Etalon Group PLC

Consolidated Interim Financial Statements

For the six months ended 30 June 2018

Contents

INTERIM MANAGEMENT REPORT

The Board of Directors of Etalon Group PLC (the "Company") presents to the members its Interim Management Report together with the consolidated interim financial statements of the Company and its subsidiaries (together referred to as the "Group") for the six months ended 30 June 2018 reviewed by the independent auditors. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Financial results

The results of the Group for the six months ended 30 June 2018 are set out on page 9 of the consolidated interim financial statements.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2017 in the annual consolidated financial statements for the year ended 31 December 2017. As a result, comparative amounts for the six months ended 30 June 2017 have been restated.

(a) Revenue

The Group's total revenue for the six months ended 30 June 2018 amounted to RUB 24 699 million as compared to RUB 29 016 million for the six months ended 30 June 2017, recording a decrease of RUB 4 317 million or 15%.

Revenue of reportable segment "Residential development" decreased by RUB 4 179 million or 19%, due to decrease in revenue recognised from sales of flats by RUB 2 968 million or 15% and decrease in revenue recognised from sales of parking places RUB 1 387 million or 78%, offset by increase in revenue recognised from sale of built-in commercial premises by RUB 176 million or 27%.

Revenue of reportable segment "Construction services" increased by RUB 326 million or 9% mainly due to completion of project for construction of metro depot in St. Petersburg.

Revenue in reportable segment "Other" decreased by RUB 430 million or 14% due to decrease in sales of construction materials by RUB 414 million or 20%, decrease in sale of stand-alone commercial premises by RUB 55 million or 57%, offset by increase of other revenue related to servicing of premises by RUB 39 million or 5%.

Rental revenue decreased by RUB 34 million or 9%.

(b) Gross profit

The gross profit for the six months ended 30 June 2018 is RUB 4 885 million as compared to RUB 6 108 million for the six months ended 30 June 2017, recording a decrease of RUB 1 223 million or 20%, which was mainly driven by reduction of gross profit of the reportable segment "Residential development" by RUB 1 177 million or 20%.

Profitability of the reportable segment "Residential development" reduced due to the change in the composition of construction projects for which revenue was recognised. During the six months ended 30 June 2018, new projects with lower marginality as compared to the six months ended 30 June 2017, dominated sales volumes.

(c) Results from operating activities

Loss from operating activities, during the six months ended 30 June 2018 amounted to RUB 1 990 million versus profit of RUB 2 530 million for the six months ended 30 June 2017 showing a decrease of RUB 4 520 million or 179%.

During the six months ended 30 June 2018, general and administrative expenses increased by RUB 1 466 million, or 74%, selling expenses increased by RUB 572 million, or 49%, other expenses, net increased by RUB 1 291 million or 734%, as compared to the six months ended 30 June 2017.

During the six months ended 30 June 2018, growth in general and administrative expenses was mainly caused by growth in payroll and related taxes by RUB 468 million or 34% and by equity-settled share based payment of RUB 846 million, while the remaining increase of RUB 152 million is represented mainly by growth in third-party services.

Selling expenses increased mainly due to growth of agency fees, caused by increase in share of sales through third-party agents, and due to growth of payroll expense and payroll-related taxes.

(d) Other expenses, net

During the six months ended 30 June 2018, other expenses, net, increased by RUB 1 291 million or 734% as compared to the six months ended 30 June 2017, mainly due to the increase in the impairment loss on inventories by RUB 1 395 million, or 825%. The increase in provision for impairment of inventories is associated with write-down of parking lots in individual projects to their expected net realisable values.

(e) Finance income

Net finance income for the six months ended 30 June 2018 increased by RUB 317 million or 92% as compared to the six months ended 30 June 2017.

Finance income increased by RUB 335 million or 44% mainly due to increase in unwinding of discount on trade receivables by RUB 116 million or 33%, increase in interest income on cash and cash equivalents (except bank deposits) by RUB 90 million or 64% and increase in net foreign exchange gain of RUB 121 million (as opposed to net foreign exchange loss of RUB 22 million during the six months ended 30 June 2017).

Finance costs increased by RUB 18 million or 4% due to increase in financing component recognised under IFRS 15 by RUB 170 million or 63%, offset by decrease in net foreign exchange loss by RUB 22 million, decrease in interest expense on finance leases by RUB 2 million and decrease in impairment loss on advances paid to suppliers by RUB 128 million.

(f) Income tax benefit/(expense)

Income tax benefit for the six months ended 30 June 2018 amounted to RUB 164 million as compared to income tax expense of RUB 754 million during the six months ended 30 June 2017.

(g) Loss for the six months ended 30 June 2018

The loss for the period attributable to the owners of the Company amounted to RUB 1 164 million (as compared to the profit of RUB 2 118 million for six months ended 30 June 2017) and is transferred to retained earnings.

Principal risks and uncertainties

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

Future developments of the Group

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

Nonrecurring or unusual activities and other significant events

During the six months ended 30 June 2018, the Company granted awards in the form of global depository receipts for the Company's ordinary shares to certain members of top management of the Group and made certain modifications to previously existing incentive programme, as disclosed in note 10 to these consolidated interim financial statements.

Related party transactions

Related party transactions are disclosed in Note 30 of the Consolidated Interim Financial Statements.

Dividends

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

We hereby confirm that there is no other substantial information, which affects or could affect the assessment or evaluation by the readers of this Interim Management Report, regarding profits and losses for the reporting period or any future periods, the prospects and trends of the operations other than those disclosed by the Company in the Consolidated Interim Financial Statements and the Interim Management Report.

Financial statements

The Group's Consolidated Interim Financial Statements reviewed by the independent auditors will not be sent to the owners but will be posted on the corporate website, www.etalongroup.com. Investors may obtain copies of the Consolidated Interim Financial Statements, free of charge, from the Group's registered office, 2-4 Arch. Makariou III Avenue, Capital Center, 9th floor, 1065 Nicosia, Cyprus, or from the corporate website, www.etalongroup.com.

By order of the Board of Directors,

Charalampos Avgousti
Director

Nicosia
28 September 2018

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 10 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 half-year financial report and that to the best of our knowledge:

(a) The interim consolidated financial statements for the six months ended 30 June 2018:

(i) Have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of Section 10(4) of the Transparency Law;

(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 interim consolidated financial statements taken as a whole, and

(b) The interim management report provides a fair overview on information required as per Section 10(6) of the Transparency Law.

VIACHESLAV ADAMOVICH ZARENKOV, Chairman of the Board of Directors	
DMITRY KASHINSKIY, Member of the Board of Directors, CEO	
KIRILL BAGACHENKO, Member of the Board of Directors, CFO	
DMITRY VIACHESLAVOVICH ZARENKOV, Member of the Board of Directors	
ALEXEY KALININ, Member of the Board of Directors	
BORIS SVETLICHNY, Member of the Board of Directors	Boris Svetlichny
CHARALAMPOS AVGOUSTI, Member of the Board of Directors	
MARTIN ROBERT COCKER, Member of the Board of Directors	MRCocker
MAKSIM BERLOVICH, Member of the Board of Directors	

28 September 2018

KPMG Limited
Chartered Accountants
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Independent Auditors' Report on Review of Consolidated Interim Financial Statements

To Etalon Group PLC

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Etalon Group PLC (the "Company"), and its subsidiaries (the "Group") as at 30 June 2018, and the related consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six - month period then ended, and a summary of significant accounting policies and other explanatory notes ("the consolidated interim financial statements"). The Board of Directors is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") including the requirements of IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the six - month period then ended in accordance with IFRS-EU including the requirements of IAS 34 *Interim Financial Reporting*.

