rates	19.0-20.0%	+10 % -10 %	(3 490) 3 720	
		Expected sq.m price	2400-5700 USD/ sq.m.	+10 % -10 %	20 480 (20 460)	83 650
Total fair value of investment property per valuation reports at 31 December 2016 (Note 8)						**3 701 750**

23 Fair Value (Continued)

The valuation technique, inputs used in the fair value measurement of the investment property, including premises, and related sensitivity to reasonably possible changes in those inputs were as follows at 31 December 2015:

In thousands of US Dollars	**Valuation technique**	**Inputs used**	**Range of inputs**	**Reasonable change (% of input)**	**Sensitivity of fair value measurement**	**Fair value**
Yielding investment property	Discounted Cash Flow Technique	Discount rates	10.0 - 13.0%	+10 %	(154 600)	
				-10 %	164 300	
		Estimated rental value	200-2000 USD/ sq.m.	+10 %	219 500	
				-10 %	(218 900)	
		Exit capitalization rates	9.0 - 10.5%	+10 %	(217 000)	
				-10 %	265 700	3 708 500
Investment property under development	Discounted Cash Flow Technique	Discount rates	20.0%	+10 %	(10 100)	
				-10 %	11 600	
		Estimated rental value	200-750 USD/ sq.m.	+10 %	18 800	
				-10 %	(12 600)	
		Exit capitalization rates	10.0%	+10 %	(11 000)	
				-10 %	13 500	30 600
Total fair value of investment property per valuation reports at 31 December 2015 (Note 8)						**3 739 100**

Refer to Note 8 for information on movements in fair value of the investment property. The sensitivity of fair value measurement to change of inputs is estimated by adjusting the variable and assuming that other variables remain the same.

During the year 2016 and 2015 there were no reclassifications from or into Level 3 measurements.

All gain from valuation is unrealised and presented in net gain from fair value adjustment on investment property line in the consolidated statement of profit and loss and other comprehensive income.

All gain from revaluation of premises is unrealised and presented in revaluation of property, plant and equipment line in consolidated other comprehensive income.

***Cash and cash equivalents*.** Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

***Financial assets carried at amortised cost*.** The estimated fair value of financial assets carried at amortised cost is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Interest rates used depend on the perceived credit risk of the counterparty and ranged at 31 December 2016 from 6% p.a. to 14% p.a. (2015: from 3.65% p.a. to 14% p.a.).

***Liabilities carried at amortised cost*.** The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Interest rates used ranged from 4.45% p.a. to 14% p.a. (2015: from 5% p.a. to 17% p.a.).

23 Fair Value (Continued)

The comparison of the fair value and the carrying value of main assets and liabilities carried at amortised cost was as follows:

In thousands of US Dollars	31 December 2016 Fair value	31 December 2016 Carrying value	31 December 2015 Fair value	31 December 2015 Carrying value
Loans issued (Level 3)	286 038	289 749	175 602	176 465
Trade and other receivables (Level 3)	42 111	42 111	49 260	49 260
Cash and cash equivalents (Level 2)	107 988	107 988	210 639	210 639
Loans from banks (Level 3)	2 232 672	2 191 506	2 472 464	2 470 352
Loans from other companies and individuals (Level 3)	820	1 072	1 455	1 492
Loans from related parties (Level 3)	11 692	9 896	14 628	13 434
Rouble bonds financing (Level 1)	358 547	344 856	293 744	295 339
Eurobonds financing (Level 1)	376 834	347 796	-	-
Redeemable preference shares (Level 3)	-	-	82 249	68 825
Finance lease liabilities (Level 3)	22 529	22 529	18 862	18 862
Tenant deposits (Level 3)	54 131	51 580	57 562	53 978
Trade and other payables (Level 3)	73 466	73 466	42 180	42 180

All of the Group’s financial liabilities except for derivative financial instruments were carried at amortised cost.

