

JSC RUSNANO

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report**

31 December 2016

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Independent Auditors' Report

To the Shareholder and Board of Directors of JSC RUSNANO

Opinion

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

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

Basis for Opinion

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

Audited entity: JSC RUSNANO.
Registration No. in the Unified State Register of Legal Entities
№ 1117799004333.
Moscow, Russia

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

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

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



Key Audit Matters

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

Fair value measurement of investments in portfolio companies	
Please refer to the Notes 8, 23 in the consolidated financial statements.	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The fair value measurement has a significant impact on the Group's financial performance.</p> <p>We focused on the investments in portfolio companies relating to Level 3, which is based on unobservable inputs and material to the financial statements. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the primary basis for the Group's fair value measurement, this is one of the key judgemental areas that our audit is concentrated on.</p>	<p>We assessed design and implementation of the key controls related to the process of measurement of fair value of investments in portfolio companies, such as management review by the Executive Board of Management Company "Rusnano" LLC and approval control as well as analysis of models by management experts with regards to the valuation methodology, reasonableness of assumptions, and mathematical accuracy of the models.</p> <p>For the most significant valuation models and/or valuation models with considerable change in value during the reporting period we involved KPMG valuation specialists to assist us in evaluating the methodologies used by the Group, as well as reasonableness of key assumptions and inputs such as sales volume and prices, main items of cost of production, EBITDA margin forecasts, capital expenditures and working capital level. These key assumptions and inputs were compared with industry averages by KPMG valuation specialists and for macroeconomic parameters they used alternative external data sources such as Economic Intelligence Unit. Discount rates were recalculated based on market data from open sources, credit information of portfolio companies and on average ratios of cost of capital applicable to respective industry.</p> <p>In addition we also:</p> <ul style="list-style-type: none"> — assessed forecasted sales volumes and prices as well as cost of production by comparison with historical data;

	<ul style="list-style-type: none"> — evaluated historical accuracy of the forecasts by comparison with actual results in financial statements and relevant inquiries of investment teams on deviations identified; — considered how cash flows correlate with project life cycle and if it was properly adjusted for effects of potential risks of a portfolio company when indicated by respective investment team as well as facts and circumstances identified by us in public domain.
Recoverability of deferred tax assets	
Please refer to the Note 18 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The Group has significant recognised deferred tax assets in respect of tax losses carried forward and temporary differences between fair value of investments and their tax base. There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which the deferred tax asset is recoverable.</p> <p>The availability of the future taxable profit for the Group depends primarily on results of exits from the portfolio companies. This requires judgement in assessing the future taxable profit.</p>	<p>We assessed design and implementation of controls related to the process of tax model preparation, including management's reconciliation of cash flow forecasts of results of exits from portfolio companies with a long-term business plan of JSC RUSNANO.</p> <p>Our audit procedures on the deferred tax assets valuation also included the following:</p> <ul style="list-style-type: none"> — We assessed the accuracy of classification of accumulated tax losses categories having different tax bases according to Tax Code. — We evaluated tax revenue forecasted from portfolio companies' exits against the approved long-term business plan of JSC RUSNANO with regards to values and timing. — We assessed consistency in forecasting between future taxable profit model and fair value measurement models for investments in portfolio companies measured using discounted cash flows techniques. — We used KPMG tax specialists to assist us in evaluating compliance with the effective tax legislation as well as the allocation of taxable profit or loss forecasts between general tax base and base on operations with securities and financial instruments not quoted on the stock exchange.



Change in the classification of loans received under the state guarantees	
Please refer to the Note 12 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The Group has significant loans payable secured by the guarantees issued by the government of the Russian Federation at the beginning and end of the reporting period.</p> <p>In 2016, the Group reached an agreement on certain amendments to the loan contracts with one of the banks. The respective amendments were signed after the balance sheet date.</p> <p>On the basis of those amendments to the loan contracts, the Group changed the classification of such loans from financial liabilities into equity from the date when respective agreement with the bank was reached in 2016.</p> <p>We have included this issue in the key audit matters because of its significant impact on the consolidated financial statements and significant level of judgment regarding compliance of such financial instrument with the definition of equity under IAS 32 <i>Financial Instruments: Presentation</i>, as well as determination of the exercise date of respective amendments to the loan contracts.</p>	<p>We performed detailed evaluation of the Group's judgment in relation to reclassification of these loans into equity on the basis of certain supporting documents in order to assess whether the adopted approach to its classification as well as determination of the proper timing for respective amendments are in compliance with IAS 32 <i>Financial Instruments: Presentation</i>.</p> <p>We engaged KPMG's legal specialists for evaluation of enforceability and legal consequences of those amendments to the Group's loan contracts with the bank, as well as determination of a date when such amendments could be put into force.</p>

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Altukhov Kirill
JSC "KPMG"
Moscow, Russia

27 April 2017



JSC RUSNANO
Consolidated Statement of Financial Position

<i>In million of Russian Roubles</i>	<i>Note</i>	31 December 2016	31 December 2015 (restated)	1 January 2015 (restated)
ASSETS				
Non-current assets				
Equity instruments at fair value through profit or loss	8	96,198	116,036	96,195
Investment in associate	7	1,715	1,658	1,596
Loans receivable at fair value through profit or loss	8	19,232	18,577	12,670
Deferred tax asset	18	7,097	6,614	107
Other receivables and prepayments	10	55	152	231
Property, plant and equipment	6	2,880	2,963	3,311
Other non-current assets		166	65	70
Total non-current assets		127,343	146,065	114,180
Current assets				
Equity instruments at fair value through profit or loss	8	20,612	1,282	2,234
Financial assets held for trading	8	10,051	10,168	6,933
Loans receivable at fair value through profit or loss	8	4,523	4,493	2,381
Debt instruments at amortised cost	9	30,442	42,686	54,670
Other receivables and prepayments	10	699	5,555	2,739
Income tax prepayments		8	8	110
Cash and cash equivalents	11	358	16,009	6,453
Other current assets		4	38	101
Total current assets		66,697	80,239	75,621
TOTAL ASSETS		194,040	226,304	189,801
EQUITY				
Share capital	12, 22	53,742	53,742	53,742
Additional paid-in capital	12	43,226	-	-
Currency translation reserve	12	210	24,970	15,253
Retained earnings/(Accumulated loss)		2,464	(1,811)	(9,132)
TOTAL EQUITY		99,642	76,901	59,863
LIABILITIES				
Non-current liabilities				
Deferred tax liability	18	38	14	14
Long-term borrowings	13	39,861	132,221	109,894
Liabilities on returns on additional paid-in capital		8,559	-	-
Total non-current liabilities		48,458	132,235	109,908
Current liabilities				
Current portion of long-term borrowings	13	33,739	16,011	18,528
Income tax payable		36	58	3
Other payables and accrued expenses	14	7,000	1,099	1,499
Liabilities on returns on additional paid-in capital		5,165	-	-
Total current liabilities		45,940	17,168	20,030
TOTAL LIABILITIES		94,398	149,403	129,938
TOTAL EQUITY AND LIABILITIES		194,040	226,304	189,801

Approved for issue and signed on 26 April 2017.

Chubais Anatoly Borisovich
Chairman of the Executive Board
of Management Company "RUSNANO" LLC

Galstyan Arthur Genrikovich
Deputy Executive Director – Managing Director for Finance
of Management Company "RUSNANO" LLC

The accompanying notes are an integral part of these consolidated financial statements.

JSC RUSNANO
Consolidated Statement of Profit or Loss

<i>In million of Russian Roubles</i>	Note	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Income			
Interest income	15	3,073	6,165
Other operating income		484	514
Total income		3,557	6,679
Operating expenses	16	(5,982)	(4,979)
Net gain on financial assets at fair value through profit or loss	17	5,636	12,533
Foreign currency exchange gains		(2,036)	758
Reclassification of foreign currency translation differences	12	17,581	-
Interest expenses		(14,305)	(13,981)
Profit before income tax		4,451	1,010
Income tax	18	47	6,311
PROFIT FOR THE YEAR		4,498	7,321

The accompanying notes are an integral part of these consolidated financial statements.

JSC RUSNANO
Consolidated Statement of Changes in Equity

<i>In million of Russian Roubles</i>	Note	Share capital	Additional paid-in capital	Retained earnings/ (Accumulated loss)	Currency translation reserve	Total equity
As at 1 January 2015 (restated)		53,742	-	(9,132)	15,253	59,863
Total comprehensive income						
Profit for the year		-	-	7,321	-	7,321
Other comprehensive income	12	-	-	-	9,717	9,717
Total comprehensive income for the year		-	-	7,321	9,717	17,038
As at 31 December 2015 (restated)		53,742	-	(1,811)	24,970	76,901
Total comprehensive income						
Profit for the year		-	-	4,498	-	4,498
Other comprehensive income	12	-	-	-	(24,760)	(24,760)
Total comprehensive income for the year		-	-	4,498	(24,760)	(20,262)
Recognition of additional paid-in capital	12	-	44,388	-	-	44,388
Returns on additional paid- in capital		-	223	(223)	-	-
Repayment of additional paid-in capital		-	(1,385)	-	-	(1,385)
As at 31 December 2016		53,742	43,226	2,464	210	99,642

The accompanying notes are an integral part of these consolidated financial statements.

JSC RUSNANO
Consolidated Statement of Comprehensive Income

<i>In million of Russian Roubles</i>	Note	
Currency translation reserve		
As at 1 January 2015 (restated)		15,253
Comprehensive income		
Foreign currency translation differences		9,717
Profit for the year		7,321
Total comprehensive income for the year		17,038
Currency translation reserve		
As at 31 December 2015 (restated)		24,970
Comprehensive income		
Foreign currency translation differences		(7,179)
Reclassification of foreign currency translation differences	12	(17,581)
Profit for the year		4,498
Total comprehensive income for the year		(20,262)
Currency translation reserve		
As at 31 December 2016		210

JSC RUSNANO
Consolidated Statement of Cash Flows

<i>In million of Russian Roubles</i>	<i>Note</i>	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Cash flows from operating activities			
Proceeds from sale of equity instruments at fair value through profit or loss		10,879	3,589
Acquisition of equity instruments at fair value through profit or loss		(7,589)	(12,935)
Repayment of loans issued		6,923	3,212
Loans issued		(5,146)	(4,120)
Proceeds from sale of financial assets held for trading		2,115	1,732
Acquisition of financial assets held for trading		(2,929)	(1,593)
Interest income received		3,380	7,203
Operating payments		(4,493)	(4,305)
Income taxes paid		(431)	(144)
Other receipts		5,133	337
Other payments		-	(3,032)
Net cash from/(used in) operating activities		7,842	(10,056)
Cash flows from investing activities			
Repayment of debt securities		200	-
Acquisition of debt securities		(7,666)	-
Receipts of cash from deposit accounts		161,866	138,131
Placement of cash on deposit accounts		(144,900)	(125,237)
Acquisition of property, plant and equipment		(151)	(46)
Acquisition of other non-current assets		(10)	(27)
Net cash from investing activities		9,339	12,821
Cash flows from financing activities			
Proceeds from loans and borrowings		-	36,002
Repayment of loans and borrowings		(14,978)	(16,950)
Interest paid		(15,624)	(13,221)
Returns on additional paid-in capital		(223)	-
Repayment of additional paid-in capital		(1,385)	-
Net cash from financing activities		(32,210)	5,831
Net (decrease)/increase in cash and cash equivalents		(15,029)	8,596
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		(622)	960
Cash and cash equivalents at the beginning of the year	11	16,009	6,453
Cash and cash equivalents at the end of the year	11	358	16,009

The accompanying notes are an integral part of these consolidated financial statements.

