

# A solid foundation for leadership

Annual report 2019

A solid foundation for leadership — ANNUAL REPORT 2019





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## Introduction

Founded in 1987, Etalon Group is one of the largest and most successful real estate development and construction companies in Russia, with a solid reputation and a strong competitive position in the market.

Since its inception the Company has commissioned 7 million square metres of residential real estate.

**4,915**

EMPLOYEES WORK  
IN ETALON GROUP<sup>1</sup>

**7**

MILLION SQUARE  
METRES COMMISSIONED

**No 2**

RATED NO 2 MOST  
RELIABLE DEVELOPER  
BY FORBES RUSSIA

# Striving for NEW HEIGHTS

NEW CONTRACT SALES  
INCREASED BY

**+13%**

**77,627** 2019  
RUB MLN

**68,731** 2018  
RUB MLN

CASH COLLECTIONS  
INCREASED BY

**+24%**

**77,713** 2019  
RUB MLN

**62,785** 2018  
RUB MLN

<sup>1</sup> Number of employees at the Company as of 31.12.2019.

# 2019 HIGHLIGHTS

## Operating highlights

**24%** increased cash collections year-on-year

- Set new records across several key operating performance measures: new contract sales amounted to 630 ths sqm and RUB 77.6 billion, while cash collections increased 24% year-on-year to RUB 77.7 billion.
- Average price for real estate increased 13% year-on-year to RUB 123 ths per sqm, while the average price for apartments increased 20% year-on-year to RUB 149 ths per sqm.

**RUB 46 BLN** in cash collections is the best-ever result in Moscow

- Achieved best-ever results in Moscow: cash collections and new contract sales amounted to RUB 46 billion and RUB 43 billion, respectively. The average price reached RUB 169 ths per sqm for apartments and RUB 143 ths per sqm for all types of real estate.
- Delivered 21 projects with a total combined NSA of 622 ths sqm, an increase of 30% year-on-year and an all-time high.

## Corporate highlights

**100%** stake in the Moscow developer Leader-Invest

- Consolidated a 100% stake in the Moscow developer Leader-Invest, while also gaining full control of the ZIL-Yug project.
- Sistema acquired 25% of the share capital of Etalon Group from its founder to become the Company's largest shareholder.
- Etalon Group's GDRs were admitted to trading on Moscow Exchange on 3 February 2020<sup>1</sup>.

**No 2** most reliable developer

- The Board of Directors approved an updated strategy and a revised dividend policy, as well as the launch of a buyback programme for the Company's depository receipts<sup>2</sup>.
- Etalon Group was ranked No 2 among the top 20 most reliable developers and one of the top 50 employers by Forbes Russia.

## HSE highlights

- Both the Botanica project in St Petersburg and the Residence on Pokrovskiy Boulevard project in Moscow were winners at the GREEN Awards: High Performance Buildings 2019.
- The Wings project was named the most environmentally friendly business-class residential complex in the final of the Urban Awards 2019.
- Etalon Group reported zero fatalities for the fourth year in a row.
- The Company developed a web-based platform that enables integrated oversight for managing investment and construction projects on the basis of BIM models, with a focus on monitoring workplace safety, as well as the volume of construction work carried out and the time frame involved.

**622** THS SQM

In 2019, the Company delivered 622 ths sqm at 21 projects

**RUB 77.6** BILLION

New contract sales increased by 13% year-on-year

**RUB 84.3** BILLION

Consolidated revenue in 2019 increased by 17% year-on-year to RUB 84,330 million

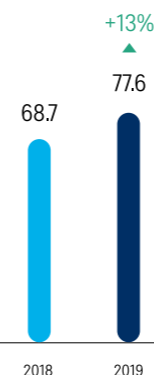
**RUB 8.9** BILLION

EBITDA for 2019 amounted to RUB 8,897 million, up 45% year-on-year

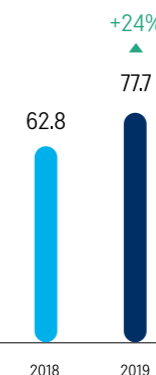
## Operating and financial highlights

	2019	2018	CHANGE <sup>3</sup> , %
<b>NSA delivered</b> , ths sqm	622	479	30%
<b>New contract sales</b> , RUB bln	77.6	68.7	13%
<b>Average price</b> , RUB ths/sqm	123	109	13%
<b>Average price (apartments)</b> , RUB ths/sqm	149	124	20%
<b>Cash collections</b> , RUB bln	77.7	62.8	24%
<b>Consolidated revenue</b> , RUB bln	84.3	72.3	17%
<b>Consolidated gross profit</b> , RUB bln	20.1	17.1 <sup>4</sup>	18%
<b>EBITDA</b> , RUB bln	8.9	6.1 <sup>4</sup>	45%

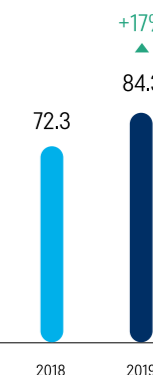
**New contract sales**, RUB bln



**Cash collections**, RUB bln



**Consolidated revenue**, RUB bln



<sup>1</sup> After the reporting date.  
<sup>2</sup> After the reporting date, at a meeting of the Board of Directors held on 24 January 2020 in Limassol, Cyprus.

<sup>3</sup> Change was calculated without rounding.  
<sup>4</sup> Restated due to a change in accounting policy with respect to capitalisation of borrowing costs and a significant financing component.

# Main events

## 2019

### I quarter

#### January

- The Board of Directors instructs the management team to explore the possibility of acquiring other developers to expand the Company's land bank.

**152** ths sqm first phase in Galactica project

- Etalon Group announces the delivery of the first phase of the Galactica project in St Petersburg with more than 152 ths sqm of NSA.

#### February

- Etalon Group acquires a 51% stake in Leader-Invest from Sistema.
- Sistema acquires a 25% stake in Etalon Group from the Company's founder, Viacheslav Zarenkov.

#### March

- Integration of Leader-Invest launched with optimisation of personnel structure for combined company, creation of unified management team and integration of Leader-Invest projects into Etalon sales network.

### II quarter

#### April

- Etalon Group completes the construction of the Residence on Pokrovskiy Boulevard.

#### May

- Etalon Group delivers the Schastye na Leninskom project.

#### June

- The Company completes the construction of the Schastye v Olimpiyskoy Derevne and Schastye v Tsaritsyno projects.

**100%** stake in ZIL-Yug



- Etalon Group acquires 100% rights for ZIL-Yug, one of the largest redevelopment projects in Moscow.

### III quarter

#### July

- Integration of Leader-Invest continues with sharing of best practices in the combined company, unified IFRS reporting standards as well as other policies and standards.

#### August

- Etalon Group purchases the remaining 49% of the share capital of Leader-Invest from Sistema, increasing its stake in the company to 100%.

#### September

**0.19** USD per share/GDR

- Etalon Group pays out its final dividend for 2018 in the amount of USD 56 million, or USD 0.19 per share/GDR.

- Launch of sales at Schastye na Lomonovskom project.

- Integration of Leader-Invest completed as planned.



### IV quarter

#### October

- Launch of Project on Chernigovskaya Street in the Moskovskiy district of St Petersburg.
- The Company completes its first transactions using escrow accounts in both Moscow and St Petersburg.
- Etalon Group's Botanica and Silver Fountain projects win European Property Awards.



#### November

- The Company delivers three projects: Schastye na Maslovke, Schastye v Lianozovo and Schastye na Volgogradke.

- Etalon Group begins sales at its Nagatino i-Land project.

#### December

- Construction of the Fusion business-class residential complex is completed.

## 2020

### Key events after the end of the reporting period

#### January

- Etalon Group applies for listing on Moscow Exchange.
- The Board of Directors unanimously supports Etalon Group's development strategy to 2024, which proposes a major digital and technological transformation of the Company's business operations while maintaining a focus on growing its residential real estate development business, as well as the development of complementary businesses.

**RUB 12** per share/GDR is the minimum guaranteed return

- The Company's dividend policy is updated: while maintaining the basis for dividend payments in the form of net profit under IFRS and keeping the same range for dividend payments of 40%–70% of net profit, the minimum for annual dividend payments to shareholders is set at RUB 12 per share/GDR. At the same time, the Board of Directors retains the right to refrain from recommending dividend payments for a given reporting period if the Company's EBITDA/interest expense ratio falls below 1.5x.

- In addition, the Board of Directors decides to launch a buyback programme by the end of 1Q 2020 for up to 10% of the Company's issued capital.

#### February

- Etalon Group GDRs are admitted to trading on Moscow Exchange on 3 February 2020, providing access to a wider pool of investors.



# ABOUT ETALON GROUP

Founded in 1987, Etalon Group is one of the largest and most successful real estate development and construction companies in Russia, with a solid reputation and a strong competitive position in the market. The Company focuses on construction of residential real estate for the middle class in Moscow and St Petersburg, while also providing industrial construction and property management services. Since its inception, Etalon Group has delivered 7 mln sqm of residential real estate.

We constantly seek to adapt to the needs of our current and potential customers, and we have diversified our project portfolio by launching new comfort- and business-class residential complexes based on unique concepts in various parts of Moscow and St Petersburg for different target groups. We are constantly improving our product in line with the latest innovations and trends in housing construction: setting new environmental standards for our facilities, improving planning, and investing in state-of-the-art technologies such as building information modelling (BIM) and

smart home technologies. We have been investing in the development of additional services for the residents of Etalon-built properties, introducing digital solutions for cost control and improved production and sales efficiency, and planning to explore alternatives to brick-monolithic construction techniques. These initiatives should enable us to continue to offer reasonable prices for real estate while maintaining the high quality and profitability of our projects.

## How we manage our business



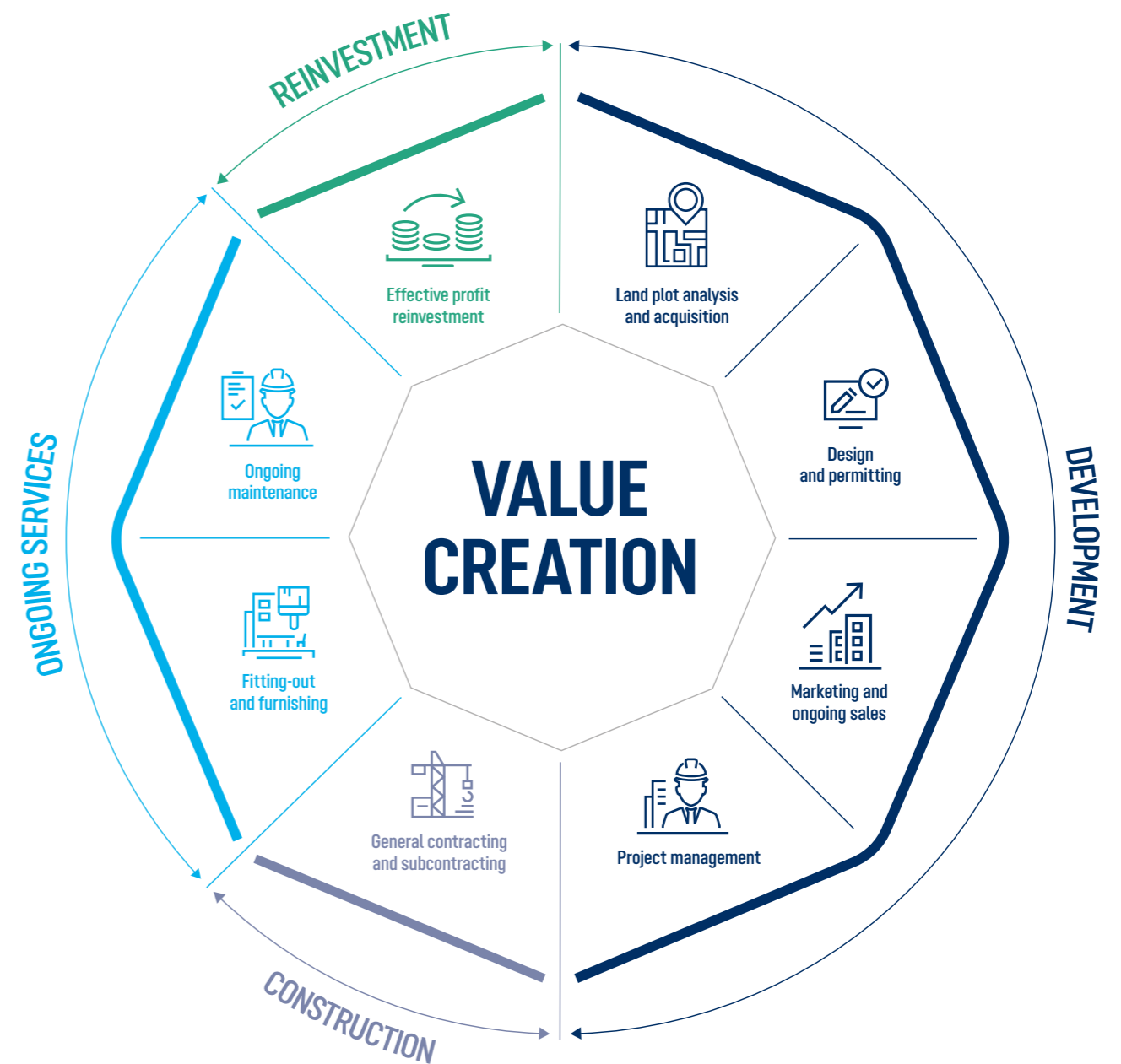
Etalon Group oversees the work of the operational units responsible for its core business of residential real estate development in Moscow and St Petersburg. We carry out construction work, are responsible for the maintenance of properties, and we also engage in industrial construction projects for third parties.

Etalon Group's sphere of responsibility includes overall management of the holding and strategic development. The Company also establishes standards and ensures that those standards are met, while also implementing policies throughout the Company, including key performance indicators, as well as new sales and marketing practices.

## Our business model: creating value at every step

With our vertically integrated business, we are able to create added value for our clients and shareholders at every stage of development: from land plot analysis and acquisition to the delivery of completed properties. A project's life cycle usually ranges from three to four-and-a-half years and is divided into three key stages: development, construction and ongoing services.

We aim to maximise return on investment at every stage, while also creating value for our customers in order to encourage loyalty to the Etalon brand. One of the ways that we are doing this is by creating an ecosystem platform that covers a wide range of convenient services for residents, from paying utility bills to food delivery and cleaning services.



**OUR COMPETENCIES**

**VALUE FOR CUSTOMERS AND SOCIETY**

**VALUE FOR SHAREHOLDERS**



We select only those projects that can provide a solid basis for the development of a high-quality product and that will ensure high returns on invested capital.

We take into account a range of aspects related to the location of our projects, including infrastructure, transport accessibility, environmental issues and leisure opportunities.

As a leading player in the real estate market, we are able to choose projects at advanced stages with an IRR above 20%. This allows us to create optimal conditions for a high return on capital right from the very early stages of a project.



We have unique experience in project design thanks to our in-house design institute and scientific and technical centre, as well as through cooperation with leading architects.

We create environmentally friendly and energy-efficient projects using BIM technology, while also developing and equipping the surrounding area.

Thanks to our impeccable reputation, we are able to obtain permits for land plots and start construction quickly, while our advanced design systems help reduce costs.



We have a unique regional sales network covering 57 cities, while we also invest in IT solutions, and we are constantly improving our sales and marketing practice.

We maintain two-way communication with our customers: we provide them with comprehensive information and use their feedback to guide our future work.

We are able to maintain and increase our market share despite macroeconomic fluctuations and ongoing changes in industry regulations.



Our experience in project management includes both complex, large-scale development projects of entire residential districts and industrial construction projects.

Our extensive project management experience helps to ensure the high quality, safety and timely delivery of all our projects.

We maintain stable returns on investment and accurately forecast the resources necessary for a specific project.



We have unique experience in the construction of both residential and industrial projects, having delivered a total of some 7 mln sqm.

We guarantee the quality of every project: we constantly monitor project safety using BIM technologies, and we ensure that construction deadlines are met.

We aim to reduce costs and increase returns on invested capital. We also have the flexibility to change construction volumes up or down in response to economic conditions.



We offer customers both standard and designer fit-out for individual projects.

We keep up with the latest trends in housing design and help our customers choose apartments that are ready to be lived in, which is especially valuable for our regional buyers.

By offering our customers fit-out and furnished apartments, we are able to reach a wider audience of potential buyers, thus increasing demand and providing solid and stable returns on our operations.



Our project portfolio includes 5.5 mln sqm of real estate and 24.9 thousand parking spaces.

Our in-depth knowledge of each project enables us to provide our customers with high-quality maintenance. A wide range of digital services enable residents to resolve issues related to home maintenance quickly and easily.

Efficient maintenance and the introduction of new services provide us with additional revenue and help us maintain the good reputation of our projects.



We have a strong history in effective profit reinvestment to ensure sustainable growth.

We invest in adapting and improving our product in line with consumer demand.

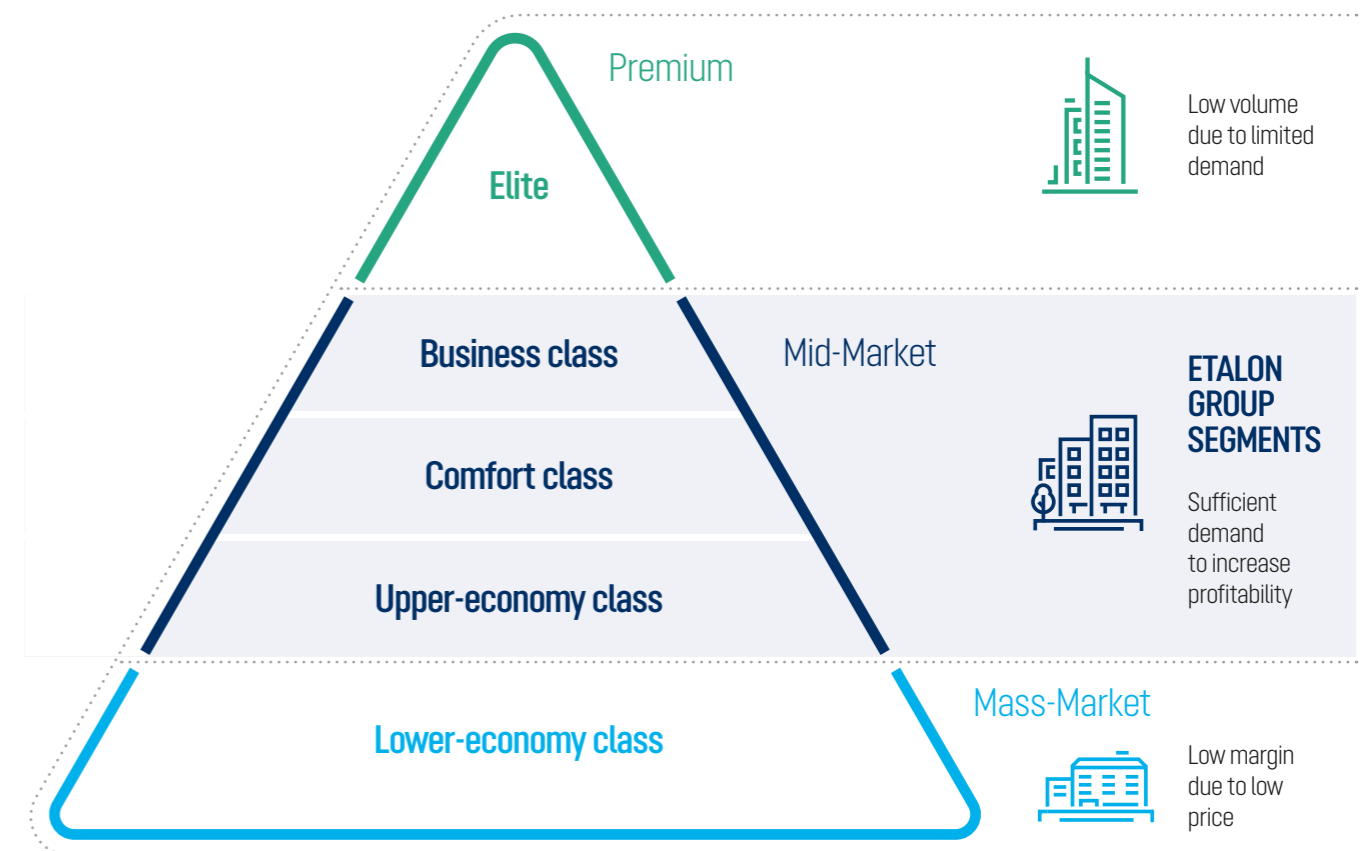
We invest profit in further development and also return earnings to our shareholders in the form of dividends.



**Focus on the most lucrative and resilient segments**

We are focused on the mid-market segment of the real estate market — upper-economy, comfort and business class — as it addresses 60–70% of potential housing demand in Moscow and St Petersburg and stands out for its high growth potential, excellent profit margins and resistance to macroeconomic changes. In recent years, our aim has been to balance our portfolio by expanding our presence in the Moscow region and increasing

the share of business-class projects. From the point of view of geographic expansion, the major event for Etalon Group in 2019 was the consolidation and integration of the Moscow-based developer Leader-Invest, which played a major role in the Company's improved results for the year. In 2017, business-class projects accounted for only 2% of our portfolio; in 2018, this rose to 7% before jumping to 18% in 2019.



# CHAIRMAN'S STATEMENT



## Sergey Egorov

Chairman of the Board of Directors,  
non-executive director

Dear shareholders,

**As I compose this letter, Etalon Group is, with the rest of the world, entering into a period of uncertainty, but I am pleased to say that Etalon Group as a company is well prepared for potential economic volatility.**

I have no doubt that Etalon Group will emerge from this period ready to continue its dynamic growth, and that we will use this time to further improve our own efficiency and internal systems.

As the spread of COVID-19 continues, I want to stress that the Board supports every measure that Etalon Group management is taking to ensure the safety and health of our stakeholders. The Company has asked office employees who are able to do so to work remotely. Management has accelerated the use of remote technologies for real estate sales and financing: banks are increasingly adopting technology that makes it possible to receive a mortgage without visiting a bank branch, and our online sales platform launched in April 2020. At the same time, we modified our construction processes to comply with all safety requirements, allowing us to keep our sites open, as Etalon Group's construction projects are critical to its operations, as is its reputation for the timely delivery of projects.

After a successful year in 2019, Etalon Group entered 2020 with a comfortable cash balance of RUB 31 billion, almost 400 ths sqm of NSA available and ready for sale, and RUB 17 billion in instalment payments for real estate falling due in the year ahead. Following the acquisition of Leader-Invest and the successful integration of the company into Etalon Group during 2019, we secured our position among the leading residential developers in both Moscow and St Petersburg, which are Russia's two largest and most economically resilient metropolitan areas.

Etalon Group's impressive operating performance in 2019 was driven both by the acquisition of Leader-Invest and the Company's organic growth of business-class projects in its portfolio. The strong operating results contributed to a record revenue of RUB 84.3 billion. Following a Board of Directors review of the dividend policy, we confirmed the target payout range of 40%–70% of IFRS net profit, while also establishing a minimum target payout of RUB 12 per share/GDR. At the same time, in the interests of the long-term sustainability of the business, the Board of Directors may refrain from recommending dividend payments if the Company's EBITDA/interest expense ratio falls below 1.5x.

With new industry regulation in place, Etalon Group has established the necessary systems and banking relationships to ensure a smooth transition to the use of escrow accounts and project financing for future residential development projects. At the same time, thanks to our strong financial position and effective management of construction cycles, a significant portion of projects currently under way have been exempted from the new rules, meaning that we will be able to adapt to the new regulations over the course of several years.

Against the backdrop of new market regulations, Etalon Group's transformation into a leader in both the Moscow and St Petersburg residential markets and the growing share of higher-margin business-class projects, the Board has maintained a focus on the digital and techno-

logical transformation of Etalon Group's business. New technologies hold great potential for the Company across nearly all aspects of the business. This includes new construction methods, further improving safety monitoring systems and greater efficiency in building design through the use of a standardised design system based on building information modelling.

We also view digital technologies as a key to the consumer-facing part of our business, primarily through the development of an ecosystem that encompasses a wide range of interactions with potential buyers and owners of Etalon Group apartments. New sales technologies, such as virtual reality tours, remote mortgage approval and online sales offer new channels to reach customers. At the same time, we plan to soon launch construction of one of the most advanced city districts in the world at ZIL-Yug. We will make this project a comfortable and modern place for residents to call home, with easy access to a full range of convenient local services and proximity to an established business cluster.

The integration of Leader-Invest helped establish Etalon Group as a leader in our core markets, but the Board also continues to review opportunities for expansion into new regions. While any such decision would be subject to careful review and depend on market conditions, we view potential M&A with a leading local developer as an attractive option, as well as organic expansion given Etalon Group's strong financial position and experience in growing a vertically integrated business.

The transformation of the business has also been reflected in Etalon Group's corporate governance, with several changes in the management team and Board of Directors. These changes have both helped to enhance our ability to deliver on the strategic goals set by the Board of Directors, and shown the depth of talent that Etalon Group has available to support its development.

Despite these changes, we have also maintained continuity in Etalon Group's strong corporate culture, its talented team and the corporate governance principles that investors have come to expect from the Company. With the completion of Etalon Group's listing on Moscow Exchange in early 2020, the Board and management team will now more than ever be focused on effective communications with our growing pool of minority shareholders, including retail investors, in line with the requirements of our listing venues and globally recognised good practice.

We are also increasingly focusing on sustainability and ESG issues, in line with the global trend towards more structured and detailed reporting on these issues. While Etalon Group, like many companies, has a long history of implementing programmes in areas ranging from building social infrastructure to occupational health and safety and personnel development, we have begun the process of bringing our reporting on these issues in line with GRI standards, and looking at what we do in terms of the United Nations Sustainable Development Goals. We are just getting started, but the Board and I support management's work towards improving reporting on Etalon Group's sustainability performance.

All of this underscores the fact that Etalon Group is a strong company with a long history of adapting to changing market situations and navigating difficult times successfully. I have every confidence that Etalon Group's future is bright and that together we will deliver significant growth in our business and in value for our shareholders.



## Gennadiy Shcherbina

CEO

Dear shareholders,

**In 2019 Etalon Group successfully completed a transformation of its business with the largest acquisition in its history, further strengthening its position among the top residential developers in Moscow.**

This impressive achievement took place against the backdrop of significant changes in industry regulation that will change the competitive landscape and benefit larger players. I have no doubt that the steps we took to expand our business last year will benefit Etalon Group and all of its stakeholders for years to come.

### Operating and financial performance

Etalon Group delivered record sales results for FY 2019. Our FY 2019 sales volume of 630 ths sqm was in line with the record-setting result of 2018, and a significant year-on-year increase in price per sqm enabled Etalon Group to increase new contract sales in monetary terms to RUB 78 billion, which nearly coincides with the guidance we announced at the beginning of the year. I am very pleased that FY 2019 cash collections reached RUB 78 billion, exceeding our target for the year.

Average prices rose from RUB 115.7 ths per sqm in 4Q 2018 to RUB 127.1 thousand in 4Q 2019 thanks to our balanced pricing policy, which was aimed at helping Etalon Group to get the most out of the transition to new industry regulations that we expect will lead to even higher prices as supply is restricted by smaller players leaving the market. Average price performance was likewise supported by the growing share of business-class projects and Moscow sales thanks to the acquisition of Leader-Invest during the year.

Following these strong operating results, revenue increased by 17% year-on-year to an all-time high of RUB 84 billion. Gross profit reached a new record of RUB 20 billion, up by 18% year-on-year. Gross profit in our core residential segment rose by 40% year-on-year on a pre-PPA basis to RUB 22.4 billion, with a pre-PPA gross profit margin increasing by 3 p.p. to 31% for 2019. Thanks to effective cost control measures, administrative expenses adjusted for one-off expenses related to the Leader-Invest acquisition and integration declined by RUB 335 million despite significant growth in the size of business. We reduced other costs considerably, which contributed to 45% year-on-year EBITDA growth to RUB 8.9 billion. At the same time, pre-PPA EBITDA showed even stronger growth, amounting to RUB 11.9 billion, which corresponds to an EBITDA margin of 14%.

<sup>1</sup> Colliers International estimate as of 31 December 2019.



# CEO'S STATEMENT

With the acquisition of Leader-Invest and consolidation of 100% of the ZIL-Yug project, we significantly replenished our land bank. The total value of Etalon Group's assets reached RUB 188 billion as of the end of 2019, which represents USD 10.3 per GDR at the Bank of Russia exchange rate on 31 December 2019<sup>1</sup>. Our project portfolio, with unsold NSA of 3.3 mln sqm at 33 projects under development and at completed residential complexes, was valued by Colliers International at RUB 176 billion. The valuation also included Etalon Group's construction and maintenance division, the value of which increased by 25% year-on-year to RUB 12 billion.

### Acquisition of Leader-Invest

Etalon Group underwent significant transformations during the past year. Once a major St Petersburg developer with a strong foothold in Moscow, we are now a leading player in both markets. This was made possible by the acquisition and full integration of Leader-Invest during 2019, as well as the completion of a transaction to take full ownership of the ZIL-Yug mega-project, with its 1.2 mln sqm of NSA in Moscow.

When we announced the acquisition of 51% of Leader-Invest in February 2019, we set as our goal to achieve full integration of all projects and business processes into Etalon Group before the end of the year. This was an ambitious goal, but we approached it with a good understanding of the technical, financial, procedural and human aspects that it would involve.

I am happy to say that we succeeded in bringing these two companies together on schedule, maintaining the best practices that each had to offer while achieving significant synergies through the elimination of duplicate functions and leveraging the benefits of Etalon Group's strong sales network combined with Leader-Invest's impressive and diversified portfolio of projects in Moscow. Now that Leader-Invest projects are available throughout Etalon Group's sales network, we are marketing all projects under the unified Etalon Group brand, and we have integrated the two companies in order to achieve the synergies we expected when we announced the transaction.

### Delivering on strategic targets

Our new strategy, which was approved by the Board of Directors in January 2020, calls for continued transformation of our business, driven largely by digitalisation and online technologies. One of our main areas of focus will be on further improvements in cost efficiency, with the ultimate goal of Etalon Group becoming a leader in terms of operational efficiency in the Russian development market.

Other areas where technology will change our business are the transformation of our production processes and our interactions with customers. We plan to explore new construction materials and techniques to add to the brick-monolithic technology that we use today. For example, we are building the ZIL-Yug project around

a smart city concept that will offer residents a wide range of digital services, ranging from food delivery to feedback on neighbourhood initiatives and paying for municipal services.

### Outlook

Looking ahead to 2020, we now understand very well that this will be a period of great uncertainty for most businesses everywhere in the world. Heading into this year, Etalon Group had a strong cash balance of RUB 31 billion and RUB 17 billion in instalment payments falling due in the next 12 months. At the same time, our debt portfolio and repayment schedule remain comfortable, and we expect government stimulus to support demand once the initial lockdown period has passed.

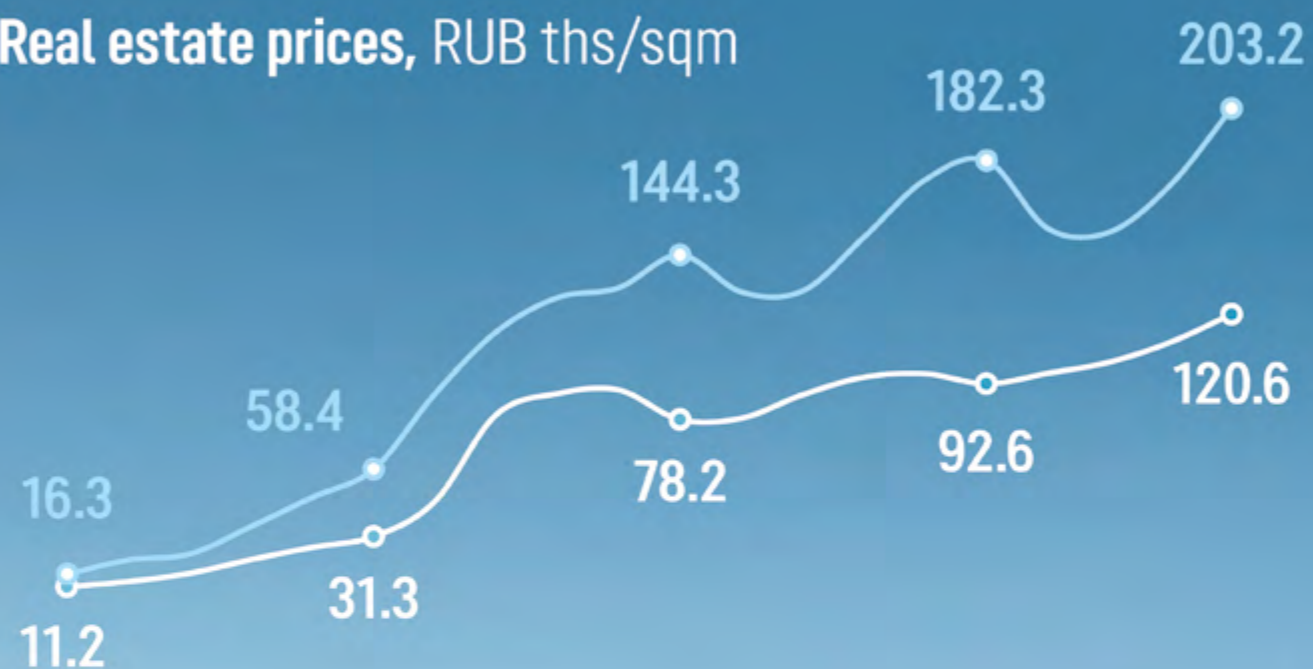
Looking further ahead, I am very excited to be part of the Etalon Group story, and to be CEO of a company that has so much promise. Today we have become a leader in our core geographies — Russia's "two capitals" of Moscow and St Petersburg. As we go forward, we will continue adapting our product to consumer demand, implementing leading-edge digital technologies and exploring new construction technologies to further enhance our business.

Thank you for your interest in Etalon Group, and I hope you will be part of our story in the years ahead.

## Business environment and trends

Over the past 20 years, the price per sqm has increased MORE THAN TENFOLD

### Real estate prices, RUB ths/sqm



- Moscow
- St Petersburg

# Looking up to the **FUTURE**



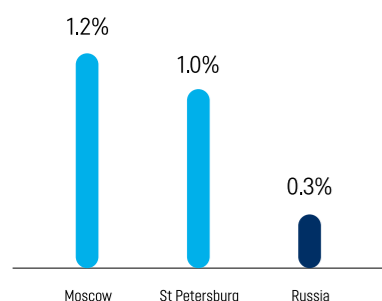
# BUSINESS ENVIRONMENT AND TRENDS

According to Etalon Group's development strategy, the Company will continue to focus on the Moscow and St Petersburg markets as the most promising in Russia. Historically, Moscow and St Petersburg have been Russia's two core business hubs. The two cities are comparable to European capitals in terms of population growth but have significantly lower unemployment rates, which contributes to a steady demand for housing.

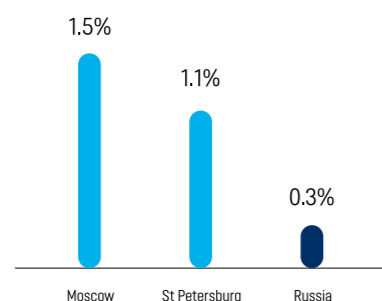
The population of Moscow and St Petersburg grew at a rate of 1.2% and 1%, respectively, in 2010–2019, exceeding the average for Russia and many large European cities. At the same time, the average annual growth rate of the working population in Russia's top two cities greatly exceeded that of the country as a whole,

amounting to 1.5% in Moscow and 1.1% in St Petersburg. As of the end of 2019, unemployment in Moscow and St Petersburg was 1.4%, which is significantly lower than the average for Russia as well as for most European cities.

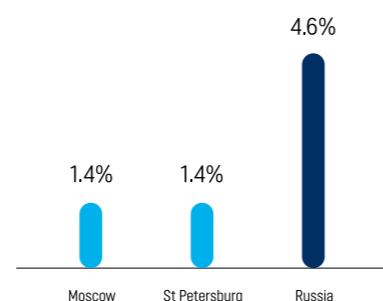
Population growth rate<sup>1</sup>



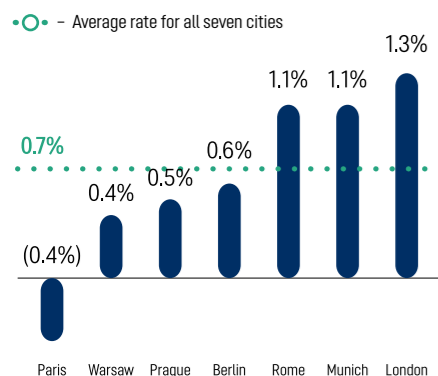
Growth rate of working population<sup>1</sup>



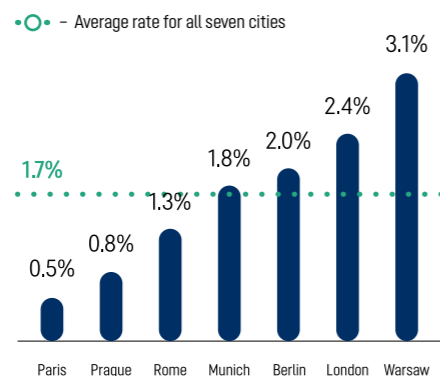
Unemployment rate<sup>2</sup>



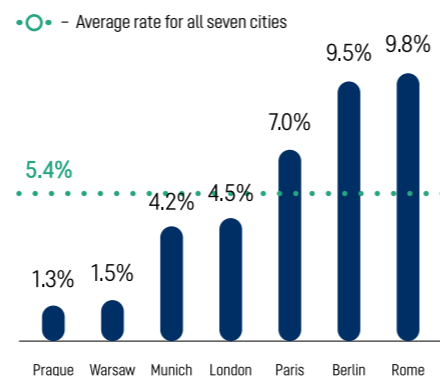
Population growth rate<sup>3</sup>



Growth rate of working population<sup>3</sup>



Unemployment rate<sup>4</sup>



1 Total annual growth rate for 2010–2019. Source: Rosstat.  
 2 Unemployment rate at the end of 2019. Source: Rosstat.  
 3 Total annual growth rate for 2009–2018. Source: National statistical agencies (CSO, ONS, DESTATIS, SOW, ISTAT, INSEE).  
 4 Unemployment rate at the end of 2018. Source: National statistical agencies (CSO, ONS, DESTATIS, SOW, ISTAT, INSEE).

## Demand

The continuing need for better living conditions, lower interest rates and unprecedented measures to support young families, coupled with the improved investment appeal of real estate, will support steady demand for housing for the foreseeable future.

### THE NEED FOR BETTER LIVING CONDITIONS

At present, Russia still needs to improve living conditions for its population. Despite the development of housing stock over the past 20 years, most of it was built before 1995<sup>5</sup> and does not meet modern standards in terms of comfort, the quality of the living environment and infrastructure.

Today, the housing stock is dominated by small-sized apartments. In Russia, there is an average of 26 sqm of living space per person. In the key regions where the Company operates — Moscow and St Petersburg — the average is 19 and 25 sqm, respectively, which is significantly lower than in European capitals.

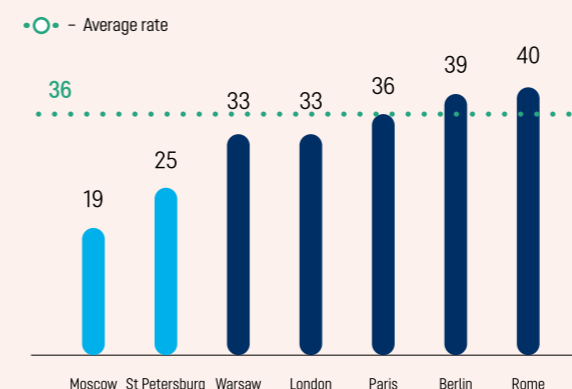
### Consumers today pay particular attention to the living environment.

The living environment created in the late 20th and early 21st centuries no longer meets the needs of the modern consumer. Demand is now shifting towards younger, generation Y buyers from 25 to 35 years of age. They take a rational approach to finances, and they value comfort and functionality. Millennials prefer finished apartments with ergonomic layouts, good transport accessibility and nearby social and commercial infrastructure.

Unlike the previous generation, who were able to acquire housing through privatisation, millennials have to buy their own homes. Many of them purchase their first apartment without having significant savings, and they have to finance their purchase with a mortgage. Young singles mainly choose small-sized apartments: studios and one-bedroom flats. At the same time, those who have already purchased their first apartment and are starting a family are looking to expand their living space by acquiring two- and three-room apartments.

### The ongoing need for improved living conditions provides a solid basis for an increase in housing demand

Living space per person<sup>6</sup>, sqm/person



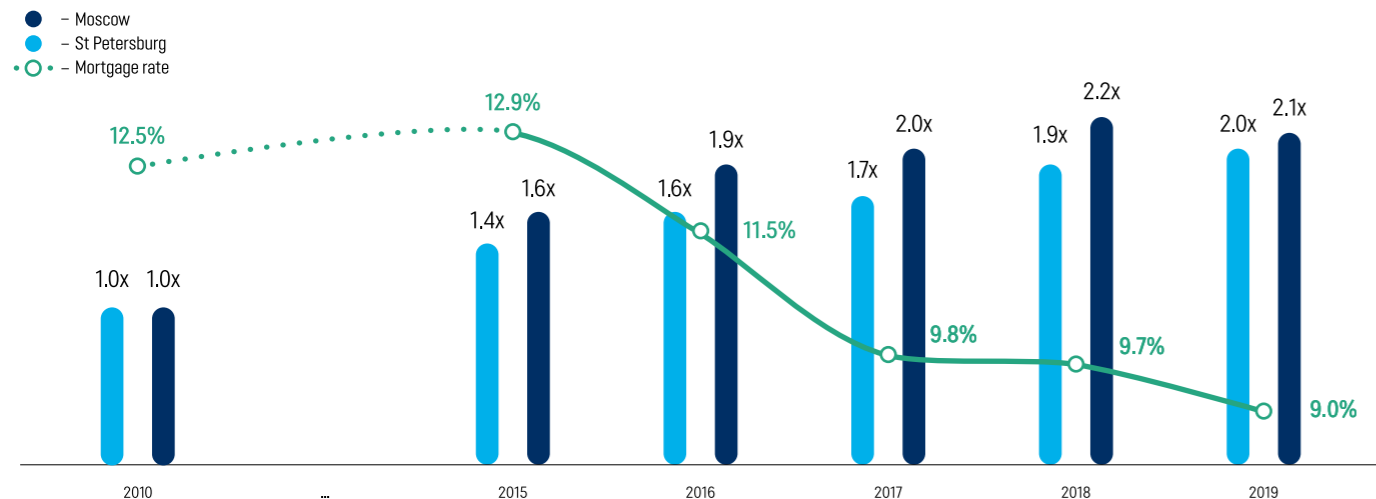
### IMPROVING HOUSING AFFORDABILITY

For most families, a mortgage is the main tool for financing the purchase of an apartment, and about 60% of transactions involve a mortgage. Mortgage accessibility largely determines the affordability of housing in general. Mortgage rates have been gradually decreasing in recent years in line with the key rate. At the end of 2019, the average mortgage rate was 9.0%, and a record low of 8.69% was reached at the beginning of March 2020<sup>7</sup>.

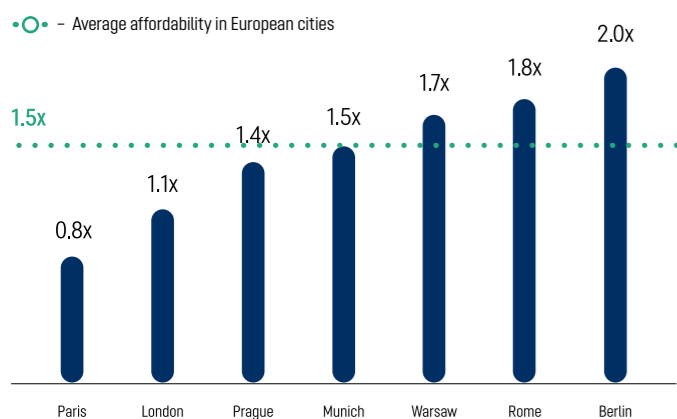
In recent years, housing demand has also been supported by higher-than-inflation salary growth in key markets. At the end of 2019, the average salary was RUB 94,011 in Moscow and RUB 63,157 in St Petersburg, which, combined with low mortgage rates, made housing much more affordable. At present, Russia's top two cities are ahead of most European capitals in this metric.

5 Source: Rosstat.  
 6 Source: Rosstat, National statistical agencies, Statistik Berlin-Brandenburg, Center for Cities, ISTAT, SOW.  
 7 The weighted average interest rate on mortgages issued to citizens of the Russian Federation for the purchase of housing during the month, according to the Bank of Russia.

**Housing affordability and mortgage rate<sup>1</sup>**



**Housing affordability in European capitals<sup>2</sup>**



**Housing is becoming more affordable thanks to lower mortgage rates and state support measures for young families**

If a family's first child was born before 1 January 2020, then the payment for their second child will be RUB 617 thousand.

**Families with children will be able to save RUB 1–2 million on the purchase of an apartment, as well as up to several million in interest payments on a mortgage.**

A number of state programmes provide additional support for Russian families aimed at solving the housing problem.

- **Family support programme.** As of 1 January 2020, this programme was extended until the end of 2026. The payments themselves, which were increased to RUB 617 thousand, are now being issued starting with a family's first child. Thus, families now receive a payment of RUB 467 thousand for their first child and an additional RUB 150 thousand for their second.

- **Regional payments.** In addition to the federal programme, there are also regional family support programmes that give families money upon the birth of their third child. In St Petersburg, the programme pays out RUB 160 thousand. In Moscow, one-time payments are provided to young families upon the birth of a child: RUB 96 thousand for the first child, RUB 135 thousand for the second, and RUB 192 thousand for the third child and subsequent children<sup>3</sup>.
- **Subsidies for large families.** Upon the birth of a third or subsequent child between 1 January 2018 and the end of 2022, families are entitled to a one-time state subsidy in the amount of RUB 450 thousand for mortgage payments.

- **Preferential mortgage programme.** Upon the birth of a second or subsequent child from the beginning of 2018 until the end of 2022, families are eligible for mortgages at a preferential rate as low as 6%. Leading banks are currently offering loans at rates below 5%.

- **Tax deductions.** To stimulate demand for housing, the state offers a one-time tax return of 13% of the cost of purchased housing, which may not exceed RUB 2 million per person. Each spouse is eligible to receive a deduction of RUB 260 thousand, or a total of RUB 520 thousand per couple. In addition, it is possible to obtain a deduction for the amount of interest paid on mortgages up to RUB 3 million, i.e., a family will be able to get up to RUB 390 thousand back.

RUB million	1 CHILD	2 CHILDREN	3 OR MORE
<b>FEDERAL PAYMENTS</b>			
Payments	0.47	+0.15 (or 0.62 if the first child was born before 2020)	+0.45
Tax deduction (housing)		+0.52	
Tax deduction (interest)		+0.39	
<b>REGIONAL PAYMENTS</b>			
Moscow	0.1	+0.13	+0.19 for each child
St Petersburg			+0.16
<b>TOTAL (MOSCOW)</b>	<b>1.47</b>	<b>1.76</b>	<b>2.40</b>
<b>TOTAL (ST PETERSBURG)</b>	<b>1.38</b>	<b>1.53</b>	<b>2.14</b>

Thus, a family with one to three children can save from RUB 1.5 million to RUB 2.4 million when buying an apartment with a mortgage in Moscow and from RUB 1.4 million to RUB 2.1 million in St Petersburg. In addition, families with two or more children have an opportunity to save around RUB 2.9 million in Moscow and RUB 1.7 million in St Petersburg thanks to preferential mortgage rates<sup>4</sup>.

**GROWING APPEAL OF REAL ESTATE INVESTMENTS**

Interest rates on deposits have been falling since 2015, reaching a low of 4.7% at the end of 2019<sup>5</sup>. At the same time, some RUB 30.5 trillion has been deposited in recent years<sup>6</sup>. The expiration of older deposits at more attractive rates is creating potential for a partial transfer of funds to the real estate sector. In addition, Russians have RUB 8 trillion in their current accounts<sup>7</sup>, which can be invested in real estate in the near future due to the lack of other instruments with a suitable risk profile and return on invested capital.

**With interest rates on bank deposits falling, real estate investments are becoming more attractive for both institutional players and individuals**

**Interest rate and amount of deposits<sup>8</sup>**

Year	Amount of deposits (RUB trln)	Interest rate (%)
2014	18.6	12.3%
2015	23.2	8.4%
2016	24.2	6.5%
2017	26.0	5.3%
2018	28.5	5.6%
2019	30.5	4.7%

1 Ratio of average salary to average annuity payment. Source: Rosstat, Bank of Russia.  
 2 The ratio of the average salary to annuity payment, which was calculated for a loan for an apartment of 60 sqm with a down payment of 15% for a term of 20 years and the weighted average interest rate at the end of 2019. Source: National central banks: Banque de France, Bank of England, Czech National Bank (CNB), Deutsche Bundesbank, Narodowy Bank Polski (NBP), Bank of Italy.  
 3 According to the law: five subsistence wages for the first child, seven for the second, 10 for the third and subsequent children; the cost of living in 4Q 2019 in Moscow was RUB 19,233 per month.

4 When using a mortgage to purchase an apartment of 60 sqm with a down payment of 20% for a term of 20 years, based on housing prices and mortgage rates in the primary market at the end of 2019.  
 5 Weighted average interest rate on deposits up to one year, including demand deposits, in RUB.  
 6 Volume of deposits as of 31 December 2019. Source: Bank of Russia.  
 7 Source: RBC, according to a survey of analysts at Alfa Bank.  
 8 Source: Bank of Russia.

Key drivers of real estate investment growth:

- **Simplicity for amateur investors.** Investing in real estate is one of the easiest ways to invest.
- **Insurance coverage.** Insurance covers RUB 10 million for apartments purchased through escrow accounts compared with RUB 1.4 million for deposits.
- **Taxation.** Income from investments in real estate is not taxed provided it is held for three years, while income from deposits in the amount of more than RUB 1 million is taxed at 13%<sup>1</sup>.
- **Reliability.** Real estate has a low risk of depreciation and is a safe asset in times of economic instability.
- **Higher yield.** Annual rental yields average 7.8%<sup>2</sup> after the payment of all taxes. In addition, the price of real estate is itself increasing: over the past 20 years, the price per sqm in Moscow and St Petersburg has increased more than tenfold<sup>3</sup>. Another benefit of renting out a property is the possibility of obtaining regular income, while deposit income accrues on a specific date.

## Supply

Market supply will continue to decrease as a result of the new industry regulations that have entered into force. The trend towards consolidation of the industry that has emerged in recent years will accelerate due to the exit from the market of small and medium-sized players that are unable to complete their projects under the new conditions. Etalon Group, which holds leading positions in Moscow and St Petersburg and is one of Russia's systemic companies, will be able to increase its market share and further strengthen its position in key regions, supplanting weaker developers with less capitalisation.

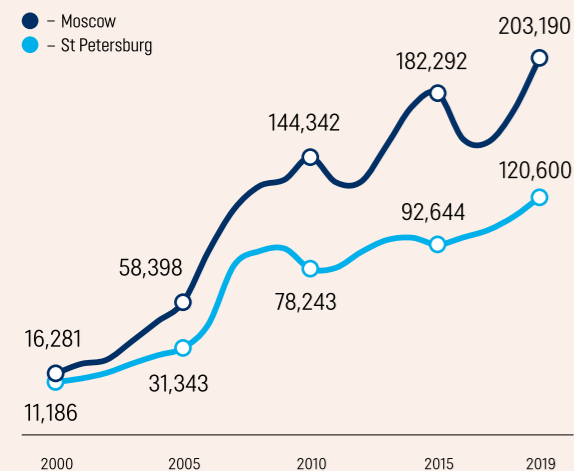
### INDUSTRY CONSOLIDATION

The market has seen the development of a pool of players in recent years that have been constantly increasing their construction volumes. Over the past four years, the share of the 20 largest players in the regions where the Company operates has grown from 37% to 45%. In 2019, total deliveries in St Petersburg and the Moscow region amounted to 17.1 mln sqm, with the top 20 developers accounting for 7.7 mln sqm.

In 2020–2023, the total supply in the regions where Etalon Group operates could reach 41.2 mln sqm. At the same time, the share of the top 20 developers will increase from its current 45% to 56%. Thus, the amendments to industry regulations that have entered into force will only reinforce the trend towards industry consolidation.

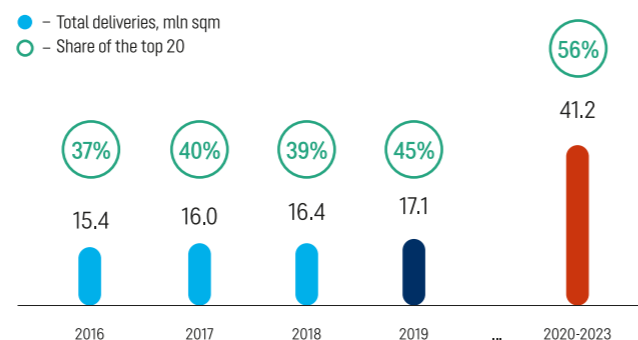
Over the past 20 years, the price per sqm in Moscow and St Petersburg has increased more than tenfold

Dynamics of real estate prices<sup>3</sup>, RUB/sqm



The transition to escrow accounts and project financing will force small developers out of the market and will result in market consolidation by large players

Top 20 developers will strengthen their position<sup>4</sup>



### CHANGES IN INDUSTRY REGULATIONS

The changes in industry regulations mark an important milestone in the development of the Russian real estate market. In improving mechanisms for financing housing construction, Russia has transitioned from a scheme using equity participation agreements to a model using escrow accounts, which is popular throughout the world and which provides a high degree of transparency, security and reliability. To implement the new model, a number of amendments to the law on shared equity construction (214-FZ) were adopted that are aimed at protecting the interests of buyers. Reform of the construction industry, which completely changed the rules in the development market, went through two stages:

**Stage 1.** The first package of amendments, which entered into force on 1 July 2018, established barriers to new players entering the market. In particular, operating procedures were launched that use escrow accounts and project financing; to continue working based on the previous model, developers had to meet a number of strict requirements.

**Stage 2.** During the next stage, amendments were made to the law for the purpose of consolidating the market and developers. The new amendments to Law 214-FZ, in force since 1 July 2019, foresee a complete transition to escrow accounts and, in view of the difficulties in obtaining project financing facing small and medium-sized companies, reinforcement of the trend towards industry consolidation.

BEFORE 1 JULY 2018	1 JULY 2018 – 1 JULY 2019	SINCE 1 JULY 2019
<b>FINANCING STRUCTURE</b>		
<ul style="list-style-type: none"> <li>• Developer's own funds</li> <li>• Buyers' funds used to finance construction of the corresponding project and to cover project overhead costs</li> </ul>	<ul style="list-style-type: none"> <li>• Developer's own funds</li> <li>• Buyers' funds used to finance the construction of the corresponding project building</li> <li>• Limitation on the use of funds from housing equity holders to cover overhead costs</li> </ul> <p>Requirements for developers to work on the basis of equity participation agreements:</p> <ul style="list-style-type: none"> <li>• more than 5 ths sqm delivered</li> <li>• more than three years' experience</li> <li>• IFRS financial reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Funds in escrow accounts held by the bank financing the project</li> <li>• Developers cover construction costs using their own funds and project financing</li> </ul> <p>Exception:</p> <ul style="list-style-type: none"> <li>• if a property is more than 30% complete (15% for integrated urban development (IUD) projects) as of 1 July 2019</li> <li>• if more than 10% of the project was sold as of 1 July 2019</li> </ul>
<b>FINANCING COSTS</b>		
<ul style="list-style-type: none"> <li>• High cost of corporate borrowing (about 11%)</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of corporate borrowing (about 10%)</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to obtain project financing at a reduced interest rate (as low as 3–5% upon 100% coverage in escrow accounts for a project loan)</li> </ul>

A phased reform implementation plan, which implies the continuing operation of the old mechanism whereby developers received funds from customers (share participation agreements) in parallel with project financing through escrow accounts until 1 July 2019, has allowed for a smoother transition to the new rules in the industry and enabled market participants to prepare for changes.

### EXPANDED ROLE OF BANKS

The need to raise project financing arising from the transition to escrow accounts has significantly expanded the role of banks in deciding about the launch of certain projects. All developers applying for project financing must provide banks with information for a thorough assessment of expected cash flows from each pro-

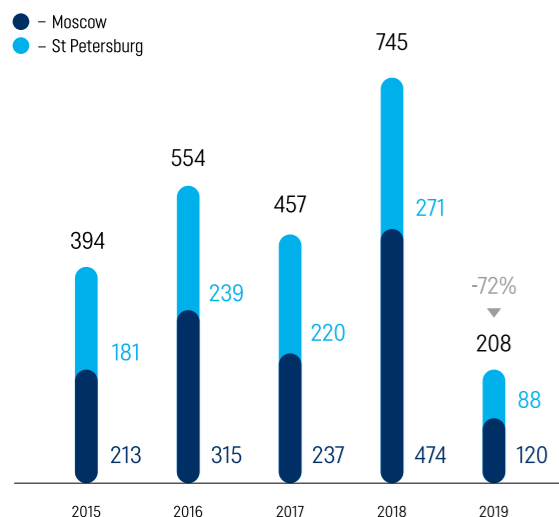
1 Source: according to amendments to the Tax Code introduced by the President of the Russian Federation.  
 2 Source: CIAN Analytical Centre.  
 3 Source: Rosstat.  
 4 Source: Rosstat, ERZ, Dom.rf; data on Etalon Group's key regions: Moscow, Moscow region and St Petersburg.

ject, as well as the project’s potential. The riskiest projects that developers were unable to complete before when using funds from equity holders will now not be able to receive financing. In addition, small and medium-sized players that do not have a credit history or a transparent beneficial ownership structure and that do not submit IFRS reporting will be unable to obtain project financing and, as a result, will be forced to leave the market or seek alternative, more expensive sources of financing, which will make their projects uncompetitive.

### FOR THE INDUSTRY

Changes in industry regulations together with an expanded role for banks will further reduce supply. At the end of 2019, the number of issued construction permits decreased fourfold in Moscow and threefold in St Petersburg.

#### The number of construction permits issued<sup>1</sup>

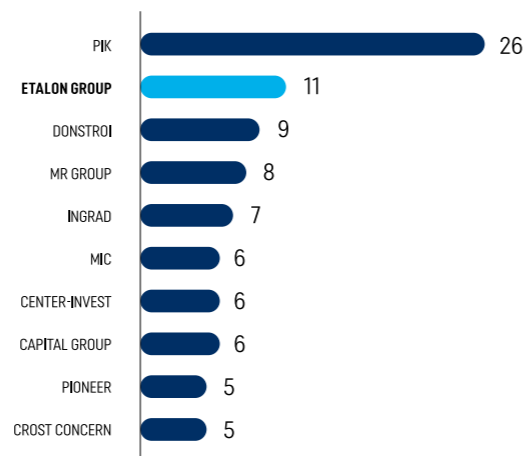


In 2019, some 350 small and medium-sized developers were facing bankruptcy<sup>2</sup>, an increase of 77% compared to 2018.

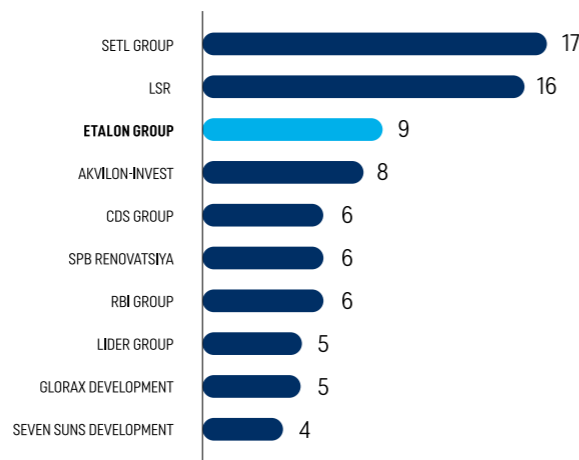
### FOR ETALON GROUP

With more than 30 years of experience in the real estate development industry, leading positions in the Moscow and St Petersburg markets, as well as advanced corporate reporting standards and evaluation criteria for its development projects, Etalon Group is well prepared to operate in a changing market.

#### No 2 in Moscow in terms of number of projects<sup>3</sup>



#### No 3 in St Petersburg in terms of number of projects<sup>3</sup>



About 40% of the Group’s projects meet the approved criteria necessary for the implementation of projects without switching to escrow accounts, while the remaining projects will be able to receive rather favourable conditions for project financing thanks to existing partnerships with banks. Under agreements that have already been signed, if the cash in escrow can cover 100% of the loan balance, the interest rate for project financing will be reduced to 3.5%, and if the coverage is 170% or higher, the rate will be 0%, which will have a positive impact on the Company’s average cost of financing.

Thus, the transition to project financing will not have a negative impact on Etalon Group’s operations, while many small and medium-sized companies will have difficulty obtaining financing for their projects. The emerging trend towards industry consolidation provides Etalon Group with an opportunity to bolster its market presence, and it has also established prerequisites for expanding business both organically and through mergers and acquisitions.

## Supply and demand balance

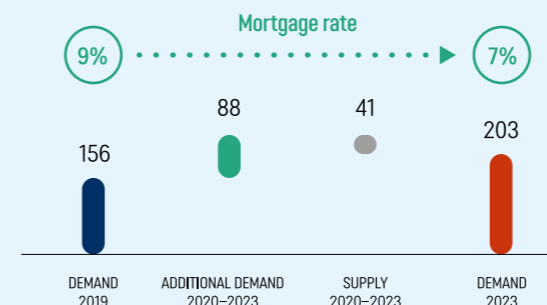
Lower mortgage rates and measures to support young families, coupled with market consolidation and reduced supply, are creating a unique situation that allows leading players to increase construction volumes while maintaining attractive selling prices.

### CURRENT SUPPLY AND DEMAND BALANCE

The potential demand for residential real estate in the Company’s key regions was estimated at 156 mln sqm as of the end of 2019<sup>4</sup>. With a gradual annual reduction in mortgage rates from 9% to 7% by 2023, even without taking into account incentive measures put in place by the Government to support young families with children, some 88 mln sqm of additional demand for real estate will be created. Given current supply volumes, estimated at 41 mln sqm, as well as some 9 mln sqm in annual real estate sales in the Company’s key regions, current demand is sufficient to maintain comparable rates of real estate sales for 23 years after 2023 at constant supply volumes.

The current balance of supply and demand offers opportunities for Etalon Group to increase profits and further strengthen its market positions

#### Supply and demand in 2019–2023<sup>5</sup>, mln sqm

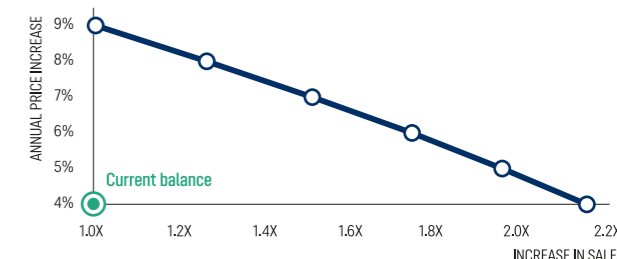


### FOR THE INDUSTRY

The current balance of supply and demand allows developers to keep prices at a comfortable level no lower than inflation, while an annual increase in prices of 9% in the next three years will not lead to a significant decrease in demand for housing, which creates good conditions for increased profits from development projects.

If real estate prices are maintained at the rate of inflation, the pace of housing sales could increase several-fold, which will allow leading players to increase construction volumes to meet housing demand.

#### Maintaining a balance of supply and demand upon an increase in prices and sales volumes<sup>5</sup>



### FOR ETALON GROUP

The ability to sell a better product at higher prices is creating excellent conditions for Etalon Group to increase the profitability of its business, and the lack of excess supply in combination with effective management of the construction cycle will increase the volume of real estate sales and strengthen the Company’s presence in key markets.

#### FACTORS THAT COULD HAVE AN EFFECT ON THE MARKET IN 2020

A series of events took place at the beginning of 2020 that could have a major impact on the development market. The sharp decline in oil prices together with restrictive measures aimed at preventing the spread of COVID-19 may have a significant adverse impact on the Russian economy and, as a result, on household incomes and interest rates, which could negatively affect demand for real estate in the medium term. At the same time, there will be continued demand in the long run because of the fundamental need to improve living conditions. A set of measures implemented by the Russian Government and the Bank of Russia aimed at supporting the Russian economy will help stabilise the situation. At a meeting in March 2020, the Bank of Russia kept its key rate unchanged and announced the possibility of a further reduction in 2020, which is the most important factor for further growth in housing demand. In addition, the Government has compiled a list of systemic companies. The list consists of 646 companies from various industries, including Etalon Group and other leading construction companies (those with more than 500 ths sqm of ongoing construction). If the financial situation of these developers were to worsen, they may be provided with additional support.

