PJSC Group of Companies PIK

Consolidated Financial Statements

for 2018

and Independent Auditors' Report

Contents

Consolidated Financial Statements

Consolidated Statement of Financial Position

In million RUB	Note	31 December 2018	31 December 2017*
ASSETS			
Non-current assets			
Property, plant and equipment	16	26 189	23 524
Intangible assets	17	1 881	779
Investment property	18	18 086	23 690
Equity accounted investees		-	496
Other investments	20	378	395
Accounts receivable	21	1 597	1 531
Financial instruments measured at fair value through profit and loss	24	4 434	-
Deferred tax assets	15	7 660	7 397
Total non-current assets		**60 225**	**57 812**
Current assets			
Inventories	19	200 776	243 783
Other investments	20	340	361
Income tax receivable		1 479	1 160
Accounts receivable, including contract assets	21	30 052	29 620
Cash and cash equivalents	22	58 601	45 452
Total current assets		**291 248**	**320 376**
Total assets		**351 473**	**378 188**

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 10 to 73.

Consolidated Statement of Financial Position

In million RUB	**Note**	**31 December 2018**	**31 December 2017***
EQUITY AND LIABILITIES			
Equity	25		
Share capital		41 295	41 295
Additional paid-in capital		(8 470)	(8 470)
Retained earnings		33 478	22 788
Total equity attributable to owners of the Company		**66 303**	**55 613**
Non-controlling interests		1 868	535
Total equity		**68 171**	**56 148**
Non-current liabilities			
Loans and borrowings	26	41 527	44 702
Financial instruments measured at fair value through profit and loss	24	-	997
Accounts payable	28	9 001	10 160
Deferred tax liabilities	15	16 879	13 365
Total non-current liabilities		**67 407**	**69 224**
Current liabilities			
Loans and borrowings	26	20 719	15 784
Accounts payable, including contract liabilities	28	164 678	214 912
Provisions	27	28 037	20 544
Income tax payable		2 461	1 576
Total current liabilities		**215 895**	**252 816**
Total liabilities		**283 302**	**322 040**
Total equity and liabilities		**351 473**	**378 188**

* Balance as at 31 December 2017 is presented excluding the effect of the transition to IFRS 9 “Financial instruments”, IFRS 15 “Revenue from contracts with customers” and IFRS 16 “Leases”.

These consolidated financial statements were approved by the Board of Directors on 1 April 2019 and were signed on its behalf by:

Sergey E. Gordeev
President

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 10 to 73.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	Note	2018	2017
Continuing operations*			
Revenue from sales of real estate objects accounted for at historical cost		155 379	95 053
Revenue from sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		80 923	75 090
Other revenue		9 455	4 991
Revenue	10	**245 757**	**175 134**
Cost of sales of real estate objects accounted for at historical cost		(106 908)	(68 084)
Cost of sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		(77 434)	(73 888)
Cost of other sales		(6 314)	(4 769)
Cost of sales		**(190 656)**	**(146 741)**
Gross profit from sales of real estate objects accounted for at historical cost		48 471	26 969
Gross profit from sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		3 489	1 202
Gross profit from other sales		3 141	222
Gross profit		**55 101**	**28 393**
(Loss)/gain on disposal of subsidiaries, development rights and investment property, net	9(b)	(30)	161
Distribution expenses		(5 844)	(5 670)
Administrative expenses	13	(9 423)	(8 466)
(Loss)/gain from change in fair value of investment property	18	(70)	967
Impairment loss on non-financial assets, net	23	(180)	(2 538)
Other expenses, net	12	(2 049)	(3 695)
Profit from operating activities		**37 505**	**9 152**

* Revenue from sales of real estate objects for the year ended 31 December 2017 reported in continuing operations was accounted for in accordance with IAS 18 "Revenue". Revenue from sales of real estate objects for the year ended 31 December 2018 was recognised under IFRS 15 "Revenue from contracts with customers" (note 7(b)).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	**Note**	**2018**	**2017**
Finance income	11	6 489	5 562
Finance costs	11	(10 041)	(11 679)
Significant financing component from contracts with customers		(5 361)	-
Loss from financial activities		**(8 913)**	**(6 117)**
Share in losses of equity accounted investees, net of income tax		(11)	(58)
Profit before income tax		**28 581**	**2 977**
Income tax expense	15	(7 329)	(423)
Profit and total comprehensive income from continuing operations		**21 252**	**2 554**
Discontinued operation			
Profit from discontinued operation	9(a)	**-**	**600**
Profit and total comprehensive income		**21 252**	**3 154**
Attributable to:			
Owners of the Company		20 474	3 117
Non-controlling interests		778	37
Profit and total comprehensive income		**21 252**	**3 154**
Basic and diluted earnings per share, RUB	25	**31,00**	**4,82**

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 10 to 72.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company					
In million RUB	Note	Share capital	Additional paid-in-capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2017		**41 295**	**(8 470)**	**20 994**	**53 819**	**76**	**53 895**
Profit for the period		-	-	3 117	**3 117**	37	**3 154**
Profit and total comprehensive income for the period		**-**	**-**	**3 117**	**3 117**	**37**	**3 154**
Transactions with owners of the Company							
Purchase of treasury shares	24	-	-	(15 100)	**(15 100)**	-	**(15 100)**
Sale of treasury shares	24	-	-	15 000	**15 000**	-	**15 000**
Recognition of cash-settled financial instrument	24	-	-	(1 506)	**(1 506)**	-	**(1 506)**
Deferred tax related to cash-settled financial instrument		-	-	283	**283**	-	**283**
Acquisition and disposal of subsidiaries with non-controlling interests	8, 9	-	-	-	**-**	431	**431**
Dividends declared by subsidiaries due to non-controlling interests		-	-	-	**-**	(9)	**(9)**
Total transactions with owners of the Company		**-**	**-**	**(1 323)**	**(1 323)**	**422**	**(901)**
Balance as at 31 December 2017		**41 295**	**(8 470)**	**22 788**	**55 613**	**535**	**56 148**
Balance as at 1 January 2018 as reported for the previous period*		**41 295**	**(8 470)**	**22 788**	**55 613**	**535**	**56 148**
Adjustments on initial application of IFRS 15, net of tax	7(b)	-	-	5 645	**5 645**	64	**5 709**
Adjustments on initial application of IFRS 9, net of tax	7(c)	-	-	(429)	**(429)**	-	**(429)**
Balance as at 1 January 2018 (restated)		**41 295**	**(8 470)**	**28 004**	**60 829**	**599**	**61 428**
Profit for the period		-	-	20 474	**20 474**	778	**21 252**
Profit and total comprehensive income for the period		**-**	**-**	**20 474**	**20 474**	**778**	**21 252**
Transactions with owners of the Company							
Acquisition of non-controlling interests	8(b)	-	-	-	**-**	(212)	**(212)**
Acquisition of subsidiaries, net	8(a)	-	-	-	**-**	703	**703**
Dividends		-	-	(15 000)	**(15 000)**	-	**(15 000)**
Total transactions with owners of the Company		**-**	**-**	**(15 000)**	**(15 000)**	**491**	**(14 509)**
Balance as at 31 December 2018		**41 295**	**(8 470)**	**33 478**	**66 303**	**1 868**	**68 171**

*Company has initially applied IFRS 9, IFRS 15 and IFRS 16 from 1 January 2018. Under the selected transition methods comparative information is not restated (note 7).

Consolidated Statement of Cash Flows

In million RUB	Note	2018	2017
Cash flows from operating activities			
Profit for the year		**21 252**	**3 154**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	16, 17	2 237	1 649
Impairment loss on non-financial assets, including amounts recognised in cost of sales, net		180	2 938
Loss on disposal of property, plant and equipment and other assets		279	263
Loss/(gain) from changes in fair value of investment property	18	70	(967)
Loss from disposal of subsidiaries, development rights and investment property, net	9(b)	30	16
Share in loss of equity accounted investees, net of income tax		11	58
Loss on sale of discontinued operation, net of income tax	9(a)	-	321
Finance income	11	(6 489)	(5 562)
Finance costs	11	10 041	11 679
Income tax expense from continuing operations	15	7 329	423
Income tax expense from discontinued operation	9(a)	-	136
Gain on bargain purchase	12	(1 298)	-
		33 642	**14 108**
Changes in:			
Inventories		2 446	10 108
Accounts receivable, including contract assets*		5 467	(23 106)
Accounts payable, including contract liabilities and provision for taxes other than income tax		5 721	30 609
Provisions		(1 860)	8 018
Cash flows from operations before income taxes and interest paid		**45 416**	**39 737**
Income taxes paid		(5 446)	(4 559)
Interest paid		(8 861)	(9 848)
Net cash from operating activities		**31 109**	**25 330**

*Changes in accounts receivable, including contract assets, comprise advances for land plots acquisition in the amount of RUB 1 562 million in 2018 (2017: RUB 8 575 million).

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 10 to 73.

Consolidated Statement of Cash Flows

In million RUB	Note	2018	2017
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		28	407
Interest received		2 462	3 622
Acquisition of property, plant and equipment and other intangible assets		(3 882)	(2 501)
Acquisition of subsidiaries, net of cash acquired	8(a)	(528)	(1 610)
Pre-acquisition financing provided to subsidiaries		-	(215)
Acquisition of equity accounted investees		-	(265)
Proceeds from disposal of subsidiaries		(5)	797
Acquisition of other investments, net		(94)	-
Other proceeds, net		-	3
Proceeds from disposal of investment property		573	775
Loans issued		(356)	(2 560)
Repayment of loans issued		25	2 718
Net cash investing activities		**(1 777)**	**1 171**
Cash flows from financing activities			
Proceeds from sale of treasury shares		-	15 000
Purchase of treasury shares		-	(14 541)
Payment made under conversion transaction		-	(430)
Payments made under terms of financial instruments	26	(2 248)	(592)
Proceeds from borrowings	26	6 721	16 965
Repayment of borrowings	26	(1 300)	(40 711)
Proceeds from bonds issuance	26	17 219	32 035
Purchase of own bonds	26	(21 206)	(13 377)
Payments under finance lease	26	(227)	(167)
Acquisition of non-controlling interests	8(b)	(162)	-
Dividends paid by subsidiaries to non-controlling interest		-	(9)
Payments of dividends		(15 000)	-
Net cash used in financing activities		**(16 203)**	**(5 827)**
Net increase in cash and cash equivalents		13 129	20 674
Effect of exchange rate fluctuations on cash and cash equivalents		20	(34)
Cash and cash equivalents at the beginning of the year		45 452	24 812
Cash and cash equivalents at the end of the year		**58 601**	**45 452**

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 10 to 73.

1 General information

(a) Organisation and operations

PJSC Group of Companies PIK (the "Company") and its subsidiaries (together referred to as the "Group") comprise mostly closed and open joint stock companies and limited liability companies incorporated under the requirements of the Civil Law of the Russian Federation and companies registered in Cyprus. The Company was established as a privately owned enterprise in 1994. Since June 2007 the Company's shares were traded on the London Stock Exchange in the form of global depositary receipts (hereafter referred to as "GDRs") and Moscow Exchange (hereafter referred to as "MOEX") in Russia. In June 2017 the Company delisted from London Stock Exchange and consolidated trading of its shares on MOEX.

The Company's registered office is Bld.1, 19 Barrikadnaya Str., Moscow, 123242, Russian Federation.

The primary activities of the Group are investing in development projects for construction of residential buildings and areas, sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements, consumed mostly by the Group internally. During 2018 and 2017 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2018 the Company is ultimately controlled by Mr. Sergey E. Gordeev, who controls 74,81% of the Group.

(b) Business environment

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

Starting from 2014 the United States of America, the European Union and some other countries imposed and gradually tighten economic sanctions on Russian individuals and legal companies. The imposition of economic sanctions has resulted in 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. In particular, some Russian companies may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer-term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

2 Basis of preparation of consolidated financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Functional and presentation currency of consolidated financial statements

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

4 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 is included in the following notes:

- note 7 "Changes in accounting policy" (judgments and estimation uncertainties concerned with application of IFRS 16 and IFRS 15);
- note 8 "Acquisition of businesses and non-controlling interests";
- note 10 "Revenue";
- note 18 "Investment property";
- note 23 "Impairment loss on non-financial assets";
- note 27 "Provisions".

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 8 "Acquisition of businesses and non-controlling interests";
- note 9 "Discontinued operation and disposals of subsidiaries";
- note 18 "Investment property";
- note 19 "Inventories";
- note 23 "Impairment loss on non-financial assets";
- note 27 "Provisions";
- note 30 "Contingent liabilities".

5 Measurement of fair values

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

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of business combinations was based on market values. The market value of property was the estimated amount for which a property could be exchanged on the date of valuation between market participants in an ordinary transaction. The fair value of items of plant, equipment, fixtures and fittings was based on the market approach and cost approach, using quoted market prices for similar items when available and appropriate.

When no quoted market prices were available, the fair value of property, plant and equipment were primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation (including application of discounted cash flow method), and obsolescence.

Investment property

The fair value of investment property is based on valuations, performed by external independent appraisers, who hold recognised, recent and relevant professional qualifications. The fair value of investment property is determined by using income or market equivalent approaches selected individually for each specific investment property being valued.

Intangible assets

The fair value of customer relationships acquired through business combinations was determined using the multi-period excess earnings method, whereby the subject asset was valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets was based on the discounted cash flows expected to be derived from the use and eventual sale of these assets.