KPMG Limited

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

28 September 2018

		Six months ended 30 June	
mln RUB	**Note**	**2018**	**2017 (restated*)**
Revenue	6	24 699	29 016
Cost of sales		(19 814)	(22 908)
Gross profit		4 885	6 108
General and administrative expenses	7	(3 456)	(1 990)
Selling expenses		(1 740)	(1 168)
Impairment loss on trade and other receivables		(212)	(244)
Other expenses, net	8	(1 467)	(176)
Results from operating activities		(1 990)	2 530
Finance income – interest revenue	11	895	767
Finance income - other	11	209	2
Finance costs	11	(441)	(423)
Net finance income		663	346
(Loss)/profit before income tax		(1 327)	2 876
Income tax benefit/(expense)	12	164	(754)
(Loss)/profit for the period		(1 163)	2 122
Total comprehensive (expenses)/income for the period		(1 163)	2 122
(Loss)/profit attributable to:			
Owners of the Company		(1 164)	2 118
Non-controlling interest		1	4
(Loss)/profit for the period		(1 163)	2 122
Total comprehensive (expenses)/income attributable to:			
Owners of the Company		(1 164)	2 118
Non-controlling interest		1	4
Total comprehensive (expenses)/income for the period		(1 163)	2 122
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (RUB)	22	(4,03)	7,25

* The Group has applied IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2017 in the annual consolidated financial statements for the year ended 31 December 2017. As a result, comparative amounts for the six months ended 30 June 2017 are restated, see note 2(e)(ii). The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated, see note 2(e)(i). Comparative information has been re-presented due to a new impairment loss line item

The consolidated interim 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 interim financial statements set out on pages 15 to 67.

mln RUB	Note	30 June 2018	31 December 2017*
ASSETS			
Non-current assets			
Property, plant and equipment	13	3 162	3 085
Investment property	14	316	333
Other long-term investments	15	722	739
Trade and other receivables	18	6 539	5 867
Deferred tax assets	16	2 731	2 173
Total non-current assets		**13 470**	**12 197**
Current assets			
Inventories under construction	17	64 286	55 441
Inventories - finished goods	17	15 540	21 458
Other inventories	17	2 037	1 223
Advances paid to suppliers	18	9 389	10 664
Contract assets	18	164	1 187
Trade receivables	18	9 461	13 551
Other receivables	18	4 714	4 782
Short-term investments	19	201	185
Cash and cash equivalents	20	18 865	14 125
Total current assets		**124 657**	**122 616**
Total assets		**138 127**	**134 813**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	2	2
Share premium	21	15 486	15 486
Reserve for own shares	21	(1)	(1 606)
Share options reserve	21	-	221
Retained earnings		43 428	48 702
Total equity attributable to equity holders of the Company		**58 915**	**62 805**
Non-controlling interest		1	-
Total equity		**58 916**	**62 805**

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 15 to 67.

mln RUB	Note	30 June 2018	31 December 2017*
Non-current liabilities			
Loans and borrowings	23	20 673	21 418
Trade and other payables	25	2 154	2 546
Provisions	24	85	102
Deferred tax liabilities	16	2 428	2 941
Total non-current liabilities		**25 340**	**27 007**
Current liabilities			
Loans and borrowings	23	2 133	2 569
Trade and other payables	25	16 371	14 920
Contract liabilities	25	34 141	25 649
Provisions	24	1 226	1 863
Total current liabilities		**53 871**	**45 001**
Total equity and liabilities		**138 127**	**134 813**

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

These Consolidated Interim Financial Statements were approved by the Board of Directors on 28 September 2018 and were signed on its behalf by:

Charalampos Avgousti
Director

Kirill Bagachenko
Director

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 15 to 67.

mln RUB	Attributable to equity holders of the Company							
Recalculated	**Share capital**	**Share premium**	**Reserve for own shares**	**Share options reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	1	15 509	(440)	-	43 354	58 424	28	**58 452**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	2 118	2 118	4	**2 122**
Total comprehensive income for the period	-	-	-	-	2 118	2 118	4	**2 122**
Transactions with owners, recorded directly in equity								
Issuance of preference shares	1	-	-	-	-	1	-	**1**
Acquisition of own shares	-	-	(468)	-	-	(468)	-	**(468)**
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Changes in ownership interest in subsidiaries	-	-	-	-	1	1	(32)	**(31)**
Total transactions with owners	1	-	(468)	-	1	(466)	(32)	**(498)**
Balance at 30 June 2017	**2**	**15 509**	**(908)**	**-**	**45 473**	**60 076**	**-**	**60 076**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 15 to 67.

	Attributable to equity holders of the Company							
mln RUB	**Share capital**	**Share premium**	**Reserve for own shares**	**Share options reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018, as previously reported*	2	15 486	(1 606)	221	48 702	62 805	-	**62 805**
Adjustment from adoption of IFRS 9, net of tax, note 2(e)	-	-	-	-	(312)	(312)	-	**(312)**
Adjusted balance at 1 January 2018	2	15 486	(1 606)	221	48 390	62 493	-	**62 493**
Total comprehensive loss for the period								
Loss for the period	-	-	-	-	(1 164)	(1 164)	1	**(1 163)**
Total comprehensive loss for the period	-	-	-	-	(1 164)	(1 164)	1	**(1 163)**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(3 260)	(3 260)	-	**(3 260)**
Equity-settled share-based payment	-	-	1 605	(221)	(538)	846	-	**846**
Total transactions with owners	-	-	1 605	(221)	(3 798)	(2 414)	-	**(2 414)**
Balance at 30 June 2018	**2**	**15 486**	**(1)**	**-**	**43 428**	**58 915**	**1**	**58 916**

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

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 15 to 67.

mln RUB	**Notes**	**Six months ended 30 June 2018**	**2017 (restated)**
OPERATING ACTIVITIES:			
(Loss)/profit for the period		(1 163)	2 122
Adjustments for:			
Depreciation	13, 14	169	172
Loss/(gain) on disposal of property, plant and equipment	8	7	(51)
Gain on disposal of investment property	8	-	(27)
Impairment loss on inventories	17	1 564	170
Impairment loss on trade and other receivables	26 (b)(iii)	212	244
Equity-settled share-based payment transactions	10	846	-
Finance income, net	11	(663)	(346)
Income tax (benefit)/expense	12	(164)	754
Cash from operating activities before changes in working capital and provisions		**808**	**3 038**
Change in inventories		(4 145)	(582)
Change in accounts receivable		4 391	(7 998)
Change in accounts payable		(2 068)	(1 024)
Change in provisions	24	(654)	(261)
Change in contract assets	18	1 023	(991)
Change in contract liabilities	25	8 492	7 727
Cash generated from/(used in) operating activities		**7 847**	**(91)**
Income tax paid		(600)	(1 018)
Interest paid		(1 146)	(1 093)
Net cash from/(used in) operating activities		**6 101**	**(2 202)**
INVESTING ACTIVITIES:			
Proceeds from disposal of property, plant and equipment		6	221
Proceeds from disposal of investment property		8	224
Interest received		431	410
Acquisition of property, plant and equipment		(266)	(365)
Loans given		(19)	(27)
Loans repaid		34	317
Acquisition of other investments	15, 19	(190)	(377)
Disposal of other investments	15, 19	153	40
Net cash from investing activities		**157**	**443**
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		-	(30)
Proceeds from borrowings		3 609	4 671
Repayments of borrowings		(4 716)	(3 678)
Acquisition of own shares		(651)	-
Net cash (used in)/from financing activities		**(1 758)**	**963**
Net increase/(decrease) in cash and cash equivalents		4 500	(796)
Cash and cash equivalents at the beginning of the period		14 125	10 206
Effect of exchange rate fluctuations on cash and cash equivalents		240	(18)
Cash and cash equivalents at the end of the period	20	**18 865**	**9 392**

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 15 to 67.

1 Background

a) Organisation and operations

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

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

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

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

The Company's registered office is located at:

St. Julian's Avenue, Redwood House
St. Peter Port, Guernsey
GY1 1WA, the Channel Islands (before 5 April 2017)

2-4 Arch. Makariou III Avenue
Capital Center, 9th floor
1065 Nicosia
Cyprus (effective from 5 April 2017)

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

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

b) Business environment

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated interim 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

b) Basis of measurement

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

c) Functional and presentation currency

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

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

d) Use of estimates and judgments

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

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

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

- Note 6– revenue;
- Note 10– share based payments;
- Note 17– inventories – barter transactions, obsolescence provisions;
- Note 24– provisions;
- Note 29– contingencies.

e) Changes in accounting policies

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

i) Adoption of IFRS 9

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

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

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

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

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

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

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

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

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

<u>Impairment of financial assets</u>

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

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

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

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

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

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

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

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

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

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

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

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

mln RUB	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets		
Trade and other receivables	22 306	21 955
Bank promissory notes	652	633
Loans given	119	99
Bank deposits (over 3 months)	153	153
Cash and cash equivalents	14 125	14 125
Total financial assets	**37 355**	**36 965**

Measurement of Expected credit losses

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

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and other comprehensive income. As a result, the Group reclassified impairment losses amounting to RUB 244 million, recognised under IAS 39, from 'finance expenses' to 'impairment loss on trade and other receivables' in the statement of profit or loss and other comprehensive income for the six months ended 30 June 2017.

