Etalon Group PLC

Consolidated Financial Statements

For the year ended 31 December 2018

Contents

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

	Oleg Mubarakshin (appointed on 19 February 2019) Sergey Egorov (appointed on 19 February 2019) Marina Ogloblina (appointed on 19 February 2019) Ganna Khomenko (appointed on 19 February 2019) Alexey Kalinin (appointed on 12 November 2010 and resigned on 29 March 2019) Martin Robert Cocker (appointed on 12 November 2010) Boris Svetlichny (appointed on 15 April 2013) Charalampos Avgousti (appointed on 10 November 2016) Kirill Bagachenko (appointed on 15 November 2013) Maksim Berlovich (appointed on 27 April 2018) Denis Vinokurov (appointed on 9 November 2018) Viacheslav Adamovich Zarenkov (appointed on 8 November 2007 and resigned on 19 February 2019) Dmitry Viacheslavovich Zarenkov (appointed on 29 July 2016 and resigned on 19 February 2019) Olga Shevchuk (appointed on 9 November 2018 and resigned on 19 February 2019) Anton Shatov (appointed on 9 November 2018 and resigned on 19 February 2019) Dmitry Kashinskiy (appointed on 10 November 2016 and resigned on 14 December 2018) Michael Calvey (appointed on 12 November 2010 and resigned on 27 April 2018) Marios Theodosiou (appointed on 10 November 2016 and resigned on 27 April 2018)
Secretary	G.T. Globaltrust Services Limited Themistokli Dervi, 15 Margarita House, 5th floor, flat/office 502 1066 Nicosia Cyprus
Registered Office	2-4 Arch. Makariou III Avenue Capital Center, 9th floor 1065 Nicosia Cyprus
Independent auditors	KPMG Limited Certified Public Accountants and Registered Auditors 14 Esperidon Street 1087, Nicosia Cyprus

CONSOLIDATED MANAGEMENT REPORT

The Board of Directors of Etalon Group PLC (the "Company") presents to the members its Consolidated Management Report together with the audited Consolidated Financial Statements of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Review of the development and performance of the Group's business and its position

The results of the Group for the year ended 31 December 2018 are set out on page 20 of the consolidated financial statements.

(a) Revenue

The Group's total revenue for the year ended 31 December 2018 amounted to RUB 72 327 million as compared to RUB 70 645 million for the year ended 31 December 2017, recording an increase of RUB 1 682 million or 2%.

Revenue of reportable segment "Residential development" increased by RUB 3 108 million or 6%, due to increase in revenue recognised from sales of flats by RUB 3 865 million or 8% and decrease in revenue recognised from sales of parking places by RUB 1 440 million or 51%, offset by increase in revenue recognised from sale of built-in commercial premises by RUB 683 million or 27%.

External revenues of reportable segment "Construction services" decreased by RUB 712 million or 8% mainly due to completion during the first half of 2018 of project for construction of metro depot in St. Petersburg.

External revenues of reportable segment "Other" decreased by RUB 714 million or 11% due to decrease in sales of construction materials by RUB 545 million or 13%, decrease in sale of stand-alone commercial premises by RUB 437 million or 91%, decrease in rental revenue by RUB 75 million or 11%, offset by increase of other revenue related to servicing of premises by RUB 343 million or 26%.

(b) Gross profit

Gross profit for the year ended 31 December 2018 is RUB 14 492 million as compared to RUB 18 001 million for the year ended 31 December 2017, recording a decrease of RUB 3 509 million or 19%, which was mainly driven by the decrease in gross profit of the reportable segment "Residential development" by RUB 3 517 million or 20%.

Profitability of reportable segment "Residential development" decreased mainly due to recognition of additional liabilities to build social infrastructure for projects under construction, change in estimate regarding allocation of certain construction costs between residential premises and underground parkings (note 17(e)) and completion of construction of less marginal projects in 2018. The application of IFRS 15 starting from 1 January 2017 also contributed to the reduction of profitability for the year 2018 due to partial expensing in 2018 of significant financing component capitalised in 2017.

(c) Results from operating activities

Results from operating activities during the year ended 31 December 2018 amounted to RUB 1 076 million as compared to RUB 9 712 million for the year ended 31 December 2017 showing a decrease of RUB 8 636 million or 89%.

During the year ended 31 December 2018, general and administrative expenses increased by RUB 1 870 million or 37%, selling expenses increased by RUB 388 million or 13%, other expenses, net increased by RUB 2 742 million or 749%, as compared to the year ended 31 December 2017.

During the year ended 31 December 2018, growth in general and administrative expenses was mainly caused by growth in payroll and related taxes by RUB 991 million or 29% and by increase in share based payment expenses by RUB 625 million or 283%, while the remaining increase of RUB 254 million is represented mainly by growth in third-party services.

Selling expenses increased mainly due to growth of agency fees, caused by increase in overall number of new contracts concluded in 2018 as compared to 2017.

(d) Other expenses, net

During the year ended 31 December 2018, other expenses, net, increased by RUB 2 742 million or 749% mainly due to non-recurring income received from a financial institution in 2017 in respect of the issuance of the Company's GDRs, and the arrual in 2018 of costs to construct social infrastructure for two completed projects in the amount of RUB 1 594 million.

(e) Net finance income

Net finance income for the year ended 31 December 2018 decreased by RUB 436 million or 62% as compared to the year ended 31 December 2017.

Finance income increased by RUB 572 million or 33% mainly due to increase in unwinding of discount on trade receivables by RUB 198 million or 25%, increase in interest income on cash and cash equivalents (except bank deposits) by RUB 259 million or 63%, increase in gain on write-off of accounts payable by RUB 85 million or 531% and increase in net foreign exchange gain of RUB 64 million (as opposed to net foreign exchange loss of RUB 79 million during the year ended 31 December 2017).

Finance costs increased by RUB 1 008 million or 100% due to the increase in expensed financing component and borrowing costs by RUB 974 million or 107% (caused by reduction of capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation), offset by decrease in impairment loss on advances paid to suppliers by RUB 117 million and net foreign exchange loss of RUB 79 million (recognised during the year ended 31 December 2017).

(f) Income tax expense

Income tax expense for the year ended 31 December 2018 amounted to RUB 1 308 million as compared to income tax expense of RUB 2 524 million during the year ended 31 December 2017.

(g) Profit for the year ended 31 December 2018

The profit for the year attributable to the owners of the Company amounted to RUB 35 million (as compared to the profit of RUB 7 890 million for year ended 31 December 2017) and was transferred to retained earnings.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are disclosed in the notes 1(b) and 26 of the Consolidated Financial Statements.

Changes during the year relating to the nature of the operations and the classes of business that the Company has an interest

During the year ended 31 December 2018, there were no changes relating to the nature of the operations of the Company or its subsidiaries and in the classes of business that the Company has an interest as a member of another company. There were no takeovers or mergers that have been realised. For takeovers or mergers that took place after 31 December 2018, please refer to note 32.

Nonrecurring or unusual activities and other significant events

During the year ended 31 December 2018, the Company granted awards in the form of global depository receipts for the Company's ordinary shares to certain members of top management of the Group and made certain modifications to previously existing incentive programme, as disclosed in note 10 to these consolidated financial statements.

Future developments of the Group

The Board of Directors expects continued growth in the Group's operations in all markets of its presence, and further improvement in the financial position and financial performance of the Group.

Activities related to research and development

The Group has not undertaken any activities in the field of research and development during the year ended 31 December 2018.

Branches

The Group operated through branches in Moscow and Saint Petersburg and 15 representative (sales) offices across the Russian Federation during the year ended 31 December 2018. The Company did not operate through any branches.

Use of financial instruments by the Group

The classes of financial instruments used by the Group, the Group's financial risk management objectives and policies as well as Group's exposure to credit risk, liquidity risk and market risk are disclosed in the note 26 of the consolidated financial statements.

Dividends

On 27 April 2018, the Board of Directors recommended a final dividend of USD 0.18 per share for the year ended 31 December 2017. The final dividend in the total amount of RUB 3 260 million was approved by the Annual General Meeting of shareholders on 25 May 2018, and the dividends were paid on 21 August 2018.

Changes in the Company's share capital

There were no changes in the Company's share capital during 2018.

CONSOLIDATED MANAGEMENT REPORT (CONTINUED)

Changes in the composition, allocation of responsibilities or compensation of the Board of Directors

The changes in the composition and allocation of responsibilities of the Board of Directors during 2018 are disclosed in the Board of Directors and other Officers section of these consolidated financial statements. The changes in the compensation of certain members of the Board of Directors are disclosed in note 10 to these consolidated financial statements.

Events that occurred after the reporting period

The material events after the reporting period, which have a bearing on the understanding of the consolidated financial statements for the year ended 31 December 2018, are disclosed in note 32 of the consolidated financial statements.

Recommendation regarding the distribution of profits

The Company aims to pay out in the form of dividends between 40% and 70% of its consolidated net profit adjusted for non-cash items if warranted. The Board will recommend the payment of a final dividend for the year ended 31 December 2018 at its meeting to be held subsequent to the date of this report.

Independent Auditors

The decision about re-appointment of the Company’s and the Group’s auditors and giving authority to the Board of Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE REPORT

Company’s internal control and risk management in relation to the preparation of the financial statements

The main documents regulating the activities of the Company are the Cyprus Companies Law, Cap. 113, the UKLA Listing, Prospectus and Disclosure and Transparency Rules, together with the Memorandum and Articles of Association of the Company. The Company has also enacted a number of governance policies and procedures to ensure that a proper system of corporate governance is in place, such as the Management Policy and Committee terms of reference.

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

In preparing the consolidated financial statements, the Board of Directors is responsible for making an assessment of the Group’s and the Company’s ability to continue as a going concern, taking into account all available information about the future and for disclosing any material uncertainties related to events or conditions that may cast significant doubt upon the Group’s and the Company’s ability to continue as a going concern.

Those charged with governance are responsible for implementation of internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and in particular for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Audit Committee is responsible for monitoring the financial reporting process and the integrity of the Company's financial statements together with any other regulatory announcements relating to financial performance. It is also responsible for reviewing internal controls, overseeing how management monitors compliance with the Group's risk management policies and procedures, the effectiveness of the Group's Internal Audit function and the independence, objectivity and the effectiveness of the external audit process. The Audit Committee is also responsible for considering the terms of appointment and remuneration of the external auditor.

Each of the subsidiaries of the Group keeps accounting records for statutory purposes. The preparation of consolidated IFRS financial statements involves the transformation of the statutory accounting records into IFRS and the consolidation of financial statements. The Group continues the process of implementing of a single Group-wide information system featuring automated consolidation of the accounts that will strengthen internal control and risk management in relation to the preparation of the consolidated financial statements.

The Group believes that its financial reporting functions and internal control systems are sufficient to ensure the compliance with the requirements of the FSA's Disclosure and Transparency Rules as a listed company and with the requirement of Cyprus Companies Law, Cap. 113.

Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings)

The share capital of the Company is GBP 34 748 divided into 294 957 971 ordinary Shares having the par value of GBP £0.00005 each and 20 000 preference shares having the par value of GBP 1 each. 193 747 322 ordinary shares (65,7%) are deposited for the issuance of Global Depositary Receipts (GDRs) pursuant to the Deposit Agreement between the Company and the Bank of New York Mellon. The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange.

As at 31 December 2018, the Company was aware of the following interests in its share capital:

Shareholders	**%**
Free float	61,9%
Zarenkov family	30,7%
Baring Vostok Funds	5,7%
Management of the Company	1,7%
Total	**100%**

The holders of any shares with special control rights and a description of these rights

The Company does not have any shares with special control rights.

Restrictions in exercising of voting rights of shares

The 20 000 shares having the par value of GBP 1 each issued by the Company, bear no voting rights. The Company does not have any other restrictions in exercising of the voting rights of its shares.

CONSOLIDATED MANAGEMENT REPORT (CONTINUED)

CORPORATE GOVERNANCE REPORT (CONTINUED)

The rules regarding the appointment and replacement of board members

The Company may by ordinary resolution appoint any person as a director and may by ordinary resolution of which special notice has been given, in accordance with sections 178 and 136 of the Cyprus Companies Law, cap. 113 (the Law), remove a director. Any such director will receive special notice of the meeting and is entitled to be heard at the meeting. Any director has to confirm in writing that he is eligible under the Law.

A director may resign from office as a director by giving notice in writing to that effect to the Company, which notice shall be effective upon such date as may be specified in the notice.