Inventories

The fair value of inventories acquired in business combinations was based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Non-derivative financial liabilities

Fair value, which was determined for disclosure purposes, was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 Operating segments

Before 31 December 2017 the management of the Group analysed its operations on the basis of five reportable segments: real estate development, construction, industrial, maintenance and other segments.

In the second half of 2018 the management of the Group reconsidered the composition of reportable segments according to its strategic growth directions, management structure and reporting analysed on regular basis.

From 1 January 2018 the Group distinguished five reporting segments which are its strategic business units:

- *"Development and real estate"*: development projects planned and undertaken by the Group, including identification of investment opportunities, performance of technical and economic feasibility studies, obtaining the necessary construction permits, construction, project management, marketing of real estate projects to potential buyers, registration of ownership and reservation of real estate.
- *"Construction services"*: contraction activities, technical supervision and granting of the right to use the Group's trademark.
- *"Construction and maintenance of utility systems"*: construction, technical maintenance of utility systems and provision of heating, water supply, water discharge and electricity services.
- *"Industrial segment"*: production and assembly of prefabricated panel buildings and other related activities to production of construction materials and components; granting access to the internet.
- *Other segment*: rental services and other activities.

Comparative information for the previous period has been restated accordingly.

(a) Profit and loss of segments

	Development and real estate		Construction services		Construction and maintenance of utility systems		Industrial segment		Other		Total	
mln RUB	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
External revenues*	236 302	170 143	3 051	203	4 193	3 093	1 278	808	933	887	**245 757**	**175 134**
Inter-segment revenue	891	6 564	5 905	10 277	1 817	2 294	4 048	4 699	153	398	**12 814**	**24 232**
Total revenue of reportable segments	**237 193**	**176 707**	**8 956**	**10 480**	**6 010**	**5 387**	**5 326**	**5 507**	**1 086**	**1 285**	**258 571**	**199 366**
Gross profit/(loss) of reportable segments	**51 794**	**27 887**	**1 626**	**(137)**	**1 523**	**673**	**217**	**27**	**(59)**	**(57)**	**55 101**	**28 393**
Gross margin	**22%**	**16%**	**53%**	**(67)%**	**36%**	**22%**	**17%**	**3%**	**(6)%**	**(6)%**	**22%**	**16%**

* External revenue from "Development and real estate" segment includes:
- revenue from sales of residential property recognized at a point in time in amount of RUB 8 084 million (2017: RUB 158 852 million);
- revenue from sales of residential property recognized over time in amount of RUB 211 021 million (2017: RUB nil million);
- revenue from sales of non-residential property and parking space at a point in time in amount of RUB 1 231 million (2017: RUB 11 007 million);
- revenue from sales of non-residential property and parking space over time in amount of RUB 15 455 million (2017: RUB nil million);
- other development revenue in amount of RUB 511 million (2017: RUB 284 million).

(b) Geographical information

Activities of reportable segments are conducted mainly in three geographical areas named "Moscow", the "Moscow Region" and the "Other Regions" for the purposes of these consolidated financial statements.

Segment revenues are presented based on geographical location of the respective segment's assets:

mln RUB	2018	2017
Moscow	155 303	76 940
Moscow Region	79 753	91 196
Other regions of Russia	10 701	6 998
	245 757	**175 134**

(c) Reconciliations of reportable segments' revenues and profit or loss

mln RUB	2018	2017
Reconciliation of revenue		
Total revenue of reportable segments	258 571	213 369
Elimination of revenue of discontinued operation	-	(10 590)
Revenues of companies that sold services to discontinued operation	-	1 464
Elimination of reportable inter-segment's revenue	(12 814)	(29 109)
Consolidated revenue	**245 757**	**175 134**
Reconciliation of gross profit to profit before tax		
Adjusted reportable segments' profit	55 101	29 635
Adjusted gross profit from discontinued operation	-	(1 242)
Consolidated gross profit	**55 101**	**28 393**
Unallocated amounts		
(Loss)/gain from disposal of subsidiaries, development rights and investment property, net	(30)	161
Distribution expenses	(5 844)	(5 670)
Administrative expenses (with adjustments attributable to gross profit of reportable segments)	(9 423)	(8 466)
(Loss)/gain from change in fair value of investment property	(70)	967
Impairment loss, net	(180)	(2 538)
Gain on bargain purchase of subsidiaries	-	-
Other expenses, net	(2 049)	(3 695)
Finance income	6 489	5 562
Finance expenses	(10 041)	(11 679)
Significant financing component from contracts with customers	(5 361)	-
Share in losses of equity accounted investees, net of income tax	(11)	(58)
Consolidated profit before income tax	**28 581**	**2 977**

7 Changes in accounting policies

The accounting policies set out in Note 34 have been applied for consistently by Group companies to all periods presented in these consolidated financial statements, except changes described below.

(a) IFRS 16 "Leases"

The Group early adopted IFRS 16 "Leases" starting from 1 January 2018.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessee. According to the model a lessee should recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 replaces existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives", SIC-27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

According to transition provisions of IFRS 16 the Group has chosen to follow modified retrospective approach.

Previously the Group expensed operating leases on a straight-line basis during the rental period and recognized liability only if there was a difference in time between actual lease payments and accrued expenses.

Starting from 1 January 2018 the Group recognized assets and liabilities from operating lease agreements, depreciation of right-of-use asset and interest expenses on lease liabilities.

The Group used the following practical expedients on transition to IFRS 16:

- a right-of-use asset is recognised in amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to that lease recognized, so there is no adjustments to the opening balance of retained earnings at the date of initial application;
- a single discount rate to a portfolio of leases with reasonably similar characteristics is applied. As at 1 January 2018 weighted average incremental borrowing rate used in calculations is 7,91-9,32%;
- hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease is used;
- leases for which the lease term ends within 12 months of the date of initial application accounted in the same way as short-term leases;
- initial direct costs are excluded from measurement of the right-of-use asset at the date of initial application.

(i) Leases in which the Group is a lessee

The contract portfolio of the Group mostly consists from leases of land plots for construction of residential property for sale. Lease agreement usually is concluded for the term of 3 up to 10 years with the right of extension. The following judgments were made on initial application of the standard and will be applied further in accounting for lease agreements:

- agreements where lease payments are assumed to grow annually according to base rates and coefficients and/or depend on cadastral value, so they could be changed on a unilateral basis by the lessor, are considered as unpredictable and variable and recognized when incurred;
- payments for change of authorized type of usage under lease agreement are accounted for as lease payments and are included in the calculation of lease assets and liabilities;

- in cases, when there is a reasonable assurance that the Group will exercise the option to purchase the land, provided in the lease agreement, the redemption amount is included in lease payment schedule. In the same time, many agreements contain the obligation to buy the land plot, but the Group can default it without significant impact on its financial results and without incurring material expenses. Under such agreements the Group considers that a reasonable assurance arises only if the decision to construct the residential property on the land plot has been made;
- the lease term which used in the calculations equals the period when the agreement could not be canceled unilaterally. The Group also takes into account the right to extend or early terminate the lease which can be used by the Group under reasonable assurance. Herewith the term of construction of residential property on relevant leased land plots and investment strategy of the Group are taken into account.

The lease liability is accounted as the present value of the future lease payments. Lease payments are discounted using the incremental borrowing rate of the Group. The depreciation of the right-of-use asset is made on straight-line basis during the term of use of the asset. The depreciation of the land plots on which the construction works have started is included in the cost of sales of the construction objects. The depreciation of land plots where active construction works has not yet started is included in other expenses, and depreciation of office premises – in administrative expenses.

The following table summarizes total cumulative effect from transition:

Future minimum lease payments from long-term operating lease contracts as at 1 January 2018	**5 739**
Discount effect	(811)
Lease liabilities recognized as at 1 January 2018	**4 928**
Prepayments as at 1 January 2018	74
Right-of-use assets recognized as at 1 January 2018	**5 002**
Total effect on retained earnings as at 1 January 2018	-

The change in lease liabilities during the year ended 31 December 2018 is presented in the table below:

At 1 January 2018	**4 928**
Conclusion of new lease contracts or lease modifications	380
Interest expense on lease liability	411
Lease payments	(1 944)
At 31 December 2018	**3 775**

The change in right-of-use asset during the year ended 31 December 2018 is presented in the table below:

Cost as at 1 January 2018	**5 002**
Accumulated depreciation as at 1 January 2018	-
Balance as at 1 January 2018	**5 002**
Conclusion of new lease agreements or their modifications	380
Depreciation charge for the period ended 31 December 2018	(1 957)
included:	
in cost of sales	(1 846)
in administrative expenses	(111)
Balance as at 31 December 2018	**3 425**

(ii) Leases in which the Group is a lessor

The application of IFRS 16 “Leases” has no significant impact on accounting for lease agreements in which the Group is a lessor.

(b) IFRS 15 “Revenue from contracts with customers”

The Group has applied IFRS 15 “Revenue from contracts with customers” starting from 1 January 2018.

The Group used the cumulative effect approach on transition to IFRS 15 (without practical expedients) recognizing the effect of applying the standard as at the date of initial application (1 January 2018).

IFRS 15 “Revenue from contracts with customers” replaces existing IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations, establishes how and when to recognize revenue from contracts with customers.

According to IAS 18 “Revenue” revenue from the sale of real estate objects was measured at fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue was recognised when the significant risks and rewards of ownership had been transferred to the buyer, recovery of the consideration was probable, the associated costs and possible returns/uncollections could be estimated reliably, and there was no continuing management involvement with the property, and the amount of revenue could be measured reliably.

When applying IFRS 18 “Revenue” transfers of risks and rewards varied depending on the individual terms of the contract with customer. For sales of real estate objects, transfer usually occurred when the respective building was approved by the State commission, set up by the local regulating authorities, to be ready for use (“State commission”).

Sale of real estate in multi-apartment housing complexes is performed in accordance with the new requirements of the Federal Law No. 214-FZ, according to which the developer is entitled to the full amount of consideration under the contract in case the construction of the object is completed without violation of the terms of the share participation agreements, and the customer has no right to waive the contract obligations unilaterally on the pre-trial basis. According to IFRS 15 the developer recognizes revenue “over time” on such contracts with customers. The same method will be used for the recognition of revenue from the selling contracts of real estate objects.

The Group sells classified share participation agreements, registered before 1 January 2017, as cancellable in accordance with IFRS 15, recognizing revenue ‘at a point in time’. However, in the second half of 2018 due to the legal precedent when such agreements were treated as non-cancellable, the Group reconsidered the approach and adjusted revenue for accumulated percentage of completion for such contracts.

The Group sells real estate properties on a prepayment basis and provides installments, so the contract prices include a significant financing component, resulting from the time value of money and long operating cycle (more than 12 months). The time value of money is determined using the discount rate that would be applied for a separate financing operation between the Group and the customer at the time of the conclusion of the contract.

The application of IFRS 15 did not affect the timing of recognition of revenue from sales of other goods and services.

At the date of the initial application of the standard, 1 January 2018, the Group recognized the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings. Accordingly, the comparative information for 2017 was not restated and is disclosed, as before, in accordance with the requirements of IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group decided not to apply the practical expedient allowing not to calculate the significant financing component when the period between payment from customer and the performance of obligation under the contracts is less than 12 months.

The effect of the transition to IFRS 15 is presented in the table below. There was no material impact on the Group's consolidated statement of cash flows for 2018.

The effect of the application of IFRS 15 as at 1 January 2018, was mainly formed in 2017.

mln RUB	2017 (before application of IFRS 15)	Influence of application of IFRS 15 as at 1 January 2018	2017 (restated)
Revenue	175 134	75 205	250 339
Cost of sales	(146 741)	(61 079)	(207 820)
Significant financing component	-	(6 792)	(6 792)
Income tax expense	(423)	(1 625)	(2 048)
Retained earnings	**22 359**	**5 645**	**28 004**
Non-controlling interests	**535**	**64**	**599**

	2018		
mln RUB	Amounts before the application of IFRS 15	Adjustment on application of IFRS 15	Restated
Continuing operations			
Revenue	191 819	53 938	245 757
Cost of sales	(160 736)	(29 920)	(190 656)
Gross profit	**31 083**	**24 018**	**55 101**
Profit from operating activities	**13 487**	**24 018**	**37 505**
Significant financing component	-	(5 361)	(5 361)
Profit before income tax	**9 924**	**18 657**	**28 581**
Income tax	(2 571)	(4 758)	(7 329)
Profit and total comprehensive income for the year from continuing operations	**7 352**	**13 900**	**21 252**
Attributable to:			
Owners of the Company	6 574	13 900	**20 474**
Non-controlling interests	778	-	**778**

In the second half of 2018 the Group reconsidered the approach used to determine the percentage of completion for contracts with customers and excluded from calculation the construction of infrastructure which are not transferred to a joined property or losses from onerous contracts due to their transfer to the authorities, governing bodies, administration a etc. As a result, the percentage of completion for most of the projects increased together with provisions for constructing the infrastructure relating to buildings being built and sold. The effect of initial application of IFRS 15 as at 1 January 2018 and 30 June 2018, which was previously reported in consolidated interim condensed financial statements as at and for the six-month period ended 30 June 2018, was recalculated. The effect of changing the method to determine the percentage of completion on retained earnings was not significant and not recognized.