1 RUSNANO Group and Its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for the Joint-Stock Company RUSNANO (JSC RUSNANO, the “Company”) and its consolidated subsidiaries disclosed in Note 20 (together referred to as the “Group” or the “RUSNANO Group”).

Initially the Russian Corporation of Nanotechnologies (the “Corporation”) was established on 19 September 2007 by the Government of the Russian Federation in accordance with the Federal Law No. 139-FZ “On the Russian Corporation of Nanotechnologies” dated 19 July 2007.

In accordance with Federal Law No. 211-FZ “On Reorganization of the Russian Corporation of Nanotechnologies” adopted on 27 July 2010, the Corporation was reorganized into OJSC RUSNANO and ceased its operations upon the state registration of the Company on 11 March 2011. As the result OJSC RUSNANO assumed all rights and responsibilities of the Corporation under the principle of universal succession.

In 2014 the Group transferred its management function and staff from the Company to its subsidiary Management Company RUSNANO LLC founded in 2013.

In February 2016 before these Consolidated Financial Statements were authorized for issue the Company changed its legal entity status from Open Joint-Stock Company to Joint-Stock Company.

Principal activity. The Group was formed to implement the policy of the Russian Federation with respect to nanotechnology, to develop an innovative infrastructure for nanotechnology and initiate projects on the creation of advanced nanotechnologies and nano-industry in Russia. The main activity of the Group is to invest funds in line with the above-mentioned State policy.

The Company is an investment entity (Note 4).

The RUSNANO Group’s investment activity is focused on funding nano-technology projects at the initial stage, when the opportunities to raise funds from other sources are limited due to high risks and market and technological uncertainty. The Group plans to withdraw from projects when certain production criteria are met and other investors are ready to finance the project independently. The return on the Group’s investments in such projects is determined by the terms and conditions stipulated in the investment agreements. Starting 2016 the Group focused its primary activities on investments in newly-founded investment funds.

The subsidiaries of the Group were formed or acquired in line with the main Group’s activities stated above.

Registered address and place of business. The Company’s registered address is: Prospekt 60-letiya Oktyabrya, 10A, 117036, Moscow, Russian Federation.

Segment information. Under the IFRS 8 “Operating Segments” operating segments are components of an enterprise on which separate financial information is available and is evaluated regularly by the chief operating decision-maker (further – “CODM”) in deciding how to allocate resources and in assessing performance. The Executive Board of Management Company RUSNANO LLC has been determined as the CODM. For management purposes, the Group is organised into one main operating segment in accordance with IFRS 8, which invests in equity and debt instruments and related derivatives. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The Group operates in one industry segment being the investor with respect to developing an innovative nanotechnological infrastructure and initiating projects on the creation of advanced nanotechnologies. The financial position and results of this segment as at 31 December 2016 and 2015 are presented in the consolidated statement of financial position and the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively.

The Group performs most of its activities in the Russian Federation and does not have any significant non-current assets other than financial assets located in foreign countries or any significant income from foreign countries except for gains/losses on financial assets at fair value through profit or loss from foreign projects.

2 Operating Environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and development and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Group's major assets are the financial instruments, i.e. equity or debt instruments, the most of which are not quoted in the active market. The fair values of these financial instruments as at 31 December 2016 and 2015 have been determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As the most of the Group's investee shares are not traded in the active market, the fair value calculations are based on transaction prices, valuation models and discounted cash flows prepared by the Group. Determining fair value requires consideration of current market conditions, future business plans of investees, potential liquidity of the market and current credit spreads. The valuation techniques used by management to determine fair values in the absence of an active market include adjusted present value and utilizes interest rates applicable to similar investments on the Russian market or international markets where applicable.

3 Summary of Significant Accounting Policies

Basis of preparation

The consolidated financial statements of the RUSNANO Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, that have been measured at fair value.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. Taking into account the positive total equity of the Group as at 31 December 2016 of RUB 99,642 million (31 December 2015: RUB 76,901 million) the Group management believes that developed Group strategy will enable to improve profitability and support sustainability of the Group in future.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Certain comparative amounts were reclassified to be in conformity with current year presentation.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2016.

(a) Subsidiaries

Subsidiaries are companies and other entities which are controlled by the Company, i.e. in respect of which the Company is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power over the company or the other entity.

In accordance with the exemption for investment entities provided by IFRS 10, Subsidiaries are not consolidated by the Company and measured at fair value through profit or loss from the date on which control is obtained.

Exception comprises subsidiaries that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities. Such subsidiaries are consolidated from the date on which control is obtained (acquisition date) and are deconsolidated from the date on which that control ceases.

The acquisition method is used to account for the acquisition of consolidated subsidiaries. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

3 Summary of Significant Accounting Policies (continued)

Consolidated financial statements (continued)

(a) Subsidiaries (continued)

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

(b) Associates and joint ventures

Associates are entities over which the Group has significant influence, i.e. has the power to participate in the financial and operating policy decisions of the entity but not controls or joint controls those entities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

For investments in associates and jointly controlled entities within investment portfolio the equity accounting is not applied. The investments are accounted as financial instruments at fair value through profit or loss.

For other investments in associates accounting the equity method is applied.

New Accounting Pronouncements

(a) Standards and Amendments effective in 2016

In 2016 the Group adopted all standards and interpretations that became effective as at 1 January 2016.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). The amendments resulted in changes in accounting policies. The substance of changes and their effect on consolidated financial statements of the Group is disclosed below within changes in accounting policies.

Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11). The amendments have no any material effect on the Group consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38). The amendments have no any material effect on the Group consolidated financial statements.

Disclosure Initiative (Amendments to IAS 1). The amendments have no any material effect on the Group consolidated financial statements.

Various **Improvements to International Financial Reporting Standards** issued by IASB within 2012-2014 Annual Improvements Cycle. The amendments have no any material effect on the Group consolidated financial statements.

(b) Standards and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Group has not early adopted. The Group intends to adopt applicable standards when they become effective. None of them is expected to affect the consolidated financial statements of the Group, except the following set out below.

IFRS 9 Financial Instruments. In 2014 the IASB issued the final version of IFRS 9, which reflects all phases of financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing impact of IFRS 9 on its consolidated financial statements.

3 Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

(b) *Standards and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group (continued)*

IFRS 15 Revenue from Contracts with Customers. IFRS 15 was issued in 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing impact of IFRS 15 on its consolidated financial statements.

Disclosure Initiative (Amendments to IAS 7). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments are expected to result in additional disclosures but they do not affect financial position or financial performance of the Group.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

The following standards, amendments and interpretations may affect the Group consolidated financial statements but the effects are not expected to be significant.

IFRS 16 Leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2). The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Transfers of Investment Property (Amendments to IAS 40). The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The effective date is deferred indefinitely. Adoption is permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Various **Improvements to International Financial Reporting Standards** issued by IASB within 2014-2016 Annual Improvements Cycle. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Foreign currency translation

The functional currency of the Company and its subsidiaries established in the Russian Federation, and the Group's presentation currency, is the national currency of the Russian Federation, i.e., Russian Roubles ("RUB").

3 Summary of Significant Accounting Policies (continued)

Foreign currency translation (continued)

Monetary assets and liabilities are translated into each entity's functional currency at official exchange rates; for Russian companies at the rates published by the Central Bank of the Russian Federation and for foreign companies at rates quoted in their local markets at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates are recognised in the profit or loss for the year in net amount. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The items of statement of financial position and statement of comprehensive income of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- 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);
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2016, the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 60.6569 (31 December 2015: USD 1 = RUB 72.8827); EUR 1 = RUB 63.8111 (31 December 2015: EUR 1 = RUB 79.6972); CHF 1 = RUB 59.4151 (31 December 2015: CHF 1 = RUB 73.5298).

Financial assets at fair value through profit or loss

(a) Classification

The Group classifies its debt and equity investments, including embedded derivatives, as financial assets at fair value through profit or loss at inception. These financial assets are managed and their performance is evaluated on a fair value basis.

Equity instruments of the Group comprise shares in portfolio companies and equity instruments in investment funds.

Investment managers of the Group are required to evaluate the performance of the financial assets using their fair value at the end of the reporting period together with other related financial information pertaining to the particular investment.

Assets included in this category are classified as current assets if they are reasonably expected to be realised within 12 months from the end of the reporting period. Other assets included in this category are classified as non-current.

Financial assets at fair value through profit or loss also include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing them in the near term. This category includes equity securities and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Assets included in this category are classified as current assets.

Cash inflows and outflows from the operations with financial assets at fair value through profit or loss are presented in the consolidated statement of cash flows as cash flows from operating activities on a gross basis.

3 Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss (continued)

(b) Recognition, de-recognition and measurement

Financial assets at fair value through profit or loss are initially recognised at fair value. Fair value at initial recognition is best evidenced by the transaction price. Gain or loss on initial recognition is recorded only if there is a difference between the fair value and the 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. If the valuation technique that uses unobservable inputs is expected to be used for fair value determination in subsequent periods, the valuation technique is calibrated to ensure that it reflects current market conditions evidenced by transaction price and other relevant factors. If the Group provides financing to a portfolio company by the package of investments which includes several financial instruments, the transaction price of the full investment package is determined.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred largely all risks and rewards of ownership.

Following initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated statement of profit or loss with regard to the changes in fair value of financial assets at fair value through profit or loss in the period in which they arise.

Interest income on debt investments at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of the fair value gains or losses on financial assets at fair value through profit or loss.

(c) Fair value estimation

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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques, which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As the most of the Group's portfolio companies' shares are not traded in the active market, the fair value calculations for equity investments are based on valuation models and discounted cash flows prepared by the Group.