The directors have the power from time to time, without sanction of the Company in general meeting, to appoint any person to be a director, either to fill a casual vacancy or as an additional director. Any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

The office of a director shall be vacated if:

(a) he becomes of unsound mind or an order is made by a court having jurisdiction (whether in Cyprus or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator or other person to exercise powers with respect to his property or affairs; or

(b) he is prohibited from acting as director in accordance with section 180 of the Law; or
(c) becomes bankrupt or makes any arrangement or composition with his creditors generally or otherwise has any judgment executed on any of his assets; or
(d) he dies; or
(e) he resigns his office by written notice to the Company; or
(f) the Company removes him from his position in accordance with section 178 of the Law.

The rules regarding the amendment of the articles of association

Subject to the provisions of the Law, the Company may, by special resolution, alter or add to its articles of association. Any alteration or addition shall be as valid as if originally contained therein, and be subject in like manner to alteration by special resolution.

By order of the Board of Directors,

Charalampos Avgousti
Director

Nicosia
1 April 2019

Responsibility statement of the Directors and management of the Company in accordance with the Transparency Law

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of ETALON GROUP PLC (the 'Company'), the names of which are listed below, in accordance with the requirements of the Section 9 of the Transparency Requirements (Security Admitted to Trading) Law 190(I)/2007 (hereinafter the "Transparency Law"), as amended, confirm that we have complied with the requirements in preparing the financial statement and that to the best of our knowledge:

(a) The consolidated annual financial statements for year ended 31 December 2018:

(i) Have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), in accordance with the provisions of section 9(4) of the Transparency Law and in accordance with Cyprus Companies Law, Cap.113;

(ii) Give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial account as a whole, and

(b) The management report provides a fair overview on information required as per Section 9(6)(a) of the Transparency Law.

OLEG MUBARAKSHIN, Chairman of the Board of Directors	
KIRILL BAGACHENKO, Member of the Board of Directors, Chief Financial Officer	
MAKSIM BERLOVICH, Member of the Board of Directors	
SERGEY EGOROV, Member of the Board of Directors	
MARINA OGLOBLINA, Member of the Board of Directors	
GANNA KHOMENKO, Member of the Board of Directors	
MARTIN ROBERT COCKER, Member of the Board of Directors	
BORIS SVETLICHNY, Member of the Board of Directors	
CHARALAMPOS AVGOUSTI, Member of the Board of Directors	

DENIS VINOKUROV, Member of the Board of Directors	
GENNADII SHCHERBINA, Chief Executive Officer	

April 1, 2019

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Independent Auditors' report

TO THE MEMBERS OF ETALON GROUP PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Etalon Group PLC (the "Company"), and its subsidiaries ("the Group") which are presented on pages 20 to 81, and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

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

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Key Audit Matters

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

<table>
<tr><th colspan="2">Sales of premises transferred over time</th></tr>
<tr><td colspan="2">Please refer to Note 3(h)(i) and Note 6 in the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group recognizes revenue for premises sold to customers under share participation agreements regulated by law over time whereby the progress towards complete satisfaction of the performance obligation is measured using the input method.

We focused on this area, due to significant estimates and judgements related to the measurement of the progress towards complete satisfaction of performance obligation affecting the amount of revenue recognized for the reporting period and complexity of supporting calculations.</td><td>Our audit procedures included, among others:

- Testing the accuracy of construction budgets underlying the calculations under the input method for a sample of projects, by assessing the budget to actual variance analysis of costs incurred performed by the Group.
- Testing the operating effectiveness of controls over existence, accuracy and completeness of costs incurred as at reporting date to construct a multiunit building;
- Examining the mathematical accuracy of the calculations underlying the achieved progress towards complete satisfaction of performance obligation.
- Evaluating the reasonableness of key judgements and assumptions underlying the calculations of the progress towards completed satisfaction of performance obligation. Within the context of this evaluation we:
o enquired management of the Group and divisional management about the process and controls in place to understand how the total costs to construct the building are initially estimated and approved and the process of approval of subsequent revisions of the total costs;
o evaluated accuracy of the planned construction costs by the following substantive audit procedures:
▪ we agreed planned construction costs to signed construction budgets and compared planned construction costs used to determine the progress towards complete satisfaction of performance obligation as at</td></tr>
</table>

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	reporting date to planned construction costs used as at previous reporting date; ▪ we compared planned construction costs per square meter in different buildings in the same project and investigated unusual fluctuations; o we evaluated the existence, accuracy and completeness of costs incurred to date by comparing the amount of those costs to the supporting progress schedule, prepared by planning economic department.

Carrying value of inventories relating to parking places	
Please refer to Note 17(b) in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The balance of parking places is increasing year on year. Due to the current economic environment, the demand for parking places is rather low. Therefore, the parking places' sales are much slower than the sales of other types of the Group's inventory. In the consolidated financial statements, the parking places (finished parking places and parking places under construction) form part of the inventory and are stated at the lower of cost and net realisable value (i.e. the forecasted selling price less remaining costs to build and sell). The assessment of the net realisable value of the parking places depends on the Group's estimate of selling prices and allocation of building costs. Accordingly, a change in the Group's estimate of selling prices and the allocation of percentage of building costs could have a material impact on the carrying value of parking places in the Group's consolidated financial statements. Thus, there is a risk that a parking places may be overstated as at the reporting date. We identified the carrying value of parking places as a key audit matter due to:	Our audit procedures included, among others: - testing the accuracy of construction budgets for a sample of projects, by reviewing the budget to actual variance analysis performed by the Group. - assessing the model used by the Group to calculate the net realisable value by: - Testing the Group's expected period of sales of parking places by comparing it with the historical turnover of parking places determined based on historical information relating to contracts entered into with customers; - Assessing the appropriateness of inflation rates used in the model by comparing them to external independent sources; - Assessing the appropriateness of discount rate involving our own valuation specialists; - Challenging the Group's forecasted selling prices by comparing the forecasted with actual selling prices for a sample of the parking places; - Assessing the reasonableness of the Group's selection of similar parking places, in cases where there was no historical information on sales of certain parking places;

- Significant carrying amount of parking places as at the reporting date; - Estimates and judgements affecting the net realisable value; - Complex manual calculations performed by the Group for the purpose of estimation of the net realisable value of the parking places.	- Testing the Group's forecasted costs to complete by comparing them to construction budgets. Our audit work was focused on sites with lower turnover of parking places, which are hence considered most sensitive to changes in the Group's assumptions. We also considered the adequacy of the Group's disclosures on the allowance for obsolete inventory and assessed whether they meet the requirements of the relevant accounting standards.

Construction of social infrastructure

Please refer to Note 17 in the financial statements.

The key audit matter	***How the matter was addressed in our audit***
In the course of implementation of development projects the Group may be obliged to construct and transfer certain social infrastructure objects to the City Authorities without compensation of construction cost. These costs are recoverable as part of the projects they relate to. The risk specifically relates to the level of judgement involved in measuring the obligation described above and identifying the moment when the obligation becomes unavoidable.	Our procedures included: - We enquired management of the Group, divisional management and in-house legal counsel about actual or potential obligations to construct social infrastructure objects and transfer it to the City Authorities without compensation of construction cost. - We inspected the construction permitting documentation for a sample of projects to evaluate the completeness of the obligations. - For significant known obligations, when a provision has been recognised, we inspected the calculation of the provision and evaluated the amount of internal costs included in the provision by comparing them to supporting construction budges; - We evaluated significant judgements made and the assumptions used by management in recognizing obligation for the construction of social infrastructure objects by involving our own legal specialists, considering the previous experience on how the issues with construction of social infrastructure were resolved and customary business practice.

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	We also considered the accuracy of the Group's disclosures on the obligations to construct social infrastructure objects.
Share based payment arrangements - Recognition	
Please refer to Note 9, Note 10 and Note 30(a)(i) in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
In 2017 the Group implemented a share based payment arrangement with certain members of the Group's top management as part of management long-term incentive plan. In 2018 the Group changed the conditions of the arrangement established in 2017. We focused on this area, as the share based payments is a complex accounting area and there is a risk that the amounts are incorrectly determined and/or inappropriately accounted for and disclosed in the consolidated financial statements.	Our audit procedures included, among others: - Enquiries with the Group management to understand the share based payment schemes in place and the changes made to the arrangement introduced in 2017; - Inspection of documents supporting the approval by the Group and communications made to participants of the program regarding these changes; - Agreed new conditions of the arrangement used by management for evaluation of accounting treatment and measurement of the transaction to the revised arrangement documents; - Evaluating, involving our own valuation specialists the methodology and assumptions underlying the estimation of fair value of equity instruments granted to the participants of the incentive plan at the measurement date; - Evaluating, involving our own IFRS specialists, the accounting treatment and its compliance with the relevant accounting standards; - Evaluating the adequacy of the Group's disclosures in respect of share based payment arrangements in accordance with the requirements of IFRS 2.

Other information

The Board of Directors is responsible for the other information. The other information comprises the consolidated management report, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors and those charged with governance.

With regards to the consolidated management report, our report is presented in the "*Report on other legal and regulatory requirements*" section.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

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

The Board of Directors and those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of 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.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors of the Group by the General Meeting of the Company's members on 27 July 2017. Our appointment was renewed annually by shareholders' resolution on 29 May 2018. Our total uninterrupted period of engagement is two years covering the years ended 31 December 2017 to 31 December 2018.

Consistency of the auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 28 March 2019.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

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Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the consolidated management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the consolidated management report.
- In our opinion, the information included in the corporate governance report in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Antonis Shiammoutis.

Antonis Shiammoutis

Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited

Certified Public Accountants and Registered Auditors

14 Esperidon Street

1087 Nicosia, Cyprus

1 April 2019

mln RUB	Note	2018	2017*
Revenue	6	72 327	70 645
Cost of sales		(57 835)	(52 644)
Gross profit		14 492	18 001
General and administrative expenses	7	(6 922)	(5 052)
Selling expenses		(3 318)	(2 930)
Impairment loss on trade and other receivables	26 (b)(iii)	(800)	(673)
Other (expenses)/income, net	8	(2 376)	366
Results from operating activities		1 076	9 712
Finance income – interest revenue	11	2 101	1 696
Finance income - other	11	183	16
Finance costs	11	(2 015)	(1 007)
Net finance income		269	705
Profit before income tax		1 345	10 417
Income tax expense	12	(1 308)	(2 524)
Profit for the year		37	7 893
Total comprehensive income for the year		37	7 893
Profit attributable to:			
Owners of the Company		35	7 890
Non-controlling interest		2	3
Profit for the year		37	7 893
Total comprehensive income attributable to:			
Owners of the Company		35	7 890
Non-controlling interest		2	3
Total comprehensive income for the year		37	7 893
Earnings per share			
Basic and diluted earnings per share (RUB)	22	0,12	27,15

* - The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated, see note 2(e)(i). Comparative information has been re-presented due to a new impairment loss line item.

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 26 to 81.

mln RUB	Note	2018	2017*
ASSETS			
Non-current assets			
Property, plant and equipment	13	3 195	3 085
Investment property	14	306	333
Other long-term investments	15	758	739
Trade and other receivables	18	5 777	5 867
Deferred tax assets	16	2 805	2 173
Total non-current assets		**12 841**	**12 197**
Current assets			
Inventories under construction	17	56 096	55 441
Inventories - finished goods	17	15 638	21 458
Other inventories	17	1 995	1 223
Advances paid to suppliers	18	7 727	10 664
Costs to obtain contracts		324	-
Contract assets	18	1 244	1 187
Trade receivables	18	7 971	13 551
Other receivables	18	3 466	4 782
Short-term investments	19	203	185
Cash and cash equivalents	20	23 066	14 125
Total current assets		**117 730**	**122 616**
Total assets		**130 571**	**134 813**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	2	2
Share premium	21	15 486	15 486
Reserve for own shares	21	(1)	(1 606)
Share options reserve	21	-	221
Retained earnings		44 627	48 702
Total equity attributable to equity holders of the Company		**60 114**	**62 805**
Non-controlling interest		2	-
Total equity		**60 116**	**62 805**

* - The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated, see note 2(e).