(c) IFRS 9 "Financial instruments"

IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces existing IAS 39 "Financial Instruments: Recognition and Measurement".

The new significant accounting policies, as well as a description of the nature and impact of changes in the previous accounting policies are described below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 introduces a new approach to the classification and measurement of financial assets, reflecting the business model used to manage these assets and the characteristics of associated cash flows. IFRS 9 substantially preserves the current requirements of IAS 39 for the classification and measurement of financial liabilities.

The transition to IFRS 9 did not have a significant impact on the Group's accounting policies for financial liabilities and derivative financial instruments. Hereafter the impact of IFRS 9 on classification and valuation of financial assets is described.

IFRS 9 specifies three main categories of financial assets: measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss to replace the categories of financial assets currently specified in IAS 39 which are held to maturity, loans and receivables and available-for-sale. The application of new requirements for the classification of financial assets did not have a significant impact on the accounting of trade receivables, loans and other investments.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ('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.

All financial assets of the Group at the time of transition to IFRS 9 were classified as subsequently measured at amortized cost.

(ii) Impairment of financial assets

The Group's financial assets measured at amortized cost include accounts receivable, loans issued, placed deposits, and cash and cash equivalents.

IFRS 9 introduces the "expected credit losses" (ECL) model, which replaces the "incurred credit loss" model established by IAS 39 in relation to the impairment of financial assets measured at amortized cost.

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

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

The Group recognizes the estimated allowance for expected credit losses in the amount equal to the expected credit losses for the entire period for receivables and contract assets.

In determining the degree of credit risk increase from the time of initial recognition, the Group uses all reasonable and relevant sources of information, including qualitative and quantitative indicators based on previous experience and projections. The Group updates the counterparty's credit rating if the balance is overdue by more than 30 days.

Calculation of expected credit losses was made by the Group separately for legal entities and individuals. All financial assets were divided into groups to analyze the level and magnitude of the risk of loss. Accounts receivable from individuals mainly include installment payments due under share participation agreements, where the risk of loss is estimated as low since the purchase is secured by real estate property. The accounts receivable of legal entities were divided into groups with similar exposure to credit risk, the counterparties' type and the nature of their activities. In each group, the weighted average percentage of losses was calculated depending on the delays based on historical losses for the last 3 years. Actual historical data on credit losses was adjusted to consider the fact of default of individual counterparties and different terms of coverage of financial assets by the relevant obligations of the Group.

When calculating the expected credit losses for individually significant loans and placed deposits the Group applied individual ratings of counterparties. The Group evaluated financial information available, the settlement's history, and other publicly accessible available data to estimate the probability of default ('PD') and expected loss given default ('LGD'). Based on statistics of rating agencies, as a result, the Group calculated the amount of expected credit losses. The expected credit losses for other individually insignificant loans are calculated depending on their quality category assigned by the responsible controller and the weighted average write-offs in this category (similar to accounts receivable).

The Group assigns a default on the relevant financial asset, if its repayment is overdue by more than 90 days or if it assesses that the counterparty would probably fail to repay the outstanding debt.

Impairment losses related to accounts receivable, including contract assets, and to 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.

(iii) Transition to a new standard

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively with 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 were 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 assessment of the financial assets' business models has been made on the basis of the facts and circumstances that existed at the date of initial recognition.

mln RUB	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Loans issued to the third parties	Loans and receivables	Amortised cost	450	428
Long-term bank deposits	Loans and receivables	Amortised cost	278	187
Other investments	Loans and receivables	Amortised cost	28	28
Accounts receivable	Loans and receivables	Amortised cost	7 230	6 807
Cash and cash equivalents	Loans and receivables	Amortised cost	45 452	45 452
Total financial assets			**53 438**	**52 902**
Financial liabilities				
Financial instruments	Fair value through profit and loss	Fair value through profit and loss	997	997
Loans and borrowings	Other financial liabilities	Other financial liabilities	60 486	60 486
Accounts payable	Other financial liabilities	Other financial liabilities	38 328	38 328
Total financial liabilities			**99 811**	**99 811**

Financial assets classified as measured at amortised cost

mln RUB	Credit rating	Estimated weighted average loss rate	Gross carrying amount as at 1 January 2018 (before recalculation)	Impairment loss allowance as at 1 January 2018 according to IAS 39	Adjustment of impairment loss allowance as at 1 January 2018 according to IFRS 9	Gross carrying amount as at 1 January 2018 according to IFRS 9
Loans issued and other investments	A- to A++	0,00%	36	-	-	36
	B- to B++	1,50%	399	-	(6)	393
	C- to C++	10,00%	30	-	(3)	27
	D- to D++	32,73%	278	-	(91)	187
	E- to E++	0,00%	-	-	-	-
	Default	100,00%	195	(182)	(13)	-
			938	**(182)**	**(113)**	**643**
Accounts receivable*	A- to A++	0.00%	909	-	-	909
	B- to B++	0.75%	4 560	-	(34)	4 526
	C- to C++	12.02%	1 531	-	(184)	1 347
	D- to D++	19.05%	21	-	(4)	17
	E- to E++	80.00%	5	-	(4)	1
	Default	100.00%	1 031	(834)	(197)	-
			8 057	**(834)**	**(423)**	**6 800**
Cash and cash equivalents			**45 452**	**-**	**-**	**45 452**
Recognition of expected credit losses under IFRS 9					**(536)**	
Deferred tax assets from expected credit losses					**107**	
Application of IFRS 9 adoption as at 1 January 2018					**(429)**	

*Advances given, which do not relate to financial assets, are not included.

The following table summarizes the cumulative effect of initial adoption of IFRS 9, IFRS 15 and IFRS 16:

mln RUB	31 December 2017 (before adjustment)	Application of IFRS 15	Application of IFRS 9	Application of IFRS 16	1 January 2018 (restated)
Property, plant and equipment	-	-	-	172	172
Other investments, non-current	395	-	(94)	-	301
Accounts receivable, non-current	1 531	-	(184)	-	1 347
Deferred tax assets	7 397	-	107	-	7 504
Inventories	243 783	(51 738)	-	2 503	194 548
Other investments, current	361	-	(19)	-	342
Accounts receivable, including contract assets, current	29 620	3 078	(239)	(74)	32 385
Other assets	95 101	-	-	-	95 101
Total assets	**378 188**	**(48 660)**	**(429)**	**2 601**	**331 700**
Retained earnings	22 788	5 645	(429)	-	28 004
Non-controlling interests	535	64	-	-	599
Deferred tax liabilities	13 365	1 625	-	-	14 990
Accounts payable, non-current	-	-	-	2 601	2 601
Accounts payable, including contract liabilities, current	214 912	(65 335)	-	-	149 577
Provisions	20 544	9 341	-	-	29 885
Other liabilities and equity	106 044	-	-	-	106 044
Total equity and liabilities	**378 188**	**(48 660)**	**(429)**	**2 601**	**331 700**

8 Acquisition of businesses and non-controlling interests

(a) Acquisition of subsidiaries in 2018

In May 2018 the Group purchased 100% interest in the utility system company for RUB 1 235 million, of which RUB 1 132 million were paid in cash. The company renders heating, water supply, water discharge and electricity services to commercial and residential customers in Moscow region. The outstanding balance payable as at 31 December 2018 was RUB 103 million, which will be paid in the next reporting period.

In October 2018 the Group purchased additional 5,89% interest in associated company which provides internet access and construction and installation of low-voltage communication networks services. Consequently, the Group increased its share in the internet access provider company to 50,01%. Consideration was partially paid during previous reporting periods and the amount related to the current period was settled by offsetting.

In December 2018 the Group purchased 100% interest in general contractor, for immaterial consideration. As a result of this acquisition the Group recognized income in the amount of RUB 1 168 million, which are net assets generated by the company from the construction of the Group's projects in the period when the company was not a part of the Group.

In December 2018 the Group purchased 100% interest in two utility system companies which render heating services for RUB 155 million which were paid in January 2019.

The following table summarizes impact from the acquisitions of the subsidiaries:

mln RUB	2018	Utility system companies	Internet provider	General contractor	Other
Property, plant and equipment	1 232	590	480	63	99
Intangible assets	953	367	561	3	22
Deferred tax assets	92	15	65	-	12
Inventories	2 924	731	396	259	1 538
Other investments	10	-	5	-	5
Accounts receivable	11 536	392	599	10 140	405
Cash and cash equivalents	14	6	5	-	3
Deferred tax liabilities	(195)	(16)	(175)	(4)	-
Accounts payable	(12 885)	(695)	(626)	(9 293)	(2 271)
Net identifiable assets, liabilities and contingent liabilities	**3 681**	**1 390**	**1 310**	**1 168**	**(187)**
Negative goodwill	(1 168)	-	-	(1 168)	-
Non-controlling interests	(661)	-	(661)	-	-
Write-off of goodwill on acquisition	196	-	-	-	196
Total amount of consideration	2 048	1 390	649	-	9
Consideration paid	1 789	1 132	649	-	8
Unpaid consideration included in accounts payable	259	258	-	-	1
Cash acquired	(14)	(6)	(5)	-	(3)
Acquisition of subsidiaries, net (as part of cash flows from investing activities)	**528**	**528**	**(5)**	**-**	**5**
Changes in inventories (as part of cash flows from operating activities)	**598**	**598**	**-**	**-**	**-**
Changes in investments in associated companies and loans issued	**649**	**-**	**649**	**-**	**-**

Acquisition of two utility system companies:

On the date of acquisition, measurement of fair value of the first utility system company, which was purchased in May 2018, and renders heating, water supply, water discharge and electricity services to commercial and residential subscribers in Moscow region, was based on the following assumptions and valuation techniques:

- It was assumed that the acquired company was going concern and will continue its activities in the future;
- The discount rate of cash flows was set at 13,3%;
- The growth of tariff rates was set at 3,5% per year;
- The value of additional capacity for supplying heating, water and energy to real estate objects of the Group was allocated to the cost of real estate project similarly to the network connection expenses.

The fair value of the second utility company, which render heating and hot water supply services in Moscow region and was purchased in December 2018, was allocated to intangible assets, which include the set of contracts for transmission of heating energy.

Sensitivity analysis

The management has determined the discount rate as the key assumption in calculating the fair value of the utility company purchased in May 2018 the change of which is reasonable possible. An increase of the discount rate by 1 percentage point would result in a decrease of the fair value of the utility company by RUB 16 million. A decrease of the discount rate by 1 percentage point would result in an increase of the fair value of the utility company by RUB 17 million.

Acquisition of the internet provider

On the date of acquisition measurement of fair value of the company, which renders internet access, construction and installation of low-voltage communication networks services, and its allocation between identifiable net assets was based on the following assumptions and valuation techniques:

- Fair value of property, plant and equipment and capital expenditures was estimated using cost method and fair value of client relationships and construction contracts portfolio was estimated using the income approach;
- Profit income tax was set at 20% in accordance with current legislation of Russian Federation;
- The discount rate applied to the clients relationships and construction contracts portfolio was set as a weighted average cost of share capital (WACC) adjusted for the risk of future income from the intangible asset under valuation and equals to 15,1%.

Sensitivity analysis

The management has determined the discount rate and profitability ratio EBIDTA as the key assumptions in calculating the fair value of the internet provider company the change of which is reasonable possible. An increase of the discount rate by 1 percentage point would result in a decrease of the fair value of the internet provider company by RUB 28 million. A decrease of the discount rate by 1 percentage point would result in an increase of the fair value of the internet provider company by RUB 24 million. An increase of the profitability ratio EBIDTA by 1 percentage point would result in an increase of the fair value of the internet provider company by RUB 26 million. A decrease of the profitability ratio EBIDTA by 1 percentage point would result in a decrease of the fair value of the internet provider company by RUB 26 million.

The Group finds it unpractical to disclose revenue information, as well as profit and loss for the 12 months of 2018, as if the companies were acquired by the Group on 1 January 2018, due to the absence of IFRS reporting system in the acquired companies in 2018. In the opinion of the Group, the costs of preparing of the required information exceed its economic benefits.

(b) Acquisition of non-controlling interests

In February 2018 the Group purchased additional 26,69% interest in the manufacturer of elevator and electronic equipment for RUB 84 million and increased its share to 87,14%. The transaction is recognised directly in equity.

In February 2018 the Group purchased additional 4,4% in the leading Russian developer of “Smart house” systems for the consideration of RUB 80 million and increased its share to 64%. The transaction is recognised directly in equity.

The effect from acquisition of non-controlling interest for the reporting period was accumulated as declaration of NCI directly in equity in the amount of RUB 212 million, and recognized as other income in amount of RUB 48 million.

9 Discontinued operation and disposals of subsidiaries

(a) Discontinued operations

There were no discontinued operations in 2018.