1 Source: State Construction Supervision and Inspection Service of St Petersburg; State Construction Supervision Committee of Moscow.  
 2 Source: Construction Industry Rating Agency.  
 3 Source: ERZ; projects under construction as of 1 April 2020.

4 Data on Etalon Group’s key regions: Moscow, Moscow region and St Petersburg.  
 5 According to Company estimates.

Strategy

# Always working **TO STAY AHEAD**



**IMPROVING EFFICIENCY**

**DIGITAL AND TECHNOLOGICAL  
TRANSFORMATION OF THE  
PRODUCTION PROCESS**

**STRENGTHENING OUR  
PRESENCE IN KEY MARKETS**

**ECOSYSTEM DEVELOPMENT  
AND CUSTOMER RETENTION**

# STRATEGY

Following the successful integration of Leader-Invest in 2019, Etalon Group was one of the best-prepared companies to enter a period of fundamental transformation for Russia's residential real estate development market, and we have laid the groundwork for a smooth transition to operating under the new rules. After evaluating the Company's resources and the challenges facing the industry, the Board of Directors adopted an updated development strategy for Etalon Group to 2024. The new strategy calls for a major digital and technological transformation of the business while maintaining a focus on residential real estate, as well as the development of complementary businesses.

## Key strategic priorities

### 1. Improved efficiency

Improving efficiency is a top priority for Etalon Group. The Company expects to become a leader in terms of operational efficiency in the Russian development market by virtue of the full-scale introduction of digital solutions in the areas of cost control, improved sales efficiency and rapid response to changes in external conditions, in combination with substantial streamlining of the asset ownership structure and a reduction in administrative costs relative to the size of the business.

Among its digitalisation priorities, Etalon Group sees the greatest potential in the implementation of ERP systems for cost control, as well as the development of dynamic pricing and predictive analytics technologies that make it possible to maximise the sales price of properties and gain competitive advantages by better understanding the future needs of clients.

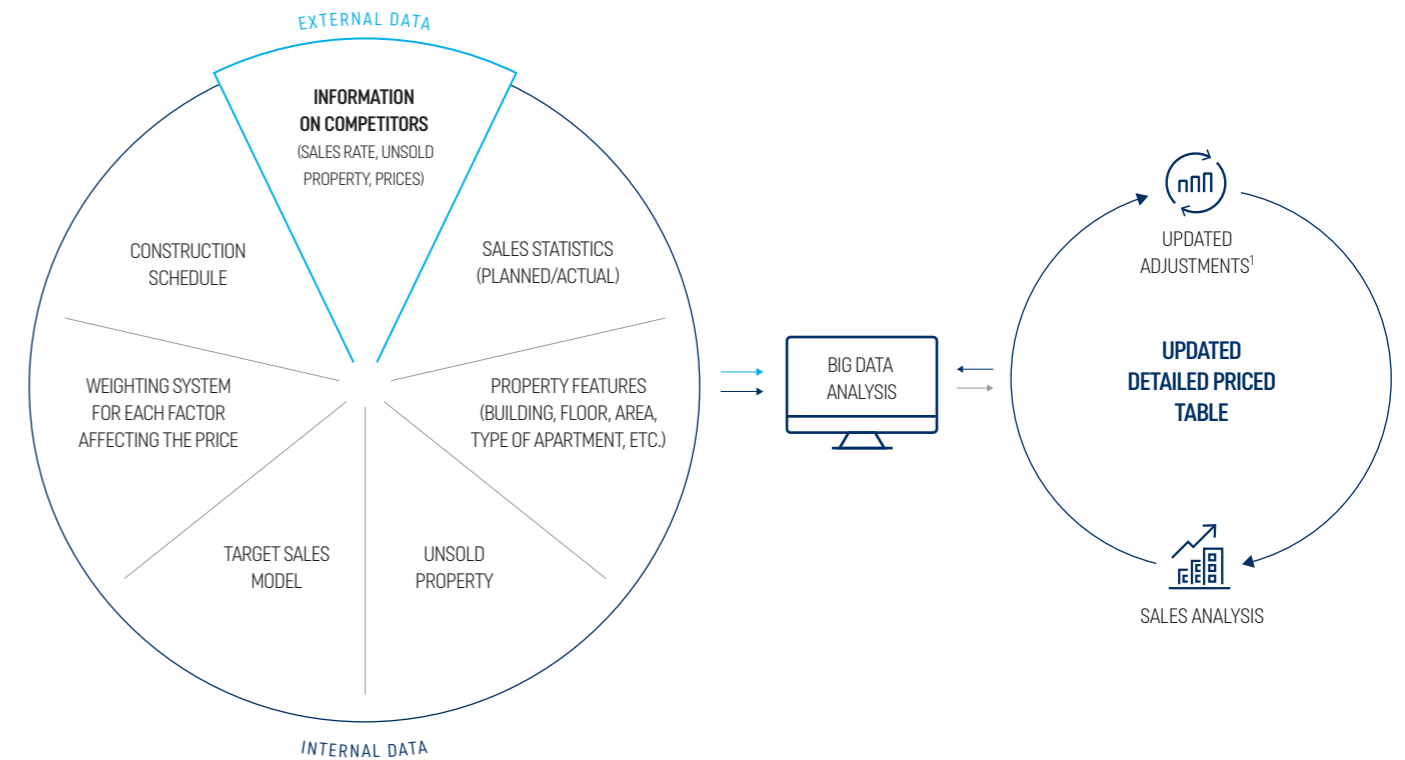
#### DYNAMIC PRICING

The dynamic pricing system that we have developed is a software product based on the principles of big data analysis. The programme enables us to model various scenarios based on internal and external data and to increase profitability by determining the

highest-possible selling price while maintaining a comfortable rate of sales growth. Based on the input data, the programme analyses plan fulfilment, demand and the competitive environment; based on the results of its analysis, the programme provides recommendations about price changes for every individual apartment in Etalon Group's residential complexes.

Software development takes place in several stages from the creation of individual analysis algorithms and adaptation to existing sales management systems to the addition of new algorithms and the introduction of machine learning. The programme provides a single information space for Etalon Group projects by sharing data among the sales systems used by all of the holding's business divisions, and it enables the Company to predict the best price based on a whole range of factors:

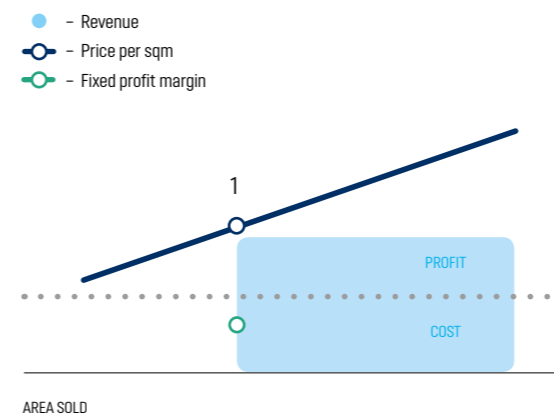
- Minimum price
- Sales plan fulfilment
- Pricing policy
- Depletion of apartment stock
- Exposure time
- Competitors' prices and offering



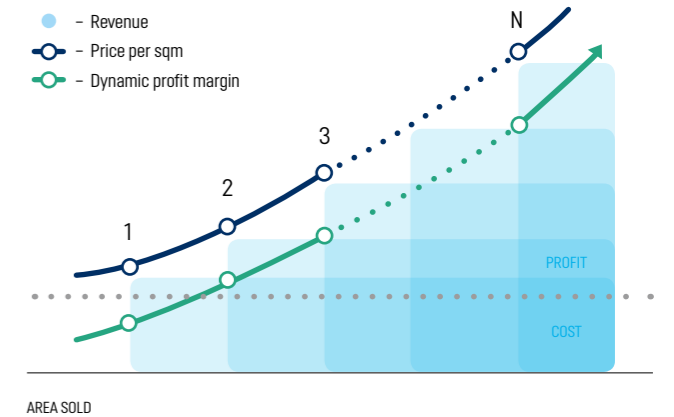
In 2019, Etalon Group's dynamic pricing system was tested on the Company's projects in the Moscow region, which made it possible to increase the sales price by 19% year-on-year by the end of 4Q,

while maintaining stable sales rates. At the next stage, Etalon Group plans to repeat this experience in every region where the Company operates.

#### Static pricing (single price point)



#### Dynamic pricing (multiple price points)



<sup>1</sup> Adjustment factors for every indicator affecting price changes.



## PREDICTIVE ANALYTICS

In line with trends in the development of the business analysis market, the Company is moving in the direction of advanced analytics, including predictive analysis based on big data. Using an assessment of current and historical data, predictive analytics

will enable Etalon Group to predict further developments in the markets where it operates and to make timely management decisions, including regarding the Company's next best offer for clients.



The introduction of predictive analytics will enable Etalon Group to:

- predict consumer demand based on seasonality, geography, product range and competitive environment
- assess future customer needs, including expectations regarding key product features
- choose the most popular locations for future projects
- predict future costs, including promotion costs

### Predictive analytics capabilities

CONSUMER DEMAND ASSESSMENT	PRODUCT OPTIMISATION	COST FORECASTING	PRICE MAXIMISATION	CONSUMER LOYALTY ASSESSMENT
<ul style="list-style-type: none"> <li>• Forecasting demand by project class or location</li> <li>• Seasonality of demand</li> <li>• Price sensitivity</li> <li>• Impact of the competitive environment on demand</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of optimal solutions for a new product</li> <li>• Adaptation of existing product to customer needs</li> </ul>	<ul style="list-style-type: none"> <li>• Resource demand forecasting</li> <li>• Land valuation</li> <li>• Estimation of construction costs</li> <li>• Determination of optimal promotion costs</li> </ul>	<ul style="list-style-type: none"> <li>• Marginal price analysis</li> <li>• Determination of permissible discounts (promotional prices)</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of the most loyal customer groups</li> <li>• Assessing the impact of decisions on loyalty</li> <li>• Assessment of internal competition for large projects</li> </ul>

## 2. Digital and technological transformation of the production process

Despite the Company's wealth of experience in terms of design and construction, we see excellent potential — through the development of innovations and the emergence of new technologies — for further growth and improved business efficiency in transforming our workflow. To reduce the time required to obtain permits and also to improve the quality of housing construction, the Company plans to use drones to create digital scans of land parcels, and it is also planning to develop a BIM<sup>1</sup>-based standard design system. Etalon Group intends to introduce alternatives to brick-monolithic construction, including modern prefabricated construction and construction using CLT<sup>2</sup> panels, which can greatly reduce construction costs and/or timing, while simultaneously improving the quality of construction. That said, Etalon Group plans to continue using its existing brick-monolithic housing construction techniques, while aiming to find the best compromise between a property's sale price and the cost of building it.

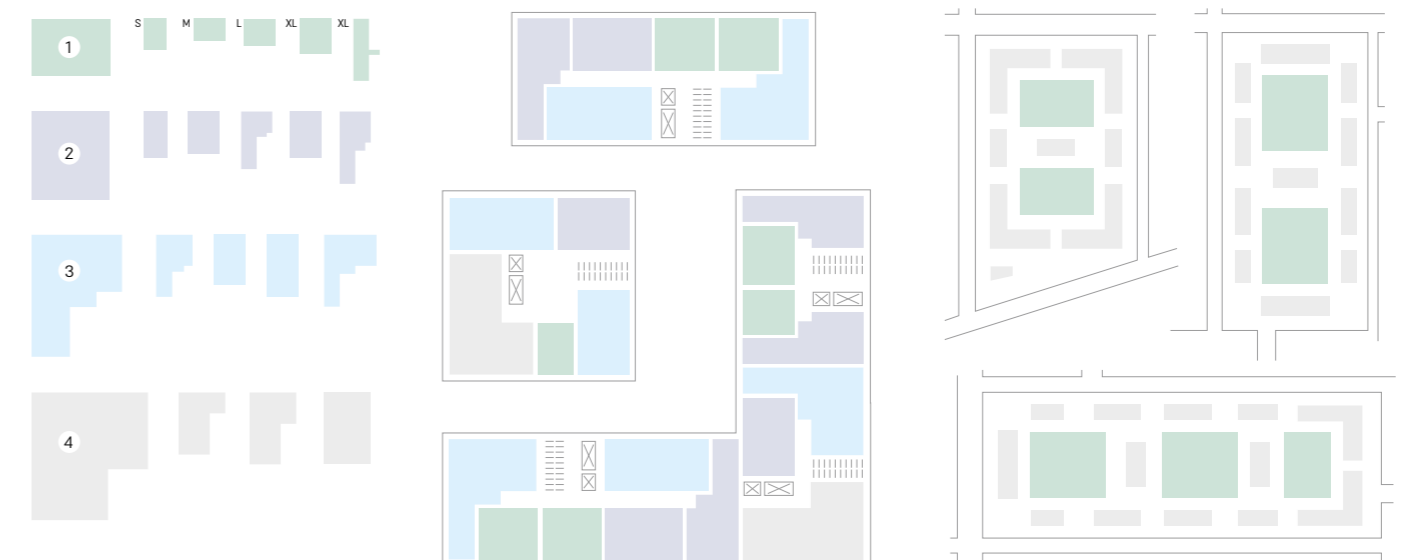
This approach will reduce the time needed to build projects and improve their quality through the repeated use of structural units. A structural unit can refer to a facing panel, bathroom facilities or entire standard apartments, which can be joined together to create floors and entire residential buildings like a construction kit. BIM design technology makes it possible to create a variety of solutions based on a limited set of standard structural elements. A standard design enables us to obtain permits for new properties quickly and gives the team of industrial engineers and designers an opportunity to optimise the solutions incorporated into the project during the construction process and to make the corresponding changes in the documentation, while, at the same time, working on complex units and evaluating in real time the cost of the construction decisions made.

An important component of a standard design system is a well-developed library with elements and units that all participants of any design project must use without fail. With this in mind, the coordinators of BIM libraries and BIM managers who monitor and prevent the use of unapproved units in a project are becoming increasingly important positions with more responsibility. Automated inspections are helpful in this context, as they can partially be carried out both in the design system itself (Revit) and through specialised programmes, such as Autodesk Navisworks and BIM 360, which help reduce the time needed to check BIM models and the number of errors committed when doing so.

### CREATING A BIM-BASED STANDARD DESIGN SYSTEM

Etalon Group plans to develop its existing experience with BIM technology and to use that as the basis for creating a standard design system that will make the design process more efficient, while also speeding up the process of getting approvals and obtaining urban planning documentation.

### STANDARD APARTMENTS → STANDARD SECTIONS → STANDARD DISTRICT DEVELOPMENTS



1 Building information modelling.  
2 Cross-laminated timber.

**UNIFIED STANDARDS FOR EACH SEGMENT:**

- development of a standard master plan
- development of a standard for architectural concepts
- development of a standard for engineering and construction solutions
- development of a standard for common areas
- development of landscaping standards

**GOAL:** ensuring that Etalon Group projects follow a common standard and automating the process of designing and monitoring the implementation of development projects.

**BENEFITS:**

- improving the quality of design solutions
- reducing the risk of design errors
- reducing the time needed for the preparation of design and construction documentation
- reducing the cost of hiring outside architects
- constant improvement of standard projects to keep them up to date

Data collected by drones provides the basis for accurate 3D models. Special software makes it possible to quickly compare geodetic information with predesign data and to use it when designing a project, carrying out excavation works and developing infrastructure.

At the construction stage, drones are used to monitor deadlines and the quality of work, to spot irregularities and technological failures, to take air samples and to measure noise and radiation levels. The automated transfer of the monitoring results to a single digital system enables all participants in the process to receive information quickly, to coordinate their activities and to make timely adjustments to the project to improve its efficiency.

Drones offer the following benefits in terms of data collection during design and construction:

- **SPEED AND QUALITY:** drones make it possible to collect a large amount of accurate data in a short time, while surveys are fully automated and the human factor is close to zero.
- **VISUAL CLARITY:** visual information from drones is easy to interpret and process.
- **TRANSPARENCY:** any authorised individual can instantly check the status of a project in order to resolve specific issues.
- **IMPROVED COMMUNICATION:** a single information space enables all participants to interact quickly, clearly and productively.

Etalon Group projects use the TraceAir platform, an automated solution for monitoring construction based on data received from drones. At present, aerial surveys have already been carried out and a basic 3D model created at the construction sites for the Nagatino i-Land and ZIL-Yug integrated development projects in Moscow.

can be done to lay the foundation or prepare for utilities to be hooked up at the construction site. This greatly reduces the total time required for a full construction cycle.

Buildings constructed using modern prefabricated technology meet the requirements of sustainable development and are often outfitted with smart home functionality and made of environmentally friendly materials. An important advantage of modern prefabricated construction is its total reusability: a completely disassembled lightweight module can be broken down into its component parts for processing or used in a new capacity.

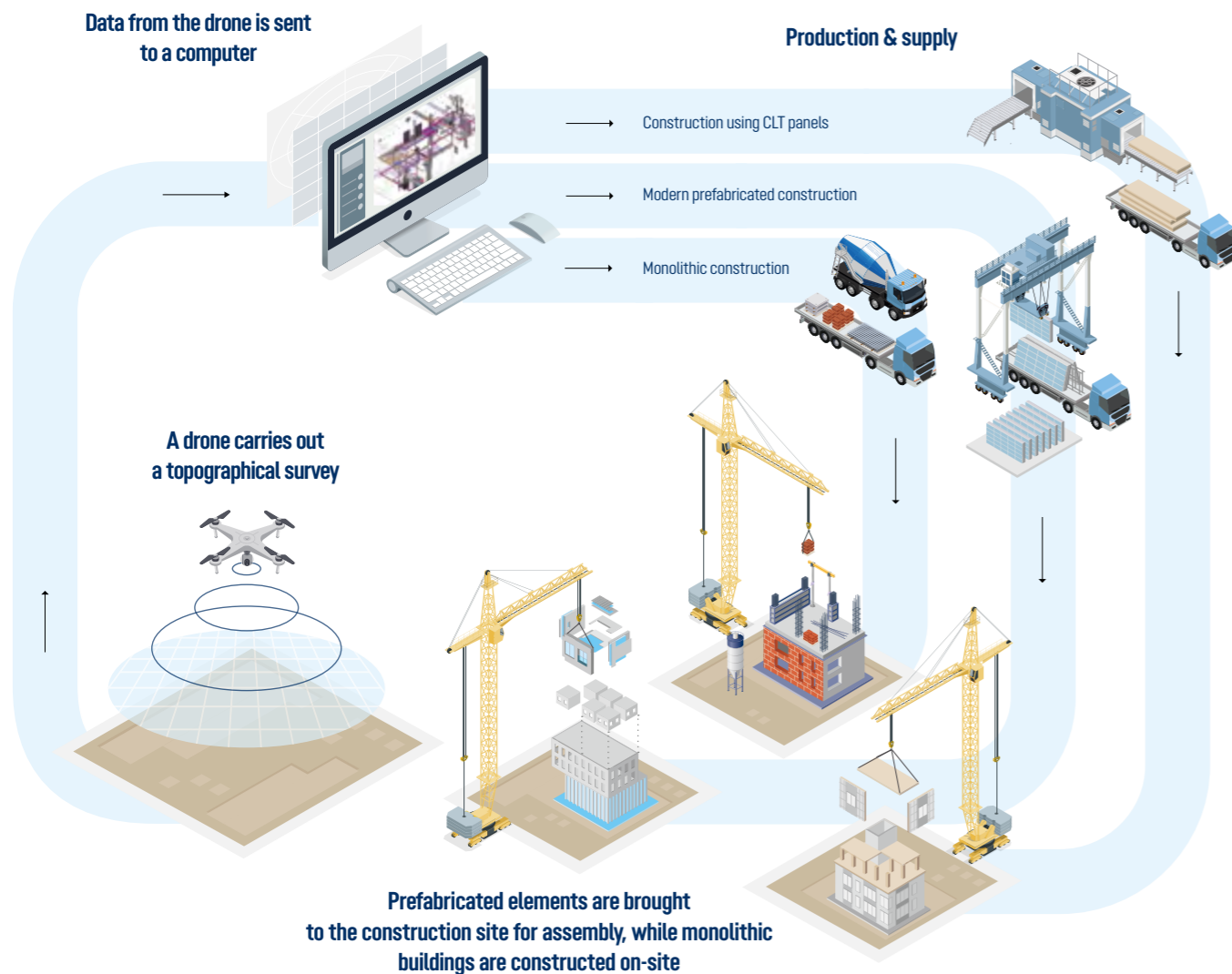
**CONSTRUCTION USING CLT PANELS**

For the production of CLT panels, slats are used that are bonded together under high pressure. The result is a massive, highly durable wooden panel capable of replacing reinforced concrete structures but, at the same time, cheaper to manufacture and easy to install. The popularity of CLT panels in European countries is precisely due to the fact that such material is seen as an environmentally friendly alternative to reinforced concrete, and it also makes it possible to construct buildings quickly and relatively cheaply. In the medium term, this technology will become a new growth point for industrial development in Russia. According to experts, CLT production is increasing throughout the world at a rate of 20% per year. Etalon Group, together with the Segezha Group, is currently working on obtaining all the necessary approvals and is planning to launch its first pilot project in the next few years.

The main benefits of CLT bonded wood panels are:

- freedom of choice of architectural appearance thanks to the versatility of CLT panels and their compatibility with any type of finishing
- reduction of construction time due to the convenience and speed of assembly
- higher project margins due to the possibility of reusing production waste
- cost-effective building operation thanks to the excellent thermal insulation properties of CLT panels and the fact that CLT panels are windproof
- a healthy microclimate inside and excellent sound insulation, providing comfort and environmental friendliness

**CONSTRUCTION CYCLE**

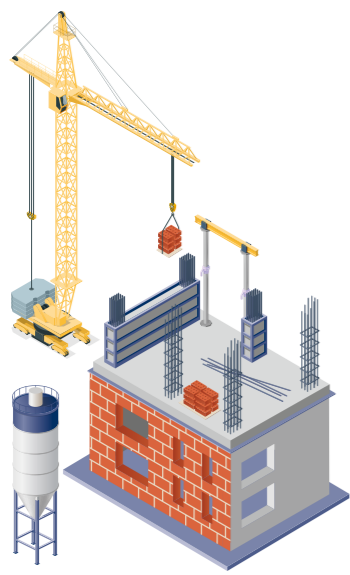
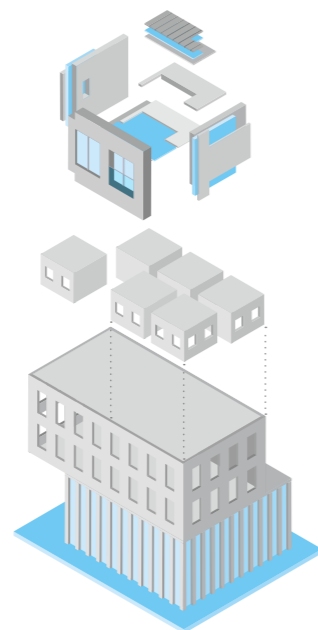
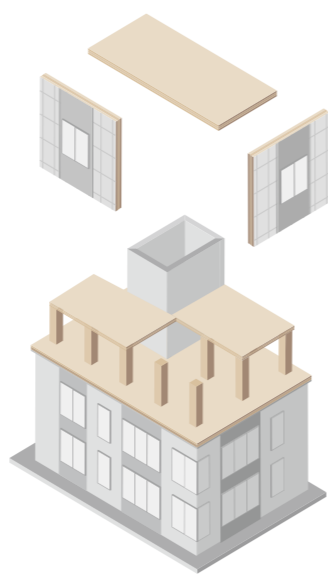





**MODERN PREFABRICATED CONSTRUCTION**

Prefabricated housing construction is becoming increasingly popular in today's world thanks to the use of new materials, technologies and original architectural solutions. Compared with monolithic housing construction systems, modern prefabricated assembly makes it possible to increase the speed of delivery, while reducing costs, losses and the write-off of materials. Alongside cost reduction, the quality of housing is also improving: advanced materials make it possible to construct highly energy-efficient and ergonomic buildings, while also making a wide variety of design solutions possible.

By using modern prefabricated assembly, the construction cycle is shortened by building modules and units in factories while preparatory works are carried out simultaneously at construction sites. For example, while modules are being built at a factory, work

# HOUSING CONSTRUCTION TECHNOLOGY

	MONOLITHIC HOUSING CONSTRUCTION	MODERN PREFABRICATED CONSTRUCTION	CLT CONSTRUCTION
Technology			
Development strategy	<ul style="list-style-type: none"> <li>• Optimisation of material consumption</li> <li>• Achieving the best commercialisation ratio</li> <li>• Procurement standardisation</li> <li>• Conducting tenders to get the best price</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of a housing construction factory for the production of standard modules for residential buildings</li> <li>• Technology certification</li> <li>• Development of standard projects</li> </ul>	<ul style="list-style-type: none"> <li>• Development of standard projects using CLT</li> <li>• Technology certification for the construction of multi-dwelling residential buildings</li> </ul>
Cycle	 <b>24 MONTHS</b>	 <b>18 MONTHS</b>	 <b>12 MONTHS</b>
Segment	<ul style="list-style-type: none"> <li>• Premium, Business</li> <li>• Infill development and medium-sized projects</li> </ul>	<ul style="list-style-type: none"> <li>• Business, Comfort, Economy</li> <li>• All types of projects from infill development to integrated development</li> </ul>	<ul style="list-style-type: none"> <li>• Economy</li> <li>• Part of integrated development projects</li> </ul>

## 3. Strengthening presence in key markets

Our strategy regarding the development of our land bank involves the construction in every region where we operate of one large-scale project that forms the foundation of our portfolio

and a number of medium-sized and infill development projects that will enable us to diversify our offer and balance the local demand for Etalon Group residential complexes.

### Project portfolio



Our balanced land bank means we will be able to scale up our business, while our well-diversified project portfolio reduces concentration risk by enabling us to offer customers a wide range of projects across different market segments.

With the purchase of Leader-Invest, we expanded our assortment of Moscow-based projects and completely made up for the supply shortage in the Russian capital. In terms of large-scale district development projects, Emerald Hills, which is currently the Company's largest project in Moscow and has been almost completely sold, was replaced by the new ZIL-Yug project. The Company's land bank was also replenished with several integrated development projects and infill development projects located in various parts of the capital, which significantly enhanced our position in the city and has made Etalon Group one of the leaders in the Moscow market.

At the same time, the Company's largest project in St Petersburg, Galactica, is in the middle of its life cycle, and a number of district development projects are nearing completion, which is creating a shortage of Etalon Group supply in a region that has traditionally been one of the Company's strengths. This means that our main challenge now is to make up for the shortage of supply in St Petersburg in 2020–2021 and then to stabilise our residential real estate portfolio in both regions by replenishing our land bank every year by the same amount of property sold during the year. This will enable Etalon Group to strengthen its position among the top three Russian developers in terms of construction and sales of residential real estate.

## 4. Ecosystem development and customer retention

An important component of our strategy is to attract and retain customers. Etalon Group takes a comprehensive approach to maintaining customer loyalty, while simultaneously improving its offer, sales system and its product range and quality of services for potential or existing customers. We aim to develop the sort of projects that establish a harmonious space for living, working and studying and to enable our customers to get everything they need without leaving their neighbourhood. Every single square metre in Etalon Group's new residential complexes is thought through, down to the smallest detail, and takes into account the needs of future residents. This sort of attention to the comfort of our customers will certainly increase confidence in the Company and attract new buyers. At the same time, our own service company enables us to develop the living environment not only in new projects but also in those that have already been built.

Etalon Group's maintenance division is currently managing over 5.5 mln sqm of housing and about 25 thousand parking spaces. As new properties are delivered, the number of residential buildings and parking lots managed by Etalon Group will only grow. We are actively expanding the range of services we offer. In addition to traditional housing maintenance services, the Company is introducing digital technologies, such as elements of a smart home system or the My Etalon Home application for residents of Group properties, which enables users to receive information quickly from the management company, to submit applications and requests, to order repair services, to monitor meter readings and to evaluate the quality of the services provided.

### Etalon Group's maintenance business:

**>5.5 MLN SQM**

>5.5 mln sqm of housing under management

**No 3**

No 3 by area among Russian service companies

**25 THS**

25 thousand parking spaces under management

**3 REGIONS**

3 regions: Moscow, St Petersburg and the Moscow region

**300 THS**

300 thousand people living in Etalon Group properties

Etalon Group plans to continue to develop additional services for potential buyers and for the ever-growing number of residents of properties built by the Company.

Since the service business division is characterised by low scaling costs and it helps shore up the loyalty of real estate buyers by providing high-quality services, the development and expansion of

the services provided is an excellent opportunity for Etalon Group to enlarge this aspect of its business and further expand its subscriber base. This will make it possible to achieve the highest NPS (net promoter score, or consumer loyalty index) among Russian developers and, as a result, increase the share of repeat purchases, while also generating additional profit from complementary businesses.

### TRADITIONAL SERVICES

-  CLEANING FOR COMMON AREAS
-  WASTE DISPOSAL
-  MAINTENANCE
-  LANDSCAPING IMPROVEMENTS
-  COLLECTION OF UTILITY PAYMENTS
-  BUILDING REPAIRS



### DIGITAL SERVICES

-  STORAGE
-  DELIVERY
-  CONCIERGE SERVICES
-  CLEANING AND REPAIRS
-  LOGISTICS
-  SMART HOME SYSTEM

## 5. Further geographic expansion

Today, Etalon Group operates in two major markets: the Moscow region<sup>1</sup> and St Petersburg. At the same time, the Company's sales network covers 57 cities, which helps attract new buyers from various parts of the country interested in acquiring real estate in Russia's two biggest cities, and helps increase awareness of the Etalon Group brand. In addition, the existence of a regional network creates more opportunities to monitor the market and to assess demand and the competitive environment.

Subject to the achievement of stable operational and financial growth, Etalon Group will consider the possibility of entering other Russian regions in cities with stable demand, high incomes and high real estate prices. Partnerships with strong local players remain the priority form of geographic expansion. In the face of a sharp decrease in local players owing to their inability to develop projects under the new rules that came into force on 1 July 2019, Etalon Group may consider the possibility of organic market entry in one region or another in order to consolidate the market and obtain the competitive advantages of a dominant player.

**THE PRIORITY MARKETS FOR EXPANSION ARE THOSE IN WHICH THE AVERAGE PRICE OF HOUSING AND INCOME ARE ABOVE THE NATIONAL AVERAGE**

Key parameters for entering other regions:

- **SEGMENTS:** comfort and business class
- **PROJECT SIZE:** infill development and integrated development projects of up to 300 ths sqm
- **PROJECTS' IRR:** more than 20%
- **GROSS MARGIN:** not less than 35%
- **EXPANSION FORMAT:** in conjunction with a local player or by opening an Etalon project office (without deploying the Company's own general contracting and subcontracting functions)

<sup>1</sup> Moscow and vicinity.

Project portfolio

Confident **GROWTH**

**3.3**  
mln sqm

**10.3**  
USD per GDR<sup>1</sup>

**48%**  
of NSA

UNSOLD NSA

TOTAL ASSETS VALUE  
PER SHARE/GDR

SHARE OF  
BUSINESS-CLASS  
PROJECTS

1. Colliers International estimate as of 31 December 2024

# PROJECT PORTFOLIO OVERVIEW

Since the acquisition of Leader-Invest in February 2019 and the subsequent consolidation of 100% ownership in that company and the ZIL-Yug project, we have significantly increased both our share of projects in Moscow and in the business-class segment. This has enabled Etalon Group to solidify its position in a highly attractive segment of Russia's most affluent residential real estate market. As of 31 December 2019, the share of business-class projects had increased by 18 p.p. year-on-year to 48%, and our Moscow projects represented a 70% share of Etalon Group's total portfolio.

One of our priorities during 2020–2021 will be to make up for the shortage of supply that has emerged in our St Petersburg portfolio. In subsequent years we will aim to replenish our land bank on an annual basis, with new projects equivalent to the volume of real estate sold during the year, in order to maintain stable residential portfolios both in the Moscow Metropolitan Area and in St Petersburg. We believe that this will enable us to consolidate our position among the top three Russian developers in terms of construction and sales volumes.

In acquiring new projects, we aim to minimise the period between land purchase and the start of sales. Our target time frame is 6–18 months from project acquisition to launch of sales. We also adhere to a policy of focusing on large (> 300 ths sqm) and medium-sized projects (30–300 ths sqm) with a target IRR above 20%. As we replenish our land bank in St Petersburg, we will target upper-economy, comfort- and business-class projects that are centrally located or are in residential districts with well-developed transport and social infrastructure.

## Open market value of project portfolio



RUB **176** BLN

The market value of Etalon Group's project portfolio is RUB 176 billion<sup>1</sup>

## Unsold NSA



**3.3** MLN SQM

Unsold NSA amounted to 3.3 mln sqm<sup>1</sup>, which is sufficient for 5.3 years based on FY 2019 NCS volumes

## Total projects in St Petersburg and Moscow



**33**

As of 31 December 2019, Etalon Group's project portfolio comprised 33 current projects that are well diversified by location

## Share of business-class projects



**48%**

After the acquisition of Leader-Invest, the share of business-class projects in our portfolio increased to 48%

#	PROJECT	SEGMENT	STATUS	TOTAL NSA ('000 SQM)	UNSOLD NSA ('000 SQM) <sup>(1)</sup>	UNSOLD PARKING (SPACES), #	OMV (RUB MLN)	INCOME FROM SALES (RUB MLN) <sup>(2)</sup>	CONSTRUCTION BUDGET (RUB MLN) <sup>(3)</sup>	OUTSTANDING BUDGET (RUB MLN) <sup>(3)</sup>
<b>CURRENT PROJECTS</b>										
<b>ST PETERSBURG</b>										
1	Galactica	Comfort	Construction	814	360	2,965	18,330	75,075	49,838	26,304
2	Project on Chernigovskaya Street	Business	Construction	136	122	1,005	5,411	17,453	8,470	7,981
3	Okhta House	Comfort	Construction	130	98	78	5,820	12,973	6,785	3,348
4	House on Blyukhera	Comfort	Construction	105	7	94	324	8,313	5,319	855
5	Petrovskiy Landmark	Business	Construction	89	45	370	5,053	14,744	6,952	5,367
6	Etalon on the Neva	Comfort	Construction	77	56	452	3,522	8,483	4,602	2,572
7	Botanica	Business	Construction	47	26	314	2,743	7,033	3,084	1,212
8	House on Obruchevykh Street	Comfort	Construction	45	4	492	120	5,011	2,753	372
9	Beloostrovskaya	Comfort	Construction	29	29	218	818	3,444	2,081	1,962
10	House on Kosmonavtov	Comfort	Construction	27	14	128	938	2,475	1,504	496
<b>TOTAL ST PETERSBURG</b>				<b>1,500</b>	<b>761</b>	<b>6,116</b>	<b>43,079</b>	<b>155,002</b>	<b>91,387</b>	<b>50,468</b>
<b>MOSCOW METROPOLITAN AREA (MMA)<sup>(4)</sup></b>										
1	ZIL-Yug	Business / Comfort	Design stage	1,213	1,116	5,641	40,115	264,599	132,373	132,125
2	Emerald Hills	Upper-economy	Construction	847	70	546	4,975	60,118	42,327	4,598
3	Nagatino i-Land	Business	Construction	472	403	1,816	18,134	68,803	40,136	38,172
4	Etalon City	Comfort	Construction	366	19	328	1,852	28,861	19,851	1,049
5	Summer Garden	Comfort	Construction	293	67	563	3,671	31,717	18,169	6,181
6	Silver Fountain	Business	Construction	226	156	1,700	13,174	39,056	19,760	11,309
7	Wings (Lobachevskogo 120)	Business	Construction	187	112	794	9,828	30,449	14,947	9,254
8	Normandy	Comfort	Construction	124	54	320	3,968	16,671	7,927	3,261
9	Mytishinskiy District	Comfort	Design stage	93	82	322	1,228	6,837	4,469	4,376
10	Letnikovskaya Street	Business	Design stage	106	106	717	7,503	24,235	10,477	9,620
11	Fotievoi 5	Premium	Design stage	13	13	57	1,375	4,094	1,646	1,604
12	Nagornaya 28	Comfort	Design stage	11	11	46	898	2,306	790	789
13	Electrozavodskaya 60	Business	Design stage	10	10	88	598	2,134	1,048	998
14	Schastye v Kuzminkakh (Zelenodolskaya St 41/2)	Comfort	Construction	9	2	65	16	1,374	1,032	124
15	Yaroslavskoe 51	Comfort	Design stage	9	9	33	675	1,577	672	594
16	Schastye na Sokole (Usievicha St 10B)	Business	Construction	8	3	65	359	1,925	1,190	256
17	Dom v Konkovo (Akademika Kapitsy 32)	Business	Design stage	8	8	39	615	1,739	717	704
18	Bolshaya Cherkizovskaya St 4	Business	Design stage	7	7	46	579	1,389	556	385
19	Schastye v Sadovnikakh (Nagatinskaya St 4/3)	Comfort	Construction	7	2	13	78	1,174	808	243
20	Schastye na Semyonovskoi (Izmailovskoye Shosse 20)	Comfort	Construction	7	7	31	533	1,104	510	382
21	Schastye na Presne (Krasnogvardeiskiy 15 bldg. 2)	Business	Construction	6	1	1	90	1,626	746	200
22	Schastye na Lomonosovskom	Business	Construction	6	5	54	844	1,854	688	489
23	Schastye v Kuskovo (Veshnyakovskaya St 10)	Business	Construction	6	4	29	458	960	674	110
<b>TOTAL MMA</b>				<b>4,035</b>	<b>2,266</b>	<b>13,314</b>	<b>111,566</b>	<b>594,603</b>	<b>321,511</b>	<b>226,823</b>
<b>TOTAL CURRENT PROJECTS</b>				<b>5,535</b>	<b>3,027</b>	<b>19,430</b>	<b>154,645</b>	<b>749,606</b>	<b>412,898</b>	<b>277,291</b>
<b>COMPLETED</b>										
Residential property in completed projects				2,789	286	6,579	18,846	234,976		
Completed stand-alone commercial properties				24	14	55	788			
Land plots for sale							1,774			
<b>TOTAL COMPLETED PROJECTS</b>				<b>2,813</b>	<b>301</b>	<b>6,634</b>	<b>21,408</b>	<b>234,976</b>		
<b>TOTAL ETALON GROUP PROJECTS</b>				<b>8,348</b>	<b>3,328</b>	<b>26,064</b>	<b>176,053</b>	<b>984,581</b>	<b>412,898</b>	<b>277,291</b>
<b>PRODUCTION UNIT</b>										
Production Unit's business and properties						18	12,446			
<b>TOTAL ASSETS VALUE</b>				<b>8,348</b>	<b>3,345</b>	<b>26,064</b>	<b>188,499</b>	<b>984,581</b>	<b>412,898</b>	<b>277,291</b>

<sup>1</sup> Including parking. The parking area in launched projects with partially sold parking lots is calculated as 30 sqm per parking place.

<sup>2</sup> Income from sales includes potential and received incomes as of 31 December 2019.

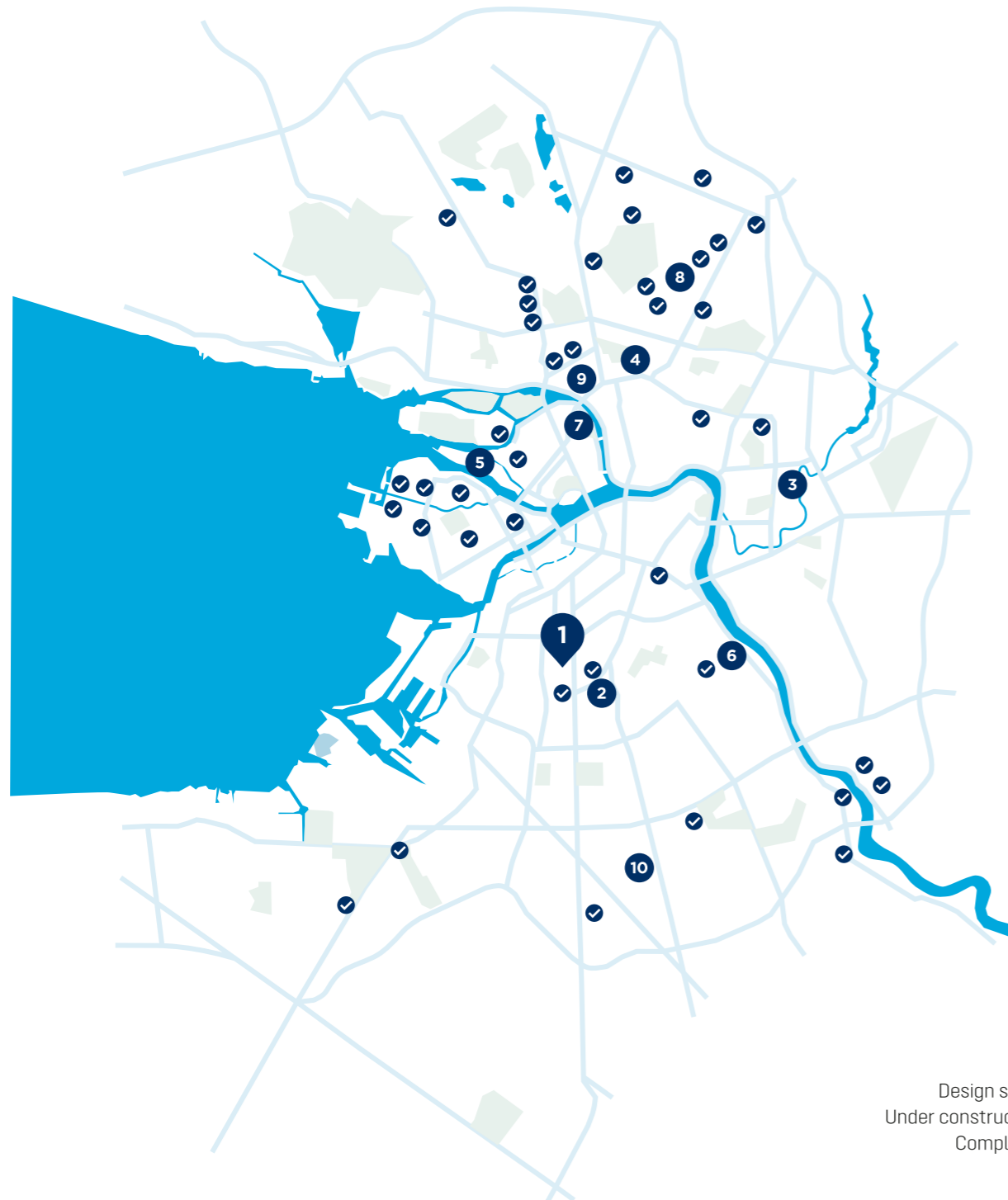
<sup>3</sup> Excluding land acquisition costs.

<sup>4</sup> Moscow, New Moscow and Moscow region within 30 km of the Moscow Ring Road.

# St Petersburg

## Projects

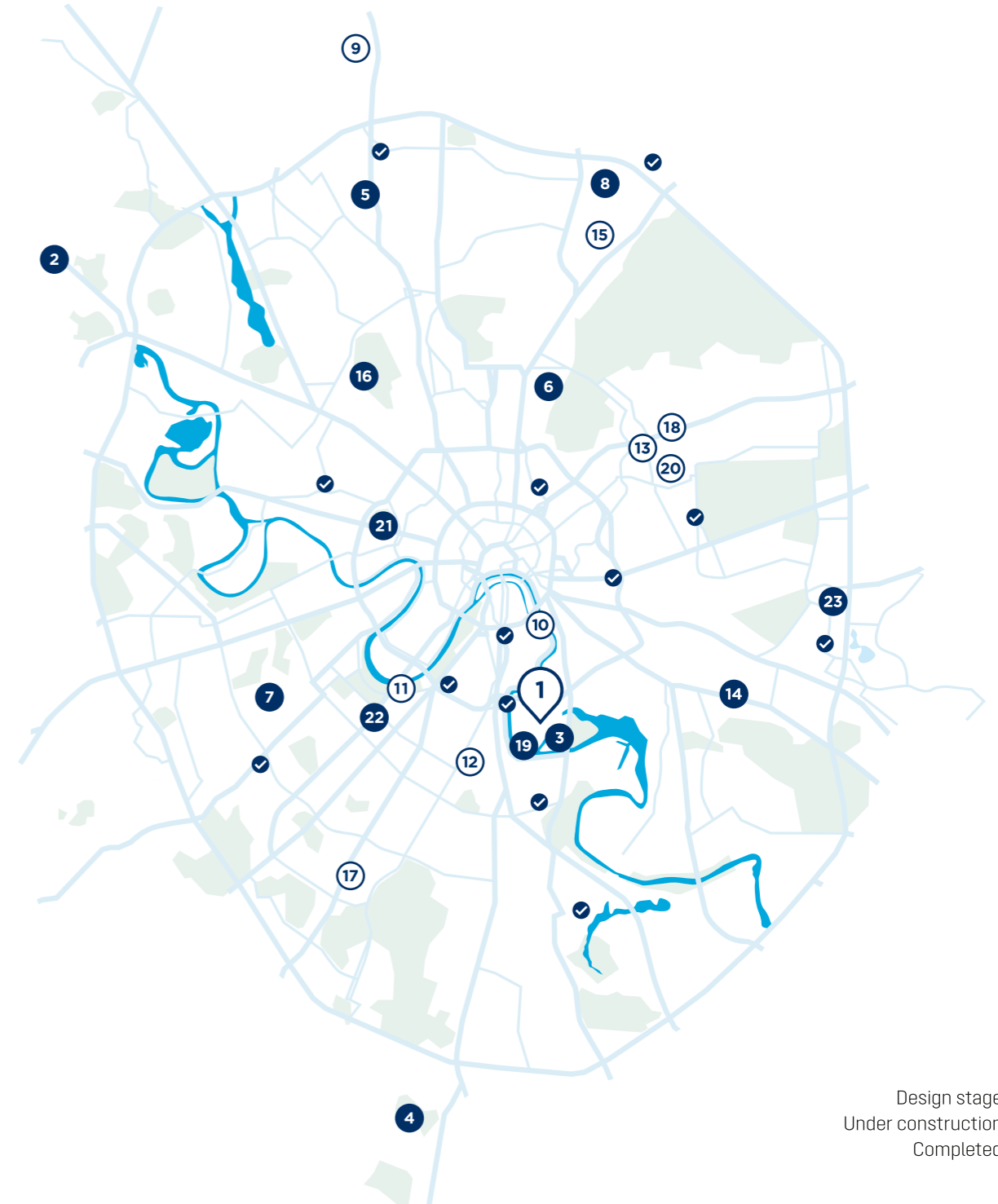
- 1 Galactica
- 2 Project on Chernigovskaya Street
- 3 Okhta House
- 4 House on Blyukhera
- 5 Petrovskiy Landmark
- 6 Etalon on the Neva
- 7 Botanica
- 8 House on Obruchevykh Street
- 9 Beloostrovskaya
- 10 House on Kosmonavtov



# Moscow

## Projects

- 1 ZIL-Yug
- 2 Emerald Hills
- 3 Nagatino i-Land
- 4 Etalon City
- 5 Summer Garden
- 6 Silver Fountain
- 7 Wings (Lobachevskogo 120)
- 8 Normandy
- 9 Mytishinskiy District
- 10 Letnikovskaya Street
- 11 Fotievoi Street 5
- 12 Nagornaya Street 28
- 13 Electrozavodskaya Street 60
- 14 Schastye v Kuzminkakh
- 15 Yaroslavskoe 51
- 16 Schastye na Sokole (Usievicha St 10B)
- 17 Dom v Konkovo
- 18 Bolshaya Cherkizovskaya Street 4
- 19 Schastye v Sadovnikakh (Nagatinskaya St 4/3)
- 20 Schastye na Semyonovskoi
- 21 Schastye na Presne
- 22 Schastye na Lomonosovskom
- 23 Schastye v Kuskovo



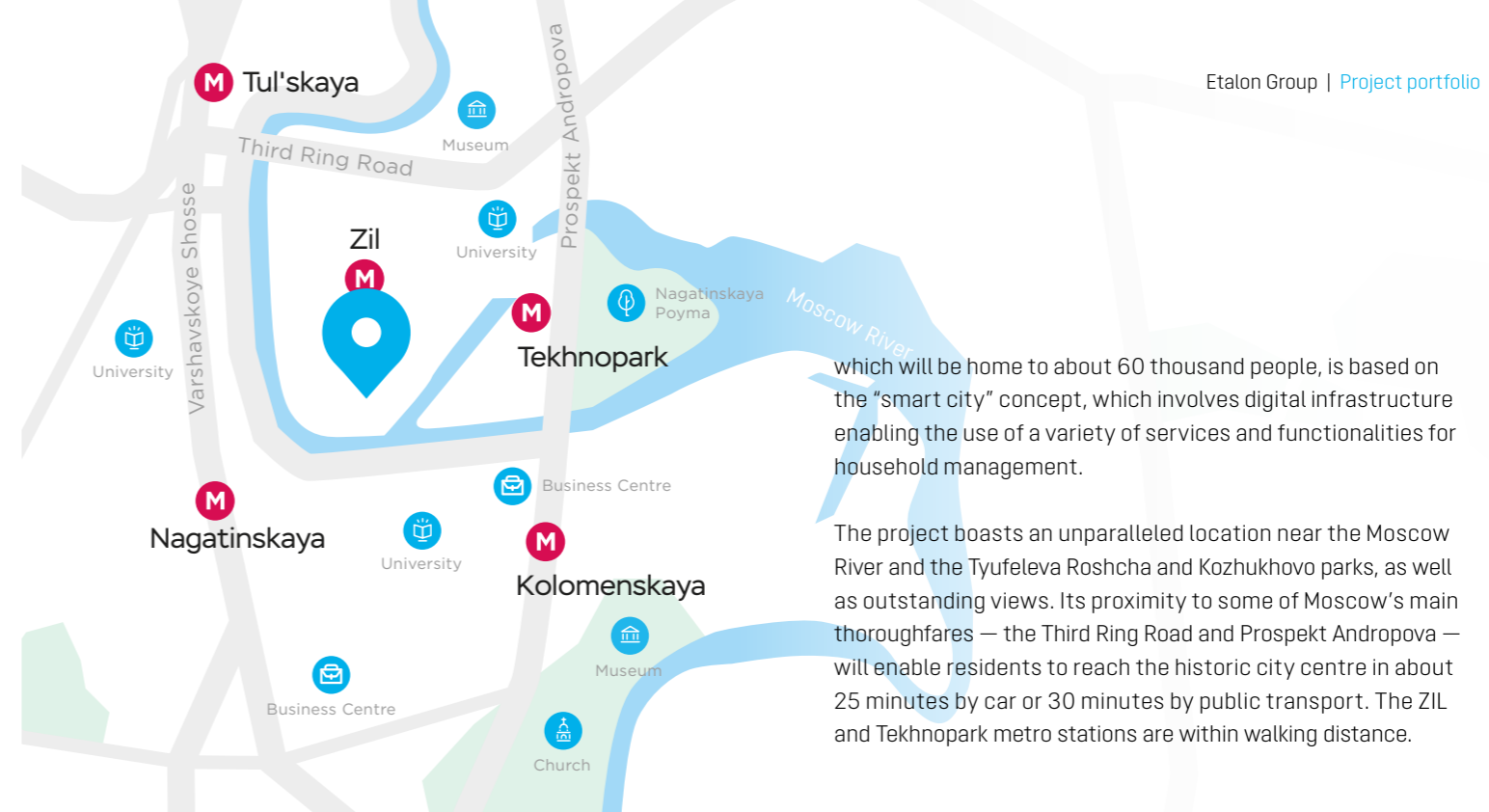
# INTEGRATED DEVELOPMENT PROJECTS

## ZIL-Yug

ZIL-Yug, one of the largest redevelopment projects in Moscow, is located on the grounds of the former ZIL automobile plant.

**MOSCOW**  
Business/Comfort class

Etalon Group plans to build a multifunctional complex with an area of more than 1.2 mln sqm that harmoniously combines residential and commercial buildings, as well as social amenities and commercial infrastructure, including a shopping centre, schools, preschools, a clinic and a hospital, as well as a cultural, educational and exhibition centre. This ultramodern complex,



which will be home to about 60 thousand people, is based on the "smart city" concept, which involves digital infrastructure enabling the use of a variety of services and functionalities for household management.

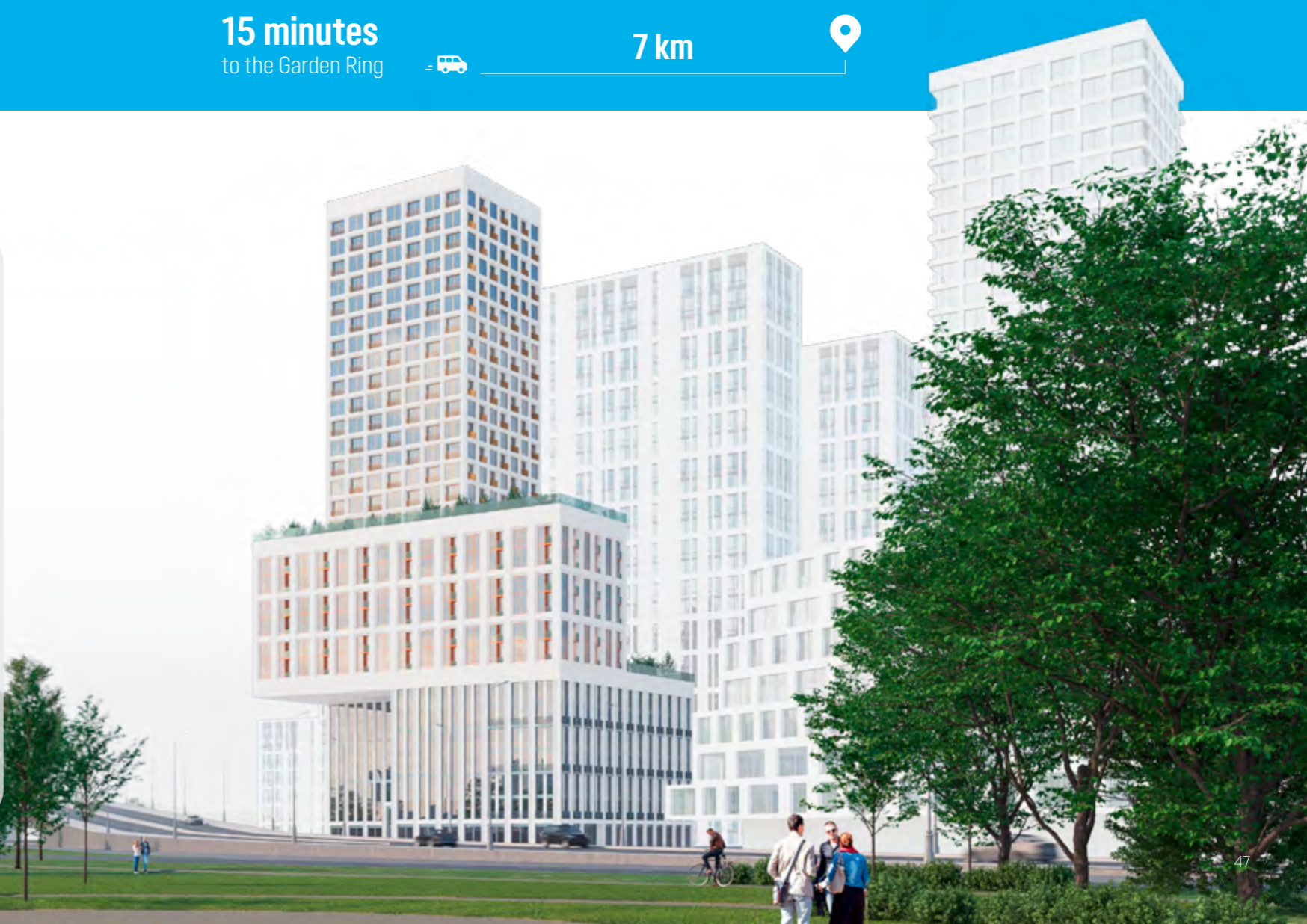
The project boasts an unparalleled location near the Moscow River and the Tyufeleva Roshcha and Kozhukhovo parks, as well as outstanding views. Its proximity to some of Moscow's main thoroughfares — the Third Ring Road and Prospekt Andropova — will enable residents to reach the historic city centre in about 25 minutes by car or 30 minutes by public transport. The ZIL and Tekhnopark metro stations are within walking distance.

Net sellable area<sup>1</sup> **1,213 THS SQM**    Market value<sup>1</sup> **RUB 40,115 MLN**    Sales revenue<sup>1</sup> **RUB 264,599 MLN**

<sup>1</sup> Colliers International estimate as of 31 December 2019.

**25 minutes** to Red Square - 10 km

**15 minutes** to the Garden Ring - 7 km





# Galactica

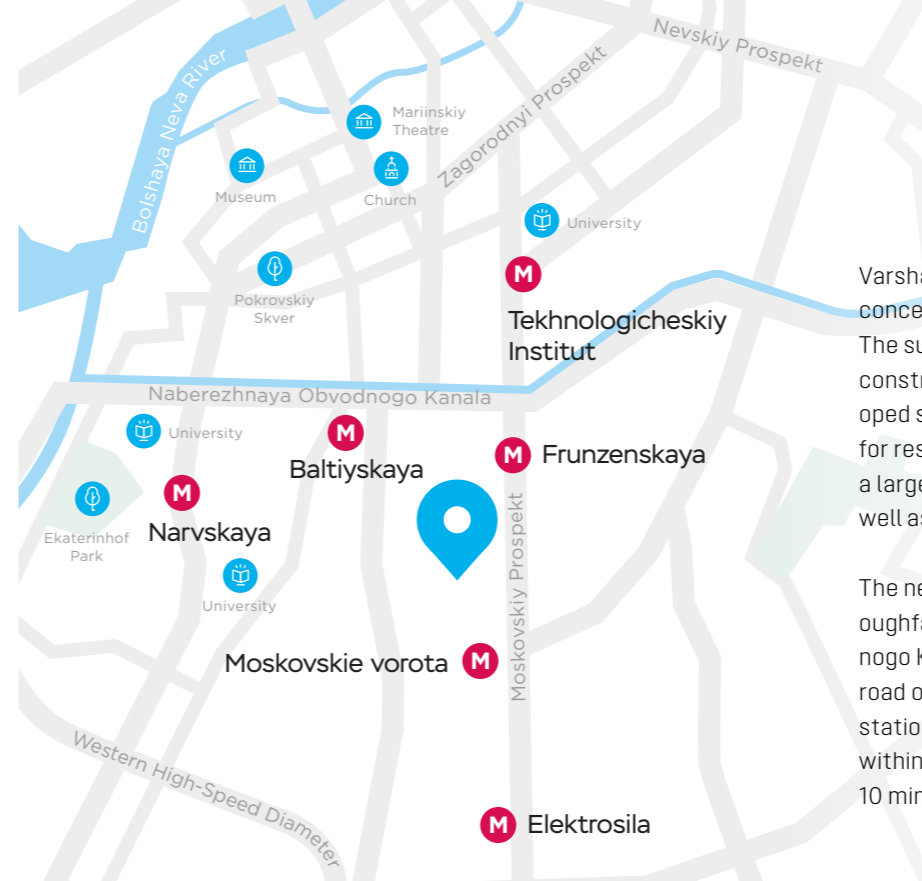
The Galactica residential quarter, on the grounds of the former Warsaw railway line, is one of the largest redevelopment project in central St Petersburg.

## St Petersburg Comfort class

Situated in two districts — the Admiralteiskiy and Moskovskiy — the project involves the construction of about 10 thousand apartments, three schools, 10 preschools, a park and a range of amenities, well-equipped courtyards, as well as an expansive, dynamic public space. The Galactica project includes the Galactica

Premium and Galactica Pro stages. These stages, which are located at the southern and northern ends of the Galactica project, were given their own names due to their unique characteristics and good location.

The historic centre and several historic landmarks are very close by. Everything one might need to make life more comfortable can be found in the immediate vicinity, including Lenta and Prisma grocery stores, supermarkets, stores selling household goods, restaurants and cafes, public gardens and museums.



Varshavskiy Ekspres, a large shopping centre with a cinema, concert venue and a gym, is within easy reach of the project. The surrounding area has already been developed, including the construction of large residential complexes – with well-developed social amenities available, the area is becoming suitable for residents. Located within walking distance of the project are a large number of schools and developmental preschools, as well as sports clubs.

The neighbourhood offers convenient access to major thoroughfares, such as Moskovskiy Prospekt, Naberezhnaya Obvodnogo Kanala and Mitrofanievskoye Shosse, as well as an access road onto the Western High-Speed Diameter. Three metro stations (Baltiyskaya, Frunzenskaya and Moskovskie Vorota) are within walking distance; the historic centre can be reached in 10 minutes by car, and the airport can be reached in 25 minutes.