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 26 to 81.

mln RUB	Note	2018	2017*
Non-current liabilities			
Loans and borrowings	23	17 559	21 418
Trade and other payables	25	1 777	2 546
Contract liabilities	25	218	-
Provisions	24	121	102
Deferred tax liabilities	16	2 808	2 941
Total non-current liabilities		**22 483**	**27 007**
Current liabilities			
Loans and borrowings	23	3 353	2 569
Trade and other payables	25	16 727	14 920
Contract liabilities	25	26 931	25 649
Provisions	24	961	1 863
Total current liabilities		**47 972**	**45 001**
Total equity and liabilities		**130 571**	**134 813**

* - The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated, see note 2(e).

These Consolidated Financial Statements were approved by the Board of Directors on 1 April 2019 and were signed on its behalf by:

Charalampos Avgousti
Director

Kirill Bagachenko
Director

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 26 to 81.

mln RUB	Attributable to equity holders of the Company							
	Share capital	Share premium	Reserve for own shares	Share options reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	1	15 509	(440)	-	43 354	58 424	28	**58 452**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	7 890	7 890	3	**7 893**
Total comprehensive income for the year	-	-	-	-	7 890	7 890	3	**7 893**
Transactions with owners, recorded directly in equity								
Issuance of preference shares	1	-	-	-	-	1	-	**1**
Dividends to equity holders	-	-	-	-	(2 542)	(2 542)	-	**(2 542)**
Equity-settled share-based payment	-	-	-	221	-	221	-	**221**
Acquisition of own shares	-	-	(1 189)	-	-	(1 189)	-	**(1 189)**
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Changes in ownership interest in subsidiaries	-	-	-	-	-	-	(31)	**(31)**
Other reclassifications	-	(23)	23	-	-	-	-	**-**
Total transactions with owners	1	(23)	(1 166)	221	(2 542)	(3 509)	(31)	(3 540)
Balance at 31 December 2017	**2**	**15 486**	**(1 606)**	**221**	**48 702**	**62 805**	**-**	**62 805**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 26 to 81.

	Attributable to equity holders of the Company							
mln RUB	**Share capital**	**Share premium**	**Reserve for own shares**	**Share options reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018, as previously reported*	2	15 486	(1 606)	221	48 702	62 805	-	**62 805**
Adjustment from adoption of IFRS 9, net of tax, note 2(e)	-	-	-	-	(312)	(312)	-	**(312)**
Adjusted balance at 1 January 2018	2	15 486	(1 606)	221	48 390	62 493	-	**62 493**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	35	35	2	**37**
Total comprehensive income for the year	-	-	-	-	35	35	2	**37**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(3 260)	(3 260)	-	**(3 260)**
Equity-settled share-based payment	-	-	1 605	(221)	(538)	846	-	**846**
Total transactions with owners	-	-	1 605	(221)	(3 798)	(2 414)	-	**(2 414)**
Balance at 31 December 2018	**2**	**15 486**	**(1)**	**-**	**44 627**	**60 114**	**2**	**60 116**

* - The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated, see note 2(e).

mln RUB

	Notes	2018	2017
OPERATING ACTIVITIES:			
Profit for the year		37	7 893
Adjustments for:			
Depreciation	13, 14	365	340
Loss/(gain) on disposal of property, plant and equipment	8	8	(113)
Gain on disposal of investment property	8	-	(27)
Impairment loss on inventories	17	512	819
Impairment loss/reversal on trade and other receivables, advances paid to suppliers and investments	26 (b)(iii)	900	673
Equity-settled share-based payment transactions	10	846	221
Finance income, net	11	(269)	(705)
Income tax expense	12	1 308	2 524
Cash from operating activities before changes in working capital and provisions		**3 707**	**11 625**
Change in inventories		5 648	(1 009)
Change in accounts receivable		9 036	(6 953)
Change in accounts payable		(65)	161
Change in provisions	24	(883)	112
Change in contract assets	18	(57)	(203)
Change in contract liabilities	25	1 500	1 329
Cash generated from operating activities		**18 886**	**5 062**
Income tax paid		(1 483)	(2 381)
Interest paid		(2 246)	(2 257)
Net cash from operating activities		**15 157**	**424**
INVESTING ACTIVITIES:			
Proceeds from disposal of property, plant and equipment		57	294
Proceeds from disposal of investment property		8	232
Interest received		1 125	918
Acquisition of property, plant and equipment		(550)	(707)
Loans given		(91)	(60)
Loans repaid		6	93
Acquisition of other investments	15, 19	(112)	(263)
Disposal of other investments	15, 19	153	385
Net cash from investing activities		**596**	**892**
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		-	(29)
Proceeds from borrowings		4 707	15 889
Repayments of borrowings		(7 719)	(10 009)
Acquisition of own shares		(651)	(628)
Dividends paid		(3 567)	(2 542)
Net cash (used in)/from financing activities		**(7 230)**	**2 681**
Net increase in cash and cash equivalents		8 523	3 997
Cash and cash equivalents at the beginning of the year		14 125	10 206
Effect of exchange rate fluctuations on cash and cash equivalents		418	(78)
Cash and cash equivalents at the end of the year	20	**23 066**	**14 125**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 26 to 81.

1 Background

a) Organisation and operations

Etalon Group PLC (Etalon Group Public Company Limited before 27 July 2017 and Etalon Group Limited before 5 April 2017) (or the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad.

The Company was incorporated on 8 November 2007 in the Bailiwick of Guernsey.

On 5 April 2017, the Company migrated from Guernsey, Channel Islands, and was registered in the Republic of Cyprus under the name of Etalon Group Public Company Limited.

On 27 July 2017, the Annual General Meeting of Shareholders resolved to change the name of the Company from Etalon Group Public Company Limited to Etalon Group PLC. On 8 August 2017, the change of the Company's name was approved by the Registrar of Companies and Official Receiver of the Republic of Cyprus.

The Company's registered office is located at:

2-4 Arch. Makariou III Avenue
Capital Center, 9th floor
1065 Nicosia
Cyprus

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

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

b) Business environment

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

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

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

2 Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113.

This is the first set of the Group's consolidated financial statements where IFRS 9 has been applied. Changes to significant accounting policies are described in note 2(e).

b) Basis of measurement

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

c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of the most Group's subsidiaries is RUB.

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

d) Use of estimates and judgments

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

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

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

- Note 6 – revenue;
- Note 10 – share based payments;
- Note 17 – inventories –impairment provisions; recognition of obligations for construction of social infrastructure;
- Note 24 – provisions;
- Note 26(b) – measurement of ECL allowance for trade and other receivables and contract assets;
- Note 29 – contingencies.

e) Changes in accounting policies

The Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements, except for the adoption of new accounting standard as described below.

i) Adoption of IFRS 9

Effective from 1 January 2018, the Group has initially adopted IFRS 9 *Financial Instruments* that replaced international Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard set out new requirements for classification and measurement of financial assets and liabilities and for impairment of financial assets.

In accordance with the transition provisions of IFRS 9, the Group applied the new standard retrospectively, except for the items that have already been derecognised at the date of initial application. The Group did not restate prior periods presented as a result of adoption of the new classification and measurement requirements, and recognised any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings as at 1 January 2018.

As result of the adoption of IFRS 9, the Group adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in finance expenses. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies in respect of financial assets are set out below.

<u>Classification and measurement of financial assets</u>

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see "Impairment of financial assets" below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The adoption of IFRS 9 had the following impact on the measurement categories of financial assets in the consolidated financial statements of the Group:

Financial assets previously classified in accordance with IAS 39 within categories loans and receivables and investments held to maturity, in accordance with IFRS 9 were classified as financial assets measured at amortised cost using the effective interest method.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month expected credit losses: these are expected credit losses that result from possible default events within the 12 months after the reporting date, and
- lifetime expected credit losses: these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

Lifetime expected credit losses measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month expected credit losses measurement applies if it has not.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The adoption of IFRS 9 resulted in an increase in the allowance for impairment of financial assets in amount of RUB 312 million due to recognition of expected credit losses recognized in retained earnings net of tax, at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table shows the original carrying amounts under IAS 39 and the new carrying amounts under IFRS 9 for each class of the Group’s financial assets as at 1 January 2018.

mln RUB	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets		
Trade and other receivables	21 119	20 768
Bank promissory notes	652	633
Loans given	119	99
Bank deposits (over 3 months)	153	153
Cash and cash equivalents	14 125	14 125
Total financial assets	**36 168**	**35 778**

Measurement of Expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and other comprehensive income. As a result, the Group reclassified impairment losses amounting to RUB 673 million, recognised under IAS 39, from 'finance expenses' to 'impairment loss on trade and other receivables' in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

– The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

- The determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

3 Significant accounting policies

a) Basis of consolidation

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

b) Foreign currency

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

c) Financial instruments

(i) Financial assets

The Group's financial assets comprise debt securities (bank promissory notes), loans given, trade and other receivables, bank deposits with maturity over 3 months and cash and cash equivalents. All of them are classified at amortised cost category as defined by IFRS 9.

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables are held to collect the contractual cash flows, and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Such financial assets are classified at amortised cost in accordance with IFRS 9.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. In accordance with IFRS 9, cash and cash equivalents are classified at amortised cost.

(ii) Financial liabilities

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

At initial recognition, the Group measures a financial liability at its fair value plus transaction costs that are directly attributable to the issuance of the financial liability. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The Group derecognises a financial liability when its obligations specified in the contracts are discharged or cancelled or expire. For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Group recognises financial assets or financial liabilities in its statement of financial position when it becomes party to the contractual provisions of the instrument and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

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

(iii) Impairment of financial assets

The Group uses a simplified approach to measure loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that result from transactions that are within the scope of IFRS 15, irrespective of whether they contain a significant financing component or not.

For measuring of loss allowance for trade receivables and contract assets, the Group allocates those financial assets into the following two categories based on shared credit risk characteristics that are determined by existence of a collateral:

1. Trade receivables and contract assets arising from sales of real estate;
2. Trade receivables and contract assets arising from provision of construction services and other operations.

The Group does not transfer title for sold properties to the customers until they settle their accounts in full. In case a customer fails to settle obligations in a reasonable time as determined in sales contract, the Group initiates termination of sales contract, the properties are returned to the Group and in addition to that, the Group withholds penalty from the amount of consideration it returns to the customer. The properties are subsequently sold to other customers, and the cash flows from sale of collateral are included into the cash flows that the Group expects to receive under the initial contract. The Group estimates and recognises expected credit losses on trade receivables based on its own statistics about contract termination and credit losses incurred.

For the second category of receivables and contract assets, the Group calculates ECL based on individual credit risk ratings of each debtor and the remaining terms to maturity. The Group determines the inputs for calculation of ECL such as probability of default and loss given default using both internal and external statistical data.

The Group defines default event when a financial asset is more than 90 days past due or it is unlikely that the debtor's obligations to the Group will be repaid in full without the Group taking such actions as the sale of the collateral (if any).

The Group does not recognise a loss allowance for the following financial assets:

- Bank deposits, cash and cash equivalents - as they are short-term and held with major Russian and international banks

d) Advances received and paid

Due to the nature of its activities, the Group receives significant advances from customers, and makes significant prepayments to sub-contractors and other suppliers. Advances paid are recognised on undiscounted basis. The Group adjusts contract liabilities (including advances received) for the significant financing component if the timing of payments agreed to by the parties provides the Group with a significant benefit of financing.

e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2018.

f) Inventories

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

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

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

Since 1 January 2017, for items on which revenue is recognized over time, real estate property under construction is treated as asset ready for sale in its current condition and is not a qualifying asset for the capitalization of borrowing costs.

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

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity. Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

g) Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase of share options reserve in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service conditions at the vesting date.
For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. For share based-payment awards with vesting market conditions, which creates variability in the number of equity instruments that will be received by employees, the Group determines the grant-date fair value of the right to receive a variable number of equity instruments reflecting the probability of different outcomes.

h) Revenue

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

Revenue is measured based on the consideration specified in a contract with a customer adjusted for the effect of the time value of money (significant financing component) if the timing of payments agreed to by the parties provides the customer or the Group with a significant benefit of financing. The timing of satisfaction of the Group's performance obligations does not necessarily correspond to the typical payment terms, as the Group either accepts full down payments at the inception of construction, or provides instalment plans for the whole period of construction or beyond it.

The Group recognises revenue when (or as) it transfers control over an asset to a customer. Transfer of control may vary depending on the individual terms of the sales contracts.

For contracts for sale of finished goods, the Group generally considers that control have been transferred on the date when a buyer signs the act of acceptance of the property.