In December 2017 the Group disposed subsidiaries which performed technical maintenance of completed properties. The following table summarizes the results of activities of these subsidiaries before the date of their disposal:

mln RUB	2017
Results of discontinued operation	
Revenue	10 590
Cost of sales	(8 105)
Distribution expenses	(1)
Administrative expenses	(1 243)
Other expenses, net	(32)
Finance income	30
Finance costs	(182)
Results from operating activities	**1 057**
Income tax	(136)
Results from operating activities, net of tax	**921**
Gain on sale of discontinued operation	318
Income tax expense from discontinued operation	(639)
Profit from discontinued operation	**600**
Basic earning per share (RUB)	0,93

(b) Disposal of subsidiaries, development rights and investment property

In 2018 and 2017 the Group sold several companies of the segment “Other activities” and some other investment property objects. The following table summarizes the result of their disposal:

mln RUB	2018	2017
Property, plant and equipment	-	(58)
Intangible assets	(3)	-
Investment property	(127)	(767)
Equity accounted investees	(1)	-
Inventories	(29)	(116)
Trade and other receivables	(7 738)	(6 467)
Deferred tax assets	(269)	(310)
Deffered tax liabilities	89	154
Trade and other payables	7 930	6 386
Provisions	-	375
Net liabilities	**(148)**	**(803)**
Consideration received/receivable	16	789
Cash and cash equivalents of disposed subsidiaries	(6)	(2)
Loss on disposal of subsidiaries, net	**(138)**	**(16)**
Gain on disposal of development rights, net	108	177
(Loss)/gain on disposal of subsidiaries, development rights and investment property, net	**(30)**	**161**

10 Revenue

(a) Disaggregation of revenue by timing of revenue recognition

mln RUB	2018	2017
Revenue from sales of residential property		
Revenue recognised at a point in time	8 084	158 852
Revenue recognised over time	211 021	-
Revenue from sales of non-residential property and parking spaces		
Revenue recognised at a point in time	1 231	11 007
Revenue recognised over time	15 455	-
Other development revenue	511	284
Other revenue		
Revenue recognised at a point in time	8 470	4 788
Revenue recognised over time	985	203
Total revenue	**245 757**	**175 134**

In 2018 the revenue from sales of real estate objects under share participation agreements, concluded to settle the accounts payable, amounted to RUB 1 344 million.

(b) Contract assets and liabilities from contracts for real estate sales

mln RUB	31 December 2018	31 December 2017
Contract assets	1 997	1 021
Trade receivables	493	2 057
Contract liabilities	(100 507)	(108 650)
– *liabilities from contracts with revenue recognised at a point in time*	(539)	(32 265)
– *liabilities from contracts with revenue recognised over time*	(99 968)	(76 385)

Contract assets represent the Group`s rights for consideration to be received from customers, payable in installments, when the pace of construction exceeds the payment schedule. Contract liabilities are advance payments received from customers according to share participant agreements and accrued amounts of significant financing components. As at 31 December 2018 net amount of significant financing components in the transaction price recognized in net finance cost equaled to RUB 517 million (as at 1 January 2018: RUB 5 224 million).

The Group expects to recognize revenue from performance obligations, which were not satisfied as at 31 December 2018, during the next 3 years. As at 31 December 2018 advances received from customers of RUB 83 241 million are expected to be recognized in revenue during the next 12 months (as at 31 December 2017: RUB 96 279 million).

11 Finance income and costs

mln RUB	2018	2017
Revaluation of cash-settled financial instruments (note 24)	3 183	-
Interest income	2 749	3 729
Foreign exchange gains, net	264	556
Write-off of accounts payable	114	51
Gain from change in terms of a long-term financial liability*	-	1 050
Other financial income	179	176
Finance income	**6 489**	**5 562**
Interest expense**	(9 373)	(11 333)
Loss on impairment of financial assets	(668)	(329)
Change in non-controlling interest in limited liability companies	-	(17)
Finance costs	**(10 041)**	**(11 679)**
Net amount of finance costs	**(3 552)**	**(6 117)**

* In April 2017 the Group re-negotiated terms of purchase for the land plots previously acquired and extended payment period, which resulted in derecognition of prior financial liability and recognition of a new financial liability.

** Interest expense includes RUB 7 608 million of interest accrued on bank loans and bonds.

12 Other expenses, net

mln RUB	2018	2017
Penalties and fines, including provision for litigation and claims	(1 787)	(1 755)
Tax expenses	(686)	(827)
Charity	(434)	(416)
Loss from disposal of property, plant and equipment	(200)	(263)
Disposal of other assets	(79)	(59)
Income from reversal of provision for costs to complete	-	292
Other expenses, net	(161)	(667)
Negative goodwill (note 8(a))	1 298	-
	(2 049)	**(3 695)**

13 Administrative expenses

mln RUB	2018	2017
Personnel costs	6 185	5 796
Professional and other services	711	508
Research and development	612	417
Taxes	458	416
Depreciation of property, plant and equipment, amortisation of intangible assets and right-of-use assets	566	374
Rent	93	210
Other administrative expenses	798	745
	9 423	**8 466**

14 Personnel costs

	2018	2017	
mln RUB	Continuing operations	Continuing operations	Discontinued operation
Salaries and wages			
Cost of sales	10 942	6 913	316
Administrative expenses	4 982	4 650	732
Distribution expenses	1 387	1 017	-
	17 311	**12 580**	**1 048**
Social charges			
Cost of sales	2 766	1 546	83
Administrative expenses	1 203	1 146	183
Distribution expenses	320	240	-
	4 289	**2 932**	**266**
Total	**21 600**	**15 512**	**1 314**

15 Income taxes

(a) Amounts recognized in profit and loss

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2017: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate 12,5%.

The income tax expense consists of the following:

mln RUB	2018	2017
Current income tax expense		
Current income tax	(5 828)	(3 710)
Underprovided in prior years	(38)	(63)
Tax provision (recognised)/reversed	(12)	749
	(5 878)	**(3 024)**
Deferred income tax (expense)/income		
Origination and reversal of temporary differences	(1 451)	2 601
	(1 451)	**2 601**
Total income tax expense from continuing operations	**(7 329)**	**(423)**

(b) Reconciliation of effective tax rate

mln RUB	2018	%	2017	%
Profit before income tax from continuing operations	28 581	100	2 977	100
Income tax expense at applicable tax rate	(5 716)	(20)	(595)	(20)
(Unrecognized tax assets)/utilisation of tax losses for which a deferred tax asset was not previously recognised	(788)	(3)	301	10
Underprovided in prior years	(38)	-	(63)	(2)
Non-deductible expenses	(859)	(3)	(911)	(31)
Effect of tax rates in foreign jurisdictions	84	-	96	3
Tax provision (recognised)/reversed	(12)	-	749	25
	(7 329)	**(26)**	**(423)**	**(15)**

(c) Recognized deferred tax assets and liabilities

	Assets		Liabilities		Net	
mln RUB	31 December 2018	1 January 2018 (restated)	31 December 2018	1 January 2018 (restated)	31 December 2018	1 January 2018 (restated)
Property, plant and equipment	1 931	1 428	(1 113)	(1 105)	818	323
Investment property	325	324	(2 640)	(3 078)	(2 315)	(2 754)
Other investments	515	265	(896)	(63)	(381)	202
Intangible assets	-	86	(53)	(27)	(53)	59
Inventories	5 535	3 957	(17 241)	(15 955)	(11 706)	(11 998)
Trade and other receivables	361	2 239	51	(119)	412	2 120
Trade and other payables	576	1 275	(125)	-	451	1 275
Loans and borrowings	-	-	(64)	(92)	(64)	(92)
Tax loss carry-forwards	3 619	3 379	-	-	3 619	3 379
Tax assets/(liabilities)	12 862	12 953	(22 081)	(20 439)	(9 219)	(7 486)
Set-off of tax	(5 202)	(5 449)	5 202	5 449	-	-
Net tax assets/(liabilities)	**7 660**	**7 504**	**(16 879)**	**(14 990)**	**(9 219)**	**(7 486)**

(d) Movement in deferred tax balances

mln RUB	1 January 2018 (restated)	Recognised in profit and loss	Disposed	Acquired	31 December 2018
Property, plant and equipment	323	616	(82)	(39)	818
Investment property	(2 754)	439	-	-	(2 315)
Other investments	202	(583)	-	-	(381)
Intangible assets	59	51	-	(163)	(53)
Inventories	(11 998)	236	36	20	(11 706)
Accounts receivable, including contract assets	2 120	(1 658)	(1)	(49)	412
Accounts payable, including contract liabilities	1 275	(822)	(130)	128	451
Loans and borrowings	(92)	28	-	-	(64)
Tax loss carry-forwards	3 379	242	(2)	-	3 619
	(7 486)	**(1 451)**	**(179)**	**(103)**	**(9 219)**

mln RUB	1 January 2017	Recognised in profit and loss	Recognised in equity	Disposed	Acquired	31 December 2017
Property, plant and equipment	(246)	805	-	(8)	(228)	323
Investment property	(3 390)	636	-	-	-	(2 754)
Other investments	267	(65)	-	-	-	202
Intangible assets	(589)	116	-	532	-	59
Inventories	(12 897)	2 499	-	23	2	(10 373)
Accounts receivable, including contract assets	4 852	(2 693)	-	(83)	44	2 120
Accounts payable, including contract liabilities	582	337	283	(34)	-	1 168
Loans and borrowings	(67)	(25)	-	-	-	(92)
Tax loss carry-forwards	2 592	991	-	(204)	-	3 379
	(8 896)	**2 601**	**283**	**226**	**(182)**	**(5 968)**
Adjustments on initial application of IFRS 9 and IFRS 15 (note 7)						**(1 518)**
						(7 486)

(e) Unrecognized deferred tax assets

As at 31 December 2018 deferred tax assets of RUB 7 685 million (31 December 2017: RUB 6 897 million) have not been recognized in respect of the deductible temporary differences and tax losses carried forward because it is not probable that future taxable profits will be available against which the Group can utilize the benefits.

(f) Unrecognized deferred tax liabilities related to investments in subsidiaries

As at 31 December 2018 the Group did not recognize a deferred tax liability related to temporary differences in amount of RUB 58 048 million (31 December 2017: RUB 67 436 million) because the Group has the ability to control the dividend policy of subsidiaries and the timing of reversal of temporary differences, or due to the zero rate of the applicable dividend tax.

16 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2017	**19 656**	**6 747**	**1 899**	**1 104**	**29 406**
Acquisitions through business combinations	1 011	141	5	6	1 163
Additions	-	-	-	2 947	2 947
Disposals	3	(1 449)	(229)	(61)	(1 736)
Disposal of subsidiaries	(277)	(64)	(51)	(10)	(402)
Reclassification to inventories	(830)	-	-	-	(830)
Reclassification between groups	122	655	(877)	100	-
Transfers	1 253	262	242	(1 757)	-
At 31 December 2017	**20 938**	**6 292**	**989**	**2 329**	**30 548**
Adjustments on initial application of IFRS 16	172	-	-	-	172
At 1 January 2018 (restated)	**21 110**	**6 292**	**989**	**2 329**	**30 720**
Acquisitions through business combinations (note 8)	722	315	50	145	1 232
Additions	-	-	-	4 089	4 089
Disposals	(249)	(252)	(77)	(273)	(851)
Reclassification to inventories	(700)	(40)	-	-	(740)
Reclassification between groups	7	(7)	-	-	-
Transfers	2 025	1 381	349	(3 755)	-
At 31 December 2018	**22 915**	**7 689**	**1 311**	**2 535**	**34 450**
Accumulated depreciation and impairment losses					
At 1 January 2017	**(4 133)**	**(2 178)**	**(491)**	**(74)**	**(6 876)**
Impairment losses (note 23)	(48)	-	-	-	(48)
Reversal of impairment losses	48	-	-	-	48
Impairment provision related to disposed assets	62	5	1	-	68
Depreciation charge	(754)	(522)	(168)	-	(1 444)
Disposals	157	712	68	-	937
Disposal of subsidiaries	37	45	19	-	101
Reclassification to inventories	190	-	-	-	190
Reclassification between groups	(21)	(32)	53	-	-
At 31 December 2017	**(4 462)**	**(1 970)**	**(518)**	**(74)**	**(7 024)**
Depreciation charge	(1 052)	(560)	(195)	-	(1 807)
Disposals	83	142	50	-	275
Reclassification to inventories	255	40	-	-	295
Reclassification between groups	(4)	4	-	-	-
At 31 December 2018	**(5 180)**	**(2 344)**	**(663)**	**(74)**	**(8 261)**
Net book value					
At 1 January 2017	**15 523**	**4 569**	**1 408**	**1 030**	**22 530**
At 31 December 2017	**16 476**	**4 322**	**471**	**2 255**	**23 524**
At 31 December 2018	**17 735**	**5 345**	**648**	**2 461**	**26 189**

(a) Depreciation expense

Depreciation expense of RUB 1 275 million was charged to cost of sales, RUB 129 million to distribution expenses, RUB 403 million to administrative expenses (2017: RUB 1 027 million, RUB 98 million, RUB 319 million accordingly).

(b) Right-of-use assets

As at 31 December 2018 the net book value of leased plant and machinery was RUB 96 million (31 December 2017: RUB 560 million). As at 31 December 2018 additional effect from transition to IFRS 16 was RUB 61 million (as at 1 January 2018: RUB 172 million).

17 Intangible assets

mln RUB	**Client base**	**Goodwill**	**Other**	**Total**
Balance at 1 January 2017	2 807	-	306	3 113
Acquisitions through business combinations	962	197	207	1 366
Additions	-	-	274	274
Amortisation charge	-	-	(205)	(205)
Disposal of subsidiaries	(3 769)	-	-	(3 769)
Balance at 31 December 2017	**-**	**197**	**582**	**779**
Balance at 1 January 2018	-	197	582	779
Acquisitions through business combinations (note 8)	539	-	414	953
Additions	-	-	620	620
Amortisation charge	-	-	(430)	(430)
Disposals	-	-	(38)	(38)
Disposal of subsidiaries (note 9)	-	-	(3)	(3)
Balance at 31 December 2018	**539**	**197**	**1 145**	**1 881**

The client base acquired in 2018 mostly comprises contracts with subscribers for internet and cable TV and portfolio of contracts for construction and installation works.