***Financial instruments carried at fair value*.** At 31 December 2016 and 2015 all derivative financial instruments were valued using valuation techniques (Discounted Cash Flow) with inputs observable in markets which is Level 2 measurement. Refer to Note 22.

24 Presentation of Classes of Financial Instruments with Measurement Categories

At 31 December 2016 and 2015 all of the Group’s financial assets were included in category loans and receivables except for derivative financial instruments. All of the Group’s financial liabilities except for derivative financial instruments were carried at amortised cost. At 31 December 2016 and 2015 all derivative financial instruments of the Group were classified as at fair value through profit and loss.

25 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if they are under common control, or if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

25 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In thousands of US Dollars	31 December 2016			31 December 2015			
	Immediate shareholders (excluding key management personnel)	**Companies under significant influence of ultimate controlling shareholder**	**Joint venture**	**Immediate shareholders (excluding key management personnel)**	**Companies under significant influence of ultimate controlling shareholder**	**Joint venture**	**Key management personnel**
Loans issued (Note 10)	8 083	-	181 417	7 801	9 200	69 494	-
Trade and other receivables (Note 11)	2	1 051	708	-	722	1 551	-
Borrowings (Note 13)	(1 247)	(8 632)	(17)	(1 220)	(12 201)	(13)	-
Trade and other payables (Note 14)	-	(748)	(61)	-	(2 856)	(61)	(2 500)
Dividends (Note 15)	(12 843)	(2 863)	-	(12 843)	(2 863)	-	-

The income and expense items with related parties for the period were as follows:

In thousands of US Dollars	2016				2015			
	Immediate shareholders (excluding key management personnel)	**Companies under significant influence of ultimate controlling shareholder**	**Joint venture**	**Key management personnel**	**Immediate shareholders (excluding key management personnel)**	**Companies under significant influence of ultimate controlling shareholder**	**Joint venture**	**Key management personnel**
Rental revenue	-	1 098	1 009	-	-	1 830	902	-
Salaries and bonuses and related social contribution expense	-	-	-	(1 508)	-	-	-	(1 469)
Reversal of accrued bonuses	-	-	-	2 500	-	-	-	3 419
Income from guarantees issued	1 790	-	-	-	1 975	-	-	-
Finance income	798	2 839	6 650	-	-	1 087	4 002	-
Finance costs	(26)	(9 515)	(1)	-	(31)	(17 307)	(12 008)	-

25 Related Party Transactions (Continued)

In addition the Group guaranteed obligations of related parties and pledged shares in certain subsidiaries in relation to liabilities of related parties (Notes 1 and 22).

Non-controlling interests in companies holding Legenda Tsvetnogo and Icube properties are held by related companies.

Refer to Note 15 and 22 for the description of the share based payments to management.

Refer to Note 27 for the information on acquisition of Zarechie.

Refer to Note 27 for the information on Avion disposal.

Refer to Note 13 for the information on (1) significant borrowings received by the Group from Sberbank of Russia, a significant non-controlling shareholder of Afelmor, and (2) funding received by the Group as a result of issue by a company controlled by the Ultimate Controlling Shareholder of Rouble bonds guaranteed by the Company.

26 Non-Controlling Interest

The non-controlling interest that is material to the Group is represented by the non-controlling interest in Legenda Tsvetnogo and ICube projects.

At 31 December 2016 the total consolidated assets of Legenda Tsvetnogo project which includes Gunilla Limited and its subsidiaries, amounted to USD 369 773 thousand represented mainly by the yielding investment property and the total consolidated liabilities amounted to USD 264 198 thousand represented mainly by the borrowing from the bank (31 December 2015: USD 366 971 thousand and USD 279 961 thousand respectively). For the year ended 31 December 2016 Legenda Tsvetnogo project had USD 35 918 thousand revenue and USD 3 252 thousand profit (2015: USD 30 781 thousand and USD 6 740 thousand gain respectively).