The Group also considers the original transaction price and adjusts the model as deemed necessary for such factors as non-sustainable earnings, investment and growth stages. The valuations produced by the primary techniques incorporate the effects of any embedded derivatives (such as call and put options) relating to the equity instrument.

The Group's valuation technique for debt instruments is the present value of estimated future cash flows based on a discounted cash flow model. The discount rate used by the Group is based on the risk-free rate of the economic environment in which portfolio companies operate, adjusted with other factors, such as the investment stage period and appropriate risk factors.

Cash flows used in the discounted cash flows model are based on the projected cash flows or earnings of the portfolio companies. In determining fair valuation, the Group in many instances relies on the financial information of the portfolio companies and on estimates by the management of the portfolio companies as to the effect of future development. Although best judgement is used in estimating the fair value of investments, there are inherent limitations in any estimation techniques. The fair value estimates presented herein are not necessarily indicative of the amount the Group could realise in a current transaction. Future events will also affect the estimates of fair value. The effect of such events on the estimates of fair value could be material in relation to the consolidated financial statements.

3 Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss (continued)

(c) Fair value estimation (continued)

Derivative financial instruments are often embedded in investment agreements entered into by the Group. If derivatives are embedded, they are not valued separately, but rather are built into the valuation models determining the range of fair value movements for a particular investment.

The Group's valuation technique for instruments presented by shares in investment funds usually is the share of net assets of each particular fund attributable to the Group at the end of reporting period.

(d) Transaction costs

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if a 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 relating to instruments at fair value through profit or loss are immediately recognised in profit or loss as an expense when incurred.

(e) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Loans receivable are carried at fair value as they are managed together with the related equity interest on a total return basis (interest or dividends and changes in fair value). Management of the Group believes that the interest rates for loans receivable issued in 2016 are equal to market rates for loans with similar conditions; hence, the discount rate for such loans has been determined individually for each loan.

Interest income on loans is included in the net recognised changes in the fair value of financial assets at fair value through profit or loss.

Financial assets at amortised cost

(a) Debt securities at amortised cost

Debt securities carried at amortised cost include bonds quoted within organized financial markets that the Group intends to hold until maturity or offer. They are carried at amortised cost using the effective interest rate method. All such instruments are presented together, including those with original maturities or offers of three months or less.

Impairment losses on debt securities at amortised cost are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Cash inflows and outflows from the operations with debt securities at amortised cost are presented in the consolidated statement of cash flows as cash flows from investment activities on a gross basis.

(b) Bank deposits

Bank deposits are financial assets carried at amortised cost using the effective interest rate method. All short-term bank deposits are presented together, including those with original maturities of three months or less.

Impairment losses on bank deposits at amortised cost are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Cash inflows and outflows from the operations with bank deposits are presented in the consolidated statement of cash flows as cash flows from investment activities on a gross basis.

3 Summary of Significant Accounting Policies (continued)

Financial assets at amortised cost (continued)

(c) Cash and cash equivalents

Cash and cash equivalents include cash in hand and on bank current accounts.

(d) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Receivables are recognised initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Receivables are included in current assets, unless they have maturities greater than 12 months after the end of the reporting period, in which case they are classified as non-current assets.

An allowance for impairment is established when there is objective evidence that the Group will not be able to collect whole amounts due to be received. Significant financial difficulties of the counterparty, the probability that the counterparty will become bankrupt, a default in payments and other negative factors are considered as indicators that the amount to be received is impaired.

Prepayments

Prepayments for goods and services are carried at cost less allowance 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.

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.

Prepayments for equity investments are classified as rights to obtain shares and presented within equity investments at fair value through profit or loss when management observe objective evidence that the registration process with relevant regulatory authorities would be completed in the nearest term.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and allowance for impairment, if any.

Cost includes all costs directly attributable to bringing the asset to the location and condition for its intended use. Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment is capitalised and the replaced part is retired.

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

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the period. An impairment loss recognised for an asset in prior periods may be reversed if there has been a positive 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 are determined by comparing proceeds with the carrying amount and are recognised within operating expenses in profit or loss for the year.

3 Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation of items of property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives:

	Useful lives in years
Building	10 - 50 years
Computer and office equipment	2 - 7 years
Other	5 - 20 years

The residual value of an asset is the estimated amount that the Group would currently obtain from its disposal less the estimated costs of disposal if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at the end of each reporting period. Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are available for use.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards of ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Income taxes

Income taxes have been provided for in the financial statements in accordance with the legislation enacted or substantively enacted at the reporting date in the country in which the Company and its consolidated subsidiaries operate and generate taxable income. 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 in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes using the balance sheet liability method and for tax loss carry forward. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences upon 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.

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 be reversed or the tax loss carry forward will be utilised. Deferred tax assets and liabilities are netted only in individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forward are recorded only to the extent that it is probable that future taxable profit will be available and against which the deductions can be utilised.

3 Summary of Significant Accounting Policies (continued)

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is recorded as share premium in equity.

Borrowings

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

Trade and other payables

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

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a legal or constructive obligation as a result of past events, when it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method. It includes interest income from cash and cash equivalents and bank deposits.

Interest income on debt instruments designated at fair value through profit or loss is not presented separately and is included in the changes of the fair value of such financial assets.

Employee benefits

Wages, salaries, contributions to the Russian Federation's state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and other) are accrued in the year in which the associated services are rendered by the Group's employees.

Change in accounting policies

Starting 1 January 2016 **Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28** are effective.

Under the amendments for investment entities only subsidiaries that are not themselves investments entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities are consolidated. In accordance with these amendments the Group accounting policies were changed.

The applied changes in accounting policies resulted in termination of consolidation for the following Group subsidiaries:

Name	Country of registration	Primary activities	Percentage of ownership	
			31 December 2016	31 December 2015
RusnanoMedInvest LLC	Russian Federation	Investment activities	100%	100%
SIGMA.Novosibirsk LLC	Russian Federation	Infrastructure activities	83%	83%
SIGMA.Tomsk LLC	Russian Federation	Infrastructure activities	90%	90%
Technology Transfer Center LLC	Russian Federation	Infrastructure activities	75%	75%

The related investments of the Company were accounted at fair value through profit or loss.

3 Summary of Significant Accounting Policies (continued)

Change in accounting policies (continued)

As the related changes in accounting policies should be applied retrospectively, the consolidation of these subsidiaries was terminated at the beginning of the earliest period presented in the financial statements. The comparatives within these consolidated financial statements were restated accordingly. The effects of change in accounting policies on the Group's financial position, financial performance and cash flows are presented below.

In addition in 2016 the Group changed the presentation of interest paid in statement of cash flows which previously was accounted in operating activity. Management believes that the revised presentation provides reliable and more relevant information about financing activities of the Group.

Effect of change in accounting policies on the Group's financial position

	1 January 2015	Effect of change in accounting policies	1 January 2015 (restated)
ASSETS			
Non-current assets			
Equity instruments at fair value through profit or loss	95,038	1,157	96,195
Investment in associate	1,596	-	1,596
Loans receivable at fair value through profit or loss	12,780	(110)	12,670
Deferred tax asset	115	(8)	107
Other receivables and prepayments	231	-	231
Property, plant and equipment	3,396	(85)	3,311
Other non-current assets	86	(16)	70
Total non-current assets	113,242	938	114,180
Current assets			
Equity instruments at fair value through profit or loss	2,234	-	2,234
Financial assets held for trading	6,933	-	6,933
Loans receivable at fair value through profit or loss	2,465	(84)	2,381
Debt instruments at amortised costs	57,128	(2,458)	54,670
Other receivables and prepayments	2,856	(117)	2,739
Income tax prepayments	111	(1)	110
Cash and cash equivalents	6,848	(395)	6,453
Other current assets	181	(80)	101
Total current assets	78,756	(3,135)	75,621
TOTAL ASSETS	191,998	(2,197)	189,801
EQUITY			
Share capital	53,742	-	53,742
Currency translation reserve	18,330	(3,077)	15,253
Accumulated loss	(12,209)	3,077	(9,132)
TOTAL EQUITY	59,863	-	59,863
LIABILITIES			
Non-current liabilities			
Deferred tax liability	222	(208)	14
Long-term borrowings	111,433	(1,539)	109,894
Total non-current liabilities	111,655	(1,747)	109,908
Current liabilities			
Current portion of long-term borrowings	18,592	(64)	18,528
Income tax payable	81	(78)	3
Other payables and accrued expenses	1,807	(308)	1,499
Total current liabilities	20,480	(450)	20,030
TOTAL LIABILITIES	132,135	(2,197)	129,938
TOTAL EQUITY AND LIABILITIES	191,998	(2,197)	189,801

3 Summary of Significant Accounting Policies (continued)

Change in accounting policies (continued)

Effect of change in accounting policies on the Group's financial position (continued)

	31 December 2015	Effect of change in accounting policies	31 December 2015 (restated)
ASSETS			
Non-current assets			
Equity instruments at fair value through profit or loss	112,839	3,197	116,036
Investment in associate	1,658	-	1 658
Loans receivable at fair value through profit or loss	18,577	-	18,577
Deferred tax asset	6,621	(7)	6,614
Other receivables and prepayments	152	-	152
Property, plant and equipment	3,062	(99)	2,963
Other non-current assets	73	(8)	65
Total non-current assets	142,982	3,083	146,065
Current assets			
Equity instruments at fair value through profit or loss	2,339	(1,057)	1,282
Financial assets held for trading	10,168	-	10,168
Loans receivable at fair value through profit or loss	4,493	-	4,493
Debt instruments at amortised cost	45,409	(2,723)	42,686
Other receivables and prepayments	5,746	(191)	5,555
Income tax prepayments	8	-	8
Cash and cash equivalents	16,355	(346)	16,009
Other current assets	163	(125)	38
Total current assets	84,681	(4,442)	80,239
TOTAL ASSETS	227,663	(1,359)	226,304
EQUITY			
Share capital	53,742	-	53,742
Currency translation reserve	30,474	(5,504)	24,970
Accumulated loss	(7,315)	5,504	(1,811)
TOTAL EQUITY	76,901	-	76,901
LIABILITIES			
Non-current liabilities			
Deferred tax liability	112	(98)	14
Long-term borrowings	133,336	(1,115)	132,221
Total non-current liabilities	133,448	(1 213)	132,235
Current liabilities			
Current portion of long-term borrowings	16,023	(12)	16,011
Income tax payable	80	(22)	58
Other payables and accrued expenses	1,211	(112)	1,099
Total current liabilities	17,314	(146)	17,168
TOTAL LIABILITIES	150,762	(1,359)	149,403
TOTAL EQUITY AND LIABILITIES	227,663	(1,359)	226,304

3 Summary of Significant Accounting Policies (continued)

Change in accounting policies (continued)