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

Transition

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

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

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

ii) Adoption of IFRS 15

The Group has early adopted IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2017 in annual consolidated financial statements for the year ended 31 December 2017. As a result, the Group has changed its accounting policy for revenue recognition. The details of the significant changes and quantitative impact of the changes are set out in the consolidated annual financial statements for the year ended 31 December 2017.

The Group recalculated comparative information in this consolidated interim financial statements in accordance with the accounting policy, which were applied in the consolidated financial statements for the year ended 31 December 2017.

The following tables summarises the impact of adopting IFRS 15 on the Group's consolidated interim financial statements for the six months ended 30 June 2017.

Consolidated interim statement of profit or loss and other comprehensive income

Six months ended 30 June 2017 **mln RUB**	**As reported**	**Adjustments**	**Amount without adoption of IFRS 15**
Revenue	29 016	(5 533)	23 483
Cost of sales	(22 908)	4 280	(18 628)
Gross profit	6 108	(1 253)	4 855
Other expenses, net	(176)	(143)	(319)
Other	(3 402)	-	(3 402)
Results from operating activities	2 530	(1 396)	1 134
Finance income – interest revenue	767	(9)	758
Finance income - other	2	-	2
Finance costs	(423)	270	(153)
Net finance income	346	261	607
Profit before income tax	2 876	(1 135)	1 741
Income tax expense	(754)	227	(527)
Profit for the period	2 122	(908)	1 214
Earnings per share			
Basic and diluted earnings per share (RUB)	7,25	(3,11)	4,14

Consolidated interim statement of cash flows

Six months ended 30 June 2017 **mln RUB**	**As reported**	**Adjustments**	**Amount without adoption of IFRS 15**
OPERATING ACTIVITIES:			
Profit for the period	2 122	(908)	1 214
Impairment loss on inventories	170	142	312
Finance income, net	(346)	(259)	(605)
Income tax expense	754	(227)	527
Other	338	-	338
Cash from operating activities before changes in working capital and provisions	**3 038**	**(1 252)**	**1 786**
Change in inventories	(582)	(3 302)	(3 884)
Change in accounts receivable	(7 998)	3 158	(4 840)
Change in accounts payable	(1 024)	(25)	(1 049)
Change in contract liabilities	7 727	1 495	9 222
Income tax paid	(1 018)	(72)	(1 090)
Other	(2 345)	(2)	(2 347)
Cash used in operating activities	**(2 202)**	**-**	**(2 202)**

3 Significant accounting policies

a) Basis of consolidation

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

b) Foreign currency

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

c) Financial instruments

(i) Financial assets

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

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

Loans and receivables

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

Cash and cash equivalents

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

(ii) Financial liabilities

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

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

The Group derecognises a financial liability when its obligations specified in the contracts are discharged or cancelled or expire.

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

d) Advances received and paid

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

e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

f) Inventories

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

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

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

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

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

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

g) Share-based payment arrangements

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

h) Revenue

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

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

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

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

For sales contracted under share participation agreements concluded with customers before 1 January 2017 the control is considered to have been transferred to individual buyers when the construction is completed and the building has been approved by the State commission for acceptance of finished buildings. Effective 1 January 2017, the amendments were made to the federal law 214-FZ, according to which in case real estate developer properly fulfills its obligations under share participation agreement, the buyer has no right to terminate the contract extrajudicially. Following the amendments made to the federal law No.214-FZ, the Group has an enforceable right to payment under the agreements since 1 January 2017. Share participation agreements specify the exact apartment to be delivered to the customer, which cannot be delivered to another customer and thus represents an asset with no alternative use to the Group. In accordance with the requirements of IFRS 15, share participation agreements concluded on or after 1 January 2017 qualify for transfer of control of real estate property over time and satisfies performance obligation for revenue recognition over time.

For each performance obligation satisfied over time (promise to transfer an apartment specified in the contract with a customer in a multicompartment building under construction), the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation using the input method. Under the input method, revenue is recognised on the basis of costs incurred relative to the total expected costs to the satisfaction of that performance obligation that is the proportion of costs incurred to date to construct a multicompartment building to the total costs to construct this building in accordance with a business plan. The progress is considered to be the same for all apartments within a building, irrespective of their floors, and revenue is recognized only with respect to apartments which are contracted under share participation agreements concluded on or after 1 January 2017. Costs used to measure progress towards complete satisfaction of performance obligation include costs of design and construction of a multicompartment building, the building's share of costs to construct public utilities' objects within a construction project of which the building is a part of, and exclude the cost of acquisition of land plots. The cost of acquisition of land plot is recognized in cost of sales on the same measure as respective revenue.

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 the average mortgage rate for contract assets and the Group's incremental borrowing rate for contract liabilities.

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

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

(ii) Revenue from construction services

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

1) Contracts for provision of construction services;

2) Contracts for construction of an asset.

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

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

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

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

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

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

(iii) Revenue from sale of construction materials

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

i) Income tax

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

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

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

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

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

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

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

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

j) New Standards and Interpretations

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated interim financial statements.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements

IFRS 16 _Leases_

IFRS 16 replaces the existing lease accounting guidance in IAS 17 _Leases,_ IFRIC 4 _Determining whether an Arrangement contains a lease,_ SIC-15 _Operating Leases – Incentives_ and SIC-27 _Evaluating the Substance of Transactions Involving the Legal Form of a Lease_.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

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

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land plots for development purposes. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases are disclosed in note 27. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

<u>Determining whether an arrangement contains a lease</u>

On transition to IFRS 16, the Group can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases under IAS 17 and IFRIC 4.

<u>Transition</u>

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

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

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

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

Various *Improvements to IFRSs* and other amendments have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2018. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

a) Non-derivative financial assets

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

b) Non-derivative financial liabilities

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

5 Operating segments

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

- *Residential development*. Includes construction of residential real estate including flats, built-in premises and parking places.
- *Construction services*. Includes construction services for third parties and for internal purpose.
- *Other operations.* Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments during the six months ended 30 June 2018 or 2017.

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

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

a) Information about reportable segments

mln RUB	Residential development		Construction services		Other		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2018	**2017 (recalculated)**	**2018**	**2017**	**2018**	**2017 (recalculated)**	**2018**	**2017 (recalculated)**
External revenues	17 762	21 941	4 052	3 726	2 885	3 349	**24 699**	**29 016**
Inter-segment revenue	-	-	5 466	6 566	256	278	**5 722**	**6 844**
Total segment revenue	17 762	21 941	9 518	10 292	3 141	3 627	**30 421**	**35 860**
Gross profit	4 715	5 892	183	326	(13)	(110)	**4 885**	**6 108**
Interest in cost of sales	883	1 285	-	-	-	-	**883**	**1 285**
Gross profit adjusted for interest in cost of sales	5 598	7 177	183	326	(13)	(110)	**5 768**	**7 393**
Gross profit adjusted, %	32%	33%						

	30 June 2018	**31 December 2017 (recalculated)**	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017 (recalculated)**
Reportable segment assets: inventories	78 352	75 426	977	779	2 533	1 917	**81 862**	**78 122**
Total liabilities for reportable segments: contract liabilities	33 542	25 501	439	35	160	113	**34 141**	**25 649**

b) Geographical information

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

	Revenues		**Non-current assets**	
	Six months ended 30 June		**30 June**	**31 December**
mln RUB	**2018**	**2017 (recalculated)**	**2018**	**2017**
St. Petersburg metropolitan area	15 636	14 826	7 822	6 311
Moscow metropolitan area	9 063	14 190	5 648	5 886
	24 699	**29 016**	**13 470**	**12 197**

c) Major customer

Revenue from one customer of the Group, recognised within the segment “Residential development”, amounted to RUB 1 997 million or 8% of the Group’s total revenue for the six months ended 30 June 2018 (revenue from one customer of the Group, recognised within the segment “Construction services”, amounted to RUB 599 million or 26% of the Group’s total revenue for the six months ended 30 June 2017).