Net sellable area<sup>1</sup>  
**814 THS SQM**

Market value<sup>1</sup>  
**RUB 18,330 MLN**

Sales revenue<sup>1</sup>  
**RUB 75,075 MLN**

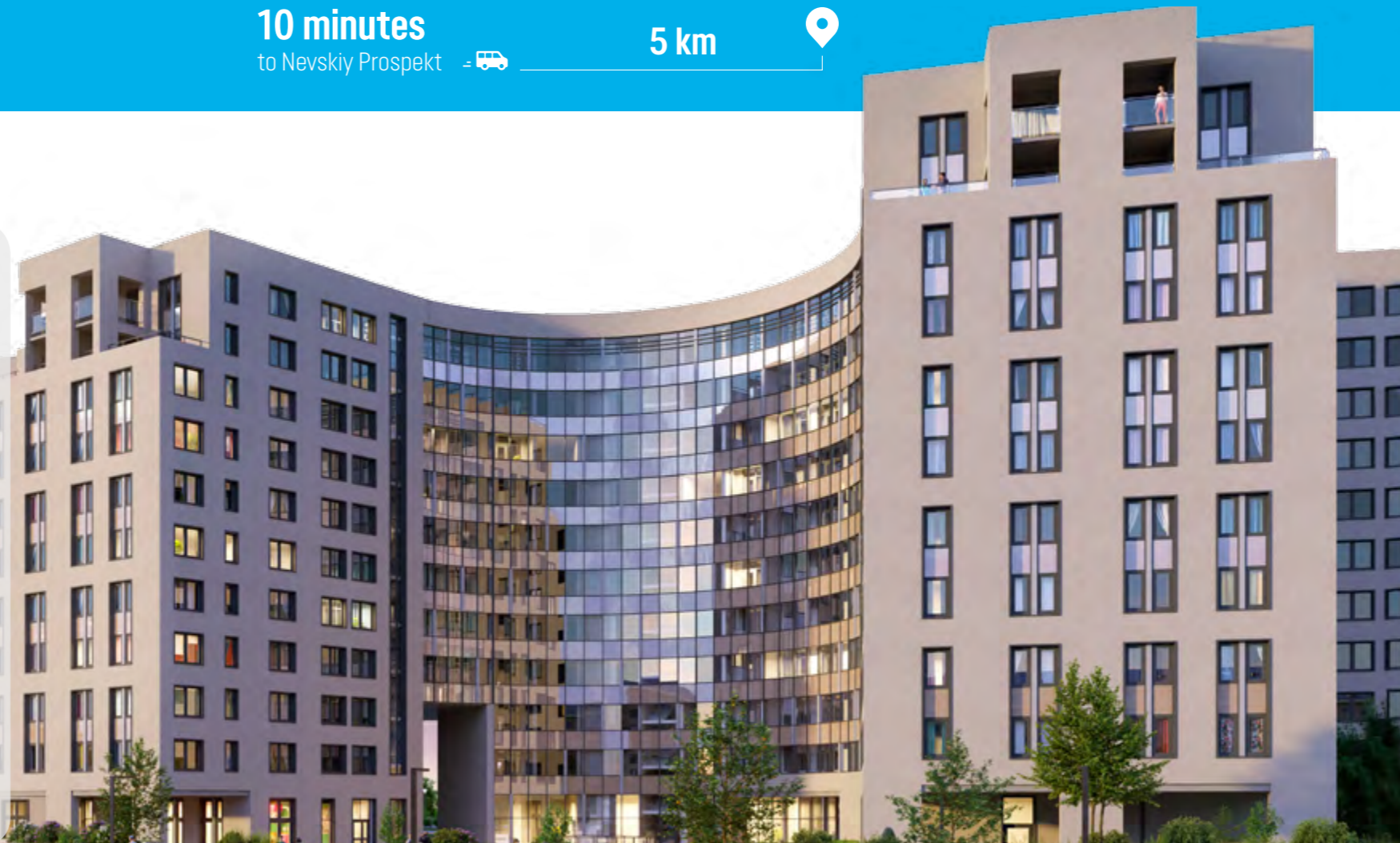
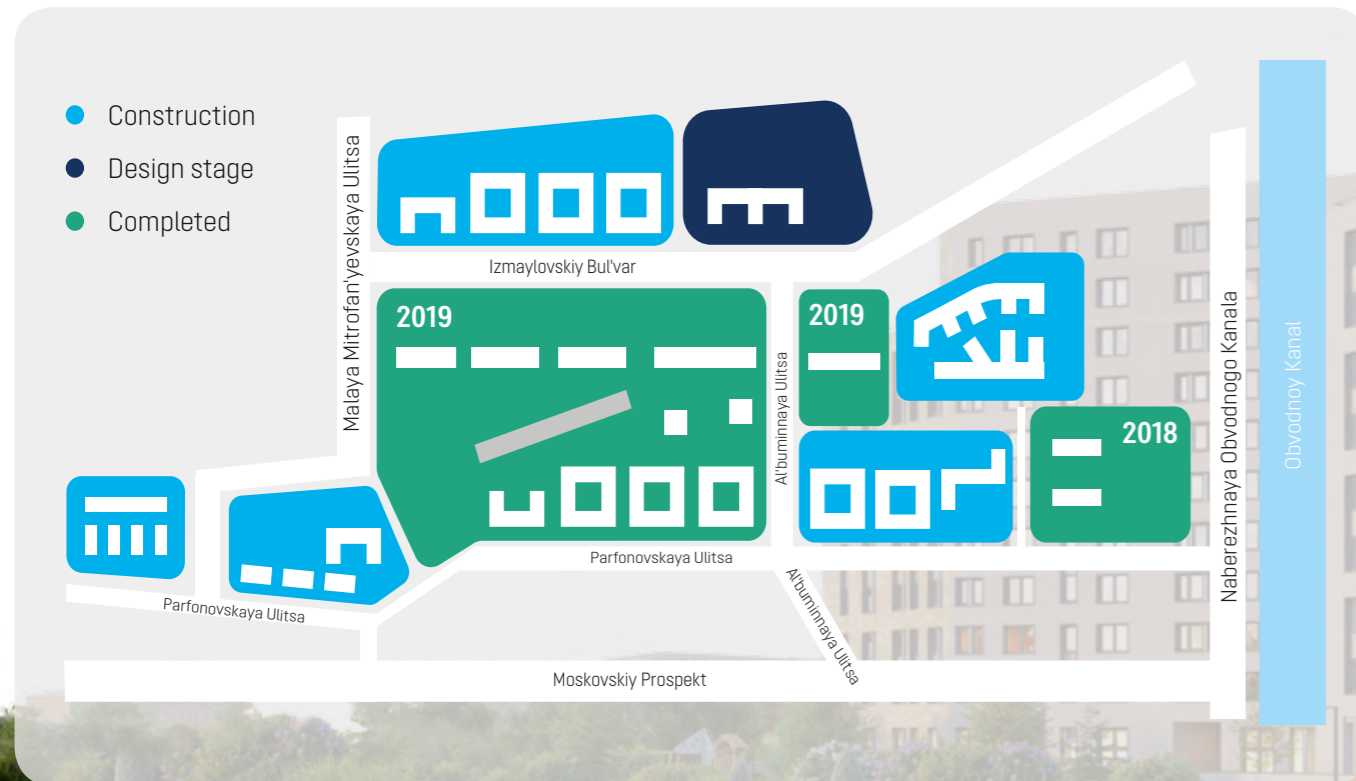
**25 minutes**  
to the airport - 🚗

**16 km**

**10 minutes**  
to Nevskiy Prospekt - 🚗

**5 km**

<sup>1</sup> Colliers International estimate as of 31 December 2019.



# Nagatino i-Land

Nagatino i-Land is a multifunctional development project with a total NSA of 472 ths sqm on a land plot of more than 30 hectares in the Danilovskiy district, one of the most promising areas of the capital.

## Moscow Business class

The project, developed jointly with the British architectural firm AHR, will combine an existing business cluster with residential and commercial real estate. Residential blocks, formed from

buildings of varying heights with enclosed courtyards, will contain recreation areas next to artificial ponds; exceptional public spaces for games, socialising and sports; as well as a landscaped park with an area of almost 2.5 hectares. One of the project's distinctive features will be the wide range of residential properties available, from apartments with separate entrances and patios to penthouses with ceiling heights of up to 3.9 metres and views of the embankment.



Nagatino i-Land is located on the banks of the Moscow River in an area with established infrastructure. Business centres in a state-of-the-art office cluster and large shopping centres are also located nearby. Three landscaped parks with ponds are located within walking distance: Kolomenskoye, Kozhukovo and Tyufeleva Roshcha.

With the Tekhnopark and ZIL metro stations located within walking distance, the project offers excellent transport accessibility. Convenient access roads onto Prospekt Andropova and the Third Ring Road can also be found nearby. The new bridge over the Moscow River and the Simonovskaya Embankment, which is undergoing renovations, will provide a new route in the future, connecting Nagatino i-Land with the centre of Moscow and shortening the path to the Garden and Boulevard Rings. An additional benefit for future residents will be the project's proximity to Russia's largest amusement park, Dream Island.

Net sellable area<sup>1</sup>  
**472 THS SQM**

Market value<sup>1</sup>  
**RUB 18,134 MLN**

Sales revenue<sup>1</sup>  
**RUB 68,803 MLN**

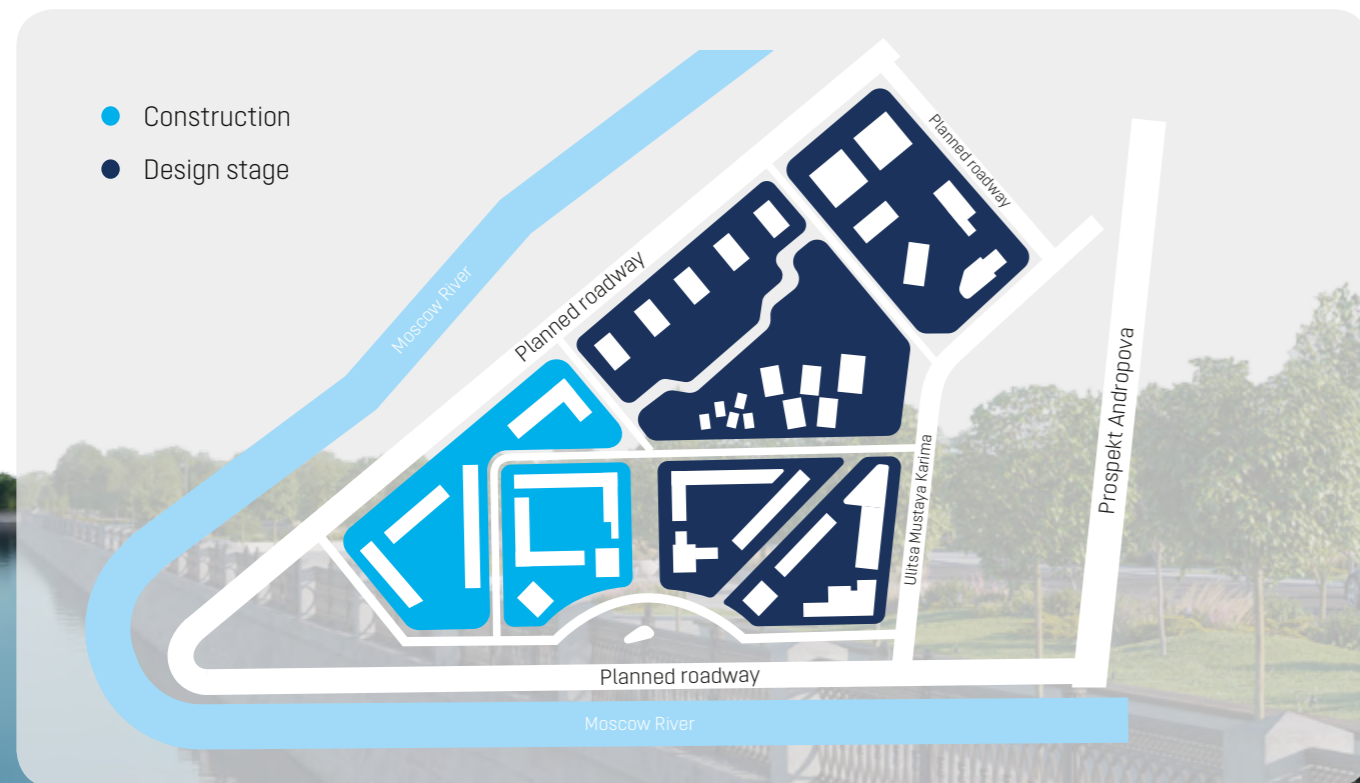
**15 minutes**  
to Red Square

**11 km**

**10 minutes**  
to the Garden Ring

**7 km**

<sup>1</sup> Colliers International estimate as of 31 December 2019.



# BUSINESS-CLASS PROJECTS

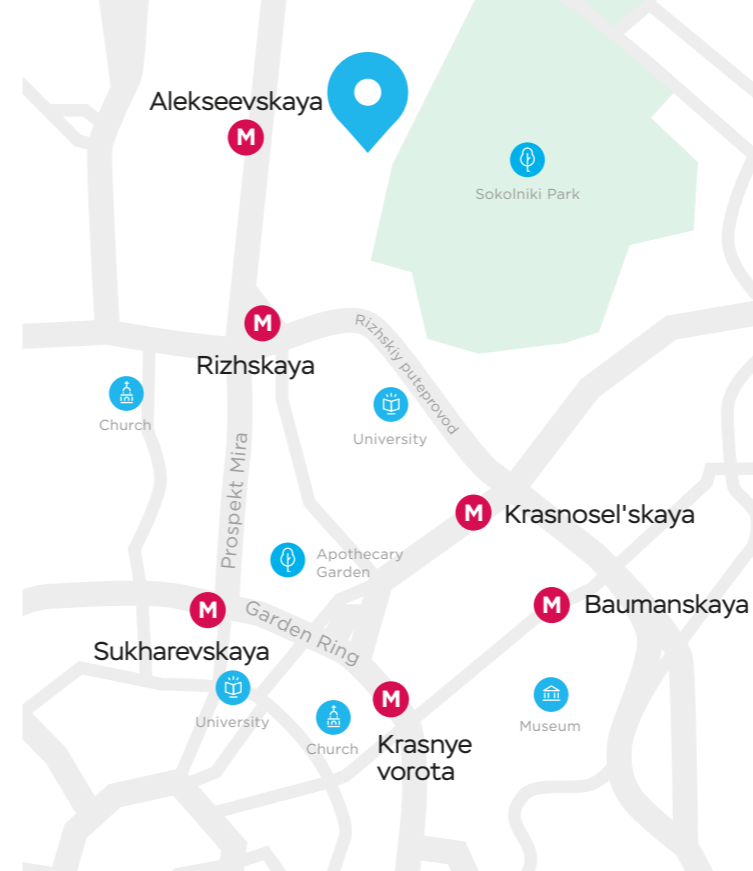
## Silver Fountain

Silver Fountain is a business-class project in which architectural traditions meet advanced technology.

**MOSCOW**  
Business class



This multifunctional residential complex, which is being built in the Alekseyevskiy district of the north-eastern administrative district of Moscow, includes a separate office building and three residential buildings of varying heights, each of which forms a cosy, self-sufficient residential block. The complex's modern buildings are surrounded by an old linden park and blend into the architectural motif of the nearby cultural heritage sites.



This project incorporated advanced engineering to reduce operating costs, including energy-efficient and water-efficient equipment, as well as an automated water and electricity metering system. All of this makes it possible to save resources, and the "smart home" features make it possible to closely monitor usage. Landscaped areas take up about a third of the total project area. Silver Fountain's high degree of energy efficiency and environmental friendliness have been confirmed by its Green Zoom platinum certificate.

Another distinguishing feature of the complex is its excellent automobile and pedestrian accessibility: the Aleksseevskaya metro station is only a 5–10-minute walk away, and Prospekt Mira, one of the capital's main transport routes, also passes nearby. Sokolniki Park, Catherine Park, VDNKh, Ostankinskiy Park and the Botanical Gardens are all located in the immediate vicinity.

Net sellable area<sup>1</sup>  
**226 THS SQM**

Market value<sup>1</sup>  
**RUB 13,174 MLN**

Sales revenue<sup>1</sup>  
**RUB 39,056 MLN**

**20 minutes**  
to Red Square



**10 km**



**10 minutes**  
to the Garden Ring



**5 km**



**5 minutes**  
to Sokolniki Park



**1 km**



<sup>1</sup> Colliers International estimate as of 31 December 2019.

<sup>2</sup> Received a platinum Green Zoom certificate.



# Wings

The project, developed jointly with the British architectural firm Aedas and the Moscow-based architectural firm ABD architects, offers an excellent combination of the idea-driven, technical elegance of modern architecture.

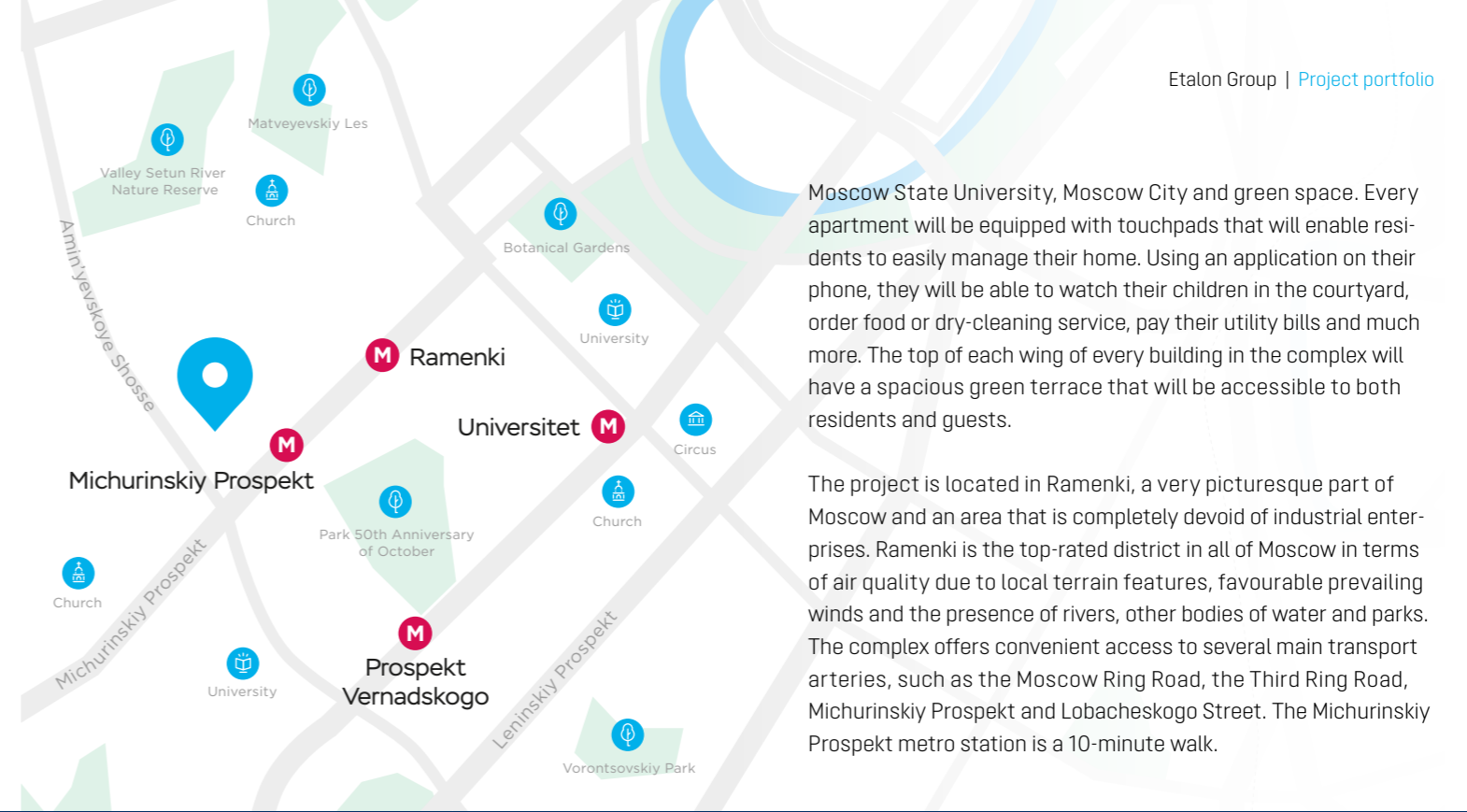
## Moscow Business class

The Wings residential complex includes three elegant three-winged towers, an office and shopping centre, a school, a pre-school, a fitness centre with a swimming pool and a spacious underground parking garage. The interiors of the common areas



were individually designed, and the common areas themselves have no fewer than 10 zones for various functions for future residents. The spacious main lobby with its 7-metre ceilings includes a reception area and a lounge, storage rooms for bicycles and prams, as well as a room for bathing pets.

Due to the lack of dense development, every apartment in the Wings residential complex will offer an excellent view. Future residents will be able to enjoy a panorama that takes in Vorobyovy Gory,



Moscow State University, Moscow City and green space. Every apartment will be equipped with touchpads that will enable residents to easily manage their home. Using an application on their phone, they will be able to watch their children in the courtyard, order food or dry-cleaning service, pay their utility bills and much more. The top of each wing of every building in the complex will have a spacious green terrace that will be accessible to both residents and guests.

The project is located in Ramenki, a very picturesque part of Moscow and an area that is completely devoid of industrial enterprises. Ramenki is the top-rated district in all of Moscow in terms of air quality due to local terrain features, favourable prevailing winds and the presence of rivers, other bodies of water and parks. The complex offers convenient access to several main transport arteries, such as the Moscow Ring Road, the Third Ring Road, Michurinskiy Prospekt and Lobacheskogo Street. The Michurinskiy Prospekt metro station is a 10-minute walk.

Net sellable area<sup>1</sup>  
**187 THS SQM**

Market value<sup>1</sup>  
**RUB 9,828 MLN**

Sales revenue<sup>1</sup>  
**RUB 30,449 MLN**

**30 minutes**  
to Red Square

**16 km**



**20 minutes**  
to the Garden Ring

**10 km**



**10 minutes**  
to Botanical Gardens

**6 km**



<sup>1</sup> Colliers International estimate as of 31 December 2019.

<sup>2</sup> Received a 2019 Urban Award as the most environmentally friendly business-class residential complex.

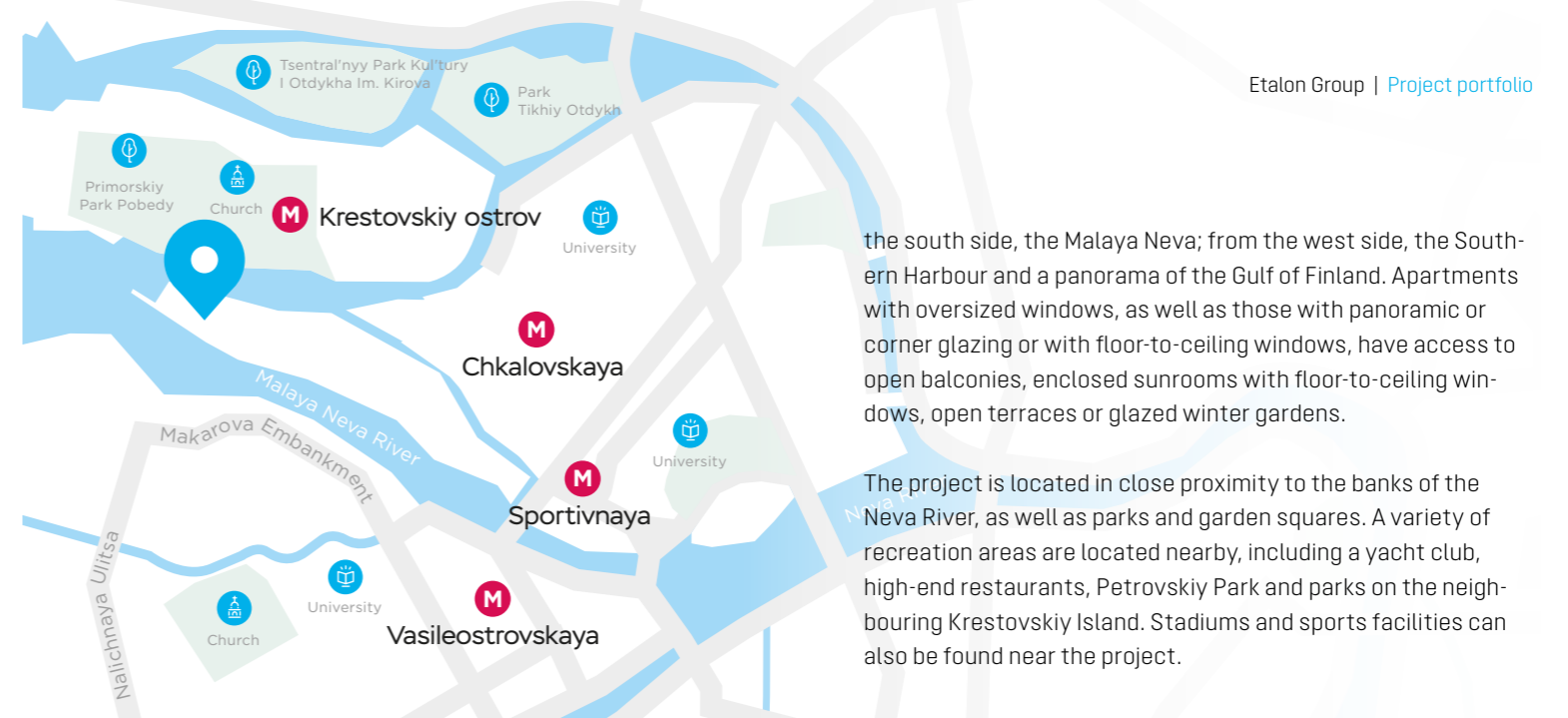


# Petrovskiy Landmark

The Petrovskiy Landmark business-class residential complex is located on Petrovskiy Island, 10 minutes from the historic centre of St Petersburg, in one of the most interesting and most promising areas in the central part of the city.

**St Petersburg**  
Business class

The complex consists of three buildings and underground parking, which can be accessed directly from the lift. The buildings' appearance is dominated by architectural motifs from the late 19th and early 20th centuries. The windows in apartments on two sides of the residential complex overlook the water: from



the south side, the Malaya Neva; from the west side, the Southern Harbour and a panorama of the Gulf of Finland. Apartments with oversized windows, as well as those with panoramic or corner glazing or with floor-to-ceiling windows, have access to open balconies, enclosed sunrooms with floor-to-ceiling windows, open terraces or glazed winter gardens.

The project is located in close proximity to the banks of the Neva River, as well as parks and garden squares. A variety of recreation areas are located nearby, including a yacht club, high-end restaurants, Petrovskiy Park and parks on the neighbouring Krestovskiy Island. Stadiums and sports facilities can also be found near the project.

Net sellable area<sup>1</sup>  
**89 THS SQM**

Market value<sup>1</sup>  
**RUB 5,053 MLN**

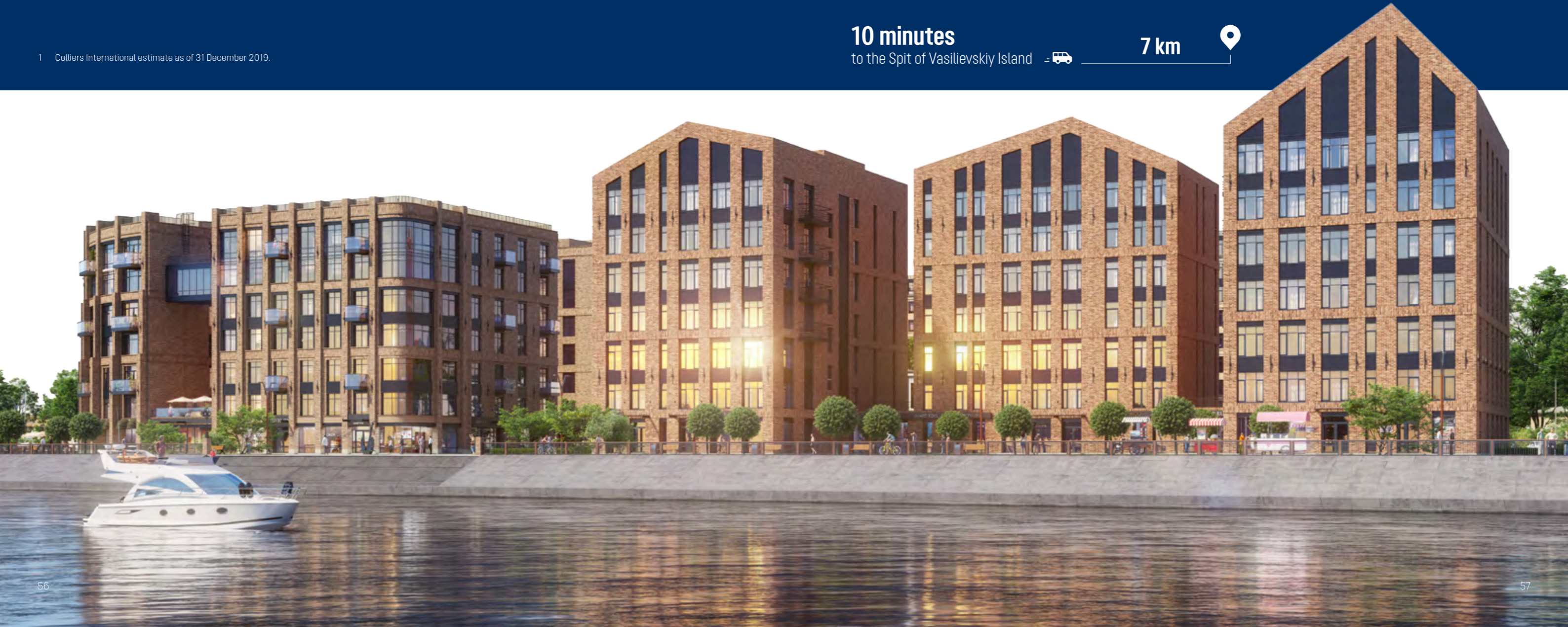
Sales revenue<sup>1</sup>  
**RUB 14,744 MLN**

**30 minutes**  
to the airport - 30 km

**20 minutes**  
to the Lakhta Centre - 15 km

**10 minutes**  
to the Spite of Vasilevskiy Island - 7 km

<sup>1</sup> Colliers International estimate as of 31 December 2019.



# Botanica

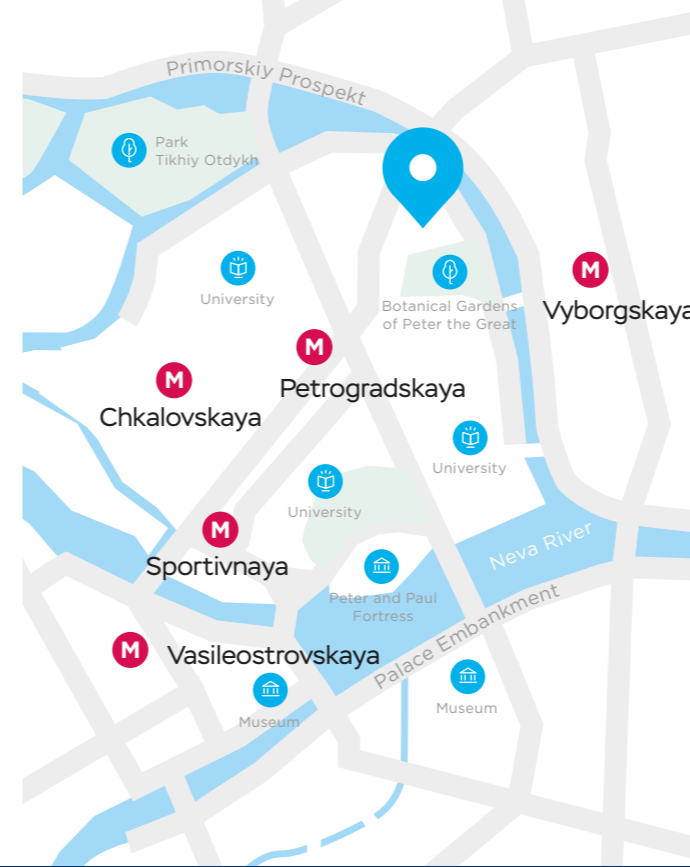
The Botanica project is located in the heart of the Petrograd Side and is less than 4 km from the historic centre. Just 200 metres away is one of the best green areas in St Petersburg, the Botanical Gardens.

**St Petersburg**  
Business class



The new complex's central location provides residents with mobility and access to well-developed, high-level social, commercial, sports, medical and entertainment infrastructure, while also being located close to landmarks and cultural attractions such as Lopukhinskiy

Garden, Kamennyi Island, the Aurora, Peter and Paul Fortress, the local mosque, the Trinity and Kantemirovskiy bridges, the Mironov Theatre and others.



Botanica was a finalist for a 2018 Urban Award, and it was the first Etalon Group project in St Petersburg certified in accordance with Green Zoom Russian professional standards for environmental friendliness and energy efficiency. Even at the stage of concept development, we tried to incorporate into the project all the state-of-the-art technologies employed today in green construction: efficient ventilation systems, a central air-conditioning system, additional water treatment and improved sound insulation.

The complex is within walking distance of the Petrogradskaya metro station and offers good connections to the city centre, as well as convenient access to the embankment and other major thoroughfares. The popular suburban Kurortnyi district can be reached in about 30 minutes by car along the Neva River embankment. The nearest access road onto the Western High-Speed Diameter, which connects the north and south of the city, is 7 km away (a 10-minute drive). The nearest exit onto the Ring Road is a 20-minute drive away.

Net sellable area<sup>1</sup>  
**47 THS SQM**

Market value<sup>1</sup>  
**RUB 2,743 MLN**

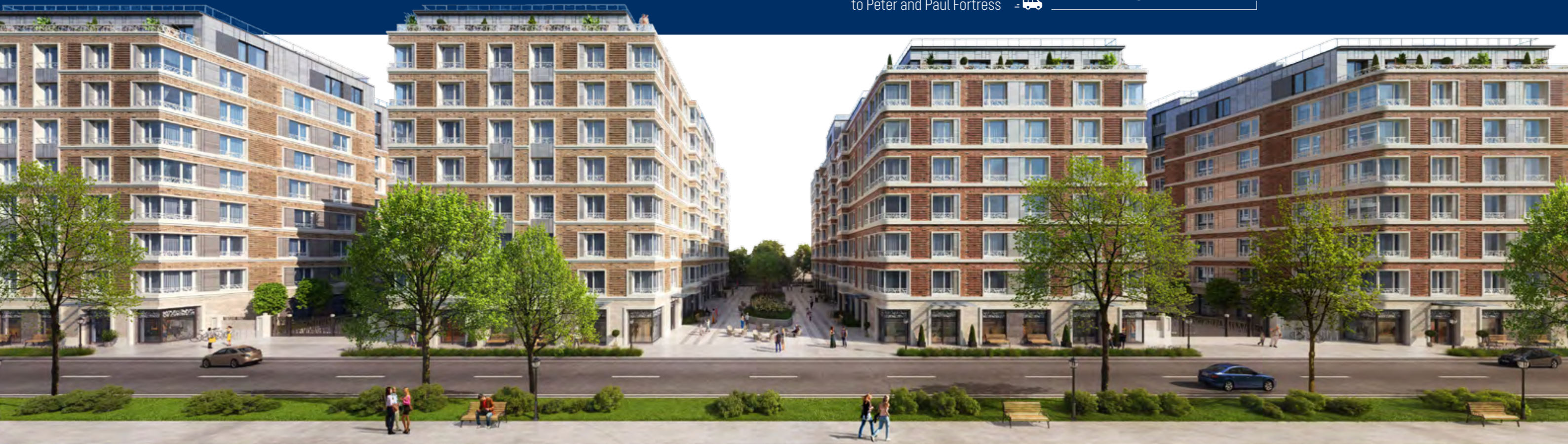
Sales revenue<sup>1</sup>  
**RUB 7,033 MLN**

**15 minutes**  
to Summer Garden - **10 km**

**12 minutes**  
to the Spit of Vasilievskiy Island - **8 km**

**7 minutes**  
to Peter and Paul Fortress - **5 km**

<sup>1</sup> Colliers International estimate as of 31 December 2019.  
<sup>2</sup> Received a gold Green Zoom certificate.  
<sup>3</sup> Received a GREEN Awards: High Performance Building.

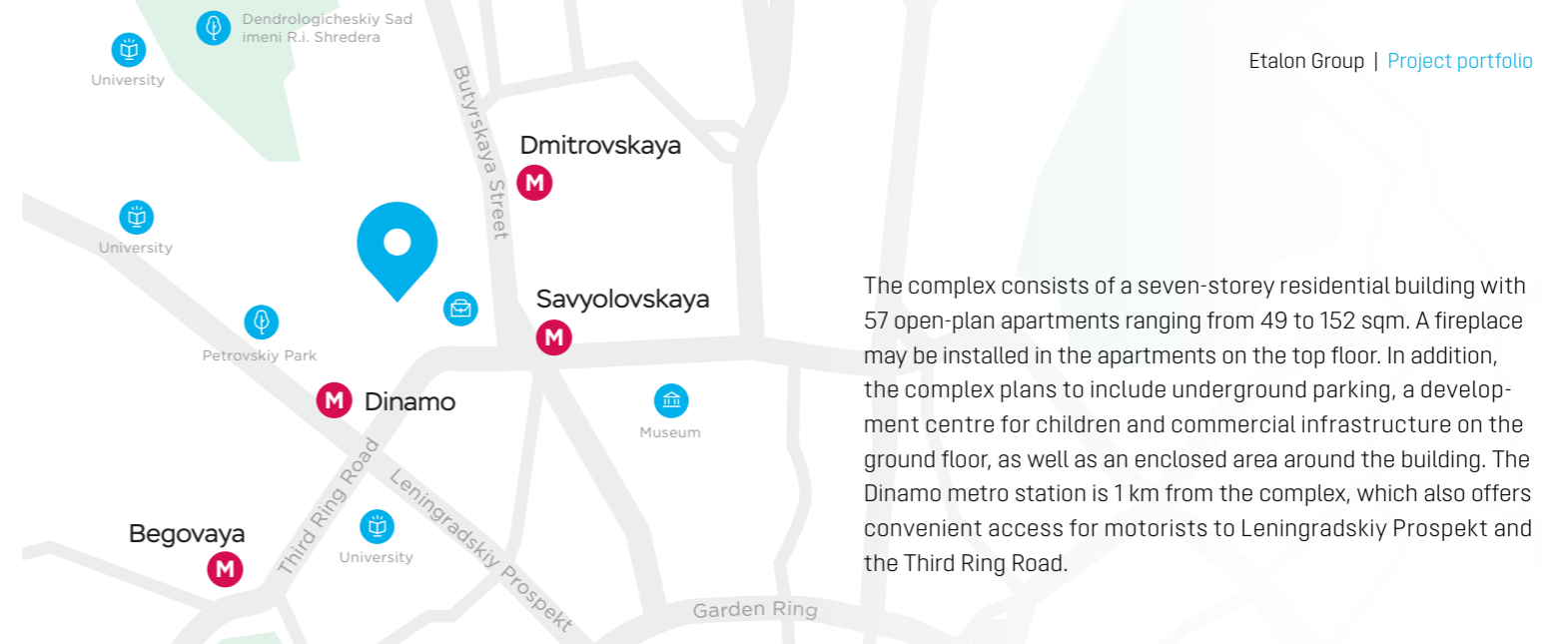


# Schastye na Maslovke

Schastye na Maslovke is located in the Savelovskiy district in the north of Moscow, an area with an abundance of green space.

**MOSCOW**  
Business class

Located nearby are Petrovskiy Park with a pond and a variety of natural recreation areas. In addition, the northern administrative district is considered one of the best in Moscow in terms of social amenities.



The complex consists of a seven-storey residential building with 57 open-plan apartments ranging from 49 to 152 sqm. A fireplace may be installed in the apartments on the top floor. In addition, the complex plans to include underground parking, a development centre for children and commercial infrastructure on the ground floor, as well as an enclosed area around the building. The Dinamo metro station is 1 km from the complex, which also offers convenient access for motorists to Leningradskiy Prospekt and the Third Ring Road.

Net sellable area<sup>1</sup>  
**7 THS SQM**

Market value<sup>1</sup>  
**RUB 281 MLN**

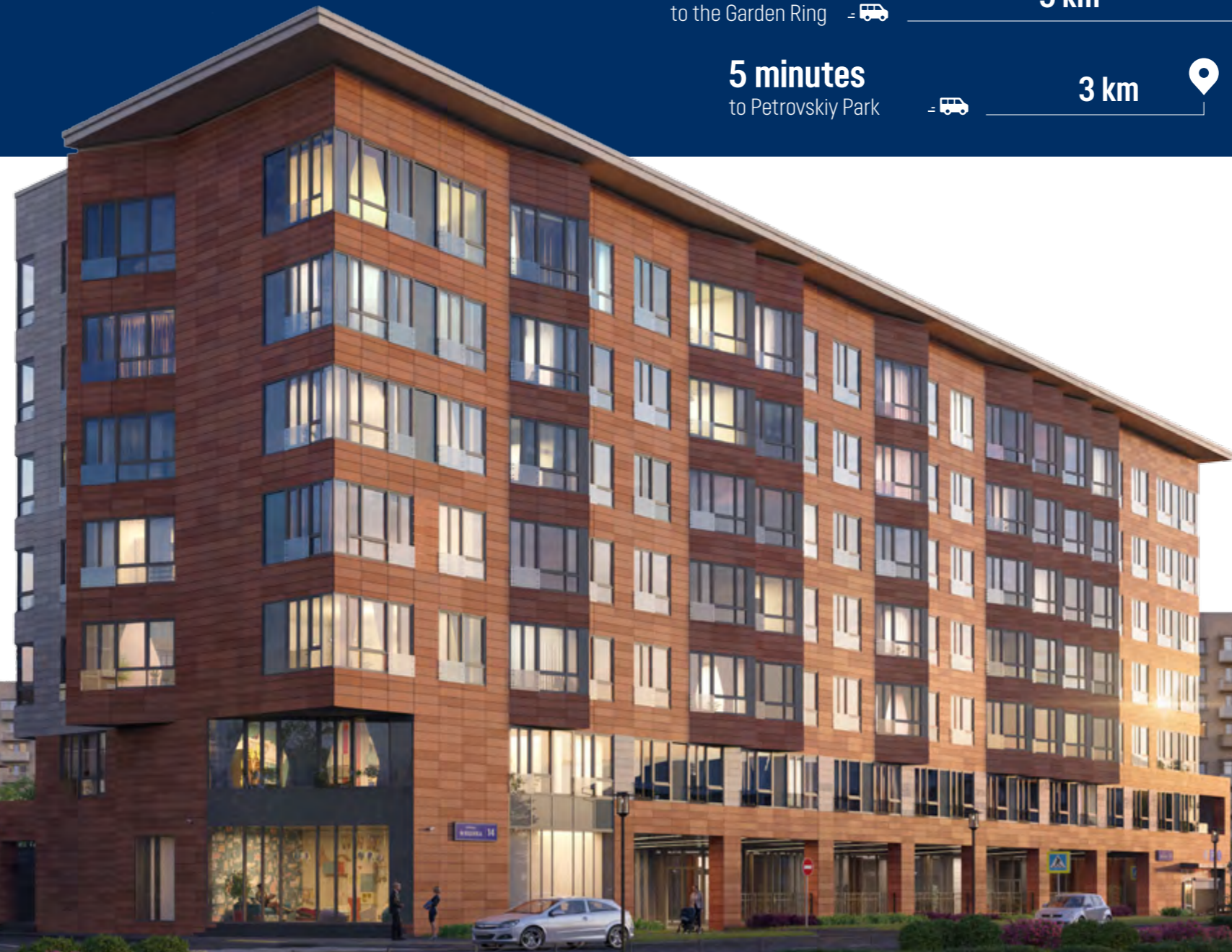
Sales revenue<sup>1</sup>  
**RUB 1,531 MLN**

**20 minutes** to Red Square - 10 km

**11 minutes** to the Garden Ring - 5 km

**5 minutes** to Petrovskiy Park - 3 km

<sup>1</sup> Colliers International estimate as of 31 December 2019.

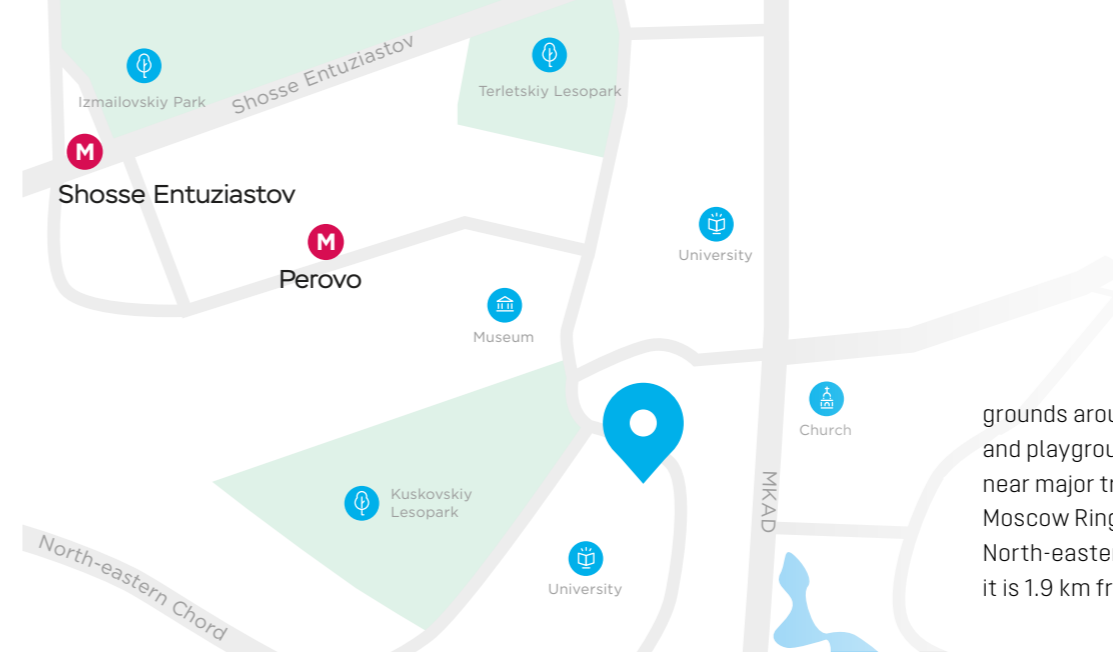


# Schastye v Kuskovo

The Schastye v Kuskovo complex is located in a pristine area near Kuskovskiy Park, the “green lungs” of the capital’s eastern administrative district.

**Moscow**  
Business class

The area is home to numerous shops, clinics, dental centres, primary and secondary schools, as well as preschools. The business-class complex will include 81 apartments, parking and storage areas for prams and bicycles, as well as landscaped



grounds around the building with areas for sports and playgrounds. The residential complex is located near major transportation arteries, such as the Moscow Ring Road, Veshnyakovskaya Street, the North-eastern Chord and Ryazanskiy Prospekt, and it is 1.9 km from the Novogireevo metro station.

Net sellable area<sup>1</sup>  
**6 THS SQM**

Market value<sup>1</sup>  
**RUB 458 MLN**

Sales revenue<sup>1</sup>  
**RUB 960 MLN**

**35 minutes**  
to Red Square -

**18 km**

**20 minutes**  
to the Third Ring Road -

**10 km**

**12 minutes**  
to Izmailovskiy Park -

**7 km**

<sup>1</sup> Colliers International estimate as of 31 December 2019.



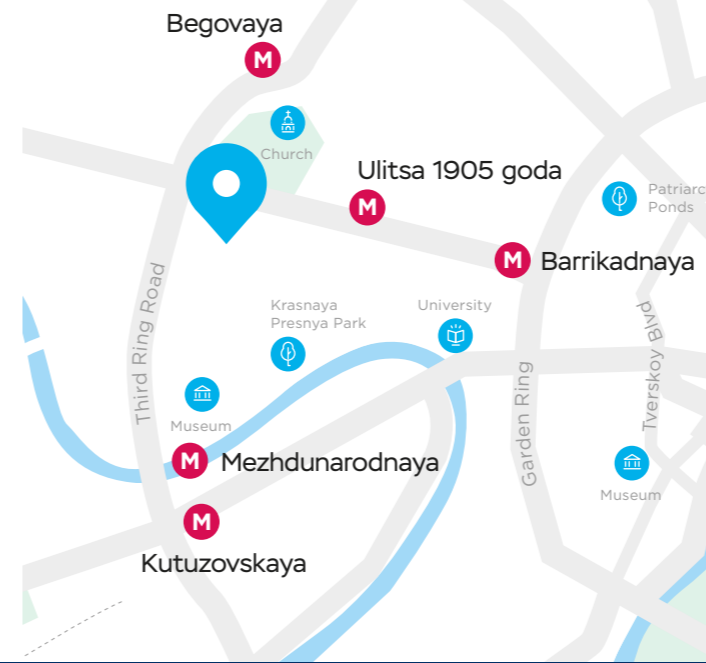


# Schastye na Presne

The Schastye na Presne residential complex is located in the prestigious Presnenskiy district in the very centre of Moscow, not far from the Moscow International Business Centre (Moscow City).

**Moscow**  
Business class

Just 100 metres from the complex is the picturesque Krasnogvardeiskiy Bulvar, with its green space and cascade of ponds, behind which are Krasnaya Presnya Park and the Moscow River embankment.



Numerous shops, two preschools, a sports centre and the Expo-centre can be found within walking distance. The project includes a varied-height monolithic tower (16–19 storeys), as well as underground parking. The building will have a panoramic lift and apartments with varying ceiling heights: from the second to the fourth floor, the ceiling height will be 5.1 metres; from the fifth to the sixteenth floor, it will be 3.3 metres; and on the upper floors, it will be 3.6 metres. Panoramic windows will allow residents to enjoy breathtaking views of the Moscow City business centre, the Moscow River embankment, the Krasnogvardeyskie ponds and other attractions in the centre of the capital.

Net sellable area<sup>1</sup>  
**6 THS SQM**

Market value<sup>1</sup>  
**RUB 90 MLN**

Sales revenue<sup>1</sup>  
**RUB 1,626 MLN**

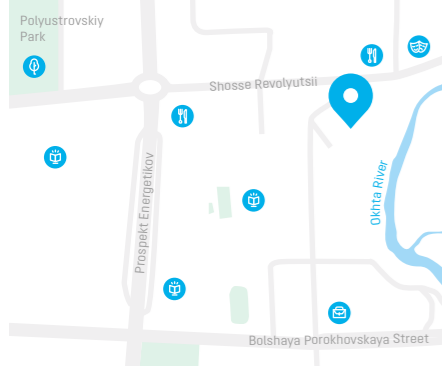
<sup>1</sup> Colliers International estimate as of 31 December 2019.

- 12 minutes**  
to Red Square - 7 km
- 9 minutes**  
to the Garden Ring - 4 km
- 5 minutes**  
to Krasnaya Presnya Park - 2 km



# COMFORT-CLASS PROJECTS

## Okhta House



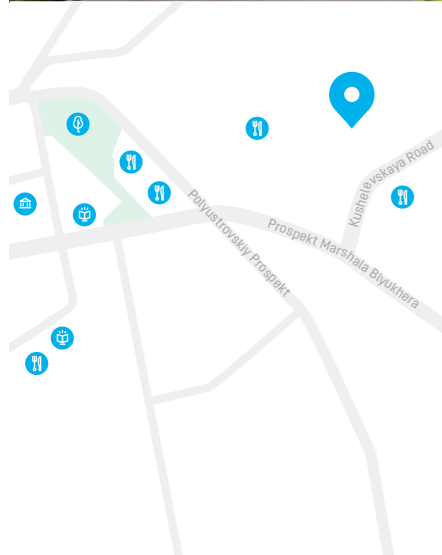
### St Petersburg Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>130 THS SQM</b>	<b>RUB 5,820 MLN</b>	<b>RUB 12,973 MLN</b>

The Okhta House residential complex consists of two land plots, each of which has two residential buildings, as well as underground and above-ground parking. Almost half of the apartments are being offered with completed fit-out. The area around Okhta House deserves special attention: the complex was built on a site devoid of dense development; the Okhta River flows nearby, and there are numerous parks and garden squares in the area, including Polyustrovskiy Park, Ilyinskiy Garden and Armashevskiy Square. In surroundings like these, residents of Okhta House will have countless opportunities for outdoor activities and walks in the fresh air. There are schools, health facilities, preschools, shops, restaurants, beauty salons and sports facilities all within a 2 km radius.

The Okhta House residential complex is being built in the Krasnogvardeiskiy district, which offers good transport accessibility. The district has two metro stations, a developed network of thoroughfares, excellent rail links, as well as connections with the central district through the architecturally impressive Bolsheokhtinskiy and Nevskiy bridges.

## House on Blyukhera



### St Petersburg Comfort class

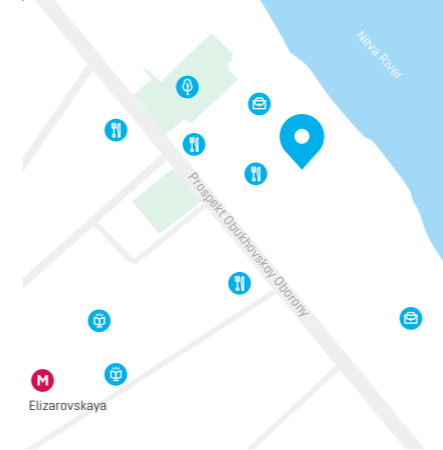
Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>105 THS SQM</b>	<b>RUB 324 MLN</b>	<b>RUB 8,313 MLN</b>

The House on Blyukhera is a modern residential building with reserved but vibrant architecture. The complex consists of two 17-storey buildings that appear to be a unified whole thanks to the colour scheme of the facades and the accentuated projections on the end sections.

The ergonomic planning solutions used both on each floor and in every apartment take into account the latest trends in the housing market and pay special attention, first and foremost, to the comfort of future residents. The wide range of apartments available offer classic and European layouts, intelligent and functional use of space, large kitchens and living rooms with street views, and built-in wardrobes.

The complex is located next to the Evropolis shopping centre. Some of St Petersburg's largest parks are located nearby, including Polyustrovskiy Park, the Forestry Engineering Academy park, the Polytechnic University park and Sosnovka. The House on Blyukhera is located within walking distance of two metro stations: Lesnaya and Ploshchad Muzhestva. A large number of public transport routes are available in the vicinity of the project on Prospekt Marshala Blyukhera and Kushihevskaya Road. Some of the city's major thoroughfares also pass nearby, including Kantemirovskaya Street, Prospekt Marshala Blyukhera, Lesnoy Prospekt, and the Ushakovskaya and Vyborgskaya embankments, along which one can reach Nevskiy Prospekt in 15 minutes by car.

## Etalon on the Neva



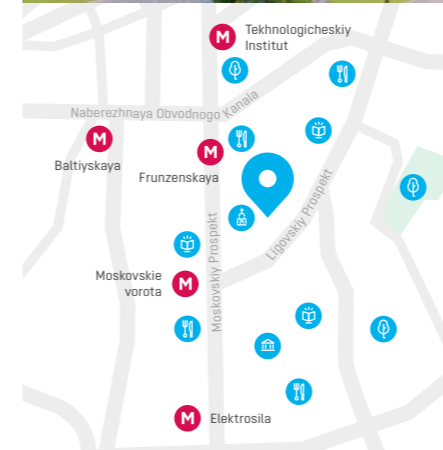
### St Petersburg Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>77 THS SQM</b>	<b>RUB 3,522 MLN</b>	<b>RUB 8,483 MLN</b>

The Etalon on the Neva residential complex is located right on the banks of the Neva River in the historic part of the rapidly developing Nevskiy district. Sixteen multi-storey sections in a uniform style represent a holistic composition that combines modern design and a sophisticated living environment. The residential complex offers wonderful views of the river. One of the benefits offered by Etalon on the Neva is the unusual format of its apartments. One- and two-level "urban villas" with direct access to the grounds of the complex and the Neva embankment create a unique feeling of seclusion. Apartments with large patios will appeal to fans of quiet holidays and those who enjoy family picnics in a natural setting.

The complex is a seven-minute walk from the Elizarovskaya metro station. Cafes and restaurants to suit every taste can be found on the embankment alongside the residence. Within walking distance of the complex there are preschools, schools, colleges and universities, and sports facilities, as well as recreation centres, a swimming pool and an ice rink for people who enjoy an active lifestyle. The cosy green courtyards, parks and garden squares surrounding Etalon on the Neva will enable residents to enjoy family walks at any time of year. The city centre is very close: it takes no more than seven minutes to reach Ploshchad Aleksandra Nevskogo and Nevskiy Prospekt.

## Project on Chernigovskaya Street



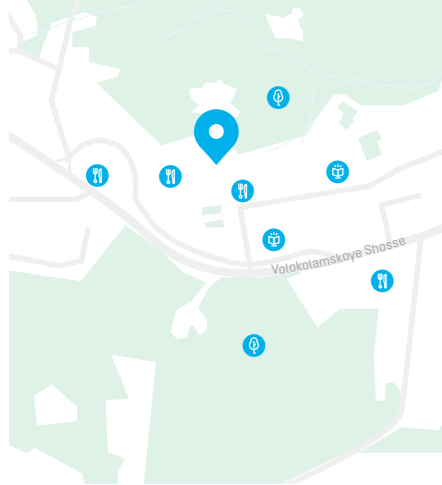
### St Petersburg Business-light

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>136 THS SQM</b>	<b>RUB 5,411 MLN</b>	<b>RUB 17,453 MLN</b>

The project on Chernigovskaya Street is a new type of residential complex that combines the best of classic style and all that modernity has to offer. The property is being built in a historic part of St Petersburg near Moskovskie Vorota. There will be six monolithic buildings of 8–12 storeys on the grounds of the project, along with two preschools, above-ground and underground parking, and interactive areas for recreation, socialising and sports. The project offers a wide selection of apartments with different layouts and sizes. With high ceilings (up to 3.6 metres on the upper floors), French-style balconies with floor-to-ceiling glazing, spacious kitchen-living rooms and rooms in just the right format, residents will be able to fashion interiors to match their vision.

Since the Moskovskiy district is located close to the centre, the complex is able to offer convenient transport links. The Moskovskie Vorota metro station is a 7-minute walk away, and the proximity of some of the city's main thoroughfares — Moskovskiy Prospekt, Ligoivskiy Prospekt and Naberezhnaya Obvodngo Kanala — is an added benefit for motorists. By car, one can reach the Western High-Speed Diameter in 9 minutes, the Ring Road in 16 minutes and Pulkovo Airport in half an hour.

## Emerald Hills



### Moscow Upper-economy class

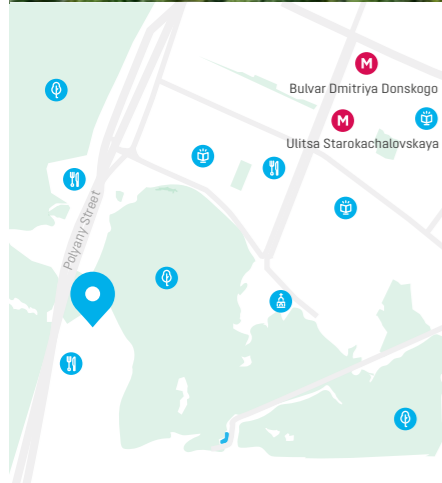
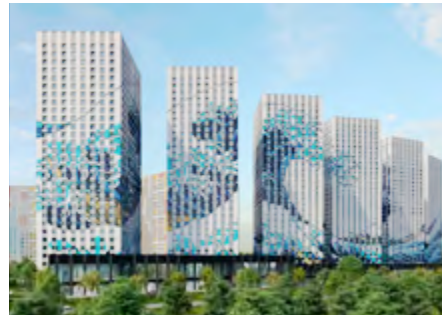
Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>847 THS SQM</b>	<b>RUB 4,975 MLN</b>	<b>RUB 60,118 MLN</b>

The Emerald Hills residential complex is a large-scale project in the immediate vicinity of Moscow, only 9 km from the Moscow Ring Road. The project consists of 20 brick-monolith buildings, five secondary schools, clinics for adults and children with an in-patient facility, an art school, preschools and numerous commercial properties, as well as underground and above-ground parking.

The residential complex is located in one of the most pristine parts of the Moscow region and is surrounded by forested parkland. Some apartments will offer views of the forest and the river. In addition, most of the grounds are reserved for landscaping and recreation areas, children's playgrounds and sports facilities. The project includes an open-air space exploration museum. A part of the forest adjoining the complex has a landscaped park with recreation areas and dedicated paths for pedestrians and cyclists.

The complex's proximity to Volokolamskoye Shosse provides convenient personal transport access to the Moscow Ring Road. The district has a well-established transport system, and several fixed-route minibuses service the area as well. Moscow can also be reached by suburban train from the Opalikhha station or by the Moscow Central Diameter railway.

## Etalon City



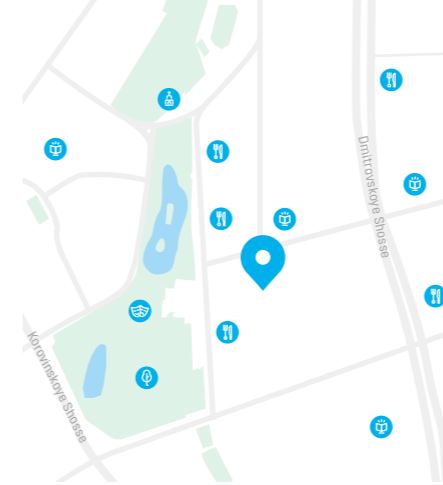
### Moscow Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>366 THS SQM</b>	<b>RUB 1,852 MLN</b>	<b>RUB 28,861 MLN</b>

The Etalon City residential complex is located on the border of North Butovo and South Butovo, a pristine area with beautiful forested parkland and developed infrastructure. The Butovo forest park, the largest park in the Moscow region with an area of 1,610 hectares, is adjacent to the complex. A secondary school for 625 students and a preschool are being built on the grounds of the Etalon City residential complex; sports facilities, children's playgrounds and recreation areas have been equipped; a landscaped park has been developed; and a fitness centre with 10 ths sqm of floor space, three pools and six rooms for group programmes can be found on the ground floor of the complex. The project offers convenient access to major thoroughfares, such as the Moscow Ring Road, Kaluzhskoye Shosse and Varshavskoye Shosse, and it is within walking distance of the Ulitsa Skobelevskaya metro station.

The complex boasts unique facades, each of which is individually designed to reflect the architecture and views of one of the great cities of the world. The facades of the row of skyscrapers known as the Tokyo Towers are decorated with motifs from one of Japan's most famous engravings, "The Great Wave off Kanagawa".

## Summer Garden



### Moscow Comfort class

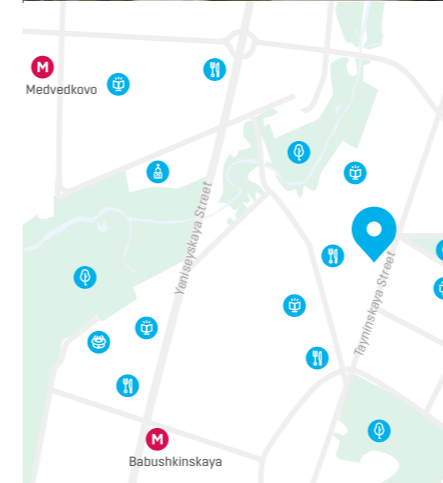
Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>293 THS SQM</b>	<b>RUB 3,671 MLN</b>	<b>RUB 31,717 MLN</b>

The Summer Garden complex consists of 11 multi-storey residential buildings built using state-of-the-art technologies. The design plans for the complex include one apartment building, a school for 800 students, a preschool for 150 students, and a three-storey shopping and entertainment centre with a cinema with floor space of about 30 ths sqm.

The residence's vibrant, cheerful facades help beautify the city. Each block of the residence uses a unique colour scheme, a technique that lends every element of living space its own recognisable and memorable image. The landscaping concept is also unusual in that it makes use of a variety of gardens. Atmospheric entrance lobbies, cosy designer courtyards and areas for walking will create a comfortable environment for living and recreation. The intelligently planned residential quarters were designed based on the idea of "a city within a city", i.e., they include all the necessary amenities, which enables residents to work, relax and live in one area. The 38-hectare Angarskiye Prudy nature park and an equestrian centre are a 10-minute walk from the complex.

With its convenient location at the intersection of Dmitrovskoye Shosse from the west and 800-letiya Moskvyy Street from the south, the residents of Summer Garden will have no problem getting to wherever they need to go in the city.

## Normandy



### Moscow Comfort class

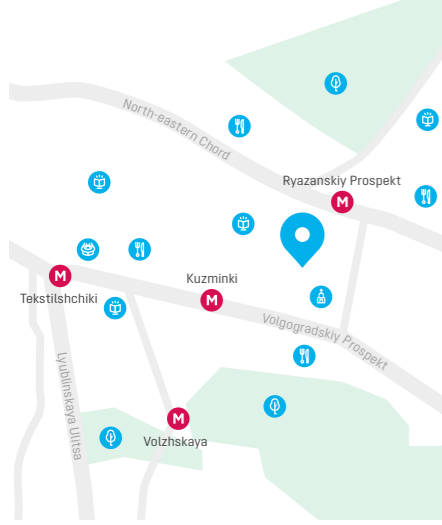
Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>124 THS SQM</b>	<b>RUB 3,968 MLN</b>	<b>RUB 16,671 MLN</b>

Normandy is a modern comfort-class residential complex in the north-east of Moscow, near the Losiny Ostrov Park. What makes the project special is its excellent location in a beautiful green area of the capital with low-density development and fully developed infrastructure, as well as numerous parks and walking paths. Several large recreational areas are within walking distance, including the Yauza River Park, Torfyanka Park and Dzhambgarovskiy Park with its cascade of ponds.

Normandy consists of three buildings with heights of 7 to 24 storeys. Each building has a sleek design with understated facades and vibrant architectural accents. The individuality of the residential complex is emphasised by the designer finish of the entrance halls and common areas. The interior is designed and planned down to the last detail in terms of aesthetics and comfort. Convenient pram storage rooms, spacious halls, waiting areas for guests and a concierge area are available for the convenience of residents.

The complex offers convenient transport accessibility, with two metro stations, two suburban train stations and ground-based public transport stops nearby. The Moscow Ring Road is a five-minute drive away, which can then take residents wherever they might want to go in the region.

## Schastye na Volgogradke



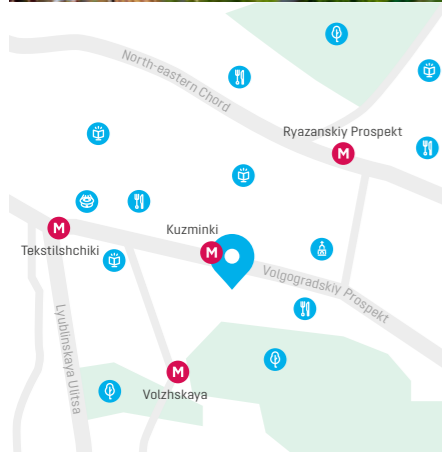
### Moscow Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>14 THS SQM</b>	<b>RUB 482 MLN</b>	<b>RUB 1,730 MLN</b>

The Schastye na Volgogradke residential complex is located in the Ryazanskiy district in the south-eastern part of Moscow, a cosy residential area with green courtyards and existing amenities. The complex is located on Fyodor Poletaev Square, near green spaces and ponds such as Kuzminki Park and Kuskovskiy Municipal Forest. The social and commercial amenities in the district include numerous shops, preschools, schools, clinics, two hospitals and other facilities that can provide residents with a comfortable standard of living.

The complex includes a 16-storey, two-section building with a two-level parking garage on an area of 0.54 hectares. The project offers convenient access to Volgogradskiy Prospekt and Ryazanskiy Prospekt, which provide further access to the Garden Ring, the Third Ring Road and the Moscow Ring Road. Within a 15-minute walk are the Ryazanskiy Prospekt and Kuzminki metro stations.