18 Investment property

(a) Reconciliation of carrying amount

mln RUB	**2018**	**2017**
As at 1 January	23 690	26 581
Reclassification to inventories	(5 407)	(3 091)
Change in fair value	(70)	967
Disposal	(127)	(767)
As at 31 December	**18 086**	**23 690**

Investment property consists of land plots with undetermined use. Negative change in fair value of these land plots during 2018 amounted to RUB 70 million (2017: positive change – RUB 967 million).

(b) Measurement of fair value

The fair value of investment property was determined by external, independent real estate appraisers with appropriate recognized professional qualifications and recent experience in valuing this type of real estate in specified location.

The Group applied the discounted cash flows method to determine the FV of the land plots when are substantially ready for real estate development, resulting in assessment using this method as at 31 December 2018 amounted to RUB 11 412 million (31 December 2017: RUB 16 871 million). When using this method, the Group applied the following assumptions:

- Prices for residential real estate were forecasted based on market prices for similar properties in December of each reporting year;
- Ruble based cash flows from the projects were discounted at pre-tax rates of 16-20%;
- The growth rates for selling prices and development costs were determined in accordance with forecasted level of inflation;
- The volume of sales corresponds to sales volumes achieved by the Group on similar projects;
- The forecasted density of contraction corresponds to the average index for similar projects of the Group.

For other investment properties the fair value was determined using the comparative method, which is based on an analysis of all available information on sales of similar properties, adjusted to reflect the differences between compared analogues and valued items. Within this approach, the current bids for similar items were analyzed. The sales prices were adjusted in accordance with the differences in characteristics with the Group`s land plots. The fair value of the plots determined using the comparative method as at 31 December 2018 amounted to RUB 6 674 million (31 December 2017: RUB 6 819 million).

The fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used and level of adjustments related to market analogues.

Sensitivity analysis

The management has determined the discount rate and the basic selling price as key assumptions subject to reasonable changes.

An increase of the discount rate by 1 percentage point would result in a decrease in the fair value of investment property, measured using discounted cash flow method, by RUB 695 million. A decrease of the discount rate by 1 percentage point would have equal but opposite effect on the fair value of the investment property.

A decrease in the basic selling price by 5 percentage point in the comparative method measurement would lead to decrease in the fair value of investment property by RUB 1 600 million. An increase in the basic sale price by 5 percentage point would have equal but opposite effect on the fair value of investment property.

19 Inventories

mln RUB	**31 December 2018**	**31 December 2017**
Construction in progress, intended for sale, acquired through business combinations	68 444	117 188
Construction in progress, intended for sale, accounted at historical cost	102 127	107 112
Finished goods and goods for resale	21 077	16 667
Raw materials and consumables	5 787	2 816
Right-of-use asset	3 341	-
	200 776	**243 783**

Construction work in progress intended for sale and finished goods mostly consist of apartments, non-residential properties and parking spaces. Standard operational cycle of construction projects exceeds 12 months. Inventories are classified as current assets even if they are not intended to be sold within the next 12 months after the reporting date.

During the reporting period the Group purchased certain land plots for development projects in Moscow, Moscow region and other regions for the total amount of RUB 20 398 million, mostly through the acquisition of control in companies which own the land plots. The companies had no other significant assets, liabilities and financial results as at 31 December 2018. Respectively, the consideration paid by the Group for the acquisition of subsidiaries was accounted for as construction in progress intended for sale.

Land plots (right-of-use assets) for the amount of RUB 3 980 million acquired in 2018 (2017: RUB 6 124 million) should be settled by share participation agreements for properties under construction with the Group and not in cash.

20 Other investments

mln RUB	31 December 2018	31 December 2017
Non-current		
Loans issued to third parties in RUB at fixed rates of 9,0%-17,5%	72	89
Other investments	33	28
Bank deposits	273	278
	378	**395**
Impairment losses	(201)	(89)
Current		
Loans issued to third parties in RUB at fixed rates of 9,0%-17,0%	340	361
	340	**361**
Impairment losses	(119)	(93)

21 Accounts receivable, including contract assets

mln RUB	31 December 2018	31 December 2017
Non-current		
Consideration receivable for sale of subsidiaries	1 597	1 531
	1 597	**1 531**
Impairment losses	(197)	-
Current		
Trade accounts receivable	9 067	3 494
Advances to suppliers, for purchases of subsidiaries and development rights	12 637	18 727
Advances issued to other suppliers	2 219	1 616
Taxes receivable	4 842	3 579
Others	1 287	2 204
	30 052	**29 620**
Impairment losses	(2 660)	(2 006)

22 Cash and cash equivalents

mln RUB	31 December 2018	31 December 2017
Cash on hand	1	1
Cash in banks	58 600	45 451
Cash and cash equivalents	**58 601**	**45 452**

Cash balance on escrow accounts (for information purposes)

mln RUB	31 December 2018	31 December 2017
Escrow accounts	1 145	-

Cash, placed on escrow accounts and not recognised in the Group's statement of financial position, represents the amounts deposited by the owners of the accounts in authorized banks (customers of real estate objects) to settle the payment for acquired property under share participation agreements.

23 Impairment loss on non-financial assets

At each reporting date the Group reviews impairment indicators for the following assets:

- property, plant and equipment;
- intangible assets;
- inventories;
- advances paid for construction work and other advances.

(a) Property, plant and equipment

The Group analysed the carrying amounts of its property, plant and equipment and tested it for impairment as at 31 December 2018. For this purpose, the Group estimated the recoverable amounts of the respective cash generating units (CGU).

The values assigned to the key assumptions represent management's assessment of future trends in the construction industry and are based on both external and internal sources of historical data.

Prefabricated panel manufacturing

This group includes the assets of JSC "PIK-Industry", LLC "NSS" and JSC "MEL". The impairment testing was conducted with the assistance of an independent appraiser. The following key assumptions were used to determine the recoverable amounts:

- The recoverable amount was calculated as value in use, determined by discounting the future cash flows to be generated from the continuing use of the assets, also taking inflation risks into account;
- The period of forecasted cash flows from 1 January 2019 to 31 December 2024 was determined on the basis of weighted average remaining useful lives of buildings and facilities;
- Full capacity utilization was assumed;
- A discount rate of 15,82%, calculated on the basis of the weighted average cost of capital after taxation was applied to determine the recoverable amounts of JSC "PIK-Industry" and LLC "NSS" (2017: 16%); a discount rate of 20,04% was used to determine the recoverable amount of JSC "MEL".

As a result of testing no additional impairment was recognized in 2018.

Utility infrastructure

The main assets of this category are boiler equipment, water supply and sewerage networks, power grids, as well as minor fixed assets necessary for the operation of residential infrastructure facilities.

In determining the recoverable amounts, the following main assumptions were applied:

- The revenue forecast was based on the actual data for 2018, adjusted for the forecasted inflation rates, approved tariffs for water, heat and electricity and their forecasted growth published by the Ministry of Economic Development.
- The forecast for expenditures was based on the actual data for 2018 and approved budgets for the coming year, taking into account the growth rates available from the Ministry of Economic Development and Oxford Economics for certain type of expenditure.
- Capital investments in the heat supply and water supply segments were not taken into account, since expenses for maintenance were included in the forecast. For electricity supply capital investments were projected on the basis of the approved investment program for 2019, adjusted for price indexes of the producers.
- The tax rate was set at the level of the statutory rate in Russian Federation equaled to 20%;
- A unified discount rate of 13,05% was applied.

As a result of testing no additional impairment was recognized in 2018. In 2017 no impairment indicators were identified.

(b) Inventories

In most cases the Group used discounted cash flows and engaged an independent appraiser to estimate net realizable value of the Group’s work in progress at both dates.

The following key assumptions were used in determining net realizable value:

- Cash flows were projected for each individually significant project;
- Selling prices for the apartments were based on market prices effective in December 2018 for similar real estate;
- Cost of construction was forecasted based on the current cost per square meter and construction pace in December 2018 for similar real estate;
- An average pre-tax discount rates of 14-18% was applied to cash flows in determining recoverable amount of projects.

As a result of testing the impairment of inventories as at 31 December 2018 amounted to RUB 3 311 million (31 December 2017: RUB 3 239 million).

Sensitivity analysis

The management has determined the discount rate and the selling price as key assumptions subject to reasonable change.

A reduction in the selling price by 5% would lead to additional impairment of work in progress by RUB 455 million as at 31 December 2018.

An increase in the discount rate by 1 percentage point would lead to additional impairment of work in progress by RUB 81 million as at 31 December 2018.

(c) Impairment testing results and write down

		31 December 2018			31 December 2017		
mln RUB	**Note**	**Gross carrying value**	**Impairment/ write down**	**Carrying value after impairment**	**Gross carrying value**	**Impairment/ write down**	**Carrying value after impairment**
Property, plant and equipment	16	27 978	(1 705)	26 189	25 231	(1 707)	23 524
Intangible assets	17	1 881	-	1 881	779	-	779
Inventory	19	204 087	(3 311)	200 776	247 022	(3 239)	243 783
Advances paid	21	15 890	(1 034)	14 856	21 515	(1 172)	20 343
Total		**249 836**	**(6 050)**	**243 702**	**294 547**	**(6 118)**	**288 429**

(d) Impairment losses and reversal of impairment losses

mln RUB			
Impairment losses and write downs	**Note**	**2018**	**2017**
Property, plant and equipment	16	(147)	(48)
Inventory	19	-	(3 068)
Advances paid	21	(434)	(323)
		(581)	**(3 439)**
Reversal of impairment			
Property, plant and equipment	16	-	48
Inventory	19	279	148
Advances paid	21	122	705
		401	**901**
		(180)	**(2 538)**

In 2018 impairment losses relating to finished goods and construction materials in the amount of RUB 351 million were recognized in cost of sales (2017: RUB 400 million).

In 2018 impairment losses relating to property, plant and equipment in the amount of RUB 149 million and advances issued in the amount of RUB 450 million were utilized due to disposal of related assets. (2017: RUB 68 million and RUB nil million accordingly).

24 Cash-settled financial instruments

As of reporting date Group's non-current assets include two cash-settled financial instruments with a total book value of RUB 4 434 million.

In June 2017 the Group entered into transaction to sell 49 990 198 of its own global depositary receipts (GDRs) to the one of the largest banks of the Russian Federation for the consideration of RUB 15 000 million. GDRs were previously repurchased from the market in March 2017.

Simultaneously, the Group entered into a 3-year cash-settled financial instrument contract under which the Group will be paid by the bank or pay to the bank the difference between the market price of GDRs as at the date the contract terminates in three years and the initial delivery price of the GDRs. During the course of the contract the Group will make quarterly payments to the bank calculated at the key rate of Central bank of Russian Federation + 2,5% from the delivery price of the GDRs. On initial recognition, the Group recognized the cash-settled financial instrument at its future value directly in equity, as the transaction formed part of GDRs delivery to the bank. During the reporting period the change in fair value of the cash-settled financial instrument changed by to RUB 1 792 million (2017: RUB 70 million).

As at 31 December 2018 the fair value of this non-deliverable financial instrument was determined using the following key assumptions:

- The risk-free rate for the remaining contractual period was 8,8% (2017: 8,8%)
- The annual discount rate was 9,9% (2017: 12%).

In May 2018 the Group entered into a second contract for a cash-settled financial instrument with the same bank. The number of shares in the contract amounted to 60 137 070 and the rate of mandatory quarterly prepayments was set at the key rate of the Central Bank of the Russian Federation + 2,1%. The Group has not repurchased its shares from the open market to deliver them to the bank. Additionally, the bank entered forward transactions with final sellers (hedging counterparties) for the required number of shares.

When making the valuation of the cash-settled financial instrument the Group used some unobservable inputs, for example, the Group's cost of debt range and dividend forecast and thus classified cash-settled financial instrument as "synthetic". Considering the valuation methods and transaction conditions the fair value of a cash-settled financial instrument on initial recognition was included in the consolidated statement of financial position as deferred charges on financial instruments.

On initial recognition the Group classified the cash-settled financial instrument of RUB 1 476 million as a long-term financial instrument carried at fair value through profit and loss. The amortization of the deferred charges for the reporting period amounted to RUB 287 million. During the reporting period the change in the fair value of cash-settled financial instrument amounted to RUB 1 391 million.

The fair value of the second cash-settled financial instrument as of 31 December 2018 was determined based on the following key assumptions:

- The risk-free rate for the remaining contractual period was 8,9%;
- The annual discount rate was 10,1%.

The Group assigned cash-settled financial instruments to Level 3 of the fair value hierarchy of financial instruments.

25 Equity and reserves

The total number of ordinary shares issued and outstanding as at 31 December 2018 is 660 497 thousand with the nominal value of RUB 62,50 per share (31 December 2017: 660 497 thousand).

Weighted average number of shares, thousand shares

	2018	2017
Issued shares at the beginning of the reporting period	660 497	660 497
Effect of purchase and sale of treasury shares in 2017	-	(13 422)
Weighted average number of shares for the period	**660 497**	**647 075**

Earnings per share

The calculation of earnings per share is based on the profit for the year attributable to the ordinary shareholders of the Company and the weighted average number of ordinary shares that were in circulation during the year. The Company has no ordinary shares with potentially dilutive effect.