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

mln RUB	**Six months ended 30 June**	
	2018	**2017 (recalculated)**
Revenues		
Total revenue for reportable segments	30 421	35 860
Elimination of inter-segment revenue	(5 722)	(6 844)
Consolidated revenue	**24 699**	**29 016**
Profit or loss		
Gross profit for reportable segments	4 885	6 108
General and administrative expenses	(3 456)	(1 990)
Selling expenses	(1 740)	(1 168)
Impairment loss on trade and other receivables	(212)	(244)
Other expenses, net	(1 467)	(176)
Finance income and interest revenue	1 104	769
Finance costs	(441)	(423)
Consolidated (loss)/profit before income tax	**(1 327)**	**2 876**
	30 June 2018	**31 December 2017**
Assets		
Total assets for reportable segments: inventories	81 862	78 122
Total inventories	**81 862**	**78 122**
Liabilities		
Total liabilities for reportable segments: contract liabilities	34 141	25 649
Total contract liabilities	**34 141**	**25 649**

6 Revenue

	Six months ended 30 June	
mln RUB	**2018**	**2017 (recalculated)**
Sale of flats - transferred at a point in time	8 144	15 273
Sale of flats - transferred over time	8 394	4 135
Sale of built-in commercial premises - transferred at a point in time	391	562
Sale of built-in commercial premises - transferred over time	448	101
Sale of parking places - transferred at a point in time	313	1 746
Sale of parking places - transferred over time	72	124
Total revenue - segment Residential development (note 5 (a))	17 762	21 941
Long term construction contracts - transferred over time	3 826	3 209
Short term construction services - transferred over time	226	517
Total revenue of segment Construction services (note 5 (a))	4 052	3 726
Sale of construction materials - transferred at a point in time	1 681	2 095
Sale of stand-alone commercial premises - transferred at a point in time	42	97
Other revenue - transferred at a point in time	835	796
Total other revenue (note 5 (a))	2 558	2 988
Total revenues from contracts with customers	**24 372**	**28 655**
Rental revenue (note 5 (a))	327	361
Total revenues	**24 699**	**29 016**

Contract balances

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date for long-term construction contracts. Contract assets are transferred to Trade receivables when the rights become unconditional.

Contract liabilities relate to advance consideration received from customers.

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

	Six months ended			
	30 June 2018		30 June 2017	
mln RUB	Contract assets	Contract liabilities	Contract assets	Contract liabilities
Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period	-	27 291	-	19 227
Increases due to cash received, excluding amounts recognized as revenue during the period	-	(35 783)	-	(26 954)
Transfers from contract assets recognised at the beginning of the period to receivables	(341)	-	(157)	-
Increase as a result of changes in the measure of progress	(682)	-	1 148	-
Total change in the reporting period	**(1 023)**	**(8 492)**	**991**	**(7 727)**

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.

mln RUB	**2018**	**2019**	**2020**	**2021**	**Total**
Residential development	9 947	12 108	6 399	731	**29 185**
Construction services	5 604	4 756	798	9	**11 167**
Total	**15 551**	**16 864**	**7 197**	**740**	**40 352**

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

7 General and administrative expenses

	Six months ended 30 June	
mln RUB	**2018**	**2017**
Payroll and related taxes	1 835	1 367
Equity-settled share based payments (note 10)	846	-
Services	226	189
Audit and consulting services	84	59
Bank fees and commissions	93	59
Other taxes	82	77
Materials	58	28
Depreciation	38	26
Repair and maintenance	40	42
Other	154	143
Total	**3 456**	**1 990**

8 Other expenses, net

mln RUB	**Six months ended 30 June**	
Other income	**2018**	**2017**
Fees and penalties received	26	16
Other income	190	39
Gain on disposal of property, plant and equipment	-	51
Gain on disposal of investment property	-	27
	216	**133**
Other expenses		
Impairment loss on inventories (Note 17)	(1 564)	(170)
Loss on disposal of inventories	(4)	-
Loss on disposal of property, plant and equipment	(7)	-
Other expenses	(108)	(139)
	(1 683)	**(309)**
Other expenses, net	**(1 467)**	**(176)**

9 Personnel costs

	Six months ended 30 June	
mln RUB	**2018**	**2017**
Wages and salaries	3 278	2 553
Contributions to the State pension fund	826	659
Equity-settled share based payments (note 10)	846	-
	4 950	**3 212**

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 six months ended 30 June 2018 personnel costs and related taxes included in cost of production amounted to RUB 1 805 million (six months ended 30 June 2017: RUB 1 561 million). The remaining part of personnel expenses was subsumed within general and administrative expenses with equity-settled share based payments (see note 7) and selling expenses in the total amount of RUB 464 million (six months ended 30 June 2017: RUB 284 million).

The average number of staff employed by the Group during the six months ended 30 June 2018 was 4 845 employees (six months ended 30 June 2017: 4 407 employees).

10 Share-based payment arrangements

Share option programme (equity-settled)

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

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

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

The following key assumptions were used by the appraiser:

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

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

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

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

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

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

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

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

In respect 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 fllowing 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 volatility of the Company's GDRs for the period from April 14, 2011 to June 08, 2018. Dividend yield - as average actual dividend yield of Company's shares for the period 2014 - 2017.

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

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

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

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

11 Finance income and finance costs

mln RUB	Six months ended 30 June 2018	2017 (recalculated)
Recognised in profit or loss		
Finance income		
Interest income under the effective interest method on:		
- Bank deposits - at amortised cost	200	-
- Bank deposits - held to maturity	-	278
- Unwinding of discount on trade receivables	464	348
- Cash and cash equivalents (except bank deposits)	231	141
Total interest income arising from financial assets measured at amortised cost	**895**	**767**
Net foreign exchange gain	121	-
Gain on write-off of accounts payable	84	2
Reversal of impairment loss on investments	4	-
Finance income - other	**209**	**2**
Finance costs		
Financial liabilities measured at amortised cost:		
- Interest expenses (financing component under IFRS 15)	(440)	(270)
- Interest expense on finance leases	-	(2)
Impairment loss on advances paid to suppliers	(1)	(129)
Net foreign exchange loss	-	(22)
Finance costs	**(441)**	**(423)**
Net finance income recognised in profit or loss	**663**	**346**

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

mln RUB	2018	2017 (recalculated)
Borrowing costs and significant financing component capitalised during the period	1 898	2 400
Weighted average capitalisation rate	9,8%	11,7%

During the six months ended 30 June 2018, borrowing costs and significant financing component that have been capitalised into the cost of real estate properties under construction in the amount of RUB 883 million (six months ended 30 June 2017: RUB 1 285 million), were included into the cost of sales upon construction and sale of those properties – including borrowing costs in the amount of RUB 496 million (six months ended 30 June 2017: RUB 827 million), significant financing component in the amount of RUB 387 million (six months ended 30 June 2017: RUB 458 million).

12 Income tax expense

For the period from 1 January to 4 April 2017, the Company's applicable tax rate under the Income Tax (0%/10%) (Guernsey) Law, 2007 was 0%. Effective from 5 April 2017, the Company's applicable tax rate under the Cyprus Income Tax Law became 12,5%. The Cypriot subsidiaries' applicable tax rate is 12,5%. For the Russian companies of the Group the applicable income tax rate is 20% (six months ended 30 June 2017: 20%).

	Six months ended 30 June	
mln RUB	**2018**	**2017 (recalculated)**
Current tax expense		
Current year	1 128	1 111
(Over-provided)/Under-provided in prior periods	(298)	3
	830	1 114
Deferred tax expense		
Origination and reversal of temporary differences	(994)	(360)
Income tax (benefit)/expense	**(164)**	**754**

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

	Six months ended 30 June	
mln RUB	**2018**	**2017 (recalculated)**
(Loss)/profit before income tax	(1 327)	2 876
Theoretical income tax at statutory rate of 20%	(265)	575
Adjustments due to:		
(Over-provided)/Under-provided in prior periods	(298)	3
Effect of 16,5% tax rate *	(7)	(30)
Expenses not deductible and income not taxable for tax purposes, net	406	206
Income tax (benefit)/expense	**(164)**	**754**

* - the operations of JSC “Etalon LenSpetsSMU” (JSC “SSMO LenSpetsSMU” before 18 April 2017) are taxable at a rate of 16,5% due to applied tax concession.