## Schastye v Kuzminkakh



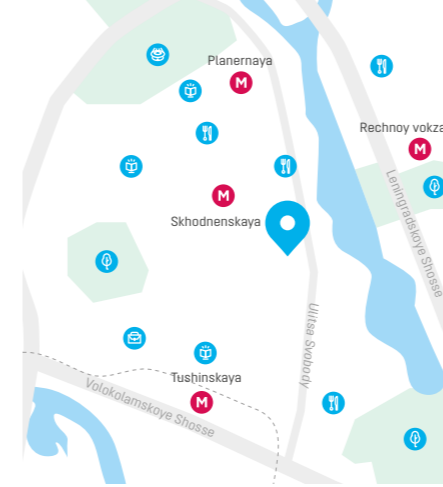
### Moscow Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>9 THS SQM</b>	<b>RUB 16 MLN</b>	<b>RUB 1,374 MLN</b>

The Schastye v Kuzminkakh residential complex is located in the south-eastern part of the capital near numerous green spaces, such as Shibaevskiy Pond, Kuzminskiy Municipal Forest, Lyublinskiy Park, Lublin Ponds and Park Dvenadtsati Luchey. Amenities in the area include educational institutions, supermarkets and two shopping centres, as well as numerous social and cultural facilities.

The project is a 15-storey building with 126 apartments ranging from 39 to 80 sqm with a ceiling height of 3.1 metres, along with underground parking. A private courtyard includes guest parking, as well as playgrounds and sports facilities. One feature that makes the complex stand out is its convenient location just 300 metres from the Kuzminki and Volodarskiy Prospekt metro stations. The Tekstilshchiki and Volzhskaya metro stations are also nearby. Its proximity to four metro stations provides the residential complex with excellent transport accessibility.

## Schastye na Skhodnenskoj



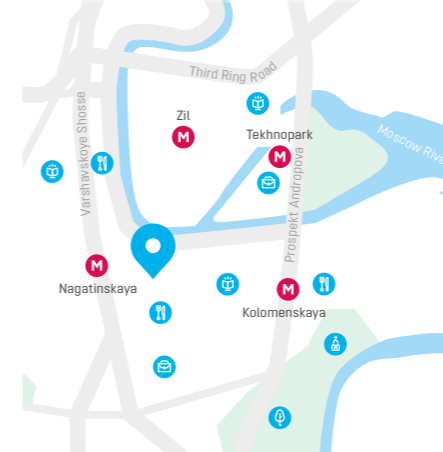
### Moscow Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>7 THS SQM</b>	<b>RUB 52 MLN</b>	<b>RUB 1,215 MLN</b>

The Schastye na Skhodnenskoj residential complex is located in South Tushino in the north-western administrative district of Moscow, an area that offers a wide array of amenities. There are numerous green spaces and natural bodies of water nearby, including the Moscow Canal, the Skhodnenskiy Canal, the Skhodnenskiy Kovsh and the Severnoe Tushino Park on the shores of the Khimki Reservoir.

The project consists of a 12-storey, two-section building, the ground floor of which will be occupied by shops and various services, as well as a storage room for prams and a concierge area. The complex is located between the Third Ring Road and the Moscow Ring Road, in close proximity to major thoroughfares such as Leningradskoye Shosse and Volokamskoye Shosse, as well as Svoboda and Skhodnenskaya Streets. The nearest metro station, Skhodnenskaya, is a 10-minute walk away.

## Schastye v Sadovnikakh



### Moscow Comfort class

Net sellable area <sup>1</sup>	Market value <sup>1</sup>	Sales revenue <sup>1</sup>
<b>7 THS SQM</b>	<b>RUB 78 MLN</b>	<b>RUB 1,174 MLN</b>

The Schastye v Sadovnikakh residential complex is located in the Nagatino-Sadovniki part of the southern administrative district of Moscow. Within a radius of 3.5 km from the complex are the Kolomenskoye Museum-Reserve and the Sadovniki Park, as well as a number of other parks and garden squares. The area offers a range of amenities, including various shops, clinics, shopping centres and cinemas, as well as schools and preschools.

The residential complex offers 80 open-plan apartments ranging from 45 to 135 sqm with walk-in closets and verandas, as well as a two-level underground parking garage. The nearest metro station, Nagatinskaya, is only 700 metres away, and the project also offers convenient access to Varshavskoye Shosse and Kashirskoye Shosse, the Nagatinskaya Embankment and the Third Ring Road.

Operating performance

# Business DYNAMICS

NEW CONTRACT SALES

**+13%**

**77.6**

RUB BLN

AVERAGE  
APARTMENT PRICE

**+20%**

**149**

RUB THS/SQM

CASH COLLECTIONS

**+24%**

**77.7**

RUB BLN



# OPERATING PERFORMANCE

We once again delivered record sales results in FY 2019 thanks to strong demand for our product and the successful integration of Leader-Invest following the acquisition of the Moscow-based developer in February 2019. Thanks to our smart pricing policy and a significant number of projects that are exempt from new industry regulations, we expect to achieve a smooth and gradual transition to operation under the new regulations.

## 2019 operating results



## DOUBLE-DIGIT GROWTH IN KEY METRICS

In 2019, Etalon Group achieved double-digit growth in key operating performance indicators, including deliveries, for the first time in five years. The Company delivered 622 ths sqm of NSA across 21 projects and sold 630 ths sqm of real estate worth RUB 78 billion, a year-on-year increase of RUB 9 billion, or 13%.

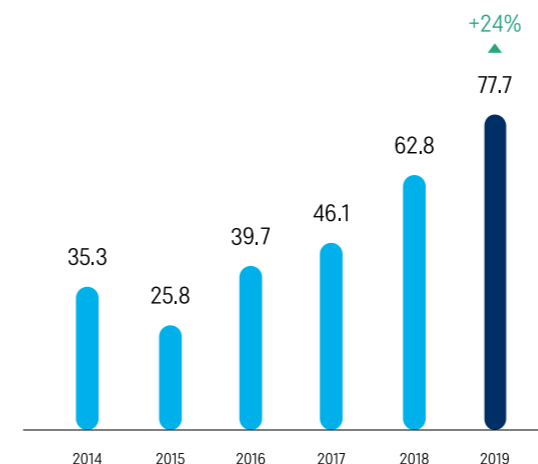
Deliveries, ths sqm



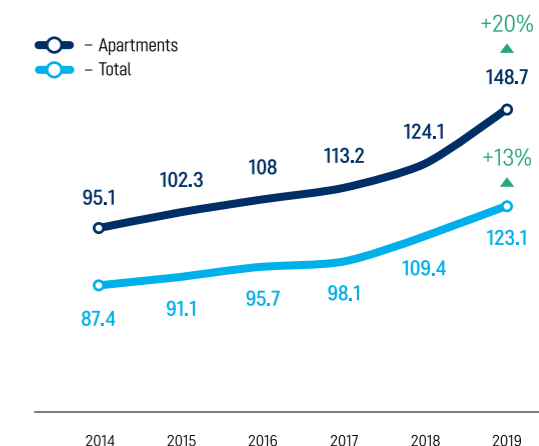
New contract sales, RUB bln



Cash collections, RUB bln



Average price, RUB ths/sqm

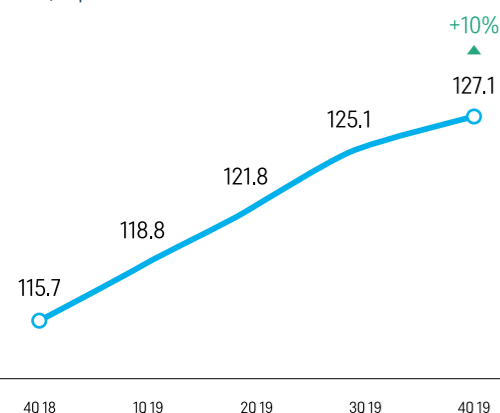


## Pricing policy

After new industry regulations took effect in 2019, Etalon Group, like other large developers, was granted exemptions to these new rules for a number of projects. Recognising that this inventory is limited and that our goal is to make the transition to project financing through escrow accounts as smooth as possible, we decided to increase the price of properties being sold under the

old rules. The management team consciously took this step with the understanding that it would result in slower sales in volume terms, but it would enable the Company to maximise cash collections needed to implement its plans, while also improving the profitability of individual projects.

Average price, RUB ths/sqm

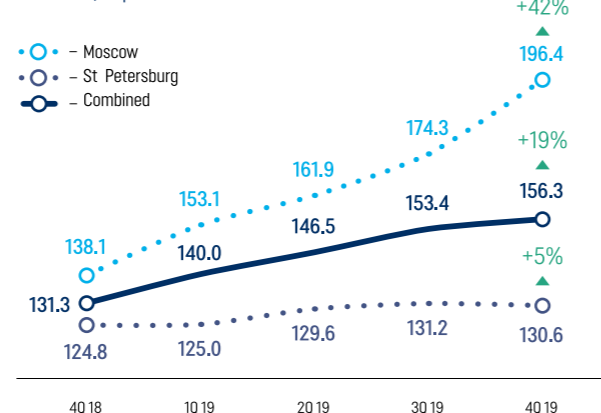


The average price per sqm (including parking and commercial real estate) in 4Q 2019 increased by 10% year-on-year. Prices for apartments in our projects in our two core regions increased by 19%, rising by 42% in Moscow. The two main factors influencing this growth were the introduction of higher-priced Leader-Invest properties and an increase in the price of Etalon Group properties that were already for sale. The share of business-class projects in total sales increased in volume and monetary terms from 7% and 12% in 2018, respectively, to 18% and 31% in 2019.

Our 2019 results confirm that this approach delivered the desired results. Cash collections from sales amounted to RUB 78 billion for FY 2019, up by 24% year-on-year and 4% higher than our own guidance provided at the beginning of the year. We believe that a 20% price increase without a significant decrease in sales volumes is excellent both for Etalon Group's results and for the market generally. Etalon Group's average down payment remained high and once again exceeded 80%.

In May 2019, we forecast that the share of real estate sold under the new rules would not exceed 5%. In reality, only 1% of FY 2019 cash collections were placed in escrow accounts. While a portion of the cash collections from sales concluded in December will go into escrow accounts in January 2020, we expect the new industry regulations not to have a significant impact on Etalon Group's business in 2019 or 2020.

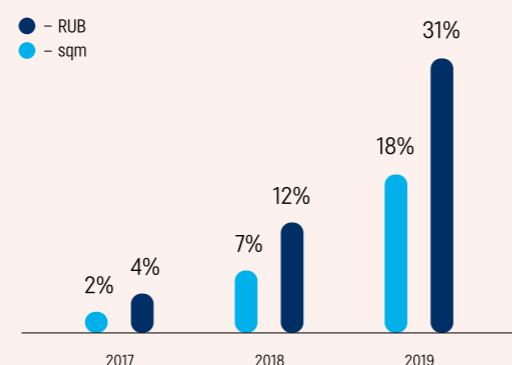
Average price (apartments), RUB ths/sqm



## from 12 to 31%

The share of business-class projects in total sales increased in volume and monetary terms from 7% and 12% in 2018, respectively, to 18% and 31% in 2019.

Share of business-class projects



## 4Q 2019 operating results

The Company delivered its best 2019 sales results in the last quarter of the year, which was second only to 4Q 2018. The end of 2018 and beginning of 2019 marked a record-setting period for the Russian housing market, ahead of the planned transition

to payments using escrow accounts starting from 1 July 2019. A large number of buyers wanted to purchase apartments in an environment of rising mortgage rates and expectations of a significant increase in property prices.

	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019
<b>New sales, sqm</b>	211,356	167,954	154,257	136,658	<b>171,530</b>
<b>New sales, RUB mln</b>	24,446	19,952	18,782	17,098	<b>21,795</b>
<b>Number of contracts</b>	4,245	3,470	3,060	2,579	<b>2,931</b>
<b>Cash collections, RUB mln</b>	20,303	23,632	19,177	16,114	<b>18,791</b>
<b>Average price, RUB/sqm</b>	115,660	118,796	121,759	125,118	<b>127,060</b>
<b>Average price (apartments), RUB/sqm</b>	131,331	140,036	146,524	153,394	<b>156,271</b>
<b>Deliveries, sqm</b>	423,069	34,539	211,805	67,230	<b>308,294</b>

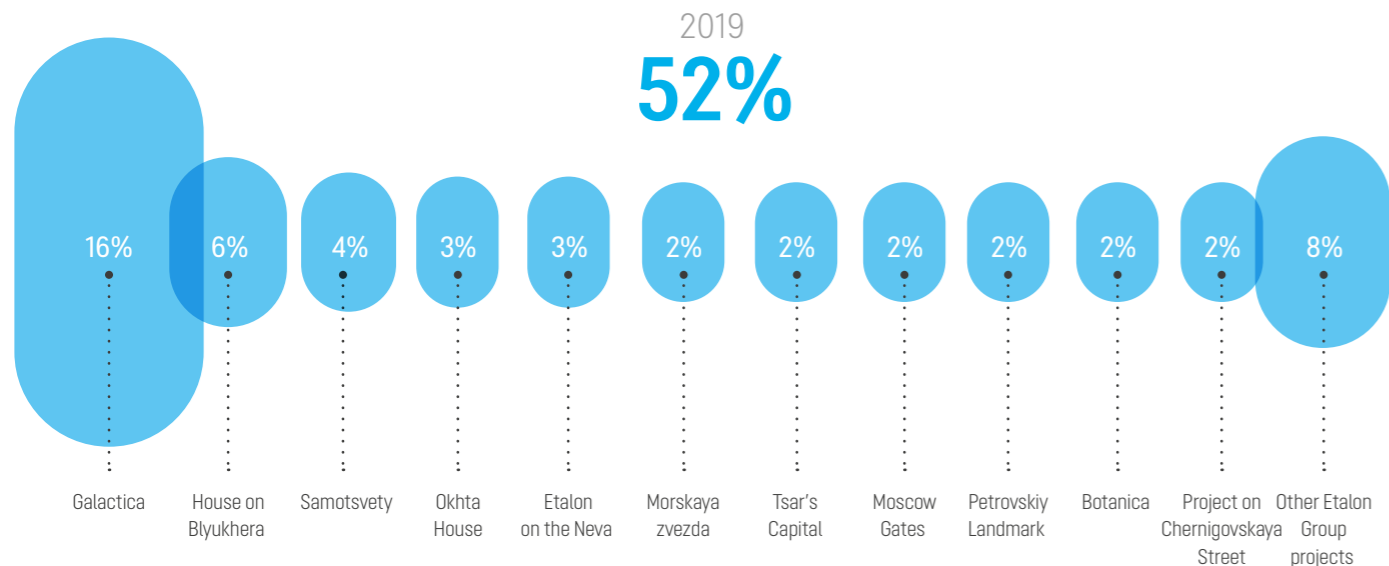


## Operating results by region

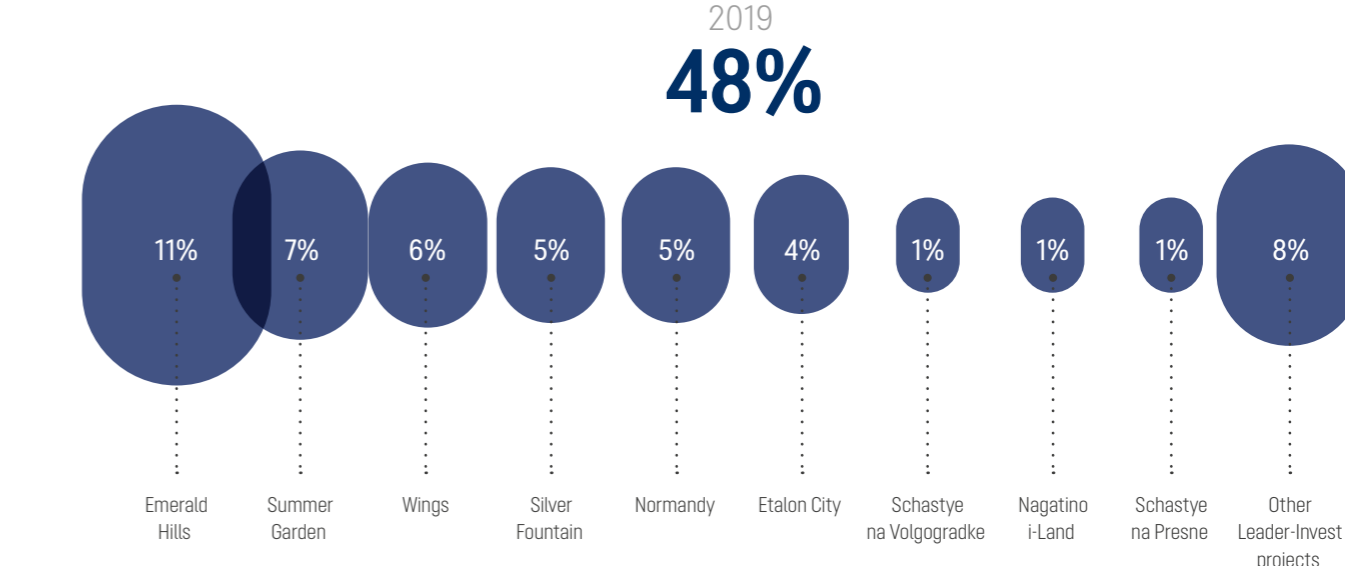
The biggest contribution to growth in Etalon Group's FY 2019 operating results came from Moscow, where we acquired Leader-Invest at the beginning of the year. The successful integration of the latter enabled us to increase new contract sales by RUB 9 billion year-on-year to RUB 43 billion. Even more impressive was the growth in cash collections, which reached almost RUB 46 billion, an increase of 47% year-on-year. Leader-Invest projects account-

ed for about 16% of 2019 sales volumes, and around 22% of sales in monetary terms. Despite only being launched in late November 2019, the Nagatino i-Land project accounted for about 3% of 4Q sales volumes. In addition, in 2019 we launched sales of the next phase of the Silver Fountain complex in Moscow, as well as a new phase of the Galactica project — Galactica PRO — and the project on Chernigovskaya Street in St Petersburg.

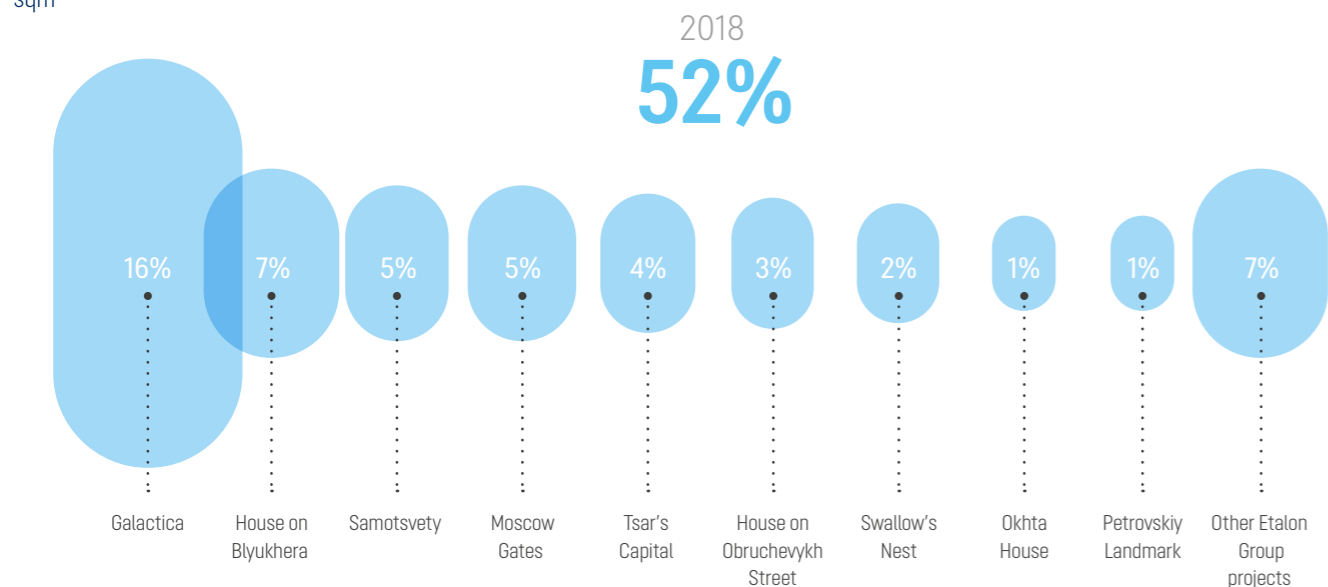
New contract sales by project 2019, sqm<sup>1</sup>



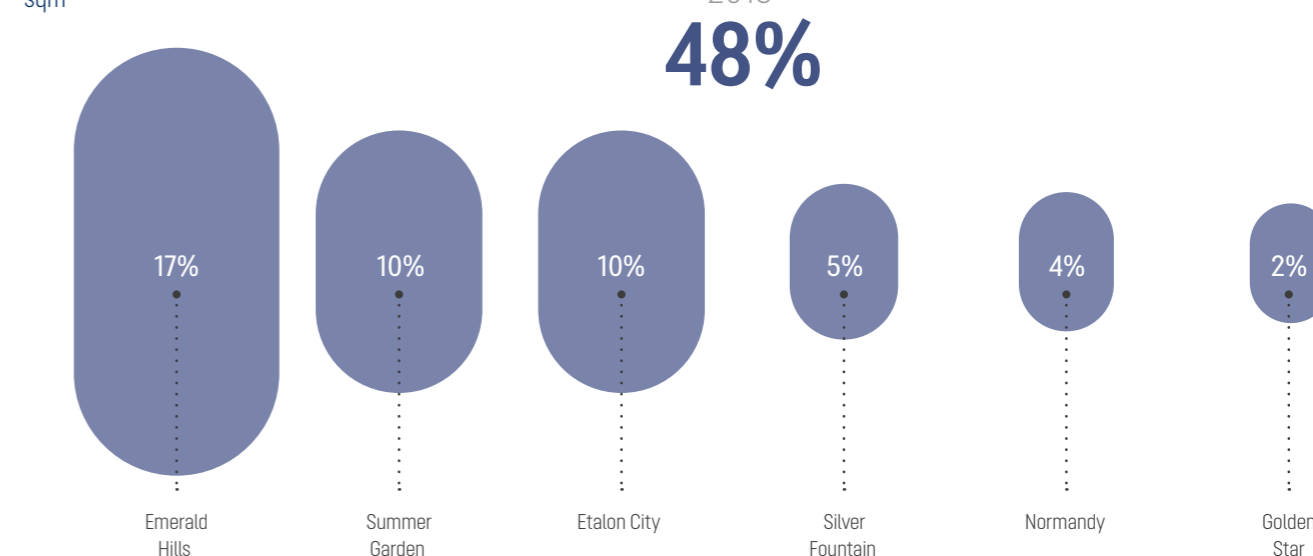
New contract sales by project 2019, sqm<sup>2</sup>



New contract sales by project 2018, sqm<sup>1</sup>

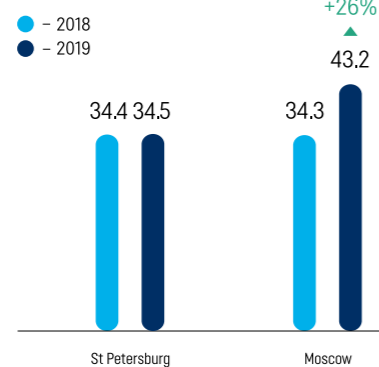


New contract sales by project 2018, sqm<sup>2</sup>

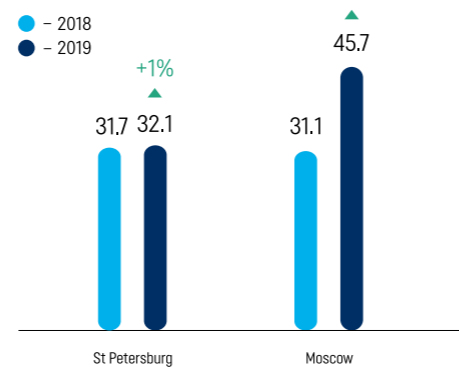


Despite a slight improvement in performance in St Petersburg in 2019, it should be noted that these results, which were comparable to the record year of 2018, were achieved despite a deficit of new supply. In 2020, we plan to acquire a number of interesting projects that will enable us to secure further growth in the region.

New contract sales, RUB bln



Cash collections, RUB bln



## Looking ahead

In achieving strong results in 2019, Etalon Group laid the foundation for further sustainable growth. At the end of Q4 2019, a slight recovery in the market could already be seen following a slowdown in demand in the middle of the year. We are confident that the Company will deliver another set of strong results in 2020. All the prerequisites for this are in place: we still have

a healthy inventory of real estate that is not subject to new industry regulations; mortgage rates are at historic lows and are likely to decrease further in 2020; finally, state support for young families will drive sales. Upon the birth of a family's first child, they will receive payments that, combined with low mortgage rates and tax deductions, will enable them to purchase an apartment.

1 Percentages may not add up due to rounding.

2 Percentages may not add up due to rounding.



# Nationwide sales network supports sustainable sales for Etalon Group

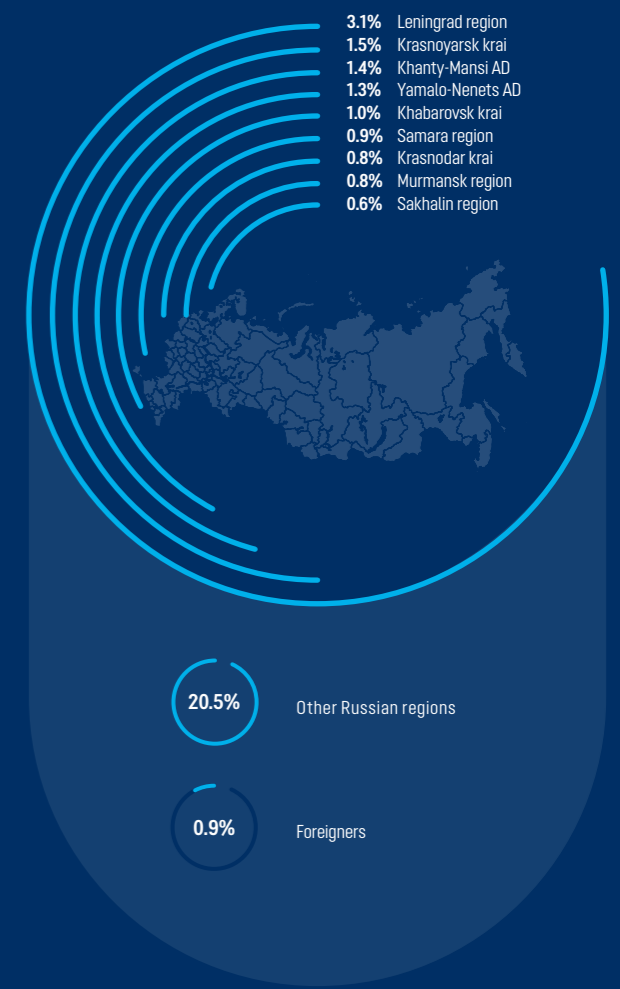
57 cities covered by sales network: 14 sales offices in Moscow and St Petersburg and 14 offices nationwide

ST PETERSBURG 20.0%

MOSCOW 12.8%

## 32.8% OF TOTAL NCS

was attributable to regional buyers during FY 2019



### Regional per capita income compared to Russia's national average<sup>1</sup>

Yamalo-Nenets AD <b>2.4x</b>	Moscow <b>2.1x</b>	Khanty-Mansi AD <b>1.5x</b>	Moscow region <b>1.4x</b>	Murmansk region <b>1.2x</b>
Chukotka <b>2.3x</b>	Magadan region <b>1.8x</b>	Kamchatskiy krai <b>1.5x</b>	St Petersburg <b>1.3x</b>	Khabarovsk krai <b>1.2x</b>
Nenets AD <b>2.3x</b>	Sakhalin region <b>1.6x</b>	Tyumen region <b>1.4x</b>	Yakutia <b>1.3x</b>	Sverdlovsk region <b>1.1x</b>

Etalon Group's target regions

<sup>1</sup> Average monthly cash income per capita. Rosstat data for 12M 2019.

Financial performance

**RUB 84 BLN**

Driven by the  
**RIGHT STRATEGY**

**24%**

GROSS PROFIT

**14%**

PRE-PPA EBITDA

**11%**

EBITDA

**4%**

PRE-PPA ADJUSTED NET INCOME

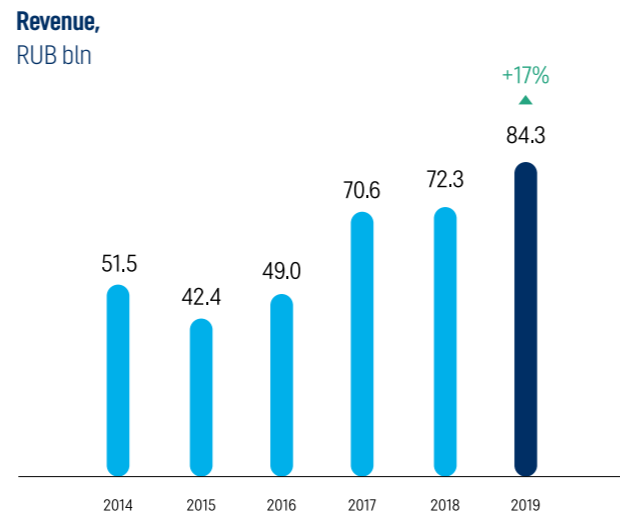


# FINANCIAL PERFORMANCE

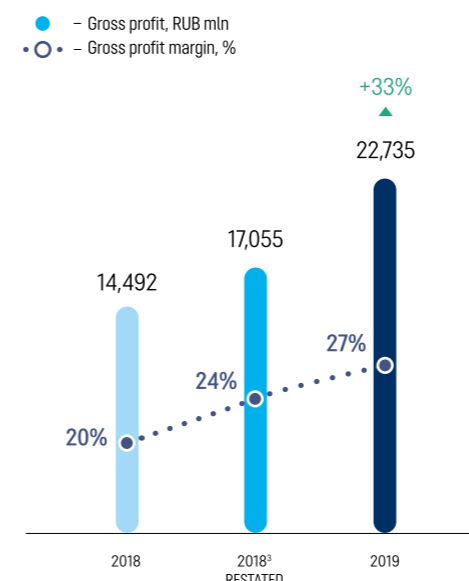
Thanks to double-digit growth in key operating metrics, Etalon Group achieved record-high revenue of RUB 84 bln in 2019, which generated a record high gross profit of RUB 20 bln.

The Leader-Invest acquisition and the consolidation of the largest project in Etalon's portfolio, ZIL-Yug, had a significant impact on our reported results. The Company added 1.9 mln sqm of NSA to its land bank, which put serious pressure on free cash flow. The accounting treatment of the purchase price allocation (PPA) for these assets, as well as the costs related to integration and brand unification at the time had an impact on Etalon's financial results for the period. The Company's nominally higher net debt did not, however, affect its ability to service its borrowings, and the ratio of pre-PPA EBITDA to interest expenses remained virtually the same in 2019, at the high level of 2.5x.

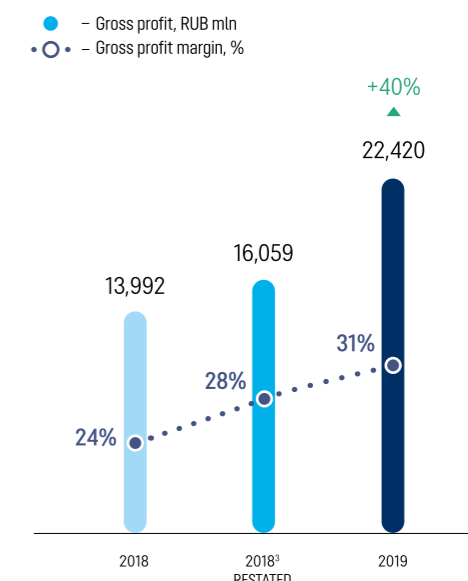
At the same time, the Group's considerably larger project portfolio and the measures taken to improve efficiency give reason to expect strong financial results in future periods.



## Pre-PPA<sup>2</sup> consolidated gross profit



## Pre-PPA<sup>2</sup> residential development gross profit

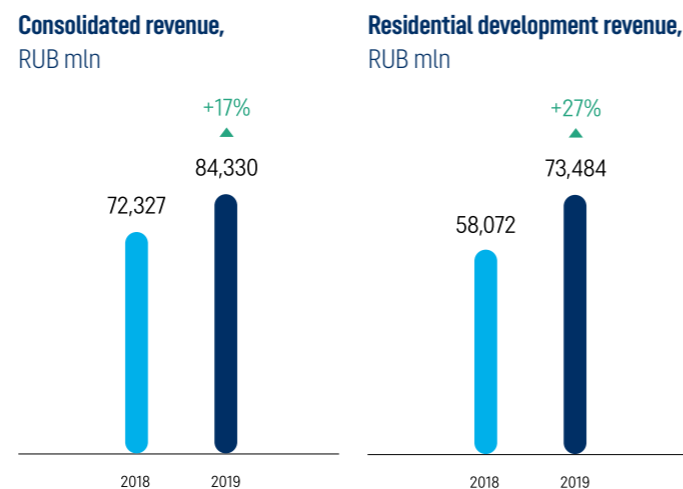


General and administrative expenses as a percentage of revenue in 2019 decreased to 9%. Expenses for 2019 included one-off expenses for the acquisition of Leader-Invest in the amount of RUB 693 million. Excluding these costs, G&A as a percentage of revenue would have amounted to 8%. Selling expenses as

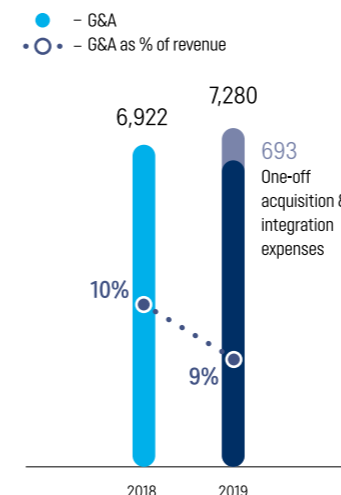
a percentage of revenue increased 1 p.p. to 6%, resulting from the integration of Leader-Invest's projects and sales offices within the Etalon Group brand. Other expenses decreased by 65% to RUB 995 million<sup>4</sup>.

## Income statement

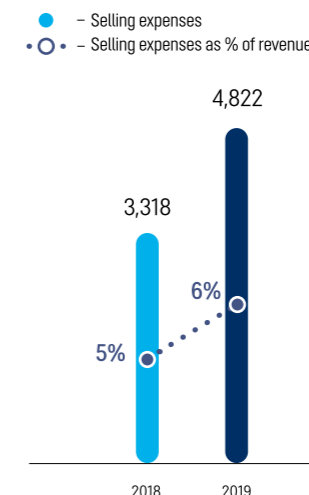
Consolidated revenue in 2019 increased by 17% year-on-year to RUB 84,330 million. Even more impressive was the growth in the Company's core residential development segment, which saw revenue growth of 27% year-on-year to RUB 73,484 million. Consolidated gross profit and pre-PPA gross profit in the development segment demonstrated strong growth even with the restated 2018 results:<sup>1</sup> up 33% and 40%, respectively. In addition, measures taken to improve sales efficiency had a positive impact on the pre-PPA gross profit in the development segment, which increased by 3 p.p. to 31%.



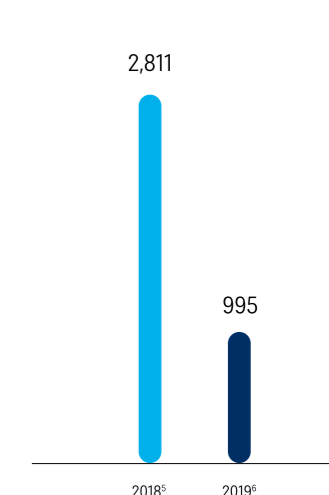
## General and administrative expenses, RUB mln



## Selling expenses, RUB mln



## Other expenses, RUB mln



Consolidated revenue in 2019 increased by 17% year-on-year to **RUB 84,330 million**, while the Company's core residential development segment saw revenue growth of 27% year-on-year to **RUB 73,484 million**.

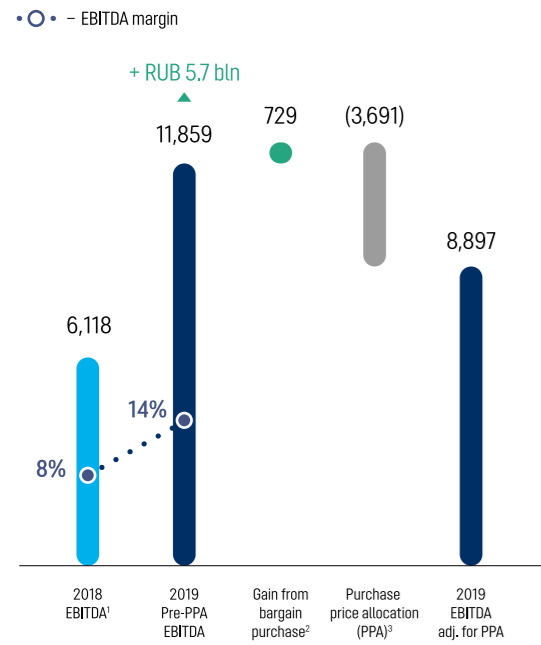
2 Purchase price allocation.  
 3 Due to a change in accounting policy with respect to capitalisation of borrowing costs and a significant financing component.  
 4 Including income from the acquisition of Leader-Invest.  
 5 Restated due to a change in accounting policy with respect to capitalisation of borrowing costs and a significant financing component.  
 6 Including gain from bargain purchase.

1 The Company's 2018 financial statements were restated due to a change in accounting policy with respect to capitalisation of borrowing costs and a significant financing component.

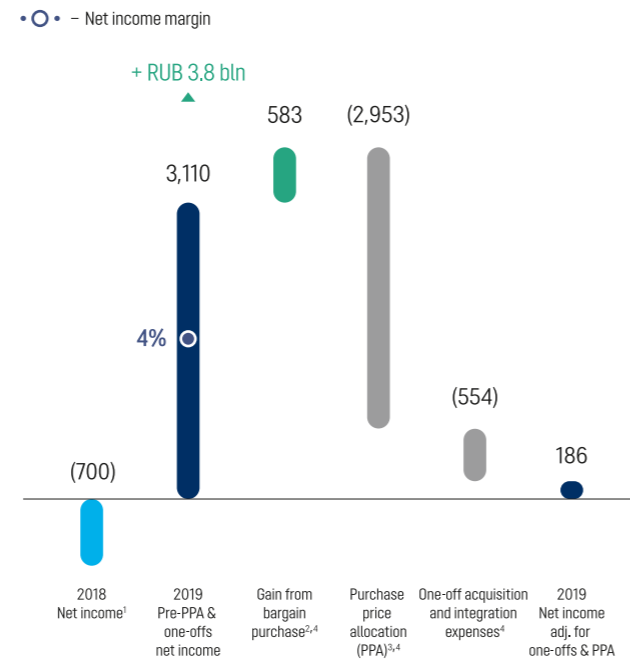
The cost of the acquisition of Leader-Invest is distributed as part of the cost of goods sold of ongoing projects in the acquired portfolio in proportion to the discounted cash flows from these projects. Thus, PPA has the most impact in the first reporting periods after the transaction. Pre-PPA EBITDA doubled year-on-year to RUB 11,859 million, and pre-PPA net income adjusted for one-off acquisition and integration expenses of Leader-Invest amounted to RUB 3,110 million, an increase of RUB 3.8 billion compared to 2018.

**RUB 11,859 MLN**  
Pre-PPA EBITDA doubled year-on-year

**EBITDA, RUB mln**



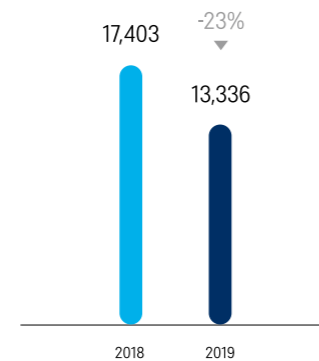
**Net income, RUB mln**



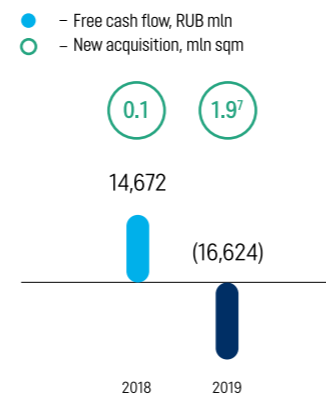
**Cash flow**

The Leader-Invest acquisition and the purchase of the second half of the ZIL-Yug project had an impact on the Company's cash flow. As of the end of 2019, operating cash flow amounted to RUB 13,336<sup>5</sup> million, while free cash outflow amounted to RUB (16,624) million. Thanks to the Leader-Invest acquisition, the Group's project portfolio added 1.9 mln sqm of NSA in attractive locations in Moscow, which will generate positive cash flow in the years ahead.

**Operating cash flow<sup>5</sup>, RUB mln**



**Free cash flow<sup>6</sup>**



1 Restated due to a change in accounting policy with respect to capitalisation of borrowing costs and a significant financing component.  
 2 FY 2019 gain from bargain purchase was adjusted due to the recognition of additional deferred tax liabilities.  
 3 PPA including RUB 2,678 million was capitalised in cost of sales and RUB 1,013 million in G&A and other costs.  
 4 Adjusted for taxes.  
 5 Operating cash flow less interest paid.  
 6 Free cash flow is calculated as profit for the year adjusted for depreciation, share-based payments, impairments, interest, taxation, change in working capital, and change in invested capital.  
 7 Unsold NSA, including 100% ownership in the ZIL-Yug project, according to Knight Frank's valuation as of 31 December 2018.

**Balance sheet**

In 2019, the Company increased its land bank by a record-setting amount. The Company financed the acquisition of Leader-Invest with a floating-rate loan tied to the Bank of Russia's key rate. While this increased net debt to RUB 21,484 million, Etalon's debt remains low for the industry, with a net debt/pre-PPA EBITDA ratio of 1.8x.

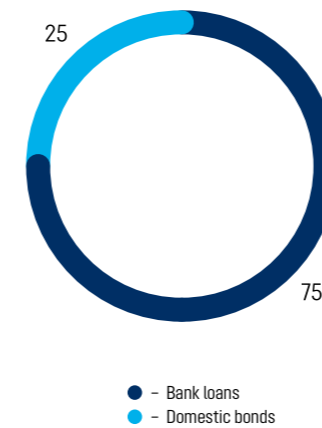
At the end of the reporting year, Etalon Group began implementing its first projects using escrow accounts. As of the end of 2019, RUB 692 million had been accumulated in the Company's escrow

accounts. Cash in escrow was not taken into account in calculating net debt.

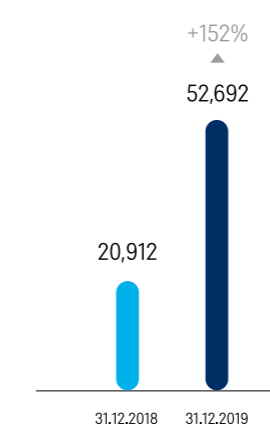
As of the end of 2019, the Company's debt portfolio included credit lines denominated in roubles as well as domestic bonds.

The use of exclusively rouble-denominated debt instruments avoids risks stemming from the high volatility of the rouble against major foreign currencies.

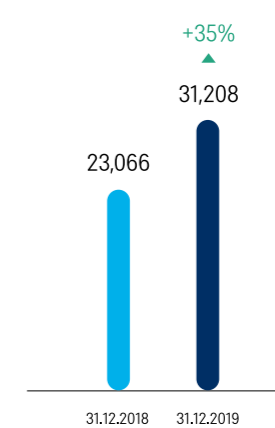
**Gross debt structure, %**



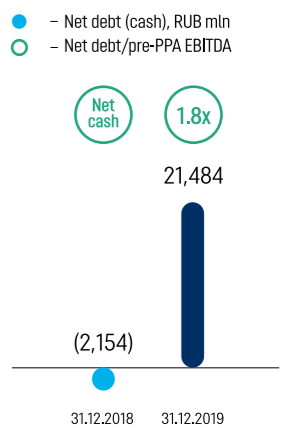
**Total debt, RUB mln**



**Cash and cash equivalents<sup>8</sup>, RUB mln**



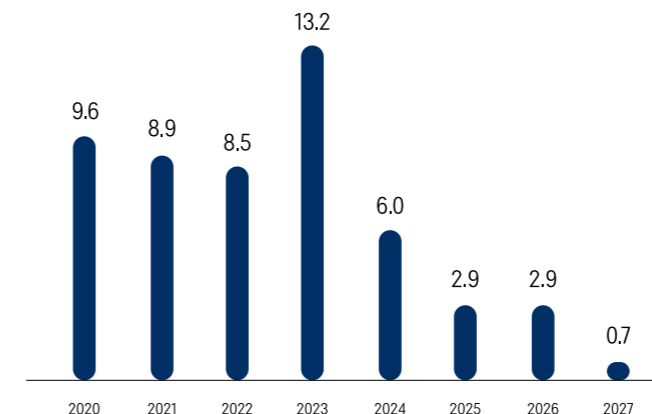
**Net debt (cash), RUB mln**



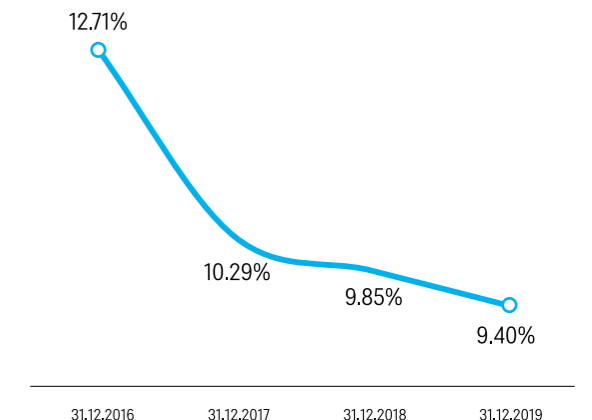
Etalon Group's debt portfolio has a comfortable repayment schedule stretched out over eight years. In addition, the pool of outstanding instalment payments pursuant to agreements concluded as of 31 December 2019 amounted to RUB 28 billion, which will also have a positive impact on the Group's financial position.

Despite the nominal increase in net debt in 2019, indicators of the Company's ability to service its debt remained consistently strong: pre-PPA EBITDA/interest paid was 2.5x, compared with 2.7x in 2018. One of the reasons for this was the record low average cost of borrowings, which was 9.4% at the end of 2019.

**Debt repayment, RUB bln**



**Cost of borrowings**



<sup>8</sup> Including bank deposits over three months.

Sustainability

# Creating comfort for all our **STAKEHOLDERS**



**Protecting  
the environment**



**Strengthening  
local  
communities**



**Preservation  
of cultural  
and historical  
heritage**



**Development  
of social  
infrastructure**

# INTRODUCTION

Etalon Group seeks to uphold the principles of sustainability throughout its operations. As one of the largest residential development and construction companies in Russia, we are positioned to make a significant contribution to the development of the regions in which we operate, to implement innovative solutions, and to promote a sustainable approach to doing business sectorwide. Within Etalon Group, we pay special attention to maintaining and continuously improving our high standards of corporate culture, safety, environmental friendliness and information disclosure.

## Reporting principles and framework



This year, Etalon Group is publishing its results in the field of sustainable development as part of the Group’s Annual Report for 2019. Our data disclosure is guided by selected standards of the Global Reporting Initiative (GRI Standard 2016, Water and Effluents 2018, Occupational Health and Safety 2018), as well as the United Nations Sustainable Development Goals (SDGs) and the principles of the UN Global Compact, which Etalon Group is seeking to join and whose initiatives it already supports. References to relevant UN goals are provided at the end of this introduction, while references to GRI standards are available in the index at the end of this chapter.

This report focuses on the Group’s 2019 results in the two key geographies where the Company operates: St Petersburg and the Moscow Metropolitan Area. Financial indicators included in this report are sourced from the financial statements of Etalon Group or its subsidiaries. Information regarding Etalon Group’s employees is based on the Company’s internal records. Statistics on occupational health and safety, environmental protection, as well as other non-financial information, are based on the Company’s own data or those submitted by its subcontractors. Our assessments and forward-looking statements are mainly based on our current expectations, estimates of future events, and trends that affect the activities of Etalon Group or may affect them in the future. These forecasts may not take into account certain risk factors that could have a serious impact on the implementation of the strategy and results of Etalon Group, such as macroeconomic changes.

Etalon Group’s current sustainable development report has not been subject to external verification.



Our disclosure for our 2019 sustainability report is guided by selected standards of the Global Reporting Initiative, as well as the United Nations Sustainable Development Goals and the principles of the UN Global Compact, which Etalon Group is seeking to join and whose initiatives it already supports.

## Material issues in this report

When selecting topics and indicators for inclusion in this report, we were guided by their significance for Etalon Group’s business, as well as the availability of information on a given topic.

### 1. STAKEHOLDER ENGAGEMENT

Ongoing stakeholder interactions are an important part of our ability to create value and deliver sustainable growth. By engaging with our stakeholders, we are able to better understand their needs, receive feedback that may improve our business, and communicate important information about our own performance and priorities (further details on pages 96–99).

### 2. IMPACT ON COMMUNITY DEVELOPMENT

This topic relates to the impact of our business on society, including through the development of social infrastructure, the preservation of cultural and historical heritage, initiatives to support young specialists, activities that promote a healthy lifestyle and education, as well as financial support to charities. In addition, Etalon Group helps to strengthen local communities by creating jobs, supporting a culture of fair competition, and working to combat corruption and discrimination (further details on pages 118–125).

### 3. OCCUPATIONAL HEALTH AND SAFETY

The particular challenges of constructing large multi-storey complexes mean that occupational health and safety issues are of great importance for Etalon Group. We take a number of measures to ensure a safe working environment for our employees. These include the use of advanced digital technologies to monitor workplace safety and prevent accidents (further details on pages 100–105).

### 4. ENVIRONMENT

Our responsible approach to limiting our environmental impact is reflected in Etalon Group’s use of an integrated quality and environmental management system, the adoption of comprehensive environmental monitoring measures, and the search for and application of safe resources and technologies to minimise the negative impact on the environment not only at the construction stage, but also during the operation of residential facilities (further details on pages 106–111).

### 5. EQUAL OPPORTUNITIES FOR ALL

A policy of ensuring equal opportunities for all employees, regardless of gender, age or cultural or ethnic background, allows us to help each employee reach his or her potential, and build a strong and motivated team. Career growth opportunities at Etalon Group are equally accessible to men and women, while the Company’s focus on maintaining a healthy work-life balance ensures that employees’ careers and their personal lives can co-exist comfortably (further details on pages 116–117, 125).

### 6. EMPLOYEE EDUCATION AND PROFESSIONAL DEVELOPMENT




One of the keys to Etalon Group’s sustainable business growth and its contribution to local communities is our balanced approach to personnel management, aimed at attracting, training and retaining promising young professionals. Etalon Group implements this HR strategy through educational programmes for employees, a system of monetary and non-monetary incentives, and the creation of comfortable conditions for professional and personal growth (further details on pages 114–115).

## Sustainable development goals and accomplishments in 2019

UN SUSTAINABLE DEVELOPMENT GOALS	COMPANY ACTIONS	RESULTS	REPORT SECTION
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<ul style="list-style-type: none"> <li>Maintaining high occupational health and safety standards.</li> <li>Providing accident insurance and supplementary health insurance.</li> <li>Harnessing environmental expertise and implementing measures to reduce the negative impact on the environment throughout the project cycle.</li> <li>Using environmentally friendly materials and technologies.</li> <li>Promoting a healthy lifestyle.</li> </ul>	<ul style="list-style-type: none"> <li>Zero fatalities or accidents leading to disabilities.</li> <li>2,689 employees insured under the life insurance programme and 2,389 employees provided with private health insurance policies.</li> <li>673 employees completed training in occupational health and safety.</li> <li>22% increase in expenditures on environmental measures for the production unit since 2018.</li> <li>Fitness club discount included in employee benefits package.</li> </ul>	<p>"Occupational health and safety" (p 100)</p> <p>"Environment" (p 106)</p> <p>"Employees" (p 112)</p>
 <p><b>4 QUALITY EDUCATION</b></p>	<ul style="list-style-type: none"> <li>Building educational infrastructure in areas where we operate.</li> <li>Offering personnel training and development.</li> <li>Collaborating with higher education institutions to jointly develop training programmes, educational events and internships for students.</li> <li>Participating in industry events and sharing best practices.</li> </ul>	<ul style="list-style-type: none"> <li>Opening of four preschools, an early-stage primary school, a secondary school and a choreography school built by Etalon Group.</li> <li>Company support for the "Interregional Student Construction of St Petersburg" construction practicum in summer 2019.</li> <li>974 Company employees took part in training programmes for a total duration of more than 33 thousand hours (approximately 34 hours per person).</li> </ul>	<p>"Social responsibility" (p 118)</p> <p>"Employees" (p 112)</p>
 <p><b>5 GENDER EQUALITY</b></p>	<ul style="list-style-type: none"> <li>Implementing a strict anti-discrimination policy as outlined in the Etalon Group Code of Corporate Ethics.</li> <li>Providing social support for employees, including after the birth of a child, as well as conditions for achieving a successful work-life balance.</li> </ul>	<ul style="list-style-type: none"> <li>Women make up 32% of Etalon Group's overall leadership, and 44% at the management company level.</li> <li>93 individuals received material assistance after the birth of a child.</li> <li>87 female employees took advantage of parental leave; 65 employees returned from maternity leave and are still successfully working in the Company.</li> </ul>	<p>"Employees" (p 112)</p>
 <p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<ul style="list-style-type: none"> <li>Promoting "green" construction.</li> <li>Implementing the latest digital technologies at the project design stage.</li> </ul>	<ul style="list-style-type: none"> <li>The Botanica residential complex won a GREEN Award: High Performance Building, as well as a Gold Trezzini Award in the category of "Best Eco-Development Concept".</li> <li>The Silver Fountain residential complex received a second platinum Green Zoom certificate in energy efficiency for a pair of stage two buildings currently under construction.</li> <li>The Wings residential complex took first place in the category of "Most Ecological Business-Class Residential Complex" at the finals of the industry competition Urban Awards 2019.</li> </ul>	<p>"Environment" (p 106)</p>

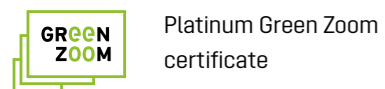
UN SUSTAINABLE DEVELOPMENT GOALS	COMPANY ACTIONS	RESULTS	REPORT SECTION
 <p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<ul style="list-style-type: none"> <li>Creating jobs in the Company and in the regions where we operate through the construction of infrastructure facilities and the design of commercial spaces in residential complexes.</li> <li>Ensuring decent working conditions and creating opportunities for professional and career development within the Company.</li> </ul>	<ul style="list-style-type: none"> <li>Etalon Group was the only development and construction company included in the Forbes rating of Russia's 50 best employers.</li> </ul>	<p>"Employees" (p 112)</p>
 <p><b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p>	<ul style="list-style-type: none"> <li>Implementing advanced digital technologies.</li> <li>Maintaining leadership in the use of BIM technology and the full-scale implementation of digital solutions to create an even more efficient design system.</li> <li>Promoting best practices among contractors and other industry companies.</li> </ul>	<ul style="list-style-type: none"> <li>Etalon Group developed and implemented the web-based platform Integrated Monitoring System for Construction, which enables the effective assessment of occupational health and safety at construction sites in real time.</li> <li>Digital and technological transformation was one of the goals included in the updated Company strategy following a meeting of the Board of Directors on 24 January 2020.</li> </ul>	<p>"Occupational health and safety" (p 100)</p> <p>"Environment" (p 106)</p>
 <p><b>11 SUSTAINABLE CITIES AND COMMUNITIES</b></p>	<ul style="list-style-type: none"> <li>Constructing infrastructure facilities.</li> <li>Building residential complexes in accordance with the highest standards of environmental protection and energy efficiency.</li> <li>Preserving cultural and historical heritage.</li> <li>Supporting and organising athletic and cultural events.</li> </ul>	<ul style="list-style-type: none"> <li>Commissioning of a clinic in addition to the preschools and schools opened in 2019.</li> <li>Company support for municipal sporting events, including the WHSD Fest, the Builders' Spartakiad, the SUP-Festival, and the Happy Dance 2019 international dancesport festival.</li> <li>Four Company projects recognised with awards for environmental friendliness and energy efficiency.</li> </ul>	<p>"Social responsibility" (p 118)</p> <p>"Environment" (p 106)</p>
 <p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p>	<ul style="list-style-type: none"> <li>Carrying out a comprehensive environmental impact assessment and applying environmental measures at all stages of project implementation.</li> <li>Disposing of all recyclable construction waste.</li> <li>Selecting responsible suppliers and environmentally friendly materials.</li> <li>BIM technologies and computer-based microclimate modelling are among the new design tools that help to improve the environmental footprint and energy efficiency of projects.</li> <li>For construction work, the Company has abandoned diesel generators in favour of other power sources, which has enabled it to reduce emissions of nitrogen oxide and other microparticles into the atmosphere.</li> </ul>	<ul style="list-style-type: none"> <li>The Company's integrated environmental and quality management system<sup>1</sup> successfully passed an external audit.</li> <li>More than 90% of construction waste was sent for recycling.</li> <li>In 2019, the Company reduced its energy consumption by 4% year-on-year to 68.5 million kWh.</li> </ul>	<p>"Environment" (p 106)</p>
 <p><b>13 CLIMATE ACTION</b></p>	<ul style="list-style-type: none"> <li>Carrying out a comprehensive environmental impact assessment and applying environmental measures at all stages of project implementation.</li> <li>Disposing of all recyclable construction waste.</li> <li>Selecting responsible suppliers and environmentally friendly materials.</li> <li>BIM technologies and computer-based microclimate modelling are among the new design tools that help to improve the environmental footprint and energy efficiency of projects.</li> <li>For construction work, the Company has abandoned diesel generators in favour of other power sources, which has enabled it to reduce emissions of nitrogen oxide and other microparticles into the atmosphere.</li> </ul>	<ul style="list-style-type: none"> <li>The Company's integrated environmental and quality management system<sup>1</sup> successfully passed an external audit.</li> <li>More than 90% of construction waste was sent for recycling.</li> <li>In 2019, the Company reduced its energy consumption by 4% year-on-year to 68.5 million kWh.</li> </ul>	<p>"Environment" (p 106)</p>

<sup>1</sup> The integrated management system of JSC Etalon LenSpetsSMU meets the ISO 9001: 2015 and ISO 14001: 2015 standards.

UN SUSTAINABLE DEVELOPMENT GOALS	COMPANY ACTIONS	RESULTS	REPORT SECTION
 <p><b>14</b> LIFE BELOW WATER</p>	<ul style="list-style-type: none"> <li>Selecting responsible suppliers and environmentally friendly materials.</li> <li>Harnessing environmental expertise and implementing measures to reduce the negative impact on the environment throughout the project cycle; disposing of all recyclable construction waste.</li> </ul>	<ul style="list-style-type: none"> <li>The Company updated its Regulation on Tenders.</li> <li>Reduced fuel consumption by 12%, including diesel fuel by 12.9% and gasoline by 4.5%.</li> </ul>	<p>"Business conduct" (p 122) "Environment" (p 106)</p>
 <p><b>15</b> LIFE ON LAND</p>	<ul style="list-style-type: none"> <li>Utilising water only from the water supply network; setting limits on usage and recycling water.</li> <li>Reducing greenhouse gas emissions through energy-efficient solutions, optimal planning and use of cleaner energy sources whenever possible.</li> </ul>		
 <p><b>16</b> PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<ul style="list-style-type: none"> <li>Adopting responsible business practices.</li> <li>Maintaining an honest and strict selection process for suppliers and contractors, formalised in the Company's Regulation on Tenders.</li> <li>Adherence to a strict anti-corruption policy as outlined in the Etalon Group Code of Corporate Ethics.</li> </ul>	<ul style="list-style-type: none"> <li>Beginning with the 2019 reporting year, we are now conducting annual ethics certification for employees.</li> </ul>	<p>"Business conduct" (p 122)</p>

**4 PROJECTS RECOGNISED WITH AWARDS FOR HIGH STANDARDS OF ENVIRONMENTAL FRIENDLINESS AND ENERGY EFFICIENCY IN 2019**

**Silver Fountain**



Platinum Green Zoom certificate

**Botanica**



GREEN Awards: High Performance Building

**Residence on Pokrovskiy Boulevard**



GREEN Awards: High Performance Building

**Wings**



Urban Awards for the Most Ecological Business Class Residential Complex



Golden Trezzini Award for best eco-development concept

**Key highlights and achievements in 2019**



**OCCUPATIONAL HEALTH AND SAFETY**

**0 fatal accidents**

there were no fatal accidents at our construction sites in 2019

**11,436 hours**

of occupational safety training for 673 employees



**SUSTAINABLE DEVELOPMENT IN REGIONS OF OPERATIONS**

**2,150 students**

capacity of the preschools and schools opened in 2019

**4 projects**

awarded for energy efficiency and environmental friendliness



**EMPLOYEES**

**4,915 people**

employed in Etalon Group in 2019

**974 employees**

took part in educational and professional development programmes

**47%**

of office workers are women

**32%**

of leadership positions held by women

**224 employees**

received financial assistance from the Company



**ENVIRONMENTAL PROTECTION**

**-12.2%**

reduction in fuel consumption in 2019

**-3.9%**

reduction in electricity consumption in 2019

**+21.8%<sup>1</sup>**

growth in investment in environmental measures in 2019

**347**

tonnes of construction waste was recycled in 2019

<sup>1</sup> By production unit.



# STAKEHOLDER ENGAGEMENT

Regular interaction with our stakeholders enables us to communicate our activities and goals to all groups and organisations that play a role in our success as a company, as well as to better understand their needs and expectations. Effective stakeholder engagement helps us to set the right priorities, improve our business processes, and establish relationships based on trust and mutual respect.



## Main principles of stakeholder engagement

### 1. HONEST DIALOGUE

An open dialogue is important to strengthening stakeholder relationships. Prior to establishing communication with various groups, it is important to study their needs and try to understand the people we need to work with and rely on during all stages of our projects.

### 2. COMPLETE, ACCESSIBLE AND TRANSPARENT INFORMATION DISCLOSURE

Our stakeholders may have questions about our plans, for example in terms of their purpose, scope and risk. Holding discussions with stakeholders before important decisions are taken and providing complete information at all stages of the implementation process are necessary to ensure a balanced approach that will be acceptable to the majority of those involved.

### 3. PRIORITISING STAKEHOLDER INTERESTS

When making decisions, we are guided by the interests of our stakeholders, as we strive to create additional stakeholder value through strategic and operational efficiency.

### 4. TRUST

We believe that trust is the foundation for success, because it allows people to work more effectively together. That is why Etalon Group devotes significant attention to nurturing relationships based on mutual understanding and loyalty with its clients, employees, investors, partners and society.

### 5. CONTINUOUS IMPROVEMENT

We invest in organisational and digital solutions that make it easier for customers to access information about Etalon Group's services and help stakeholders to engage more effectively with the Company.



Since each stakeholder has his/her own needs and expectations, the form and frequency of communication may differ. A review of Etalon Group's approach to engaging with key stakeholders is provided below.