	2018	2017
Profit and total comprehensive income for the period attributable to the owners of the Company, mln RUB	20 474	3 117
Weighted average number of shares for the period, thousand shares	660 497	647 075
Basic and diluted profit per share, RUB	**31,00**	**4,82**

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

Non-controlling interest

At the reporting date non-controlling interest mostly includes minority interests in the internet-provider and the largest developer of Moscow subsidiaries of 49,93% and 13,33%, accordingly, which net assets comprise short-term assets in the amount of RUB 11 122 million and short-term liabilities in the amount of RUB 3 351 million.

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk refer to note 29.

mln RUB	**31 December 2018**	**31 December 2017**
Non-current		
Bonds, net of those purchased by the Group	35 172	44 250
Unsecured bank loans	4 473	-
Project financing	1 871	-
Secured bank loans	-	365
Finance lease liabilities	11	87
	41 527	**44 702**
Current		
Bonds, net of those purchased by the Group	18 180	13 434
Project financing	1 215	-
Secured bank loans	-	115
Interest payable	1 315	2 105
Finance lease liabilities	9	130
	20 719	**15 784**
	62 246	**60 486**

As at 31 December 2018 and 2017 the bank loans were secured with:

- rights for lease and ownership the land with total area of 218 thousand square meters (as at 31 December 2017: 52,5 thousand square meters);
- shares of certain subsidiaries of the Group.

In April 2018 the Group issued bonds in amount of RUB 7 000 million maturing in 10 years with a right of early redemption or partly redemption during the circulation period at the discretion of the issuer. The coupon rate is 7,75% for the first coupon, and equals to the key interest rate of the Central Bank of the Russian Federation + 0,5% for the second and up to the twentieth coupon period inclusive. The coupon is paid semiannually.

In June 2018 the Group received the bank loan in amount of RUB 4,500 million at the key interest rate of the Central Bank of the Russian Federation + 1.45%, used for the repayment of other loans and bonds redemption.

In June 2018 the Group placed two 3-years bonds issue for total amounts of RUB 6 000 and 4 000 million. The coupon rate for the first one is 8,70% for the first coupon period and equals to the key interest rate of the Central Bank of the Russian Federation + 1,45% for the second and up to the sixth coupon period inclusive. The coupon rate for the second bond issue is 8,70%. The coupon is paid semiannually.

In September 2018 the Group purchased the developer of housing complex “Sheremetyevsky” which is situated at Moscow, Skladochnaya Str., Bld. 6, which obtained a credit line to finance the construction of the Group prior to the acquisition arrangement. As at 31 December 2018 the balance was included in project financing.

In October 2018 the Group entered into project financing for the pilot project “Dmitrovsky Park” situated at Moscow, Lobnenskaya Str., Bld. 13, using escrow accounts. The loan has a variable interest rate, which depends on the amount of funds on escrow accounts. As at 31 December 2018 the outstanding loan amount was RUB 1 871 million.

In 2018 following the strategy to reduce finance costs, the Group repurchased anticipatory and redeemed its bonds for the total amount of RUB 21 206 million, including bonds for the amount of RUB 3 877 million, which were repurchased by pre-scheduled offer declared in April 2018 and the bonds of three issues for the amount of RUB 9 340 million, which were redeemed anticipatory in August 2018.

During 2018 the Group repaid bank loans for the amount of RUB 1 300 million.

Terms and conditions of outstanding loans and borrowings

Terms and conditions of outstanding loans and borrowings were as follows:

mln RUB	31 December 2018	31 December 2017
Project finance		
RUB - variable interest rate*	3 086	-
Secured bank loans		
RUB - fixed at 13,00%-13,50%	-	480
Unsecured bank loans		
RUB - key interest rate of CBRF + 1,45%	4 473	-
Bonds		
RUB - fixed at 8,70%-13,00%	40 468	44 250
RUB - fixed at 14,25%	-	13 434
RUB - key interest rate of CBRF+ 0,50%	6 999	-
RUB - key interest rate of CBRF+ 1,45%	5 885	-
Interest payable	1 315	2 105
Finance lease liabilities		
RUB - fixed at 23,00%	20	217
	62 246	**60 486**

* At the variable effective rate which is calculated using the base rates: key rate of CBRF + 2,27% - key rate of CBRF + 3,25%, discounted on the basis of balances on the escrow accounts.

The fair value of bonds is disclosed in Note 29(e).

Reconciliation of changes in liabilities and cash flows arising from financing activities

mln RUB	Balance as at 31 December 2017	Reclassification	Received	Acquired	Repaid	Interest expense	Effect of transaction costs	Balance as at 31 December 2018
Non-current	**44 702**	**(25 418)**	**23 623**	**-**	**(1 248)**	**-**	**(132)**	**41 527**
Bonds, net of those purchased by the Group	44 250	(25 418)	17 219	-	(774)	-	(105)	35 172
Unsecured bank loans	-	-	4 500	-	-	-	(27)	4 473
Project financing	-	-	1 871	-	-	-	-	1 871
Secured bank loans	365	-	-	-	(365)	-	-	-
Finance lease liabilities	87	-	33	-	(109)	-	-	11
Current	**15 784**	**25 418**	**350**	**1 685**	**(29 916)**	**7 638**	**(240)**	**20 719**
Bonds, net of those purchased by the Group	13 434	25 418	-	-	(20 432)	-	(240)	18 180
Secured bank loans	115	-	-	-	(115)	-	-	-
Project financing	-	-	350	1 685	(820)	-	-	1 215
Interest payable	2 105	-	-	-	(8 398)	7 608	-	1 315
Finance lease liabilities	130	-	-	-	(151)	30	-	9
Total liabilities attributable to financing activities	**60 486**	**-**	**23 973**	**1 685**	**(31 164)**	**7 638**	**(372)**	**62 246**

Payments on cash-settled financial instruments recognized in cash flows from financing activities amounted to RUB 2 248 million for the reporting period (note 24).

27 Provisions

mln RUB	Provision for cost to complete	Provision for unprofitable contracts	Provision for taxes	Total
As at 31 December 2017	**18 144**	**-**	**2 400**	**20 544**
Impact of initial application of IFRS 15	8 803	538	-	9 341
Additional provisions	17 504	881	591	18 976
Releases of provisions	(129)	(144)	(579)	(852)
Utilization	(19 578)	(394)	-	(19 972)
As at 31 December 2018	**24 744**	**881**	**2 412**	**28 037**
As at 1 January 2017	**10 451**	**-**	**3 108**	**13 559**
Additional provisions	14 932	-	882	15 814
Releases of provisions	(2 616)	-	(1 539)	(4 155)
Utilization	(4 298)	-	-	(4 298)
Disposal through disposal of subsidiaries	(325)	-	(51)	(376)
As at 31 December 2017	**18 144**	**-**	**2 400**	**20 544**

The Group used assumptions which involved uncertainty and judgments in calculation of provisions. Estimated costs to complete represent the Group's future costs forecasts which are expected to be incurred by the Group in the course of construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its arrangements with the municipal authorities. The estimation depends on changes in the rules and standards of urban development which can cause adjustments to construction projects terms and conditions, as well as changes in construction materials and labor force prices.

The provision for cost to complete includes future costs the Group should spend to finalize the purchase of the land plots under current development projects, to construct social infrastructure facilities and other local amenities not transferable into joint ownership in proportion to constructed meters of apartment buildings, where the sales are open, to finalize the construction of objects obtained from transactions related to purchase of land plots or lease rights.

As at 31 December 2018 the tax provision relates mostly to deductibility of certain expenses for tax purposes and includes provision for income tax of RUB 2 283 million (31 December 2017: RUB 2 079 million) and other taxes of RUB 129 million (31 December 2017: RUB 321 million), including the respective penalties. The reversal of provision in 2018 and 2017 was due to expiry of the limitation period.

28 Accounts payable, including contract liabilities

mln RUB	31 December 2018	31 December 2017
Non-current		
Accounts payable for acquisition of development rights	6 607	9 460
Non-current liabilities from long-term lease contracts	1 611	-
Other advances	660	634
Other liabilities	123	66
	9 001	**10 160**
Current		
Advances from customers	104 553	178 258
Liabilities for the land plots and development rights acquisition, to be settled by transfer of real estate objects	5 931	6 982
Other advances	12 498	4 927
Accounts payable for construction works and other trade payables	20 777	14 805
Accounts payable for acquisition of development rights	3 661	634
Current liabilities from long-term lease contracts	2 164	-
Amounts due to customers under construction contracts	81	-
Payables to employees	5 405	4 371
Other taxes payable	5 915	2 922
Other payables	3 693	2 013
	164 678	**214 912**

Other non-current liabilities include non-controlling interest in limited liability companies registered at the territory of Russian Federation in the amount of RUB 123 million (31 December 2017: RUB 60 million).

The information about the Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 29.

29 Financial instruments

(a) Overview

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 Board of Directors has overall responsibility for the establishment and oversight of the Group's 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, aims to develop 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 the Group's receivables from customers and other investments, including loans issued. During the reporting period, there were no significant changes in the structure of financial assets, their credit quality and valuation methods.

(i) Sale of apartments to individuals

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are mostly arranged on a prepayment basis.

(ii) Accounts receivable from organisations

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

The management 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 offered. These terms also specify certain penalties in the event of late payment.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including type of contract, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

(iii) Guarantees

The Group's policy is to provide financial guarantees only for the Group's subsidiaries.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group allocates investments and material accounts receivable measured at amortized cost to different grades of exposure to credit risk based on data determined to be predictable for the risk of financial losses (including but not limited to external ratings, financial statements and available public information) and applies experienced credit judgements.

Expected credit loss is calculated for the accounts receivable according to overdue status and actual credit loss experience over the past three years.

The Group has developed policies and regulations to monitor credit risk which aimed to control the risk.

The maximum exposure to credit risk at the reporting date was:

mln RUB	31 December 2018	31 December 2017
Loans issued and bank deposits recorded in other investments	685	728
Accounts receivable	11 792	7 229
Amounts due from customers on construction contracts	189	-
Cash and cash equivalents	58 601	45 452
	71 267	**53 409**

Cash and cash equivalents are placed with banks and financial institutions, which are rated not less than B+, based on classification of international rating agencies "S&P Global Ratings", "Fitch" or "Moody's".

Impairment losses

The change in the allowance for impairment (expected credit losses) in respect of financial assets of the Group measured at amortised cost during the year was as follows:

	Note	Other investments	Accounts receivables	Total
Amounts before application of IFRS 9	7(b)	**182**	**834**	**1 016**
Adjustment on initial application of IFRS 9	7(b)	113	423	536
Impairment loss allowance as at 1 January 2018	7(b)	**295**	**1 257**	**1 552**
Increase of expected credit losses for the period, net		25	567	592
Impairment loss allowance as at 31 December 2018		**320**	**1 824**	**2 144**

During the reporting period there was no cases of credit ratings downgrading.

The following table provides information about the credit rating of accounts receivable and loans issued:

mln RUB	Credit rating	Estimated weighted average loss rate as at 1 January 2018 according to IFRS 9	Gross carrying amount as at 1 January 2018 according to IFRS 9	Impairment loss allowance as at 1 January 2018 according to IFRS 9	Gross carrying amount as at 1 January 2018 according to IFRS 9	Estimated weighted average loss rate as at 31 December 2018 according to IFRS 9	Gross carrying amount as at 31 December 2018 according to IFRS 9	Impairment loss allowance as at 31 December 2018 according to IFRS 9	Gross carrying amount as at 31 December 2018 according to IFRS 9
Loans issued and other investments	A- to A++	0,00%	36	-	36	11,05%	155	(17)	138
	B- to B++	1,50%	371	(6)	365	16,11%	12	(2)	10
	C- to C++	10,00%	30	(3)	27	7,34%	255	(19)	236
	D- to D++	32,73%	278	(91)	187	20,77%	514	(107)	407
	E- to E++	0,00%	-	-	-	0,00%	-	-	-
	Default	100,00%	195	(195)	-	98,06%	180	(176)	4
			910	**(295)**	**615**		**1 116**	**(321)**	**795**
Accounts receivable	A- to A++	0,00%	910	-	910	0,01%	4 585	(1)	4 584
	B- to B++	0,75%	4 565	(34)	4 531	0,56%	4 799	(27)	4 772
	C- to C++	12,02%	1 531	(184)	1 347	7,21%	3 573	(257)	3 316
	D- to D++	19,05%	21	(4)	17	0,00%	3	-	3
	E- to E++	80,00%	5	(4)	1	50,75%	16	(8)	8
	Default	100,00%	1 031	(1 031)	-	91,64%	1 670	(1 531)	139
			8 063	**(1 257)**	**6 806**		**14 646**	**(1 824)**	**12 822**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

Group's financial department carries out liquidity risk management (including risks which the Group would face in the long-, medium- and short-term periods) under governance approved and provided by the Board of Directors that is reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balances available at any time.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants and, in case of the risk of default, approaches the lenders to amend the respective facility agreement, before any event of default occurs.

The following are the contractual maturities of the financial liabilities, taking into account the expected interest payments, with the exception to provide interim payments to the bank each quarter, the information of which is provided in note 29(e).