Effective 1 January 2017, the amendments were made to the Federal law 214-FZ, according to which in case a real estate developer properly fulfills his obligations under share participation agreement, the buyer has no right to terminate the contract unilaterally. Following the amendments made to the Federal law No.214-FZ, the Group has an enforceable right to payment under the agreements since 1 January 2017. Share participation agreements specify the exact apartment to be delivered to the customer, which cannot be delivered to another customer and thus represents an asset with no alternative use to the Group. In accordance with the requirements of IFRS 15, share participation agreements concluded on or after 1 January 2017 qualify for revenue recognition over time as control over the property is transferred to the customer over time.

For sales contracted under share participation agreements concluded with customers before 1 January 2017 there was a contradictory court practice in respect of the right for the buyer to terminate the contract unilaterally. Until 1 July 2018, for share participation agreements concluded with customers before 1 January 2017, the control was considered to have been transferred to individual buyers, when the construction is completed and the buildings has been approved by the State commission for acceptance of finished buildings. As of 1 July 2018, following the development of the court practice, management reassessed whether the Group has an enforceable right to payment for performance completed to date in accordance with IFRS 15 paragraph 35(c). Following the result of reassessment, management concluded that the Group has an enforceable right to payment for performance completed to date. In accordance with the requirements of IFRS 15, share participation agreements concluded before 1 January 2017 qualify for revenue recognition over time since 1 July 2018. The corresponding catch up adjustment for the contracts as of 1 July 2018 was recognized in the second half of 2018 prospectively.

For each performance obligation satisfied over time (promise to transfer an apartment specified in the contract with a customer in a multicompartment building under construction), the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation using the input method. Under the input method, revenue is recognised on the basis of costs incurred relative to the total expected costs to the satisfaction of that performance obligation that is the proportion of costs incurred to date to construct a multicompartment building to the total costs to construct this building in accordance with a business plan.

The progress is considered to be the same for all apartments within a building, irrespective of their floors, and revenue is recognised with respect to apartments that are contracted under share participation agreements. Costs used to measure progress towards complete satisfaction of performance obligation include costs of design and construction of a multicompartment building and exclude the cost of acquisition of land plots. The cost of acquisition of land plot is recognised in cost of sales consistently with the transfer to the customers of the appartments to which the land plot relates.

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

When adjusting the promised amount of consideration (monetary or non-monetary) for a significant financing component, the Group applies discount rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception that is typically the average mortgage rate for contract assets and the Group's incremental borrowing rate for contract liabilities.

Except as described in note 3(f), finance costs, recognized as a result of separating the significant financing component are accounted for as borrowing costs incurred specifically for the purpose of obtaining a qualifying asset and are capitalized into the cost of real estate properties under construction.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between the transfer of a promised good to a customer and the customer's payment for that good will be one year or less.

(ii) Revenue from construction services

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

1) Contracts for provision of construction services;

2) Contracts for construction of an asset.

For the first type of contracts, revenue from construction services rendered is recognized in the consolidated statement of Profit or Loss and Other Comprehensive Income when the Group transfers control of a service to customer. These contracts are normally short-term, therefore revenue is recognised when the customer signs the act of acceptance of the construction service.

For the second type of contracts revenue is recognized over time by measuring progress towards complete satisfaction of the performance obligation at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, using the input method. Contract costs are recognised as expenses in the period in which they are incurred except when the costs are the costs that generate or enhance resources of the entity that will be used in satisfying performance obligation in future.

Some or all of an amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when that uncertainty associated with the variable consideration is subsequently resolved.

The Group accounts for a contract modification (change in the scope or price (or both)) when that is approved by the parties to the contract.

Where the outcome of a performance obligation cannot be reasonably measured, contract revenue is recognised to the extent of costs incurred in satisfying the performance obligation that is expected to be recovered.

When it becomes probable that total contract costs will exceed total contract revenue, the Group recognize expected losses from onerous contract as an expense immediately.

(iii) Revenue from sale of construction materials

Revenue from the sale of construction materials is recognised in the consolidated statement of profit or loss and other comprehensive income when the Customer obtains control of a promised asset.

i) Income tax

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

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

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

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

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

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

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

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

j) New Standards and Interpretations

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

On transition to IFRS 16, while determining whether an arrangement contains a lease, the Group will apply the IFRS 16 definition of a lease to all its contracts, and will not apply the practical expedient to grandfather the definition of a lease on transition.

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group will recognise new assets and liabilities primarily for its operating leases of land plots for development purposes. The nature of expenses related to operating leases under IFRS 16 generally changes because the lessee starts to recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

As the Group capitalises expenses related to leases of land plots into cost of inventories under construction, the Group will not recognize a separate right of use asset. Instead, right of use asset will be included into inventories under construction and will be recognised within cost of sales on the same basis as the cost of acquisition of land plots, see note 3(h)(i)).

When capitalisation criteria are met, interest expense on lease liabilities will also be capitalised into inventories under construction (similar to borrowing costs and significant financing component).

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and inventories under construction in the amount of up to RUB 1 200 million as at 1 January 2019.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases are disclosed in note 27.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Other standards and interpretations

Various *Improvements to IFRSs* and other amendments have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2019. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

a) Non-derivative financial assets

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

b) Non-derivative financial liabilities

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

5 Operating segments

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

- *Residential development*. Includes construction of residential real estate including flats, built-in premises and parking places.
- *Construction services*. Includes construction services for third parties and for internal purpose.
- *Other operations.* Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments during the year ended 31 December 2018 or 2017.

Performance of the reporting segments is measured by the management based on gross profits, on the way in which the management organises the segments within the entity for making operating decisions and in assessing performance. General and administrative expenses, selling expenses, finance income and finance costs are treated as equally attributable to all reporting segments and are not analysed by the Group on a segment-by-segment basis and therefore not reported for each individual segment.

Segments' assets and segments' liabilities being analysed by the Board of Directors include inventories and contract liabilities as the key indicators relevant for segment performance measurement. Therefore, other assets and liabilities are not allocated between the segments.

a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	**2018**	**2017 (recalculated*)**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017 (recalculated*)**
External revenues	58 072	54 964	8 312	9 024	5 943	6 657	**72 327**	**70 645**
Inter-segment revenue	-	-	14 964	13 341	629	584	**15 593**	**13 925**
Total segment revenue	58 072	54 964	23 276	22 365	6 572	7 241	**87 920**	**84 570**
Gross profit	13 992	17 509	393	358	107	134	**14 492**	**18 001**
Borrowing costs and significant financing component in cost of sales	3 105	3 871	-	-	-	-	**3 105**	**3 871**
Gross profit adjusted for interest in cost of sales	17 097	21 380	393	358	107	134	**17 597**	**21 872**
Gross profit adjusted, %	29%	39%						

	2018	**2017 (recalculated*)**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017 (recalculated*)**
Reportable segment assets: inventories	70 263	75 426	1 541	779	1 925	1 917	**73 729**	**78 122**
Total liabilities for reportable segments: contract liabilities	26 716	25 501	83	35	350	113	**27 149**	**25 649**

* The Group represented segment information for constistency with 2018

b) Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of properties. Non-current assets exclude financial instruments and deferred tax assets.

	Revenues		Non-current assets	
mln RUB	**2018**	**2017 (recalculated)**	**2018**	**2017**
St. Petersburg metropolitan area	40 502	41 617	3 027	2 968
Moscow metropolitan area	31 825	29 028	474	450
	72 327	**70 645**	**3 501**	**3 418**

c) Major customer

Revenue from one customer of the Group, recognised within the segment "Residential development", amounted to RUB 1 906 million or 3% of the Group's total revenue for the year ended 31 December 2018 (revenue from one customer of the Group, recognised within the segment "Construction services", amounted to 3 274 million or 5% of the Group's total revenue for the year ended 31 December 2017).

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

mln RUB

	2018	2017 (recalculated)
Revenues		
Total revenue for reportable segments	87 920	84 570
Elimination of inter-segment revenue	(15 593)	(13 925)
Consolidated revenue	**72 327**	**70 645**
Profit or loss		
Gross profit for reportable segments	14 492	18 001
General and administrative expenses	(6 922)	(5 052)
Selling expenses	(3 318)	(2 930)
Impairment loss on trade and other receivables	(800)	(673)
Other expenses, net	(2 376)	366
Finance income and interest revenue	2 284	1 712
Finance costs	(2 015)	(1 007)
Consolidated profit before income tax	**1 345**	**10 417**

	2018	2017
Assets		
Total assets for reportable segments: inventories	73 729	78 122
Total inventories	**73 729**	**78 122**
Liabilities		
Total liabilities for reportable segments: contract liabilities	27 149	25 649
Total contract liabilities	**27 149**	**25 649**

6 Revenue

mln RUB	2018	2017
Sale of flats - transferred at a point in time	26 187	33 379
Sale of flats - transferred over time	27 327	16 270
Sale of built-in commercial premises - transferred at a point in time	1 650	1 940
Sale of built-in commercial premises - transferred over time	1 519	546
Sale of parking places - transferred at a point in time	1 025	2 723
Sale of parking places - transferred over time	364	106
Total revenue - segment Residential development (note 5 (a))	58 072	54 964
Long term construction contracts - transferred over time	7 459	8 105
Short term construction services - transferred over time	853	919
Total revenue of segment Construction services (note 5 (a))	8 312	9 024
Sale of construction materials - transferred at a point in time	3 601	4 146
Sale of stand-alone commercial premises - transferred at a point in time	42	479
Other revenue - transferred at a point in time	1 677	1 334
Total other revenue (note 5 (a))	5 320	5 959
Total revenues from contracts with customers	**71 704**	**69 947**
Rental revenue (note 5 (a))	623	698
Total revenues	**72 327**	**70 645**

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers

mln RUB	2018	2017
Trade receivables	13 515	19 291
Contract assets	1 244	1 187
Contract liabilities	(27 149)	(25 649)

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on sale of flats and built-in commercial premises under share participation agreements and for long-term construction contracts. Contract assets are transferred to trade receivables when the rights become unconditional.

Contract liabilities relate to advance consideration received from customers.

The explanation of the significant changes in the contract asset and the contract liability balances during the reporting period is presented in the table below.

mln RUB	2018 Contract assets	2018 Contract liabilities	2017 Contract assets	2017 Contract liabilities
Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period	-	20 780	-	20 514
Increases due to cash received, excluding amounts recognized as revenue during the period	-	(22 280)	-	(21 843)
Transfers from contract assets recognised at the beginning of the period to receivables	(1 154)	-	(843)	-
Increase as a result of changes in the measure of progress	1 211	-	1 046	-
Total change in the reporting period	**57**	**(1 500)**	**203**	**(1 329)**

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

31 December 2018 **mln RUB**	**2019**	**2020**	**2021**	**2022**	**Total**
Residential development	18 683	9 484	1 439	169	**29 775**
Construction services	6 523	785	9	-	**7 317**
Total	**25 206**	**10 269**	**1 448**	**169**	**37 092**

31 December 2017 **mln RUB**	**2018**	**2019**	**2020**	**2021**	**Total**
Residential development	8 215	6 229	811	-	**15 255**
Construction services	9 202	2 002	545	9	**11 758**
Total	**17 417**	**8 231**	**1 356**	**9**	**27 013**

The Group applies practical expedient included in par. 121 of IFRS 15 and does not disclose information about its remaining performance obligations for contracts that have an original expected duration of one year or less.

7 General and administrative expenses

mln RUB	**2018**	**2017**
Payroll and related taxes	4 446	3 455
Equity-settled share based payments (note 10)	846	221
Services	468	405
Audit and consulting services	217	150
Bank fees and commissions	173	122
Other taxes	160	162
Materials	96	57
Depreciation	85	47
Repair and maintenance	75	89
Other	356	344
Total	**6 922**	**5 052**

Remuneration of the statutory audit firm for the year ended 31 December 2018 amounted to RUB 9.1 million for audit services (2017: RUB 4.3 million) and RUB 2.1 million for other assurance services (2016: RUB 1.7 million). Remuneration of other members of the statutory auditors' network for the year ended 31 December 2018 amounted to RUB 9.6 million for audit services (2017: RUB 11.1 million) and RUB 5.1 million for non-audit services (2017: RUB 8.4 million).