At 31 December 2016 the total consolidated assets of ICube project which includes Mistalda Limited and its subsidiaries, amounted to USD 87 170 thousand represented mainly by the yielding investment property and the total consolidated liabilities amounted to USD 102 430 thousand represented mainly by the borrowing from the bank (31 December 2015: USD 104 393 thousand and USD 97 715 thousand respectively). For the year ended 31 December 2016 ICube project had USD 1 327 thousand revenue and USD 27 213 thousand loss (2015: USD 9 820 thousand and USD 5 339 thousand loss respectively).

27 Acquisitions and Disposals

Acquisition of Ducat III. On 31 March 2015 the Group acquired for total consideration of USD 67 100 thousand a 100% interest in Mokati Limited (Cyprus) which owns a 100% interest in Gasheka Realty Limited (Russia), company which owns the office center Ducat III in Moscow. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	4 294
Loans issued	25 434
Prepayments	722
VAT recoverable	248
Trade and other receivables	4 008
Current income tax prepayments	8
Deferred tax asset	632
Investment property	396 420
Borrowings	(234 054)
Tenant deposits	(1 950)
Land lease liability	(1 339)
Deferred rental income	(6 101)
Current income tax liabilities	(14)
Trade and other payables	(121 208)
Attributed value of identifiable net assets of subsidiaries acquired	**67 100**
Total purchase consideration	**(67 100)**
Less: Non-cash consideration	67 000
Less: Cash and cash equivalents of subsidiary acquired	4 294
Inflow of cash and cash equivalents on acquisition	**4 194**

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Mokati Limited (Cyprus).

Refer to Note 4 for Critical judgements on acquisition of investment properties.

Acquisition of Bolshevik. On 31 March 2015 the Group acquired for total consideration of USD 28 100 thousand a 100% interest in Blandid Limited (Cyprus) which owned a 50.1% interest in Solorita Holding Limited (Cyprus). Solorita Holding Limited owns a 100% interest in Asabelle Limited (Cyprus) which owns Nezoral Limited (Cyprus), Finance Marekkon Limited (Cyprus) and Merissania Holding Limited (Cyprus). These three companies own the office center Bolshevik in Moscow. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

27 Acquisitions and Disposals (Continued)

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	2 389
Loans issued	9 977
Prepayments	6 188
VAT recoverable	2 032
Trade and other receivables	28 576
Current income tax prepayments	103
Deferred tax ssset	7 785
Investment property	194 537
Borrowings	(177 621)
Tenant deposits	(1 046)
Deferred rental income	(4 026)
Current income tax liabilities	(245)
Trade and other payables	(12 561)
Attributed value of identifiable net assets of joint venture acquired	**56 088**
Less: interest owned by the joint venture partner	(27 988)
Total purchase consideration	**(28 100)**
Less: Non-cash consideration	28 000

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Blandid Limited (Cyprus).

Refer to Note 4 for Critical judgements on acquisition of investment properties.

Acquisition of Legenda. On 12 May 2015 the Group acquired for total consideration of USD 72 100 thousand a 100% interest in Sabaton Holdings Limited (Cyprus) which owns 50.5% interest in Narvi Finance Limited (Cyprus). Narvi Finance Limited owns 100% interest in Goldstyle Holdings Limited (Cyprus) which owns the office centre Legenda Tsvetnogo in Moscow. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	1 792
Loans issued	12
Prepayments	774
Trade and other receivables	4 287
Deferred tax asset	922
Investment property	402 449
Borrowings	(237 429)
Tenant deposits	(4 608)
Deferred rental income	(4 957)
Current income tax liabilities	(413)
Trade and other payables	(20 056)
Attributed value of identifiable net assets of subsidiaries acquired	**142 773**
Less: non-controlling interest	(70 673)
Total purchase consideration	**(72 100)**
Less: Non-cash consideration	72 000
Less: Cash and cash equivalents of subsidiary acquired	1 792
Inflow of cash and cash equivalents on acquisition	**1 692**

27 Acquisitions and Disposals (Continued)

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Sabaton Holdings Limited (Cyprus).