31 December 2018				**Contractual cash flows**						
mln RUB	**Contractual interest rate**	**Effective interest rate**	**Carrying value**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-5 yrs**	**5-10 yrs**	**Total**
Bank loans	variable interest rate	variable interest rate	4 473	-	1 215	4 500	354	1 517	-	7 586
Bonds	8,00%-13,00%	10,95%	53 352	-	18 323	4 583	12 420	11 345	7 000	53 671
Interest payable	-	-	1 315	3 461	3 121	3 644	2 043	1 979	2 172	16 420
Accounts payable	-	-	49 956	40 792	1 282	2 156	1 975	2 927	4 350	53 482
Finance lease liabilities	23,00%	23,00%	20	3	5	9	3	-	-	20
			109 116	**44 256**	**23 946**	**14 892**	**16 795**	**17 768**	**13 522**	**131 179**

31 December 2017				**Contractual cash flows**						
mln RUB	**Contractual interest rate**	**Effective interest rate**	**Carrying value**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-5 yrs**	**5-10 yrs**	**Total**
Bank loans	13,50%	13,51%	480	56	59	142	174	49	-	480
Bonds	10,75% -14,25%	13,00%	57 684	-	13 233	25 522	4 364	14 540	-	57 658
Interest payable	-	-	2 105	3 546	2 935	3 941	1 910	2 193	-	14 525
Accounts payable	-	-	34 271	24 309	1 309	2 582	2 048	3 798	5 337	39 383
Finance lease liabilities	23,00%	23,00%	217	66	64	86	1	-	-	217
			94 757	**27 977**	**17 600**	**32 273**	**8 497**	**20 579**	**5 337**	**112 263**

(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.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled on a net basis.

(i) Currency risk

The Group is exposed to currency risk on purchases and cash balances that are denominated in a currency other than the Russian Rouble (RUB). These transactions, which could be exposed to foreign currency risks are typically denominated in U.S. Dollars (USD).

Borrowings and arising interest payments are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in RUB. This provides a natural economic hedge and no currency derivatives are used by the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

Exposure to currency risk of the group determined from the nominal value of financial instruments was immaterial in 2018 and 2017.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be attributed to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Profile

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

mln RUB	Note	31 December 2018	31 December 2017
Financial assets		**26 439**	**28 825**
Bank deposits in cash and cash equivalents		24 157	26 566
Long-term receivables	21	1 597	1 531
Loans receivable and bank deposits in other investments	20	685	728
Financial liabilities		**(72 514)**	**(70 580)**
Accounts payable for acquisition of land plots	28	(10 268)	(10 094)
Loans and borrowings	26	(62 246)	(60 486)
		(46 075)	**(41 755)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values and carrying amounts

As at 31 December 2018 and 31 December 2017 the carrying values of the Group's financial assets and liabilities did not differ significantly from their fair values, with the exception of bonds. As at 31 December 2018 the fair value of bonds, net of purchased by the Group, exceeded their carrying amount by RUB 1 413 million (as at 31 December 2017 by RUB 1 333 million).

(f) Capital management

The Group'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 Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 36.

30 Contingent liabilities

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations.

The Group does not have insurance in respect of any "force majeure" circumstances, which may arise in relation to constructed buildings in the period after the sales have been recognized until the time when ownership rights are registered with the customer or acceptance act is signed in respect of share participation agreements. The risk of damage in case of "force majeure" circumstances in these periods of time is borne by the Group.

As stipulated by the Federal Law №214-FZ, the Group, in its capacity of developer, participates in the Society of mutual liability insurance for developers. The Group has insured its civil liability for any failure to transfer completed properties to customers.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings relating to contracts with customers to supply properties, construction materials and construction services. The amount of RUB 2 036 million related to accounts payable was disputed in courts as at 31 December 2018 (as at 31 December 2017: RUB 882 million). Changes in the amount of RUB 1 382 million were accrued in accounts payable as at 31 December 2018 (as at 31 December 2017: RUB 736 million). Management believes, based on legal advice, that the actions can be successfully defended and therefore no losses will be incurred, above the amounts provided for in accounts payable. The legal claims are expected to be settled in the course of the next reporting period.

(c) Taxation contingencies

The taxation system

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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. Recent events within the Russian Federation demonstrate that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group’s tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Group’s 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, these interpretations by the tax authorities and courts could be different, especially considering the recent reform of the higher courts, responsible for arbitration of tax disputes, and the effect on these consolidated financial statements, if the tax authorities are successful in enforcing their interpretations, could be significant.

In addition, the Group acquires works, services, raw materials and materials from various suppliers that are fully responsible for tax and financial reporting compliance. Meanwhile, the current practice of the tax authorities indicates that claims of the tax authorities to the suppliers related to non-compliance with tax legislation can lead to additional tax risks for the Group. If tax authorities substantiate the legitimacy of such claims the Group can be filed with additional tax claims despite the fact that the management of such suppliers are fully responsible for completeness and timelessness of tax payments. Management has not made any provisions for such liabilities in these consolidated financial statements on the grounds that the risk estimate of cash outflow related to settlement of such liabilities is possible but not probable. The Group`s management believes that it is impossible to determine the financial consequences of potential tax liabilities which may arise as the result of transactions held with such suppliers due to diversity of approaches to assess the degree and amount of violation of the tax legislation.

(d) Warranties for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is delivered/constructed, which, in accordance with applicable law, is a period of up to three years from the date of the full sale. Based on prior experience with warranty claims, which have not been significant, no contingent liabilities have been recognised in these consolidated financial statements in relation to warranties for work performed.

31 Significant subsidiaries

As at 31 December 2018 the Group controlled 202 legal companies (31 December 2017: 217). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements.

The list of the most significant subsidiaries is listed below:

		Effective ownership		Voting rights	
	Country of incorporation	31 December 2018	31 December 2017	31 December 2018	31 December 2017
JSC "Pervaya Ipotechnaya Kompanya-Region" ("PIK-Region")	Russia	100%	100%	100%	100%
JSC "PIK-Industry"	Russia	99%	99%	99%	99%
LLC "Tyrone"	Russia	100%	100%	100%	100%
LLC "Lotan"	Russia	100%	100%	100%	100%
CJSC "Monetchik"	Russia	100%	100%	100%	100%
LLC "TekhnoStroy"	Russia	100%	100%	100%	100%
JSC "Zavod zhelezobetonnykh izdeliy №23"	Russia	100%	100%	100%	100%
LLC "Zagorodnaya usadba"	Russia	100%	100%	100%	100%
LLC "RusStroyGarant"	Russia	100%	100%	100%	100%

32 Related party transactions

(a) Parent and ultimate controlling party

As at 31 December 2018 and 31 December 2017 there were no immediate or ultimate parent companies.

As at 31 December 2018 the Company is ultimately controlled by Mr. Sergey E. Gordeev, who controls 74,81% of the Group (31 December 2017: 74,59%).

(b) Management remuneration

Key management remuneration accrued during the year is represented in following table:

mln RUB	2018	2017
Salaries and bonuses	1 524	1 572
Insurance contributions	248	258
	1 772	**1 830**

(c) Transactions with related parties

Related parties' balances

mln RUB	31 December 2018	31 December 2017
Loans issued	-	155
Advances issued	99	26
Accounts receivable	339	3
Advances received	(14)	(61)
Accounts payable	(372)	(339)
Total	**52**	**(216)**

(d) Transactions with other related parties

During 2018 executive directors purchased from the Group residential apartments in uncompleted buildings for the total amount of RUB 4 million (2017: RUB 92 million).

33 Subsequent events

On 29 March 2019 international rating agency "Standard & Poor's" upgraded credit rating of the Group from B to B+. The forecast of the rating is stable.

34 Significant accounting policies

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see note 8).

The Group measures goodwill at the acquisition date as follows:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net amount (generally, fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for directly in equity.

(iii) Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those companies in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another company. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(b) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(i) Transactions eliminated on consolidation

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

(c) Revenue

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

Revenue from the sale of real estate property is measured at the consideration received or receivable, net of allowances and trade discounts, if any, and includes significant financing component that reflects the price that a customer would have paid for real estate objects if the customer had paid cash when (or as) performance obligations is satisfied. Non-cash consideration is measured at fair value of transferred goods or services.

The revenue is recognized at a point in time or over the time, when the control is being transferred to the customer.

The Group measures significant financing component when the contract with customer is registered using incremental borrowing rate for the Group as a discount rate and taking into account the term of construction. For payments in instalments the Group uses borrowing rate available for individuals for purchase of real estate. Significant financing component is included in total transaction price and is accounted in revenue for the period according to stage of completion.

The transfer of control or the time of performance obligation satisfaction depends on individual terms of contract with customer. The major part of the Group's revenue is represented by share participation agreements. Before 1 January 2018 the revenue from share participation agreements was recognized at the end of construction when the building is commissioned by the State authorities.

In cases when sale of real estate is performed in accordance with requirements of the Federal Law No.214-FZ, according to which the developer is entitled to the full amount of consideration under the contract if the construction of object is completed without violation of terms of the share participation agreement, and the customer has no right to waive the contract obligations unilaterally on the pre-trial basis, the revenue is recognized "over time" according to stage of completion (note 7(b)).

The Group uses input method to measure the progress towards satisfaction of the performance obligation, based on the ratio of costs actually incurred to total planed costs.

Stage of completion of the contract is measured monthly as proportion of actual costs to budgeted costs.

The costs to acquire or rent land plots and the construction of social and cultural infrastructure are excluded from actual and budgeted costs and are recognized in the cost of sales for the period when control for real estate properties passed to the buyers.

(ii) Revenue from construction and designing services

Income and expenses from construction contracts are recognized in profit or loss and other comprehensive income over the time using the input method for measuring the stage of completion.

Costs related to contracts are recognized as soon as they are incurred. Anticipated loss from the contract is immediately accounted for in the consolidated statement of profit and loss and other comprehensive income.

The revenues of subsidiaries from construction services to third-party technical supervisor who renders services of technical supervision to other entities of the Group, are classified as intragroup sales and eliminated by reducing total amount of revenue and corresponding amount of cost of sales.

(iii) Other revenue

Other revenue generally consists of revenue from the sale of construction materials and revenue from provision of heating, water and electricity and is recognized in profit or loss as exercised.

(d) Other expenses

(i) Social expenditure

The Group contributes to social programs and charity, and recognizes the respective costs in the profit or loss as incurred.

(e) Finance income and costs

Finance income comprises interest income on funds invested, gains on disposal of financial assets, foreign exchange gains, unwinding of discount, accounted for on initial recognition of financial instrument, and significant financing component for instalment payments from customers. Interest income is recognized using the effective interest method.

Finance costs comprise interest expense on borrowings, lease liabilities, losses on disposal of financial assets, unwinding of discount, accounted for on initial recognition of financial instrument, significant financing component on advances obtained from customers, and impairment losses recognised on financial assets.

Such categories as foreign exchange differences and significant financing component are presented in net amounts.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The Group uses exemption which allows not to capitalize borrowing costs for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis. Profit and losses resulting from changes in foreign currency exchange rates are recognized as net financial income or financial expense, depending on whether they reflect net profit or net loss. Therefore, borrowing costs related to construction of mass residential premises are not capitalized but expensed as incurred.

(f) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost denominated in functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost denominated 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 translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(g) Employee benefits

(i) Contributions to state pension fund

A defined contribution plan is a post-employment benefit plan under which a company pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay any additional amounts. Obligations for contributions to defined contribution pension plans, including Russia's State Pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the reporting period in which the employees render services under labor agreements, are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided in accordance with labor agreements. A liability is recognised in the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the this liability can be estimated reliably

(h) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Provision for costs to complete

According to the urban construction norms, the Group takes responsibility to construct social and cultural infrastructure which will be transferred to authorities and governing bodies. As the apartment building is built, the Group includes in its cost of construction all expenditures for such objects even if they are not incurred and recognizes provision for cost to complete. The estimated future costs are apportioned to properties being built and sold proportionally to the square meters and are recognized with reference to the stage of completion of each property.

(ii) Tax provisions

The Group provides for tax exposures, including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or cost of sales.

(iii) Legal costs

A provision is recognised if it is probable that the Group will lose the litigation in which the Group is the respondent and the need arises to settle the obligation.

(iv) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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 its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant 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.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. 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 based on the cost of an asset less its estimated residual value.

Depreciation is generally 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.

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

- buildings 20-60 years;
- plant and equipment 5-25 years;
- fixtures and fittings 5-10 years.

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

(j) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

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

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in construction or for administrative purposes.

Investment property comprises land plots with undetermined future use.

Investment property is initially measured at cost and subsequently measured at fair value with any change therein recognised in profit or loss.

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

The Group reclassifies land plots from investment property to inventories when the development on such land plots are included in the two-year operational construction plan.

(l) Financial instruments

(i) Recognition and initial measurement

Trade accounts receivable and issued debt securities are recognized at the moment of origin. All other financial assets and liabilities initially recognized when the Group becomes party to the contractual provision of the mentioned instruments.

Financial assets (unless they are trade receivables without a significant financing component) or financial liabilities are initially recognized at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue. Trade receivables which do not contain significant financing component are initially measured at transaction price.

(ii) Non-derivative financial assets – classification and measurement

Transition to IFRS 9 was described in note 7(c). Accounting policy which is applied from 1 January 2018 is presented below.