	CUSTOMERS	EMPLOYEES
<b>KEY ISSUES AND GOALS OF ENGAGEMENT</b>	<ul style="list-style-type: none"> <li>Inform customers about Etalon Group's projects</li> <li>Provide customers with the opportunity to give us feedback about our product and services</li> <li>Analyse customer needs and further improve the offering</li> <li>Expand the customer base and increase repeated sales</li> </ul>	<ul style="list-style-type: none"> <li>Ensure workplace health and safety</li> <li>Hire, develop and retain a workforce of skilled employees</li> <li>Uphold equal opportunities and inclusion</li> <li>Keep employees informed about the Company's strategic goals and targets</li> </ul>
<b>CHANNELS FOR ENGAGEMENT</b>	<ul style="list-style-type: none"> <li>We are expanding the ways we communicate to include outdoor advertising, media coverage, the Internet and social media platforms, publishing comprehensive information about the Company and its projects on the Etalon Group website, cooperation with sales agencies, taking advantage of partner portals and our regional sales network</li> <li>We provide customer service via a hotline and social media platforms, and we aim to respond to inquiries, requests and complaints from our customers in a timely and complete manner</li> <li>We introduce new products based on market research and customer feedback</li> <li>We develop and use advanced means of visualisation and demonstration, such as VR, and we develop mobile applications that simplify access to services</li> </ul>	<ul style="list-style-type: none"> <li>Uphold and improve our OHS systems</li> <li>Life insurance and private health insurance programmes</li> <li>Cooperation with civil engineering universities on education plans and organising work placement programmes for students</li> <li>Orientation programmes for new employees</li> <li>A variety of professional training and development programmes</li> <li>Competitive salary, bonus system and non-monetary incentives</li> <li>Feedback on performance and career planning</li> <li>Implementation of an anti-discrimination policy in line with the Etalon Group Code of Corporate Ethics and legislative requirements</li> <li>Social support for employees</li> <li>Using the employee intranet and email to distribute important information</li> </ul> <p>For more information, see the "Occupational health and safety" section on page 100 and "Employees" on page 112.</p>
<b>HIGHLIGHTS AND PERFORMANCE IN 2019</b>	<ul style="list-style-type: none"> <li>Regional sales network covers 57 cities across Russia</li> <li>In 2019, we handled over 6 thousand incoming calls from customers and missed less than 0.11% of calls</li> <li>1,456 contracts signed thanks to cooperation with partners</li> <li>28% of purchases in 2019 were by repeat customers</li> <li>We introduced a new online VR tour service using VR equipment that enables a client to be accompanied by a manager for a detailed look at potential apartments</li> </ul>	<ul style="list-style-type: none"> <li>Zero fatalities</li> <li>Safety index remained above 80%</li> <li>Etalon Group named one of the top 50 employers in Russia according to Forbes</li> <li>974 employees participated in training programmes; more than 33,000 person-hours invested in training programmes by Etalon employees, which is an average of 34 hours per person</li> <li>315 employees participated in orientation programmes</li> <li>224 employees received financial assistance; the total amount of payments exceeded RUB 10 million</li> <li>44 retired employees received a corporate pension</li> <li>32% of the Company's management team are women</li> </ul>

BUSINESS PARTNERS AND CONTRACTORS	INVESTORS AND ANALYSTS	SOCIETY
<ul style="list-style-type: none"> <li>Mutually beneficial cooperation</li> <li>Financial and operational results</li> <li>Responsible approach to doing business</li> <li>Innovations</li> <li>Operational efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Etalon Group's investment case</li> <li>Company's strategy</li> <li>Financial and operational results</li> <li>Dividend payments</li> <li>The Company's activities in capital markets</li> </ul>	<ul style="list-style-type: none"> <li>Environmental protection</li> <li>Corporate social responsibility</li> <li>Taxes</li> <li>Creating jobs and improving living conditions in regions where we operate</li> <li>Establishing and maintaining a good reputation</li> </ul>
<ul style="list-style-type: none"> <li>Anti-corruption and antitrust policies, as set out in the Code of Corporate Ethics and Regulations on Conducting Tenders</li> <li>Application and dissemination of advanced technologies based on BIM (building information modelling) to find more efficient and ergonomic design solutions, as well as to control quality and timing throughout the project life cycle</li> <li>Operational synergies</li> <li>Exchange of experience and use of best practices</li> </ul> <p>For more information, see the "Business conduct" section on page 122 and "Operating performance" on page 74.</p>	<ul style="list-style-type: none"> <li>Adherence to information disclosure and transparency policy</li> <li>Disclosure of information about operational and financial results, important corporate events and progress on project implementation</li> <li>Publication of annual reports, press releases, presentations and other relevant information on the Company's website</li> <li>Participation in conferences, organisation of off-site presentations and visits to construction sites, meetings and conference calls with investors and analysts</li> </ul> <p>For more information, see the "Shareholder interactions" section on page 148.</p>	<ul style="list-style-type: none"> <li>Investment in the development of regions where we operate: creation of social infrastructure, restoration of historical monuments, support and organisation of cultural and sporting events</li> <li>Publishing press releases and interviews</li> <li>Effective communication channels with leading media</li> <li>Construction site visits, presentations and events for journalists who cover Etalon Group's activities</li> <li>Publishing important information and updating the project gallery on Etalon Group's website</li> </ul> <p>For more information, see the "Social responsibility" section on page 118.</p>
<ul style="list-style-type: none"> <li>Etalon Group acquired Leader-Invest and also gained full control of the ZIL-Yug project, in doing so increasing its land bank in Moscow by 1.9 mln sqm</li> <li>As a result of the successful integration of Leader-Invest, new contract sales in the capital region increased by 26%</li> <li>For the first time in five years, we achieved growth in all key operating indicators, including deliveries</li> </ul>	<ul style="list-style-type: none"> <li>AFK Sistema acquired 25% of the authorised capital of Etalon Group and became the Company's largest shareholder</li> <li>The Board of Directors of Etalon Group established a minimum dividend target of RUB 12 per share/GDR</li> <li>Four conference calls on operational and financial results and more than 100 meetings with investors</li> <li>54 press releases distributed via regulatory news service</li> <li>After the reporting date, on 3 February 2020, Etalon Group's GDRs, previously traded only on the London Stock Exchange, began trading on Moscow Exchange and were included in the Level 1 quotation list. Since March 2020, the Company's GDRs have been included in the calculation base for Moscow Exchange's broad market share index.</li> </ul>	<ul style="list-style-type: none"> <li>Tax payments amounted to RUB 4 billion</li> <li>238 press releases published</li> <li>10,041 mentions of Etalon Group in the media</li> <li>53 events with journalists</li> </ul>

# OCCUPATIONAL HEALTH AND SAFETY

Etalon Group is a large construction holding with more than 20 development projects of various sizes ongoing at any given time in Moscow and St Petersburg. We employ every possible safety measure, utilise cutting-edge innovations and digital technologies, and conduct regular monitoring and training in order to ensure the health and safety of all our employees. As a result of our ongoing work to improve occupational health and safety (OHS), 2019 was our fourth consecutive year with no fatal accidents at our construction sites.

## Occupational health and safety policy

Our OHS policy is based on the following principles:

- Our priority is protecting the lives and the health of our employees
- We strictly adhere to applicable Russian laws, local regulations and internal safety requirements
- We implement advanced industry standards
- We seek to constantly improve and develop our know-how
- We conduct regular training and expect a proactive approach to OHS on the part of our employees

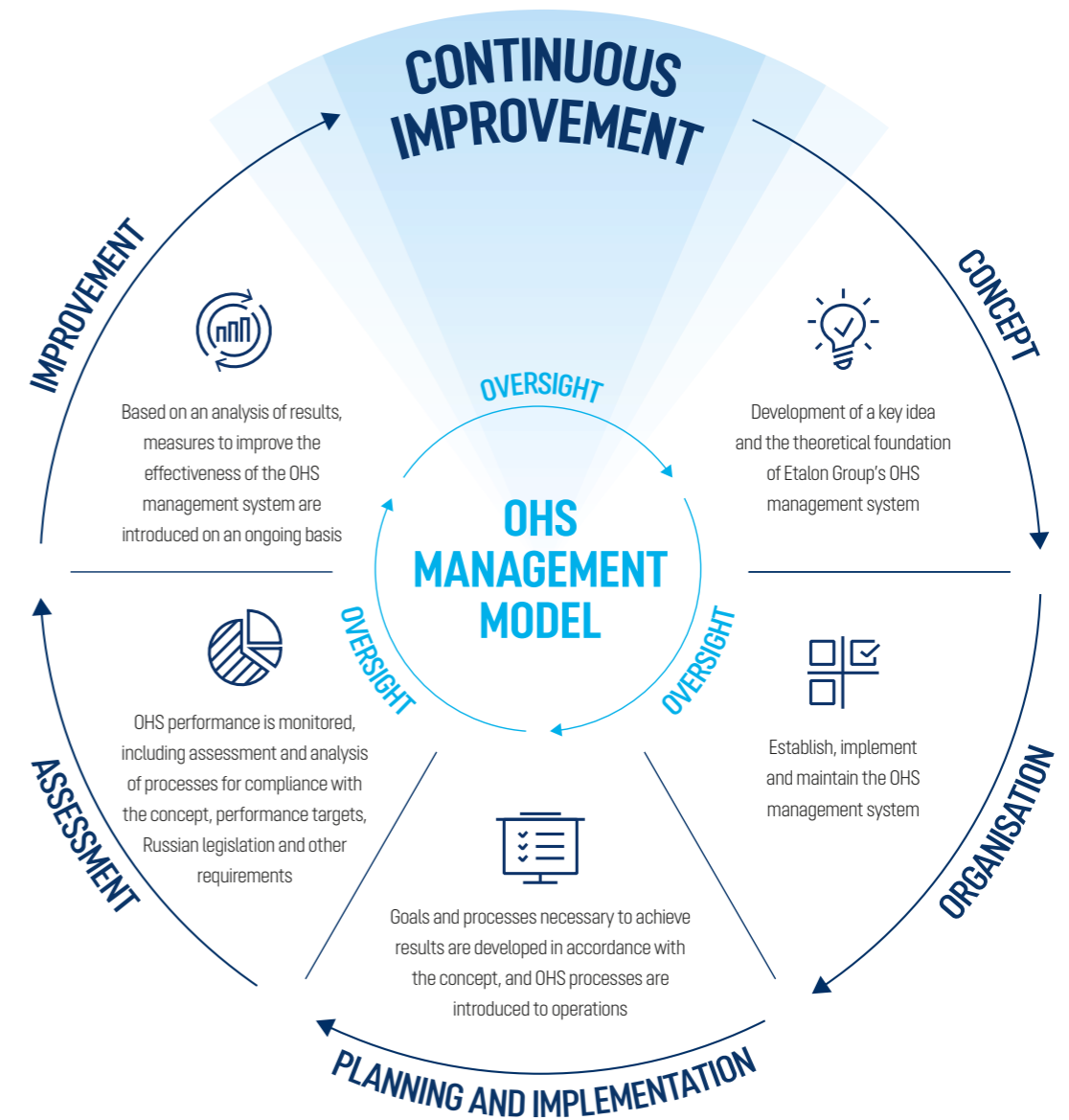
Etalon Group's OHS policy and measures aimed at ensuring workplace safety are regulated by two main documents: the Etalon Group Policy on OHS Management and the Safety Index Methodology for Etalon Group construction sites. These documents outline key principles for managing the Company's OHS system, the rights and obligations of departments and officials in the area of OHS, compliance with OHS rules and regulations at the Company's construction sites, the actions to be taken in response to incidents, preventive measures and personnel training, as well as how data is collected and analysed to determine our Safety Index on the basis of BIM technologies.

In 2019, amendments were made to the Etalon Group Policy on OHS Management. Notably, the organisational structure of the OHS service was improved, and a three-stage system was introduced for monitoring compliance with OHS and fire safety requirements at construction sites.

In accordance with our policy, the principle of continuous monitoring and development is at the heart of our OHS system.

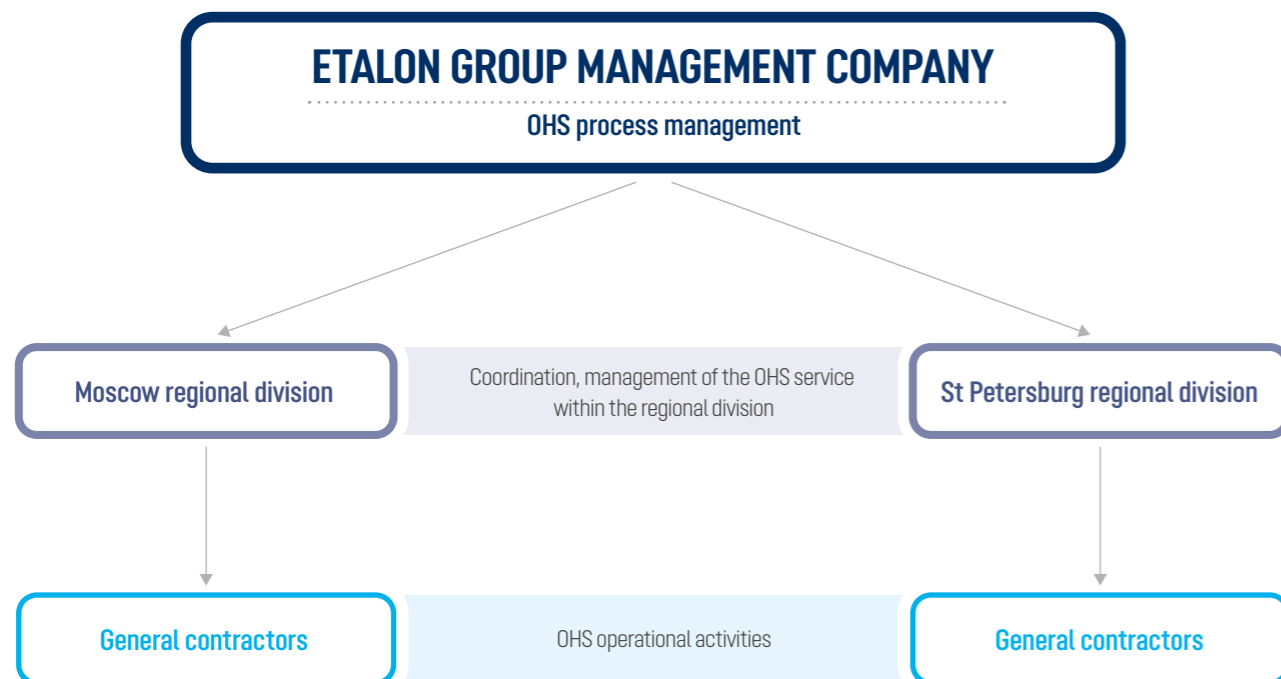


## Etalon Group's occupational health and safety management model



The top Company official responsible for managing OHS processes is Etalon Group's CEO, with day-to-day organisational responsibility falling within the remit of the Deputy CEO for Construction. The OHS service also includes OHS departments and specialists in the Group's regional divisions and individual subsidiaries.

## Organisation of Etalon Group's OHS service



### OHS MANAGERS AT ETALON GROUP ARE EXPECTED TO:

- ☑ Uphold Etalon Group's OHS policy and Safety Index methodology, as well as internal rules and external regulations governing OHS
- ☑ Monitor and manage OHS-related risks
- ☑ Inform and consult with managers and line employees on OHS issues
- ☑ Study and implement best practices in the field of OHS
- ☑ Take measures to prevent workplace injuries and occupational diseases, to adhere to OHS safety codes and to improve working conditions

General contractors – both those that are part of Etalon Group and external contractors — are responsible for maintaining a safe workplace, implementing our three-stage system for monitoring compliance with safety requirements (described in more detail under "Monitoring and enforcement of workplace safety" on page 105), and overseeing the activities of subcontractors at Etalon Group's construction sites.

Occupational safety specialists have broad powers to monitor compliance with OHS rules and regulations within Etalon Group, thereby helping to maintain a high level of safety and preventing occupational injuries. All workplace accidents are investigated in order to identify the cause and take any necessary corrective actions. Group subsidiaries submit monthly reports to the OHS service of their regional division on the fulfilment of OHS rules and standards and on any workplace injuries that have occurred. These practices help us to analyse workplace safety Group-wide, to identify any patterns and weaknesses, and to identify key areas for improvement in our OHS system. This approach to OHS helps reduce safety violations, minimise risks and avoid serious or fatal injuries.

## OHS activities

### EQUIPMENT PROTOCOL

In addition to being certified in accordance with Russian law, all of our equipment is subject to in-house inspections to ensure proper installation and ongoing maintenance.

### EDUCATION AND TRAINING

Etalon Group employees are required to undergo periodic training and testing concerning their health and safety knowledge and skills in accordance with the laws of the Russian Federation. In addition, we offer classes, training and seminars on various OHS subjects. All staff whose work requires them to be constantly or periodically at a construction site must undergo mandatory OHS training and pass a certification test. Training programmes are regularly reviewed and updated. In 2019, we conducted 11,436 hours of health and safety training for 673 employees. In line with Russian Federation regulatory requirements, company managers responsible for implementing OHS policies must complete testing and training at least once every three years. These activities are organised both internally and with the help of external OHS training providers.

### PREVENTION OF WORKPLACE INJURIES

The Company carries out a number of activities aimed at preventing injuries and OHS violations, including the use of safe production systems, the application of administrative measures to limit total exposure to harmful and hazardous conditions, a preliminary risk analysis before installing new equipment or using new technologies and subsequent regular monitoring of these risks in practice.

Safety nets are used at our construction sites to protect workers from falls, protective screens are installed on mounting levels, a workplace checklist is being developed, and SkyReach anchors are used to prevent falls when installing formwork and carrying out work involving concrete.

**11,436 HOURS**

In 2019, we conducted 11,436 hours of health and safety training for 673 employees.

Protective clothing, boots and headgear are required at construction sites. Employees working at height must also use protective equipment to prevent falls. For types of potentially hazardous work, the Company also has specific requirements, depending on the nature of the work, including equipment like protective eyewear, respirators, ear protectors, boots, gloves, etc.

While our primary aim is to minimise accidents, Etalon Group has policies in the event of an incident at a construction site. After any accident, ad hoc safety training is conducted. An analysis of the incident is conducted, and management is informed of the details. Depending on the outcome of the analysis, measures are taken to prevent similar incidents from occurring in the future.

### SAFETY INDEX

In 2014, we developed a unique Safety Index based on BIM technology for monitoring and maintaining a high degree of occupational health and safety at all of our properties. This tool uses BIM technology to calculate a Safety Index based on a variety of key parameters.

OHS monitoring based on our Safety Index has been conducted regularly since 2015, at least once every two weeks. In 2017, we patented our methodology and programme and began developing pilot projects to allow other companies to use our OHS and quality control system.

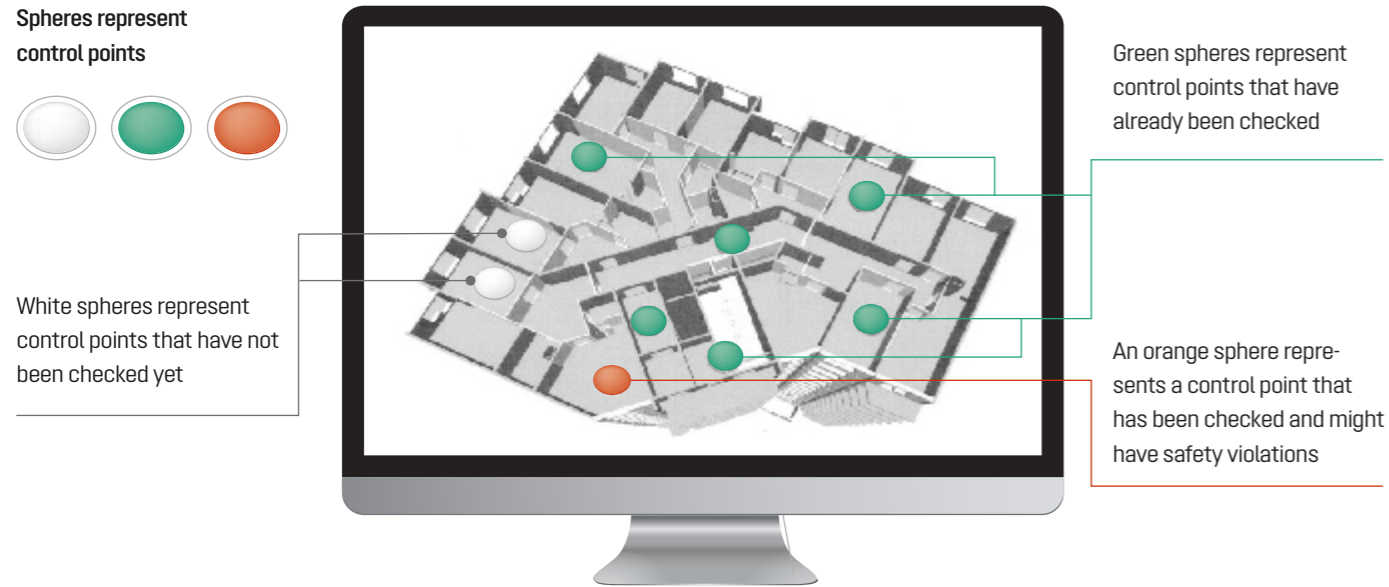
Our Safety Index assessments are constantly being improved. In 2018, a risk-based approach was incorporated. The data processing system is fully automated and enables regular reporting. In 2019, we developed and implemented at all of our construction sites a web service to monitor occupational health and safety based on BIM models (the Comprehensive Construction Monitoring System, or CCMS), which enables us to conduct effective OHS monitoring at our construction sites, to receive up-to-date information from monitored sites in real time, to get a 3D view of locations where OHS violations have occurred, and to identify hazardous areas that require immediate intervention. In addition, Etalon Group experts developed a Fire Safety Index for construction camps in December 2019.

Our Company-wide OHS standard is the target Safety Index value approved by Etalon Group's CEO.

The application of the Safety Index has resulted in a marked decrease in injuries and improvements in the workplace culture and in labour productivity. Over the past four years, there has not been a single fatal accident at any of our construction sites, and our Safety Index has exceeded our target value of 75%.

## Safety Index

Monitoring and maintenance of Etalon Group's Safety Index is carried out using a virtual 3D model in which control points are set on a building's master plan or the floor plan of the facility.



While conducting inspections, employees use the Security Index programme. The inspector inputs an assessment of the control points as positive or negative. In cases where there is a critical degree of risk, this is noted separately.

After an inspection is completed, the results are uploaded into the BIM system. The information includes the Safety Index rating of each control point and for the site as a whole. Any areas requiring immediate attention are also listed, and responsibility for fixing the issue is assigned to qualified personnel.

Once uploaded, the results are reviewed by OHS staff at the general contractor and Etalon Group levels, as well as the head of construction of the territorial unit, the leading CCMS engineer, and the department for integrated construction control of our scientific and technical centre, where Etalon Group's Safety Index is calculated.

## No fatal accidents

The application of the Safety Index has resulted in a marked decrease in injuries and improvements in the workplace culture and in labour productivity. Over the past four years, there has not been a single fatal accident.

## MONITORING AND ENFORCEMENT OF WORKPLACE SAFETY

We monitor compliance with occupational health and safety standards at all levels of the Company. At Etalon Group subsidiaries, OHS engineers monitor the working conditions at construction and production sites, factories and offices, as well as the work of subcontractors. Employees of the OHS departments of regional divisions also monitor the working conditions at our construction sites.

In addition, we regularly carry out independent assessments of the Safety Index for individual facilities and for all Etalon Group construction sites. Moreover, we use the Safety Index to monitor the results of the OHS system and of the functional management of OHS processes. The regular independent monitoring of the Safety Index at our facilities falls within the remit of the heads of our regional divisions.

In 2019, a three-stage safety monitoring system was introduced at construction sites. The first stage involves daily monitoring of safety indicators. This includes thorough rounds of the construction site by construction supervisors in order to identify any existing safety violations and take corrective actions. The second stage is weekly monitoring, which is carried out by construction supervisors together with site managers. The third stage is month-

ly monitoring, which is carried out by a commission that includes the construction manager, the site manager and representatives of subcontractors.

In addition to internal inspections, Etalon Group's operating units undergo scheduled and unscheduled inspections by regulatory authorities. In St Petersburg, scheduled inspections are carried out by the state labour inspectorate in accordance with its annual schedule of inspections, which is agreed with the prosecutor's office and posted on the inspection website. Unscheduled inspections are carried out in accordance with the law on the protection of the rights of entrepreneurs and legal entities in the exercise of state control (supervision).

## ASSESSMENT OF OHS COMPLIANCE BY CONTRACTORS

Over the past three years, we have been using our Safety Index to verify compliance with OHS requirements by outside contractors as part of our audits of how these companies comply with established criteria. This sort of assessment is carried out, for example, when we are conducting a tender to select a contractor or when we are deciding whether to include or remove a contractor from our register of accredited organisations.



# ENVIRONMENT

At every stage of our construction projects, Etalon Group seeks to assess and minimise the adverse environmental impact of our operations. Environmental responsibility is at the core of our business activities, and we continue to work to make them even more energy- and resource-efficient every year. In achieving these goals, we are guided by legal requirements and recommendations, global trends, best practices and the latest technologies.

## Performance in 2019

### INVESTMENTS IN ENVIRONMENTAL PROTECTION FOR CONSTRUCTION ACTIVITIES<sup>1</sup>



RUB **17.9** MLN

+22% year-on-year increase in environmental protection investments in 2019

### RECYCLING



**347** TONNES

of construction waste was recycled in 2019

### ELECTRICITY



**-4%**

year-on-year reduction in electricity consumption during construction in 2019

### FUEL CONSUMPTION



**-12%**

year-on-year reduction in fuel consumption during construction in 2019

#### DIESEL



**-13%**

year-on-year reduction in diesel fuel consumption in 2019

#### PETROL



**-4.5%**

year-on-year reduction in petrol consumption in 2019



## Policy on quality and the environment

For over a decade, Etalon Group has been implementing a Policy on Quality and the Environment<sup>2</sup>, which establishes commitments to environmental protection, regulatory compliance and continuous improvement. The Policy stipulates that we set, analyse and redefine goals in the areas of product quality management and environmental protection, as well as develop an environmental protection programme every year. The programme includes measures to prevent and minimise possible impacts on the atmosphere, soil and water and to reduce the impact of noise and vibration during construction and installation work. It also includes measures on environmental inspections of construction sites and on the use of eco-friendly materials and equipment. This policy has been communicated to employees and stakeholders.

Since 2008, Etalon Group has been using an integrated quality and environmental management system, which is regularly improved to meet international standards, as confirmed by the auditors of the largest Russian certification association, Russian Register — Baltic Inspectorate. The integrated management system features a quality management system (international standard ISO 9001:2015) and an environmental management system (international standard ISO 14001:2015).

The 11th external audit of the integrated management system (IMS) of Etalon LenSpetsSMU JSC, conducted on 4–6 June 2019 in the Company's structural divisions and at the Okhta House and Botanica residential complex construction sites, did not reveal any violations of international standards. The audit was conducted in order to:

- confirm compliance of the IMS procedures and documentation with the requirements of ISO 9001:2015, ISO 14001:2015, GOST ISO 9001:2015;

- assess the ability of the IMS to ensure compliance with applicable legal, regulatory and contractual requirements;
- assess the effectiveness of the IMS and prove that the set goals can be achieved;
- identify areas for possible improvement.

The audit confirmed the integrated system's compliance with the requirements of the international standards for quality management (ISO 9001: 2015) and environmental management (ISO 14001: 2015) with regard to the design and construction of buildings and structures, as well as the validity of conformity certificates up to 2020.

### OPENNESS AND TRANSPARENCY

We encourage dialogue with stakeholders and their participation in environmental management.

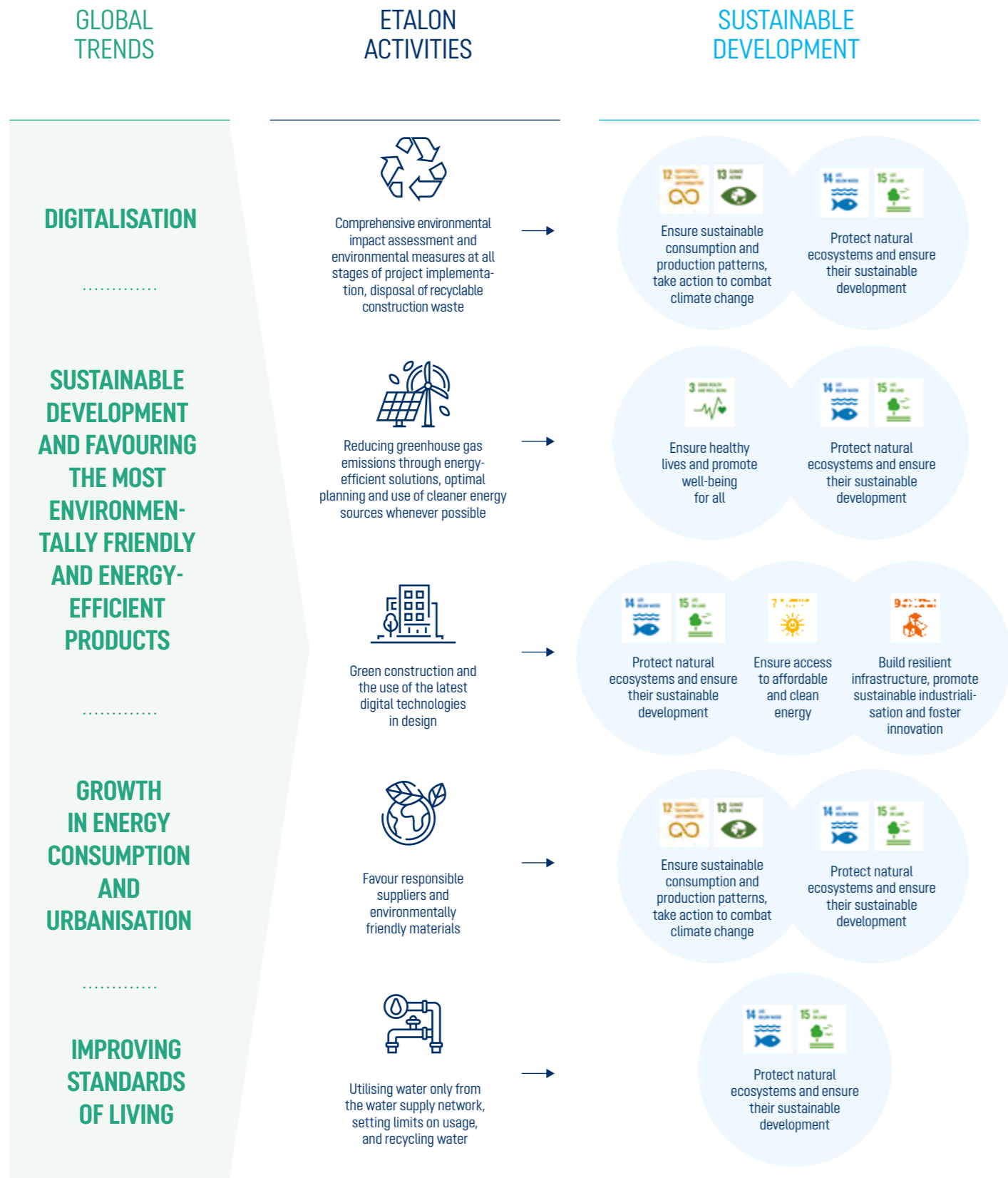
The Company conducts its own environmental monitoring throughout the life cycle of a project and regularly prepares environmental reports for Etalon Group companies and shareholders on request. In 2019, these environmental reports were presented at reporting meetings on quality and environmental issues between Etalon Group's main operating company in St Petersburg, Etalon LenSpetsSMU, and NTC Etalon LLC. Etalon Group internal reports on the results of inspections of Group facilities for compliance with environmental standards are subject to independent audit.

<sup>1</sup> Data for the production unit.

<sup>2</sup> Unified management policy on quality and the environment implemented at Etalon LenSpetsSMU.

## ENVIRONMENTAL ACTIONS UNDERTAKEN BY THE COMPANY

In implementing its quality and environmental policy, Etalon Group is guided not only by mandatory requirements, but also adheres to global initiatives and trends.



We conduct a comprehensive environmental assessment and implement environmental protection measures at all stages of development.

**Pre-project stage and design.** At the pre-design stage, we carry out engineering and environmental studies; assess the noise level, background air pollutants and soil quality; and determine the waste hazard class. Based on the preliminary studies, scope and specifics of the project, we forecast the possible negative environmental impact during construction and use.

We can now develop more effective design solutions due to the introduction of digital technologies that suggest measures to limit the harmful impact, help to find more energy-efficient engineering solutions, optimise the design of buildings and select the most environmentally friendly construction materials. Etalon Group uses BIM technologies throughout the entire project life cycle. At the design stage, BIM makes it possible to visualise building systems, calculate various options for their layout and bring them in line with standards and regulations. When it comes to building facades and engineering systems, BIM software creates parametric models and highlights specific zones of energy consumption and insulation structures, which are then transferred to the energy consumption calculators, helping the design engineers optimise energy consumption, emissions and raw material use and improve other building parameters while using technologies that are faster and more cost-effective than traditional approaches.

To calculate optimal indoor climate parameters, we use three-dimensional computational fluid dynamics (CFD) to analyse the microclimate, which makes it possible to calculate the optimal temperature, humidity and air speed. Notably, CFD modelling gives a complete picture of air distribution at the initial stage of design. As a result, we can visualise the fluid dynamics, the influence of external factors (solar radiation, atmospheric pressure, flows from adjacent rooms or openings, etc.), and even check the parameters of the internal environment at any point in the apartment. All findings are further used in the preparation of project documentation, and they help us to create environmentally friendly and energy-efficient apartments with the most comfortable microclimate possible.

**Construction** is carried out taking into account possible environmental risks. During construction, measures are taken to prevent environmental pollution, including land restoration, measures to protect the air and water resources and noise reduction, as well as monitoring of key indicators. For example, to reduce pollutant emissions, depending on the materials used and the required work technology, after the building frame is completed, we install thick netting on every floor, cover openings with film or install windows, and require workers to use industrial respirators. Also, if necessary, we install dust collectors in accordance with

the work plan. Sanitary zones around sites are designed to take into account dust. In order to reduce the amount of dust that is removed from construction sites, the wheels of all vehicles are washed before leaving.

For construction work, we have abandoned diesel generators in favour of direct connections to the municipal network, which has enabled us to reduce emissions of nitrogen oxide and the smallest soot particles into the atmosphere, as well as reduce energy consumption. At construction sites, energy-efficient and durable LED lighting is used to illuminate stairwells and premises. In 2018 we reduced energy consumption by 0.6% year-on-year to 71.3 mln kWh, and in 2019 we further reduced energy consumption by 4% to 68.5 mln kWh.

**Electricity consumption, mln kWh**



During construction, we draw water entirely from the municipal water supply. At the same time, water use is strictly regulated: we install meters to continuously monitor water volumes and ensure that consumption limits are strictly observed. We also use technologies that allow us to use water sparingly, including reuse for wheel washing.

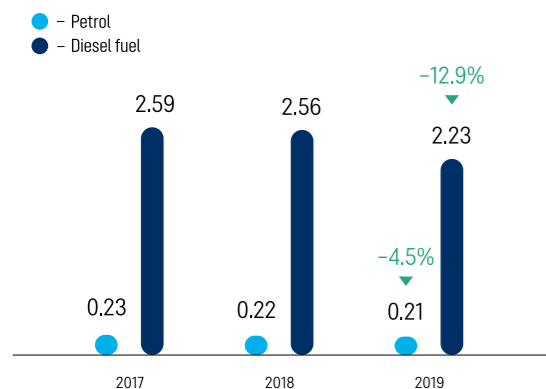
The requirements of the integrated management system apply to construction workers and materials suppliers. The equipment and materials used in the construction of Etalon Group facilities comply with all applicable sanitary and ergonomic requirements, as well as the requirements of the current Sanitary and Epidemiological Regulations (products have relevant certificates of conformity, sanitary and epidemiological certificates, quality passports, fire safety certificates, etc.) and project characteristics. Construction materials, such as sand, gravel, cement, concrete, painting materials and others, have all necessary inspection documentation and certificates.

Etalon Group carefully selects its suppliers and contractors. We operate a tender system (described in more detail in the "Business conduct" section) that has established formalised criteria for selecting suppliers. We favour the most responsible companies, use environmentally friendly materials and additionally conduct our own incoming quality inspections.

The requirements of the integrated management system (STO ISM Code 02-01-2017, "requirements of the environmental management system (EMS) of JSC Etalon LenSpetsSMU for general contractors") have been applied to general contractors, who are responsible for compliance with environmental legislation at construction sites. When carrying out work, general contractors are required to comply with legal norms and requirements set out in the project documentation regarding natural resources, noise levels, air protection, etc. Compliance with environmental legislation is monitored by the Etalon Group Department for Quality and Environment, as well as by the Main Department of State Construction Supervision during the delivery of a project. In 2019, the Company's facilities in St Petersburg passed 19 internal inspections. As a result, 40 non-conformities were identified, all of which were completely resolved within two weeks. All delivered projects received a certificate of compliance.

Etalon Group aims to cut greenhouse gas emissions by reducing fuel consumption through the optimisation of logistics routes as part of the integration of production companies into a single business structure, as well as the integration of the Moscow business and the Company's overall focus on increasing operational efficiency. As an example, we have optimised routes for the delivery of cement mix to construction sites. To achieve this, concrete plants closest to the construction site are selected. This is also the case for the removal of non-recyclable construction waste to special landfills, listed in the technical regulations for waste management. These efforts resulted in a 12% reduction in fuel consumption to 2.4 mln litres and consumption of 2.23 mln litres of diesel (-13% year-on-year) and 0.21 mln litres of petrol (-4.5% year-on-year).

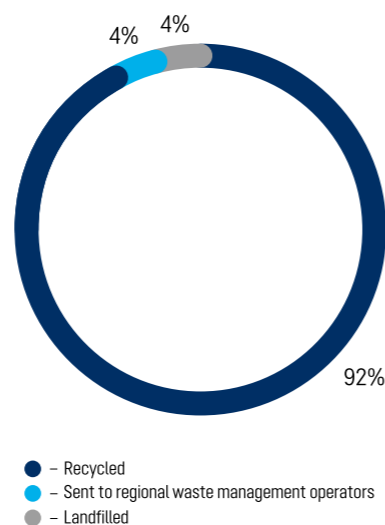
**Fuel consumption,**  
mln litres



We adhere to strict rules in our handling of construction waste. We aim to send all waste that can be recycled and reused for recycling. Waste that is not recyclable is sent to landfills. In 2019, more than 90% of all construction waste was sent for recycling.



**Waste management by general contractors**



Etalon Group actively engages its employees in developing resource-efficient and eco-friendly solutions. We have been successfully implementing a practice of accepting innovative proposals for several years. Any employee can send proposed improvements to the Company through official channels. Many proposals relate specifically to the optimisation of construction processes that lead to greater energy and resource efficiency.

**Operation.** Etalon Group units meet mandatory sanitary requirements for a property's heating ventilation, microclimate and air environment; for natural and artificial lighting and insulation; for levels of noise, vibration, ultrasound and infrasound; and for electric and electromagnetic fields and ionising radiation in residential buildings.

We develop and implement projects for the improvement and tailored landscaping of outdoor spaces, recreation areas, children's playgrounds and sports areas. Residential complexes are designed with gated areas and underground parking, creating a safe space for owners to keep their cars. Modern green technologies make it possible to reduce resource consumption in building operations, as well as reducing utility bills for residents.

**Eco-friendly**

We actively employ energy-efficient technologies and modern intelligent systems. Our Fusion business-class project is a pilot project of the St Petersburg government that is implementing elements of the Smart City system: remote readings from metering stations; the entire dispatching system is accessible to city services, and an intelligent module is installed in apartments for remote control of electrical appliances. Botanica, Silver Fountain and Wings are examples of our green projects. In 2019, these residential complexes received high recognition:

- Botanica received two awards, winning a GREEN Award: High Performance Building<sup>1</sup>, as well as a Golden Trezzini Award<sup>2</sup> in the category of "Best Eco-Development Concept".
- The Silver Fountain residential complex received a second platinum Green Zoom<sup>3</sup> certificate in energy efficiency for a pair of stage two buildings currently under construction. The project was first certified to the Green Zoom standard in 2017.

Energy modelling of two residential buildings under construction within the Silver Fountain residential complex showed energy efficiency of 32–34%. The beautiful, well-designed facades of the buildings represent a complex and effective system: ventilated insulation, load-bearing concrete walls; the insulation properties of the external masonry are equivalent to a 2-metre-thick brick wall. In addition, within the framework of the Green Zoom standard, air recovery is implemented in the buildings together with a state-of-the-art supply and exhaust ventilation system. To achieve optimal comfort in the apartments, Etalon Group uses technologies and methods for checking CFD microclimate parameters.

In Q4 2019, Building 1 of the Silver Fountain project was commissioned, having received a platinum Green Zoom certificate in 2017. The project has implemented a number of energy-efficient and environmentally friendly solutions: the building is equipped with thermostatic radiator heads; a weather-dependent schedule for the supply of coolant to the heating system; water-efficient fixtures; motion sensors to control lighting in the parking areas, on the stairs and in internal corridors; energy-saving lighting in the communal areas of the residential premises; a unified dispatching and management system for the engineering systems of the buildings; indoor climate controls; optimisation of natural and artificial lighting; applied air handling

units with heat recovery controls; environmentally friendly materials and the option of charging stations for electric vehicles at the request of residents.

- On 18 September 2019, the Residence on Pokrovskiy Boulevard won at the Green Awards: High Performance Buildings 2019 in the category "Residential Real Estate: Multi-storey Complexes. Best for 10 years!"
- On 27 November 2019, the Wings residential complex took first place for the Most Ecological Business Class Residential Complex at the finals of the Urban Awards 2019 industry competition.

**Goals for the future**

Etalon Group intends to develop alternative forms of construction, including technologies like large-node assembly, modular housing construction and construction of CLT panels, which can significantly reduce costs and/or construction time, while improving the quality of construction work. Building houses using CLT technology is a relatively new trend. CLT panels are cross-glued timber or laminated wood with cross-arranged layers. The essence of the technology is that wooden boards stacked perpendicular to each other are glued together under high pressure into a massive panel. The main advantage of CLT panels is their special strength, which enables them to be used in the construction of multi-storey residential and office buildings. In comparison with other materials used in construction, CLT panels have a large number of advantages: lightness, strength, excellent thermal insulation and sound insulation properties, a high degree of fire safety, and they create a comfortable and healthy indoor climate. To produce these panels, lumber that is not suitable for the production of glued laminated timber is used. This helps to reduce waste in the wood processing industry. The technology is also appropriate for the Russian climate, as wood has an excellent ability to absorb and retain heat. Therefore, less energy is required to heat a house made of CLT panels, which reduces maintenance costs and CO<sub>2</sub> emissions.

Another of the Company's goals is the full-scale implementation of digital solutions. Etalon Group plans to develop its existing experience in implementing BIM technologies and creating a model design system based on them, which will make the design process more efficient, including in terms of resource and energy use.

1 The Green Awards are organised by the PROESTATE real estate investment forum and the Russian Guild of Managers and Developers, with the support of the Russian Ministry of Natural Resources and Environment, the Ministry of Construction, Housing and Utilities and the Ministry of Energy. The competition evaluates projects in terms of implementing energy-efficient technologies, their impact on reducing energy intensity and other important characteristics of a modern building. A high-performance building is a building that combines all the main attributes of high-tech buildings: energy efficiency and other lifecycle metrics, as well as efficiency for the user.  
 2 An international architecture and design competition aimed at identifying architectural, design and restoration projects whose artistic value classifies them as works of art.  
 3 Green Zoom is a system for the certification of real estate projects in Russia in relation to their energy efficiency and environmental friendliness.




# EMPLOYEES

In a competitive and constantly changing market, a dedicated team of professionals is essential for success. Staff recruitment, training and incentivisation are all aspects of our strategy to ensure that we maintain a high level of excellence. In addition to encouraging our employees' professional and personal development, we strive to create a comfortable working atmosphere and a close-knit team to help us achieve our ambitious strategic goals.

In 2019, Etalon Group employed 4,915 people, compared with 5,196 at the end of 2018. There are three reasons for this slight decrease: the integration of Leader-Invest, a process that saw Sistema become an Etalon Group shareholder; the elimination

of overlapping functions; and improved operational efficiency. Despite these structural changes, we managed to retain much of this professional talent, with many employees finding worthy positions in other Etalon Group divisions or companies.

## 4,915 WORKERS IN 2019

 **CONSTRUCTION SITE WORKERS**  
2,123 (43%)

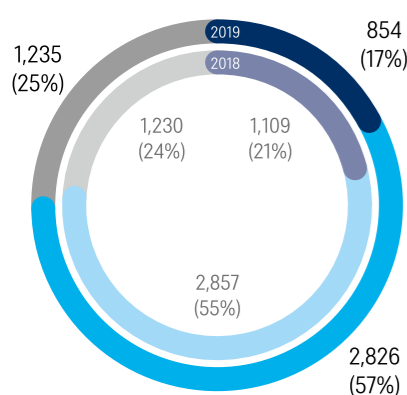
 **OFFICE WORKERS**  
2,792 (57%)

## 5,196 WORKERS IN 2018

**CONSTRUCTION SITE WORKERS**  
2,863 (55%)

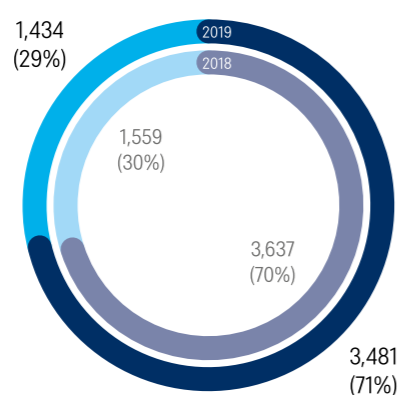
**OFFICE WORKERS**  
2,333 (45%)

Workforce and breakdown of employees by age



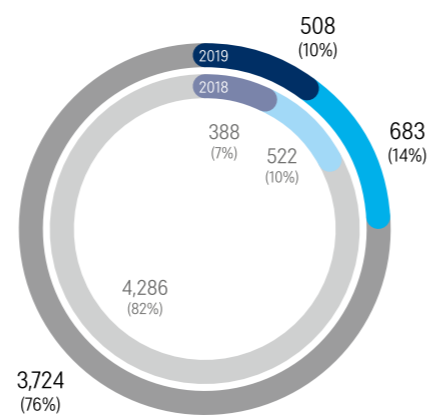
- - Under 30
- - 30-50
- - Over 50

Workforce and breakdown of employees by gender



- - Male
- - Female

Number and percentages of employees in Moscow and St Petersburg



- - St Petersburg regional division
- - Moscow regional division
- - Production unit

## Approach to personnel management

Our personnel management strategy focuses on improving efficiency by recruiting, developing and retaining talented employees.

This strategy involves the following aspects:

- maintaining an effective incentive system;
- developing human resources;
- maintaining a healthy corporate culture;
- upholding a policy on avoiding conflicts of interest;
- offering excellent customer service and developing the skills of Etalon Group employees through training programmes;
- updating existing corporate HR documents in line with the situation in the labour market.

In addition to motivating current staff, this approach makes Etalon Group more attractive to potential applicants. In 2019, Etalon Group was the only development and construction company included on Forbes' list of the 50 top employers in Russia. The authors of the list analysed the 150 companies from the RBC-500 list with the most vacancy searches from 1 September 2018 to 31 August 2019 and evaluated each one based on nine criteria: salary, working conditions, benefits, corporate training, the company's creation of new jobs, infrastructure development in the cities where the company operates, brand recognition, concern for the environment, and philanthropy.

## TOP 50

In 2019, Etalon Group was the only development and construction company included on Forbes' list of the 50 top employers in Russia



## Personnel management policies

Monitoring and implementation of our personnel management policies is handled centrally by the Etalon Group HR department.

The following documents outline the basic principles and mechanisms of the Company's personnel and social policies:

- The Regulation on Remuneration, Bonuses and Benefits and the Regulation on Etalon Group Corporate Awards govern the system of remuneration and non-financial incentives for employees;
- The Corporate Labour Policy and the Regulation on Business Trips establish the basic principles for work organisation; and

- The Regulation on Employee Orientation outlines the Company's approach to the integration of new employees.

Key principles of corporate ethics, including the policy on avoiding conflicts of interest, are reflected in Etalon Group's Code of Corporate Ethics and are described in more detail in the "Business conduct" section of this report.

Policies and practices regarding occupational health and safety are described in more detail in the "Occupational health and safety" section of this report.

## Staff development

Etalon Group provides its employees with a variety of opportunities for professional and career development:

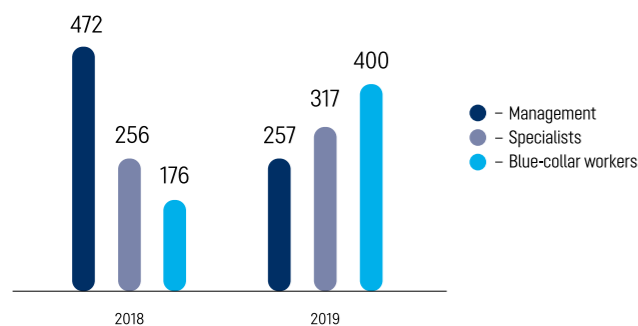
- Competitive salaries and career planning
- Performance-based financial awards
- Training and continuing education programmes

The Company invests in training its employees either through third-party educational platforms or the development of in-house programmes and workshops adapted for specific objectives or in response to staff requests. We encourage personnel to aspire to improve their qualifications: we often cover some or all of the costs of training that employees choose in order to increase their value as professionals. Every year, about a thousand employees take part in training in various fields, including finance, personnel management, sales and IT. These professional development programmes are available to office staff, and are offered with the aim of helping them become more efficient and effective employees of Etalon Group, improving their ability to contribute to achieving our strategic goals.

In 2019, training programmes were organised for Etalon Group staff on electronic document management, including mastering new versions of the Directum programme and programming new aspects of the electronic document management system. In the area of IT, Company employees took part in courses on PMBOK project management, Cisco Identity Service Engine and Red Hat Administration products, Windows Server 2012 administration, as well as the basics of working with the VMware Vsphere virtual environment, the Active Directory environment and Linux. The knowledge and skills they acquired are being used for automation of business processes, as well as servicing Etalon Group's server infrastructure and improving its reliability and manageability.

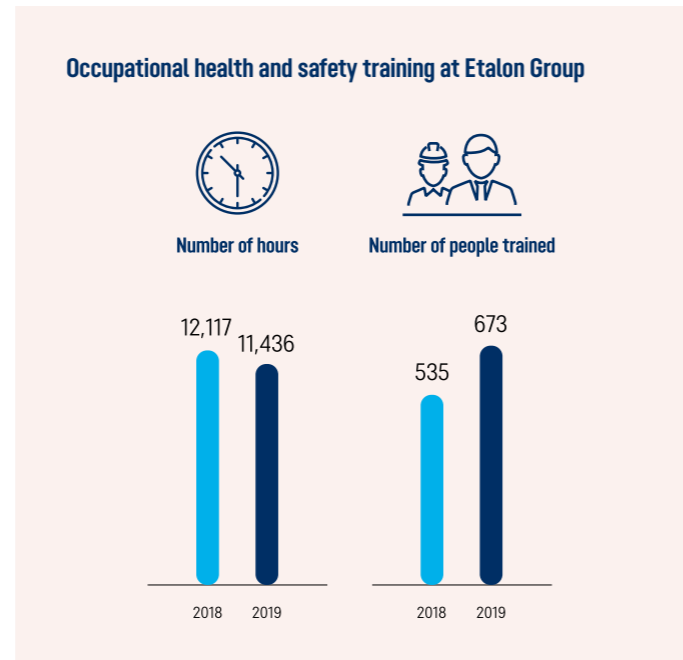
Workshops and training courses on occupational health and safety are an important part of annual training. In 2019, 673 employees of Etalon Group took part in such activities. More information on this training is provided in the "Occupational health and safety" section of this report.

Number of Etalon Group employees trained

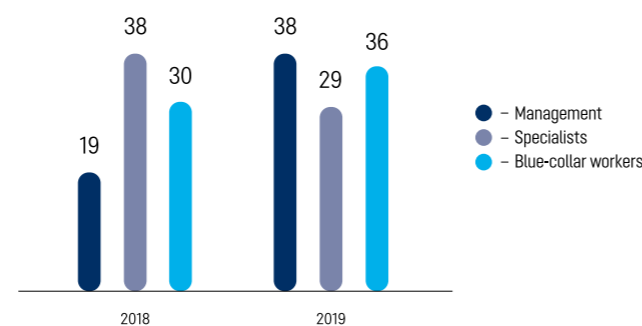


In addition, in an effort to strengthen our Sales Department, managers from Etalon Group's Commercial Department took part in training programmes for the second year in a row to develop their sales, communication and management skills. During the reporting year, about 70 employees from Moscow and St Petersburg took part in this sort of training. In addition to training courses, our employees also participated in conferences — such as the Saint TeamLead Conf 2019 conference — that enabled them to share knowledge with their colleagues and adopt best practices in terms of personal development, teamwork and aligning business processes.

In total, 974 Company employees were trained during the reporting year. The total duration of all training programmes amounted to more than 33 thousand hours, with an average of 34 hours per person (compared with 904 employees and 26 hours of training per person in 2018).



Number of hours per person



## Developing our potential workforce

Etalon Group collaborates with leading universities in St Petersburg: St Petersburg State University, Peter the Great St Petersburg Polytechnic University and St Petersburg State University of Architecture and Civil Engineering (GASU). The Company hosts guest lectures, job fairs and other events on university campuses, such as Career Day (GASU), the GASU Case Club educational platform, Management Career Week (St Petersburg State University) and the Drucker Awards (Graduate School of Management). Round tables are held in the Department of Construction Project Management at the St Petersburg University of Architecture and Civil Engineering involving GASU faculty and students, as well as experts from Etalon Group. In addition, educational programmes have been established, methodological materials developed and lectures given for both bachelor's and master's students at GASU. Students are given opportunities at Etalon Group to undergo practical training, to complete internships for the implementation of business cases and to conduct research within the Company's business units. This sort of interaction with educational institutions enables Etalon Group to contribute to the education of young specialists, while also offering the top graduates an opportunity to work for the Company.

Etalon Group has been running an orientation programme for new employees for more than four years, helping them integrate into their new team and acquire the skills they need, while also learning about the Company's history and activities, corporate values and standards of behaviour. Each new employee is assigned a mentor, who monitors the employee's work, provides feedback and also prepares interim and final assessments of their work.

Etalon Group employee training	2018	2019
<b>Number of employees taking part in the orientation programme:</b>	<b>278</b>	<b>315</b>
St Petersburg	86	109
Moscow	80	94
Production unit	112	112

We seek to not only ensure our employees' professional development but also to establish a healthy working atmosphere and a close-knit team. As part of these team-building efforts, Etalon Group organises various sporting events for employees and takes part in local team sporting events, such as the Construction Workers Spartakiad, which St Petersburg has been hosting since 2003. In 2019, the Etalon Group team took part in Spartakiad competitions in go-karting, track and field and futsal. Our team-building activities also go beyond business projects and sports. In 2019, for example, several Company employees formed a band called Etalon Group.



## Employee evaluation and remuneration policy

Two-way communication between employees and managers is an important component of successful professional growth and for the creation of an effective personnel management strategy. As such, the Company's line employees receive regular feedback from their immediate supervisor.

In terms of remuneration, we adhere to the following principles:

- providing employees with clear and fair remuneration that contributes to the achievement of Etalon Group's goals;
- applying a unified, systematic approach to the remuneration of all employees in all Etalon Group companies;
- determining remuneration based on achievement of Etalon Group's operational and strategic goals and the specific results of the work of each employee;
- creating conditions for employees to set ambitious goals and to take responsibility for the achievement of those goals.

Remuneration for Etalon Group employees consists of a base salary, bonuses, non-financial incentives and various benefits. We study salary scales every year, which helps us pay salaries at market levels, i.e. higher than median wages. In 2019, Etalon Group took part in a real estate market salary survey conducted by AMT Consult. In addition, we periodically conduct internal monitoring, which allows us to improve the incentive system and HR strategy of Etalon Group as a whole.

We also strive for open and honest dialogue with employees on important corporate and organisational issues. We notify employees at least eight weeks in advance of significant operational changes that could affect them.

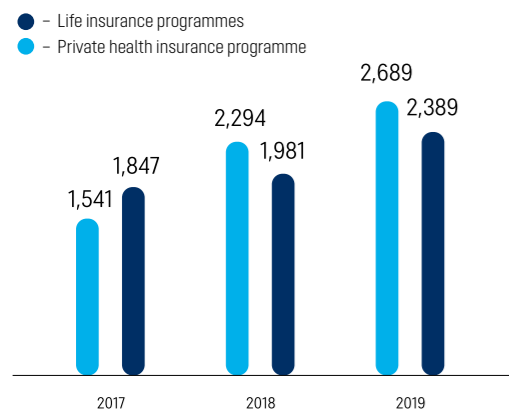
## Etalon Group social policy

We care about the safety and health of our employees. In addition to our efforts to create a safe working environment and to prevent injuries (detailed in the "Occupational health and safety" section of this report), we provide our staff with access to quality medical services and encourage an active lifestyle.

Etalon Group offers life and health insurance programmes, including around-the-clock life insurance for both white- and blue-collar personnel. We provide accident insurance for employees working at construction sites and for those employees with high-risk jobs. Our life and health insurance programmes covered 2,689 people in 2019, compared with 2,294 in 2018 and 1,540 people in 2017.

As part of our benefits package, we also offer private health insurance that allows employees to use the services of MEDSI, the largest national network of medical facilities in Russia, which includes 26 clinics in Moscow (including specialised children's clinics and large clinical diagnostic centres) and one clinic in St Petersburg. In 2019, 2,389 employees took part in the Company's private health insurance programme, compared with 1,981 in 2018 and 1,847 in 2017. In addition to the services offered by private medical centres, Etalon Group established its own in-house doctor's office during the reporting period.

### Number of employees taking part in corporate insurance programmes



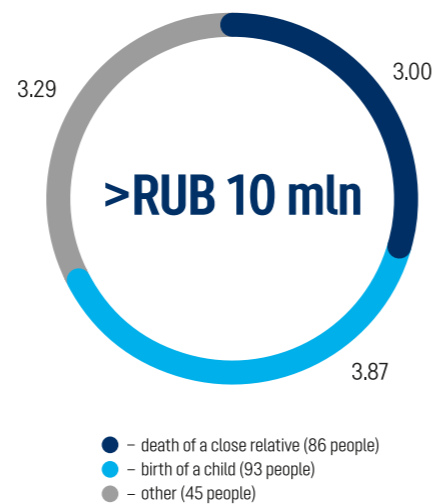
Etalon Group strives to improve its employees' quality of life. We work with counterparties to provide employees and their families with corporate discounts on insurance services, medical services and sports club memberships. In addition, we offer employees the opportunity to purchase Etalon Group apartments at a discount, the size of which depends on the individual's length of service with the Company.

The Company supports employees during difficult life situations, such as the death of family members, serious illnesses and accidents. In addition, Etalon Group provides financial assistance to employees who retire from the Company, as well as to existing employees when they have a child. In 2019, 224 Company employees received financial support, with the total amount of support payments amounting to more than RUB 10 million.

# 224 EMPLOYEES

received financial support, with the total amount of support payments reaching more than RUB 10 million

### Financial assistance to employees in 2019, RUB mln



Payments for employees on sick leave and maternity leave amounted to more than RUB 60 million in 2019. The Company also paid RUB 22.8 million to employees on parental leave during 2019.

Employees who devote many years to Etalon Group and who make a significant contribution to the Company's development receive a corporate pension. The number of people receiving such a pension, 44, has not changed over the last two years.

## Equal opportunities

Etalon Group ensures that the rights enshrined in the Universal Declaration of Human Rights are observed and strives to create a respectful atmosphere in Group companies, while also promoting inclusiveness and giving employees an opportunity to participate in the life of the Company. With regard to our employees, we are committed to the principles of the UN Global Compact, which calls on companies to support and comply with internationally recognised human rights.

We provide our employees with equal opportunities and evaluate every staff member based on the results of their work. The Company adheres to a policy of absolute non-discrimination on the basis of age, skin colour, ethnicity, sex or any other grounds. We make every effort to ensure that career opportunities at Etalon Group depend solely on an individual's personal and professional qualifications.

Senior management in 2019	NUMBER	PERCENTAGE
<b>NUMBER OF MANAGERS AT ALL LEVELS</b>	1,072	
<b>Age</b>		
Under 30	93	9%
30-50	719	67%
Over 50	260	24%
<b>Gender</b>		
Female	339	32%
Male	733	68%

In 2019, women accounted for 32% of management positions, while representing 29% of employees in the Company as a whole. Within Etalon Group's management company, the proportion of women executives is even higher: 44%. The composition of the Board of Directors was changed in 2019 and early 2020: it now includes 9 members, including two women.

Percentage of women among Etalon Group employees	ST PETERSBURG	MOSCOW	PRODUCTION UNIT	TOTAL
<b>Managers</b>				
Female	39%	39%	27%	<b>32%</b>
Male	61%	61%	73%	<b>68%</b>
<b>Line employees</b>				
Female	68%	61%	52%	<b>57%</b>
Male	32%	39%	48%	<b>43%</b>
<b>Blue-collar workers:</b>				
Female	—	—	5%	<b>5%</b>
Male	—	—	95%	<b>95%</b>



## Work-life balance

The Company recognises the importance of a reasonable balance between one's work and one's personal life. We give our employees the opportunity to successfully combine their work and family responsibilities; if necessary, the nature of their duties may also allow them to work on their own schedule or remotely. In 2019, 26 Company employees (15 women and 11 men) worked on an individual schedule, either remotely or part-time.

In 2019, 87 employees took advantage of the right to parental leave; 65 employees returned from maternity leave and are still working for the Company.

# SOCIAL RESPONSIBILITY

Etalon Group plays a vital role in the life of local communities and invests in the development of the cities where it operates. We build social infrastructure, restore historical monuments, support and organise cultural and sporting events, and engage in charity activities.



## 4 PRESCHOOLS AND 3 SCHOOLS

In 2019, the Company opened several educational institutions for over 2,000 students

### Development of social infrastructure

In 2019, Etalon Group completed construction of a primary school, a choreography school and a clinic in St Petersburg and the Moscow region. In addition, four preschools and an early-stage primary school opened their doors to students after being completed before the beginning of the reporting period.

A preschool for 195 pupils opened at the Samosvety residential complex in St Petersburg. The preschool has facilities for 11 groups, a music room, a gymnasium, a cafeteria, a first-aid centre, a swimming pool, individual playgrounds for every group and specially coated walking paths to prevent injuries. Another preschool for 220 pupils opened at the Moscow Gates residential complex. In addition to a pool, gymnasiums, music rooms and classrooms, the preschool also has a small meteorological station. The building is adapted for people with limited mobility.

Two preschools — each designed for 120 pupils — opened at the Galactica residential complex. One of the schools focuses on the artistic and aesthetic development of children from the Admiralteiskiy district. Etalon Group delivered the preschools fully finished, furnished and outfitted with all the necessary equipment.

Etalon Group completed — three months ahead of schedule — the construction of school No 525 for 825 students on Prospekt Kosmonavtov in the Moskovskiy district of St Petersburg. The school opened and began accepting students in 2019. The total area of the building covers more than 20 ths sqm. In addition to classrooms, a dining hall, space for developmental classes, a large assembly hall and a library, the school also features two swimming pools and two gymnasiums. It is also equipped with sports facilities for indoor football, table tennis, an area with outdoor fitness equipment, a 60-metre running track, a combined basketball and volleyball court, an area for health and safety training and a long-jump pit. The school's courtyard is outfitted with playgrounds for primary-school children, as well as a break area.

In June, a time capsule was buried as part of an official ceremony at the site of another school for 825 pupils at the Moscow Gates residential complex in St Petersburg. With a total area of 18.1 ths sqm, the school includes classrooms; computer labs; physics, chemistry and biology classrooms with laboratories; workshops for vocational training; a spacious assembly hall; a fully outfitted dining hall; two gymnasiums with an equipment room and coaches' rooms, locker rooms and showers; and a swimming pool; as well as facilities for after-hours groups, game rooms for primary-school classes and rooms for other groups.

In the Moscow region, a new preschool with a section for primary-school classes opened for young residents of the Emerald Hills residential complex in Krasnogorsk. The building became operational in October 2018 and was handed over to the municipality in January 2019. With a total area of 7.5 ths sqm, the preschool has places for 140 children in six groups, while the primary-school section is designed for 10 classes for a total of 250 pupils. The space at the school is arranged so as to make it comfortable for both children and teachers, with games rooms and nap rooms, 10 classrooms, a games room for after-hours activities for first-graders, gymnasiums and dance halls, a first-aid centre and an assembly hall for 150 people. The school grounds include playgrounds and sports equipment for preschoolers, as well as running tracks and a football field for primary-school pupils.

In addition, the grand opening of a new building to house the Inspiration dance school took place on the grounds of the Emerald Hills residential complex, and a polyclinic with a total area of more than 6 ths sqm will soon begin operating. Etalon Group received the commissioning permit in November 2019. The clinic will house two departments: an adult polyclinic with capacity for 273 visits per shift and a children's clinic with capacity for 140 visits per shift.



## Preservation of cultural and historical heritage

Etalon Group is always cautious in its approach to the history of the locations where its residential complexes are built. For example, the Company plays a role in the conservation and construction of monuments dedicated to Russian military veterans. In addition, Etalon Group also hosts events for residents of its complexes. Shortly before the anniversary marking the lifting of the siege of Leningrad and in the run-up to Victory Day, for example, flower-laying ceremonies were held in the garden square at the

Moscow Gates residential complex in memory of workers from the Vagonmash plant who died in World War II. Moscow Gates was built by Etalon Group on the grounds of the former plant. Another event was held in the Nevskiy district, where Group employees and students from school No 690 laid flowers at the memorial to the heroic defenders of Leningrad near the Swallow's Nest residential complex.