Refer to Note 4 for Critical judgements on acquisition of investment properties.

Acquisition of Sharezone. On 26 June 2015 the Group acquired for total consideration of USD 232 400 thousand a 100% in Sharezone Capital Limited (Cyprus) which owns 100% interest in (1) Le Fortaco Limited (Cyprus), the owner of the office centre Lefort in Moscow, (2) Krugozor Business Center (Cyprus) Limied, the owner of the office centre Krugozor in Moscow, and (3) Business Center Stanislavsky (Cyprus) Limited, the owner of the office centre Stanislavsky in Moscow. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	5 965
Loans issued	22 792
Prepayments	1 031
Trade and other receivables	12 865
Current income tax prepayments	1 283
Deferred tax ssset	21 531
Investment property	741 454
Borrowings	(432 478)
Tenant deposits	(13 513)
Land lease liability	(13 581)
Deferred rental income	(13 939)
Current income tax liabilities	(67)
Trade and other payables	(100 943)
Attributed value of identifiable net assets of subsidiaries acquired	**232 400**
Total purchase consideration	**(232 400)**
Less: Non-cash consideration	232 300
Less: Cash and cash equivalents of subsidiary acquired	5 965
Inflow of cash and cash equivalents on acquisition	**5 865**

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Sharezone Capital Limited (Cyprus).

Refer to Note 4 for Critical judgements on acquisition of investment properties.

Acquisition of Zarechie. On 30 June 2015 the Group acquired from related party for total consideration of USD 57 736 thousand a 100% interest in Filmotinia Ventures Ltd (Cyprus) which owns 100% interest in Management Company “Progress” LLC (Russia). Management Company “Progress” LLC owns 100% interest in Zarechie LLC (Russia) which owns the office centre Zarechie in Moscow. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

27 Acquisitions and Disposals (Continued)

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	350
VAT recoverable	206
Trade and other receivables	325
Deferred tax asset	1 848
Investment property	118 030
Borrowings	(60 753)
Land lease liability	(2 076)
Trade and other payables	(194)
Attributed value of identifiable net assets of subsidiaries acquired	**57 736**
Total purchase consideration	**(57 736)**
Less: Cash and cash equivalents of subsidiary acquired	350
Less: Trade and other payables	57 726
Inflow of cash and cash equivalents on acquisition	**340**

The total purchase consideration represents the amount of 3 953 794 class “B” shares issued to ICT Holding Limited by O1 Properties group. Refer to Note 15 for the information on shares issue.

Acquisition of Avrasis. On 28 December 2016 the Group acquired for total consideration of USD 53 875 thousand a 100% interest in Moonbow Ltd (Cyprus) which owns 100% interest in Avrasis Ltd (Cyprus), the owner of the office center Avrasis in Moscow. Avrasis Ltd owns 100% interest in “Teplovik” LLC. The companies acquired constituted a group of net assets, rather than businesses as defined in IFRS 3 “Business combinations”, as the Group purchased physical assets and not the accompanying processes.

The details of the assets and liabilities acquired were as follows:

In thousands of US Dollars	**Attributed value**
Cash and cash equivalents	89
Loans issued	6
Prepayments	94
VAT recoverable	2
Trade and other receivables	2 623
Current income tax prepayments	9
Deferred tax asset	7 049
Investment property	46 734
Property, plant and equipment	421
Tenant deposits	(654)
Deferred tax liability	(1)
Deferred rental income	(305)
Trade and other payables	(2 192)
Attributed value of identifiable net assets of subsidiaries acquired	**53 875**
Total purchase consideration	**(53 875)**
Less: Non-cash consideration	43 875
Less: Cash and cash equivalents of subsidiary acquired	89
Outflow of cash and cash equivalents on acquisition	**(9 911)**

Non-cash consideration represents the set-off of mutual obligations under the Loan Agreement and Deed of Novation.