8 Other (expenses)/income, net

mln RUB		
Other income	**2018**	**2017**
Fees and penalties received	226	17
Other income	186	1 186
Gain on disposal of property, plant and equipment	-	113
Gain on disposal of investment property	-	27
Gain on disposal of inventory	-	2
	412	**1 345**
Other expenses		
Impairment loss on inventories (Note 17)	(512)	(819)
Cost of social infrastructure for completed projects	(1 594)	-
Charity	(410)	(11)
Loss on disposal of inventories	(4)	-
Loss on disposal of property, plant and equipment	(8)	-
Other expenses	(260)	(149)
	(2 788)	**(979)**
Other (expenses)/income, net	**(2 376)**	**366**

Other income for the year ended 31 December 2017 includes fees received from a financial institution in respect of the issuance of the Company's GDRs.

9 Personnel costs

mln RUB	**2018**	**2017**
Wages and salaries	7 299	5 832
Contributions to the State pension fund	1 547	1 340
Equity-settled share based payments (note 10)	846	221
	9 692	**7 393**

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

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

During the year ended 31 December 2018 personnel costs and related taxes included in cost of production amounted to RUB 3 749 million (year ended 31 December 2017: RUB 3 004 million). The remaining part of personnel expenses was subsumed within general and administrative expenses with equity-settled share based payments (see note 7) and selling expenses in the total amount of RUB 676 million (year ended 31 December 2017: RUB 713 million).

The average number of staff employed by the Group during the year ended 31 December 2018 was 4 803 employees (year ended 31 December 2017: 4 558 employees).

10 Share-based payment arrangements

Share option programme (equity-settled)

On 1 July 2017, the Group granted share options to certain members of top management of the Group as part of management long-term incentive plan. Each option entitles the holder to a predetermined number of GDRs of the Group based on an increase in the market price of the GDRs in the respective calculating period of each year of the vesting schedule over the maximum market price of the GDRs in the previous years of the vesting schedule. The vesting schedule commenced from 1 July 2017 and was planned to last up to 31 December 2021.

The Group recognised employee benefit expense of RUB 221 million arising from share-based payment arrangements for the year ended 31 December 2017 with the corresponding increase in equity as of 31 December 2017.

The fair value of the share options was estimated at the grant date by an independent appraiser using a Monte Carlo simulation, assuming that all participants will remain within the Group's service.

The following key assumptions were used by the appraiser:

- Monthly volatility – 7,6%;
- Annual yield rate – 2,3%;
- Risk-free interest rate (USD) – 2,3% per annum.

Expected volatility was determined based on historical volatility of the Company's GDRs during 2017.

In 2018, the Group modified the formula for market performance condition. The incremental fair value granted as a result of modification, as estimated at the grant date by independent appraiser using a Monte Carlo simulation, amounted to RUB 323 million. The following key assumptions were used by the appraiser:

- Volatility – 14,88%;
- Annual yield rate – (2,2)%;
- Discount rate – 2,56%;
- Risk-free interest rate (USD) - 2,56% per annum;
- Dividend yield – 4,76%.

Expected volatility was determined based on historical monthly volatility of the Company's GDRs for the period from April 14, 2011 to June 08, 2018. Dividend yield - as average actual dividend yield of Company's shares for the period 2014 – 2017.

As a result of modification, the Group distributed to the participants of the incentive plan the 2 258 536 GDRs. In May 2018, the incentive plan was terminated for two participants of the incentive plan.

In April 2018, the company granted awards in the form of 403 896 GDRs for Company's ordinary shares under the Company's management incentive plan to senior management team employees and executive directors. The fair value of the equity instruments granted as measured on the basis of the observable market price for the Company's shares at the grant date of 1 April 2018 amounted to RUB 71 million.

In June 2018, the Group replaced the share option programme dated 1 July 2017 by another share based payment with grant date of 8 June 2018. There were no vesting conditions in the replacement share based payment. The lock up period of 7 years, during which the participants were not entitled to sell, transfer or otherwise dispose any respective GDRs received from the Group, unless such sell, transfer or disposal have been approved by the Group.

In respect of the share based payment granted in June 5 550 000 GDRs were transferred to the participants of the incentive plan in June 2018. The fair value at the measurement date, as estimated by an independent appraiser, amounted to RUB 543 million. The fair value was measured using Chaffe put option model based on the following inputs to the model:

- Dividend yield – 4,76%;
- Risk-free rate – 2,95% (yield to maturity of US Treasury bonds with a 10-year maturity);
- Volatility – 50,79%;
- Actual and strike price – 2,78 USD;
- Validity period of the sales restriction - 7 years.

Expected volatility was determined based on historical annual volatility of the Company's GDRs for the period from April 14, 2011 to June 08, 2018. Dividend yield - as average actual dividend yield of Company's shares for the period 2014 - 2017.

The fair value of the original program with modified formula at modification date amounted to RUB 266 million. The fair value was estimated by an independent appraiser applying a Monte Carlo simulation, with the following inputs to that model:

- Volatility – 14,66%;
- Annual yield rate – (1,98)%;
- Discount rate – 2,78%;
- Risk-free interest rate (USD) - 2,78% per annum;
- Dividend yield – 4,76%.

Expected volatility was determined based on historical monthly volatility of the Company's GDRs for the period from April 14, 2011 to June 08, 2018. Dividend yield - as average actual dividend yield of Company's shares for the period 2014 – 2017.

For details of the related employee benefit expenses, see note 9.

11 Finance income and finance costs

mln RUB	2018	2017
Recognised in profit or loss		
Finance income		
Interest income under the effective interest method on:		
- Bank deposits - at amortised cost	453	-
- Bank deposits - loans and receivables	-	505
- Unwinding of discount on trade receivables	976	778
- Cash and cash equivalents (except bank deposits)	672	413
Total interest income arising from financial assets measured at amortised cost	**2 101**	**1 696**
Net foreign exchange gain	64	-
Gain on write-off of accounts payable	101	16
Reversal of impairment loss on investments	18	-
Finance income - other	**183**	**16**
Finance costs		
Financial liabilities measured at amortised cost:		
- Interest expenses- financing component under IFRS 15	(1 387)	(909)
- Interest expenses - borrowing costs	(496)	-
- Interest expense on finance leases	-	(3)
Impairment loss on advances paid to suppliers	(118)	(1)
Net foreign exchange loss	-	(79)
Other finance costs	(14)	(15)
Finance costs	**(2 015)**	**(1 007)**
Net finance income recognised in profit or loss	**269**	**705**

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

mln RUB	2018	2017
Borrowing costs and significant financing component capitalised during the period	3 327	4 150
Weighted average capitalisation rate	10,1%	9,8%

During the year ended 31 December 2018, borrowing costs and significant financing component that have been capitalised into the cost of real estate properties under construction in the amount of RUB 3 105 million (year ended 31 December 2017: RUB 3 871 million), were included into the cost of sales upon construction and sale of those properties – including borrowing costs in the amount of RUB 1 689 million (year ended 31 December 2017: RUB 2 247 million), significant financing component in the amount of RUB 1 416 million (year ended 31 December 2017: RUB 1 624 million).

12 Income tax expense

For the period from 1 January to 4 April 2017, the Company's applicable tax rate under the Income Tax (0%/10%) (Guernsey) Law, 2007 was 0%. Effective from 5 April 2017, the Company's applicable tax rate under the Cyprus Income Tax Law became 12,5%. The Cypriot subsidiaries' applicable tax rate is 12,5%. For the Russian companies of the Group the applicable income tax rate is 20% (year ended 31 December 2017: 20%).

mln RUB	2018	2017
Current tax expense		
Current year	2 310	1 931
(Over-provided)/Under-provided in prior year	(314)	44
	1 996	1 975
Deferred tax expense		
Origination and reversal of temporary differences	(688)	549
Income tax expense	**1 308**	**2 524**

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

mln RUB	2018	2017
Profit before income tax	1 345	10 417
Theoretical income tax at statutory rate of 20%	269	2 083
Adjustments due to:		
(Over-provided)/Under-provided in prior year	(312)	-
Effect of 16,5% tax rate *	106	(117)
Expenses not deductible and income not taxable for tax purposes, net	1 245	558
Income tax expense	**1 308**	**2 524**

* - the operations of JSC "Etalon LenSpetsSMU" (JSC "SSMO LenSpetsSMU" before 18 April 2017) are taxable at a rate of 16,5% due to applied tax concession. In December 2018, changes of JSC "SSMO LenSpecSMU" tax rate was enacted .Consequently, as of 1 January 2019, the income tax rate of JSC "SSMO LenSpecSMU" will be increased from 16.5% to 20%. This change resulted in a loss of RUB 217 million related to the remeasurement of deferred tax assets and liabilities of the Group's subsidiary.

13 Property, plant and equipment

During the year ended 31 December 2018, depreciation expense of RUB 250 million (year ended 31 December 2017: RUB 261 million) has been charged to cost of sales, RUB 29 million (year ended 31 December 2017: RUB 45 million) to cost of real estate properties under construction, RUB 11 million (year ended 31 December 2017: RUB 10 million) to selling expenses and RUB 85 million (year ended 31 December 2017: RUB 47 million) to general and administrative expenses.

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2018 the Group did not have leased plant and machinery (31 December 2017: RUB 187 million). The leased equipment secures lease obligations.

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2017	1 155	2 425	134	189	117	910	**4 930**
Additions	204	135	18	48	-	302	**707**
Reclassification from inventories	33	-	-	-	-	-	**33**
Disposals	(246)	(51)	(13)	(20)	-	-	**(330)**
Transfers	30	-	-	-	-	(30)	**-**
Balance at 31 December 2017	1 176	2 509	139	217	117	1 182	**5 340**
Balance at 1 January 2018	1 176	2 509	139	217	117	1 182	**5 340**
Additions	264	95	17	71	4	99	**550**
Disposals	(166)	(67)	(23)	(19)	-	-	**(275)**
Transfers	1 070	-	-	1	-	(1 071)	**-**
Balance at 31 December 2018	2 344	2 537	133	270	121	210	**5 615**
Depreciation and impairment losses							
Balance at 1 January 2017	(296)	(1 547)	(80)	(118)	-	-	**(2 041)**
Depreciation for the year	(129)	(189)	(19)	(26)	-	-	**(363)**
Disposals	87	41	10	11	-	-	**149**
Balance at 31 December 2017	(338)	(1 695)	(89)	(133)	-	-	**(2 255)**
Balance at 1 January 2018	(338)	(1 695)	(89)	(133)	-	-	**(2 255)**
Depreciation for the year	(165)	(152)	(17)	(41)	-	-	**(375)**
Disposals	125	59	15	11	-	-	**210**
Balance at 31 December 2018	(378)	(1 788)	(91)	(163)	-	-	**(2 420)**
Carrying amounts							
Balance at 1 January 2017	859	878	54	71	117	910	**2 889**
Balance at 31 December 2017	838	814	50	84	117	1 182	**3 085**
Balance at 1 January 2018	838	814	50	84	117	1 182	**3 085**
Balance at 31 December 2018	1 966	749	42	107	121	210	**3 195**

14 Investment property

mln RUB	2018	2017
Cost		
Balance at 1 January	596	806
Disposals	(9)	(210)
Balance at 31 December	**587**	**596**
Accumulated depreciation and impairment losses		
Balance at 1 January	(263)	(245)
Depreciation for the year	(19)	(22)
Disposals	1	4
Balance at 31 December	**(281)**	**(263)**
Carrying amount at 1 January	333	561
Carrying amount at 31 December	**306**	**333**

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

As at 31 December 2018, fair value amounted to RUB 463 million (31 December 2017: RUB 458 million), which was determined based on discounted cash flows from the use of the property using the income approach.

15 Other long-term investments

mln RUB	2018	2017
Bank promissory notes - at amortised cost	654	-
Bank promissory notes - loans and receivables	-	652
Loans - at amortised cost	101	87
Bank deposits - at amortised cost	23	-
	778	**739**
Loss allowance for loans given	(13)	-
Loss allowance for promissory notes	(7)	-
	758	**739**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26.