Financial assets are reclassified subsequently to initial recognition only when the Group changes its business model for managing financial assets. In this case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Financial assets are measured at amortised costs only if both of the following conditions are met and the asset is not designated as at FVTPL:

- asset is held within business model whose objective is to hold assets to collect contractual cash flow; 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.

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that effects the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Subsequent measurement of financial assets can be performed by following accounting methods:

- ***Financial assets at fair value through profit and loss*** are measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss for the period.

- ***Financial assets at amortised cost*** are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- ***Debt investments at fair value through other comprehensive income*** are measured at fair value. Interest income calculated using effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- ***Equity investments at fair value through other comprehensive income*** are measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Non-derivative financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Cash from contracts with customers placed accrued on escrow accounts are not recognized in the Group's accounting until the time when conditions are satisfied for cash to be transferred to the Group. Project financing obtained by the Group with effectively reduced rate due to escrow accounts are measured at fair value on initial recognition.

(iv) Derecognition – financial liabilities

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

The Group also derecognizes a financial liability when its terms are modified so that cash flows on the modified liability change significantly. In this case new financial liability with modified terms is recognized at fair value. The difference between carrying value of the previous financial liability and fair value of new financial liability with modified terms is recognized in profit or loss.

If a modification or exchange of terms does not result in the derecognition of the financial liability, the Group applies accounting policy consistent with the requirements for adjusting gross carrying amount of a financial asset, a modification of terms does not result in the derecognition of the financial asset. That means that the Group recognizes any adjustment to the amortised cost of the financial liability arising from such modification or exchange in profit or loss at the date of the modification or exchange.

Changes in contractual cash flows on a financial liability are not considered as a modification, if they result from existing terms of the contract, for example, changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the contract allows banks to do so and the Group has an option to redeem the liability at par without substantial penalties. Changes of interest rates due to changes in market conditions are accounted for by the Group similarly to financial instruments with floating rate, the interest rate is adjusted prospectively.

(v) Derecognition – financial assets

The Group derecognized a financial asset when the contractual rights to cash flows from the financial asset expire, or it transfer the rights to receive the contractual cash flows in a transaction in which substantially all of risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to release the asset and settle the liability simultaneously.

(vii) Financial guarantee agreements

Guarantee granted to secure the obligations of third and related parties are accounted for in accordance with IFRS 4 “Insurance contracts”.

(m) Share capital

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

(n) Right-of-use assets

From 1 January 2018 the Group recognizes assets and liabilities related to operating lease of land plots for the construction of real estate and office buildings. The key elements of accounting policy for application of IFRS 16 are described in note 7. The asset is recognised at amortised cost. The depreciation is included in the cost of construction and is recognized in cost of sales similarly to the costs of the land plots using the percentage of completion for sold properties. The depreciation of leased office buildings is recognized in administrative expenses. In case the active construction on the leased land plots is not in progress, the depreciation is written off to other expenses.

(o) Inventories

Inventories include construction in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, as well as prepayments made to invest in construction of properties for sale, raw materials, other work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and selling expenses.

The cost of real estate properties under construction is determined on the basis of specifically identified individual costs. These costs are allocated to individual apartments on a pro rata basis relative to their size. The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project.

When performing a construction of residential real estate, the Group may assume the following additional obligations:

- delivery of certain properties to the local authorities upon completion of their construction, e.g., schools, kindergartens, etc., free of consideration receivable;
- construction of certain infrastructure facilities in exchange for the ability to develop the properties, e.g., electricity, sewage systems, roads;
- construction of certain objects for public use, where the expected compensation from the buyers will not completely reimburse the Group’s costs incurred, e.g., certain parking spaces;

- entering into agreements with local authorities to complete construction of certain residential properties where apartments were pre-sold by a predecessor developer, however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

If the fulfilment of the terms of such obligations is directly related to the construction of the residential real estate by the Group, such costs are included in the total costs of construction of properties which these obligations relate to.

The total cost of construction includes construction expenses (direct or indirect), acquisition of land plots/rights-of-use, accrued reserves with relation to above mentioned expenditures based on the stage of completion of each property (apartment building). The stage of completion is determined without reference to the last two types of expenses, which are included in cost of sales proportionally to sold square meters.

All general construction expenses, onerous contracts and expenses to construct social and cultural infrastructure are allocated between constructed properties proportionally to square meters, being sold.

The cost of inventories except for construction in progress, intended for sale, and resources invested in construction of property, intended for sale, is calculated using weighted average costs and includes purchase costs, production and processing expenditures, and other expenses on the transportation to current location and bringing to current condition. The cost of manufactured inventories and work in progress includes the proportion of overheads based on standard production capacity.

The Group's normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be sold within twelve months after the reporting date.

(p) Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group recognizes loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measure loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. An impairment allowance on accounts receivable is generally subsequently may be utilized against losses except for cases when the Group is definite in non-repayment and recognizes the loss directly as a reduction of financial asset.

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 assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be 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 realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or shorter period if the expected life of the instrument is less than 12 months).

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

Measurement of ECLs

ECLs are 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.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the asset.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portioned thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) 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 year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the 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 and 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 jointly controlled companies to the extent that 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.

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 used. 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.

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 company, or on different tax companies, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group`s other components. Operating results of the segments are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

35 New Standards

The following amendments to Standards and interpretations which haven't become effective in 2018 financial statements are not expected to have a material impact on the Group's consolidated financial statements:

- Interpretation of IFRIC (IFRIC) 23 "Uncertainty over Income Tax Treatment"
- "Prepayment Features with Negative Compensation" (amendments to IFRS 9)
- "Long-term Interests in Associates and Joint Ventures" (amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement" (amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015-2017-various standards
- Amendments to References to the Conceptual Framework
- IFRS 17 "Insurance Contracts"

36 Non-IFRS measures

Net debt

mln RUB	Note	31 December 2018	31 December 2017
Loans and borrowings	26	59 160	60 486
Project financing	26	3 086	-
Less: Cash and cash equivalents	22	(58 601)	(45 452)
Net debt		**3 645**	**15 034**

Net debt except for escrow accounts balances

mln RUB	Note	31 December 2018	31 December 2017
Loans and borrowings	26	59 160	60 486
Project financing	26	3 086	-
Less: Cash and cash equivalents	22	(58 601)	(45 452)
Less: Escrow accounts cash balances	22	(1 145)	-
Net debt		**2 500**	**15 034**

Development capital expenditures except for cash paid for the acquisition of development rights

mln RUB	Note	2018	2017
Change in:			
Construction in progress, intended for sale	19	(1 991)	(16 722)
Finished goods and goods for resale	19	4 410	7 521
Advances to suppliers for acquisition of subsidiaries and development rights	21	(6 090)	13 862
Trade payables on construction contracts and other trade receivables	28	(5 972)	5 022
Accounts payable for acquisition of land plots	28	(3 027)	197
Provision for cost to complete and provision for onerous contracts	27	1 860	(7 693)
		(10 810)	**2 187**
Cost of sales of real estate objects		184 342	141 972
Acquisition of development rights and land plots	19	(21 490)	(7 258)
Advances granted for acquisition of investment rights		(1 562)	(8 575)
Development capital expenditure except for cash paid for the acquisition of development rights		**150 480**	**128 326**

Proceeds from sales of real estate

mln RUB	Note	2018	2017
Change in advances from customers	10	(3 436)	18 525
Revenue from sales of real estate objects	10	236 302	169 859
Change in accounts receivable including contract assets	10	588	-
VAT		-	1 236
Cash collections from sales of real estate objects		**233 454**	**189 620**

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

mln RUB	**Note**	**2018**	**2017**
Profit/(loss) and total comprehensive income for the period		21 252	3 154
Plus: Depreciation of property, plant and equipment and amortisation of intangible assets	16, 17	2 237	1 649
Plus: Interest expense	11	9 373	11 333
Plus: Significant financing component on contracts with customers		5 361	-
Less: Interest income	11	(2 749)	(3 729)
Plus: Income tax expense/(benefit) including income tax from discontinued operations	15	7 329	1 198
EBITDA		**42 803**	**13 605**

Adjusted earnings before interest, taxes, depreciation and amortization

mln RUB	**Note**	**2018**	**2017**
EBITDA		**42 803**	**13 605**
Less: Significant financing component part to transaction price recognized in revenue		(10 069)	-
Impairment loss on non-financial assets, net	23	180	2 538
Change in fair value of investment property	18	70	(967)
Gain on bargain purchase of subsidiaries		-	-
Impairment loss on financial assets, net	11	668	329
Reversal of write-off of accounts payable	11	(114)	(51)
Foreign exchange gain, net	11	(264)	(556)
Loss on disposal of property, plant and equipment	12	200	263
Loss/(gain) from disposal of subsidiaries, development rights and investment property, net	9(b)	30	(161)
Penalties and fines, including reversals, net	12	1 787	1 755
Result from disposal of other assets	12	79	119
Other financial income	11	(179)	(176)
Gain from modification of a long-term financial liability	11	-	(1 050)
Adjusted EBITDA		**35 191**	**15 648**

Initial application of IFRS 15 (duplication)

mln RUB	2017 (before application of IFRS 15)	Effect from transition to IFRS 15 as at 1 January 2018	2017 (restated)
Revenue	175 134	75 205	250 339
Cost of sales	(146 741)	(61 079)	(207 820)
Significant financing component	-	(6 792)	(6 792)
Income tax expense	(423)	(1 625)	(2 048)
Retained earnings	**22 359**	**5 645**	**28 004**
Non-controlling interests	**535**	**64**	**599**

* The balance of retained earnings as at 31 December 2017 in the amount of RUB 22 788 million is presented excluding the effect of transition to IFRS 9 in amount of RUB 429 million, net of tax.

mln RUB	Amounts before the application of IFRS 15	Effect from transition to IFRS 15	Restated
Continuing operations			
Revenue	191 819	53 938	245 757
Cost of sales	(160 736)	(29 920)	(190 656)
Gross profit	**31 083**	**24 018**	**55 101**
Profit from operating activities	**13 487**	**24 018**	**37 505**
Significant financing component	-	(5 361)	(5 361)
Profit before income tax	**9 924**	**18 657**	**28 581**
Income tax	(2 571)	(4 758)	(7 329)
Profit and total comprehensive income for the year from continuing operations	**7 352**	**13 900**	**21 252**
Attributable to:			
Owners of the Company	6 574	13 900	**20 474**
Non-controlling interests	778	-	**778**

The following table summarizes the cumulative effect of initial application of IFRS 9, IFRS 15 and IFRS 16:

mln RUB	31 December 2017 (before adjustment)	Application of IFRS 15	Application of IFRS 9	Application of IFRS 16	1 January 2018 (restated)
Property, plant and equipment	-	-	-	172	172
Other investments, non-current	395	-	(94)	-	301
Accounts receivable, non-current	1 531	-	(184)	-	1 347
Deferred tax assets	7 397	-	107	-	7 504
Inventories	243 783	(51 738)	-	2 503	194 548
Other investments, current	361	-	(19)	-	342
Accounts receivable, including contract assets, current	29 620	3 078	(239)	(74)	32 385
Other assets	95 101	-	-	-	95 101
Total assets	**378 188**	**(48 660)**	**(429)**	**2 601**	**331 700**
Retained earnings	22 788	5 645	(429)	-	28 004
Non-controlling interests	535	64	-	-	599
Deferred tax liabilities	13 365	1 625	-	-	14 990
Accounts payable, non-current	-	-	-	2 601	2 601
Accounts payable, including contract liabilities, current	214 912	(65 335)	-	-	149 577
Provisions	20 544	9 341	-	-	29 885
Other liabilities and equity	106 044	-	-	-	106 044
Total equity and liabilities	**378 188**	**(48 660)**	**(429)**	**2 601**	**331 700**

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Supplementary information not required by IFRS

Adjusted EBITDA excluding cost of land, recognized in cost of sales

mln RUB	Note	2018 (unaudited)	2017 (unaudited)
Adjusted EBITDA		35 191	15 648
Cost of land plots included in cost of sales		8 875	5 047
Cost of acquisition of projects recognized at fair value included in cost of sales		12 231	6 673
Adjusted EBITDA excluding cost of land		**56 297**	**27 368**

Net cash from operating activities before acquisition and sale of development rights and land plots and prepayments for development rights

mln RUB	2018	2017
Net cash from operating activities before changes in inventories, trade and other receivables and payables and provision for cost to complete	**33 642**	**14 108**
Changes in:		
Inventories before acquisitions and sale of development rights and land plots	22 738	16 265
Trade and other receivables, including contract assets and excluding prepayments for development rights and land plots	5 693	(14 531)
Trade and other payables, including contract liabilities	5 823	30 609
Provision for cost to complete	1 952	8 018
Cash flows from operations before income taxes and interest paid and before acquisitions and sale of development rights and land plots and prepayments for development rights	**69 848**	**54 469**
Income taxes paid	(5 446)	(4 559)
Interest paid	(8 861)	(9 848)
Net cash flows from operations before operating activities and sale of development rights and land plots and prepayments for development rights	**55 541**	**40 062**
Acquisition of development rights and land plots	(21 490)	(7 258)
Sale of development rights and land plots	(1 380)	1 101
Prepayments for development rights	(1 562)	(8 575)
Net cash from operating activities	**31 109**	**25 330**

Идентификатор документа 3401b753-0db6-42c0-8674-7b9f98c852af

Документ подписан и передан через оператора ЭДО АО «ПФ «СКБ Контур»

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