## Strengthening local communities

Etalon Group holds regular events at its residential complexes, including sports days as well as festivities to mark the New Year, Knowledge Day, Cosmonautics Day and Victory Day. The Company also pays a great deal of attention to the beautification of its residential complexes in an effort to create a comfortable living environment. In April 2019, for example, a landscaping event was held on the grounds of the Landyshki residential complex, where Company employees conducted a workshop on planting trees and shrubs, after which residents and representatives of the management company planted apple trees and meadowsweet on the grounds.

In addition, the Etalon Group takes part in municipal events aimed at strengthening local communities and promoting a healthy lifestyle.

In 2019, Company employees took part in several charity races:

- In June, Etalon Group employees took part in the WHSD Fest, a run and bike ride along St Petersburg's Western High-Speed Diameter. Company employees also supported the traditional bike ride to mark Builder's Day.
- In July, Etalon Group employees took part in the SUP Festival, surpassing a distance of 8 km on the water.
- In November, the Etalon Group supported the Happy Dance 2019 international festival of competitive ballroom dancing,

during which the European Championship 10-Dance WDC AL competition was held. This major event brought together dancers in every category from beginners to juniors and adults. As part of the festival, Etalon Group also held its own competition and presented the winners with the Etalon Dance Cup.

The Company is also contributing to the education of the younger generation. Etalon Group specialists conduct regular excursions for students from specialised universities around the grounds of the Company's residential complexes that are under construction. For the fourth year in a row, Etalon Group supported an event called the Interregional St Petersburg Student Construction Project and hosted student construction teams for the summer period at its sites. Company experts share the knowledge they have accumulated over their careers with the students in the understanding that sharing their experience is an investment in the development of the construction industry.

In 2019, Etalon Group supported the Atmosphere-Profi competition for young interior designers. The main goal of the competition is to help students gain practical knowledge from working professionals, while also acquiring useful information from manufacturers of materials used for repairs. In addition, they are given an opportunity to advance from sketches to practical experience in real apartments by developing a concept and designing the layout and arrangement for the interior of an Etalon Group apartment.



# BUSINESS CONDUCT

Etalon Group adheres to regulatory requirements and upholds high ethical standards throughout its operations. We aim to ensure that any contractors, consultants and agents representing our interests also follow best practices in terms of business conduct.

Our fundamental values and principles of business conduct, as well as the methods we use to monitor corporate ethics rules, are enshrined in Etalon Group's Code of Corporate Ethics and the Regulations on Conducting Tenders. In accordance with these documents, the Company has established and maintains a zero-tolerance policy towards corruption and discrimination, as well as a fair selection procedure for suppliers and contractors.

## Fair competition

Etalon Group selects its suppliers and contractors on a competitive basis. The main principle in the selection process is to ensure fair and open competition. Tender procedures are governed by the Regulations on Conducting Tenders:

- The Company does not permit violations of antitrust laws, including unfair competition;
- In order to carefully monitor the selection of contractors, the Company maintains a master schedule – a complete list of tenders for the performance of work, the provision of services and the supply of goods;



- The Company strives to work with counterparties who have an impeccable reputation, comply with the law and generally accept the norms of corporate and business ethics;
- All applicants must undergo a standard screening process. The requirements for applicants have been formalised and include:
  - positive experience working with large construction companies;
  - high quality in terms of the materials supplied, equipment used and work performed;
  - strict compliance with deadlines;
  - availability of sufficient human resources and the necessary production and technical facilities;
  - sound financial standing;
  - solid business reputation; and
  - compliance with regulatory requirements, including the availability of the necessary licences and certificates;
- Companies that do not fulfil these requirements and thus are not listed in Etalon Group's Register of Accredited Counterparties and Suppliers are not eligible to participate in tenders for the performance of work for, or the provision of supplies to, Etalon Group for six months. Decisions to include a counterparty in the Register or to remove a counterparty from the Register are made by the Accreditation Committee in the region where the applicant company in question is located;
- Group employees have no conflicts of interest and do not create advantages for individual suppliers or contractors. The Company has a standing Tender Committee, which is designed to ensure open competition between counterparties and to determine the best-possible conditions for Etalon Group in terms of collaboration. The Tender Committee selects the winners of competitive tenders and appoints experts on technical and economic issues in the framework of the tender process;
- The Company creates a dossier on every counterparty in the Register of Accredited Counterparties and Suppliers that contains information about the Company's relations with the counterparty, including an assessment of its performance;



- The Company conducts random quarterly reviews of counterparties on the basis of the following key criteria: quality, compliance with deadlines, safety, fulfilment of contractual obligations and accounts receivable owed to the Company. Disreputable contractors are excluded from the Register and are not considered as candidates for collaboration in the subsequent 12 months.
- For tenders totalling less than RUB 40 million, the winners are determined by in-person or absentee voting by the Tender Committee on the basis of the proposals submitted by all participants. In respect of larger contracts, an in-person auction is conducted, and the winner is determined by in-person voting on the part of the Tender Committee. An in-person procedure enables members of the tender committee to make an informed decision on the basis of a direct discussion;
- In addition to the Register of Accredited Counterparties and Suppliers, the Company maintains a Register of Strategic Partners for companies that have a long history with Etalon Group. Because of the Company's proven track record with its strategic partners, as well as the opportunity to pool resources and coordinate activities in a mutually beneficial manner, Etalon Group can do business with such companies without conducting tender procedures. The choice of a strategic partner in each specific case is determined by the Tender Committee;

- The cost of services should correspond to the rates established in the Register of Strategic Partners for the company in question;
- Decisions to include or exclude companies from the Register of Strategic Partners are made by the Accreditation Committee. The Committee holds meetings on the Register of Strategic Partners no more than once every three months;
- The latest version of the Regulations on Conducting Tenders expands the powers of the Tender Committee. The committee has the right not only to appoint experts and select winners in competitive selection procedures but also to select a runner-up in case a company that wins a tender decides not to conclude a contract.



Etalon Group's proven track record with its strategic partners as well as the opportunity to pool resources and coordinate activities in a mutually beneficial manner enable the Company to forgo tender procedures in certain cases.

## Code of Corporate Ethics

Issues related to the clarification and enforcement of the Code of Corporate Ethics are the responsibility of Company management and the Corporate Conduct Officer. Etalon Group employees who need advice or who wish to report conduct violations may contact their immediate supervisor. Concerning a number of issues, they may contact the Corporate Conduct Officer directly through official communication channels (by email or by writing to the Company's head office). The Company guarantees that any information provided by employees about violations of the Code will not be publicised and will not affect the position of the employee reporting the information.

The Corporate Conduct Officer is responsible for responding to conduct violations, eliminating conflicts of interest and clarifying the procedure for applying the Code. The Officer may convene a Commission on Corporate Conduct to address challenging situations. In the event of a violation of internal regulations by a Company employee, disciplinary measures are applied to said employee in accordance with labour laws. If there is reason to believe that an employee has committed an administrative or criminal offence, information on the alleged violation is transmitted immediately to the relevant state oversight body responsible for investigating administrative or criminal offences.

In addition, Etalon Group conducts annual ethics reviews. Employees complete a questionnaire – the Declaration on Ethics and Conflicts of Interest – as a means of verifying whether they are in compliance with the Company's key requirements and principles. Questionnaires are completed not only as part of ethics reviews but also when employees are hired and in cases where a conflict of interest occurred during the calendar year. The questionnaire enables the Company to identify conduct violations, as well as circumstances that require further discussion and consideration by the Company's senior management.



### ANTI-CORRUPTION POLICY

The Code of Corporate Ethics establishes the basic principles and measures of the Company's anti-corruption policy:

- Etalon Group employees are required to comply, both in Russia and abroad, with the requirements and restrictions established by anti-corruption laws;
- Etalon Group does not tolerate any form of unlawful or unethical influence on the decisions of state bodies in the interests of the Company or Group companies, including bribery, offering inappropriate gifts, the practice of nepotism involving civil servants, or engaging in charity or sponsorship at the request of civil servants in an effort to influence their decisions in the Company's favour;
- Etalon Group does not participate in political activities and does not finance political organisations;
- The employees of Etalon Group are prohibited from representing the Company in business relations with organisations in whose activities they have a significant personal interest that differs from the interests of the Group, including the financial and equity interests of an employee or their relatives;
- Employees are prohibited from engaging in business and other commercial activities that involve the use of the Company's assets, resources and/or information, including business contacts;
- Etalon Group Employees are prohibited from accepting gifts either in kind or in monetary terms from any third parties in connection with the performance of their official duties;
- The Company and its employees should avoid situations in which there may be a conflict of interest.

### ANTI-DISCRIMINATION POLICY

In implementing its anti-discrimination policy, Etalon Group is guided by the following principles:

- Etalon Group does not tolerate any form of discrimination based on age, race, ethnicity, sex or other grounds in accordance with the laws of the Russian Federation;
- No form of harassment, including sexual harassment, or coercion is acceptable, whether in verbal, written, visual, physical or other form;
- Etalon Group provides employees with favourable conditions, as well as equal opportunities to upgrade their qualifications and achieve their potential;
- Etalon Group welcomes so-called work dynasties, where specific skills are passed down from one generation to the next, but protectionism based on nepotism is prohibited. The Company limits cases of direct or indirect subordination involving relatives;
- The Company ensures protection against any form of discrimination. In the implementation of the Company's personnel, wage and social security policies, any preferences based on nationality, gender, age, etc. are prohibited.

# RISK MANAGEMENT FRAMEWORK

Successful management of existing and emerging risks is critical to the long-term sustainability and success of our business and to the achievement of our strategic objectives.

In order to effectively take advantage of market opportunities, Etalon Group must accept a certain degree of risk. Risk management is therefore an integral component of our corporate governance system.

Our risk management policy focuses on maintaining a medium to low and predictable risk profile. We continuously monitor all material risks to our operations, taking action as necessary to mitigate and manage them, as well as to anticipate new risks.

We have developed a robust culture of risk management at Etalon Group, which we believe is important to delivering sustainable value to our stakeholders: the Company's risk management systems and processes are designed to minimise potential threats to achieving our goals; internal control and risk management

systems are continuously reviewed to incorporate market best practices. Our risk management view is cascaded top-down from the Company's Board of Directors and through management, employee and connected stakeholder activities, as we believe that a proactive, risk-aware culture across the business is crucial for effective risk identification and mitigation.

Etalon Group ensures a comprehensive approach to implementation of the risk management policy. Key policy principles remain unchanged regardless of changes in corporate governance or shareholder structure of the Company.

The risk management process at Etalon Group applies across all functions and comprises four main stages: identification, assessment, response and reporting.

## IDENTIFICATION

Our aim is to identify and assess risks at the earliest possible stage and to implement appropriate risk responses and internal controls in advance. In order to achieve this, we have designed our procedures with the aim of creating shared responsibility for risk identification while avoiding gaps. Risk identification requirements are also taken into account in the design of accounting and documentation systems in order to be able to identify and process information on potential risk triggers.

## ASSESSMENT

Once identified, risk factors are assessed to determine the potential quantitative and qualitative impact that they might have on Etalon Group's business, and the likelihood of the event. Together these make up a risk profile.

## RESPONSE

If management is comfortable with the current risk score, then the risk is accepted and no further action is required. Controls are implemented on an ongoing basis, and management monitors the risk, the controls and the risk landscape to ensure that the risk score stays stable and in line with management's risk tolerance. If, however, management assesses that a risk is too high, then an action plan is drawn up in order to introduce new or stronger controls that will help to reduce the impact and/or the likelihood of the risk to an acceptable, tolerable and justifiable level.

## REPORTING

Ongoing monitoring processes are embedded in our day-to-day operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in Etalon Group's objectives, its business and the external environment.

## Key risk management functions

Management is responsible for the day-to-day implementation of Etalon Group's risk management assessment, monitoring and mitigation procedures.

The main bodies responsible for risk management are the Board of Directors and the Audit Committee. We also believe that the Company's functional units play a significant part in the risk management system.

While ultimate responsibility for the Group's risk management rests with the Board of Directors, the Audit Committee plays a key role in this process. With assistance from the Head of Internal Audit, the Audit Committee oversees and challenges management's assessment of the principal risks to the Group's strategy and the risk appetite for each of those risks, as well

as the effectiveness of established risk management controls and assurance activities. In addition, it sets the Group's risk management policies and procedures and monitors compliance with the approved policies.

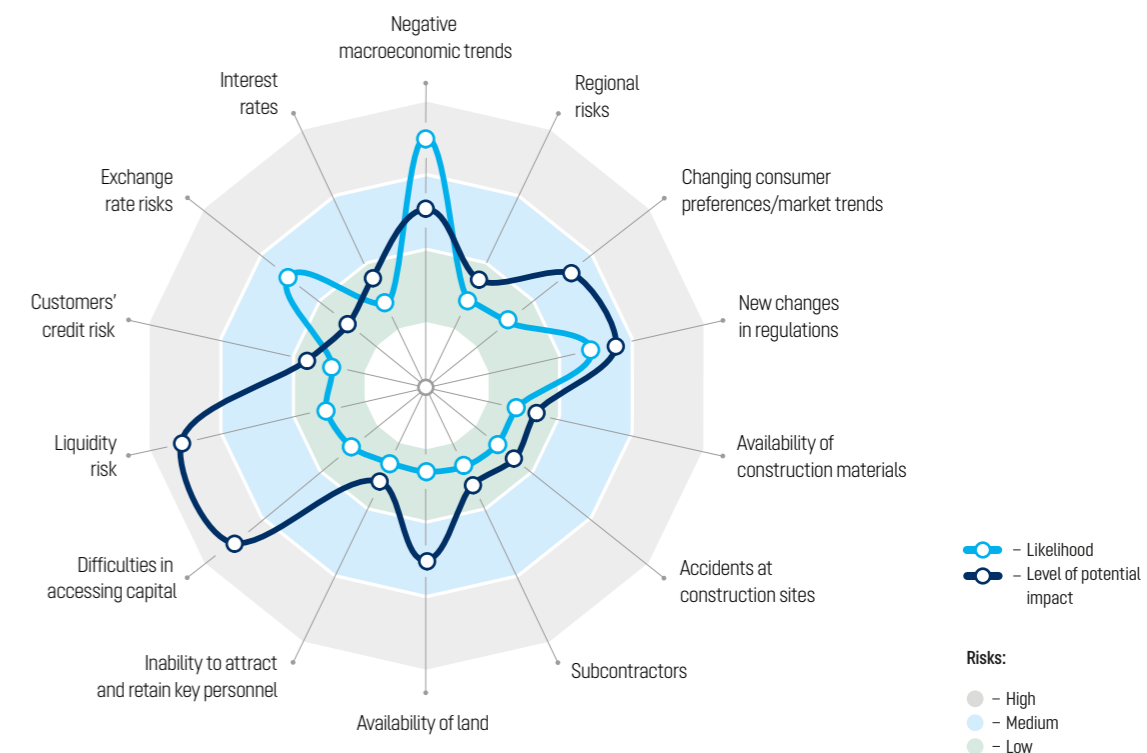
The Board of Directors determines Etalon Group's strategy and agrees the nature and profile of the risks it is willing to take to achieve its strategic objectives. The Board of Directors is accountable for ensuring that a sound system of internal control and risk management is in place, including approval of all related policies that are recommended by the Audit Committee.

Functional units implement the Risk Management Policy in their respective area and ensure timely and robust submissions of significant risks to management.

## Risks

The Russian real estate market is cyclical in nature and is generally dependent on the state of the Russian economy, the growth of which also tends to be cyclical. Our business, financial condition, results of operations and the value of different types of properties related to our business activities may, therefore, be adversely affected by the cyclical nature of the real estate market and the Russian economy in general.

Etalon Group develops and sells large-scale housing construction projects in Moscow and St Petersburg. Etalon Group's sales income depends, inter alia, on the supply and demand in the market, price per sqm, construction costs and ongoing maintenance costs. These factors can fluctuate over time due to changes in the risks listed below; however, this list is not exhaustive and only includes the main risks.





RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL IMPACT
<b>MACROECONOMIC, INDUSTRY RISKS</b>			
Negative macroeconomic trends	Decrease in purchasing power of Russian citizens could negatively affect demand. Inflation, on the other hand, could adversely affect the Company and lead to an increase in land cost, materials and labour.	<ul style="list-style-type: none"> <li>The Company can independently regulate the volumes and rates of construction, depending on actual demand for real estate in a given area.</li> <li>In case of a decline in demand, the Company may reschedule the launch and construction of new projects to match potential construction costs with expected cash collections from sales.</li> <li>The Company maintains land bank volume that is sufficient for five years of construction and sales without new land acquisitions. Real estate is viewed as a hedge against inflation: while inflation was just 3% in 2019 and is expected to reach around 4% in 2020, an uptick in inflation rates could lead potential buyers to accelerate purchases.</li> </ul>	High likelihood/medium level of impact
Regional risks	Deteriorated economic situation affecting all market participants in key markets could equally have a negative impact on the Company.	<ul style="list-style-type: none"> <li>The Company has chosen to focus on Russia's two most resilient and economically stable regions, where economic downturns are less likely to affect demand than in other parts of Russia.</li> <li>The Company is not dependent on any development programmes financed by the federal budget; therefore, its financial position would not be affected by government expenditure cuts on these programmes.</li> </ul>	Low likelihood/low level of impact
Changing consumer preferences/market trends	The Company's ability to manage inventory is intrinsically linked to current and forecast consumer demand. Unanticipated changes in consumer preferences can have an adverse effect on the business, particularly given long project life cycles in the industry.	<ul style="list-style-type: none"> <li>The poured-concrete construction technology allows for free-pattern floor plans and architectural design flexibility, and it has the advantage of high scalability.</li> <li>The Company has a substantial portfolio of complementary business- and comfort-class projects, with a wide range of apartments to suit different tastes within each project.</li> <li>Etalon Group intends to develop alternatives to its brick-monolithic construction techniques, including modern prefabricated construction methods, modular construction and construction from CLT panels, which can significantly reduce costs and/or construction time, while improving the quality of the final product.</li> <li>The Company conducts research, both with the help of independent specialists and by monitoring customers' feedback at every stage of cooperation, including after commissioning, in order to monitor changes in demand and adjust the product accordingly.</li> </ul>	Low likelihood/medium level of impact

RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL IMPACT
<b>REGULATORY RISKS</b>			
New changes in regulations	The Company operates in a business that is highly regulated; any failure to comply with the regulations might negatively impact the Company's operating and financial performance. Failure to receive timely approval of a project might lead to delays in the development process.	<ul style="list-style-type: none"> <li>The Company monitors any legislative changes that may affect its business in order to address them proactively and decrease associated risks.</li> <li>Etalon Group's management participates in committees established by the industry in order to reconcile different views and to develop potential amendments with regard to recent regulatory changes such as those that came into force in July 2019 and introduced additional requirements for developers. For more details about the potential impact of the new regulations, please see page 25.</li> <li>A strong financial position, efficient financial planning, access to a variety of sources of capital and one of the longest track records in the industry enable Etalon Group to meet the requirements of the new law. Furthermore, our considerable inventory of completed real estate projects and properties available for sale that are exempt from the new industry regulations will allow for a smooth transition period.</li> </ul>	Medium likelihood/medium level of impact
<b>OPERATIONAL RISKS</b>			
Availability of construction materials	Changes in exchange rates could trigger an increase in the cost of imported materials; inflation, on the other hand, could cause an increase in the cost of domestic materials. Any supply interruption or shortages could delay the construction of our projects, which, in turn, could harm our reputation with our customers and could result in lost sales opportunities.	<ul style="list-style-type: none"> <li>The Company's vertically integrated business model helps maintain the optimal load of companies with internal orders.</li> <li>As one of the biggest real estate developers in Russia with over 30 years of operations and more than 1 mln sqm under construction, the Company can choose the most reliable external suppliers and decrease costs of materials through bulk purchases.</li> <li>The share of imported construction materials and the cost of maintaining imported equipment used in construction historically constituted about 15% of the total construction budget of the Company's facilities; therefore, the change in price of imported materials/equipment would not have a significant impact on the cost of construction.</li> </ul>	Low likelihood/low level of impact
Accidents at construction sites	Etalon Group operates in the construction industry, where health and work-safety accidents relating to the Company's operations could be costly in terms of potential liability and reputational damage.	<ul style="list-style-type: none"> <li>The Company complies with relevant health and safety regulatory requirements.</li> <li>All employees attend workshops on occupational safety.</li> <li>All equipment is certified by relevant authorities and additionally inspected by the Company.</li> <li>The Company is a pioneer in Russia for using building information modelling to increase safety at construction sites.</li> <li>In 2019, the organisational structure of the OHS service was improved, and a three-stage system was introduced for monitoring compliance with OHS and fire safety requirements at construction sites.</li> </ul>	Low likelihood/low level of impact

RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL IMPACT
Subcontractors	<p>An inability to find qualified subcontractors and enter into subcontracting arrangements on acceptable terms could lead to an increase in costs.</p> <p>Furthermore, the Company relies on external subcontractors to perform certain types of construction and development activities and therefore assumes additional risks associated with the subcontractors — low quality of their work, delays, accidents, etc.</p>	<ul style="list-style-type: none"> <li>The Company uses a tender procedure to identify and select the best suppliers, as well as to create a competitive environment.</li> <li>The Company constantly monitors and evaluates its suppliers against various criteria.</li> <li>All subcontractors are subject to compulsory annual accreditation to ensure compliance with the Company's requirements.</li> <li>The Company puts in place retention plans for subcontractors to further control costs, quality and timely delivery of projects.</li> <li>The Company requires its subcontractors to provide weekly reports on work progress, its safety index, etc.</li> <li>The Company conducts comprehensive inspections at production sites of factories that supply concrete and mortar mixes; all suppliers are inspected against a comprehensive list of 41 items.</li> <li>Thanks to its vertically integrated structure, the Company can minimise its dependence on subcontractors in both construction and service maintenance areas.</li> </ul>	Low likelihood/ low level of impact
Availability of land	An inability to find and purchase adequately priced land for future development might negatively affect the Company's business and its operational and financial results.	<ul style="list-style-type: none"> <li>The Company maintains its land bank at a level sufficient to ensure construction and sales for a period of at least four years. The Company's current project portfolio of 3.3 mln sqm of unsold NSA represents 5x the volume of new contract sales for FY 2019.</li> <li>The Company's territorial offices carry out continuous monitoring of the land market and maintain a database of sites whose parameters (location, town planning and permits, proposed terms of acquisition, etc.) satisfy the Company's marketing strategy, required profitability and financial capabilities.</li> <li>Amendments to the Federal Law on Share Participation Agreements for Construction provide additional opportunities for the Company to purchase new projects and market entrants. In 2019, Etalon Group acquired and consolidated 100% in Leader-Invest and consolidated 100% of the ZIL-Yug project, thereby significantly expanding the range of the Group's projects and strengthening the Company's position in Moscow.</li> </ul>	Low likelihood/ medium level of impact
Inability to attract and retain key personnel	Etalon Group's future success depends on its ability to find qualified personnel in various business areas. An inability to motivate key personnel could also have a negative impact on operations.	<ul style="list-style-type: none"> <li>The Company maintains an extensive talent pool to attract qualified staff for strategically important positions. The pool is developed through direct searches on job sites and cooperation with verified recruitment agencies. The Company looks for sector specialists at all levels of management, and regularly adds new applicants to the pool.</li> <li>The Company offers competitive salary packages, life insurance, financial assistance, and flexible working hours to motivate current personnel.</li> </ul>	Low likelihood/ low level of impact

RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL IMPACT
<b>FINANCIAL RISKS</b>			
Difficulties in accessing capital	Real estate development is a capital-intensive industry, and the Company should always have access to capital to finance its projects.	<ul style="list-style-type: none"> <li>The Company's funding sources are diversified, including a variety of debt instruments and cash collections from presales.</li> <li>With new amendments to the law on shared construction, the Company successfully introduced new schemes for working with escrow accounts as part of project finance agreements.</li> <li>As a public company, Etalon Group also has the ability to raise equity capital to finance large acquisitions.</li> </ul>	Low likelihood/ high level of impact
Liquidity risk	The Company's failure to meet its financial obligations could result in operational delays, damage to its reputation, increased credit rates in the short term, and bankruptcy in the long term.	<ul style="list-style-type: none"> <li>The Company adheres to a conservative financing policy and strives to maintain low debt levels, with a target net debt/LTM EBITDA ratio of below 2x. The FY 2019 net debt/pre-PPA EBITDA ratio amounted to 1.8x.</li> </ul>	Low likelihood/ high level of impact
Customers' credit risk	The Company could suffer financial losses if customers fail to meet their contractual obligation on financial instruments used for the purchase of real estate.	<ul style="list-style-type: none"> <li>Receivables from customers are secured against sold apartments.</li> </ul>	Low likelihood/ low level of impact
Exchange rate risks	Appreciation of foreign currencies against the rouble could lead to an increased burden for those companies that issued debt instruments in foreign currencies. Furthermore, this could lead to a price increase of imported construction materials.	<ul style="list-style-type: none"> <li>The Company does not have any debt instruments in foreign currencies. Its current debt structure includes bonds denominated in roubles issued by its subsidiaries, LenSpetsSMU and Leader-Invest.</li> <li>Imported goods make up only a small part of the Company's business costs; issues related to the import of construction materials are discussed further in the "availability of materials" sections.</li> </ul>	Medium likelihood/ low level of impact
Interest rates	<p>An increase in mortgage rates might limit customers' ability to finance the purchase of new apartments, thus decreasing new sales volume.</p> <p>On the other hand, an increase in the rates on the Company's outstanding debt obligations will cause unexpected growth in expenditures.</p>	<ul style="list-style-type: none"> <li>If mortgage interest rates increase or the number of available mortgages decreases, the Company could offer its customers more instalment payment options.</li> <li>To avoid paying high interest rates, the Company might repay certain loans before maturity; it could renegotiate loan terms or look for alternative financing sources.</li> </ul>	Low likelihood/ low level of impact

# GRI STANDARDS

In preparing this report, we have sought to adhere to the reporting framework provided by the Global Reporting Initiative (GRI). As a first step towards our goal of compliance with GRI reporting standards, the table below indicates which key information can be found in which sections of this year's report. While this information has not been subject to external verification, we have sought to ensure that the contents of this report are completely accurate, and we hope to move to external verification in the years ahead.

GRI STANDARD	REPORT SECTION/COMMENTARY	DISCLOSURE
<b>GENERAL DISCLOSURE</b>		
<b>ORGANISATION'S PROFILE</b>		
102-1	Name of the organisation	ETALON GROUP PLC Fully disclosed
102-2	Activities, brands, products, and services	Section: "About Etalon Group", p 10 Section: "Project portfolio", p 42 Fully disclosed
102-4	Number of countries where the organisation operates, and the names of the countries where it has significant operations and/or that are relevant to the topics covered in the report	Etalon Group operates in the following regions of Russia: Moscow, Moscow region and St Petersburg. Fully disclosed
102-5	Ownership and legal form	Section: "Shareholder interactions", p 148 Fully disclosed
102-6	Markets served, including: i. geographical locations where products and services are offered; ii. sectors served; iii. types of consumers and beneficiaries.	Section: "About Etalon Group", p 10 Partially disclosed
102-7	Scale of organisation, including: i. total number of employees; ii. total number of operations, iii. net sales (for private sector organisations) or net revenues (for public sector organisations); iv. total capitalisation (for private sector organisations) broken down in terms of debt and equity; v. quantity of products or services provided.	Section: "About Etalon Group", p 10 Section: "Employees", p 112 Section: "Operational performance", p 74 Financial statements Fully disclosed

GRI STANDARD	REPORT SECTION/COMMENTARY	DISCLOSURE
102-8	Общая численность сотрудников с разбивкой по типу занятости, региону, полу	Раздел «Сотрудники», стр. 112 Partially disclosed
<b>ETHICS AND INTEGRITY</b>		
102-16	A description of the organisation's values, principles, standards, and norms of behaviour.	Section: "Business conduct", p 122 Fully disclosed
102-17	A description of internal and external mechanisms for: i. seeking advice about ethical and lawful behaviour, and organisational integrity; ii. reporting concerns about unethical or unlawful behaviour, and organisational integrity.	Section: "Business conduct", p 122 Fully disclosed
<b>STAKEHOLDER ENGAGEMENT</b>		
102-40	List of stakeholder groups engaged by the organisation	Section: "Stakeholder engagement", p 96 Fully disclosed
102-43	The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Section: "Stakeholder engagement", p 96 Fully disclosed
<b>REPORTING PRACTICE</b>		
102-45	Entities included in the consolidated financial statements	Financial statements Fully disclosed
102-47	List of material topics	Section: "Sustainability", p 90 Fully disclosed
102-50	Reporting period	Section: "Sustainability", p 90 Fully disclosed
102-52	Reporting cycle (annual or biennial etc.)	Annual Fully disclosed
102-53	Contact point for questions regarding the report	Section: "Shareholder interactions", p 148 Fully disclosed
102-54	Claims of reporting in accordance with the GRI Standards	Section: "Sustainability", p 90 Fully disclosed
102-55	GRI content index	Section: "Sustainability", p 90 Fully disclosed
102-56	External Assurance (audit)	Section: "Sustainability", p 90 Fully disclosed
<b>MANAGEMENT APPROACH</b>		
103-1	Explanation of the material topic and its boundary	Section: "Sustainability", p 90 Fully disclosed
103-3	Evaluation of the management approach	Section: "Stakeholder engagement", p 96 Section: "Environment", p 106 Section: "Employees", p 112 Partially disclosed
<b>ENVIRONMENTAL TOPICS</b>		
302-1	Energy consumption within the organisation	Section: "Environment", p 106 Partially disclosed

GRI STANDARD	REPORT SECTION/COMMENTARY	DISCLOSURE
303-1	Interactions with water as a shared resource	Section: "Environment", p 106 Partially disclosed
306-2	Waste by type and disposal method	Section: "Environment", p 106 Partially disclosed

**SOCIAL TOPICS**

**EMPLOYMENT**

401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Section: "Employees", p 112 Fully disclosed
401-3	Parental leave	Section: "Employees", p 112 Partially disclosed

**LABOUR/MANAGEMENT RELATIONS**

402-1	Minimum notice periods regarding operational changes	Section: "Employees", p 112 Fully disclosed
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**OCCUPATIONAL HEALTH AND SAFETY**

403-1	Occupational health and safety management system	Section: "Occupational health and safety", p 100 Fully disclosed
403-2	Hazard identification, risk assessment, and incident investigation	Section: "Occupational health and safety", p 100 Fully disclosed
403-5	Worker training on occupational health and safety	Section: "Occupational health and safety", p 100 Fully disclosed

**TRAINING AND EDUCATION**

404-1	Average hours of training per year per employee	Section: "Employees", p 112 Partially disclosed
404-2	Programmes for upgrading employees' skills and transition assistance programmes	Section: "Employees", p 112 Partially disclosed

**DIVERSITY AND EQUAL OPPORTUNITY**

405-1	Diversity of governance bodies and employees	Section: "Employees", p 112 Fully disclosed
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**LOCAL COMMUNITIES**

413-1	Operations with local community engagement, impact assessments, and development programmes	Section: "Social responsibility", p 118 Fully disclosed
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## Sustainable Development Goals

We have identified 12 SDGs that are aligned with our business activities and to which we can make a meaningful contribution. Etalon Group's priority SDGs are linked to our business strategy and our current activities in the area of sustainable development. As we refine our sustainability strategy and define specific, measurable goals, the list of SDGs may be modified in order to focus on the ones where we can have the most impact.



SDG	REPORT SECTION, PAGE
#3	Good health and well-being "Occupational health and safety", p 100 "Environment", p 106 "Employees", p 112
#4	Quality education "Social responsibility", p 118 "Employees", p 112
#5	Gender equality "Employees", p 112
#7	Affordable and clean energy "Environment", p 106
#8	Decent work and economic growth "Employees", p 112
#9	Industry, innovation and infrastructure "Occupational health and safety", p 100 "Environment", p 106
#11	Sustainable cities and communities "Social responsibility", p 118 "Environment", p 106
#12	Responsible consumption and production "Environment", p 106
#13	Climate action "Environment", p 106
#14	Life below water "Environment", p 106
#15	Life on land "Environment", p 106
#16	Peace, justice and strong institutions "Business conduct", p 122

# Corporate governance

The Company continues to be committed to maintaining the highest standards of corporate governance. The Group's corporate governance framework combines leadership with collaboration, and lies at the heart of our robust decision-making process.

# Achieving a new level with EVERY STEP



## Shareholders



### THE BOARD

AUDIT COMMITTEE

REMUNERATION AND NOMINATION COMMITTEE

STRATEGY COMMITTEE

INFORMATION DISCLOSURE COMMITTEE



## Executive management

# CORPORATE GOVERNANCE

Group's corporate governance framework combines leadership with collaboration, and lies at the heart of our robust decision-making process.

The Company continues to be committed to maintaining the highest standards of corporate governance based on the following principles:

- ✔ Equal treatment of all shareholders and strict protection of their legitimate interests and rights;
- ✔ Timely disclosure of reliable and accurate information about the Company's activities;
- ✔ Ensuring records of ownership rights are maintained efficiently and reliably;
- ✔ Open dialogue with all stakeholders and respect for their rights and legitimate interests;
- ✔ Accountability of the Board of Directors to shareholders, and accountability of executive bodies to the General Meeting of Shareholders and the Board of Directors.

The Company is governed by the General Meeting of Shareholders and by the Board of Directors and its committees, which act in accordance with the Company's statutory documents, resolutions passed by shareholders at General Meetings and applicable legislation. The Company also complies with the relevant sections of the UK Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules.

In 2019, the composition of the Board of Directors and shareholder structure changed significantly following the acquisition of 25% of the share capital of Etalon Group by Capgrowth Investments Limited (a subsidiary of Sistema PJSC). The changes in the shareholder structure and the composition of the Board of Directors did not affect Etalon Group's corporate governance policy, and the Company continues to focus on the previously outlined principles of transparency and protection of shareholders' rights.

To further guarantee the rights of the Company's shareholders, Etalon Group and Capgrowth Investments Limited entered into a relationship agreement on 19 February 2019, under which the parties declared their intention to ensure that the Company is managed in compliance with the principles of good governance. The full text of the agreement is available on Etalon Group's website.

## Board of Directors

The main objective of the Board of Directors ("the Board") is to ensure the long-term success of the Company and sustained returns for shareholders. This includes setting strategic goals, overseeing financial and human resource structures, reviewing management performance and determining the Company's risk appetite. The Board of Directors sets the tone at the top, and helps to establish the management culture of the Company.

The Board is also driven by its advisory role to complement and support the executive team as it implements the Company's strategy.

The Board believes that it has the necessary skills and experience to provide effective leadership and control of the Company. When recommending directors for appointment, the Nomination and Remuneration Committee ensures that there is an appropriate balance of skills, experience and backgrounds relevant to the success of the Company.

The Board comprises independent directors and non-executive directors. Independent directors are an important element of the contemporary corporate governance system. The essential features of independent directors are their autonomy, independ-

ence of decision-making and impeccable business reputation. Independent directors play an important role in determining the Company's development strategy and reviewing reports on its implementation, evaluating the performance of the Company's executive bodies, and assessing the performance of the risk management and internal control systems. The Company highly appreciates the contribution of independent directors in enhancing the effectiveness of the Board of Directors.

The non-executive directors provide an essential independent element to the Board, and a solid foundation for strong corporate governance. They have responsibility for constructively challenging the strategies proposed by the executive directors and scrutinising the performance of management in achieving agreed goals and objectives. They also play a key role in the functioning of the Board and its committees. Between them, the current non-executive directors have an appropriate balance of skills, experience, knowledge and independent judgement to undertake their roles effectively.

In 2019, a number of substantial changes occurred in the Board of Directors. On 19 February 2019, four directors announced their resignation: the Company's founder and Board of Directors Chairman, Viacheslav Zarenkov; the non-executive directors Dmitry Zarenkov and Olga Shevchuk; and the executive director Anton Shatov. At the same meeting, the following members became members of the Board:

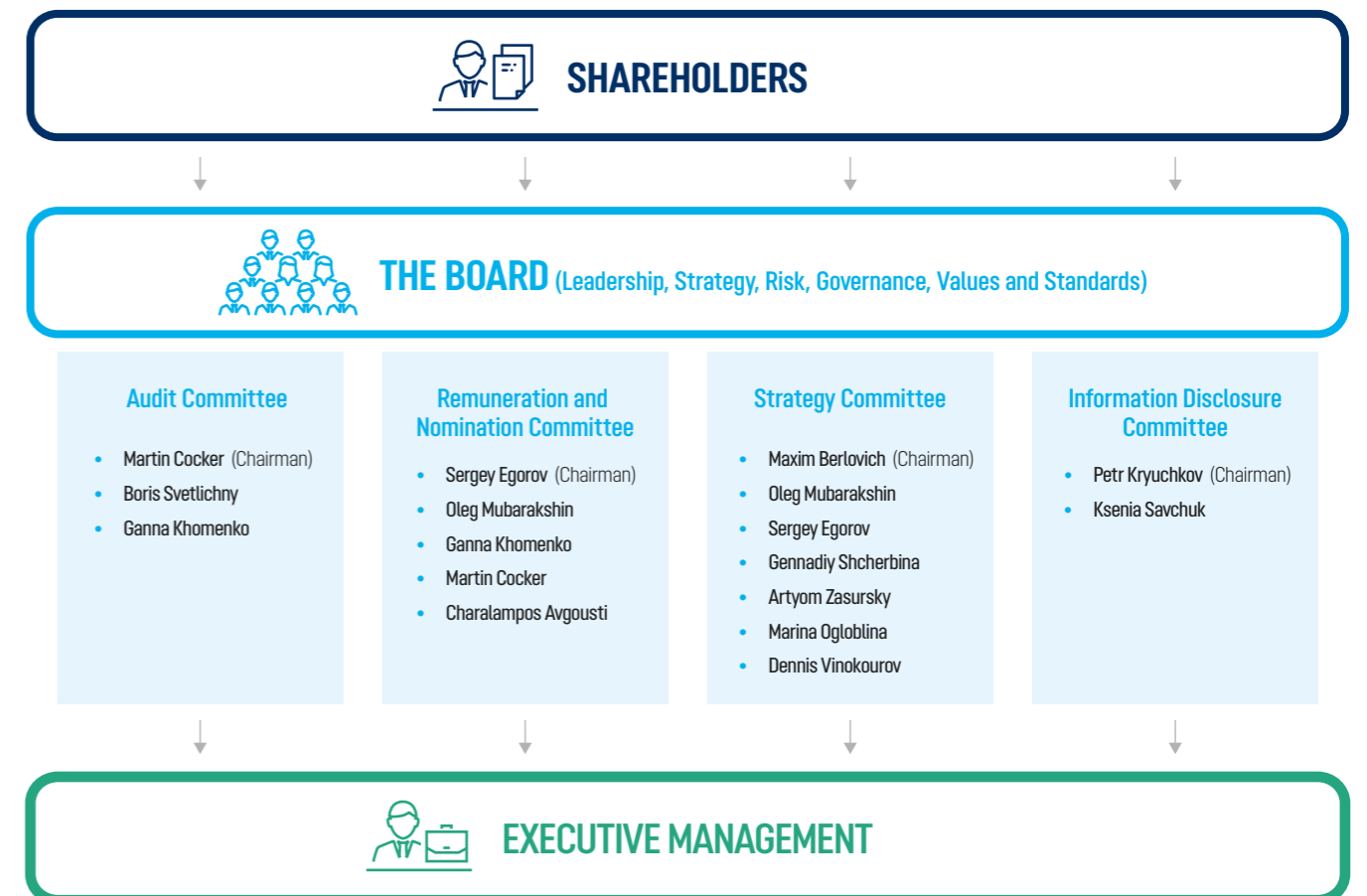
- Oleg Mubarakshin, who joined the Board as a non-executive director and was elected its Chairman;
- Sergey Egorov, who also joined the Board as a non-executive director;
- Ganna Khomenko and Marina Ogloblina, who became members of the Board as independent non-executive directors.

At the meeting held on 29 March 2019, the Board of Directors accepted the resignation of the non-executive director Alexey Kalinin. On 27 September 2019, Sergey Egorov was elected Chairman of the Board of Directors, and the former Chairman, Oleg Mubarakshin, remained on the Board as a non-executive director.

On 20 February 2020, the Company accepted the resignation of Kirill Bagachenko, executive director and Chief Financial Officer. Ilya Kosolapov took over from Kirill Bagachenko and was appointed Chief Financial Officer.

As of 31 December 2019, the following members sat on the Board of Directors: Sergey Egorov, Oleg Mubarakshin, Kirill Bagachenko, Maxim Berlovich, Ganna Khomenko, Marina Ogloblina, Martin Cocker, Dennis Vinokourov, Boris Svetlichny and Charalampos Avgousti.

As of the date of this Report, the Board and its committees were structured as follows:



## THE BOARD OF DIRECTORS



**SERGEY EGOROV**  
Chairman of the Board of Directors,  
non-executive director

Sergey Egorov is a highly experienced professional in private equity, corporate finance, leveraged finance and debt restructuring. Since June 2015, he has held the role of Director of Special Projects at PJSFC Sistema, where he is responsible for seeking out new investment opportunities, structuring and execution, and for developing and executing assets strategy. Sergey also sits on the boards of directors of Sistema's portfolio companies. Before joining Sistema, Sergey was Vice President of Intellect Telecom and gained significant experience at companies including Sberbank Capital, United Capital Partners and EY, among others. Sergey holds a Diploma in Finance from Kyrgyz State National University.

Oleg Mubarakshin has more than 20 years of experience in corporate law and investment management. Since 2013 he has worked at Sistema, currently as a Managing Partner and before that as Senior Vice President and Head of the Legal Function. Before joining Sistema, he was head of legal at EastOne Investment and Consulting Group, and before that spent more than a decade at InBev FMCG Group, ending up as Vice President for Legal Affairs for Western Europe. He holds an academic degree in law from Moscow State Academy of Law and an academic degree in finance from the Finance Academy under the Government of the Russian Federation.



**OLEG MUBARAKSHIN**  
Non-executive director



**MAXIM BERLOVICH**  
Executive director

Maxim Berlovich has over 11 years of experience in the construction industry. Before joining Etalon Group in 2014, Maxim was deputy CEO of one of the largest power grid construction companies in Russia. From 2017 to 2019, he served as the head of the construction and maintenance division of Etalon Group. In 2019 Maxim became the Head of Moscow Operations. Maxim graduated from Peter the Great St Petersburg Polytechnic University and holds an MBA from the Vlerick Business School.

Marina Ogloblina has many years of experience in the administrations of the city and region of Moscow. Most recently, she served as Minister for Construction and the Residential and Utility Sector in the Moscow Region before being appointed advisor for construction (with ministerial rank) to the regional governor. She previously worked for 20 years in economic planning roles in the Moscow city administration. Marina began her career at the State Bank of the USSR before being appointed senior auditor for two districts of Moscow in the Russian SFSR Finance Ministry's Audit Directorate. She holds a degree from the Moscow Finance University and served as professor and head of the Department of Finance, Accounting and Audit at the Moscow government's Moscow State University of Administration.



**MARINA OGLOBLINA**  
Independent non-executive  
director



**GANNA KHOMENKO**  
Independent non-executive  
director

Ganna Khomenko has more than 20 years of experience in management, consultancy and strategy positions in the legal and finance fields. She currently acts as a consultant providing services in trust and corporate administration, accounting and financial management, and international tax planning, and also sits on the boards of Ros Agro and Interpipe. Ganna previously held a number of senior legal and management positions. She holds a degree in law and international politics from Keele University, and also completed a Legal Practice Course at the College of Law in Chester, UK.

Martin Cocker has 23 years of experience in audit and 10 years' experience in the construction industry. He runs his own development business in Portugal, and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the United Kingdom. He graduated from the University of Keele.



**MARTIN COCKER**  
Independent non-executive  
director



**BORIS SVETLICHNY**  
Independent non-executive  
director

Boris Svetlichny brings to the Company 30 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services in Russia, VimpelCom and Golden Telecom. From March 2014 to August 2016, Boris served as CFO of Etalon Group. Boris has a BBA in Accounting from the University of Massachusetts and received an MBA from Carnegie-Mellon University.

Dennis is an experienced private equity and corporate law professional. Most recently, as Investment Director at Vi Holding Development, he was instrumental to closing a landmark real estate transaction funded by a consortium of sovereign wealth funds. Prior to that, Dennis held senior investment positions with the Russian Direct Investment Fund and East Capital. Dennis started his career as a corporate lawyer with White & Case and is admitted to the New York Bar.



**DENNIS VINOKOUROV**  
Independent non-executive  
director



**CHARALAMPOS AVGOUSTI**  
Independent non-executive  
director

Charalampos Avgousti is an experienced legal professional in the real estate, corporate and banking sectors. He is the founder and Managing Director of Ch. Avgousti & Partners LLC (Advocates & legal consultants). He previously worked at several law firms, including E&G Economides LLC — Totalserve Group and Nasos A. Kyriakides & Partners Advocates. Charalampos is a board member at the CYTA — Cyprus Telecommunication Authority, a member of the Advisory Council of Limassol for the Central Cooperative Bank, and until February 2016 he was a board member of Periferiaki Cooperative Credit Society Nicosia Limited. He graduated from the Democritus University of Thrace and has an LLM in International Commercial Law from the Northumbria University Newcastle.

**Matters specifically reserved for the Board include:**

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

In 2019, the Board addressed a wide variety of issues. They included strategy, budgets and long-term plans for the Company, review of estimates of future cash flows, financing arrangements and fundraising, industry and the competitive environment, responding to the changing dynamics of the Russian economy, corporate governance, individual business and overall Group performance and future capital expenditures, financial statements and announcements, reviewing reports from the committees reporting to the Board, shareholder feedback and reports from brokers and analysts, risk management and risk oversight. In 2019, the Board of Directors held six meetings in person, with an additional 14 meetings held in absentia.

## Board committees

The Board has delegated specific responsibilities to four committees: the Audit Committee, the Remuneration and Nomination Committee, the Strategy Committee and the Information Disclosure Committee.

All committees act within their competence, report to the Board on their activities and take decisions or make recommendations to the Board about such decisions within their remit.



## Audit Committee

As of the date of this Report and as of 31 December 2019, the members of the Audit Committee were as follows:

### MR MARTIN COCKER

Committee Chairman and independent non-executive director

### MR BORIS SVETLICHNY

Independent non-executive director

### MS GANNA KHOMENKO

Independent non-executive director

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

### Responsibilities:

- Monitor the integrity of the financial statements of the Company and Group prepared under International Financial Reporting Standards (the "Financial Statements").
- Review the Group's internal controls and risk management systems.
- Monitor and review the effectiveness of the Group's internal audit function ("Internal Audit").
- Recommend that the Board seek the approval of shareholders at a general meeting for the appointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor.
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by an external auditor.

The Audit Committee held a number of meetings in 2019, where the key matters for consideration were:

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

## EXTERNAL AUDIT

At the AGM held on 2 August 2019, KPMG were reappointed as external auditors of the Company, a role that they have held since 2007. KPMG performed the review of the interim consolidated Financial Statements as of and for the period ended 30 June 2019.

In November 2019, as part of the Company's ongoing efforts to enhance its corporate governance as well as to manage its overall business costs and expenses, the Audit Committee recommended to the Board of Directors of the Company that KPMG be replaced as external auditors by Deloitte for the audit of the Financial Statements for the year ending 31 December 2019. On 19 December 2019, an extraordinary general meeting of the Company's shareholders approved the change of the Company's auditors from KPMG to Deloitte.

The Board of Directors of the Company believes that the change of auditors will enable the Company to benefit from Deloitte's experience and strengths in both the Russian market and construction industry practices by bringing fresh perspectives and views from another professional audit firm and thereby enhancing the value of the audit.

## INTERNAL AUDIT

The Group's Internal Audit function provides independent objective assurance and advisory oversight of the business's operations and systems of internal control and helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

In 2019, the Internal Audit function was strengthened by the appointment of several new members, including a new Vice President of Internal Control and Audit. The Internal Audit Charter was reviewed and revised to make it more relevant to the new enlarged Group. The Audit Committee was involved in both the appointment of the new Vice President of Internal Control and Audit and the revision to the Internal Audit Charter.

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

## INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

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

Risk management policies and systems are reviewed periodically by the Audit Committee to ensure that they remain appropriate, relevant and comprehensive, taking into account any variations in market conditions and the Group's activities. The review also considers whether the identified risks are being managed effectively.

The Audit Committee is responsible for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework. In this, the Audit Committee is assisted by the Internal Audit function.

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





## Remuneration and Nomination Committee

As of the date of this Report and as of 31 December 2019, the members of the Remuneration and Nomination Committee were as follows:

### MR SERGEY EGOROV

Committee Chairman, Chairman of the Board of Directors, non-executive director

### MR OLEG MUBARAKSHIN

Non-executive director

### MS GANNA KHOMENKO

Independent non-executive director

### MR MARTIN COCKER

Independent non-executive director

### MR CHARALAMPOS AVGOUSTI

Independent non-executive director

### Responsibilities

The Committee advises the Board of Directors on the remuneration of executive management and other senior employees, and reviews the terms and conditions of employment agreements for all senior appointments.

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

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

The Committee held a number of meetings in 2019 at which it considered amendments to the Group's incentive plans, as well as changes to the membership of the Board and its Committees.



## Strategy Committee

As of the date of this Report, the members of the Strategy Committee were as follows:

### MR MAXIM BERLOVICH

Committee Chairman, executive director

### MR OLEG MUBARAKSHIN

Non-executive director

### MR SERGEY EGOROV

Non-executive director

### MR GENNADIY SHCHERBINA

Chief Executive Officer

### MR DENNIS VINOKOUROV

Independent non-executive director

### MS MARINA OGLOBLINA

Independent non-executive director

### MR ARTYOM ZASURSKY

PJSFC Sistema, Vice President and Head of Strategy

As of 31 December 2019, the members of the Strategy Committee were as follows:

### MR KIRILL BAGACHENKO

Committee Chairman, executive director, Chief Financial Officer

### MR MAXIM BERLOVICH

Executive director

### MR OLEG MUBARAKSHIN

Non-executive director

### MR SERGEY EGOROV

Non-executive director

### MR GENNADIY SHCHERBINA

Chief Executive Officer

### MR DENNIS VINOKOUROV

Independent non-executive director

### MS MARINA OGLOBLINA

Independent non-executive director

### MR ARTYOM ZASURSKY

PJSFC Sistema, Vice President and Head of Strategy

### Responsibilities

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

The Strategy Committee held several meetings in 2019, where the key matters for consideration were Etalon Group's strategy, review of Etalon Group's development priorities and strategic guidelines, further improvements in operational efficiency and consideration of new development opportunities.



## Information Disclosure Committee

As of the date of this Report, the members of the Information Disclosure Committee were as follows:

### MR PETR KRYUCHKOV

Head of Corporate Investments at Etalon Group

### MS KSENIA SAVCHUK

Head of PR at Etalon Group

As of 31 December 2019, the members of the Information Disclosure Committee were as follows:

### MR KIRILL BAGACHENKO

Committee Chairman, executive director, Chief Financial Officer

### MS KSENIA SAVCHUK

Head of PR at Etalon Group

### Responsibilities

The Information Disclosure Committee is responsible for overseeing the Company's information disclosure process, which includes identifying inside information, reviewing information and documents prior to disclosure, preparing announcements and defining the form of disclosure. The Committee analyses the ETALON GROUP PLC Information Disclosure Policy on a regular basis, and makes recommendations to the Board regarding any changes.

It also makes recommendations with regard to training for Etalon Group's management and staff to help ensure consistent implementation of the Information Disclosure Policy.

The Information Disclosure Committee held several meetings in 2019 where it considered matters of insider information disclosure, adjustment of the Group's approach to insider dealing and dealing involving persons discharging managerial responsibilities.

### Chief Executive Officer

The Chief Executive Officer at Etalon Group is Gennadiy Shcherbina, who has worked in the construction industry for many years, having started his career with Etalon Group in 2003. He has been in charge of Etalon Group's St Petersburg operations since 2007. Gennadiy holds a PhD in Economics, and graduated from the Marshal A. A. Grechko Naval Academy and St Petersburg State University for Architecture and Construction.

The responsibility of the CEO includes the implementation of decisions of the Board of Directors and the development of plans and programmes for the Company's activities. The CEO is accountable to the Board of Directors.

### Key responsibilities:

- implementation of strategic and business decisions as approved by the Board of Directors;
- management of day-to-day operations;
- representation of Etalon Group interests in negotiations pertaining to any transactions made by the Etalon Group companies.

## Shareholder interactions

Etalon Group adheres to the principles of openness and transparency in its investor relations activities: we strive to maintain an open and honest dialogue and to guarantee maximum availability of Company information and ease of its processing. The management of Etalon Group actively uses opportunities for direct communication with investors at conferences, forums, meetings and on calls. When making decisions, we are guided primarily by the interests of our shareholders and aim to provide them the best possible service.

# Committed to **TRANSPARENCY**

Average potential upside for the Company's GDRs

2018 dividend payouts

2019 dividend payouts

USD 52.1 mln

USD 56.3 mln

**+34%**



# SHAREHOLDER INTERACTIONS

Etalon Group has a long history of successful relations with capital markets.

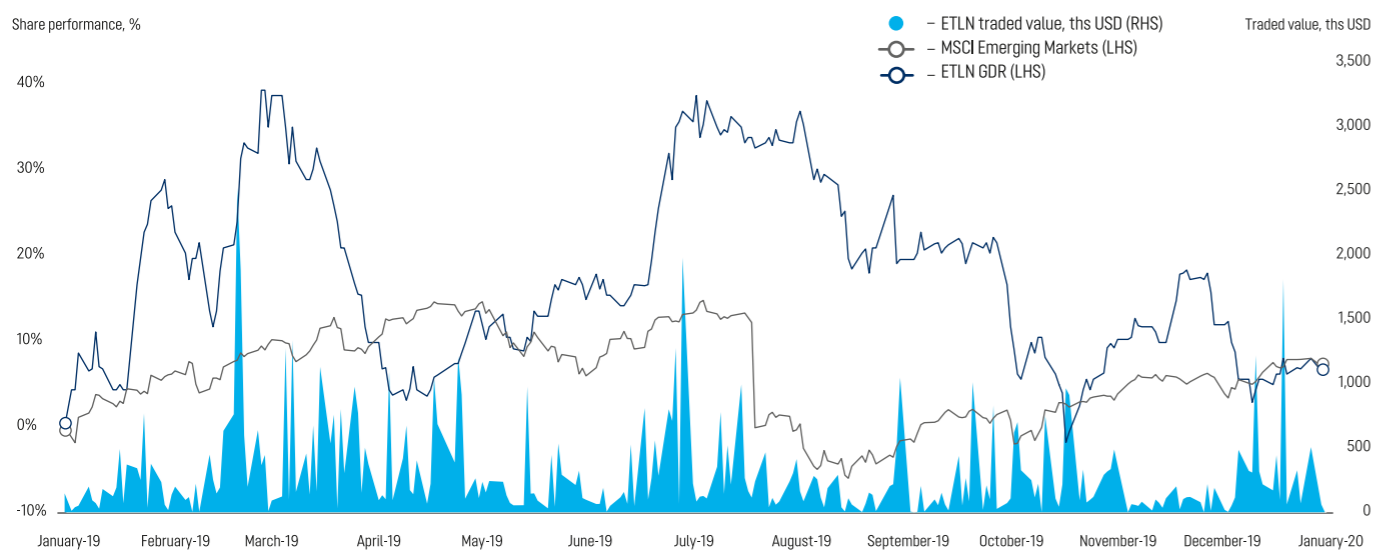
Since the Company's IPO in 2011, its free float has increased to 62%, making Etalon Group one of the leaders among Russian and global development companies in this area. In order to expand its investor base and to be included in various stock indices, Etalon

Group's GDRs were approved for listing in Moscow Exchange's Level 1 list and were admitted for trading in February 2020. The Company's GDRs were included in Moscow Exchange's Broader Market Index in March 2020.

## Share price performance and return

**17%** total shareholder return (TSR) for 2019<sup>1</sup>

Price quotes for Etalon Group GDRs in 2019



ADTV IN 1Q 2020 – USD **632** THS

In 1Q 2020, the average daily trading volume (ADTV) of Etalon Group's GDRs doubled compared to 2019 – in part due to their listing on Moscow Exchange – reaching USD 632 thousand.

<sup>1</sup> Source: Bloomberg. The total return is calculated for the period from 31 December 2018 to 31 December 2019 and implies reinvestment of dividends received.

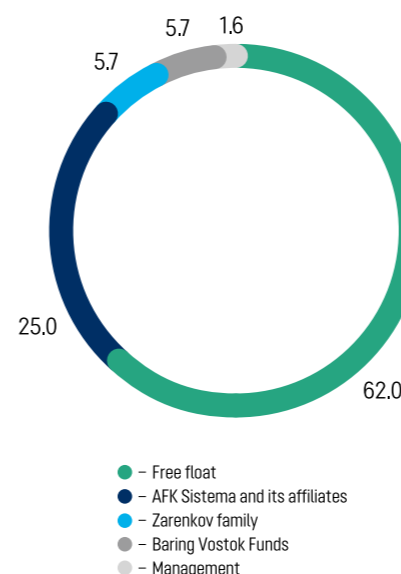


## Ownership structure

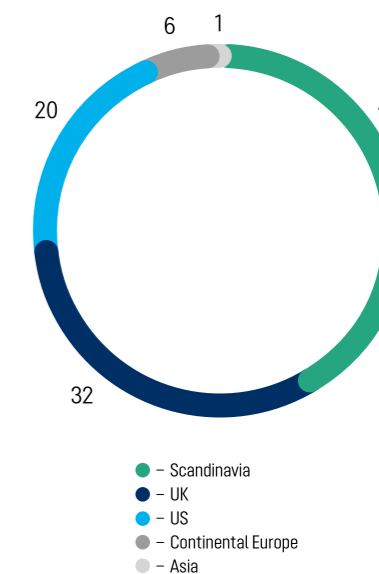
Share capital and shares: During the reporting period, Etalon Group's share capital and the number of shares issued by the Company remained unchanged. As of the end of the reporting period, the Company had 294,957,971 outstanding ordinary shares in addition to 20,000 redeemable preference shares with neither voting rights nor the right to receive dividends.

The free float percentage did not change significantly in 2019 and amounts to 61.9%. More than 90% of the Company's diverse public shareholder base is represented by institutional investors from Scandinavia, the United Kingdom and the United States of America<sup>2</sup>.

The Company's shareholding structure, %



Ownership structure by country, %



Etalon Group's largest shareholder changed on 19 February 2019 when PJSFC Sistema acquired 25% of the share capital of Etalon Group from the family of its founder, Viacheslav Zarenkov, thus becoming the Company's largest shareholder.

Bearing in mind the Company's high free float percentage, Sistema and Etalon Group entered into a relationship agreement on 20 February 2019 in order to ensure continued adherence to the principle of equal access to information for all shareholders and to maintain high standards of corporate governance.

<sup>2</sup> As of the beginning of February 2019. Source: Ipreo by IHS Markit.

## Listing

Etalon Group's GDRs have traded on the main market of the London Stock Exchange since 20 April 2011 under the ticker ETLN. At the end of January 2020, Etalon Group submitted the necessary documents, including a securities prospectus, for its global

depository receipts to be listed on Moscow Exchange, where they were included in the Level 1 quotation list. Etalon Group's GDRs have been traded on Moscow Exchange since 3 February 2020 under the ticker ETLN.

### LSE: KEY INFORMATION

as of 7 February 2020

Ticker	ETLN:LI
Market	MAIN MARKET
FTSE Sector	Real Estate Investments & Services
FTSE Subsector	Real Estate Ownership & Development
MIFID Status	Regulated Market
SEDOL	B5TWX80
ISIN NUMBER	US29760G1031

### COST OF ONE GDR

In USD (closing price)	2.23
52-week maximum price (USD)	2.37
52-week minimum price (USD)	1.58

### MARKET CAPITALISATION

Market capitalisation (USD mln)	659.22
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### TRADING VOLUME

Trading volume for 2019 (USD mln)	76 (excluding OTC)
-----------------------------------	--------------------

### MOEX: KEY INFORMATION

as of 7 February 2020

Ticker	ETLN:RM
Full name	GDR ETALON GROUP PLC ORD SHS
Short name	ETLN-gdr
Type of security	Depository receipts for shares of a foreign issuer
Listing level	Level 1
ISIN NUMBER	US29760G1031

### COST OF ONE GDR

In Russian roubles (closing price)	142.92
52-week maximum price (RUB)	150
52-week minimum price (RUB)	95

### MARKET CAPITALISATION

Market capitalisation (RUB mln)	42,160
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### TRADING VOLUME

Trading volume 3 February 2020 – 31 March 2020 (RUB mln)	1,046
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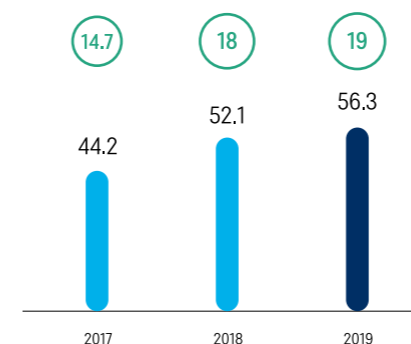
## Dividend policy

One of Etalon Group's key priorities is to distribute the profits from its development projects among shareholders. Since 2013, the Company has gradually raised the target level of its dividend payments from 15–30% to 40%–70% of IFRS net profit, as approved by the Board of Directors in May 2017. In January 2020, in view of the Company's adoption of an updated strategy and based on a more accurate outlook on its future cash

flows, the Board of Directors reviewed the dividend policy and decided to supplement it with a minimum guaranteed dividend payment of RUB 12 per share/GDR, provided the Company's EBITDA/interest expense ratio remains above 1.5x. Subject to these changes, the Company will pay out dividends once a year based on the results of its annual reporting under IFRS. The updated dividend policy applies to Etalon Group's results for 2019.

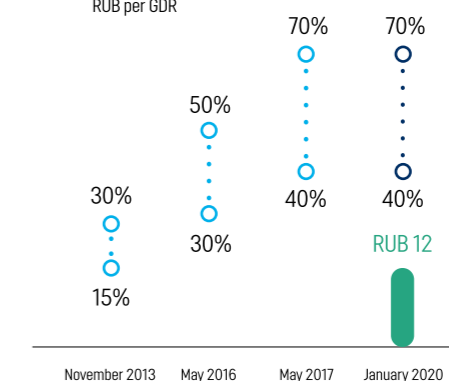
### Dividend payments

- - Dividend payouts, USD million<sup>1</sup>
- - Dividend payments, cents/GDR



### Dividend Policy

- - Dividend ratio, % of consolidated IFRS net profit
- - Minimum dividend payment, RUB per GDR



**40-70%**

payout rate of IFRS net profit annually

**RUB 12**

per share/GDR is the minimum guaranteed return

## Shareholder relations

Etalon Group adheres to the principles of openness and transparency in relations with investors: the Company strives for open dialogue, and aims to make information about the Company as accessible as possible and as easy to process as possible. Etalon Group's management team makes extensive use of opportunities for personal communication with investors during conferences and forums, road shows, meetings and calls. When making decisions, we are guided primarily by the interests of our shareholders, and we strive to maximise the benefit they gain from interaction with the Company.

To discuss recent acquisitions with existing and prospective investors, as well as related issues of integration and clarification of additional areas of focus related to the Company's strategic

development, Etalon Group held an investor day and a road show in May–June 2019.

In view of the entry into force of MIFID 2, Etalon Group has expanded its range of tools for direct communication with shareholders. In 2019, we updated the Company's corporate website, [etalongroup.com](http://etalongroup.com). We improved its design and structure and added convenient functionality, including a stock price chart, an investor calculator, a tool for interactive data analysis, and a chat function for real-time communication with the IR team. We launched a Russian version of the site in early 2020 to coincide with the listing of the Company's GDRs on Moscow Exchange. In addition, the Company has created a [Twitter](https://twitter.com/etalongroup) account where additional news and visual content are posted.



<sup>1</sup> At the exchange rate of the Central Bank of the Russian Federation on the date of dividend approval. Total dividend payments in a particular year.

## DISCLOSURE POLICY

Etalon Group discloses the following information in accordance with legal requirements:

- Results of shareholder meetings
- Results of key meetings of the Board of Directors
- Information on material transactions and on changes in the Company's ownership structure
- Information on important personnel changes among executives
- Quarterly operating results
- Financial results for the half-year and year

Etalon Group also follows best practices in terms of disclosing additional information about the Company's operations by publishing the following:

- News about important stages in the implementation of projects, such as acquisition, obtaining permits, the start of sales and delivery
- Monthly visual information on the status of project implementation
- The results of evaluations of the Company's project portfolio

The Company holds conference calls for investors and analysts on quarterly operating results and IFRS financial results for the half-year and year.