13 Property, plant and equipment

During the six months ended 30 June 2018, depreciation expense of RUB 116 million (six months ended 30 June 2017: RUB 132 million) has been charged to cost of sales, RUB 16 million (six months ended 30 June 2017: RUB 20 million) to cost of real estate properties under construction, RUB 6 (six months ended 30 June 2017: RUB 4 million) to selling expenses and RUB 38 million (six months ended 30 June 2017: RUB 26 million) to general and administrative expenses.

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2018 the Group did not have leased plant and machinery (31 December 2017: RUB 187 million). The leased equipment secures lease obligations.

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2017	1 155	2 425	134	189	117	910	**4 930**
Additions	114	72	3	16	-	160	**365**
Reclassification from inventories	25	-	-	-	-	-	**25**
Disposals	(200)	(16)	(8)	(17)	-	-	**(241)**
Transfers	35	1	-	-	-	(36)	**-**
Balance at 30 June 2017	1 129	2 482	129	188	117	1 034	**5 079**
Balance at 1 January 2018	1 176	2 509	139	217	117	1 182	**5 340**
Additions	97	51	9	49	4	56	**266**
Reclassification from inventories	-	-	-	-	-	-	**-**
Disposals	(11)	(17)	(6)	(8)	-	-	**(42)**
Transfers	1 050	-	-	1	-	(1 051)	**-**
Balance at 30 June 2018	2 312	2 543	142	259	121	187	**5 564**
Depreciation and impairment losses							
Balance at 1 January 2017	(296)	(1 547)	(80)	(118)	-	-	**(2 041)**
Depreciation for the period	(58)	(102)	(10)	(12)	-	-	**(182)**
Disposals	46	10	5	10	-	-	**71**
Balance at 30 June 2017	(308)	(1 639)	(85)	(120)	-	-	**(2 152)**
Balance at 1 January 2018	(338)	(1 695)	(89)	(133)	-	-	**(2 255)**
Depreciation for the period	(75)	(74)	(9)	(18)	-	-	**(176)**
Disposals	8	14	5	2	-	-	**29**
Balance at 30 June 2018	(405)	(1 755)	(93)	(149)	-	-	**(2 402)**
Carrying amounts							
Balance at 1 January 2017	859	878	54	71	117	910	**2 889**
Balance at 30 June 2017	821	843	44	68	117	1 034	**2 927**
Balance at 1 January 2018	838	814	50	84	117	1 182	**3 085**
Balance at 30 June 2018	1 907	788	49	110	121	187	**3 162**

14 Investment property

	Six months ended 30 June	
mln RUB	**2018**	**2017**
Cost		
Balance at 1 January	596	806
Disposals	(9)	(199)
Balance at 30 June	**587**	**607**
Accumulated depreciation and impairment losses		
Balance at 1 January	(263)	(245)
Depreciation for the period	(9)	(10)
Disposals	1	2
Balance at 30 June	**(271)**	**(253)**
Carrying amount at 1 January	333	561
Carrying amount at 30 June	**316**	**354**

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 30 June 2018, fair value amounted to RUB 463 million (31 December 2017: RUB 458 million), which was determined based on discounted cash flows from the use of the property using the income approach. During the six months ended 30 June 2018, the Group has recognised no impairment loss for properties (six months ended 30 June 2017: no impairment loss).

15 Other long-term investments

mln RUB	**30 June 2018**	**31 December 2017**
Bank promissory notes - at amortised cost	654	-
Bank promissory notes - held to maturity	-	652
Loans - at amortised cost	102	87
	756	**739**
Loss allowance for loans given	(15)	-
Loss allowance for promissory notes	(19)	-
	722	**739**

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

As at 30 June 2018 bank promissory notes in the amount of RUB 451 million are pledged as security of secured bank loans (as at 31 December 2017: RUB 451 million), see note 23.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
mln RUB	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**
Property, plant and equipment	277	318	(800)	(738)	(523)	(420)
Investments	10	273	(41)	(23)	(31)	250
Inventories	3 342	3 775	(795)	(994)	2 547	2 781
Contract assets and trade and other receivables	331	504	(2 411)	(4 842)	(2 080)	(4 338)
Deferred expenses	302	239	(651)	(555)	(349)	(316)
Loans and borrowings	34	172	(12)	(28)	22	144
Provisions	53	100	79	44	132	144
Contract liabilities and trade and other payables	1 735	2 032	(1 282)	(1 166)	453	866
Tax loss carry-forwards	155	150	-	(1)	155	149
Other	74	73	(97)	(101)	(23)	(28)
Tax assets/(liabilities)	6 313	7 636	(6 010)	(8 404)	303	(768)
Set off of tax	(3 582)	(5 463)	3 582	5 463	-	-
Net tax assets/(liabilities)	**2 731**	**2 173**	**(2 428)**	**(2 941)**	**303**	**(768)**

(b) Unrecognised deferred tax liability

At 30 June 2018 a deferred tax liability arising on temporary differences of RUB 51 861 million (31 December 2017: RUB 47 494 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

mln RUB	1 January 2018	Recognised in profit or loss	Recognised in equty	30 June 2018
Property, plant and equipment	(420)	(103)	-	(523)
Investments	250	(281)	-	(31)
Inventories	2 781	(234)	-	2 547
Contract assets and trade and other receivables	(4 338)	2 194	64	(2 080)
Deferred expenses	(316)	(33)	-	(349)
Loans and borrowings	144	(135)	13	22
Provisions	144	(12)	-	132
Contract liabilities and trade and other payables	866	(413)	-	453
Tax loss carry-forwards	149	6	-	155
Other	(28)	5	-	(23)
	(768)	**994**	**77**	**303**

mln RUB	1 January 2017	Recognised in profit or loss (recalculated)	Recognised in equity	30 June 2017 (recalculated)
Property, plant and equipment	(311)	(172)	-	(483)
Investments	9	1	-	10
Inventories	1 066	748	-	1 814
Contract assets and trade and other receivables	(1 890)	(1 164)	-	(3 054)
Deferred expenses	(330)	(54)	-	(384)
Loans and borrowings	21	(8)	-	13
Provisions	127	50	-	177
Contract liabilities and trade and other payables	923	1 034	(76)	1 881
Tax loss carry-forwards	131	39	-	170
Other	111	(114)	-	(3)
	(143)	**360**	**(76)**	**141**

17 Inventories

mln RUB	30 June 2018	31 December 2017
Inventories under construction		
Own flats under construction	51 525	43 595
Built-in commercial premises under construction	6 999	5 809
Parking places under construction	8 764	7 775
	67 288	**57 179**
Less: Allowance for inventories under construction	(3 002)	(1 738)
Total inventories under construction	**64 286**	**55 441**
Inventories - finished goods		
Own flats	9 740	14 925
Built-in and stand-alone commercial premises	3 511	3 715
Parking places	3 003	3 233
	16 254	**21 873**
Less: Allowance for inventories - finished goods	(714)	(415)
Total inventories - finished goods	**15 540**	**21 458**
Other inventories		
Construction materials	1 139	879
Other	902	347
	2 041	**1 226**
Less: Allowance for other inventories	(4)	(3)
Total other inventories	**2 037**	**1 223**
Total	**81 863**	**78 122**

a) Barter transactions

Project 1

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

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

The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5%-6,4% per annum, a rate within this range was used, depending on year of recognition of land component;
- Discount rates – within 11,5% - 25% per annum, a rate within this range was used, depending on year of recognition of land component and stage of the project.

Project 2

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

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

The following key assumptions were used by the appraiser:

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

Project 3

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

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

The following key assumptions were used by the appraiser:

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

Project 4

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

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

The following key assumptions were used by the appraiser:

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

Accordingly, at 30 June 2018, the cost of land plots (Project 1) measured as described above and related to sold premises, was recognised in cost of sales during 2013 – 2017 and six months 2018 in the amount of RUB 7 769 million, while the remaining balance of RUB 773 million is included into finished goods and RUB 482 million - into inventories under construction.