As at 31 December 2018, bank promissory notes in the amount of RUB 451 million are pledged as security of secured bank loans (as at 31 December 2017: RUB 451 million), see note 23.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
mln RUB	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment	236	318	(928)	(738)	(692)	(420)
Investments	14	273	(41)	(23)	(27)	250
Inventories	4 897	3 775	(1 670)	(994)	3 227	2 781
Contract assets and trade and other receivables	289	504	(3 937)	(4 842)	(3 648)	(4 338)
Deferred expenses	384	239	(714)	(555)	(330)	(316)
Loans and borrowings	34	172	(14)	(28)	20	144
Provisions	394	100	(32)	44	362	144
Contract liabilities and trade and other payables	1 935	2 032	(833)	(1 166)	1 102	866
Tax loss carry-forwards	74	150	(1)	(1)	73	149
Other	75	73	(165)	(101)	(90)	(28)
Tax assets/(liabilities)	8 332	7 636	(8 335)	(8 404)	(3)	(768)
Set off of tax	(5 527)	(5 463)	5 527	5 463	-	-
Net tax assets/(liabilities)	**2 805**	**2 173**	**(2 808)**	**(2 941)**	**(3)**	**(768)**

(b) Unrecognised deferred tax liability

At 31 December 2018 a deferred tax liability arising on temporary differences of RUB 53 401 million (31 December 2017: RUB 47 494 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

mln RUB	1 January 2018	Recognised in profit or loss	Recognised in equty	31 December 2018
Property, plant and equipment	(420)	(272)	-	(692)
Investments	250	(277)	-	(27)
Inventories	2 781	446	-	3 227
Contract assets and trade and other receivables	(4 338)	626	64	(3 648)
Deferred expenses	(316)	(14)	-	(330)
Loans and borrowings	144	(137)	13	20
Provisions	144	218	-	362
Contract liabilities and trade and other payables	866	236	-	1 102
Tax loss carry-forwards	149	(76)	-	73
Other	(28)	(62)	-	(90)
	(768)	**688**	**77**	**(3)**

mln RUB	1 January 2017	Recognised in profit or loss	Recognised in equity	31 December 2017
Property, plant and equipment	(311)	(109)	-	(420)
Investments	9	241	-	250
Inventories	1 066	1 715	-	2 781
Contract assets and trade and other receivables	(1 890)	(2 448)	-	(4 338)
Deferred expenses	(330)	14	-	(316)
Loans and borrowings	21	123	-	144
Provisions	127	17	-	144
Contract liabilities and trade and other payables	923	19	(76)	866
Tax loss carry-forwards	131	18	-	149
Other	111	(139)	-	(28)
	(143)	**(549)**	**(76)**	**(768)**

17 Inventories

mln RUB	2018	2017
Inventories under construction		
Own flats under construction	43 981	43 595
Built-in commercial premises under construction	4 533	5 809
Parking places under construction	9 733	7 775
	58 247	**57 179**
Less: Allowance for inventories under construction	(2 151)	(1 738)
Total inventories under construction	**56 096**	**55 441**
Inventories - finished goods		
Own flats	8 922	14 925
Built-in and stand-alone commercial premises	4 593	3 715
Parking places	2 618	3 233
	16 133	**21 873**
Less: Allowance for inventories - finished goods	(495)	(415)
Total inventories - finished goods	**15 638**	**21 458**
Other inventories		
Construction materials	1 692	879
Other	325	347
	2 017	**1 226**
Less: Allowance for other inventories	(22)	(3)
Total other inventories	**1 995**	**1 223**
Total	**73 729**	**78 122**

a) Barter transactions

Project 1

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

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

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum, a rate within this range was used, depending on year of recognition of land component;

- Discount rates – within 11,5% - 25% per annum, a rate within this range was used, depending on year of recognition of land component and stage of the project.

Project 2

The Group entered into transaction for acquisition of investment rights for land plots where a part of acquisition price has to be paid by means of transfer of certain premises constructed on these land plots. In 2015 the Group has recognized the land component of this construction project within inventories at fair value of investment rights acquired.

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

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum;
- Discount rates – 23% per annum.

Project 3

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

The fair value of the investments rights acquired equal to RUB 4 395 million was determined based on discounted cash flows from the construction and sale of properties.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 2,5%-4% per annum;
- Discount rates – 13% per annum.

Project 4

During the year ended 31 December 2017, the Group entered into transaction for acquisition of investment rights for land plots where a part of acquisition price has to be paid by means of transfer of certain premises constructed on these land plots. The Group included the land component of this construction project into inventories at fair value of investment rights acquired.

The fair value of the investments rights acquired equal to RUB 1 800 million was determined based on discounted cash flows from the construction and sale of properties.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 2,5%-4% per annum;
- Discount rates – 13% per annum.

Accordingly, at 31 December 2018, the cost of land plots (Project 1) measured as described above and related to sold premises, was recognised in cost of sales during 2013 – 2018 in the amount of RUB 8 100 million, while the remaining balance of RUB 442 million is included into finished goods and RUB 482 million - into inventories under construction.

At 31 December 2018, the cost of land plots (Project 2) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2018 in the amount of RUB 1 585 million, while the remaining balance of RUB 70 million is included into finished goods and RUB 2 866 million - into inventories under construction.

At 31 December 2018, the cost of land plots (Project 3) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2018 in the amount of RUB 2 381 million, while the remaining balance of RUB 274 million is included into finished goods and RUB 1 739 million - into inventories under construction.

At 31 December 2018, the cost of land plots (Project 4) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2018 in the amount of RUB 348 million, while the remaining balance of RUB 1 452 million is included into inventories under construction.

In the course of implementation of several development projects the Group has to construct and transfer certain social infrastructure to the City Authorities. As at 31 December 2018, the cost of such social infrastructure amounts RUB 1 360 million and is included into the balance of finished goods and inventories under construction (31 December 2017: RUB 1 570 million). These costs are recoverable as part of projects they relate to. The cost of social infrastructure is recognised in cost of sales consistently with the transfer to the customers of the appartments to which this social infrastructure relates.

b) Allowance for impairment of inventories

The following is movement in the allowance for impairment of inventories:

mln RUB	2018	2017
Balance at 1 January	2 156	1 416
Impairment loss on inventories (Note 8)	512	819
Reversed in equity due to change in accounting policy	-	(79)
Balance at 31 December	**2 668**	**2 156**

As at 31 December 2018, the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 2 668 million (31 December 2017: RUB 2 156 million) and the respective allowance was recognised in other expenses, see note 8. As at 31 December 2018, the allowance of RUB 2 646 million relates to parking places (31 December 2017: RUB 2 153 million).

The balance of parking places is equal to RUB 12 351 million as at 31 December 2018 (31 December 2017: RUB 11 008 million). An impairment allowance was made based on the following key assumptions:

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;
- Discount rates –10,19% per annum;
- Inflation rates – 4,0 – 4,5% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogues.

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

c) Rent out of property classified as inventories

The Group has temporarily rented out a part of certain items of property classified as inventories in these consolidated financial statements. As at 31 December 2018, the total carrying value of these items of property was RUB 566 million (31 December 2017: RUB 670 million). The Group is actively seeking buyers for these properties.

d) Pledges

As at 31 December 2018, inventories with a carrying amount of RUB 2 874 million (31 December 2017: RUB 9 371 million) are pledged as security for borrowings, see note 23.

e) Change in estimates

During 2018, the Group conducted a review of estimates that it makes while allocating certain construction costs between residential and commercial premises and underground parking which are located in the same building. Due to continued tightening of the regulations in the St. Petersburg metropolitan area which oblige the Group to reduce maximum number of storeys in residential buildings and increase minimal number of parking places, the Group made a decision that the existing estimate needed a revision as a result of changes that occurred in the circumstances on which the previous estimate was based.

The effect of these changes on revenue that is recognised on the basis of costs incurred relative to the total expected costs, on cost of sales from that which would have been reported had the old estimate been used and other expenses in the current period is as follows:

mln RUB	**2018**
Sale of flats - transferred over time	325
Cost of sales	(893)
Other (expenses)/income, net	2 236
Income tax expense	(334)
Profit for the year	**1 334**

The Group does not disclose the effect on future periods because it is impracticable to estimate that effect due to uncertainty in the pace of contraction of residential and commercial premises and parking places in the future periods.

18 Contract assets, trade and other receivables

mln RUB	2018	2017
Long-term trade and other receivables		
Trade receivables	5 600	5 734
Less: Allowance for doubtful trade accounts receivable	(65)	-
Trade long-term less allowance	**5 535**	**5 734**
Other receivables	233	131
Less: Allowance for doubtful other accounts receivable	(10)	-
Other long-term less allowance	**223**	**131**
Advances paid to suppliers	19	2
Total long-term trade and other receivables	**5 777**	**5 867**
Short-term trade and other receivables		
Contract assets	1 244	1 187
Trade receivables	8 625	14 016
Less: Allowance for doubtful trade accounts receivable and contract assets	(654)	(465)
Trade short-term less allowance	**9 215**	**14 738**
Advances paid to suppliers	8 075	10 894
Less: Allowance for doubtful advances paid to suppliers	(348)	(230)
Advances paid to suppliers short-term less allowance	**7 727**	**10 664**
VAT recoverable	1 380	2 478
Income tax receivable	424	579
Trade receivables due from related parties	9	6
Other taxes receivable	27	22
Other receivables due from related parties	9	9
Other receivables	2 131	1 832
	3 980	**4 926**
Less: Allowance for doubtful other accounts receivable	(514)	(144)
Other short-term less allowance	**3 466**	**4 782**
Total short-term trade and other receivables	**20 408**	**30 184**
Total	**26 185**	**36 051**

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

19 Short-term investments

mln RUB	2018	2017
Bank promissory notes - at amortised cost	135	-
Bank deposits (over 3 months) - loans and receivables	-	153
Loans - at amortised cost	205	169
	340	**322**
Loss allowance for loans given	(137)	(137)
Total	**203**	**185**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26.

20 Cash and cash equivalents

mln RUB	2018	2017
Cash in banks, in RUB	14 597	6 902
Cash in banks, in USD	171	2 936
Cash in banks, in EUR	19	68
Cash in banks, in GBP	2	2
Petty cash	3	49
Cash in transit	-	3
Short-term deposits (less than 3 months)	8 274	4 165
Total	**23 066**	**14 125**

The Group keeps major bank balances in the major Russian banks with Standard & Poor's credit ratings of BB+, BB, BB-, B+, B as well as in foreign banks with credit ratings A+, CCC+.

At 31 December 2018, the most significant amount of cash and cash equivalents held with one bank totaled RUB 7 324 million (31 December 2017: RUB 3 786 million). At 31 December 2018, the Group also had outstanding loans and borrowings with the same bank of RUB 3 345 million (31 December 2017: RUB 2 012 million). The bank has Standard & Poor's credit rating of BB+.

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

21 Capital and reserves

a) Share capital

The table below summarizes the information about the share capital of the Company.

Number of shares unless otherwise stated

	2018		2017	
	Ordinary shares	**Preference shares**	**Ordinary shares**	**Preference shares**
Authorised shares				
Par value at the beginning of the year	0,00005 GBP	-	0,00005 GBP	-
On issue at the beginning of the year	286 741 593	20 000	292 229 971	20 000
Par value at the end of the year	0,00005 GBP	1 GBP	0,00005 GBP	1 GBP
Own shares disposed/(acquired) during the year	8 212 432	-	(5 488 378)	-
On issue at the end of the year, fully paid	**294 954 025**	**20 000**	**286 741 593**	**20 000**

During the year ended 31 December 2017, the Company issued 20 000 preference shares of GBP 1 each. The shares bear no voting rights and no rights to dividend, and shall be redeemed within thirty days of giving notice by the Company to a holder of shares at a price per share at which each share was issued. Preference shares were fully paid in February 2017. Since the option to redeem the Company's shares are at the discretion of the Company and not the holders of the shares, the preference shares are classified as equity.

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

b) Share premium

The Company’s share premium account originated from initial public offering of 71 428 571 ordinary shares at a value USD 7 each in form of global depository receipts (GDR`s) on the London Stock Exchange on 4 April 2011, and from issuance of 117 647 ordinary £0.01 shares for a consideration of USD 82 352 900 in March 2008.

c) Reserve for own shares

On 20 June 2017, the Board of Directors of the Company authorised a Global Depositary Receipts ("GDRs") repurchase programme. The Company intended to spend USD 20 million to purchase GDRs at market prices during a period between 20 June 2017 and 31 December 2017, subject to change, depending on the Company's assessment of the state of the market for the Company's GDRs.

Between 20 June 2017 and 31 December 2017, the Company acquired 5 488 378 own shares for the consideration of RUB 1 189 million, and as at 31 December 2017, the total number of own shares acquired by the Group amounted to 8 216 378 shares or 2,8% of issued share capital for the consideration of RUB 1 629 million.

During the year ended 31 December 2018, the Group transferred 8 212 432 shares to certain members of its key management personnel as part of their remuneration, see note 10. As at 31 December 2018, the total number of own shares acquired by the Group amounted to 3 946 shares or 0,001% of issued share capital.