## Analytical coverage

Etalon Group regularly interacts with analysts who prepare reviews of Russian companies in the residential real estate development sector. Thus, we want to ensure complete and accurate coverage of the Company's operations based on a comprehensive understanding of our strategy, operating performance, assets and the work of our management team. Analysts from nine international and Russian brokerage firms cover Etalon Group's GDRs.

In 2019, coverage increased by 30% due to the fact that three brokers — BCS, Gazprombank and Sova Capital — began covering the Company's operations for the first time. In addition, Sberbank resumed its analytical coverage of the Company following a long break. The following brokers also prepare reports and analytical notes on Etalon Group's operations: Goldman Sachs, JP Morgan, ATON, VTB Capital and Renaissance Capital.

COMPANY	ANALYST	TELEPHONE	EMAIL	RECOMMENDATION	DATE
Goldman Sachs	Andrey Pavlov-Rusinov	+7 495 645 4241	andrey.pavlov-rusinov@gs.com	Buy	28 January 2020
J.P. Morgan	Elena Jouronova	+7 495 967 3888	elena.jouronova@jpmorgan.com	Hold	16 October 2019
VTB Capital	Maria Kolbina	+7 495 663 4648	maria.kolbina@vtbcapital.com	Hold	3 June 2019
BCS	Anastasia Egazaryan	+7 495 213 1539	aegazaryan@bcsgm.com	Hold	14 January 2020
Sberbank CIB	Kirill Rogachev	+7 495 258 0511	kirill_rogachev@sberbank-cib.ru	Hold	6 December 2019
Renaissance Capital	David Ferguson	+7 495 641 4189	dferguson@rencap.com	Hold	17 July 2018
Gazprombank	Marat Ibragimov	+7 495 980 4187	marat.ibragimov@gazprombank.ru	Buy	1 October 2019
Aton	Mikhail Ganelin	+7 495 777 6677	mikhail.ganelin@aton.ru	Buy	19 February 2019
Sova Capital	Artur Galimov	+7 495 223 2323	artur.galimov@sovacapital.com	Buy	27 November 2019

## Investor calendar

The calendar indicates preliminary dates. Exact dates may vary, and conferences may be cancelled.

 <b>10 March 2020</b> <b>Publication</b> 2019 Assets Valuation Report	 <b>7 April 2020</b> <b>Publication</b> 2019 Financial Results	 <b>17 April 2020</b> <b>Publication</b> 1Q 2020 Operating Results
 <b>23–24 June 2020</b> <b>Conference in London</b> UBS LATEMEA Conference	 <b>25 June 2020</b> <b>Publication</b> Annual Report	 <b>15 July 2020</b> <b>Publication</b> 1H 2020 Operating Results
 <b>28 September 2020</b> <b>Publication</b> 1H 2020 Financial Results	 <b>14 October 2020</b> <b>Publication</b> 9M 2020 Operating Results	 <b>9–10 November 2020</b> <b>Conference in London</b> Goldman Sachs CEEMEA Conference

## Contact information

### ETALON GROUP IR TEAM

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 petr.kryuchkov@etalongroup.com

**Alexandr Ugryumov — Head of Capital Markets**  
 alexandr.ugryumov@etalongroup.com

**Zakhar Ivanov — Senior Analyst**  
 zakhar.ivanov@etalongroup.com

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 Tel.: +44 (0)20 8123 1328

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

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

## Financial statements

CONSOLIDATED REVENUE RUB MLN **72,327** → **84,330**

CONSOLIDATED GROSS PROFIT RUB MLN **17,055** → **20,057**

EBITDA RUB MLN **6,118** → **8,897**

OPERATING CASH FLOW RUB MLN **17,403** → **13,336**

Under conditions  
of increased  
**RESPONSIBILITY**



# CONSOLIDATED FINANCIAL STATEMENTS

Etalon Group PLC

Consolidated Financial Statements for the year ended 31 December 2019

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## Board of Directors and other Officers

### Board of Directors

**Sergey Egorov** (appointed on 19 February 2019)

**Oleg Mubarakshin** (appointed on 19 February 2019)

**Marina Ogloblina** (appointed on 19 February 2019)

**Ganna Khomenko** (appointed on 19 February 2019)

**Martin Robert Cocker** (appointed on 12 November 2010)

**Boris Svetlichny** (appointed on 15 April 2013)

**Charalampos Avgousti** (appointed on 10 November 2016)

**Maksim Berlovich** (appointed on 27 April 2018)

**Denis Vinokurov** (appointed on 9 November 2018)

**Kirill Bagachenko** (appointed on 15 November 2013 and resigned on 20 February 2020)

**Viacheslav Adamovich Zarenkov** (appointed on 8 November 2007 and resigned on 19 February 2019)

**Dmitry Viacheslavovich Zarenkov** (appointed on 29 July 2016 and resigned on 19 February 2019)

**Olga Shevchuk** (appointed on 9 November 2018 and resigned on 19 February 2019)

**Anton Shatov** (appointed on 9 November 2018 and resigned on 19 February 2019)

**Alexey Kalinin** (appointed on 12 November 2010 and resigned on 29 March 2019)

### Secretary

**G.T. Globaltrust Services Limited**  
Themistokli Dervi, 15  
Margarita House, 5<sup>th</sup> floor, flat/office 502  
1066 Nicosia  
Cyprus

### Registered Office

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

### Independent auditors

**Deloitte Limited**  
Certified Public Accountants  
and Registered Auditors  
24 Spyrou Kyprianou Avenue  
1075, Nicosia  
Cyprus

# Consolidated Management Report

The Board of Directors of Etalon Group PLC (the "Company") presents to the members its Consolidated Management Report together with the audited Consolidated Financial Statements of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2019. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

## REVIEW OF THE DEVELOPMENT AND PERFORMANCE OF THE GROUP'S BUSINESS AND ITS POSITION

The results of the Group for the year ended 31 December 2019 are set out on page 20 of the consolidated financial statements.

As described in note 2(e)(ii), effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component. Therefore, comparative periods have been restated.

On 19 February 2019, the Group acquired 51% of the share capital of JSC "Leader-Invest", whose income and expenses from the date of acquisition until the reporting date have been included into these consolidated financial statements. On 16 August 2019, the Group acquired the remaining 49% share in JSC "Leader-Invest".

### (a) Revenue

The Group's total revenue for the year ended 31 December 2019 amounted to RUB 84,330 million as compared to RUB 72,327 million for the year ended 31 December 2018, recording an increase of RUB 12,003 million or 17%.

Revenue of the reportable segment "Residential development" increased by RUB 15,412 million or 27%, due to an increase in the revenues recognised from the sales of flats by RUB 9,042 million or 17%, an increase in the revenues recognised from the sales of parking places by RUB 3,673 million or 264%, and an increase in the revenues recognised from the sale of built-in commercial premises by RUB 2,697 million or 85%.

JSC "Leader-Invest" contributed RUB 10,875 million to the revenues of the reportable segment "Residential development", including RUB 10,000 million in the revenues recognised from the sales of flats, RUB 549 million in the revenues recognised from the sales of parking places and RUB 326 million in the revenues recognised from the sale of built-in commercial premises.

External revenues of the reportable segment "Construction services" decreased by RUB 2,701 million or 32% mainly due to the completion during the year ended 31 December 2018 of a project for the construction of a metro depot in St. Petersburg.

External revenues of the reportable segment "Other" decreased by RUB 708 million or 12% due to a decrease in the sales of construction materials by RUB 926 million or 26%, a decrease in the sale of stand-alone commercial premises by RUB 42 million or 100%, offset by an increase in rental revenue by RUB 242 million or 39%, and increase in other revenue related to servicing of premises by RUB 18 million or 1%.

JSC "Leader-Invest" contributed RUB 323 million to the revenues of the reportable segment "Other", mainly representing rental revenue.

### (b) Gross profit

Gross profit for the year ended 31 December 2019 amounted to RUB 20,057 million as compared to RUB 17,055 million for the year ended 31 December 2018 (as restated), recording an increase of RUB 3,002 million or 18%, which was mainly driven by the increase in gross profit of the reportable segment "Residential development" by RUB 3,683 million or 23%. JSC "Leader-Invest" contributed RUB 1,406 million to gross profit for the year ended 31 December 2019.

### (c) Results from operating activities

Profit from operating activities during the year ended 31 December 2019 amounted to RUB 6,484 million as compared to RUB 3,204 million for the year ended 31 December 2018 (as restated) recording an increase of RUB 3,280 million or 102%.

During the year ended 31 December 2019, general and administrative expenses increased by RUB 358 million or 5%, selling expenses increased by RUB 1,504 million or 45%, other expenses, net decreased by RUB 1,087 million or 39%, as compared to the year ended 31 December 2018.

### (d) General and administrative expenses

The increase in general and administrative expenses was mainly caused by consolidation of JSC "Leader-Invest" that contributed RUB 1,403 million to the Group's general and administrative expenses, including RUB 1,011 million in payroll and related taxes and

other taxes and RUB 186 million in audit and consulting services. Excluding JSC "Leader-Invest", during the year ended 31 December 2019, payroll and related taxes decreased by RUB 271 million or 6%.

### (e) Selling expenses

Growth in selling expenses was mainly caused by the consolidation of JSC "Leader-Invest" that contributed RUB 980 million to the Group's selling expenses. The remaining increase of RUB 524 million was driven by the increase in payroll and related taxes expenses by RUB 162 million or 24%, an increase in advertising expenses and agency fees by RUB 179 million or 9% and an increase in state registration and insurance expenses related to share participation agreements by RUB 153 million or 21%.

### (f) Other expenses, net

During the year ended 31 December 2019, other expenses, net, decreased by RUB 1,087 million or 39% mainly due to a decrease in 2019 of costs of social infrastructure for completed projects by RUB 1,469 million or 92%, a decrease in charity expenses of RUB 381 million or 93%, offset by an increase in impairment loss on inventories of RUB 837 million or 186%, and an increase in fees and penalties incurred by RUB 78 million.

(e) Gain from bargain purchase of RUB 729 million resulted from the acquisition of JSC "Leader-Invest".

### (g) Net finance costs

Net finance costs for the year ended 31 December 2019 increased by RUB 1,932 million or 69% as compared to the year ended 31 December 2018.

Finance income increased by RUB 707 million or 31% mainly due to an increase in interest income on cash and cash equivalents and bank deposits by RUB 1,042 million or 93%, offset by a decrease in the amount credited to the income statement in respect of the unwinding of the discount on trade receivables of RUB 271 million or 28% and a foreign exchange gain of RUB 64 million recognised during the year ended 31 December 2018.

Finance costs increased by RUB 2,639 million or 52% due to an increase in borrowing costs and financing component under IFRS 15 by RUB 2,073 million or 42% which was in line with the increase in borrowings used to finance the acquisition of JSC "Leader-Invest", an increase in interest expense on leases by RUB 233 million as a result of the adoption of the new accounting standard IFRS 16 "Leases", an increase in the amount debited to the income statement in respect of the unwinding of the discount on other payables of RUB 171 million and a foreign

exchange loss of RUB 172 million, offset by a decrease in impairment loss on advances paid to suppliers by RUB 16 million or 14%.

Net finance costs of JSC "Leader-Invest" contributed RUB 938 million to the overall increase.

### (h) Income tax expense

Income tax expense for the year ended 31 December 2019 amounted to RUB 1,585 million as compared to an income tax expense of RUB 1,123 million during the year ended 31 December 2018 (as restated).

### (i) Profit for the year

The profit for the year ended 31 December 2019 amounted to RUB 186 million, as compared to a loss of RUB 700 million for the year ended 31 December 2018 (as restated).

### (j) Adjusted net debt/adjusted EBITDA ratio

As described in note 23 and in the Supplementary Information section, certain bank loans are subject to restrictive covenants which are calculated based on the consolidated financial statements of the Group. The loans used to finance the acquisition of JSC "Leader Invest" require the Group to maintain adjusted net debt/adjusted EBITDA ratio below 4. The current structure of the Group's adjusted net debt, being negative (specified assets exceed borrowings), secures the Group's solid over-performance of the ratio, currently being minus 2,77.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

## CHANGES DURING THE YEAR RELATING TO THE NATURE OF THE OPERATIONS AND THE CLASSES OF BUSINESS IN WHICH COMPANY HAS AN INTEREST

On 19 February 2019, the Group's subsidiary JSC "GK Etalon" acquired 51% of the share capital and voting rights of JSC "Leader-Invest" for a cash consideration of RUB 15,185 million. JSC "Leader-Invest" is a Moscow-based residential developer focusing on projects in the comfort, business and premium-class segments with a total net sellable area (NSA) of 1.3 mln sqm.



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

On 16 August 2019, the Group's subsidiary JSC "GK Etalon" acquired the remaining 49% of the share capital and voting rights of JSC "Leader-Invest".

Significant events subsequent to the reporting date are disclosed in note 33 of the Consolidated Financial Statements.

## FUTURE DEVELOPMENTS OF THE GROUP

The Board of Directors expects continued growth in the Group's operations and market share in all markets in which it operates and the stable financial position and financial performance of the Group.

## ACTIVITIES RELATED TO RESEARCH AND DEVELOPMENT

The Group has not undertaken any activities in the field of research and development during the year ended 31 December 2019.

## BRANCHES

The Group operated through branches in Moscow and Saint Petersburg and 15 representative (sales) offices across the Russian Federation during the year ended 31 December 2019. The Company did not operate through any branches other than in Moscow and Saint Petersburg.

## USE OF FINANCIAL INSTRUMENTS BY THE GROUP

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

## DIVIDENDS

On 28 April 2019, the Board of Directors recommended a final dividend of USD 0.19 per share for the year ended 31 December 2018. The final dividend for the total amount of RUB 3,577 million was approved by the Annual General Meeting of shareholders on 2 August 2019, and the dividends were paid on 17 September 2019. The Group also paid dividends to the non-controlling interest of JSC "Leader-Invest" in the amount of RUB 13 million.

## CHANGES IN THE COMPANY'S SHARE CAPITAL

There were no changes in the Company's share capital during 2019.

## CHANGES IN THE COMPOSITION, ALLOCATION OF RESPONSIBILITIES OR COMPENSATION OF THE BOARD OF DIRECTORS

The changes in the composition and allocation of responsibilities of the Board of Directors during 2019 are disclosed in the Board of Directors and other Officers section of these consolidated financial statements. The changes in the compensation of certain members of the Board of Directors are disclosed in note 10 to these consolidated financial statements.

## EVENTS THAT OCCURRED AFTER THE REPORTING PERIOD

As the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, oil prices dropped by more than 40%, which resulted in the immediate weakening of Russian Ruble against major currencies.

In addition, starting from early 2020, a new coronavirus disease (COVID-19) began rapidly spreading all over the world resulting in an announcement of pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and has a significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on the business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

The Group developed a stress scenario of the possible impact on the current operating environment on the Group's on demand and on supply chain, including the availability of construction workers and management personnel being on self-isolation, and eventually on cash flows and liquidity position, including the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.

## RECOMMENDATION REGARDING THE DISTRIBUTION OF PROFITS

In recent years, the Company aimed to pay out in the form of dividends between 40% and 70% of its consolidated net profit adjusted for non-cash items, if warranted.

On 24 January 2020, the Board of Directors of the Company proposed to supplement the dividend policy by setting a minimal amount of dividend of at least RUB 12 per share/GDR, whilst keeping the same range for dividend payments of 40%–70% of net profit. At the same time, the Board of Directors retains the right to refrain from recommending dividend payments if the Company's EBITDA/interest expense ratio falls below 1.5x. The updated dividend policy will apply to Etalon Group's results starting with the year 2019.

The Board will consider the payment of a final dividend for the year ended 31 December 2019 at its meeting to be held subsequent to the date of this report.

## INDEPENDENT AUDITORS

On 19 December 2019, an extraordinary general meeting of the Company passed a resolution to dismiss KPMG Limited from the position of auditor of the Company and the Group and to appoint Deloitte Limited in its place to hold office until the conclusion of the next annual general meeting and to authorise the Board of Directors to fix the auditor's remuneration.

# Corporate Governance Report

## COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT IN RELATION TO THE PREPARATION OF THE FINANCIAL STATEMENTS

The main documents regulating the activities of the Company are the Cyprus Companies Law, Cap. 113, the UKLA Listing, Prospectus and Disclosure and Transparency Rules, together with the Memorandum and Articles of Association of the Company. The Company has also enacted a number of governance policies and procedures, such as the Management Policy and

Committee terms of reference, to ensure that a proper system of corporate governance is in place.

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of

the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

## SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS (INCLUDING INDIRECT SHAREHOLDINGS THROUGH PYRAMID STRUCTURES AND CROSS-SHAREHOLDINGS)

The share capital of the Company is GBP 34,748 divided into 294,957,971 ordinary Shares having the par value of GBP £0.00005 each and 20,000 preference shares having the par value of

GBP 1 each. 193,747,322 ordinary shares (65.7%) are deposited for the issuance of Global Depositary Receipts (GDRs) pursuant to the Deposit Agreement between the Company and the Bank of New York Mellon. The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange. Starting from 3 February 2020, the Company's GDRs started trading on Moscow Stock Exchange.

As at 31 December 2019, the Company was aware of the following interests in its share capital:

Shareholders	%
Free float	62.7%
Sistema PJSFC	23.7%
Baring Vostok Funds	5.7%
Zarenkov family	5.7%
Management of the Company	2.2%
<b>Total</b>	<b>100.0%</b>

### THE HOLDERS OF ANY SHARES WITH SPECIAL CONTROL RIGHTS AND A DESCRIPTION OF THESE RIGHTS

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

### RESTRICTIONS IN EXERCISING OF VOTING RIGHTS OF SHARES

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

### THE RULES REGARDING THE APPOINTMENT AND REPLACEMENT OF BOARD MEMBERS

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

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

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

The office of a director shall be vacated if the director:

- (a) becomes of unsound mind or an order is made by a court having jurisdiction (whether in Cyprus or elsewhere) in matters concerning mental disorder for their detention or for the appointment of a receiver, curator or other person to exercise powers with respect to their property or affairs; or
- (b) is prohibited from acting as director in accordance with section 180 of the Law; or
- (c) becomes bankrupt or makes any arrangement or composition with his creditors generally or otherwise has any judgment executed on any of his assets; or
- (d) dies; or
- (e) resigns their office by written notice to the Company; or
- (f) the Company removes them from their position in accordance with section 178 of the Law.

### THE RULES REGARDING THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

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

By order of the Board of Directors

 **CHARALAMPOS AVGOUSTI**  
Director

 **SERGEY EGOROV**  
Director

Nicosia  
6 April 2020

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

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

- (a) The consolidated annual financial statements for year ended 31 December 2019:

- (i) Have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), in accordance with the provisions of section 9(4) of the Transparency Law and in accordance with Cyprus Companies Law, Cap.113;
- (ii) Give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial account as a whole, and
- (b) The management report provides a fair overview on information required as per Section 9(6)(a) of the Transparency Law.



**SERGEY EGOROV**, Chairman of the Board of Directors



**MAKSIM BERLOVICH**, Member of the Board of Directors



**OLEG MUBARAKSHIN**, Member of the Board of Directors



**MARINA OGLOBLINA**, Member of the Board of Directors



**GANNA KHOMENKO**, Member of the Board of Directors



**MARTIN ROBERT COCKER**, Member of the Board of Directors

6 April 2020



**BORIS SVETLICHNY**, Member of the Board of Directors



**CHARALAMPOS AVGOUSTI**, Member of the Board of Directors



**DENIS VINOKUROV**, Member of the Board of Directors



**GENNADII SHCHERBINA**, Chief Executive Officer



**ILYA KOSOLAPOV**, Chief Financial Officer



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## Independent Auditor's Report

### To the Members of Etalon Group PLC

#### Report on the Audit of the Consolidated Financial Statements

##### Opinion

We have audited the consolidated financial statements of Etalon Group PLC (the "Company") and its subsidiaries (the "Group"), which are presented in pages 171 to 231 and comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

##### Basis for Opinion

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

##### Emphasis of Matter

We would like to draw attention to Note 2 to the consolidated financial statements, which indicates that effective from 1 January 2019 the Group has changed its accounting policy in respect of the capitalization of borrowing costs. This change was applied retrospectively, in line with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" which resulted in a restatement of comparative information as of 31 December 2018 and 1 January 2018 and for the year ended 31 December 2018. Our audit opinion is not modified in respect of this matter.

Deloitte Limited is the Cyprus affiliate firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of DTTL.

Deloitte Limited is a private company, registered in Cyprus (Reg.No. 162812). Offices: Nicosia, Limassol.



## Independent Auditor's Report (continued)

### To the Members of Etalon Group PLC

#### Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
--	---

#### Revenue recognition

In accordance with IFRS 15 Revenue from Contracts with Customers, the Group recognizes revenue from sale of real estate inventories as performance obligations are satisfied (i.e. over time) or when performance obligations are satisfied (i.e. at a point in time) depending on the type of contract and the date of its registration with the state authorities.

We consider revenue recognition under IFRS 15 to be a key audit matter due to:

- significance of judgments applied when determining at the reporting date percentage of construction completion and the progress toward satisfying the Group's performance obligations under share participation agreements giving rise to overtime revenue recognition;
- the complexity of judgements involved in determining the financing component for the particular share participation agreements, as well as calculating the correct portion to be recognized in profit or loss of the reporting period.

The accounting policies on revenue under share participation agreements are disclosed in Note 3(j). For other disclosures of revenue refer to Note 6.

Our audit procedures included amongst others:

We analyzed the Group's contracts with customers to identify the rights and obligations of the parties, challenged the appropriateness of revenue recognition method used by the Group, taking into account current legal practices in respect of such contracts.

We obtained an understanding and tested the operating effectiveness of controls over the construction costs budgeting process and assessed the appropriateness of assumptions related to estimating the planned costs and expected construction timeline, which are used by the Group's management in measuring the progress toward completion when revenue is recognized over time. In addition, we performed a retrospective analysis of the Group's fulfilment of the budgets and construction milestones in the past.

On a sample basis, we verified the costs of particular construction stages in accordance with the agreements with contractors signed by the reporting date to the costs in the respective stages of the construction budgets. In addition, we inspected a sample of primary documentation supporting the cost of construction incurred by contractors by the reporting date.

We also verified the Group's calculations of recognized revenue and significant financing component by performing the following:

- on a sample basis, we traced input data in the calculations to the respective share participation agreements;
- we verified that the discount rates applied by the Group reflect the credit characteristics of the party receiving financing in the contract, and that the rates determined at contract inception are applied consistently over the contract term;
- we checked the arithmetical accuracy of the Group's calculations.

We reviewed the disclosures in the consolidated financial statements for compliance with the requirements of IFRS 15.

All the above procedures were completed in a satisfactory manner.



### Independent Auditor's Report (continued)

#### To the Members of Etalon Group PLC

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
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#### Net realizable value of inventories

The Group has significant inventory balance (refer to Note 17 in the consolidated financial statements), which includes real estate under construction and development, as well as completed properties, construction materials and other inventories. The Group measures its inventories at the lower of cost and net realizable value.

We consider this area to be a key audit matter because it requires use of observable and unobservable inputs and application of a significant degree of judgment when developing assumptions in particular in relation to:

- the cost to complete construction,
- expected timing and prices of sales,
- the discount rate used to arrive to the present value of the future expected cash flows.

Our audit procedures included amongst others: We evaluated the appropriateness of management's assumptions applied in calculating the carrying value of inventories including:

- understanding the Group's processes and procedures related to the measurement of inventories at the lower of cost and net realizable value;
- assessing the appropriateness of the discount rate used;
- reviewing, recalculating and critically assessing the reasonableness of the assumptions used in calculation of allowance for inventories considering:
  - historical turnover and prices of sales in these and/or similar projects;
  - budgeted costs to complete construction;
  - post year-end performance.

We also assessed whether the disclosure in the consolidated financial statements in respect of the inventory allowances is in compliance with IFRS requirements.

All the above procedures were completed in a satisfactory manner.

#### Accounting for business combination

As disclosed in Note 27, during the year-ended 31 December 2019 the Group acquired 100% of JSC «Leader-Invest» in two stages.

We consider accounting for this transaction to be a key audit matter because it requires a significant degree of judgment and involves estimations which are uncertain in nature relating to:

- determination whether the acquisition represents a business combination in accordance with the definition set out in IFRS 3 «Business Combinations»;
- identification and classification of the assets acquired and liabilities assumed at transaction dates and allocation of purchase price to identified assets and liabilities;
- adjustments made to align accounting policies.

Our audit procedures included amongst others:

We analysed the assumptions and management's judgements applied in respect of the acquisitions of interests in JSC «Leader-Invest» and performed the following:

- inquiries of the Group's management and analysis of the supporting documentation to obtain understanding of the key details of transactions;
- critically assessing management's analysis in respect of the identification of these transactions as business combinations in accordance with the definition of IFRS 3 «Business Combinations»;
- challenging management's assumptions and judgements in respect of the purchase price allocation and the fair values of the net identifiable assets acquired;
- with the assistance of internal experts, analysing the valuation reports prepared by the independent appraiser and reconciling the fair value of assets acquired and liabilities assumed to those reports;
- analysing adjustments made to align the accounting policies of the acquired business with the accounting policies adopted by the Group;
- assessing whether the disclosure in the consolidated financial statements in respect of these acquisitions is in compliance with IFRS requirements.

All the above procedures were completed in a satisfactory manner.



### Independent Auditor's Report (continued)

#### To the Members of Etalon Group PLC

#### Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report and the Responsibility Statement of the Directors and Management of the Company, which are presented in pages 158 to 163, and the supplementary information included on page 232 presented for the purpose of additional analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

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

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

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

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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



### Independent Auditor's Report (continued)

#### To the Members of Etalon Group PLC

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



### Independent Auditor's Report (continued)

#### To the Members of Etalon Group PLC

#### Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

#### Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 19 December 2019 by an Extraordinary Meeting of shareholders.

#### Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 3 April 2020 in accordance with Article 11 of the EU Regulation 537/2014.

#### Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

#### Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.



### Independent Auditor's Report (continued)

To the Members of Etalon Group PLC

#### Other matter

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

The consolidated financial statements of Etalon Group PLC for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified audit opinion on those consolidated financial statements on 1 April 2019.

The engagement partner on the audit resulting in this independent auditors' report is Kerry Whyte.

Kerry Whyte  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Deloitte Limited**  
**Certified Public Accountants and Registered Auditors**

**Nicosia, 6 April 2020**

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

mIn RUB	NOTE	2019	2018 (RESTATED*)
Revenue from sale of real estate accounted for at historical cost		62,609	58,072
Revenue from sale of real estate acquired through business combinations and recognised at fair value at initial recognition		10,875	–
Other revenue		10,846	14,255
<b>REVENUE</b>	<b>6</b>	<b>84,330</b>	<b>72,327</b>
Cost of sales of real estate accounted for at historical cost		(44,150)	(42,013)
Cost of sales of real estate acquired through business combinations and recognised at fair value at initial recognition		(9,592)	–
Other cost of sales		(10,531)	(13,259)
<b>COST OF SALES</b>		<b>(64,273)</b>	<b>(55,272)</b>
Gross profit from sales of real estate accounted for at historical cost		18,459	16,059
Gross profit from sales of real estate acquired through business combinations and recognised at fair value at initial recognition		1,283	–
Gross profit from other sales		315	996
<b>GROSS PROFIT</b>		<b>20,057</b>	<b>17,055</b>
General and administrative expenses	7	(7,280)	(6,922)
Selling expenses		(4,822)	(3,318)
Impairment loss on trade and other receivables	26 (b)(iii)	(476)	(800)
Gain from bargain purchase	27	729	–
Other expenses, net	8	(1,724)	(2,811)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>6,484</b>	<b>3,204</b>
Finance income – interest revenue	11	2,872	2,101
Finance income – other	11	119	183
Finance costs	11	(7,704)	(5,065)
<b>NET FINANCE COSTS</b>		<b>(4,713)</b>	<b>(2,781)</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>1,771</b>	<b>423</b>
Income tax expense	12	(1,585)	(1,123)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>186</b>	<b>(700)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>186</b>	<b>(700)</b>

\* Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii).

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 178 to 231.

mIn RUB	NOTE	2019	2018 (RESTATE*)
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
Owners of the Company		795	(702)
Non-controlling interest		(609)	2
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>186</b>	<b>(700)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:</b>			
Owners of the Company		795	(702)
Non-controlling interest		(609)	2
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>186</b>	<b>(700)</b>
<b>EARNINGS/(LOSS) PER SHARE</b>			
<b>BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (RUB)</b>	<b>22</b>	<b>2.70</b>	<b>(2.41)</b>

\* Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii).  
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 178 to 231.

# Consolidated Statement Of Financial Position

As at 31 December 2019

mIn RUB	NOTE	31 DECEMBER 2019	31 DECEMBER 2018 (RESTATE*)	1 JANUARY 2018 (RESTATE*)
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	3,561	3,195	3,085
Investment property	14	1,065	306	333
Other long-term investments	15	190	758	702
Trade and other receivables	18	4,692	5,777	5,799
Deferred tax assets	16	3,921	2,806	2,250
<b>TOTAL NON-CURRENT ASSETS</b>		<b>13,429</b>	<b>12,842</b>	<b>12,169</b>
<b>CURRENT ASSETS</b>				
Inventories under construction and development	17	85,270	50,053	50,654
Inventories — finished goods	17	14,286	15,646	21,138
Other inventories	17	1,133	1,995	1,223
Advances paid to suppliers	18	9,750	7,727	10,664
Costs to obtain contracts		752	324	—
Contract assets	18	2,463	1,244	1,187
Trade receivables	18	7,444	7,971	13,332
Other receivables	18	5,486	3,466	4,717
Short-term investments	19	203	203	185
Cash and cash equivalents	20	31,128	23,066	14,125
<b>TOTAL CURRENT ASSETS</b>		<b>157,915</b>	<b>111,695</b>	<b>117,225</b>
<b>TOTAL ASSETS</b>		<b>171,344</b>	<b>124,537</b>	<b>129,394</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	21	2	2	2
Share premium	21	15,486	15,486	15,486
Reserve for own shares	21	(1)	(1)	(1,606)
Share options reserve	21	—	—	221
Retained earnings		37,089	39,802	44,302
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>52,576</b>	<b>55,289</b>	<b>58,405</b>
Non-controlling interest		—	2	—
<b>TOTAL EQUITY</b>		<b>52,576</b>	<b>55,291</b>	<b>58,405</b>

\* Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii).  
The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information is not restated, see note 2(e)(i).

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 178 to 231.

mIn RUB	NOTE	31 DECEMBER 2019	31 DECEMBER 2018 (RESTATED*)	1 JANUARY 2018 (RESTATED*)
<b>NON-CURRENT LIABILITIES</b>				
Loans and borrowings	23	42,258	17,559	21,418
Trade and other payables	25	3,227	1,777	2,546
Contract liabilities	25	—	218	—
Provisions	24	116	121	102
Deferred tax liabilities	16	6,463	1,599	1,922
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>52,064</b>	<b>21,274</b>	<b>25,988</b>
<b>CURRENT LIABILITIES</b>				
Loans and borrowings	23	10,434	3,353	2,569
Trade and other payables	25	19,142	16,727	14,920
Contract liabilities	25	36,439	26,931	25,649
Provisions	24	689	961	1,863
<b>TOTAL CURRENT LIABILITIES</b>		<b>66,704</b>	<b>47,972</b>	<b>45,001</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>171,344</b>	<b>124,537</b>	<b>129,394</b>

These Consolidated Financial Statements were approved by the Board of Directors on 6 April 2020 and were signed on its behalf by:

  
**CHARALAMPOS AVGOUSTI**  
 Director

  
**SERGEY EGOROV**  
 Director

\* Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii). The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information is not restated, see note 2(e)(i).

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 178 to 231.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

mIn RUB	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					NON-CONTROLLING INTEREST	TOTAL EQUITY	
	SHARE CAPITAL	SHARE PREMIUM	RESERVE FOR OWN SHARES	SHARE OPTIONS RESERVE	RETAINED EARNINGS			
<b>BALANCE AT 1 JANUARY 2018, AS PREVIOUSLY REPORTED *</b>	<b>2</b>	<b>15,486</b>	<b>(1,606)</b>	<b>221</b>	<b>48,390</b>	<b>62,493</b>	<b>—</b>	<b>62,493</b>
Adjusted balance at 1 January 2018	—	—	—	—	(4,088)	(4,088)	—	<b>(4,088)</b>
Adjusted balance at 1 January 2018	2	15,486	(1,606)	221	44,302	58,405	—	<b>58,405</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>								
Loss for the year	—	—	—	—	(702)	(702)	2	<b>(700)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(702)</b>	<b>(702)</b>	<b>2</b>	<b>(700)</b>
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>								
Dividends to equity holders	—	—	—	—	(3,260)	(3,260)	—	<b>(3,260)</b>
Equity-settled share-based payment	—	—	1,605	(221)	(538)	846	—	<b>846</b>
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>—</b>	<b>—</b>	<b>1,605</b>	<b>(221)</b>	<b>(3,798)</b>	<b>(2,414)</b>	<b>—</b>	<b>(2,414)</b>
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>2</b>	<b>15,486</b>	<b>(1)</b>	<b>—</b>	<b>39,802</b>	<b>55,289</b>	<b>2</b>	<b>55,291</b>

mIn RUB	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					NON-CONTROLLING INTEREST	TOTAL EQUITY	
	SHARE CAPITAL	SHARE PREMIUM	RESERVE FOR OWN SHARES	RETAINED EARNINGS	TOTAL			
<b>BALANCE AT 31 DECEMBER 2018, AS PREVIOUSLY REPORTED *</b>	<b>2</b>	<b>15,486</b>	<b>(1)</b>	<b>44,627</b>	<b>60,114</b>	<b>2</b>	<b>60,116</b>	
Impact of change in accounting policy, net of tax, note 2(e)(ii)	—	—	—	(4,825)	(4,825)	—	<b>(4,825)</b>	
Adjusted balance at 1 January 2019	2	15,486	(1)	39,802	55,289	2	<b>55,291</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>								
Profit for the year	—	—	—	795	795	(609)	<b>186</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>795</b>	<b>795</b>	<b>(609)</b>	<b>186</b>	
<b>TRANSACTIONS WITH OWNERS OF THE COMPANY</b>								
<b>CHANGES IN OWNERSHIP INTERESTS</b>								
Dividends to equity holders	—	—	—	(3,577)	(3,577)	—	<b>(3,577)</b>	
Dividends to non-controlling shareholders of JSC "Leader-Invest"	—	—	—	—	—	(13)	<b>(13)</b>	
Acquisition of subsidiary with NCI (note 27)	—	—	—	—	—	15,289	<b>15,289</b>	
Acquisition of NCI (note 21)	—	—	—	69	69	(14,669)	<b>(14,600)</b>	
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(3,508)</b>	<b>(3,508)</b>	<b>607</b>	<b>(2,901)</b>	
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>2</b>	<b>15,486</b>	<b>(1)</b>	<b>37,089</b>	<b>52,576</b>	<b>—</b>	<b>52,576</b>	

\* Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii). The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information is not restated, see note 2(e)(i).

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 178 to 231.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

mIn RUB	NOTE	2019	2018 (RESTATED)
<b>OPERATING ACTIVITIES:</b>			
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>186</b>	<b>(700)</b>
ADJUSTMENTS FOR:			
Depreciation	13, 14	542	365
(Gain)/loss on disposal of property, plant and equipment	8	(274)	8
(Gain) on disposal of investment property	8	(13)	–
Impairment loss on inventories	17	1,287	450
Impairment loss on trade and other receivables, advances paid to suppliers and investments	26 (b)(iii)	578	900
Equity-settled share-based payment transactions	10	–	846
Gain on disposal of subsidiary		(87)	–
Gain from bargain purchase	27	(729)	–
Finance costs, net	11	4,713	2,781
Income tax expense	12	1,585	1,123
<b>CASH FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS</b>		<b>7,788</b>	<b>5,773</b>
Change in inventories		12,506	3,582
Change in accounts receivable		544	9,036
Change in accounts payable		(11,214)	(65)
Change in provisions	24	(420)	(883)
Change in contract assets	18	(1,219)	(57)
Change in contract liabilities	25	9,290	1,500
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>17,275</b>	<b>18,886</b>
Income tax paid		(3,939)	(1,483)
Interest paid		(4,824)	(2,246)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>8,512</b>	<b>15,157</b>

mIn RUB	NOTE	2019	2018 (RESTATED)
<b>INVESTING ACTIVITIES:</b>			
Proceeds from disposal of property, plant and equipment		346	57
Proceeds from disposal of investment property		76	8
Interest received		2,167	1,125
Acquisition of property, plant and equipment		(496)	(550)
Loans given		48	(91)
Loans repaid		–	6
Acquisition of subsidiary, net of cash acquired		(10,481)	–
Proceeds from disposal of subsidiaries, net of cash disposed of		19	–
Acquisition of other investments	15, 19	(75)	(112)
Disposal of other investments	15, 19	1,359	153
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>		<b>(7,037)</b>	<b>596</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		30,332	4,707
Repayments of borrowings		(4,432)	(7,719)
Acquisition of non-controlling interest	21 (f)	(14,600)	–
Acquisition of own shares		–	(651)
Payments for lease liabilities, excluding interest	28	(939)	–
Dividends paid		(3,599)	(3,567)
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>6,762</b>	<b>(7,230)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>8,237</b>	<b>8,523</b>
Cash and cash equivalents at the beginning of the year		23,066	14,125
Effect of exchange rate fluctuations		(175)	418
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>20</b>	<b>31,128</b>	<b>23,066</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 1. Background

### A) ORGANISATION AND OPERATIONS

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

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

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

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

The Company's registered office is located at:

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

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

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

### B) BUSINESS ENVIRONMENT

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

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

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

## 2. Basis of preparation

### A) STATEMENT OF COMPLIANCE

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

This is the first set of the Group's consolidated financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in note 2(e).

### B) BASIS OF MEASUREMENT AND GOING CONCERN PRINCIPLE

The consolidated financial statements are prepared on the historical cost basis. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the developments discussed in Note 33.

### C) FUNCTIONAL AND PRESENTATION CURRENCY

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

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

### D) USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 6 — revenue: measurement of the progress towards complete satisfaction of the performance obligation, including estimation of the total costs to satisfy the performance obligation;
- Note 17 — inventories — impairment provisions: the discount rate and the years of turnover of parking places; recognition of obligations for the construction of social infrastructure: construction budgets and timing of construction;
- Note 26(b)(iii) — measurement of Expected Credit Loss (ECL) allowance for trade and other receivables and contract assets: probability of default and loss given default;
- Note 27 — acquisition of subsidiary: fair value of the assets acquired and liabilities assumed.

### E) CHANGES IN ACCOUNTING POLICIES

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

The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information is not restated, see note 2(e)(i).

Effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component, see note 2(e)(ii).

#### i) Adoption of IFRS 16

Effective from 1 January 2019, the Group has initially adopted IFRS 16 "Leases" that replaced IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated — i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

#### Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group didn't apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied the IFRS 16 definition of a lease to all its contracts.

### As a lessee

The Group recognised new right-of-use assets and lease liabilities primarily for its operating leases of land plots for development purposes.

The Group does not present right-of-use assets for land plots separately in the statement of financial position but includes such assets within inventories under construction and development. The depreciated part of right-of-use asset arising from lease of land plots is recognised within cost of sales on the same basis as the cost of acquisition of land plots, see note 3(h)(i).

The Group presents lease liabilities in “Trade and other payables” (note 25) in the statement of financial position.

### Significant accounting policies

In accordance with IFRS 16 variable payments which do not depend on an index or rate, i.e. do not reflect changes in market rental rates, should not be included in the calculation of lease liability. In respect of municipal (or federal) land leases where the lease payments are based on cadastral value of the land plot and do not change until the next potential revision of that value or payments (or both) by the authorities, the Group determined that these lease payments are not considered as either variable (that depend on an index or rate or reflect changes in market rental rates) or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

### Transition

Previously, the Group classified leases of land plots for development purposes as operating leases under IAS 17. The leases typically run for a period of construction of development projects.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments — the Group applied this approach to all leases of land plots.

### As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

### Impacts on financial statements

#### Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets, presented within Inventories under construction and development and Property, plant and equipment and additional lease liabilities — in equal amounts, and thus no difference is recognised in retained earnings and deferred taxes remain unaffected. The impact on transition is summarised below.

Right-of-use asset presented in inventories and property, plant and equipment (note 28)	1,921
Lease liabilities (note 28)	(1,921)

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted the remaining lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8.91%.

mIn RUB	1 JANUARY 2019
Operating lease commitment at 31 December 2018 as disclosed in the Group’s consolidated financial statements	3,004
Lease payments that are variable (but do not depend on an index or rate or reflect changes in market rental rates) and are not in-substance fixed	(558)
Short-term lease agreements at 31 December 2018	(98)
Discounted using the incremental borrowing rate at 1 January 2019	(427)
<b>LEASE LIABILITIES RECOGNISED AT 1 JANUARY 2019 (NOTE 28)</b>	<b>1,921</b>
<b>RIGHT OF USE ASSETS RECOGNISED AT 1 JANUARY 2019 (NOTE 28)</b>	<b>1,921</b>
Retained earnings impact at 1 January 2019	—

### Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognized RUB 2,480 million of right-of-use assets and RUB 2,038 million of lease liabilities as at 31 December 2019.

Also, in relation to those leases under IFRS 16, the Group recognized depreciation expense in the amount of RUB 491 million and interest expense in the amount of RUB 233 million (note 28).

### ii) Change in accounting policy with respect to capitalisation of borrowing costs and significant financing component

Following the requirements of par. 14(b) of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and in order to make cost of sales recognition more predictable and comparable on an ongoing basis and, as a result, provide more meaningful and

relevant information for the users, effective from 1 January 2019, the Group ceased capitalisation of borrowing costs into the cost of inventories under construction and development, revenue for which is recognized over time.

The change in accounting policy was driven by a change in significant judgment that the land cost, being the part of inventory (work-in-progress), is not a qualifying asset for capitalisation of borrowings costs as defined in IAS 23 Borrowing Costs.

The change in accounting policy was applied retrospectively, and the Group applied the new accounting policy from the beginning of the earliest prior period presented in these consolidated financial statements.

#### Impacts on financial statements

The following tables summarise the impacts of the change in accounting policy on the Group’s consolidated financial statements.

## Consolidated statement of profit or loss and other comprehensive income

mIn RUB YEAR ENDED 31 DECEMBER 2018	IMPACT OF CHANGE IN ACCOUNTING POLICY		
	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
Revenue	72,327	–	72,327
Cost of sales	(57,835)	2,563	(55,272)
<b>GROSS PROFIT</b>	<b>14,492</b>	<b>2,563</b>	<b>17,055</b>
General and administrative expenses	(6,922)	–	(6,922)
Selling expenses	(3,318)	–	(3,318)
Impairment loss on trade and other receivables	(800)	–	(800)
Other expenses, net	(2,376)	(435)	(2,811)
<b>RESULTS FROM OPERATING ACTIVITIES</b>	<b>1,076</b>	<b>2,128</b>	<b>3,204</b>
Finance income – interest revenue	2,101	–	2,101
Finance income – other	183	–	183
Finance costs	(2,015)	(3,050)	(5,065)
<b>NET FINANCE INCOME/(COSTS)</b>	<b>269</b>	<b>(3,050)</b>	<b>(2,781)</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>1,345</b>	<b>(922)</b>	<b>423</b>
Income tax expense	(1,308)	185	(1,123)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>37</b>	<b>(737)</b>	<b>(700)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>37</b>	<b>(737)</b>	<b>(700)</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings/(loss) per share (RUB)	0.12	(2.53)	(2.41)

## Consolidated statement of financial position

mIn RUB 31 DECEMBER 2018	IMPACT OF CHANGE IN ACCOUNTING POLICY		
	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
<b>NON-CURRENT ASSETS</b>			
Deferred tax assets	2,805	1	2,806
Other	10,036	–	10,036
<b>TOTAL NON-CURRENT ASSETS</b>	<b>12,841</b>	<b>1</b>	<b>12,842</b>
<b>CURRENT ASSETS</b>			
Inventories under construction and development	56,096	(6,043)	50,053
Inventories – finished goods	15,638	8	15,646
Other	45,996	–	45,996
<b>TOTAL CURRENT ASSETS</b>	<b>117,730</b>	<b>(6,035)</b>	<b>111,695</b>
<b>TOTAL ASSETS</b>	<b>130,571</b>	<b>(6,034)</b>	<b>124,537</b>
Retained earnings	44,627	(4,825)	39,802
Other	15,489	–	15,489
<b>TOTAL EQUITY</b>	<b>60,116</b>	<b>(4,825)</b>	<b>55,291</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>47,972</b>	<b>–</b>	<b>47,972</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	2,808	(1,209)	1,599
Other	19,675	–	19,675
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>22,483</b>	<b>(1,209)</b>	<b>21,274</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>130,571</b>	<b>(6,034)</b>	<b>124,537</b>

mIn RUB 1 JANUARY 2018	IMPACT OF CHANGE IN ACCOUNTING POLICY		
	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
<b>NON-CURRENT ASSETS</b>			
Deferred tax assets	2,250	–	2,250
Other	9,919	–	9,919
<b>TOTAL NON-CURRENT ASSETS</b>	<b>12,169</b>	<b>–</b>	<b>12,169</b>
<b>CURRENT ASSETS</b>			
Inventories under construction and development	55,441	(4,787)	50,654
Inventories – finished goods	21,458	(320)	21,138
Other	45,433	–	45,433
<b>TOTAL CURRENT ASSETS</b>	<b>122,332</b>	<b>(5,107)</b>	<b>117,225</b>
<b>TOTAL ASSETS</b>	<b>134,501</b>	<b>(5,107)</b>	<b>129,394</b>
Retained earnings	48,390	(4,088)	44,302
Other	14,103	–	14,103
<b>TOTAL EQUITY</b>	<b>62,493</b>	<b>(4,088)</b>	<b>58,405</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>45,001</b>	<b>–</b>	<b>45,001</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	2,941	(1,019)	1,922
Other	24,066	–	24,066
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>27,007</b>	<b>(1,019)</b>	<b>25,988</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>134,501</b>	<b>(5,107)</b>	<b>129,394</b>

## Consolidated statement of cash flows

mIn RUB YEAR ENDED 31 DECEMBER 2018	IMPACT OF CHANGE IN ACCOUNTING POLICY		
	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
<b>OPERATING ACTIVITIES:</b>			
Loss for the year	37	(737)	(700)
Finance costs, net	(269)	3,050	2,781
Impairment loss on inventories	512	(62)	450
Income tax expense	1,308	(185)	1,123
Other	2,119	–	2,119
<b>CASH FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS</b>	<b>3,707</b>	<b>2,066</b>	<b>5,773</b>
Change in inventories	5,648	(2,066)	3,582
Other	9,531	–	9,531
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>18,886</b>	<b>–</b>	<b>18,886</b>

The Group does not disclose the effect of change of accounting policy on the current period as it is impracticable to determine the amount of the adjustment.

### iii) New Standards and Interpretations

A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements. Various Improvements to IFRSs and other amendments have been dealt with on a standard-by-standard basis.

Effective 1 January 2019, IFRIC 23 Uncertainty over Income Tax Treatments clarified how to account for a tax liability or a tax asset when there is an uncertainty over income tax treatments by the taxation authorities. The tax amounts recorded in these consolidated financial statements are consistent with the tax returns of the Group's subsidiaries and therefore no uncertainty is reflected in measurement of current and deferred taxes, as the Group believes that it is probable that the taxation authorities will accept the treatment in tax returns. The Group will reassess its judgments and estimates whenever there is a change in facts and circumstances — e.g. examinations of taxation authorities, changes in tax legislation or expiration of rights to examine tax amounts.

### New and amended standards and interpretations issued but not yet effective

The following amendments to the standards and interpretations are effective for annual periods beginning on 1 January 2020. The Group has not yet analysed the likely impact of the new standards and interpretations on its financial position or performance.

- Amendments to IAS 1 and IAS 8 — Definition of Material;
- Amendments to IFRS 3 — Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 — Interest Rate Benchmark Reform;
- Amendments to IFRS 7 and IFRS 9 — Interest Rate Benchmark Reform;
- Amendments to references to Conceptual Framework for Financial Reporting;
- Amendments to IAS 1 — Classification of Liabilities as Current or Non-current.

## 3. Significant accounting policies

### A) BASIS OF CONSOLIDATION

#### (i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The identifiable assets acquired and the liabilities assumed, as well as the consideration transferred in the acquisition are measured at their acquisition-date fair values.

The Group recognises goodwill as of the acquisition date as acquisition-date fair value consideration transferred plus the amount of any non-controlling interest in the acquiree plus the acquisition-date fair value of the acquirer's previously held equity interest in the acquire (in a business combination achieved in stages) less the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs 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) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls another entity when it holds more than half of the voting rights of the other entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group's significant subsidiaries are disclosed in note 32.

#### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

### B) FOREIGN CURRENCY

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-mon-

etary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### C) FINANCIAL INSTRUMENTS

#### (i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### (ii) Classification and subsequent measurement

##### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

#### Financial assets — Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to 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 realising 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 affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 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 — assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

### Financial assets — Subsequent measurement and gains and losses

#### Financial assets at amortised cost

These assets are subsequently 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 recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

### Financial liabilities — Classification, subsequent measurement and gains and losses

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 recognised 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 recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the Central Bank of Russia (CBR). The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

### (iii) Modification of financial assets and financial liabilities

#### Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

#### Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified

terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

### (iv) Derecognition

#### Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it

transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the 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 it does not retain control of the financial asset.

### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### (v) 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 realise the asset and settle the liability simultaneously.

### (vi) Impairment

#### Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

For measuring of loss allowance for trade receivables and contract assets, the Group allocates those financial assets into the

following two categories based on shared credit risk characteristics that are determined by existence of a collateral:

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

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

For the second category of receivables and contract assets, the Group calculates ECL based on individual credit risk ratings of each debtor and the remaining terms to maturity. The Group determines the inputs for calculation of ECL such as probability of default and loss given default using both internal and external statistical data. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

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

### 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 reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

### Presentation of allowance for ECL in the statement of financial position

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

### 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 portion thereof. 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 of a financial asset. 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 due.

## D) ADVANCES PAID AND CONTRACT LIABILITIES

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

## E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and bank balances and call deposits with original maturities of three months or less. In accordance with IFRS 9, cash and cash equivalents are classified at amortised cost.

## F) PROPERTY, PLANT AND EQUIPMENT

### (i) Recognition and measurement

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

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

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

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

### (ii) Subsequent costs

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

### (iii) Depreciation

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2019.

## G) INVESTMENT PROPERTY

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

## H) INVENTORIES

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

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

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

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

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

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bring-

ing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity. Transfer from real estate properties under construction and development to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

## I) SHARE-BASED PAYMENT ARRANGEMENTS

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase of share options reserve in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. For share based-payment awards with vesting market conditions, which creates variability in the number of equity instruments that will be received by employees, the Group determines the grant-date fair value of the right to receive a variable number of equity instruments reflecting the probability of different outcomes.

## J) REVENUE

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

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

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

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

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

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

For each performance obligation satisfied over time (promise to transfer an apartment specified in the contract with a customer in a multicompartment building under construction), the Group recognises revenue over time by measuring the progress towards satisfaction of that performance obligation using the input method.

The Group applies the input method because it believes that there is a direct relationship between the Group's inputs and the transfer of control of goods or services to a customer. The measurement of the value to the customer of the goods or services

transferred to date, applied under the output method, is not available for the Group without undue cost. The Group excludes from the input method the effects of any inputs that do not contribute to the Group's progress in satisfying the performance obligation.

Under the input method, revenue is recognised on the basis of costs incurred relative to the total expected costs to the satisfaction of that performance obligation that is the proportion of costs incurred to date to construct a multicompartment building to the total costs to construct the building in accordance with a business plan.

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

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

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

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

### Costs to obtain contracts

The Group recognises as an asset the incremental costs of obtaining a contract with a customer. These costs usually include sales commissions and insurance payments for share participation agreements. Such assets are amortised on the basis of the progress towards complete satisfaction of respective performance obligations and are included into selling expenses.

### (ii) Revenue from construction services

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

- 1) Contracts for provision of construction services;
- 2) Contracts for construction of an asset.

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

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

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

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

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

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

### (iii) Revenue from sale of construction materials

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



## K) INCOME TAX

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

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

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

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

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

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

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

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

## 4. Determination of fair values

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

### A) NON-DERIVATIVE FINANCIAL ASSETS

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

### B) NON-DERIVATIVE FINANCIAL LIABILITIES

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

Further information about the assumptions made in measuring fair values in course of business combinations is included in the note 27 — Acquisition of subsidiary.

## 5. Operating segments

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

- Residential development. Includes construction of residential real estate including flats, built-in premises and parking places.
- Construction services. Includes construction services for third parties and for internal purpose.
- Other operations. Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises.

None of these meets any of the quantitative thresholds for determining reportable segments during the year ended 31 December 2019 or 2018.

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

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

As described in note 2(e)(ii), effective from 1 January 2019, the Group changed its accounting policy with respect to capitalisation of borrowing costs and significant financing component. The management accounting policies have been changed accordingly. Therefore, comparative periods for reportable segments have also been restated.

### A) INFORMATION ABOUT REPORTABLE SEGMENTS

mIn RUB	RESIDENTIAL DEVELOPMENT		CONSTRUCTION SERVICES		OTHER		TOTAL	
	2019	2018 (RESTATED)	2019	2018	2019	2018	2019	2018 (RESTATED)
External revenues	73,484	58,072	5,611	8,312	5,235	5,943	84,330	72,327
Inter-segment revenue	—	—	15,187	14,964	626	629	15,813	15,593
<b>TOTAL SEGMENT REVENUE</b>	<b>73,484</b>	<b>58,072</b>	<b>20,798</b>	<b>23,276</b>	<b>5,861</b>	<b>6,572</b>	<b>100,143</b>	<b>87,920</b>
<b>GROSS PROFIT</b>	<b>19,742</b>	<b>16,059</b>	<b>110</b>	<b>393</b>	<b>205</b>	<b>603</b>	<b>20,057</b>	<b>17,055</b>
Gross profit, %	27%	28%						

mIn RUB	RESIDENTIAL DEVELOPMENT		CONSTRUCTION SERVICES		OTHER		TOTAL	
	31 December 2019	31 December 2018 (RESTATED)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018 (RESTATED)
Reportable segment assets: inventories	99,556	64,228	2	1,541	1,131	1,925	100,689	67,694
<b>TOTAL LIABILITIES FOR REPORTABLE SEGMENTS: CONTRACT LIABILITIES</b>	<b>32,798</b>	<b>26,716</b>	<b>525</b>	<b>83</b>	<b>3,116</b>	<b>350</b>	<b>36,439</b>	<b>27,149</b>

### B) GEOGRAPHICAL INFORMATION

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

mIn RUB	REVENUES			NON-CURRENT ASSETS	
	2019	2018	31 December 2019	31 December 2018	1 January 2018
St. Petersburg metropolitan area	40,640	40,502	3,190	3,027	2,968
Moscow metropolitan area	43,690	31,825	1,436	474	450
	<b>84,330</b>	<b>72,327</b>	<b>4,626</b>	<b>3,501</b>	<b>3,418</b>

### C) RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES AND OTHER MATERIAL ITEMS

mIn RUB	2019	2018 (RESTATED)
<b>REVENUES</b>		
Total revenue for reportable segments	100,143	87,920
Elimination of inter-segment revenue	(15,813)	(15,593)
<b>CONSOLIDATED REVENUE</b>	<b>84,330</b>	<b>72,327</b>
<b>PROFIT OR LOSS</b>		
Gross profit for reportable segments	20,057	17,055
General and administrative expenses	(7,280)	(6,922)
Selling expenses	(4,822)	(3,318)
Impairment loss on trade and other receivables	(476)	(800)
Gain from bargain purchase	729	—
Other expenses, net	(1,724)	(2,811)
Finance income and interest revenue	2,991	2,284
Finance costs	(7,704)	(5,065)
<b>CONSOLIDATED PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>1,771</b>	<b>423</b>

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018 (RESTATED)
<b>ASSETS</b>		
Total assets for reportable segments: inventories	100,689	67,694
<b>TOTAL INVENTORIES</b>	<b>100,689</b>	<b>67,694</b>
<b>LIABILITIES</b>		
Total liabilities for reportable segments: contract liabilities	36,439	27,149
<b>TOTAL CONTRACT LIABILITIES</b>	<b>36,439</b>	<b>27,149</b>

## 6. Revenue

mIn RUB	2019	2018 (RESTATED)
Sale of flats — transferred at a point in time	14,032	26,187
Sale of flats — transferred over time	48,524	27,327
Sale of built-in commercial premises — transferred at a point in time	3,033	1,650
Sale of built-in commercial premises — transferred over time	2,833	1,519
Sale of parking places — transferred at a point in time	3,521	1,025
Sale of parking places — transferred over time	1,541	364
<b>TOTAL REVENUE — SEGMENT RESIDENTIAL DEVELOPMENT (NOTE 5 (A))</b>	<b>73,484</b>	<b>58,072</b>
Long term construction contracts — transferred over time	4,922	7,459
Short term construction services — transferred over time	689	853
<b>TOTAL REVENUE OF SEGMENT CONSTRUCTION SERVICES (NOTE 5 (A))</b>	<b>5,611</b>	<b>8,312</b>
Sale of construction materials — transferred at a point in time	2,675	3,601
Sale of stand-alone commercial premises — transferred at a point in time	—	42
Other revenue — transferred at a point in time	1,695	1,677
<b>TOTAL OTHER REVENUE (NOTE 5 (A))</b>	<b>4,370</b>	<b>5,320</b>
<b>TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS</b>	<b>83,465</b>	<b>71,704</b>
Rental revenue (note 5 (a))	865	623
<b>TOTAL REVENUES</b>	<b>84,330</b>	<b>72,327</b>

### CONTRACT BALANCES

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

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Trade receivables	12,073	13,515	19,291
Contract assets	2,463	1,244	1,187
Contract liabilities	(36,439)	(27,149)	(25,649)

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

Payment terms for contracts on the sale of flats and built-in commercial premises under share participation agreements usually include advance payments, payments in installments until

the date of completion of construction and for specific projects — payment in arrears of 2 to 5 years after the date of completion of construction.

Contract liabilities relate to advance consideration received from customers.

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

mIn RUB	2019		2018	
	CONTRACT ASSETS	CONTRACT LIABILITIES	CONTRACT ASSETS	CONTRACT LIABILITIES
<b>BALANCE AT 1 JANUARY</b>	<b>1,244</b>	<b>(27,149)</b>	<b>1,187</b>	<b>(25,649)</b>
Revenue recognised in the reporting year that was included in the contract liability balance at the beginning of the year	–	28,984	–	20,780
Increases due to cash received, excluding amounts recognized as revenue during the year	–	(31,209)	–	(22,280)
Acquisition through business combination	134	(7,065)	–	–
Transfers from contract assets recognized at the beginning of the year to receivables	(1,037)	–	(1,154)	–
Increase as a result of changes in the measure of progress	2,122	–	1,211	–
<b>BALANCE AT 31 DECEMBER</b>	<b>2,463</b>	<b>(36,439)</b>	<b>1,244</b>	<b>(27,149)</b>
<b>CHANGE DURING THE YEAR</b>	<b>1,219</b>	<b>(9,290)</b>	<b>57</b>	<b>(1,500)</b>

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

mIn RUB 31 December 2019	2020	2021	2022	2023	TOTAL
Residential development	23,294	5,434	869	98	29,695
Construction services	2,313	–	–	–	2,313
<b>TOTAL</b>	<b>25,607</b>	<b>5,434</b>	<b>869</b>	<b>98</b>	<b>32,008</b>

mIn RUB 31 December 2018	2019	2020	2021	2022	TOTAL
Residential development	18,683	9,484	1,439	169	29,775
Construction services	6,523	785	9	–	7,317
<b>TOTAL</b>	<b>25,206</b>	<b>10,269</b>	<b>1,448</b>	<b>169</b>	<b>37,092</b>

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

## 7. General and administrative expenses

mIn RUB	2019	2018
Payroll and related taxes	4,825	4,446
Other taxes	521	160
Services	460	468
Audit and consulting services	429	217
Depreciation	218	85
Bank fees and commissions	156	173
Repair and maintenance	102	75
Materials	73	96
Other	496	356
Equity-settled share based payments (note 10)	–	846
<b>TOTAL</b>	<b>7,280</b>	<b>6,922</b>

Remuneration of the statutory audit firm for the year ended 31 December 2019 amounted to RUB 5.9 million for audit services (2018: RUB 9.1 million) and RUB 3 million for other assurance services (2018: RUB 2.1 million). Remuneration of other members

of the statutory auditors' network for the year ended 31 December 2019 amounted to RUB 4.7 million for audit services (2018: RUB 9.6 million) and RUB 7.9 million for non-audit services (2018: RUB 5.1 million).

## 8. Other (expenses)/income, net

mIn RUB	2019	2018 (RESTATEd)
<b>OTHER INCOME</b>		
Gain on disposal of property, plant and equipment	274	–
Gain on disposal of investment property	13	–
Gain on disposal of subsidiary	87	–
Other income	74	186
Fees and penalties received	153	268
	<b>601</b>	<b>454</b>
<b>OTHER EXPENSES</b>		
Impairment loss on inventories (note 17)	(1,287)	(450)
Cost of social infrastructure for completed projects	(125)	(1,594)
Other taxes	(493)	(496)
Fees and penalties incurred	(231)	(42)
Charity	(29)	(410)
Other expenses	(160)	(261)
Loss on disposal of property, plant and equipment	–	(8)
Loss on disposal of inventories	–	(4)
	<b>(2,325)</b>	<b>(3,265)</b>
<b>OTHER EXPENSES, NET</b>	<b>(1,724)</b>	<b>(2,811)</b>

## 9. Personnel costs

mIn RUB	2019	2018
Wages and salaries	8,030	7,299
Contributions to the State pension fund	1,729	1,547
Equity-settled share based payments (note 10)	—	846
	<b>9,759</b>	<b>9,692</b>

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

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

During the year ended 31 December 2019 personnel costs and related taxes included in cost of production amounted to RUB 4,032 million (year ended 31 December 2018: RUB 3,749 million). The remaining part of personnel expenses was subsumed within general and administrative expenses and selling expenses in the total amount of RUB 5,727 million (year ended 31 December 2018: RUB 5,943 million).

The average number of staff employed by the Group during the year ended 31 December 2019 was 4,821 employees (year ended 31 December 2018: 4,803 employees).

## 10. Share-based payment arrangements

### SHARE OPTION PROGRAMME (EQUITY-SETTLED)

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

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

The following key assumptions were used by the appraiser:

- Monthly volatility — 7.6%;
- Annual yield rate — 2.3%;
- Risk-free interest rate (USD) — 2.3% per annum.

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

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

- Volatility — 14.88%;
- Annual yield rate — (2.2)%;
- Discount rate — 2.56%;
- Risk-free interest rate (USD) — 2.56% per annum;
- Dividend yield — 4.76%.

Expected volatility was determined based on historical monthly volatility of the Company's GDRs for the period from 14 April 2011 to 8 June 2018. Dividend yield — as average actual dividend yield of Company's shares for the period 2014–2017.

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

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

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

Following the replacement share based payment dated 8 June 2018, the Group has no share-based payment arrangements in place.

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

- Dividend yield — 4.76%;
- Risk-free rate — 2.95% (yield to maturity of US Treasury bonds with a 10-year maturity);
- Volatility — 50.79%;
- Actual and strike price — 2,78 USD;
- Validity period of the sales restriction — 7 years.

Expected volatility was determined based on historical annual volatility of the Company's GDRs for the period from 14 April 2011 to 8 June 2018. Dividend yield — as average actual dividend yield of Company's shares for the period 2014–2017.

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

- Volatility — 14.66%;
- Annual yield rate — (1.98)%;
- Discount rate — 2.78%;
- Risk-free interest rate (USD) — 2.78% per annum;
- Dividend yield — 4.76%.

Expected volatility was determined based on historical monthly volatility of the Company's GDRs for the period from 14 April 2011 to 8 June 2018. Dividend yield — as average actual dividend yield of Company's shares for the period 2014–2017.