At 30 June 2018, the cost of land plots (Project 2) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the six months ended 30 June 2018 in the amount of RUB 583 million, while the remaining balance of RUB 3 939 million is included into inventories under construction.

At 30 June 2018, the cost of land plots (Project 3) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the six months ended 30 June 2018 in the amount of RUB 1 203 million, while the remaining balance of RUB 3 192 million is included into inventories under construction.

At 30 June 2018, the cost of land plots (Project 4) measured as described above and related to premises sold under share participation agreements concluded since 1 January 2017, was recognised in cost of sales during the six months ended 30 June 2018 in the amount of RUB 84 million, while the remaining balance of RUB 1 716 million is included into inventories under construction.

In the course of implementation of several development projects the Group has to construct and transfer certain social infrastructure to the City Authorities. As at 30 June 2018, the cost of such social infrastructure amounts RUB 1 051 million and is included into the balance of finished goods and inventories under construction (31 December 2017: RUB 1 570 million). These costs are recoverable as part of projects they relate to.

b) Allowance for obsolete inventories

The following is movement in the allowance for obsolete inventories:

mln RUB	**2018**	**2017**
Balance at 1 January	2 156	1 416
Impairment loss on inventories (Note 8)	1 564	170
Reversed in equity due to change in accounting policy	-	(79)
Balance at 30 June	**3 720**	**1 507**

As at 30 June 2018, the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 3 720 million (30 June 2017: RUB 1 507 million) and the respective allowance was recognised in other expenses, see note 8. As at 30 June 2018, the allowance of RUB 3 593 million relates to parking places (30 June 2017: RUB 1 493 million).

The balance of parking places is equal to RUB 11 767 million as at 30 June 2018 (31 December 2017: RUB 11 008 million). An impairment allowance was made based on the following key assumptions:

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;
- Discount rates –10,11% per annum;
- Inflation rates – 4,0 – 4,5% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogues.

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

c) Rent out of property classified as inventories

The Group has temporarily rented out a part of certain items of property classified as inventories in these consolidated interim financial statements. As at 30 June 2018, the total carrying value of these items of property was RUB 540 million (31 December 2017: RUB 670 million). The Group is actively seeking buyers for these properties.

d) Pledges

As at 30 June 2018, inventories with a carrying amount of RUB 5 689 million (31 December 2017: RUB 9 371 million) are pledged as security for borrowings, see note 23.

18 Contract assets, trade and other receivables

mln RUB	30 June 2018	31 December 2017
Long-term trade and other receivables		
Trade receivables	6 384	5 734
Less: Allowance for doubtful trade accounts receivable	(82)	-
Trade long-term less allowance	**6 302**	**5 734**
Other receivables	244	131
Less: Allowance for doubtful other accounts receivable	(13)	-
Other long-term less allowance	**231**	**131**
Advances paid to suppliers	6	2
Total long-term trade and other receivables	**6 539**	**5 867**
Short-term trade and other receivables		
Trade receivables	9 841	14 016
Less: Allowance for doubtful trade accounts receivable	(380)	(465)
Trade short-term less allowance	**9 461**	**13 551**
Advances paid to suppliers	9 620	10 894
Less: Allowance for doubtful Advances paid to suppliers	(231)	(230)
Advances paid to suppliers short-term less allowance	**9 389**	**10 664**
VAT recoverable	3 292	2 478
Income tax receivable	327	579
Contract assets	164	1 187
Trade receivables due from related parties	8	6
Other taxes receivable	19	22
Other receivables due from related parties	9	9
Other receivables	1 279	1 832
	5 098	**6 113**
Less: Allowance for doubtful other accounts receivable	(220)	(144)
Other short-term less allowance	**4 878**	**5 969**
Total short-term trade and other receivables	**23 728**	**30 184**
Total	**30 267**	**36 051**

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

19 Short-term investments

mln RUB	30 June 2018	31 December 2017
Bank deposits (over 3 months) - at amortised cost	190	-
Bank deposits (over 3 months) - held to maturity	-	153
Loans - at amortised cost	148	169
	338	**322**
Loss allowance for loans given	(137)	(137)
Total	**201**	**185**

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

20 Cash and cash equivalents

mln RUB	30 June 2018	31 December 2017
Cash in banks, in RUB	10 649	6 902
Cash in banks, in USD	2 161	2 936
Cash in banks, in EUR	19	68
Cash in banks, in GBP	2	2
Petty cash	33	49
Cash in transit	21	3
Short-term deposits (less than 3 months)	5 980	4 165
Total	**18 865**	**14 125**

The Group keeps major bank balances in the major Russian banks with credit ratings BBB-, BB+, BB-, as well as in foreign banks with credit ratings A1 and B.

At 30 June 2018, one of the banks where the Group held its operating bank accounts, had a rating of BB- with Moody's Investors Service. At 30 June 2018, cash and cash equivalents held with that bank totaled RUB 5 095 million (31 December 2017: RUB 3 786 million). At 30 June 2018, the Group also had outstanding loans and borrowings with the same bank of RUB 1 505 million (31 December 2017: RUB 2 012 million).

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

21 Capital and reserves

a) Share capital

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

Number of shares unless otherwise stated

	30 June 2018		31 December 2017	
	Ordinary shares	**Preference shares**	**Ordinary shares**	**Preference shares**
Authorised shares				
Par value at the beginning of the period	0,00005 GBP	-	0,00005 GBP	-
On issue at the beginning of the period	286 741 593	20 000	292 229 971	20 000
Par value at the end of the period	0,00005 GBP	1 GBP	0,00005 GBP	1 GBP
Own shares disposed/(acquired) during the period	8 212 432	-	(5 488 378)	-
On issue at the end of the period, fully paid	**294 954 025**	**20 000**	**286 741 593**	**20 000**

During the six months ended 30 June 2017, the Company issued 20 000 preference shares of GBP 1 each. The shares bear no voting rights and no rights to dividend, and shall be redeemed within thirty days of giving notice by the Company to a holder of shares at a price per share at which each share was issued. Preference shares were fully paid in February 2017. Since the option to redeem the Company's shares are at the discretion of the Company and not the holders of the shares, the preference shares are classified as equity.

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

b) Share premium

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

c) Reserve for own shares

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

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

During the six months ended 30 June 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 30 June 2018, the total number of own shares acquired by the Group amounted to 3 946 shares or 0,001% of issued share capital.

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

d) Share options reserve

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

e) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 30 June 2018, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 49 509 million (31 December 2017: RUB 45 846 million).

During the six months ended 30 June 2018, the Company declared a dividend of RUB 3 260 million (six months ended 30 June 2017 - nil). As at 30 June 2018, dividends were unpaid and included into accounts payable in the amount of RUB 3 332 million (31 December 2017: nil).

f) Non-controlling interests in subsidiaries

During the six months ended 30 June 2018, there were no changes in the non-controlling interest in the Group's subsidiaries (six months ended 30 June 2017: a decrease in non-controlling interest of RUB 32 million resulting from acquisition of certain interests in a number of Group's subsidiaries).

22 Earnings per share

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

Number of shares unless otherwise stated	**2018**	**2017 (recalculated)**
Issued shares at 1 January	286 741 593	292 229 971
Effect of own shares disposed/(acquired) during the period	1 836 642	(53 373)
Weighted average number of shares for the six months ended 30 June	**288 578 235**	**292 176 598**
(Loss)/profit attributable to the owners of the Company, mln RUB	(1 164)	2 118
Basic and diluted (loss)/earnings per share (RUB)	(4,03)	7,25

23 Loans and borrowings

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

mln RUB	30 June 2018	31 December 2017
Non-current liabilities		
Secured bank loans	3 357	5 303
Unsecured bank loans	7 923	6 183
Unsecured bond issues	9 393	9 932
	20 673	**21 418**
Current liabilities		
Current portion of secured bank loans	79	972
Current portion of unsecured bank loans	1 471	1 482
Current portion of unsecured bond issues	583	36
Current portion of other unsecured loans	-	79
	2 133	**2 569**