Refer to Note 4 for Critical judgements on acquisition of investment properties.

27 Acquisitions and Disposals (Continued)

Disposal of Ducat III. On 25 March 2015 the Group sold its 100% interest in Mokati Limited (Cyprus) which owns a 100% interest in Gasheka Realty Limited (Russia), company which owns the office center Ducat III in Moscow.

The details of the assets and liabilities disposed and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	4 294
Loans issued	25 434
Prepayments	722
VAT recoverable	248
Trade and other receivables	4 008
Current income tax prepayments	9
Deferred tax asset	632
Investment property	395 631
Borrowings	(234 054)
Tenant deposits	(1 950)
Land lease liability	(1 339)
Deferred tax liability	(39 264)
Deferred rental income	(6 101)
Current income tax liabilities	(14)
Trade and other payables	(121 209)
Carrying value of identifiable net assets of subsidiaries disposed	**27 047**
Gain on disposal	**39 953**
Less: Reclassification of effect of translation to presentation currency	180 313
Net loss from disposal, including reclassification of currency translation reserve on disposal of subsidiary	**(140 360)**
Total sale consideration	**67 000**
Less: Non-cash consideration	(67 000)
Less: Cash and cash equivalents of subsidiary disposed	(4 294)
Outflow of cash and cash equivalents on disposal	**(4 294)**

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Gasheka Realty Limited (Russia).

27 Acquisitions and Disposals (Continued)

Disposal of Bolshevik. On 25 March 2015 the Group sold its 100% interest in Blandid Limited (Cyprus) which owns a 50.1% interest in Solorita Holding Limited (Cyprus). Solorita Holding Limited owns a 100% interest in Asabelle Limited (Cyprus) which owns Nezoral Limited (Cyprus), Finance Marekkon Limited (Cyprus) and Merissania Limited (Cyprus). These three companies own the office center Bolshevik in Moscow.

The details of the assets and liabilities disposed and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	2 389
Loans issued	9 977
Prepayments	6 188
VAT recoverable	2 032
Trade and other receivables	28 576
Current income tax prepayments	103
Deferred tax asset	7 785
Investment property	191 598
Borrowings	(177 621)
Tenant deposits	(1 046)
Deferred tax liability	(30 004)
Deferred rental income	(4 026)
Current income tax liabilities	(245)
Trade and other payables	(12 561)
Carrying value of identifiable net assets of joint venture disposed	**23 145**
Less: interest owned by the joint venture partner	(11 549)
Gain on disposal	**16 404**
Less: Reclassification of effect of translation to presentation currency	27 448
Net loss from disposal, including reclassification of currency translation reserve on disposal of subsidiary	**(11 044)**
Total sale consideration	**28 000**
Less: Non-cash consideration	(28 000)

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Blandid Limited (Cyprus).

Disposal of Legenda. On 05 May 2015 the Group sold its 100% interest in Sabaton Holdings Limited (Cyprus) which owns 50.5% interest Narvi Finance Limited (Cyprus). Narvi Finance Limited owns 100% interest in Goldstyle Holdings Limited (Cyprus) which owns the office centre Legenda Tsvetnogo in Moscow.

27 Acquisitions and Disposals (Continued)

The details of the assets and liabilities disposed and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	1 792
Loans issued	12
Prepayments	774
Trade and other receivables	4 285
Deferred tax asset	922
Investment property	401 546
Borrowings	(237 429)
Tenant deposits	(4 608)
Deferred tax liability	(34 282)
Deferred rental income	(4 957)
Current income tax liabilities	(411)
Trade and other payables	(20 056)
Carrying value of identifiable net assets of subsidiaries disposed	**107 588**
Less: non-controlling interest	(53 256)
Gain on disposal	**17 668**
Less: Reclassification of effect of translation to presentation currency attributable to the owners of the Group from other comprehensive income to profit and loss	19 202
Net loss from disposal, including reclassification of currency translation reserve on disposal of subsidiary attributable to the owners of the Group	**(1 534)**
Less: Reclassification of effect of translation to presentation currency attributable to the non-controlling interest	18 823
Net loss from disposal, including reclassification of currency translation reserve on disposal of subsidiary	**(20 357)**
Total sale consideration	**72 000**
Less: Non-cash consideration	(72 000)
Less: Cash and cash equivalents of subsidiary disposed	(1 792)
Outflow of cash and cash equivalents on disposal	**(1 792)**

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Sabaton Holdings Limited (Cyprus).