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

## 11. Finance income and finance costs

mIn RUB	2019	2018 (RESTATED)
<b>RECOGNISED IN PROFIT OR LOSS</b>		
<b>FINANCE INCOME</b>		
Interest income under the effective interest method on:		
– Cash and cash equivalents (except bank deposits)	1,431	672
– Unwinding of discount on trade receivables	705	976
– Bank deposits – at amortised cost	736	453
<b>TOTAL INTEREST INCOME ARISING FROM FINANCIAL ASSETS MEASURED AT AMORTISED COST</b>	<b>2,872</b>	<b>2,101</b>
Gain on write-off of accounts payable	111	101
Reversal of impairment loss on investments	8	18
Net foreign exchange gain	–	64
<b>FINANCE INCOME – OTHER</b>	<b>119</b>	<b>183</b>
<b>FINANCE COSTS</b>		
Financial liabilities measured at amortised cost:		
– Interest expenses- financing component under IFRS 15	(2,619)	(2,859)
– Interest expenses – borrowing costs	(4,387)	(2,074)
– Interest expense on leases	(233)	–
– Unwinding of discount on other payables	(171)	–
Net foreign exchange loss	(172)	–
Impairment loss on advances paid to suppliers	(102)	(118)
Other finance costs	(20)	(14)
<b>FINANCE COSTS</b>	<b>(7,704)</b>	<b>(5,065)</b>
<b>NET FINANCE COSTS RECOGNISED IN PROFIT OR LOSS</b>	<b>(4,713)</b>	<b>(2,781)</b>

In addition to interest expense recognised in the consolidated statement of profit or loss and other comprehensive income, the following amounts of borrowing costs and significant financing

component have been capitalised into the cost of real estate properties under construction and development (revenue for which is not recognised over time):

mIn RUB	2019	2018
Borrowing costs and significant financing component capitalised during the year	397	628
Weighted average capitalisation rate	14.86%	12.96%

During the year ended 31 December 2019, borrowing costs and significant financing component that have been capitalised into the cost of real estate properties under construction and development (revenue for which was not recognised over time) in the amount of RUB 1,164 million (year ended 31 December 2018: RUB 1,399 million, as restated), were included into the cost of

sales upon construction and sale of those properties – including borrowing costs in the amount of RUB 808 million (year ended 31 December 2018: RUB 769 million, as restated) and significant financing component in the amount of RUB 356 million (year ended 31 December 2018: RUB 630 million, as restated).

## 12. Income tax expense/(benefit)

The Company's applicable tax rate under the Cyprus Income Tax Law is 12.5%. The Cypriot subsidiaries' applicable tax rate is

12.5%. For the Russian companies of the Group the applicable income tax rate is 20% (year ended 31 December 2018: 20%).

mIn RUB	2019	2018 (RESTATED)
<b>CURRENT TAX EXPENSE</b>		
Current year	3,390	2,310
Under-provided/(over-provided) in prior year	9	(308)
	<b>3,399</b>	<b>2,002</b>
<b>DEFERRED TAX EXPENSE</b>		
Origination and reversal of temporary differences	(1,814)	(879)
<b>INCOME TAX EXPENSE</b>	<b>1,585</b>	<b>1,123</b>

### RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF ACCOUNTING PROFIT MULTIPLIED BY THE APPLICABLE TAX RATE 20%:

mIn RUB	2019	2018 (RESTATED)
Profit before income tax	1,771	423
Theoretical income tax at statutory rate of 20%	354	85
ADJUSTMENTS DUE TO:		
Under-provided/(over-provided) in prior year	9	(308)
Effect of 16.5% tax rate*	–	101
Expenses not deductible and income not taxable for tax purposes, net	1,222	1,245
<b>INCOME TAX EXPENSE</b>	<b>1,585</b>	<b>1,123</b>

\* During the year ended 31 December 2018, the operations of JSC "Etalon LenSpetsSMU" were taxable at a rate of 16.5% due to applied tax concession. Effective from 1 January 2019, the income tax rate of JSC "Etalon LenSpetsSMU" increased to 20%.

## 13. Property, plant and equipment

During the year ended 31 December 2019, depreciation expense of RUB 281 million (year ended 31 December 2018: RUB 250 million) has been charged to cost of sales, RUB 16 million (year ended 31 December 2018: RUB 29 million) to cost of real estate proper-

ties under construction and development, RUB 12 million to other expenses, net (year ended 31 December 2018: RUB 11 million) and RUB 218 million (year ended 31 December 2018: RUB 85 million) to general and administrative expenses.

mIn RUB	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	VEHICLES	OTHER	LAND	CONSTRUCTION IN PROGRESS	TOTAL
<b>COST</b>							
Balance at 1 January 2018	1,176	2,509	139	217	117	1,182	<b>5,340</b>
Additions	264	95	17	71	4	99	<b>550</b>
Disposals	(166)	(67)	(23)	(19)	—	—	<b>(275)</b>
Transfers	1,070	—	—	1	—	(1,071)	<b>—</b>
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>2,344</b>	<b>2,537</b>	<b>133</b>	<b>270</b>	<b>121</b>	<b>210</b>	<b>5,615</b>
Balance at 1 January 2019	2,344	2,537	133	270	121	210	<b>5,615</b>
Additions	319	66	27	64	—	154	<b>630</b>
Acquisition through business combination	372	6	—	20	—	5	<b>403</b>
Disposals	(188)	(130)	(42)	(39)	(1)	(2)	<b>(402)</b>
Transfers	81	3	—	14	—	(98)	<b>—</b>
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>2,928</b>	<b>2,482</b>	<b>118</b>	<b>329</b>	<b>120</b>	<b>269</b>	<b>6,246</b>
<b>DEPRECIATION AND IMPAIRMENT LOSSES</b>							
Balance at 1 January 2018	(338)	(1,695)	(89)	(133)	—	—	<b>(2,255)</b>
Depreciation for the year	(165)	(152)	(17)	(41)	—	—	<b>(375)</b>
Disposals	125	59	15	11	—	—	<b>210</b>
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>(378)</b>	<b>(1,788)</b>	<b>(91)</b>	<b>(163)</b>	<b>—</b>	<b>—</b>	<b>(2,420)</b>
Balance at 1 January 2019	(378)	(1,788)	(91)	(163)	—	—	<b>(2,420)</b>
Depreciation for the year	(287)	(159)	(18)	(61)	—	—	<b>(525)</b>
Disposals	105	94	36	25	—	—	<b>260</b>
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>(560)</b>	<b>(1,853)</b>	<b>(73)</b>	<b>(199)</b>	<b>—</b>	<b>—</b>	<b>(2,685)</b>
<b>CARRYING AMOUNTS</b>							
Balance at 1 January 2018	838	814	50	84	117	1,182	<b>3,085</b>
Balance at 31 December 2018	1,966	749	42	107	121	210	<b>3,195</b>
Balance at 1 January 2019	1,966	749	42	107	121	210	<b>3,195</b>
Balance at 31 December 2019	2,368	629	45	130	120	269	<b>3,561</b>

## 14. Investment property

mIn RUB	2019	2018
<b>COST</b>		
Balance at 1 January	587	596
Acquisition through business combination	838	—
Additions	15	—
Disposals	(65)	(9)
<b>BALANCE AT 31 DECEMBER</b>	<b>1,375</b>	<b>587</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>		
Balance at 1 January	(281)	(263)
Depreciation for the year	(31)	(19)
Disposals	2	1
<b>BALANCE AT 31 DECEMBER</b>	<b>(310)</b>	<b>(281)</b>
Carrying amount at 1 January	306	333
<b>CARRYING AMOUNT AT 31 DECEMBER</b>	<b>1,065</b>	<b>306</b>

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

As at 31 December 2019, the fair value of investment property amounted to RUB 1,289 million (31 December 2018: RUB 463 million, 1 January 2018: RUB 458 million), which was determined

based on discounted cash flows from the use of the property. Fair value estimate represents level 3 of the fair value hierarchy. The Group did not identify any indicators of impairment as at 31 December 2019, 31 December 2018 and 31 December 2017, and did not recognise any impairment losses for investment property during the year ended 31 December 2019 and 2018.

## 15. Other long-term investments

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Bank promissory notes — at amortised cost	96	654	652
Loans — at amortised cost	106	101	87
Bank deposits — at amortised cost	—	23	—
	<b>202</b>	<b>778</b>	<b>739</b>
Loss allowance for loans given	(11)	(13)	(37)
Loss allowance for promissory notes	(1)	(7)	—
	<b>190</b>	<b>758</b>	<b>702</b>

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26. As at 31 December 2018 and 1 January 2018, bank promissory notes in the

amount of RUB 451 million were pledged as security of secured bank loans, see note 23.

## 16. Deferred tax assets and liabilities

### (A) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

mIn RUB	ASSETS			LIABILITIES			NET		
	31 DECEMBER	1 JANUARY	31 DECEMBER	1 JANUARY	31 DECEMBER	1 JANUARY	31 DECEMBER	1 JANUARY	
	2019	2018	2019	2018	2019	2018	2019	2018	
Property, plant and equipment	288	236	318	(1,051)	(928)	(738)	(763)	(692)	(420)
Investments	26	14	273	(73)	(42)	(23)	(47)	(28)	250
Inventories	6,541	4,368	3,775	(5,179)	(459)	28	1,362	3,909	3,803
Contract assets and trade and other receivables	698	126	568	(3,605)	(5,041)	(4,842)	(2,907)	(4,915)	(4,274)
Deferred expenses	483	384	239	(729)	(714)	(555)	(246)	(330)	(316)
Loans and borrowings	53	34	185	(29)	(14)	(29)	24	20	156
Provisions	614	394	100	(37)	(32)	44	577	362	144
Contract liabilities and trade and other payables	1,483	3,040	2,032	(2,706)	(142)	(1,166)	(1,223)	2,898	866
Tax loss carry-forwards	845	74	150	(1)	(1)	(1)	844	73	149
Other	78	76	73	(241)	(166)	(103)	(163)	(90)	(30)
<b>TAX ASSETS/ (LIABILITIES)</b>	<b>11,109</b>	<b>8,746</b>	<b>7,713</b>	<b>(13,651)</b>	<b>(7,539)</b>	<b>(7,385)</b>	<b>(2,542)</b>	<b>1,207</b>	<b>328</b>
Set off of tax	(7,188)	(5,940)	(5,463)	7,188	5,940	5,463	—	—	—
<b>NET TAX ASSETS/ (LIABILITIES)</b>	<b>3,921</b>	<b>2,806</b>	<b>2,250</b>	<b>(6,463)</b>	<b>(1,599)</b>	<b>(1,922)</b>	<b>(2,542)</b>	<b>1,207</b>	<b>328</b>

### (B) UNRECOGNISED DEFERRED TAX LIABILITY

At 31 December 2019 a deferred tax liability arising on temporary differences of RUB 66,132 million (31 December 2018: RUB 53,401 million, 1 January 2018: RUB 47,494 million) related to invest-

ments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

### (C) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE PERIOD

mIn RUB	1 JANUARY 2019 (RESTATED)	RECOGNISED IN PROFIT OR LOSS	ACQUISITION THROUGH BUSINESS COMBINATION	31 DECEMBER 2019
Property, plant and equipment	(692)	16	(87)	(763)
Investments	(28)	(2)	(17)	(47)
Inventories	3,909	2,623	(5,170)	1,362
Contract assets and trade and other receivables	(4,915)	1,837	171	(2,907)
Deferred expenses	(330)	84	—	(246)
Loans and borrowings	20	7	(3)	24
Provisions	362	109	106	577
Contract liabilities and trade and other payables	2,898	(3,023)	(1,098)	(1,223)
Tax loss carry-forwards	73	236	535	844
Other	(90)	(73)	—	(163)
	<b>1,207</b>	<b>1,814</b>	<b>(5,563)</b>	<b>(2,542)</b>

mIn RUB	1 JANUARY 2018 (RESTATED)	RECOGNISED IN PROFIT OR LOSS	31 DECEMBER 2018 (RESTATED)
Property, plant and equipment	(420)	(272)	(692)
Investments	250	(278)	(28)
Inventories	3,803	106	3,909
Contract assets and trade and other receivables	(4,274)	(641)	(4,915)
Deferred expenses	(316)	(14)	(330)
Loans and borrowings	156	(136)	20
Provisions	144	218	362
Contract liabilities and trade and other payables	866	2,032	2,898
Tax loss carry-forwards	149	(76)	73
Other	(30)	(60)	(90)
	<b>328</b>	<b>879</b>	<b>1,207</b>

## 17. Inventories

mln RUB	31 DECEMBER 2019	31 DECEMBER 2018 (RESTATED)	1 JANUARY 2018 (RESTATED)
<b>INVENTORIES UNDER CONSTRUCTION AND DEVELOPMENT</b>			
Own flats under construction and development	70,831	38,388	39,231
Built-in commercial premises under construction and development	8,406	4,229	5,474
Parking places under construction and development	8,394	9,488	7,650
	<b>87,631</b>	<b>52,105</b>	<b>52,355</b>
Less: Allowance for inventories under construction and development	(2,361)	(2,052)	(1,701)
<b>TOTAL INVENTORIES UNDER CONSTRUCTION AND DEVELOPMENT</b>	<b>85,270</b>	<b>50,053</b>	<b>50,654</b>
<b>INVENTORIES – FINISHED GOODS</b>			
Own flats	7,157	8,980	14,645
Built-in and stand-alone commercial premises	3,100	4,543	3,675
Parking places	5,495	2,618	3,233
	<b>15,752</b>	<b>16,141</b>	<b>21,553</b>
Less: Allowance for inventories – finished goods	(1,466)	(495)	(415)
<b>TOTAL INVENTORIES – FINISHED GOODS</b>	<b>14,286</b>	<b>15,646</b>	<b>21,138</b>
<b>OTHER INVENTORIES</b>			
Construction materials	939	1,692	879
Other	223	325	347
	<b>1,162</b>	<b>2,017</b>	<b>1,226</b>
Less: Allowance for other inventories	(29)	(22)	(3)
<b>TOTAL OTHER INVENTORIES</b>	<b>1,133</b>	<b>1,995</b>	<b>1,223</b>
<b>TOTAL</b>	<b>100,689</b>	<b>67,694</b>	<b>73,015</b>

### A) BARTER TRANSACTIONS

During 2013–2019, the Group entered into several transactions for the acquisition of investment rights for land plots in five construction projects, where certain parts of the acquisition price had to be paid by means of transfer of specified premises constructed on these land plots. The Group included the land component of these construction projects into inventories at fair value of the investment rights acquired, while the respective liabilities to the sellers of land plots (landlords) were recognised within contract liabilities. Such liabilities will be settled against revenue recognised from transfer of specified premises to these landlords.

The fair values of land plots were determined by independent appraisers based on discounted cash flows from the construction and sale of properties. The details of transactions are specified below.

#### Project 1, years ended 31 December 2013-2016

The fair value of the investments rights acquired equal to RUB 1,862 million (land plot acquired in 2013), RUB 3,835 million (land plot acquired in 2014), RUB 3,105 million (land plot acquired in 2015), RUB 222 million (land plot acquired in 2016).

The following key assumptions were used by the appraiser:

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

#### Project 2, year ended 31 December 2015

The fair value of the investments rights acquired equal to RUB 4,522 million.

The following key assumptions were used by the appraiser:

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

#### Project 3, year ended 31 December 2017

The fair value of the investments rights acquired equal to RUB 4,395 million.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates — within 2.5%–4% per annum;
- Discount rates — 13% per annum.

#### Project 4, year ended 31 December 2017

The fair value of the investments rights acquired equal to RUB 1,800 million.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates — within 2.5%–4% per annum;
- Discount rates — 13% per annum.

#### Project 5, year ended 31 December 2019

The Group entered into a transaction for the acquisition of investment rights for two land plots where part of the acquisition price is to be paid by means of transfer of certain premises that were in the course of construction on the previously acquired land plots.

The fair value of the investments rights acquired equal to RUB 1,193 million was determined based on discounted cash flows from the construction and sale of properties in previously acquired land plots.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates — within 0.9%–1% per annum;
- Discount rates — 12.78% per annum.

Accordingly, at 31 December 2019, the cost of land plots (Project 1) measured as described above and related to sold premises, was recognised in cost of sales during 2013–2019 in the amount of RUB 8,497 million, while the remaining balance of RUB 276 million is included into finished goods and RUB 250 million — into inventories under construction and development.

At 31 December 2019, the cost of land plots (Project 2) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2019 in the amount of RUB 3,022 million, while the remaining balance of RUB 65 million is included in finished goods and RUB 1,435 million in inventories under construction and development.

At 31 December 2019, the cost of land plots (Project 3) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2019 in the amount of RUB 3,569 million, while the remaining balance of RUB 21 million is included in finished goods and RUB 805 million in inventories under construction and development.

At 31 December 2019, the cost of land plots (Project 4) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the year ended 31 December 2019 in the amount of RUB 1,369 million, while the remaining balance of RUB 431 million is included in inventories under construction and development.

At 31 December 2019, the cost of land plots (Project 5) measured as described above and related to premises sold under share participation agreements, was recognised in cost of sales during the year ended 31 December 2019 in the amount of RUB 1 million, while the remaining balance of RUB 1,192 million is included in inventories under construction and development.

In the course of implementation of several development projects the Group has to construct and transfer certain social infrastructure to City Authorities. As at 31 December 2019, the cost of such social infrastructure amounts to RUB 1,219 million and is included into the balance of finished goods and inventories under construction and development (31 December 2018: RUB 1,360 million, 1 January 2018: RUB 1,570 million). These costs are recoverable as part of projects they relate to. The cost of social infrastructure is recognised in cost of sales consistently with the transfer to the customers of the apartments to which this social infrastructure relates.



## B) ALLOWANCE FOR IMPAIRMENT OF INVENTORIES

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

mln RUB	2019	2018 (RESTATED)
Balance at 1 January	2,569	2,119
Impairment loss on inventories (note 8)	1,287	450
<b>BALANCE AT 31 DECEMBER</b>	<b>3,856</b>	<b>2,569</b>

As at 31 December 2019, the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 3,856 million (31 December 2018: RUB 2,569 million, as restated, 1 January 2018: RUB 2,119 million, as restated) and the respective allowance was recognised in other expenses, see note 8. As at 31 December 2019, the allowance of RUB 3,414 million relates to parking places (31 December 2018: RUB 2,547 million, as restated, 1 January 2018: RUB 2,116 million, as restated).

The balance of parking places is equal to RUB 13,889 million as at 31 December 2019 (31 December 2018: RUB 12,106 million,

as restated, 1 January 2018: RUB 14,010 million, as restated). An impairment allowance was made based on the following key assumptions:

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;
- Discount rates — 12.37% per annum;
- Inflation rates — 4.46–4.72% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogous.

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

The following table demonstrates changes in key inputs and sensitivity of measurement of allowance for impairment:

mln RUB	31 DECEMBER 2019		
	CHANGE OF PARAMETER	IMPACT ON ALLOWANCE FOR IMPAIRMENT	IN MONETARY TERMS (MLN RUB)
Growth of discount rate	2%	5%	159
Growth of inflation rates	2%	-6%	(199)
Reduction of turnover of finished goods	1	4%	121
Reduction of revenue from uncontracted parking places	2%	3%	101

mln RUB	31 DECEMBER 2018		
	CHANGE OF PARAMETER	IMPACT ON ALLOWANCE FOR IMPAIRMENT	IN MONETARY TERMS (MLN RUB)
Growth of discount rate	1%	5%	117
Growth of inflation rates	1%	-5%	(137)
Reduction of turnover of finished goods	1	3%	74
Reduction of revenue from uncontracted parking places	1%	2%	45

mln RUB	1 JANUARY 2018		
	CHANGE OF PARAMETER	IMPACT ON ALLOWANCE FOR IMPAIRMENT	IN MONETARY TERMS (MLN RUB)
Growth of discount rate	1%	5%	108
Growth of inflation rates	1%	-4%	(107)
Reduction of turnover of finished goods	1	-5%	(117)
Reduction of revenue from uncontracted parking places	1%	2%	45

## C) RENT OUT OF PROPERTY CLASSIFIED AS INVENTORIES – FINISHED GOODS

The Group has temporarily rented out a part of certain items of property classified as inventories — finished goods in these consolidated financial statements. As at 31 December 2019, the total carrying value of these items of property was RUB 327 million (31 December 2018: RUB 566 million, 1 January 2018: RUB 670 million). The Group is actively seeking buyers for these properties.

## D) PLEDGES

As at 31 December 2019, inventories with a carrying amount of RUB 7,139 million (31 December 2018: RUB 2,874 million, 1 January 2018: RUB 9,371 million) are pledged as security for borrowings, see note 23.

## E) CHANGE IN ESTIMATES

As at 31 December 2018, the Group conducted a review of estimates that it makes while allocating certain construction costs between residential and commercial premises and underground parking which are located in the same building. Due to continued tightening of the regulations in the St. Petersburg metropolitan area which oblige the Group to reduce maximum number of storeys in residential buildings and increase minimal number of parking places, the Group made a decision that the existing estimate needed a revision as a result of changes that occurred in the circumstances on which the previous estimate was based.

The change in an accounting estimate had the following effect on the Group's consolidated financial statements for the year ended 31 December 2018:

### Consolidated statement of profit or loss and other comprehensive income

mln RUB	2018
Sale of flats — transferred over time	325
Cost of sales	(893)
Other (expenses)/income, net	2,236
Income tax expense	(334)
<b>PROFIT FOR THE YEAR</b>	<b>1,334</b>

### Consolidated statement of financial position

mln RUB	31 DECEMBER 2018
<b>NON-CURRENT ASSETS</b>	
Deferred tax assets	(334)
<b>CURRENT ASSETS</b>	
Inventories under construction	1,343
<b>TOTAL ASSETS</b>	<b>1,009</b>
Retained earnings	1,334
<b>TOTAL EQUITY</b>	<b>1,334</b>
<b>CURRENT LIABILITIES</b>	
Contract liabilities	(325)
<b>TOTAL LIABILITIES</b>	<b>(325)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,009</b>

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

## 18. Contract assets, trade and other receivables

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

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>LONG-TERM TRADE AND OTHER RECEIVABLES</b>			
Trade receivables	4,596	5,600	5,734
Less: Allowance for doubtful trade accounts receivable	(57)	(65)	(64)
<b>TRADE LONG-TERM LESS ALLOWANCE</b>	<b>4,539</b>	<b>5,535</b>	<b>5,670</b>
Other receivables	164	233	131
Less: Allowance for doubtful other accounts receivable	(11)	(10)	(3)
<b>OTHER LONG-TERM LESS ALLOWANCE</b>	<b>153</b>	<b>223</b>	<b>128</b>
Advances paid to suppliers	—	19	1
<b>TOTAL LONG-TERM TRADE AND OTHER RECEIVABLES</b>	<b>4,692</b>	<b>5,777</b>	<b>5,799</b>
<b>SHORT-TERM TRADE AND OTHER RECEIVABLES</b>			
Contract assets	2,463	1,244	1,187
Trade receivables	8,134	8,625	14,016
Less: Allowance for doubtful trade accounts receivable	(690)	(654)	(684)
<b>TRADE SHORT-TERM LESS ALLOWANCE</b>	<b>9,907</b>	<b>9,215</b>	<b>14,519</b>
Advances paid to suppliers	9,988	8,075	10,894
Less: Allowance for doubtful advances paid to suppliers	(238)	(348)	(230)
<b>ADVANCES PAID TO SUPPLIERS SHORT-TERM LESS ALLOWANCE</b>	<b>9,750</b>	<b>7,727</b>	<b>10,664</b>
VAT recoverable	3,231	1,380	2,478
Income tax receivable	696	424	579
Trade receivables due from related parties	90	9	6
Other taxes receivable	73	27	22
Other receivables due from related parties	18	9	9
Other receivables	2,130	2,131	1,832
	<b>6,238</b>	<b>3,980</b>	<b>4,926</b>
Less: Allowance for doubtful other accounts receivable	(752)	(514)	(209)
<b>OTHER SHORT-TERM LESS ALLOWANCE</b>	<b>5,486</b>	<b>3,466</b>	<b>4,717</b>
<b>TOTAL SHORT-TERM TRADE AND OTHER RECEIVABLES</b>	<b>25,143</b>	<b>20,408</b>	<b>29,900</b>
<b>TOTAL</b>	<b>29,835</b>	<b>26,185</b>	<b>35,699</b>

## 19. Short-term investments

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Bank promissory notes — at amortised cost	108	135	—
Bank deposits (over 3 months) — loans and receivables	80	—	153
Loans — at amortised cost	146	205	169
	<b>334</b>	<b>340</b>	<b>322</b>
Loss allowance for loans given	(131)	(137)	(137)
Loss allowance for promissory notes	—	—	—
<b>TOTAL</b>	<b>203</b>	<b>203</b>	<b>185</b>

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

## 20. Cash and cash equivalents

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Cash in banks, in RUB	18,423	14,597	6,902
Cash in banks, in USD	89	171	2,936
Cash in banks, in EUR	15	19	68
Cash in banks, in GBP	2	2	2
Petty cash	2	3	49
Cash in transit	—	—	3
Short-term deposits (less than 3 months)	12,597	8,274	4,165
<b>TOTAL</b>	<b>31,128</b>	<b>23,066</b>	<b>14,125</b>

The Group keeps major bank balances in major Russian banks with credit ratings assigned by international rating agencies of BBB-, BB+, BB, BB-, B+, B, B-, as well as in foreign bank with credit rating A+.

At 31 December 2019, the most significant amount of cash and cash equivalents held with one bank totalled RUB 10,309 million (31 December 2018: RUB 7,324 million, 1 January 2018: RUB 3,786 million). At 31 December 2019, the Group has no outstanding loans and borrowings with the same bank (outstanding loans and borrowings with the same bank at 31 December 2018: RUB 3,345 million,

at 1 January 2018: RUB 2,012 million). The bank has a Standard & Poor's/Moody's credit rating credit rating of BB-.

At 31 December 2019, short-term deposits bore interest rate ranging from 3.73% to 6.7% per annum (31 December 2018: 6.6%–8%, 1 January 2018: 6.25%–9.45%).

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

### Bank balances on escrow accounts – supplementary disclosure

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Bank balances in escrow accounts	692	—	—

Bank balances kept in escrow accounts are not included in the balance of cash and cash equivalents in the Group's consolidated statement of financial position. They represent funds received by authorized banks from escrow-account holders — participants

of share participation agreements for construction of real estate as a means of payment of consideration under such agreements. The funds will be transferred to the Group's bank accounts upon completion of construction of respective real estate.

## 21. Capital and reserves

### A) SHARE CAPITAL

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

mIn RUB	31 December 2019		31 December 2018	
	ORDINARY SHARES	PREFERENCE SHARES	ORDINARY SHARES	PREFERENCE SHARES
<b>ISSUED SHARES</b>				
Par value at the beginning of the year	0.00005 GBP	1 GBP	0.00005 GBP	1 GBP
On issue at the beginning of the year	294,954,025	20,000	286,741,593	20,000
Par value at the end of the year	0.00005 GBP	1 GBP	0.00005 GBP	1 GBP
Own shares disposed during the year	—	—	8,212,432	—
<b>ON ISSUE AT THE END OF THE YEAR, FULLY PAID</b>	<b>294,954,025</b>	<b>20,000</b>	<b>294,954,025</b>	<b>20,000</b>

At 1 January 2018, 31 December 2018 and at 31 December 2019, the authorised number of shares was 294,957,971. All issued ordinary shares are fully paid.

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

### B) SHARE PREMIUM

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

### C) RESERVE FOR OWN SHARES

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

Between 20 June 2017 and 31 December 2017, the Company acquired 5,488,378 own shares for the consideration of RUB 1,189 million, and as at 31 December 2017, the total number of own shares acquired by the Group amounted to 8,216,378 shares or 2.8% of issued share capital for the consideration of RUB 1,629 million.

During the year ended 31 December 2018, the Group transferred 8,212,432 shares to certain members of its key management personnel as part of their remuneration, see note 10. As at 31 De-

ember 2019 and 31 December 2018, the total number of own shares acquired by the Group amounted to 3,946 shares or 0.001% of issued share capital.

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

### D) SHARE OPTIONS RESERVE

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

### E) DIVIDENDS

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legis-

lation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles.

During the year ended 31 December 2019, the Company paid dividends in the amount of RUB 3,586 million (year ended 31 December 2018: RUB 3,567 million).

### F) NON-CONTROLLING INTERESTS IN SUBSIDIARIES

On 19 February 2019, the Group acquired a 51% stake in JSC "Leader-Invest" (note 27). The non-controlling interest was measured as a 49%-share of the recognised amounts of the acquiree's net identifiable assets and amounted to RUB 15,289 million (year ended 31 December 2018 — no significant changes in non-controlling interest). On 16 August 2019, the Group acquired the remaining 49% of the share capital of JSC "Leader-Invest" for the consideration of RUB 14,600 million, while the carrying amount of the share of net assets acquired amounted to RUB 14,669 million. The excess of RUB 69 million of the share of net assets acquired over the consideration transferred was recognised as an increase in retained earnings.

## 22. Earnings/(loss) per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding during

the year, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	2019	2018 (RESTATED)
Issued shares at 1 January	294,954,025	286,741,593
Effect of own shares disposed during the year	—	5,050,739
<b>WEIGHTED AVERAGE NUMBER OF SHARES FOR THE YEAR ENDED 31 DECEMBER</b>	<b>294,954,025</b>	<b>291,792,332</b>
Profit/(loss) attributable to the owners of the Company, mIn RUB	795	(702)
<b>BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (RUB)</b>	<b>2.70</b>	<b>(2.41)</b>

## 23. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the

Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>NON-CURRENT LIABILITIES</b>			
Secured bank loans	27,965	1,411	5,303
Unsecured bank loans	4,316	7,845	6,183
Unsecured bond issues	9,977	8,303	9,932
	<b>42,258</b>	<b>17,559</b>	<b>21,418</b>
<b>CURRENT LIABILITIES</b>			
Current portion of secured bank loans	2,393	211	972
Current portion of unsecured bank loans	4,438	1,453	1,482
Current portion of unsecured bond issues	3,603	1,689	36
Current portion of other unsecured loans	—	—	79
	<b>10,434</b>	<b>3,353</b>	<b>2,569</b>

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

mIn RUB	1 JANUARY 2019	PROCEEDS FROM BORROWINGS	REPAYMENT OF BORROWINGS	OTHER CHANGES	CHANGES FROM ACQUISITION OF SUBSIDIARIES (NOTE 27)	31 DECEMBER 2019
Secured bank loans	1,622	30,048	(1,313)	(220)	221	30,358
Unsecured bank loans	9,298	284	(1,469)	25	616	8,754
Unsecured bond issues	9,992	—	(1,650)	(78)	5,316	13,580
	<b>20,912</b>	<b>30,332</b>	<b>(4,432)</b>	<b>(273)</b>	<b>6,153</b>	<b>52,692</b>

mIn RUB	CURRENCY	NOMINAL INTEREST RATE AS OF 31 DECEMBER	YEAR OF MATURITY	31 DECEMBER 2019		31 DECEMBER 2018		1 JANUARY 2018	
				FACE VALUE	CARRYING AMOUNT	FACE VALUE	CARRYING AMOUNT	FACE VALUE	CARRYING AMOUNT
<b>SECURED BANK LOANS</b>				<b>30,658</b>	<b>30,358</b>	<b>1,622</b>	<b>1,622</b>	<b>6,275</b>	<b>6,275</b>
Secured bank loan	RUB	CBR's key rate + 2.35%	2024	15,224	15,000	—	—	—	—
Secured bank loan	RUB	CBR's key rate + 3%	2027	14,642	14,566	—	—	—	—
Secured bank loan	RUB	10.00%	2020	460	460	202	202	127	127
Secured bank loan	RUB	10.00%	2020	332	332	332	332	332	332
Secured bank loan	RUB	CBR's key rate + 1.5%	2020	—	—	—	—	2,287	2,287
Secured bank loan	RUB	13.10%	2020	—	—	—	—	1,028	1,028
Secured bank loan	RUB	11.75%	2022	—	—	802	802	802	802
Secured bank loan	RUB	10.40%	2021	—	—	237	237	750	750
Secured bank loan	RUB	12.00%	2021	—	—	—	—	734	734
Secured bank loan	RUB	10.68%	2021	—	—	49	49	215	215
<b>UNSECURED BANK LOANS</b>				<b>8,754</b>	<b>8,754</b>	<b>9,298</b>	<b>9,298</b>	<b>7,665</b>	<b>7,665</b>
Unsecured bank loan	RUB	8.70%–8.90%	2021	1,502	1,502	1,502	1,502	1,246	1,246
Unsecured bank loan	RUB	9.70%	2021	1,458	1,458	1,543	1,543	2,003	2,003
Unsecured bank loan	RUB	8.80%	2020	1,200	1,200	1,300	1,300	1,300	1,300
Unsecured bank loan	RUB	9.00%	2020	1,200	1,200	1,200	1,200	—	—
Unsecured bank loan	RUB	10.25%	2022	902	902	—	—	—	—
Unsecured bank loan	RUB	CBR's key rate + 1%	2021	740	740	1,001	1,001	1,001	1,001
Unsecured bank loan	RUB	8.75%	2021	501	501	501	501	50	50
Unsecured bank loan	RUB	8.70%	2022	501	501	501	501	—	—
Unsecured bank loan	RUB	CBR's key rate + 1.75%	2021	500	500	500	500	—	—
Unsecured bank loan	RUB	CBR's key rate + 1.75%	2021	250	250	250	250	50	50
Unsecured bank loan	RUB	9.00%	2018	—	—	—	—	1,000	1,000
Unsecured bank loan	RUB	9.00%	2019	—	—	1,000	1,000	1,000	1,000
Unsecured bank loan	RUB	11.00%	2019	—	—	—	—	—	—
Unsecured bank loan	RUB	8.75%	2018	—	—	—	—	12	12
Unsecured bank loan	RUB	10.10%	2019	—	—	—	—	3	3
<b>UNSECURED BOND ISSUES</b>				<b>13,652</b>	<b>13,580</b>	<b>10,039</b>	<b>9,992</b>	<b>10,115</b>	<b>10,047</b>
Unsecured bonds	RUB	11.70%	2021	5,213	5,166	—	—	—	—
Unsecured bonds	RUB	8.95%	2022	5,022	5,005	5,018	4,997	5,016	4,983
Unsecured bonds	RUB	11.85%	2021	3,363	3,355	5,021	4,995	5,020	4,985
Unsecured bonds	RUB	7.95%	2019	54	54	—	—	79	79
				<b>53,064</b>	<b>52,692</b>	<b>20,959</b>	<b>20,912</b>	<b>24,055</b>	<b>23,987</b>

Bank loans are secured by:

- inventories with a carrying amount of RUB 7,139 million (31 December 2018: RUB 2,874 million, 1 January 2018: RUB 9,371 million), see note 17;
- pledge of 68% of shares in subsidiary company JSC "Zaton-skoe" which represents RUB 4,198 million in its net assets\* (31 December 2018: RUB 3,167 million in net assets, 1 January 2018: RUB 3,555 million in net assets);
- pledge of 100% of shares in subsidiary company LLC "LS-Ri-elty" which represents RUB 2,259 million in its net assets\* (31 December 2018: RUB 1,024 million in net assets, 1 January 2018: RUB 970 million in net assets).

- pledge of 51% shares of JSC "Leader-Invest" and 100% of other 45 subsidiary companies of JSC "Leader-Invest" which collectively represent RUB 36,059 million in net assets\* (31 December 2018, 1 January 2018: no pledge).
- pledge of 100% shares of JSC "Etalon LenSpetsSMU", LLC "ZhK Moskovskiy" and LLC "Zolotaya Zvezda", which collectively represent RUB 46,695 million in net assets\* (31 December 2018, 1 January 2018: no pledge).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group, as well as based on the consolidated financial statements of the Group. There was no breach of any of the restrictive covenants as at 31 December 2019.

## 24. Provisions

mIn RUB	WARRANTIES	PROVISION FOR DEFERRED WORKS	PROVISION FOR ONEROUS CONTRACTS	PROVISION FOR LITIGATIONS AND CLAIMS	TOTAL
Balance at 1 January 2018	102	1,792	71	–	1,965
Provisions made during the year	91	1,512	2	–	1,605
Provisions used during the year	(72)	(2,203)	–	–	(2,275)
Provision reversed during the year	–	(192)	(21)	–	(213)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>121</b>	<b>909</b>	<b>52</b>	<b>–</b>	<b>1,082</b>
Balance at 1 January 2019	121	909	52	–	1,082
Provisions made during the year	48	403	–	93	544
Assumed through business combination	–	47	–	95	142
Provisions used during the year	(53)	(822)	–	(54)	(929)
Provision reversed during the year	–	(30)	(4)	–	(34)
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>116</b>	<b>507</b>	<b>48</b>	<b>134</b>	<b>805</b>
Non-current	116	–	–	–	116
Current	–	507	48	134	689
	<b>116</b>	<b>507</b>	<b>48</b>	<b>134</b>	<b>805</b>

### A) WARRANTIES

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

### B) PROVISION FOR DEFERRED WORKS

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

\* Net assets are based on individual IFRS accounts of the relevant companies.

## 25. Contract liabilities, trade and other payables

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>LONG-TERM</b>			
Contract liabilities	–	218	–
Trade payables	1,462	72	62
Lease liabilities	1,365	–	–
Other payables	400	1,705	2,484
	<b>3,227</b>	<b>1,995</b>	<b>2,546</b>
<b>SHORT-TERM</b>			
Contract liabilities	36,439	26,931	25,649
Trade payables	5,382	4,878	7,260
VAT payable	3,383	2,681	3,188
Payroll liabilities	874	854	733
Income tax payable	105	443	85
Other taxes payable	348	306	251
Lease liabilities	673	–	6
Other payables	8,377	7,565	3,397
	<b>55,581</b>	<b>43,658</b>	<b>40,569</b>
<b>TOTAL</b>	<b>58,808</b>	<b>45,653</b>	<b>43,115</b>

Short-term other payables mainly consist of an obligation equal to RUB 6,394 million (31 December 2018: RUB 4,624 million, 1 January 2018: RUB 1,938 million) to construct social infrastructure objects and a liability of RUB 1,096 million (31 December 2018: RUB 2,984 million, 1 January 2018: RUB 3,526 million) to the City authorities for change of intended use of land plot recognised as part of inventories.

Contract liabilities include advances from customers in the amount of RUB 2,563 million which will be satisfied after 12 months from the reporting date (31 December 2018: RUB 10,709 million, 1 January 2018: RUB 4,430 million). They are classified within short-term liabilities as the development cycle of construction projects exceeds one year.

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

## 26. Financial instruments and risk management

### A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 inputs  
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 inputs  
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs  
Level 3 inputs are unobservable inputs for the asset or liability.

mIn RUB	CARRYING AMOUNT					FAIR VALUE
	AT AMORTISED COST	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>31 December 2019</b>						
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	13,733	—	<b>13,733</b>	—	13,272	<b>13,272</b>
Bank deposits (over 3 months)	80	—	<b>80</b>	—	80	<b>80</b>
Bank promissory notes	203	—	<b>203</b>	—	231	<b>231</b>
Cash and cash equivalents	31,128	—	<b>31,128</b>	31,128	—	<b>31,128</b>
	<b>45,144</b>	—	<b>45,144</b>	<b>31,128</b>	<b>13,583</b>	<b>44,711</b>
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>						
Secured bank loans	—	(30,358)	<b>(30,358)</b>	—	(31,233)	<b>(31,233)</b>
Unsecured bank loans	—	(8,754)	<b>(8,754)</b>	—	(8,805)	<b>(8,805)</b>
Unsecured bond issues	—	(13,580)	<b>(13,580)</b>	(15,066)	—	<b>(15,066)</b>
Trade and other payables	—	(18,533)	<b>(18,533)</b>	—	(17,497)	<b>(17,497)</b>
	—	<b>(71,225)</b>	<b>(71,225)</b>	<b>(15,066)</b>	<b>(57,535)</b>	<b>(72,601)</b>

mIn RUB	CARRYING AMOUNT					FAIR VALUE
	AT AMORTISED COST	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>31 December 2018</b>						
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	15,518	—	<b>15,518</b>	—	15,528	<b>15,528</b>
Bank deposits (over 3 months)	23	—	<b>23</b>	—	23	<b>23</b>
Bank promissory notes	782	—	<b>782</b>	—	939	<b>939</b>
Cash and cash equivalents	23,066	—	<b>23,066</b>	23,066	—	<b>23,066</b>
	<b>39,389</b>	—	<b>39,389</b>	<b>23,066</b>	<b>16,490</b>	<b>39,556</b>
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>						
Secured bank loans	—	(1,622)	<b>(1,622)</b>	—	(1,657)	<b>(1,657)</b>
Unsecured bank loans	—	(9,298)	<b>(9,298)</b>	—	(9,100)	<b>(9,100)</b>
Unsecured bond issues	—	(9,992)	<b>(9,992)</b>	(10,145)	—	<b>(10,145)</b>
Trade and other payables	—	(15,074)	<b>(15,074)</b>	—	(14,984)	<b>(14,984)</b>
	—	<b>(35,986)</b>	<b>(35,986)</b>	<b>(10,145)</b>	<b>(25,741)</b>	<b>(35,886)</b>

mIn RUB	CARRYING AMOUNT					FAIR VALUE
	LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>1 January 2018</b>						
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	21,238	—	<b>21,238</b>	—	21,278	<b>21,278</b>
Bank deposits (over 3 months)	153	—	<b>153</b>	—	153	<b>153</b>
Bank promissory notes	652	—	<b>652</b>	—	752	<b>752</b>
Cash and cash equivalents	14,125	—	<b>14,125</b>	14,125	—	<b>14,125</b>
	<b>36,168</b>	—	<b>36,168</b>	<b>14,125</b>	<b>22,183</b>	<b>36,308</b>
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>						
Secured bank loans	—	(6,275)	<b>(6,275)</b>	—	(6,358)	<b>(6,358)</b>
Unsecured bank loans	—	(7,665)	<b>(7,665)</b>	—	(7,595)	<b>(7,595)</b>
Unsecured bond issues	—	(9,968)	<b>(9,968)</b>	(10,458)	—	<b>(10,458)</b>
Other unsecured loans	—	(79)	<b>(79)</b>	—	(79)	<b>(79)</b>
Trade and other payables	—	(14,041)	<b>(14,041)</b>	—	(13,555)	<b>(13,555)</b>
	—	<b>(38,028)</b>	<b>(38,028)</b>	<b>(10,458)</b>	<b>(27,587)</b>	<b>(38,045)</b>

Fair values of financial assets and financial liabilities were determined by quantitative maturity analysis of contractual cash flows

according to remaining contractual maturities, discounted using the following Central Bank of Russia rates:

	Discounting factor	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Receivables (excluding taxes receivable and advances paid to suppliers)	Weighted average rate on mortgages issued during the year	9.56%	9.32%	9.80%
Loans given	Weighted average interest rates on loans to nonfinancial organizations	8.33%	9.17%	9.41%
Unsecured loans and bond issued, and trade and other payables		8.33%	9.17%	9.41%
Bank promissory notes	Weighted average interest rate on deposits of nonfinancial organizations	5.87%	6.72%	7.55%

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

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

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

### RISK MANAGEMENT FRAMEWORK

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

## B) CREDIT RISK

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

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

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

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

mln RUB	CARRYING AMOUNT		
	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>FINANCIAL ASSETS AND CONTRACT ASSETS</b>			
Loans and receivables (excluding taxes receivable, advances paid to suppliers), including contract assets *	7,409	7,488	5,988
Bank promissory notes	203	782	652
Bank deposits (over 3 months)	80	–	153
Cash and cash equivalents	31,128	23,066	14,125
	<b>38,820</b>	<b>31,359</b>	<b>20,918</b>

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

### (i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2019, receivables from one customer equalled to RUB 610 million or 4% of the Group's consolidated trade and other receivables (31 December 2018: RUB 1,175 million or 8%, 1 January 2018: 1,338 million or 6%).

### (ii) Guarantees

As at 31 December 2019 the Group had not provided any financial guarantees to entities outside the Group (31 December 2018 and 1 January 2018: nil).

### (iii) Exposure to credit risk

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

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

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

## MATURITY ANALYSIS AND IMPAIRMENT

The ageing of trade receivables at the reporting date was:

mln RUB	31 DECEMBER 2019		31 DECEMBER 2018		1 JANUARY 2018	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not past due	10,293	(153)	11,411	(85)	18,065	(25)
Past due 0–30 days	461	(5)	548	(5)	434	(6)
Past due 31–90 days	513	(275)	475	(42)	179	(5)
Past due 91–120 days	60	(9)	110	(15)	77	(8)
Past due more than 120 days	1,493	(305)	1,690	(572)	1,001	(704)
	<b>12,820</b>	<b>(747)</b>	<b>14,234</b>	<b>(719)</b>	<b>19,756</b>	<b>(748)</b>

The ageing of loans given at the reporting date was:

mln RUB	31 DECEMBER 2019		31 DECEMBER 2018		1 JANUARY 2018	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not past due	120	(10)	169	(13)	119	–
Past due 0–30 days	46	(46)				
Past due more than 120 days	86	(86)	137	(137)	137	(174)
	<b>252</b>	<b>(142)</b>	<b>306</b>	<b>(150)</b>	<b>256</b>	<b>(174)</b>

### Allowance for impairment in respect of trade receivables

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

mln RUB	2019	2018
Balance at 1 January	719	746
Amounts written off	(89)	(399)
Net remeasurement of loss allowance	117	372
<b>BALANCE AT 31 DECEMBER</b>	<b>747</b>	<b>719</b>

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

In assessing collective impairment, the Group used historical information published by Moody's Investors Service about the

probabilities of default (PD) and losses given default (LGD) for issuers with different credit ratings and financial instruments with different durations.

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

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

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

During the reporting period, there were no changes in the quality of the collateral. There were no changes in the collateral policies of the Group during the year 2019.

\* Presented net of receivables arising from the sale of real estate that is secured by a pledge of the sold real estate (see 3(c)(vi)).

**Allowance for impairment in respect of other receivables**

The movement in the allowance for impairment in respect of other receivables during the reporting period was as follows:

mIn RUB	2019	2018
Balance at 1 January	524	214
Amounts written off	(129)	(27)
Net remeasurement of loss allowance	368	337
<b>BALANCE AT 31 DECEMBER</b>	<b>763</b>	<b>524</b>

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

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

mIn RUB	2019	2018
Balance at 1 January	157	175
Amounts written off	(6)	—
Net remeasurement of loss allowance	(8)	(18)
<b>BALANCE AT 31 DECEMBER</b>	<b>143</b>	<b>157</b>

**Allowance for impairment of cash and cash equivalents**

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

**Allowance for impairment in respect of advances paid to suppliers**

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

mIn RUB	2019	2018
Balance at 1 January	348	230
Amounts written off	(212)	(18)
Increase during the year	102	136
<b>BALANCE AT 31 DECEMBER</b>	<b>238</b>	<b>348</b>

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

**C) LIQUIDITY RISK**

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

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

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

Contractual maturities of financial liabilities were as follows:

mIn RUB 31 December 2019	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0-12 MTHS	1-2 YRS	2-3 YRS	3-4 YRS	4-5 YRS	OVER 5 YRS
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>								
Loans and borrowings	52,692	66,263	14,655	17,164	10,227	9,847	6,864	7,506
Trade and other payables (excluding taxes payable and contract liabilities)	16,495	16,587	10,155	3,032	1,271	1,217	867	45
Lease liabilities	2,038	2,622	972	806	388	182	20	254
	<b>71,225</b>	<b>85,472</b>	<b>25,782</b>	<b>21,002</b>	<b>11,886</b>	<b>11,246</b>	<b>7,751</b>	<b>7,805</b>

mIn RUB 31 December 2018	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0-12 MTHS	1-2 YRS	2-3 YRS	3-4 YRS	4-5 YRS	OVER 5 YRS
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>								
Loans and borrowings	20,912	24,813	5,296	9,876	7,655	1,986	—	—
Trade and other payables (excluding taxes payable and contract liabilities)	15,074	15,362	13,298	1,438	588	38	—	—
	<b>35,986</b>	<b>40,175</b>	<b>18,594</b>	<b>11,314</b>	<b>8,243</b>	<b>2,024</b>	<b>—</b>	<b>—</b>

mIn RUB 1 January 2018	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0-12 MTHS	1-2 YRS	2-3 YRS	3-4 YRS	4-5 YRS	OVER 5 YRS
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>								
Loans and borrowings	23,987	30,060	4,818	7,421	9,879	6,122	1,820	—
Trade and other payables (excluding taxes payable and contract liabilities)	14,041	13,549	9,703	966	2,288	556	53	2
	<b>38,028</b>	<b>43,609</b>	<b>14,521</b>	<b>8,387</b>	<b>12,167</b>	<b>6,678</b>	<b>1,873</b>	<b>2</b>

**D) MARKET RISK**

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

**(i) Currency risk**

The Group's exposure to foreign currency risk is limited. As at 31 December 2019, 31 December 2018 and 1 January 2018 the Group's net positions in foreign currency were as follows:

mIn RUB	31 DECEMBER 2019		31 DECEMBER 2018		1 JANUARY 2018	
	USD	EUR	USD	EUR	USD	EUR
Cash and cash equivalents (see note 20)	89	15	171	19	2,936	68
<b>NET EXPOSURE</b>	<b>89</b>	<b>15</b>	<b>171</b>	<b>19</b>	<b>2,936</b>	<b>68</b>

The management of the Group considers currency risk of financial assets nominated in foreign currencies as not significant.



The following significant exchange rates applied during the year:

mln RUB	AVERAGE RATE		REPORTING DATE SPOT RATE		
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
USD 1	64.62	62.71	61.91	69.47	57.60
EUR 1	72.32	73.95	69.34	79.46	68.87

## (ii) Interest rate risk

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

## Profile

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

mln RUB	CARRYING AMOUNT		
	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>FIXED RATE INSTRUMENTS</b>			
Financial assets	36,129	29,624	20,783
Financial liabilities	(22,009)	(19,162)	(20,656)
	<b>14,120</b>	<b>10,462</b>	<b>127</b>
<b>VARIABLE RATE INSTRUMENTS</b>			
Financial liabilities	(31,356)	(1,750)	(3,337)
	<b>(31,356)</b>	<b>(1,750)</b>	<b>(3,337)</b>

## Cash flow sensitivity analysis for variable rate instruments

mln RUB	PROFIT OR LOSS		EQUITY	
	200 BP INCREASE	100 BP DECREASE	200 BP INCREASE	100 BP DECREASE
<b>31 DECEMBER 2019</b>				
Variable rate instruments	(627)	314	(627)	314
Cash flow sensitivity (net)	(627)	314	(627)	314
<b>31 DECEMBER 2018</b>				
Variable rate instruments	(35)	18	(35)	18
Cash flow sensitivity (net)	(35)	18	(35)	18
<b>1 JANUARY 2018</b>				
Variable rate instruments	(67)	33	(67)	33
Cash flow sensitivity (net)	(67)	33	(67)	33

## Fair value sensitivity analysis for fixed rate instruments

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

## E) CAPITAL MANAGEMENT

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

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

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

mln RUB	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
<b>TOTAL BORROWINGS</b>	<b>52,692</b>	<b>20,912</b>	<b>23,987</b>
Less: cash and cash equivalents	(31,128)	(23,066)	(14,125)
Less: bank deposits over 3 months, notes 19 and 15	(80)	—	(153)
Net debt	21,484	(2,154)	9,709
<b>TOTAL EQUITY</b>	<b>52,576</b>	<b>55,793</b>	<b>58,657</b>
Debt to capital ratio at end of year	0.41	(0.04)	0.17

At 31 December 2019, lease liabilities of RUB 2,038 million (31 December 2018 — nil) are included in trade and other payables (see notes 25 and 28) and are not included in the total amount of borrowings.

## 27. Acquisition of subsidiary

On 19 February 2019, the Group acquired 51% of the shares and voting interests in JSC "Leader-Invest" from Sistema PJSFC and its affiliates for the cash consideration of RUB 15,185 million. JSC "Leader-Invest" is a Moscow-based residential developer focusing on projects in the comfort, business and premium-class segments. Its portfolio includes 31 projects under construction and development or at the design stage, unsold inventory at twelve completed residential complexes, and commercial real estate, with a total NSA of 1.3 mln sqm.

The primary reason for the acquisition was to increase the Group's share of the Moscow residential real estate market and to replenish its land bank.

## CONSIDERATION TRANSFERRED

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

## CONTINGENT CONSIDERATION

The Group has agreed to pay the selling shareholders the Group's share of dividends received from Leader-Invest's affiliate company for three years following the acquisition as a deferred adjustment to the consideration described above. The Group estimates this contingent consideration as RUB 82 million, being the fair value at the acquisition date, based on a discount rate of 12.71%. Due to the immateriality of the amount and uncertainty of the outcome, the Group did not adjust the cost of combination in these consolidated financial statements.

## ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of RUB 256 million related to external legal fees and due diligence costs, which have been included in administrative expenses in the Group's consolidated statement of profit or loss and other comprehensive income.

## IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

mIn RUB	NOTE	RECOGNISED FAIR VALUES ON ACQUISITION
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	13	403
Investment property	14	838
Other long term investments		4
Deferred tax assets	16	94
<b>CURRENT ASSETS</b>		
Inventories		45,655
Trade and other receivables		1,057
Advances issued		1,781
Short-term investment		752
Cash and cash equivalents		4,704
Other current assets		187
<b>NON-CURRENT LIABILITIES</b>		
Loans and borrowings	23	(5,779)
Long-term trade and other payables		(998)
Deferred tax liabilities	16	(5,657)
<b>CURRENT LIABILITIES</b>		
Loans and borrowings	23	(374)
Trade and other payables		(11,322)
Provisions	24	(143)
<b>TOTAL IDENTIFIABLE NET ASSETS</b>		<b>31,202</b>
Total identifiable net assets acquired (51%)		15,913
Non-controlling interest (49%)		15,289

Trade and other receivables comprised gross contractual amounts due of RUB 1,515 million, of which RUB 326 million was expected to be uncollectable at the date of acquisition.

## INDEMNIFICATION ASSETS

The seller in a business combination had contractually indemnified the Group for the outcome of uncertainties related to specific liabilities, including losses above a specified amount by specified subsidiaries, liabilities arising from tax contingencies and recultivation costs above specified limit.

The Group did not recognise such liabilities at the acquisition date and therefore did not recognise any indemnification assets.

## MEASUREMENT OF FAIR VALUES

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

### Inventories

The acquiree's inventories are mainly represented by real estate development projects at different stages of development.

The fair values of real estate development projects were determined by an independent appraiser based on discounted cash flows from the construction and sale of such real estate.

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction and sale of real estate;
- Inflation rates — in the range 3.5%–4.5% per annum;
- Discount rates — 12.3%–23% per annum, depending on the class of the project, stage of development of a particular project and the availability of construction permits.

## BARGAIN PURCHASE

The Group recognised the excess of the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed over consideration transferred in the amount of RUB 729 million as a gain from bargain purchase in its consolidated statement of profit or loss and other comprehensive income.

From the date of acquisition to 31 December 2019 JSC "Leader-Invest" and its subsidiaries contributed revenues of RUB 11,198 million and a loss of RUB 3,145 million.

If the acquisition of the business had occurred on 1 January 2019, management estimates that consolidated revenue would have been RUB 86,132 million, and consolidated loss for the year would have been RUB 58 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

## 28. Leases

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

The following table summarises the movement in the right-of-use assets and lease liabilities during the reporting period.

mIn RUB	INVENTORIES UNDER CONSTRUCTION	PROPERTY, PLANT AND EQUIPMENT	TOTAL
<b>RIGHT-OF-USE ASSETS</b>			
Balance at 1 January 2019	1,786	135	1,921
Additions to right-of-use assets	4	134	138
Termination of lease contracts	—	(39)	(39)
Depreciation charge	(342)	(149)	(491)
Acquired through business combination	631	319	950
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>2,079</b>	<b>400</b>	<b>2,479</b>
<b>LEASE LIABILITIES</b>			
Balance at 1 January 2019	1,786	135	1,921
Settlement of lease liabilities, including interest	(975)	(197)	(1,172)
Interest expense on lease liabilities	190	43	233
Additions to lease liabilities	4	136	140
Termination of lease contracts	—	(34)	(34)
Assumed through business combination	631	319	950
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>1,636</b>	<b>402</b>	<b>2,038</b>

Future cash outflows to which the Group is exposed that are not reflected in the measurement of lease liabilities arising from variable lease payments amount to RUB 789 million.

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

## 29. Capital commitments

As at 31 December 2019 the Group had no capital commitments (31 December and 1 January 2018: nil).

## 30. Contingencies

### A) INSURANCE

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common

### B) LITIGATION

During the year ended 31 December 2019, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business.

One of the Group's subsidiaries is currently involved in an arbitral process as defendant, where plaintiff obliges the Group to purchase from the plaintiff 22% of share capital of LLC "ZIL-YUG" for the consideration of RUB 7,305 million. The Group declined to proceed with the acquisition since the project planning docu-

mentation provided by the plaintiff contradicted technical and economical parameters established in the initial tender documentation and agreed with the plaintiff.

The appeals were dismissed by both court of original jurisdiction and the appellate court, but returned to the court of original jurisdiction by the court of cassation, involving the Government of Moscow as the third party to the proceeding. Following that, the parties elected to settle the dispute using an extrajudicial procedure and to develop amicable agreement. The agreement leaves project planning documentation unchanged, but prolongs the payment schedule, including postponing of payment of RUB 7,305 million mentioned above until 2021–2022. At the reporting

date, the Group did not recognise any liability, and will recognise it following the signing of amicable agreement when such liability will become legally enforceable.

As of the date these consolidated financial statements have been authorised for issue, the amicable agreement is not finally agreed by the parties and not approved by the Arbitration court of Moscow.

In the opinion of management, there are no other current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

## 31. Related party transactions

### A) TRANSACTIONS WITH MANAGEMENT

#### (i) Management remuneration

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

mIn RUB	2019	2018
Short-term employee benefits – salaries and bonuses	1,599	879
Termination benefit paid to member of key management personnel	57	115
	<b>1,656</b>	<b>994</b>

During the year ended 31 December 2019 and 2018, the Group did not grant any loans and pensions to its key management personnel. During the year ended 31 December 2018, the key management personnel was subject to share-based payment program as disclosed in the note 10.

During the year ended 31 December 2019, the remuneration of the members of the Board of Directors of the Company amounted to RUB 48 million (2018: RUB 213 million)

#### (ii) Other transactions

Current accounts in banks – related parties and sales to (returns from) key management personnel are disclosed below:

mIn RUB	TRANSACTION VALUE		OUTSTANDING BALANCE		
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Current accounts in banks – related parties	(469)	–	14	–	–
(Returns)/sales of apartments and premises	–	2	–	2	(2)
Proceeds from investments	117	–	–	–	–
Interest payable	(51)	–	(163)	–	–
	<b>(469)</b>	<b>2</b>	<b>14</b>	<b>2</b>	<b>(2)</b>

### B) TRANSACTIONS WITH OTHER RELATED PARTIES

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

#### (i) Revenue

mIn RUB	TRANSACTION VALUE			OUTSTANDING BALANCE	
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Other related parties	113	45	613	7	7
	<b>113</b>	<b>45</b>	<b>613</b>	<b>7</b>	<b>7</b>

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

#### (ii) Expenses

mIn RUB	TRANSACTION VALUE			OUTSTANDING BALANCE	
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Other related parties	(123)	135	(221)	(2)	(8)
	<b>(123)</b>	<b>135</b>	<b>(221)</b>	<b>(2)</b>	<b>(8)</b>

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

#### (iii) Loans

mIn RUB	AMOUNT LOANED			OUTSTANDING BALANCE	
	2019	2018	31 DECEMBER 2019	31 DECEMBER 2018	1 JANUARY 2018
Loans given	4	–	6	–	–
Loans received	(298)	–	(1,922)	–	–
	<b>(294)</b>	<b>–</b>	<b>(1,916)</b>	<b>–</b>	<b>–</b>

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

## 32 Group entities

### SIGNIFICANT SUBSIDIARIES

Subsidiary	COUNTRY OF INCORPORATION	31 DECEMBER 2019	31 DECEMBER 2018
JSC "GK Etalon"	Russian Federation	100.00%	100.00%
LLC "EtalonAktiv"	Russian Federation	100.00%	100.00%
JSC "Etalon LenSpetsSMU"	Russian Federation	100.00%	100.00%
JSC "Novator"	Russian Federation	100.00%	100.00%
JSC "LenSpetsSMU-Rekonstruktsiya"	Russian Federation	100.00%	100.00%
LLC "Etalon-Invest"	Russian Federation	100.00%	100.00%
JSC "Zatonskoe"	Russian Federation	100.00%	100.00%
LLC "SPM-Zhilstroy"	Russian Federation	100.00%	100.00%
LLC "Zolotaya Zvezda"	Russian Federation	100.00%	100.00%
JSC "Leader-Invest"	Russian Federation	100.00%	—
LLC "Razvitiye"	Russian Federation	100.00%	—
LLC "Nagatinskiy"	Russian Federation	100.00%	—
LLC "Lobachevskogo 120"	Russian Federation	100.00%	—

As at 31 December 2019, the Group controlled 128 legal entities (31 December 2018: 132). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

## 33. Events subsequent to the reporting date

### OPERATING EVENTS

#### GDR buyback programme

On 24 January 2020, the Board of Directors of the Company authorised a buyback programme that will start by the end of the first quarter of 2020, aiming to purchase up to 10% of the Company's issued capital in the form of Global Depositary Receipts ("GDR"). The program is subject to approval by a forthcoming extraordinary general meeting of shareholders.

### OPERATING ENVIRONMENT

As the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, oil prices dropped by more than 40%, which resulted in the immediate weakening of Russian Ruble against major currencies.

In addition, starting from early 2020, a new coronavirus disease (COVID-19) began rapidly spreading all over the world resulting in an announcement of pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have had a significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on the business of many companies across a wide range of sectors, including, but not

limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

The Group developed a stress scenario of the possible impact on the current operating environment on the Group's on demand and on supply chain, including the availability of construction workers and management personnel being on self-isolation, and eventually on cash flows and liquidity position, including the consideration of debt covenants. The scenario demonstrated the Group's ability to continue as a going concern.

### FINANCING EVENTS

Subsequent to the reporting date, the Group has repaid loans and borrowings outstanding as at 31 December 2019 for the total amount of RUB 3,202 million.

Subsequent to the reporting date the Group has obtained additional tranches of loans for the total amount of RUB 89 million with interest rates of 9.5%–10% and repayable by 2022.

## Supplementary information

In this note, additional information is disclosed. We believe that the adjusted net debt/adjusted EBITDA ratio, together with measures determined in accordance with IFRS, provides the readers with valuable information and a further understanding of the underlying performance of the business.

The below non-IFRS measures should be considered and read in addition to, but not as a substitute for, the information contained in the consolidated financial statements. Non-IFRS measures are not uniformly defined by all companies, including those in the Group's industry. Therefore, the non-IFRS measures used by the Group may not be comparable to similar measures and disclosures made by other companies.

### ADJUSTED NET DEBT/ADJUSTED EBITDA RATIO

mIn RUB	31 DECEMBER 2019	31 DECEMBER 2018
<b>TOTAL BORROWINGS</b>	<b>52,692</b>	<b>20,912</b>
Less: cash and cash equivalents	(31,128)	(23,066)
Less: bank deposits over 3 months, note 19	(80)	—
Add: contract liabilities, reportable segment Residential development, note 5	32,798	26,716
Less: Inventories under construction, note 17	(85,270)	(50,053)
<b>ADJUSTED NET DEBT</b>	<b>(30,988)</b>	<b>(25,491)</b>

mIn RUB	2019	2018
Gross profit	20,057	17,055
Add: Purchase price allocation from acquisition of Leader-Invest included in cost of sales	2,678	—
Less: General and administrative expenses, note 7	(7,280)	(6,922)
Less: Selling expenses	(4,822)	(3,318)
Adjusted operating profit	10,633	6,815
Add: Depreciation and amortisation	542	365
<b>ADJUSTED EBITDA</b>	<b>11,175</b>	<b>7,180</b>
<b>ADJUSTED NET DEBT/ADJUSTED EBITDA</b>	<b>(2.77)</b>	<b>(3.55)</b>

Adjusted net debt represents net total of current, non-current borrowings less cash and cash equivalents and bank deposits over 3 months adjusted for contract liabilities in the Residential development segment less balance of inventories under construction and development. Adjusted net debt measures the Group's net indebtedness that provides an indicator of the overall balance sheet strength.

Adjusted EBITDA represents gross profit for the year adjusted by general and administrative expenses, selling expenses, depreciation and amortisation and effect of purchase price allocation from acquisition of subsidiary.

The result is the equivalent of profit (loss) for the year before net finance costs, income tax expense, depreciation and amortization and effect of purchase price allocation, impairment loss on trade and other receivables, gain from bargain purchase from acquisition of subsidiary and other operating expenses.

We believe that adjusted EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures and other investments and our ability to incur and service debt.

Adjusted net debt/adjusted EBITDA ratio is used by creditors, credit rating agencies and other stakeholders.