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

mln RUB	30 June 2018	Proceeds from borrowings	Repayment of borrowings	Other changes	31 December 2017
Secured bank loans	3 436	123	(2 957)	(5)	6 275
Unsecured bank loans	9 394	3 486	(1 758)	1	7 665
Unsecured bond issues	9 976	-	-	8	9 968
Current portion of other unsecured loans	-	-	(1)	(78)	79
	22 806	**3 609**	**(4 716)**	**(74)**	**23 987**

mln RUB	Currency	Nominal interest rate	Year of maturity	30 June 2018 Face value	30 June 2018 Carrying amount	31 December 2017 Face value	31 December 2017 Carrying amount
Secured bank loans				**3 436**	**3 436**	**6 275**	**6 275**
Secured bank loan	RUB	CBR's key rate + 1,5%	2020	885	885	2 287	2 287
Secured bank loan	RUB	11,75%	2022	801	801	802	802
Secured bank loan	RUB	10,40%	2021	674	674	750	750
Secured bank loan	RUB	13,10%	2020	455	455	1 028	1 028
Secured bank loan	RUB	9,50%	2020	332	332	332	332
Secured bank loan	RUB	9,50%	2020	201	201	127	127
Secured bank loan	RUB	10,68%	2021	88	88	215	215
Secured bank loan	RUB	12,00%	2021	-	-	734	734
Unsecured bank loans				**9 394**	**9 394**	**7 665**	**7 665**
Unsecured bank loan	RUB	8,25% - 9,70%	2021	3 004	3 004	3 004	3 004
Unsecured bank loan	RUB	8,70% - 8,90%	2021	1 502	1 502	1 246	1 246
Unsecured bank loan	RUB	8,80%	2020	1 300	1 300	1 300	1 300
Unsecured bank loan	RUB	9,75%	2019	1 002	1 002	1 000	1 000
Unsecured bank loan	RUB	8,74 - 8,79%	2020	583	583	-	-
Unsecured bank loan	RUB	9,75%	2018	502	502	1 000	1 000
Unsecured bank loan	RUB	8,75%	2021	501	501	50	50
Unsecured bank loan	RUB	8,70%	2022	500	500	-	-
Unsecured bank loan	RUB	CBR's key rate + 1%	2021	250	250	50	50
Unsecured bank loan	RUB	CBR's key rate + 1%	2021	250	250	-	-
Unsecured bank loan	RUB	9,25%	2018	-	-	12	12
Unsecured bank loan	RUB	10,10%	2019	-	-	3	3
Unsecured bond issues				**10 033**	**9 976**	**10 115**	**10 047**
Unsecured bonds	RUB	8,95%	2022	5 018	4 988	5 020	4 985
Unsecured bonds	RUB	11,85%	2021	5 015	4 988	5 016	4 983
Other unsecured issues	RUB	9,00%	2018	-	-	79	79
				22 863	**22 806**	**24 055**	**23 987**

Bank loans are secured by:

- inventories with a carrying amount of RUB 5 689 million (31 December 2017: RUB 9 371 million), see note 17;
- bank promissory notes with a carrying amount of RUB 451 million (31 December 2017: RUB 451 million), see note 15;
- pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 3 065 million in its net assets (31 December 2017: pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 3 555 million in its net assets);
- pledge of 100% of shares in a subsidiary company LLC "Daikar" which represents RUB 4 330 million in its net assets (31 December 2017: RUB 4 542 million).
- pledge of 100% of shares in a subsidiary company LLC "LS-Rielty" which represents RUB 1 045 million in its net assets (31 December 2017: RUB 970 million).
- pledge of 100% of shares in a subsidiary company LLC "UK Dmitrovskaya" which represents RUB 2 004 million in its net assets (31 December 2017: RUB 2 050 million).
- pledge of 100% of shares in a subsidiary company LLC "Parkoviy Kvartal" which represents RUB 1 228 million in its net liabilities (31 December 2017: net assets of RUB 7 million).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. As at 30 June 2018, the Group was in compliance with all covenants.

24 Provisions

mln RUB	Warranties	Provision for deferred works	Provision for onerous contracts	Total
Balance at 1 January 2017	107	1 748	-	1 855
Provisions made during the period	7	752	-	759
Provisions used during the period	(15)	(883)	-	(898)
Provision reversed during the period	-	(123)	-	(123)
Balance at 30 June 2017	**99**	**1 494**	**-**	**1 593**
Balance at 1 January 2018	102	1 792	71	1 965
Provisions made during the period	3	47	45	95
Provisions used during the period	(20)	(729)	-	(749)
Provision reversed during the period	-	-	-	-
Balance at 30 June 2018	**85**	**1 110**	**116**	**1 311**
Non-current	85	-	-	85
Current	-	1 110	116	1 226
	85	**1 110**	**116**	**1 311**

a) Warranties

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

b) Provision for deferred works

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

25 Contract liabilities, trade and other payables

mln RUB	30 June 2018	31 December 2017
Long-term		
Trade payables	100	62
Other payables	2 054	2 484
	2 154	**2 546**
Short-term		
Trade payables	4 077	7 260
Contract liabilities	34 141	25 649
VAT payable	3 139	3 188
Dividends payable to equity holders	3 332	-
Payroll liabilities	751	733
Other taxes payable	253	251
Income tax payable	63	85
Finance lease liabilities	-	6
Other payables	4 756	3 397
	50 512	**40 569**
Total	**52 666**	**43 115**

Long-term other payables and short-term other payables mainly consist of obligation equal to RUB 1 634 million (31 December 2017: RUB 1 938 million) to construct the social infrastructure objects and liability of RUB 3 214 million (31 December 2017: RUB 3 526 million) to the City authorities for lease rights and change of intended use of land plot recognised as part of inventories.

Contract liabilities include advances from customers in the amount of RUB 14 032 million which will be satisfied after 12 months from the reporting date (31 December 2017: advances from customers in the amount of RUB 4 430 million). They are classified within short-term liabilities as development cycle of construction projects exceeds one year.

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

26 Financial instruments and risk management

a) Accounting classifications and fair values

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

mln RUB	Carrying amount			Fair value		
30 June 2018	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Total**
Financial assets not measured at fair value						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	17 168	-	**17 168**	-	17 305	**17 305**
Bank deposits (over 3 months)	190	-	**190**	-	190	**190**
Bank promissory notes	635	-	**635**	-	657	**657**
Cash and cash equivalents	18 865	-	**18 865**	18 865	-	**18 865**
	36 858	**-**	**36 858**	**18 865**	**18 152**	**37 017**
Financial liabilities not measured at fair value						
Secured bank loans	-	(3 436)	**(3 436)**	-	(3 528)	**(3 528)**
Unsecured bank loans	-	(9 394)	**(9 394)**	-	(9 341)	**(9 341)**
Unsecured bond issues	-	(9 976)	**(9 976)**	(10 399)	-	**(10 399)**
Trade and other payables	-	(15 222)	**(15 222)**	-	(15 280)	**(15 280)**
	-	**(38 028)**	**(38 028)**	**(10 399)**	**(28 149)**	**(38 548)**

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

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

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

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

Risk management framework

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

b) Credit risk

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

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

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

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 30 June 2018 the receivables of one customer was equal to RUB 960 million or 5% of the Group`s consolidated trade and other receivables (31 December 2017: RUB 1 338 million or 6%).

(ii) Guarantees

As at 30 June 2018 the Group had not provided any financial guarantees to entities outside the Group (31 December 2017: nil).

(iii) Exposure to credit risk

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

	Carrying amount	
mln RUB	**30 June 2018**	**31 December 2017**
Financial assets and contract assets		
Loans and receivables (excluding taxes receivable, advances paid to suppliers), including contract assets	7 262	5 988
Bank promissory notes	635	652
Bank deposits (over 3 months)	190	153
Cash and cash equivalents	18 865	14 125
	26 952	**20 918**
Financial liabilities at amortized cost	**38 028**	**38 028**

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

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

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

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
mln RUB	**30 June 2018**		**31 December 2017**	
Not past due	13 157	(122)	18 065	-
Past due 0-30 days	772	(3)	434	-
Past due 31-90 days	765	(23)	179	
Past due 91-120 days	176	(8)	77	-
Past due more than 120 days	1 363	(306)	1 001	(465)
	16 233	**(462)**	**19 756**	**(465)**

The ageing of loans given at the reporting date was:

	Gross	Impairment	Gross	Impairment
mln RUB	**30 June 2018**		**31 December 2017**	
Not past due	113	(15)	119	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
Past due more than 120 days	137	(137)	137	(137)
	250	**(152)**	**256**	**(137)**

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. Comparative amounts for the six months ended 30 June 2017 represent the allowance account for impairment losses under IAS 39.

mln RUB	6 months 2018	6 months 2017
Balance at 1 January	465	392
Adjustment on initial application of IFRS 9	281	-
Balance at 1 January per IFRS 9	746	392
Amounts written off	(389)	(29)
Net remeasurement of loss allowance	105	196
Balance at 30 June	**462**	**559**

The following significant change in the gross carrying amounts of trade receivables contributed to the decrease in the impairment loss allowance during the six months ended 30 June 2018:

- write-off of uncollectible receivables of three counterparties in the amount of RUB 386 million contributed to the corresponding decrease in loss allowance;
- the increase in the allowance was facilitated by an increase in overdue accounts receivable arising from sale of real estate by RUB 386 million (an increase in the allowance by RUB 54 million), establishing of an allowance for receivables under construction contracts (an increase in the allowance by RUB 18 million), and increase in overdue trade receivables (an increase in the allowance by RUB 19 million).