Effect of change in accounting policies on the Group's financial performance

<i>In million of Russian Roubles</i>	For the year ended 31 December 2015	Effect of change in accounting policies	For the year ended 31 December 2015 (restated)
Income			
Interest income	6,369	(204)	6,165
Other operating income	834	(320)	514
Total income	7,203	(524)	6,679
Operating expenses	(5,616)	637	(4,979)
Net gain on financial assets at fair value through profit or loss	10,346	2,187	12,533
Foreign currency exchange gains	701	57	758
Interest expenses	(14,131)	150	(13,981)
(Loss)/profit before income tax	(1,497)	2,507	1,010
Income tax	6,391	(80)	6,311
PROFIT FOR THE YEAR	4,894	2,427	7,321
PROFIT FOR THE YEAR	4,894	2,427	7,321
Foreign currency translation differences	12,144	(2,427)	9,717
Other comprehensive income for the year	12,144	(2,427)	9,717
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	17,038	-	17,038

3 Summary of Significant Accounting Policies (continued)

Change in accounting policies (continued)

Effect of change in accounting policies on the Group's cash flows

<i>In million of Russian Roubles</i>	For the year ended 31 December 2015	Effect of change in accounting policies	For the year ended 31 December 2015 (restated)
Cash flows from operating activities			
Proceeds from sale of equity instruments at fair value through profit or loss	3,742	(153)	3,589
Acquisition of equity instruments at fair value through profit or loss	(11,453)	(1,482)	(12,935)
Repayment of loans issued	3,221	(9)	3,212
Loans issued	(4,328)	208	(4,120)
Proceeds from sale of financial assets held for trading	1,732	-	1,732
Acquisition of financial assets held for trading	(1,593)	-	(1,593)
Interest income received	7,348	(145)	7,203
Operating payments	(4,923)	618	(4,305)
Income taxes paid	(239)	95	(144)
Other receipts	388	(51)	337
Other payments	(3,032)	-	(3,032)
Net cash used in operating activities	(9,137)	(919)	(10,056)
Cash flows from investing activities			
Receipts of cash from deposit accounts	147,008	(8,877)	138,131
Placement of cash on deposit accounts	(134,512)	9,275	(125,237)
Acquisition of property, plant and equipment	(73)	27	(46)
Acquisition of other non-current assets	(27)	-	(27)
Net cash from investing activities	12,396	425	12,821
Cash flows from financing activities			
Interest paid	(13,258)	37	(13,221)
Proceeds from loans and borrowings	36,002	-	36,002
Repayment of loans and borrowings	(17,634)	684	(16,950)
Net cash from financing activities	5,110	721	5,831
Net increase in cash and cash equivalents	8,369	227	8,596
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	1,138	(178)	960
Cash and cash equivalents at the beginning of the year	6,848	(395)	6,453
Cash and cash equivalents at the end of the year	16,355	(346)	16,009

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities in the next reporting period. 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. The judgements that have the most significant effect on the amounts recognised in the financial statements and the estimates that can cause a significant adjustment in the carrying amount of assets and liabilities in the future financial periods are presented below.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Investment entity

On the basis of the Company's incorporation documents, public information about the Company presented for the external users and local legislation applicable to the Company's transactions and activities the Company meets the definition of an investment entity in accordance with IFRS 10 because the following conditions are satisfied:

- (a) it obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) it commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) it measures and evaluates the performance of substantially all of its investments on a fair value basis.

When considering criterion b) above, management took into account certain ancillary activities of the Group (e. g. being the Government's agent in specific infrastructure projects) and concluded that such activities were immaterial and did not change the business purpose of the Group, which is to invest funds in nanotechnology projects for returns from capital appreciation and investment income.

In accordance with criterion c) above management measures and evaluates the performance of substantially all of investments on a fair value basis. The approach is not applied for debt instruments at amortised cost (debt securities and bank deposits) as they are not identified as a part of investment portfolio of the Group. At the reporting date the carrying amount of those instruments does not differ materially from their fair value.

Further, in assessing whether the Company meets the definition, management considered the following typical characteristics of an investment entity: it has more than one investment; it has more than one investor; it has investors that are not related parties of the entity; it has ownership interests in the form of equity or similar interests.

The Company does not fully meet all of the typical characteristics of an investment entity. In particular as at 31 December 2016 and 31 December 2015 the Government of Russian Federation was the sole owner of 100% of the shares in the Company's share capital. However market of nano-technologies and nano-technology infrastructure in Russian Federation is an emerging market therefore there are restrictions of the abilities of financing provided by private sector of the economy due to high risks and market and technological uncertainty. Under the circumstances only the Government of Russian Federation had an ability to take potential risk of investing to the emerging sphere and became the sole investor of the Company. Based on this reasoning from this fact management believes the Company is nevertheless an investment entity.

Fair value of equity investments not quoted in the active market

The fair value of investments to portfolio companies not quoted in the active market at initial recognition is usually best evidenced by the transaction price. If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the result of the valuation technique approximates the transaction price.

Following initial recognition, the fair value of equity securities of portfolio companies is determined by using valuation techniques, primarily financial models based on the estimated future cash flows. The financial models are prepared based on the cash flow forecasts, which have been updated for the circumstances and events which occurred as at the end of the reporting period and were known to management as of the date the financial statements were authorized for issue. Management uses adjusted present value models with appropriate discount factor that incorporates the estimated project risks. In the discounted cash flow models, unobservable inputs are the projected cash flows of the relevant portfolio company and the risk premium for the project risk that are incorporated in the discount rate. However if appropriate, the discount rates used for valuing equity instruments are determined with regard to the expected equity returns for other entities operating in the same industry for which market returns are observable.

Models are periodically reviewed by the Group's investment managers. The sensitivity of the factors impacting the fair value estimation for equity investments is presented in Note 21.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Fair value of equity instruments with embedded options

Management has analysed the terms of investment contracts in respect of its investments into portfolio companies, including the embedded call and put options. The options embedded in the investment contracts are not separated from the host instruments. Management embedded the effects of the options in the financial models for such portfolio companies with the options limiting the fluctuation of the possible outcomes of a particular investment in a definite range. The majority of such investment projects are at a start-up phase; therefore, management considers it appropriate to account for such instruments at a fair value taking into account the put or call options, which are in-the-money upon expected exit date. Put options contain the unconditional rights to sell shares embedded in the investment contract. Call options contain the rights but not the obligations to buy shares embedded in the investment contract. The sensitivity of the factors impacting the fair value estimation for equity investments with embedded options is presented in Note 21.

Valuation of loans

Underlying the valuation of loans receivables are cash flow forecasts using the discounted cash flow valuation technique. Management reviews the loan portfolio to assess whether there is any observable data indicating a measurable decrease in the estimated future cash flows from loans receivable. This evidence may include observable data indicating an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the group of loans. The cash flow estimates consider the possible realisable value of collateral, if any. The discount rates are based on an analysis of market rates for loans with similar conditions and interest rates on loan financing received by portfolio companies. Gains or losses resulting from both changes in the estimates of future cash flows and changes in the discount rates are presented in profit or loss as an increase or a decrease in the fair value of financial assets through profit or loss. The sensitivity of the factors impacting the fair value estimation for loans receivable is presented in Note 21.

Classification of loans received under the state guarantees

Additional paid-in capital include financing under the state guarantees that meet definition of equity. The Group applied judgment in this respect (see Note 12).

5 Balances and Transactions with Related Parties

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is focused on the substance of the relationship, and not merely the legal form. All related party transactions were made at an arm's length on normal commercial terms and conditions.

Ultimate controlling party

The Group's ultimate controlling party is the Government of the Russian Federation. Hence, all parties related to the Government of the Russian Federation are also related parties of the Group.

Government-related entities

In the normal course of business, the Group enters into multiple transactions with state-owned entities, such as placing cash and cash equivalents and bank deposits, paying taxes, purchasing services from utilities and other similar payments. However, not all such transactions have a significant impact on the financial statements of the Group. Management presents hereunder only the balances and transactions with entities in which the government has control, joint control or significant influence, which relate to the core operating activities of the Group.

5 Balances and Transactions with Related Parties (continued)

Government-related entities (continued)

The table below presents individually significant transactions with government-related entities and the individually insignificant transactions with regard to which it was practicable to identify and report them.

<i>In million of Russian Roubles</i>	31 December 2016		31 December 2015 (restated)	
	Russian Government	State-owned entities	Russian Government	State-owned entities
Assets				
Other receivables	-	78	5,008	-
Debt securities	1,663	3,448	-	-
Bank deposits	-	2,861	-	9,573
Cash and cash equivalents	-	25	-	1,688
Liabilities and commitments				
Borrowings	-	-	-	71,796
Other payables and accrued expenses	-	217	-	217
Other liabilities	-	13,724	-	-
Income				
Interest income	31	706	-	2,487
Expenses				
Finance costs	-	6,800	-	6,516

Contractual interest rates of RUB denominated deposits as at 31 December 2016 and 31 December 2015 were 6.7-10.7% p.a. and 3.7%-11.75% p.a., respectively.

Portfolio companies

In the ordinary course of business the Group invests in nano-technology projects. Usually the Group maintains control or significant influence over its investees. So most of financial assets accounted at fair value through profit or loss other than assets held for trading (Note 8) represents investments in related parties.

Balances with subsidiaries accounted at fair value through profit or loss are as follows:

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
Equity instruments at fair value	17,634	20,609
Loans receivable at fair value (contractual interest rate: 13% – 16% p.a.)	1,522	1,026
Equity investments with embedded options	258	240
Expected financing	2,361	2,699

During the year ended 31 December 2016 and 2015 the Group did not have any material transactions with its portfolio companies other than investment activities.

Key management personnel

Key management personnel of the Group in 2016 and 2015 include the Board of Directors of the Company, the Board of Directors of Management Company Rusnano LLC, and the Management Board of Management Company Rusnano LLC.

The remuneration of the key management personnel of the Group for the year ended 31 December 2016 comprises salaries, short-term bonuses and social security contributions amounting to RUB 267 million (2015: RUB 226 million).

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. As at 31 December 2016 the Group do not have the outstanding salary or short-term bonuses liabilities to key management personnel (31 December 2015: nil).