Disposal of Sharezone. On 22 June 2015 the Group sold its 100% interest in Sharezone Capital Limited (Cyprus) which owns 100% interest in (1) Le Fortaco Limited (Cyprus), the owner of the office centre Lefort in Moscow, (2) Krugozor Business Center (Cyprus) Limied, the owner of the office centre Krugozor in Moscow, and (3) Business Center Stanislavsky (Cyprus) Limited, the owner of the office centre Stanislavsky in Moscow.

27 Acquisitions and Disposals (Continued)

The details of the assets and liabilities disposed and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	5 965
Loans issued	22 792
Prepayments	1 031
Trade and other receivables	12 886
Current income tax prepayments	1 283
Deferred tax asset	21 531
Investment property	741 326
Borrowings	(432 478)
Tenant deposits	(13 513)
Land lease liability	(13 581)
Deferred tax liability	(69 708)
Deferred rental income	(13 939)
Current income tax liabilities	(67)
Trade and other payables	(100 943)
Carrying value of identifiable net assets of subsidiaries disposed	**162 585**
Gain on disposal	**69 715**
Less: Reclassification of effect of translation to presentation currency	**256 861**
Net loss from disposal, including reclassification of currency translation reserve on disposal of subsidiary	**(187 146)**
Total sale consideration	**232 300**
Less: Non-cash consideration	(232 300)
Less: Cash and cash equivalents of subsidiary disposed	(5 965)
Outflow of cash and cash equivalents on disposal	**(5 965)**

Non-cash consideration represents the set-off of mutual obligations under the Shares Sale and Purchase Agreement and Set-off Agreement in respect of the sale and purchase of the entire issued share capital of Sharezone Capital Limited (Cyprus).

Disposal of Avion. On 31 December 2015 the Group sold to a related party its 100% interest in Stibilac Limited (Cyprus) and Valnaz Investments Limited (Cyprus) which owns 100% interest in Avion Corporate Business Center (Cyprus).

27 Acquisitions and Disposals (Continued)

The details of the assets and liabilities disposed and financial result arising were as follows:

In thousands of US Dollars	**Carrying amount**
Cash and cash equivalents	997
Loans issued	129
Trade and other receivables	5 637
Current income tax prepayments	86
Investment property	47 119
Borrowings	(53 160)
Tenant deposits	(1 308)
Deferred tax liability	(4 147)
Deferred rental income	(1 391)
Trade and other payables	(4 715)
Carrying value of identifiable net assets of subsidiaries disposed	**(10 753)**
Gain on disposal	**10 753**
Less: Reclassification of effect of translation to presentation currency	(24 169)
Net gain on disposal, including reclassification of currency translation reserve on disposal of subsidiary	**34 922**
Total sale consideration	**-**
Less: Cash and cash equivalents of subsidiary disposed	(997)
Outflow of cash and cash equivalents on disposal	**(997)**

Other disposals. During 2016 and 2015 the Group also sold a number of minor subsidiaries, which do not have a material impact on these consolidated financial statements.

28 Subsequent Events

In February 2017 part of Russian rouble bonds was refinanced by USD bonds of nominal value USD 335 000 thousand with maturity date in January 2021 and contractual interest rate 7% issued by a company controlled by the Ultimate Controlling Shareholder on Moscow Exchange.

Refer to Note 2 for the information on significant changes in foreign currency exchange rates during 2017.