The impairment loss on trade and other receivables also includes writen-off accounts receivable for which no provision for impairment has been made in the amount of RUB 91 million.

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

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

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

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

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

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

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

Allowance for impairment in respect of other receivables

The movement in the allowance for impairment in respect of other receivables during the reporting period was as follows. Comparative amounts for the six months ended 30 June 2017 represent the allowance account for impairment losses under IAS 39.

mln RUB	**6 months 2018**	**6 months 2017**
Balance at 1 January	144	96
Adjustment on initial application of IFRS 9	70	-
Balance at 1 January per IFRS 9	214	96
Amounts written off	(4)	(20)
Net remeasurement of loss allowance	23	34
Balance at 30 June	**233**	**110**

The following significant change in the gross carrying amounts of other receivables contributed to the increase in the impairment loss allowance during the six months ended 30 June 2018:

- increase in other short-term receivables from contract on assignment of rights under the agreement of participation in shared construction of residential complex of another developer in the amount of RUB 600 million (an increase in the allowance by RUB 16 million).

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

The movement in the allowance for impairment in respect of loans given during the reporting period was as follows. Comparative amounts for the six months ended 30 June 2017 represent the allowance account for impairment losses under IAS 39:

mln RUB	**6 months 2018**	**6 months 2017**
Balance at 1 January	137	137
Adjustment on initial application of IFRS 9	38	-
Balance at 1 January per IFRS 9	175	137
Amounts written off	(4)	-
Net remeasurement of loss allowance	-	-
Balance at 30 June	**171**	**137**

Allowance for impairment of cash and cash equivalents

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

On initial application of IFRS 9, the Group did not recognise any impairment allowance for cash and cash equivalents as at 1 January 2018. The amount of the allowance did not change during the six months ended 30 June 2018.

Allowance for impairment in respect of advances paid to suppliers

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

mln RUB	6 months 2018	6 months 2017
Balance at 1 January	230	89
Amounts written off	-	(24)
Net remeasurement of loss allowance	1	153
Balance at 30 June	**231**	**218**

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

c) Liquidity risk

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

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

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

Contractual maturities of financial liabilities were as follows:

30 June 2018

mln RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	3 436	4 247	195	240	1 810	1 754	248	-	-
Unsecured bank loans	9 394	11 113	1 391	863	3 549	3 787	1 523	-	-
Unsecured bond issues	9 976	12 585	500	1 064	3 071	4 973	2 366	611	-
Trade and other payables (excluding taxes payable and contract liabilities)	15 222	15 717	11 030	2 096	1 379	1 086	125	1	-
	38 028	**43 662**	**13 116**	**4 263**	**9 809**	**11 600**	**4 262**	**612**	**-**

31 December 2017

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

d) Market risk

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

(i) Currency risk

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

mln RUB	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
	30 June 2018		31 December 2017	
Cash and cash equivalents (see note 20)	2 161	19	2 936	68
Net exposure	**2 161**	**19**	**2 936**	**68**

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	Six months ended 30 June 2018	Six months ended 30 June 2017	30 June 2018	31 December 2017
USD 1	59,35	57,84	62,76	57,60
EUR 1	71,82	62,69	72,99	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	
	30 June 2018	31 December 2017
Fixed rate instruments		
Financial assets	26 206	20 783
Financial liabilities	(20 421)	(20 656)
	5 785	**127**
Variable rate instruments		
Financial liabilities	(2 385)	(3 337)
	(2 385)	**(3 337)**

Fair value sensitivity analysis for fixed rate instruments

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

e) Capital management

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

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

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

mln RUB	30 June 2018	31 December 2017
Total borrowings	22 806	23 987
Less: cash and cash equivalents	(18 865)	(14 125)
Less: bank deposits over 3 months, note 19	(190)	(153)
Net debt	3 751	9 709
Total equity	58 915	62 805
Debt to capital ratio at end of period	0,06	0,15

At 31 December 2017, finance lease liabilities of RUB 6 million (30 June 2018 – nil) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	30 June 2018	31 December 2017
Less than one year	359	469
Between one and five years	963	953
More than five years	315	198
	1 637	**1 620**

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

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

The leases typically run for the years of construction of premises. After these properties are constructed and sold, lease rentals are paid by the owners of those properties. Lease payments are usually increased annually to reflect market rentals.

During the six months ended 30 June 2018 the amount of RUB 54 million (six months ended 30 June 2017: RUB 14 million) was recognised as an expense in the consolidated interim statement of profit or loss and other comprehensive income in respect of operating leases, while RUB 514 million (six months ended 30 June 2017: RUB 90 million) were capitalised into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 30 June 2018 the Group has no capital commitments (31 December 2017: nil).

29 Contingencies

a) Insurance

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

b) Litigation

During the six months ended 30 June 2018, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated interim financial statements.

c) Taxation contingencies

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

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

30 Related party transactions

a) Transactions with management

(i) Management remuneration

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

	Six months ended 30 June	
mln RUB	**2018**	**2017**
Salaries and bonuses	268	119
	268	**119**

During the six months ended 30 June 2018 and 2017, the Group did not grant any loans and pensions to its key management personnel. The key management personnel is subject to share-based payment program as disclosed in the note 10. During the six months ended 30 June 2018, the total cash remuneration of key management personnel amounted to RUB 268 million (six months ended 30 June 2017: RUB 119 million).

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
	Six months ended 30 June		30 June	31 December
mln RUB	**2018**	**2017**	**2018**	**2017**
Sale of apartments and premises	8	-	3	(2)
	8	**-**	**3**	**(2)**

b) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
	Six months ended 30 June		30 June	31 December
mln RUB	**2018**	**2017**	**2018**	**2017**
Other related parties	23	25	7	7
	23	**25**	**7**	**7**

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

(ii) Expenses

	Transaction value		Outstanding balance	
	Six months ended 30 June		30 June	31 December
mln RUB	**2018**	**2017**	**2018**	**2017**
Other related parties	69	72	(3)	(8)
	69	**72**	**(3)**	**(8)**

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

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	30 June 2018	31 December 2017
JSC "GK Etalon"	Russian Federation	100,00%	100,00%
LLC "EtalonAktiv"	Russian Federation	100,00%	100,00%
JSC "Etalon LenSpetsSMU" (JSC "SSMO LenSpetsSMU" before 18 April 2017)	Russian Federation	100,00%	100,00%
JSC "Novator"	Russian Federation	100,00%	100,00%
JSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100,00%	100,00%
LLC "Etalon-Invest"	Russian Federation	100,00%	100,00%
JSC "Zatonskoe"	Russian Federation	100,00%	100,00%
LLC "SPM-Zhilstroy"	Russian Federation	100,00%	100,00%
LLC "Zolotaya Zvezda"	Russian Federation	100,00%	100,00%

As at 30 June 2018, the Group controlled 140 legal entities (31 December 2017: 141). Their assets, liabilities, revenues and expenses have been included in these consolidated interim financial statements. The above is a list of the most significant subsidiaries.

32 Events subsequent to the reporting date

Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 30 June 2018 for the total amount of RUB 1 230 million.

Subsequent to the reporting date the Group has obtained additional tranches of loans for the total amount of RUB 867 million with interest rates of 8,79% - 9,25% and repayable by 2021.