6 Property, Plant and Equipment

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

<i>In million of Russian Roubles</i>	Building	Computer and office equipment	Other	Total
Cost as at 1 January 2015 (restated)	3,256	2,674	14	5,944
Accumulated depreciation as at 1 January 2015 (restated)	(453)	(2,166)	(14)	(2,633)
Carrying amount as at 1 January 2015 (restated)	2,803	508	-	3,311
Additions	-	45	1	46
Disposals at cost	-	(71)	-	(71)
Depreciation charge	(109)	(282)	-	(391)
Depreciation on disposal	-	68	-	68
Carrying amount as at 31 December 2015 (restated)	2,694	268	1	2,963
Cost as at 31 December 2015 (restated)	3,256	2,648	1	5,905
Accumulated depreciation as at 31 December 2015 (restated)	(562)	(2,380)	-	(2,942)
Carrying amount as at 31 December 2015 (restated)	2,694	268	1	2,963
Additions	-	151	-	151
Disposals at cost	-	(77)	-	(77)
Depreciation charge	(109)	(123)	-	(232)
Depreciation on disposal	-	75	-	75
Carrying amount as at 31 December 2016	2,585	294	1	2,880
Cost as at 31 December 2016	3,256	2,722	1	5,979
Accumulated depreciation as at 31 December 2016	(671)	(2,428)	-	(3,099)
Carrying amount as at 31 December 2016	2,585	294	1	2,880

7 Investment in Associate

As at 31 December 2016 and 2015 the Company owns 46.2% of ordinary shares of CJSC Innovative Technopark Idea ("Technopark") incorporated in the Russian Federation. Technopark provides a full range of services for developing business, such as lease of office spaces and industrial premises, access to high-tech equipment of nanotechnology centre, information and consulting services.

As at 31 December 2016 and 2015 and for the years then ended, the summarised financial information of Technopark was as follows:

<i>In million of Russian Roubles</i>	2016	2015
Non-current assets	1,682	2,079
Current assets	2,132	1,613
Non-current liabilities	(2)	(2)
Current liabilities	(100)	(102)
Revenue	650	366
Profit	123	134
Total comprehensive income	123	134

8 Financial Assets at Fair Value through Profit or Loss

The structure of the Group's financial assets at fair value through profit or loss is detailed below:

		31 December 2016	31 December 2015 (restated)
<i>In million of Russian Roubles</i>	Note	Fair value	Fair value
Current assets			
Equity instruments		12,791	186
<i>including shares in investment funds</i>	8.3	45	186
Equity investments with embedded options		7,821	1,096
Total equity instruments at fair value through profit or loss within current assets		20,612	1,282
Non-current assets			
Equity instruments		77,209	90,897
<i>including shares in investment funds</i>	8.3	20,734	27,032
Equity investments with embedded options		18,989	25,139
Total equity instruments at fair value through profit or loss within non-current assets		96,198	116,036
Total equity instruments at fair value through profit or loss	8.1	116,810	117,318
Current portion of loans receivable		4,523	4,493
Non-current portion of loans receivable		19,232	18,577
Total loans to the portfolio companies	8.2	23,755	23,070
Financial assets held for trading	8.4	10,051	10,168
Total financial assets at fair value through profit or loss		150,616	150,556

8.1 Equity investments in portfolio companies

Equity investments of the Group at fair value through profit or loss are represented by the equity investments in the portfolio companies without embedded options, equity investments with embedded options and shares in the investment funds.

Management believes that the financial models used for initial fair value assessment are reliable, and they were updated for the facts and circumstances occurred as at 31 December 2016.

8.2 Loans receivable

As part of its operating activity, the Group provides loan financing to its portfolio companies. Loans receivable are usually secured by collateral (pledged equipment, shares and intangible assets – see Note 21) and bear interest ranging from 7% to 22% p.a.

8.3 Shares in investment funds

The Group invests in funds with activities that are in-line with the Group strategy. Shares in investment funds are carried at fair value through profit or loss and amount to RUB 20,779 million and RUB 27,218 million as at 31 December 2016 and 31 December 2015, respectively.

8.4 Financial assets held for trading

Financial assets held for trading are represented by quoted debt securities, including bonds with a fixed coupon, the majority of which are bonds issued by Russian companies quoted in the open market. The fair value of quoted debt securities is determined by reference to published price quotations in the active market.

The coupon accrued on debt securities was classified as part of fair value gains or losses (Note 17) in the consolidated statement of profit or loss.

8 Financial Assets at Fair Value through Profit or Loss (continued)

8.4 Financial assets held for trading (continued)

The credit quality of investments held for trading at fair value through profit or loss may be summarised with regard to Moody's / Standard & Poor's ratings as follows as at 31 December 2016 and 2015:

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015
<i>Neither past due nor impaired</i>		
- B1-B2* rated	478	1,053
- Ba1 to Ba3* rated	4,836	7,845
- Baa1 to Baa3* rated	1,890	-
- B+** rated	753	540
- BB+ to BB** rated	1,268	730
- not rated	826	-
Total financial assets held for trading	10,051	10,168

* - Moody's;

** - Standard & Poor's.

9 Financial Assets at Amortised Cost

The structure of the Group's financial assets at amortised cost is detailed below:

<i>In million of Russian Roubles</i>	Note	31 December 2016	31 December 2015
		Amortised cost	(restated) Amortised cost
Current assets			
Debt securities	9.1	7,482	-
Bank deposits	9.2	22,960	42,686
Total debt instruments at amortised cost within current assets		30,442	42,686
Cash and cash equivalents	11	358	16,009
Total financial assets at amortised cost		30,800	58,695

9.1 Debt securities

Debt securities carried at amortised cost represent bonds quoted within organized financial markets that the Group intends to hold until maturity or offer.

<i>In million of Russian Roubles</i>	Issuer Rating***	Currency	31 December 2016	31 December 2015
<i>Neither past due nor impaired</i>				
Bonds	BB	RUB	1,251	-
Bonds	BBB	RUB	1,049	-
Bonds	BB+	RUB	1,011	-
Bonds	BB+	RUB	922	-
Bonds	BBB-	RUB	885	-
Bonds	BB+	RUB	635	-
Bonds	BBB	USD	614	-
Bonds	BB	RUB	520	-
Bonds	BB-	RUB	438	-
Bonds	BB	RUB	157	-
Total debt securities at amortised cost			7,482	-

***- Standard&Poor's.

9 Financial Assets at Amortised Cost (continued)

9.1 Debt securities (continued)

As at 31 December 2016 the annual effective interest rates for debt securities are similar to their yield rates at acquisition and amount to 8.10-9.82% for debt securities nominated in Russian Roubles and 1.75% for bonds nominated in other currencies. The maturity or offer time frame at acquisition for debt securities is below 12 months.

The fair value of debt securities determined in accordance with market quotes (1 level of fair-value measurement hierarchy) as at 31 December 2016 is RUB 7,502 mln.

9.2 Bank deposits

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
Bank deposits	22,960	42,686
<i>including interest receivable</i>	70	441
Total bank deposits	22,960	42,686

<i>In million of Russian Roubles</i>	Bank rating	Currency	31 December 2016	31 December 2015 (restated)
<i>Neither past due nor impaired</i>				
Bank deposits	BB*	USD	3,969	-
Bank deposits	A-***	EUR	3,414	-
Bank deposits	BB*	RUB	3,311	3,130
Bank deposits	BB-***	RUB	3,020	4,537
Bank deposits	BB-***	RUB	2,851	3,511
Bank deposits	BB-***	RUB	2,234	3,159
Bank deposits	BB-***	USD	1,821	4,723
Bank deposits	BB-***	USD	1,541	-
Bank deposits	B+***	EUR	786	-
Bank deposits	BBB-*	RUB	10	37
Bank deposits	Aa**	USD	-	7,653
Bank deposits	BB+*	RUB	-	6,025
Bank deposits	BB*	RUB	-	5,576
Bank deposits	BB-***	USD	-	3,404
Bank deposits	BB-***	EUR	-	924
Other bank deposits			3	7
Total bank deposits			22,960	42,686

* - Fitch's;

** - Moody's;

***- Standard&Poor's.

As at 31 December 2016 the annual effective interest rates for bank deposits are similar to their contractual rates and amount to 6.89-10.75 % for deposits nominated in Russian Roubles (31 December 2015: 3.7%-12.4%) and 1.2%-7.3% for deposits nominated in other currencies (31 December 2015: 1.7%-2.2%). The original maturity of bank deposits as at 31 December 2016 is below 12 months (31 December 2015: below nine months). As at 31 December 2016 and 2015, the carrying value of bank deposits approximates their fair values.

10 Other Receivables and Prepayments

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
Reimbursable expenses	-	5,008
Other receivables	694	630
Total financial assets within other receivables and prepayments	694	5,638
Other prepayments	60	69
Total other receivables and prepayments	754	5,707
Less non-current portion	(55)	(152)
Total other receivables and prepayments – current portion	699	5,555

10 Other Receivables and Prepayments (continued)

As at 31 December 2016 and 2015, the carrying value of each class of short-term financial assets with regard to other receivables and prepayments approximates their fair values. During the reporting period, the Group recognized allowance for impairment of other receivables in the amount of RUB 55 million (2015: reversal of allowance for impairment of other receivables in the amount RUB 41 million) (Note 16).

As at 31 December 2015 reimbursable expenses comprise a receivable due from the Ministry of Education and Science of the Russian Federation for reimbursement of portfolio company XFEL financing. In 2016 the Ministry of Education and Science of the Russian Federation fully reimbursed this financing.

11 Cash and Cash Equivalents

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
Cash at bank	358	16,009
Total cash and cash equivalents	358	16,009

The following table presents cash and cash equivalents by currencies:

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
RUB	98	15,492
USD	154	419
EUR	99	97
Other	7	1
Total cash and cash equivalents	358	16,009

The credit quality of the banks in which the Group has cash and cash equivalents may be summarised with regard to Fitch's / Moody's ratings as follows:

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
<i>Neither past due nor impaired</i>		
- BBB- to BBB+ * / Aaa to A ** rated	138	1,797
- BB- to BB+ * / Baa ** rated	135	14,062
- Unrated	85	150
Total cash and cash equivalents	358	16,009

* - Fitch's;

** - Moody's.

12 Equity

Share capital

As at 31 December 2016, the share capital of the Company comprises 53,741,700,000 ordinary shares of RUB 1 each (as at 31 December 2015: 53,741,700,000 ordinary shares of RUB 1 each).

All issued shares are authorized and fully paid at par value as of 31 December 2016 and 2015.

Distributions

During the year ended 31 December 2016 and 2015 no dividends were paid or declared by the Company.

Additional paid-in capital

Additional paid-in capital include financing under the state guarantees that meet definition of equity. In 2016 subject to changes in credit agreements, certain borrowings received under the state guarantees were reclassified to equity. These arrangements were formalized in April 2017 by means of agreement sign-off with the credit bank.

12 Equity (continued)

Currency translation reserve

The Group's consolidated financial statements are presented in Russian Roubles. Currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries into presentation currency. As at 31 December 2016 the Group completed reorganization of management structure of international fund. As a result of the disposal of foreign operations the accumulated currency translation reserve in the amount of RUB 17,581 million was reclassified to profit for the period. The currency translation reserve totalled RUB 210 million as at 31 December 2016 (RUB 24,970 million as at 31 December 2015).