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

d) Share options reserve

The share options reserve is used to recognise the value of equity-settled share-based payments provided to certain members of the Group's key management personnel, as part of their remuneration, see note 10.

e) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2018, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 51 501 million (31 December 2017: RUB 45 846 million).

During the year ended 31 December 2018, the Company paid dividends in the amount of RUB 3 567 million (year ended 31 December 2017 – RUB 2 542 million).

f) Non-controlling interests in subsidiaries

During the year ended 31 December 2018, there were no changes in the non-controlling interest in the Group's subsidiaries (year ended 31 December 2017: a decrease in non-controlling interest of RUB 31 million resulting from acquisition of certain interests in a number of Group's subsidiaries).

22 Earnings per share

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

Number of shares unless otherwise stated	**2018**	**2017**
Issued shares at 1 January	286 741 593	292 229 971
Effect of own shares disposed/(acquired) during the year	5 050 739	(1 653 553)
Weighted average number of shares for the year	**291 792 332**	**290 576 418**
Profit attributable to the owners of the Company, mln RUB	35	7 890
Basic and diluted earnings per share (RUB)	0,12	27,15

23 Loans and borrowings

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

mln RUB	2018	2017
Non-current liabilities		
Secured bank loans	1 411	5 303
Unsecured bank loans	7 845	6 183
Unsecured bond issues	8 303	9 932
	17 559	**21 418**
Current liabilities		
Current portion of secured bank loans	211	972
Current portion of unsecured bank loans	1 453	1 482
Current portion of unsecured bond issues	1 689	36
Current portion of other unsecured loans	-	79
	3 353	**2 569**

The reconciliation of movements of liabilities to cash flows arising from financing activities during the reporting period is presented in the table below.

mln RUB	1 January 2018	Proceeds from borrowings	Repayment of borrowings	Other changes	31 December 2018
Secured bank loans	6 275	124	(4 768)	(8)	1 622
Unsecured bank loans	7 665	4 583	(2 950)	-	9 298
Unsecured bond issues	9 968	-	-	24	9 992
Current portion of other unsecured loans	79	-	(1)	(78)	-
	23 987	**4 707**	**(7 719)**	**(62)**	**20 912**

mln RUB	Currency	Nominal interest rate	Year of maturity	2018 Face value	2018 Carrying amount	2017 Face value	2017 Carrying amount
Secured bank loans				**1 622**	**1 622**	**6 275**	**6 275**
Secured bank loan	RUB	CBR's key rate + 1,5%	2020	-	-	2 287	2 287
Secured bank loan	RUB	11,75%	2022	802	802	802	802
Secured bank loan	RUB	10,40%	2021	237	237	750	750
Secured bank loan	RUB	13,10%	2020	-	-	1 028	1 028
Secured bank loan	RUB	9,50%	2020	332	332	332	332
Secured bank loan	RUB	9,50%	2020	202	202	127	127
Secured bank loan	RUB	10,68%	2021	49	49	215	215
Secured bank loan	RUB	12,00%	2021	-	-	734	734
Unsecured bank loans				**9 298**	**9 298**	**7 665**	**7 665**
Unsecured bank loan	RUB	8,75% - 9,70%	2021	2 544	2 544	3 004	3 004
Unsecured bank loan	RUB	8,70% - 8,90%	2021	1 502	1 502	1 246	1 246
Unsecured bank loan	RUB	8,80%	2020	1 300	1 300	1 300	1 300
Unsecured bank loan	RUB	9,00%	2019	1 000	1 000	1 000	1 000
Unsecured bank loan	RUB	8,74 - 9,00%	2020	1 200	1 200	-	-
Unsecured bank loan	RUB	9,00%	2018	-	-	1 000	1 000
Unsecured bank loan	RUB	8,75%	2021	501	501	50	50
Unsecured bank loan	RUB	8,70%	2022	501	501	-	-
Unsecured bank loan	RUB	CBR's key rate + 1,75%	2021	500	500	-	-
Unsecured bank loan	RUB	CBR's key rate + 1,75%	2021	250	250	50	50
Unsecured bank loan	RUB	8,75%	2018	-	-	12	12
Unsecured bank loan	RUB	10,10%	2019	-	-	3	3
Unsecured bond issues				**10 039**	**9 992**	**10 115**	**10 047**
Unsecured bonds	RUB	8,95%	2022	5 021	4 995	5 020	4 985
Unsecured bonds	RUB	11,85%	2021	5 018	4 997	5 016	4 983
Other unsecured issues	RUB	9,00%	2018	-	-	79	79
				20 959	**20 912**	**24 055**	**23 987**

Bank loans are secured by:

- inventories with a carrying amount of RUB 2 874 million (31 December 2017: RUB 9 371 million), see note 17;
- bank promissory notes with a carrying amount of RUB 451 million (31 December 2017: RUB 451 million), see note 15;
- pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 3 167 million in its net assets (31 December 2017: pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 3 555 million in its net assets);
- pledge of 100% of shares in a subsidiary company LLC "Daikar" which represents RUB 4 434 million in its net assets (31 December 2017: RUB 4 542 million).
- pledge of 100% of shares in a subsidiary company LLC "LS-Rielty" which represents RUB 1 024 million in its net assets (31 December 2017: RUB 970 million).
- pledge of 100% of shares in a subsidiary company LLC "UK Dmitrovskaya" and LLC "Parkoviy Kvartal" which represents RUB 2 090 million in its net assets (31 December 2017: RUB 2 057 million).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. Except as described further, there has been no breach of any of the restrictive covenants during the reporting period. However, at the period end, one group entity was not in compliance with a non-financial covenant relating to loans with a combined carrying value of RUB 1 127 million. Management has obtained a waiver from the bank, so that the bank loan was not payable on demand as at 31 December 2018 and was not reclassified into current liabilities at the reporting date.

24 Provisions

mln RUB	Warranties	Provision for deferred works	Provision for onerous contracts	Total
Balance at 1 January 2017	107	1 748	-	1 855
Provisions made during the year	32	2 952	71	3 055
Provisions used during the year	(37)	(2 516)	-	(2 553)
Provision reversed during the year	-	(392)	-	(392)
Balance at 31 December 2017	**102**	**1 792**	**71**	**1 965**
Balance at 1 January 2018	102	1 792	71	1 965
Provisions made during the year	91	1 512	2	1 605
Provisions used during the year	(72)	(2 203)	-	(2 275)
Provision reversed during the year	-	(192)	(21)	(213)
Balance at 31 December 2018	**121**	**909**	**52**	**1 082**
Non-current	121	-	-	121
Current	-	909	52	961
	121	**909**	**52**	**1 082**

a) Warranties

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

b) Provision for deferred works

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

25 Contract liabilities, trade and other payables

mln RUB	2018	2017
Long-term		
Trade payables	72	62
Contract liabilities	218	-
Other payables	1 705	2 484
	1 995	**2 546**
Short-term		
Trade payables	4 878	7 260
Contract liabilities	26 931	25 649
VAT payable	2 681	3 188
Payroll liabilities	854	733
Other taxes payable	306	251
Income tax payable	443	85
Finance lease liabilities	-	6
Other payables	7 565	3 397
	43 658	**40 569**
Total	**45 653**	**43 115**

Long-term other payables and short-term other payables mainly consist of obligation equal to RUB 4 624 million (31 December 2017: RUB 1 938 million) to construct the social infrastructure objects and liability of RUB 2 984 million (31 December 2017: RUB 3 526 million) to the City authorities for lease rights and change of intended use of land plot recognised as part of inventories.

Contract liabilities include advances from customers in the amount of RUB 10 709 million which will be satisfied after 12 months from the reporting date (31 December 2017: advances from customers in the amount of RUB 4 430 million). They are classified within short-term liabilities as development cycle of construction projects exceeds one year.

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

26 Financial instruments and risk management

a) Accounting classifications and fair values

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

mln RUB	**Carrying amount**			**Fair value**		
2018	**At amortised cost**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets not measured at fair value						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	15 518	-	**15 518**	-	15 528	**15 528**
Bank deposits (over 3 months)	23	-	**23**	-	23	**23**
Bank promissory notes	782	-	**782**	-	939	**939**
Cash and cash equivalents	23 066	-	**23 066**	23 066	-	**23 066**
	39 389	**-**	**39 389**	**23 066**	**16 490**	**39 556**
Financial liabilities not measured at fair value						
Secured bank loans	-	(1 622)	**(1 622)**	-	(1 657)	**(1 657)**
Unsecured bank loans	-	(9 298)	**(9 298)**	-	(9 100)	**(9 100)**
Unsecured bond issues	-	(9 992)	**(9 992)**	(10 145)	-	**(10 145)**
Trade and other payables	-	(15 074)	**(15 074)**	-	(14 984)	**(14 984)**
	-	**(35 986)**	**(35 986)**	**(10 145)**	**(25 741)**	**(35 886)**

mln RUB	Carrying amount			Fair value		
2017	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets not measured at fair value						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	21 238	-	**21 238**	-	21 278	**21 278**
Bank deposits (over 3 months)	153	-	**153**	-	153	**153**
Bank promissory notes	652	-	**652**	-	752	**752**
Cash and cash equivalents	14 125	-	**14 125**	14 125	-	**14 125**
	36 168	**-**	**36 168**	**14 125**	**22 183**	**36 308**
Financial liabilities not measured at fair value						
Secured bank loans	-	(6 275)	**(6 275)**	-	(6 358)	**(6 358)**
Unsecured bank loans	-	(7 665)	**(7 665)**	-	(7 595)	**(7 595)**
Unsecured bond issues	-	(9 968)	**(9 968)**	(10 458)	-	**(10 458)**
Other unsecured loans	-	(79)	**(79)**	-	(79)	**(79)**
Trade and other payables	-	(14 041)	**(14 041)**	-	(13 555)	**(13 555)**
	-	**(38 028)**	**(38 028)**	**(10 458)**	**(27 587)**	**(38 045)**

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

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

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

Risk management framework

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

b) Credit risk

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

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

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

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2018, receivables from one customer equalled to RUB 1 175 million or 8% of the Group`s consolidated trade and other receivables (31 December 2017: RUB 1 338 million or 6%).

(ii) Guarantees

As at 31 December 2018 the Group had not provided any financial guarantees to entities outside the Group (31 December 2017: nil).

(iii) Exposure to credit risk

The carrying amount of financial assets and contract assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows.

	Carrying amount	
mln RUB	**2018**	**2017**
Financial assets and contract assets		
Loans and receivables (excluding taxes receivable, advances paid to suppliers), including contract assets	7 488	5 988
Bank promissory notes	782	652
Bank deposits (over 3 months)	23	153
Cash and cash equivalents	23 066	14 125
	31 359	**20 918**

The information about financial assets is not included into the measures of reportable segments' assets that are provided internally to the key management personnel of the Group, see note 5. Segments' assets being analysed by the Board of Directors are limited to the balance of inventories. The amount of trade and other receivables including contract assets represents its maximum exposure to credit risk without taking account of trade receivables covered by collateral.

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

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

Impairment losses

The ageing of trade receivables at the reporting date was:

mln RUB	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	11 411	(85)	18 065	-
Past due 0-30 days	548	(5)	434	-
Past due 31-90 days	475	(42)	179	
Past due 91-120 days	110	(15)	77	-
Past due more than 120 days	1 690	(572)	1 001	(465)
	14 234	**(719)**	**19 756**	**(465)**

The ageing of loans given at the reporting date was:

mln RUB	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	169	(13)	119	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
Past due more than 120 days	137	(137)	137	(137)
	306	**(150)**	**256**	**(137)**

<u>Allowance for impairment in respect of trade receivables</u>

The movement in the allowance for impairment in respect of trade receivables during reporting period was as follows. Comparative amounts for the year ended 31 December 2017 represent the allowance account for impairment losses under IAS 39.

mln RUB	2018	2017
Balance at 1 January	465	392
Adjustment on initial application of IFRS 9	281	-
Balance at 1 January per IFRS 9	746	392
Amounts written off	(399)	(149)
Net remeasurement of loss allowance	372	222
Balance at 31 December	**719**	**465**

The following significant change in the gross carrying amounts of trade receivables contributed to the decrease in the impairment loss allowance during the year ended 31 December 2018:

- write-off of uncollectible receivables of three counterparties in the amount of RUB 374 million contributed to the corresponding decrease in loss allowance;
- the increase in the allowance was facilitated by an increase in overdue more than 90 days accounts receivable arising from sale of real estate by RUB 413 million (an increase in the allowance by RUB 28 million), establishing of an allowance for receivables under construction contracts (an increase in the allowance by RUB 311 million.