13 Borrowings

<i>In million of Russian Roubles</i>	Currency	Effective annual interest rate	Due	31 December 2016	31 December 2015 (restated)
Bonds (Series 01-03)	RUB	8.9%	2017	33,076	33,055
		Consumer price index-			
Bonds (Series 04-05)	RUB	100%+2.5%	2019	20,402	20,771
Bonds (Series 06-07)	RUB	12.5, 12.75%	2022	18,247	18,235
Sberbank	RUB	8.67- 12.17%	2016-2023	-	71,796
		Refinancing rate of the Russian Central Bank			
Bank of Saint Petersburg	RUB	+1.5%-3%	2016-2019	1,875	4,375
Total borrowings				73,600	148,232
Less					
Current portion of long-term borrowings				(33,739)	(16,011)
Total long-term borrowings				39,861	132,221

The effective interest rate is the market interest rate applicable to the loan at the date of origin for fixed rate loans and the current market rate for floating rate loans. The carrying value of borrowings approximates their fair values.

The Group borrowings in respect of bondholders and creditors are secured by the guarantees issued by the Government of the Russian Federation.

14 Other Payables and Accrued Expenses

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015 (restated)
Accrued liabilities and other creditors	5,125	97
Payables to suppliers	158	113
Total financial liabilities within other payables and accrued expenses	5,283	210
Accrued employee benefit costs	1,459	697
Other taxes payable	258	192
Total other payables and accrued expenses	7,000	1,099

The carrying values of each class of financial liabilities within other payables and accrued expenses approximates their fair values.

15 Interest Income

Interest income on financial assets carried at amortised cost consists of the following:

<i>In million of Russian Roubles</i>	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Interest income on debt securities	68	-
Interest income on banks deposits	2,945	5,816
Interest income on cash and cash equivalents	60	349
Total interest income	3,073	6,165

16 Operating Expenses

<i>In million of Russian Roubles</i>	Note	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Personnel expense		3,308	2,454
Taxes, other than income tax		878	676
Consulting services		378	388
Depreciation	6	232	391
Security		191	150
Legal services		121	64
Office maintenance		145	158
Business trips and entertainment		104	88
Equipment support and telecommunication		79	89
Car rent		67	86
Allowance/(reversal of allowance) for impairment of other receivables		55	(41)
Amortisation		27	41
Project expertise		25	87
Other expenses		372	348
Total operating expenses		5,982	4,979

Personnel expense includes social security contributions for the Group employees in 2016 of RUB 449 million (2015: RUB 307 million).

17 Net Gain on Financial Assets at Fair Value Through Profit or Loss

<i>In million of Russian Roubles</i>	Note	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Change in fair value of equity instruments	23	(2,691)	3,850
Change in fair value of equity investments with embedded options	23	3,721	3,471
Change in fair value of loans to the portfolio companies	23	3,572	3,716
Change in fair value of financial assets held for trading	23	1,034	1,496
Net gain on financial assets at fair value through profit or loss		5,636	12,533

In 2016 changes in the fair value of debt instruments attributable to change in credit risk amounted to RUB (696) million (2015: RUB 1,043 million).

Interest income on debt financial instruments designated at fair value through profit or loss included in change in fair value of loans to the portfolio companies amounted to RUB 4,139 million (2015: RUB 3,492 million).

18 Income Taxes

Income tax expense recorded in the consolidated statement of profit or loss comprises the following:

<i>In million of Russian Roubles</i>	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Current income tax expense	412	196
Deferred tax income	(459)	(6,507)
Income tax for the year	(47)	(6,311)

18 Income Taxes (continued)

The income tax rate applicable to the majority of the Group's 2016 activities is 20% (2015: 20%). Reconciliation between the expected and the actual taxation charge is provided below:

<i>In million of Russian Roubles</i>	For the year ended 31 December 2016	For the year ended 31 December 2015 (restated)
Profit before tax	4,451	1,010
Theoretical tax credit at the statutory rate of 20%	890	202
Tax effect of reclassification from other comprehensive income	(3,516)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Other non-deductible expenses	-	425
- Other non-assessable incomes	(268)	-
Changes of unrecognised deferred tax asset	2,847	(6,938)
Income tax benefit for the year	(47)	(6,311)

Differences between the IFRS and taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

Temporary differences recorded relate primarily to differences between IFRS and tax regulations within Russian Federation. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2015: 20%).

<i>In million of Russian Roubles</i>	1 January 2016 (restated)	Recognized in profit or loss	Recognized in equity	31 December 2016
Tax effect of deductible/ (taxable) temporary differences				
Fair value adjustments to loans receivable	2,817	638	-	3,455
Fair value adjustments to investments	5,096	(1,961)	-	3,135
Borrowings	(48)	11	-	(37)
Other payables and accrued expenses	151	152	-	303
Other liabilities	-	(159)	2,755	2,596
Tax loss carried forward	4,860	4,625	-	9,485
Unrecognized deferred tax asset	(6,276)	(2,847)	(2,755)	(11,878)
Net recognized deferred tax asset/(liability)	6,600	459	-	7,059

<i>In million of Russian Roubles</i>	1 January 2015 (restated)	Recognized in profit or loss (restated)	31 December 2015 (restated)
Tax effect of deductible/ (taxable) temporary differences			
Fair value adjustments to loans receivable	4,142	(1,325)	2,817
Fair value adjustments to investments	4,853	243	5,096
Borrowings	(59)	11	(48)
Other payables and accrued expenses	121	30	151
Other liabilities	-	-	-
Tax loss carried forward	4,250	610	4,860
Unrecognized deferred tax asset	(13,214)	6,938	(6,276)
Net recognized deferred tax asset/(liability)	93	6,507	6,600

18 Income Taxes (continued)

As at 31 December 2016 the Group estimated its future taxable profit against which deductible temporary differences and tax loss carried forward can be utilized and recognized recoverable deferred tax asset in the amount of RUB 7,097 million in the consolidated financial statements. As at 31 December 2015 the recoverable deferred tax asset was estimated in the amount of RUB 6,614 million.

Unrecognized deferred tax assets as at 31 December 2016 include those related to tax loss carried forward in the amount of RUB 9,485 million (31 December 2015: RUB 4,860 million).

19 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management believes that no material losses will be incurred in respect of claims; accordingly, no provisions have been made in these consolidated financial statements.

Tax legislation. The Group follows the provisions of the Russian tax legislation, clarifications of the controlling authorities and court practice while performing its business activities. If any difficult questions arise in the sphere of taxation or in case of planning non-typical transactions, the Group's management requests specific clarifications of the controlling authorities in order to officially confirm its position regarding interpretation of the particular provisions of the Russian tax legislation.

Recently the tax legislation was updated by provisions related to additional control of activities of Russian and international groups of companies, including controlled foreign companies rules and transfer pricing rules.

In particular, the controlled foreign companies rules effective starting from 1 January 2015 allow taxation of non-distributed profit of a foreign company controlled by a Russian tax resident (an individual or a company) in Russia subject to fulfillment of certain conditions. The Russian tax resident controlling that foreign company is responsible for making a tax payment on such profit and filing of relevant notifications.

The Russian transfer pricing legislation effective starting from 1 January 2012 requires that the prices used in the transactions between affiliated Russian and foreign counterparties comply with the market level. In accordance with these rules the taxpayers performing controlled transactions that satisfy certain criteria have to file notifications disclosing the details of such transactions and also have the right to file a transfer pricing documentation substantiating compliance of the level of the used prices with the market level upon the request of the controlling authorities. It is worth to note that the specific transfer pricing methods apply to the transactions with securities and derivatives.

Capital and rent commitments. As at 31 December 2016 and 2015, the Group has no material contractual capital expenditure or rent commitments.

20 Principal Subsidiaries

The principal consolidated subsidiaries of the Company as at 31 December 2016 and 2015:

Name	Country of registration	Primary activities	Percentage of ownership	
			31 December 2016	31 December 2015 (restated)
Management Company RUSNANO LLC	Russian Federation	Management company	99%	99%
RUSNANO Capital AG	Switzerland	Investment activities	100%	100%
Fonds Rusnano Capital S.A.	Luxembourg	Investment activities	100%	100%
Rusnano-Inform JSC	Russian Federation	IT services, engineering services, investments	100%	100%

The comparative information for the year ended 31 December 2015 was restateted in accordance with changes in accounting policies (Note 3).

20 Principal Subsidiaries (continued)

The percentage of voting rights in the equity of the subsidiaries in which the Company holds is the same as its percentage of ownership as at 31 December 2016 and 2015.

As at 31 December 2016 the following subsidiaries were not consolidated and were accounted as financial assets at fair value through profit or loss:

	Country of incorporation	% of ownership
Akrilan LLC	Russia	57%
Energy Solutions LLC	Russia	86%
ESTO-Vacuum LLC	Russia	59%
LED-Energoservis LLC	Russia	100%
Liteko LLC	Russia	100%
Microbor Nanotech LLC	Russia	100%
Novye Tekhnologii Stroitelstva LLC	Russia	100%
OtriTech LLC	Russia	53%
PHK JSC	Russia	52%
Plastic Logic CJSC	Russia	100%
Prepreg-SKM JSC	Russia	91%
Prepreg-SV LLC	Russia	51%
Profotech JSC	Russia	100%
RM Nanotech JSC	Russia	73%
RU-VEM LLC	Russia	84%
Rusalox LLC	Russia	99%
RusnanoMedInvest LLC	Russia	100%
SIGMA.Novosibirsk LLC	Russia	83%
SIGMA.Tomsk LLC	Russia	90%
Technology Transfer Center LLC	Russia	75%
Advenira Enterprises, Inc.	USA	61%
Compass Networks LTD	Israel	100%
FlexEnable Limited	UK	99%

As at 31 December 2015 the following subsidiaries were not consolidated and accounted at fair value through profit or loss:

	Country of incorporation	% of ownership
ESTO-Vacuum LLC	Russia	59%
LED-Energoservis LLC	Russia	94%
Liotech LLC	Russia	86%
Microbor Nanotech LLC	Russia	100%
Novye Tekhnologii Stroitelstva LLC	Russia	100%
Optogan CJSC	Russia	52%
OtriTech LLC	Russia	53%
Plastic Logic CJSC	Russia	100%
Prepreg-SKM LLC	Russia	97%
Prepreg-SV LLC	Russia	51%
RM Nanotech CJSC	Russia	73%
Rusalox LLC	Russia	85%
RusnanoMedInvest LLC	Russia	100%
SIGMA.Novosibirsk LLC	Russia	83%
SIGMA.Tomsk LLC	Russia	90%
Technology Transfer Center LLC	Russia	75%
FlexEnable Limited	UK	99%
Advenira Enterprises, Inc.	USA	61%

The comparative information for the year ended 31 December 2015 was restated in accordance with changes in accounting policies (Note 3).

21 Financial Risk Management

The Group's risk management relates to financial, operating and legal risks. Financial risks comprise market risks (including currency, interest and other price risks), credit risks and liquidity risks. The primary objectives of the 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 the proper application of internal policies and procedures to minimise operational and legal risks. The Group uses financial instruments to moderate certain risk exposures.

Credit risk. The Group assumes exposure to credit risk which is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation.

The Group's maximum exposure to credit risk is summarised in the table below. It does not include any collateral or other credit risk enhancements, which reduce the Group's exposure.

<i>In million of Russian Roubles</i>	Note	31 December 2016	31 December 2015 (restated)
Equity instruments with embedded put options	8	26,810	26,235
Loans receivable	8	23,755	23,070
Financial assets held for trading	8	10,051	10,168
Debt instruments at amortised cost	9	30,442	42,686
Financial assets within other receivables and prepayments	10	694	5,638
Cash and cash equivalents	11	358	16,009
Total maximum exposure to credit risk		92,110	123,806

The Group invests temporarily available funds in debt securities and places them within financial institutions in accordance with its financial policies.

For investments of temporarily available funds the Group selects debt securities of Russian Federation, Russian Federation regions and Russian companies of non-financial sector quoted within organized financial markets and meeting certain criteria. The issuer should have long-term solvency ratings by Fitch Ratings, Standard & Poor's or Moody's Investors Service not less than national rating of Russian Federation decreased by 2 stages or above. Also debt securities should meet certain requirements upon yield and maturity or offer. Management performs regular monitoring of acquired debt securities market quotes and their issuers ratings.

For investments of temporarily available funds the Group selects financial institutions meeting certain criteria. The financial institution should have long-term solvency ratings assigned by at least two international or national rating agencies with at least one assigned by international rating agency. The long-term solvency ratings should meet the following criteria: if rated by Fitch Ratings, Standard & Poor's and Moody's Investors Service – not less than national rating of Russian Federation decreased by 4 stages or above; if rated by National Rating Agency – AAA or above; if rated by Rating Agency Analysis, Consulting and Marketing – A++ or above; if rated Rus-Rating – A- or above and if rated by Rating Agency Expert RA – A++ or above. Also financial institutions should meet certain requirements upon availability of own funds (equity) (in the amount of at least RUB 15,000 million determined under the methodology approved by the Central Bank of Russia as of the most recent end of the reporting period), share of borrowings to legal entities and entrepreneurs and share of problem assets. Management performs regular monitoring of the financial results and ratings of financial institutions where temporarily available cash is invested.

The Group provides financial resources to portfolio companies primarily by means of equity and/or debt instruments. Those instruments include loans receivable and equity investments with embedded derivatives, where the risks and rewards of equity ownership were not substantially transferred to the Group. Generally, the Group provides financial resources only if it has an equity investment in a portfolio company to facilitate influence over implementation of the project. It is preferable to grant the loan in tranches according to approved milestones.

The Group makes the decision to participate in a project after assessing the portfolio company's financial position and business plan at the preliminary examination phase for each investment project. Within examination phase the Group classifies key risks of the portfolio company (including management team competencies risk, market risk, technology risk, investment risk, financial risk, legal risk and other risks) as high, medium or low upon probability and potential negative effect on fair value of the investment.

21 Financial Risk Management (continued)

Credit risk (continued)

Overall risk of project with three or more high risks is defined as high, overall risk of project with one or two high risks or three or more medium risks is defined as medium and overall risk of project without high risks and with two or less medium risks is defined as low. As a result, all projects are classified by risk groups. Interest rates depend on the risk of a project and the security provided.

The Group issues loans to high risk portfolio companies only when it receives a legal right to high quality loan security.

Combination of loans receivable by risk groups as at reporting dates were as follows:

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015
Low	-	716
Medium	3,532	7,108
High	20,223	15,246
Total loans receivable	23,755	23,070

The Group accepts pledged property, such as production equipment, shares and intangible assets, as loan collateral only if its market value is assessed by an independent appraiser approved by JSC RUSNANO.

Management assesses the risk of default and incorporates it in the assessment of the overall fair value of the investment.

The table below represent the carrying value of the collateralized financial assets.

<i>In million of Russian Roubles</i>	31 December 2016	31 December 2015
Collateralised assets:		
Equity instruments with embedded options	1,635	2,036
Loans	4,044	9,200
Total collateralised assets	5,679	11,236
Unsecured exposures:		
Equity instruments with embedded options	25,175	24,199
Loans	19,711	13,870
Total unsecured exposures	44,886	38,069
Total loans and equity instruments with embedded options	50,565	49,305

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

<i>In million of Russian Roubles</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
As at 31 December 2016				
Equity instruments with embedded options	1,568	2,415	25,242	66
Loans	2,647	9,587	21,108	1,397
Total as at 31 December 2016	4,215	12,002	46,350	1,463
As at 31 December 2015				
Equity instruments with embedded options	1,878	2,304	24,357	158
Loans	6,130	14,284	16,940	3,070
Total as at 31 December 2015	8,008	16,588	41,297	3,228

21 Financial Risk Management (continued)

Credit risk (continued)

Credit risk concentration. As at 31 December 2016 the Group keeps debt securities of 9 issuers (31 December 2015: nil). As at 31 December 2016 the Group keeps cash and cash equivalents at 11 banks (31 December 2015: 11 banks) and bank deposits at 11 banks (31 December 2015: 12 banks). The financial instruments of the Group at fair value through profit or loss exposed to credit risk relates to 38 portfolio investments (31 December 2015: 44 portfolio investments).

Market risk. The Group assumes exposure to market risks. Market risks arise from open positions in the interest rate, currency and equity investments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside the limits in the event of more significant market movements.

Sensitivity to market risks described below is based on a change in one factor, while other factors remain unchanged. In practice, this is unlikely and changes in factors can be interdependent, e.g., simultaneous changes in the interest rates and foreign exchange rates.

Currency risk. The Group's assets and liabilities are denominated in currencies other than the functional currencies of certain Group's entities and therefore the Group is exposed to the currency risk. This risk arises primarily in respect to the assets and liabilities nominated in the US dollar and to the Euro. Management analyses currency position of the Group on a regular basis.

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

	31 December 2016			31 December 2015 (restated)		
<i>In million of Russian Roubles</i>	EUR-denominated	USD-denominated	CHF-denominated	EUR-denominated	USD-denominated	CHF-denominated
Assets	4,609	7,558	7	1,329	16,520	1
Liabilities	(114)	(5)	(2)	(55)	(7)	(2)
Net exposure	4,495	7,553	5	1,274	16,513	(1)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in the exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables being constant:

	31 December 2016			31 December 2015 (restated)		
	Reasonably possible change in exchange rates (%)	Impact on comprehensive income and equity		Reasonably possible change in exchange rates (%)	Impact on comprehensive income and equity	
<i>In million of Russian Roubles</i>		Increase	(Decrease)		Increase	(Decrease)
EUR	16.0	719	(719)	14.0	178	(178)
USD	11.0	831	(831)	19.0	3,137	(3,137)
CHF	16.0	1	(1)	14.0	-	-
Total for assets denominated in foreign currencies		1,551	(1,551)		3,315	(3,315)

Interest rate risk. The Group assumes exposure to the effects of fluctuations in the prevailing levels of the market interest rates on its financial position and cash flows. The majority of the Group's financial assets and liabilities are at fixed interest rates. The interest risk is secondary to the credit risk and business risks in the field of nanotechnology. However on a regular basis management monitors financial markets for the purpose of identification of unfavourable trends in changes of interest rates and where feasible, is prepared to take measures relating to decrease of exposure to interest rate risk (optimisation of portfolio structure, expansion in the number of partner banks, entering into forward and option contracts, etc.).

21 Financial Risk Management (continued)

Interest rate risk (continued)

The Group is exposed to the interest rate risk through loans, cash at a bank, bank deposits, options embedded in investment contracts, financial assets held for trading and borrowings. The Group may also be indirectly affected by the interest rate changes through their impact on the earnings of certain investees. Therefore, the sensitivity analysis of the interest risk given below may not indicate the total effect on the Group's profit and equity.

As at 31 December 2016 and 2015 the Group has significant amount of borrowings with variable interest rates (Note 13) that results in direct exposure to interest rate risk. The maturity analysis of the Group liabilities is shown below in liquidity risk.

Financial instruments of the Group include equity investments with embedded options which are valued similarly as fixed income securities according to the conditions of the option agreements. If at the end of the reporting period these instruments are evaluated using options as a fair value driver in the option valuation model, they are primarily sensitive to changes in the discount rates used in this valuation model. If at the end of the reporting period equity investments with embedded options are evaluated using discounted cash flows as a fair value driver in the valuation model, they are primarily sensitive to equity price risk, and the sensitivity analysis for changes in discount rates used in this valuation model is shown below in equity price risk.

The Group's interest rate exposure also arises on investments held for trading in debt securities, the value of which is determined with regard to the market quotes and depends on market interest rate fluctuations. The debt securities are classified as held for trading because they are acquired for the purpose of selling and/or repurchasing them shortly.

The following table demonstrates the sensitivity of the Group's comprehensive income for the year and equity as at 31 December 2016 and 31 December 2015 to a reasonably possible change in interest rates with all other variables held constant.

<i>In million of Russian Roubles</i>	31 December 2016			31 December 2015		
	Reasonably possible change in interest rates (%)	Impact on comprehensive income and equity		Reasonably possible change in interest rates (%)	Impact on comprehensive income and equity	
		Increase	(Decrease)		Increase	(Decrease)
Equity investments with embedded options	+3 / -3	(3,045)	570	+3 / -3	(1,718)	2,240
Loans receivable	+3 / -3	(1,622)	2,202	+3 / -3	(2,181)	2,736
Borrowings	+3 / -3	(656)	656	+3 / -3	(730)	730
Total		(5,323)	3,428		(4,629)	5,706

Equity price risk. The Group's investments in portfolio companies and investment funds are exposed to equity price risk arising from uncertainties about the future values of the equity instruments. Investments in new projects commences only after the approval of the Management Board of Management Company Rusnano LLC upon recommendations of investment teams after completing scientific, technical and financial reviews. In certain cases further approval of the Board of Directors of the Company is required.

For the purpose of managing the price risk, investment managers carry out permanent monitoring of the portfolio companies' activities and are regularly in contact with management of the portfolio companies on business and operational matters. The Group is developing an internal control system to better monitor the performance of investments on a regular basis.