The impairment loss on trade and other receivables also includes written-off accounts receivable for which no provision for impairment has been made in the amount of RUB 266 million.

The Group calculates lifetime expected credit losses for trade receivables at an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information published by Moody's Investors Service about the probabilities of default (PD) and losses given default (LGD) for issuers with different credit ratings and financial instruments with different durations.

To assess the probability of default of individual debtors, the Group assigned to them credit ratings similar to the classification of Moody's Investors Service. Speculative ratings (speculative-grade) were assigned to debtors that do not have official ratings and are not undergoing bankruptcy procedures.

The Group defines default event when a financial asset is more than 90 days past due.

The Group established an allowance for accounts receivable arising from sale of real estate, in accordance with the methodology, described in the note 3(c)(iii).

During the reporting period, there were no changes in the quality of the collateral. There were no changes in the collateral policies of the Group during.

In the comparative period, the Group established an allowance for impairment of trade receivables that represented its estimate of incurred losses in accordance with IAS 39. The Group included specific loss component that related to individually significant exposures in its allowance for impairment of trade and other receivables.

Allowance for impairment in respect of other receivables

The movement in the allowance for impairment in respect of other receivables during the reporting period was as follows. Comparative amounts for the year ended 31 December 2017 represent the allowance account for impairment losses under IAS 39.

mln RUB	**2018**	**2017**
Balance at 1 January	144	96
Adjustment on initial application of IFRS 9	70	-
Balance at 1 January per IFRS 9	214	96
Amounts written off	(27)	(40)
Net remeasurement of loss allowance	337	88
Balance at 31 December	**524**	**144**

The increase in overdue more than 90 days gross carrying amounts of other receivables in the amount of RUB 482 million contributed to the increase in the impairment loss allowance by RUB 337 million during the year ended 31 December 2018.

Allowance for impairment in respect of financial investments (loans given and promissory notes)

The movement in the allowance for impairment in respect of loans given during the reporting period was as follows. Comparative amounts for the year ended 31 December 2017 represent the allowance account for impairment losses under IAS 39:

mln RUB	**2018**	**2017**
Balance at 1 January	137	137
Adjustment on initial application of IFRS 9	38	-
Balance at 1 January per IFRS 9	175	137
Amounts written off	-	-
Net remeasurement of loss allowance	(18)	-
Balance at 31 December	**157**	**137**

Allowance for impairment of cash and cash equivalents

The Group assessed impairment of cash and cash equivalents on the 12-month expected loss basis that reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Group uses a similar approach for assessment of expected credit losses for cash and cash equivalents to those used for debt securities.

On initial application of IFRS 9, the Group did not recognise any impairment allowance for cash and cash equivalents as at 1 January 2018. The amount of the allowance did not change during the year ended 31 December 2018.

Allowance for impairment in respect of advances paid to suppliers

During the reporting period, the movement in the allowance for impairment in respect of advances paid to suppliers, which are outside the scope of IFRS 9, was as follows:

mln RUB	**2018**	**2017**
Balance at 1 January	230	88
Amounts written off	(18)	(77)
Increase during the year	136	219
Balance at 31 December	**348**	**230**

The Group includes specific loss component that relates to individually significant exposures in its allowance for impairment of advances paid to suppliers.

c) Liquidity risk

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

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

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

Contractual maturities of financial liabilities were as follows:

31 December 2018

mln RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	1 622	1 961	161	218	931	598	53	-	-
Unsecured bank loans	9 298	10 727	915	1 328	4 923	3 396	165	-	-
Unsecured bond issues	9 992	12 125	1 103	1 571	4 022	3 661	1 768	-	-
Trade and other payables (excluding taxes payable and contract liabilities)	15 074	15 362	12 827	471	1 438	588	38	-	-
	35 986	**40 175**	**15 006**	**3 588**	**11 314**	**8 243**	**2 024**	**-**	**-**

31 December 2017

mln RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	6 275	7 643	1 264	296	2 810	2 583	637	53	-
Unsecured bank loans	7 665	9 245	876	1 295	1 976	3 274	1 824	-	-
Unsecured bond issues	9 968	13 093	484	524	2 635	4 022	3 661	1 767	-
Other unsecured loans	79	79	17	62	-	-	-	-	-
Trade and other payables (excluding taxes payable and contract liabilities)	14 041	13 549	3 970	5 733	966	2 288	556	53	2
	38 028	**43 609**	**6 611**	**7 910**	**8 387**	**12 167**	**6 678**	**1 873**	**2**

d) Market risk

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

(i) Currency risk

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

mln RUB	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
	2018		2017	
Cash and cash equivalents (see note 20)	171	19	2 936	68
Net exposure	**171**	**19**	**2 936**	**68**

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2018	2017	31 December 2018	31 December 2017
USD 1	62,71	58,35	69,47	57,60
EUR 1	73,95	65,90	79,46	68,87

(ii) Interest rate risk

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

Profile

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

mln RUB	Carrying amount	
	2018	2017
Fixed rate instruments		
Financial assets	29 624	20 783
Financial liabilities	(19 162)	(20 656)
	10 462	**127**
Variable rate instruments		
Financial liabilities	(1 750)	(3 337)
	(1 750)	**(3 337)**

Fair value sensitivity analysis for fixed rate instruments

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

e) Capital management

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

The capital structure of the Group consists of net debt (borrowings as detailed in note 23 offset by cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as detailed in note 21). Certain subsidiaries of the Group may be subject to externally imposed capital requirements in accordance with Russian law.

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

mln RUB	**2018**	**2017**
Total borrowings	20 912	23 987
Less: cash and cash equivalents	(23 066)	(14 125)
Less: bank deposits over 3 months, note 19	-	(153)
Net debt	(2 154)	9 709
Total equity	60 114	62 805
Debt to capital ratio at end of period	(0,04)	0,15

At 31 December 2017, finance lease liabilities of RUB 6 million (31 December 2018 – nil) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	**2018**	**2017**
Less than one year	768	469
Between one and five years	2 021	953
More than five years	215	198
	3 004	**1 620**

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

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

The leases typically run for the years of construction of premises. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2018 the amount of RUB 50 million (year ended 31 December 2017: RUB 22 million) was recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in respect of operating leases, while RUB 1 353 million (year ended 31 December 2017: RUB 189 million) were capitalised into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 31 December 2018 the Group had no capital commitments (31 December 2017: nil).

29 Contingencies

a) Insurance

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

b) Litigation

During the year ended 31 December 2018, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

c) Taxation contingencies

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

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

30 Related party transactions

a) Transactions with management

(i) Management remuneration

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

mln RUB	2018	2017
Salaries and bonuses	879	362
Termination benefit paid to member of the Board of Directors	115	-
	994	**362**

During the year ended 31 December 2018 and 2017, the Group did not grant any loans and pensions to its key management personnel. The key management personnel is also subject to share-based payment program as disclosed in the note 10.

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
mln RUB	2018	2017	2018	2017
Sale of apartments and premises	2	-	2	(2)
	2	**-**	**2**	**(2)**

b) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2018	2017	2018	2017
Other related parties	45	47	7	7
	45	**47**	**7**	**7**

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

(ii) Expenses

	Transaction value		Outstanding balance	
mln RUB	2018	2017	2018	2017
Other related parties	135	148	(2)	(8)
	135	**148**	**(2)**	**(8)**

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

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2018	31 December 2017
JSC "GK Etalon"	Russian Federation	100,00%	100,00%
LLC "EtalonAktiv"	Russian Federation	100,00%	100,00%
JSC "Etalon LenSpetsSMU" (JSC "SSMO LenSpetsSMU" before 18 April 2017)	Russian Federation	100,00%	100,00%
JSC "Novator"	Russian Federation	100,00%	100,00%
JSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100,00%	100,00%
LLC "Etalon-Invest"	Russian Federation	100,00%	100,00%
JSC "Zatonskoe"	Russian Federation	100,00%	100,00%
LLC "SPM-Zhilstroy"	Russian Federation	100,00%	100,00%
LLC "Zolotaya Zvezda"	Russian Federation	100,00%	100,00%

As at 31 December 2018, the Group controlled 132 legal entities (31 December 2017: 141). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

32 Events subsequent to the reporting date

Financing events

On 4 February 2019, the Group has entered into a framework agreement with Sberbank to provide project financing for the Company's project located in Moscow region for the total amount of RUB 18.8 billion with the final repayment date in the first half of 2024. As of the date of this report, no funds have been utilised by the Group.

On 12 February 2019, the Group's subsidiary JSC "GK Etalon" has entered into a nonrevolving credit line agreement with Sberbank for the total amount of RUB 16 830 million with interest rate of CBR key rate + 2.35% and final repayment date of February 2024. At the time these consolidated financial statements are authorised for issue, the Group has utilised credit line facility in the amount of RUB 15 185 million. The funds were used to finance the acquisition of 51% of share capital of Leader-Invest JSC described below.

Subsequent to the reporting date, the Group has repaid loans and borrowings outstanding as at 31 December 2018 for the total amount of RUB 272 million.

Operating events

Acqusition of 51% of share capital of Leader-Invest JSC

On 19 February 2019, the Group’s subsidiary JSC “GK Etalon” acquired 51% of the share capital and voting rights of Leader-Invest JSC from Sistema PJSFC and its affiliates for the cash consideration of RUB 15 185 million. Leader-Invest is a Moscow-based residential developer focusing on projects in comfort, business and premium-class segments. Leader-Invest's portfolio includes 31 projects under construction or at the design stage, unsold inventory at eight completed residential complexes, and commercial real estate, with a total NSA of 1.3 million sqm.

The primary reason for the acquisition is to increase Group’s share of the Moscow residential real estate market and to replenish landbank.

The acquisition-date fair value of the total consideration transferred (bank payment) amounted to RUB 15 185 million.

The Group has agreed with the seller certain indemnities that give the Group the right to demand from the seller monetary compensation for breach of certain operating performance targets by Leader-Invest.

The initial accounting for the business combination is incomplete at the date these consolidated financial statements are authorised for issue.

The Group’s share of book value of the net assets of the Leader-Invest, in accordance with the Leader-Invest’s unaudited IFRS consolidated financial statements as of 31 December 2018, amounted to RUB 4 391 million.

The following table summarises the amounts of assets and liabilities of Leader-Invest as of 31 December 2018 (in accordance with Leader-Invest’s unaudited IFRS consolidated financial statements).

Leader-Invest JSC, Consolidated Statement of Financial Position as at 31 December 2018

mln RUB	2018 Unaudited	2017
ASSETS		
Non-current assets		
Property, plant and equipment	242	310
Intangible assets	42	31
Investment property	850	4 340
Investment rights	991	5 712
Equity accounted investees	-	35
Advances paid for acquisition of investment rights	2 237	-
Other financial assets	4	6
Deferred tax assets	1 314	1 117
Total non-current assets	**5 680**	**11 551**
Current assets		
Inventories	13 626	9 050
Trade and other receivables	938	837
Advances paid to suppliers	1 603	1 217
Income tax receivable	76	222
Other financial assets	1 052	500
Other current assets	316	173
Cash and cash equivalents	4 343	425
Total current assets	**21 954**	**12 424**
Total assets	**27 634**	**23 975**
EQUITY AND LIABILITIES		
Equity		
Share capital and additional paid-in capital	8 603	8 603
Retained earnings	174	1 201
Total equity attributable to equity holders of the Company	**8 777**	**9 804**
Non-controlling interest	-	(617)
Total equity	**8 777**	**9 187**
Non-current liabilities		
Loans and borrowings	616	1 387
Bonds	4 941	-
Trade and other payables	1 414	757
Provisions	-	44
Deferred tax liabilities	739	684
Total non-current liabilities	**7 710**	**2 872**
Current liabilities		
Loans and borrowings	213	1 509
Bonds	78	2 972
Contract liabilities, advances received and other payables	9 822	7 001
Provisions	708	388
Income tax payable	326	46
Total current liabilities	**11 147**	**11 916**
Total liabilities	**18 857**	**14 788**
Total equity and liabilities	**27 634**	**23 975**

Acquisition of shares in Etalon Group PLC by Sistema PJSFC

On 19 February 2019, Sistema PJSFC acquired 25% of the Company's issued share capital (in the form of GDRs) from major shareholder, making Sistema PJSFC the largest shareholder of the Group.