21 Financial Risk Management (continued)

Equity price risk (continued)

As at 31 December 2016, the fair value of investments exposed to equity price risk was RUB 91,000 million, (31 December 2015: RUB 91,083 million), the fair value of equity investments with embedded options exposed to equity price risk was RUB 26,810 million (31 December 2015: RUB 26,235 million) but the exposure was limited by the embedded options. Should the market values of these equity instruments, which are not traded in the active market, increase or decrease due to reasonably possible changes in market conditions by 3%, the comprehensive income for the year and equity would increase by RUB 2,427 million or decrease by RUB 511 million (2015: reasonably possible changes in market conditions by 3%, the comprehensive income for the year and equity would increase by RUB 4,278 million or decrease by RUB 3,238 million). The estimate of this sensitivity is based on a reasonably possible changes in the discount rate.

Analysis of Group's portfolio to risk exposure presented in table below:

<i>In million of Russian Roubles</i>	Risk level as at 31 December 2016			Total
	Low	Medium	High	
Equity investments				
Fair value	15,048	21,081	53,871	90,000
Equity investments with embedded options				
Fair value	1,324	22,210	3,276	26,810
Total equity investments	16,372	43,291	57,147	116,810

<i>In million of Russian Roubles</i>	Risk level as at 31 December 2015 (restated)			Total
	Low	Medium	High	
Equity investments				
Fair value	8,986	50,113	31,984	91,083
Equity investments with embedded options				
Fair value	1,410	20,234	4,591	26,235
Total equity investments	10,396	70,347	36,575	117,318

Liquidity risk. The liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations and commitments in full as they fall due, or can only do so on terms that are materially disadvantageous. The Group is exposed to daily calls on its available cash resources.

Investments are made from shareholder's contributions and retained earnings of the Group and borrowings secured by the guarantees issued by the Government of the Russian Federation. The majority of investments in financial assets are presented by debt and equity instruments that are not traded in any organised market and may not be liquidated quickly except for the financial assets held for trading.

The Group periodically invests temporary available cash in short-term bank deposits and marketable securities which, under normal market conditions, are readily convertible into cash. Management monitors a rolling forecast of cash and cash equivalents and bank deposits on the basis of the budgeted cash flows to manage the liquidity position of the Group. Management considers the liquidity position to ensure that the Group has sufficient cash to meet operational needs and capital commitments when they fall due. The liquidity portfolio of the Group comprises cash and cash equivalents, bank deposits and financial assets held for trading.

As at 31 December 2016 the Group had available unused credit line in the amount of RUB 46,500 million (31 December 2015: RUB 11,000 million).

21 Financial Risk Management (continued)

Liquidity risk (continued)

The tables below describe financial assets held for liquidity risk management and financial liabilities as at 31 December 2016 and as at 31 December 2015 analysed by maturity date. Liability amounts by maturity date as disclosed below represent contractual and expected liabilities including expected financing commitments. Expected equity financing also includes expected investments in equity instruments of investment funds.

<i>In million of Russian Roubles</i>	Note	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	More than 5 years	Total
31 December 2016							
Financial assets held for trading	8.4	-	1,705	2,896	5,450	-	10,051
Debt instruments at amortised cost	9	16,710	4,242	9,490	-	-	30,442
Cash and cash equivalents	11	358	-	-	-	-	358
Total financial assets used for liquidity risk management by maturity as at 31 December 2016							
		17,068	5,947	12,386	5,450	-	40,851
Other financial assets							141,259
Total financial assets as at 31 December 2016							
							182,110
Borrowings	13	-	(3,649)	(36,804)	(34,038)	(20,266)	(94,757)
Other payables and accrued expenses	14	(5,283)	-	-	-	-	(5,283)
Expected equity financing		(3,527)	(4,510)	(4,526)	(13,277)	(1,408)	(27,248)
Expected loan financing		(1,508)	(1,009)	(76)	(862)	-	(3,455)
Other		(430)	(2,152)	(2,583)	(11,416)	(928)	(17,509)
Total future payments of financial liabilities as at 31 December 2016							
		(10,748)	(11,320)	(43,989)	(59,593)	(22,602)	(148,252)
31 December 2015 (restated)							
Financial assets held for trading	8.4	53	-	410	9,705	-	10,168
Debt instruments at amortised cost	9	14,135	18,362	10,189	-	-	42,686
Cash and cash equivalents	11	16,009	-	-	-	-	16,009
Total financial assets used for liquidity risk management by maturity as at 31 December 2015 (restated)							
		30,197	18,362	10,599	9,705	-	68,863
Other financial assets							146,026
Total financial assets as at 31 December 2015 (restated)							
							214,889
Borrowings	13	(1,766)	(12,702)	(14,447)	(131,449)	(38,522)	(198,886)
Other payables and accrued expenses	14	(210)	-	-	-	-	(210)
Expected equity financing		(2,324)	(2,292)	(7,600)	(16,301)	(1,691)	(30,208)
Expected loan financing		(2,434)	(590)	(258)	(1,358)	-	(4,640)
Total future payments of financial liabilities as at 31 December 2015 (restated)							
		(6,734)	(15,584)	(22,305)	(149,108)	(40,213)	(233,944)

22 Management of Capital

The capital of the Group is represented by equity attributable to its sole shareholder - the Russian Federation (Note 1).

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to implement the policy of the Russian Federation in respect of nanotechnology and maintain and enhance an optimal capital base to support the development of nanoindustry in Russia and the Group's investment activities.

The Group has no externally imposed capital requirements except for minimum share capital requirements set by Russian corporate law. Its financial policy is aimed at maximising equity while securing liquidity and financial stability.

The amount of capital that the Group managed as at 31 December 2016 was RUB 99,642 million (31 December 2015: RUB 76,901 million).

23 Fair Value of Financial Instruments

Fair value is the price that would be received to sell the financial asset in an orderly transaction between market participants at the measurement date, and is best evidenced by an active quoted market price. For fair value estimation, refer to Note 3 for details.

Financial assets carried at fair value. All financial assets other than traded on active markets are valued using valuation techniques that require significant inputs which are not observable in the financial markets (Level 3 fair value measurement hierarchy). At initial recognition of financial assets the valuation technique is calibrated to ensure that it reflects current market conditions evidenced by transaction price and other factors to be taken into consideration.

Equity investments, equity instruments with embedded options and loans receivable as at 31 December 2016 and 31 December 2015 amounting to RUB 140,565 million and RUB 140,388 million, respectively, are designated at fair value through profit or loss at inception and disclosed in Notes 8 and 21.

No active market exists for most of these financial instruments. If no active market exists the Group's management determined the fair value of financial instruments using valuation models and discounted cash flows. Inputs to these valuation models require judgement considering the factors specific to the future business plans of the underlying portfolio companies, their assets and liabilities and the impact on the fair value measurement in its entirety. The Group's valuation models for equity instruments and equity instruments with embedded options are the present value of the estimated future cash flows based on the discounted cash flows model for portfolio companies. The annual discount rates applied as at 31 December 2016 were 12-45% for cash flows on equity instruments (31 December 2015: 12-45%) and 11-19% for cash flows on options (31 December 2015: 12-23%). The Group's valuation model for loans receivable is based on the net present value of future cash flows relating to a loan. Management determined the discount rate for the loans receivable, based on comparable loan interest rates, available to companies with a similar risk profile on the Russian market from third party banks. The annual discount rates applied for loans receivable as at 31 December 2016 were 12-16% (31 December 2015: 12-16%).

Financial assets held for trading amounting to RUB 10,051 million (31 December 2015: RUB 10,168 million) are disclosed in Notes 8 and 21. These financial assets are valued using quoted prices in the active markets for identical assets (Level 1 fair value measurement).

23 Fair Value of Financial Instruments (continued)

Financial assets carried at fair value (continued)

The following table shows the movements of the financial instruments for the year ended 31 December 2016 and 31 December 2015 by the class of financial instruments and the Level of fair value measurement hierarchy:

<i>In million of Russian Roubles</i>	Level 1		Level 3			Total
	Financial assets held for trading	Equity investments	Equity investments	Equity instruments with embedded options	Loans	
1 January 2015 (restated)	6,933	1,399	72,591	24,439	15,051	120,413
Purchases	1,593	-	8,145	4,788	-	14,526
Loans origination	-	-	-	-	4,120	4,120
Conversion of loans into equity instruments	-	-	559	180	(739)	-
Gains recognised in profit or loss for the year	1,496	2,785	1,065	3,471	3,716	12,533
Gains recognised in other comprehensive income for the year	1,878	-	5,489	-	35	7,402
Disposals	(1,732)	-	(1,454)	(1,824)	(3,428)	(8,438)
Reclassification	-	-	504	(4,819)	4,315	-
31 December 2015 (restated)	10,168	4,184	86,899	26,235	23,070	150,556
Purchases	2,929	96	6,983	510	-	10,518
Loans origination	-	-	-	-	5,146	5,146
Conversion of loans into equity instruments	-	-	1,079	21	(1,100)	-
Gains/(losses) recognised in profit or loss for the year	1,034	(89)	(2,602)	3,721	3,572	5,636
Losses recognised in other comprehensive income for the year	(1,965)	-	(4,033)	-	(11)	(6,009)
Disposals	(2,115)	(83)	(4,177)	(1,934)	(6,922)	(15,231)
Reclassification	-	3,656	(1,913)	(1,743)	-	-
31 December 2016	10,051	7,764	82,236	26,810	23,755	150,616

There were transfers from Level 3 to Level 1 fair value measurement hierarchy for the several investments as the equity instruments of the investee had been started to be traded within organized financial markets during the year ended 31 December 2016 and their market quotations were available as at 31 December 2016.

The sensitivity to valuation assumptions disclosed in Note 21 shows how much the fair value could increase or decrease had management used reasonably possible alternative valuation assumptions that are not based on observable market data.

Financial assets carried at amortised cost. The fair value of debt securities carried at amortised cost is determined in accordance with market quotes – 1 level of fair-value measurement hierarchy (Note 9). The carrying amounts of bank deposits and cash approximate their fair values (Note 9, 11). The carrying amounts of each class of financial instruments included in other receivables and prepayments approximate their fair values (Note 10).

Financial liabilities carried at amortised cost. The carrying amounts of each class of financial instruments included in the borrowings and other payables and accrued expenses approximate fair values. Refer to Notes 4, 13 and 14 for details.

24 Events after the Reporting Period

Subsequent to 31 December 2016 and through the date of issue of these consolidated financial statements, the Company received long-term borrowings in the amount of RUB 3,063 mln. under the long-term credit agreement secured by the guarantee of Russian Federation.