Etalon Group

Etalon Group is one of Russia's largest and oldest residential real estate developers, with a market-leading position in St Petersburg and a growing presence in the Moscow metropolitan area. With over 30 years of experience in real estate development and construction, it has one of the longest track records in the Russian real estate industry.

Etalon Group ANNUAL REPORT 2018

Etalon Group

BUILDING THE FUTURE TOGETHER

ANNUAL REPORT 2018

CONTENTS

2018 HIGHLIGHTS AND 2019 OUTLOOK

OPERATING HIGHLIGHTS

- Delivered all-time high sales and cash collections in FY 2018 of RUB 68.7 bln and RUB 62.8 bln, respectively
- Share of business-class projects in total sales, in monetary terms, increased from 4% in FY 2017 to 12% in FY 2018
- The number of mortgage contracts increased by 50% in FY 2018 to 5,027 contracts
- Average price per sqm rose by 12% year-on-year to an all-time high of RUB 109.4 ths per sqm in FY 2018

CORPORATE HIGHLIGHTS

- We acquired a 51% stake in a Moscow developer, Leader-Invest, increasing our presence in the Moscow market[1]
- Gennadiy Shcherbina, who has worked at Etalon Group since 2003 and was Head of St Petersburg Operations since 2007, was appointed as the CEO of the Company
- Sistema became Etalon Group's largest shareholder by acquiring 25% of the capital from the founding shareholder[1]
- Standard & Poor's confirmed Etalon Group subsidiary LenSpetsSMU's long-term credit rating of B+ with a stable outlook

HSE HIGHLIGHTS

- Received a gold Green Zoom[2] certificate in recognition of the cutting-edge environmental features of the Botanica project in St Petersburg and a platinum Green Zoom certificate for the Silver Fountain project in Moscow
- Etalon Group's integrated environmental management system was certified as adhering to ISO 9001:2015 and ISO 14001:2015 standards
- Zero fatalities at Etalon Group operations for the third year in a row
- Implemented an environmental risk management system for the construction process

[1] As of 19 February 2019.

[2] Green Zoom is a Russian national certification system that was developed on the basis of the LEED and BREEAM systems.

68.7

RUB BLN

NEW CONTRACT SALES INCREASED BY 37% YEAR-ON-YEAR TO A RECORD HIGH RUB 68.7 BLN IN 2018

62.8

RUB BLN

CASH COLLECTIONS REACHED AN ALL-TIME HIGH OF RUB 62.8 BLN IN FY 2018

OPERATING AND FINANCIAL HIGHLIGHTS

Operating and financial figures

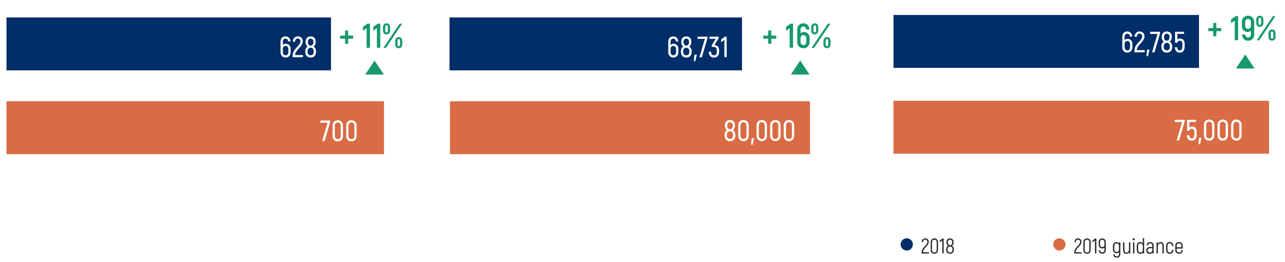
	2017	2018	Change
NEW CONTRACT SALES (RUB mln)	50,240	68,731	37%
NEW CONTRACT SALES (ths sqm)	512	628	23%
AVERAGE PRICE (RUB ths/sqm)	98.1	109.4	12%
CASH COLLECTIONS (RUB mln)	46,147	62,785	36%
NUMBER OF NEW CONTRACTS	9,916	12,312	24%
REVENUE (RUB mln)	70,645	72,327	2%
OPERATING CASH FLOW (RUB mln)	2,681	17,403	+ RUB 14,722 mln
FREE CASH FLOW (RUB mln)	243	14,672	+RUB 14,429 mln

2019 OUTLOOK

New contract sales, ths sqm

New contract sales, RUB mln

Cash collections, RUB mln



OUR BUSINESS

With a 30-year history and strong footholds in the Moscow and St Petersburg markets, Etalon Group is one of the largest and longest-established residential real estate development and construction companies in Russia. Today we employ around 5,000 people across our operations. Since its inception in 1987, the Company has commissioned 6.3 million square metres, building homes for more than 250,000 people.

We offer our customers high-quality housing at fair prices, adapting our product to bring the latest housing features to our projects, and investing in modern technologies like BIM systems. At Etalon Group we are also establishing new environmental standards for our projects in order to deliver the highest levels of quality to our customers and adapt to evolving demand as global trends influence the Russian market. We are also improving planning solutions, offering fit-out apartments, carefully thought-out public spaces at larger developments, and introducing updated and flexible floor plans that reflect modern market standards.

HOW WE OPERATE OUR BUSINESS

ETALON GROUP

Etalon LenSpetsSMU — St Petersburg development

Etalon Invest — Moscow development

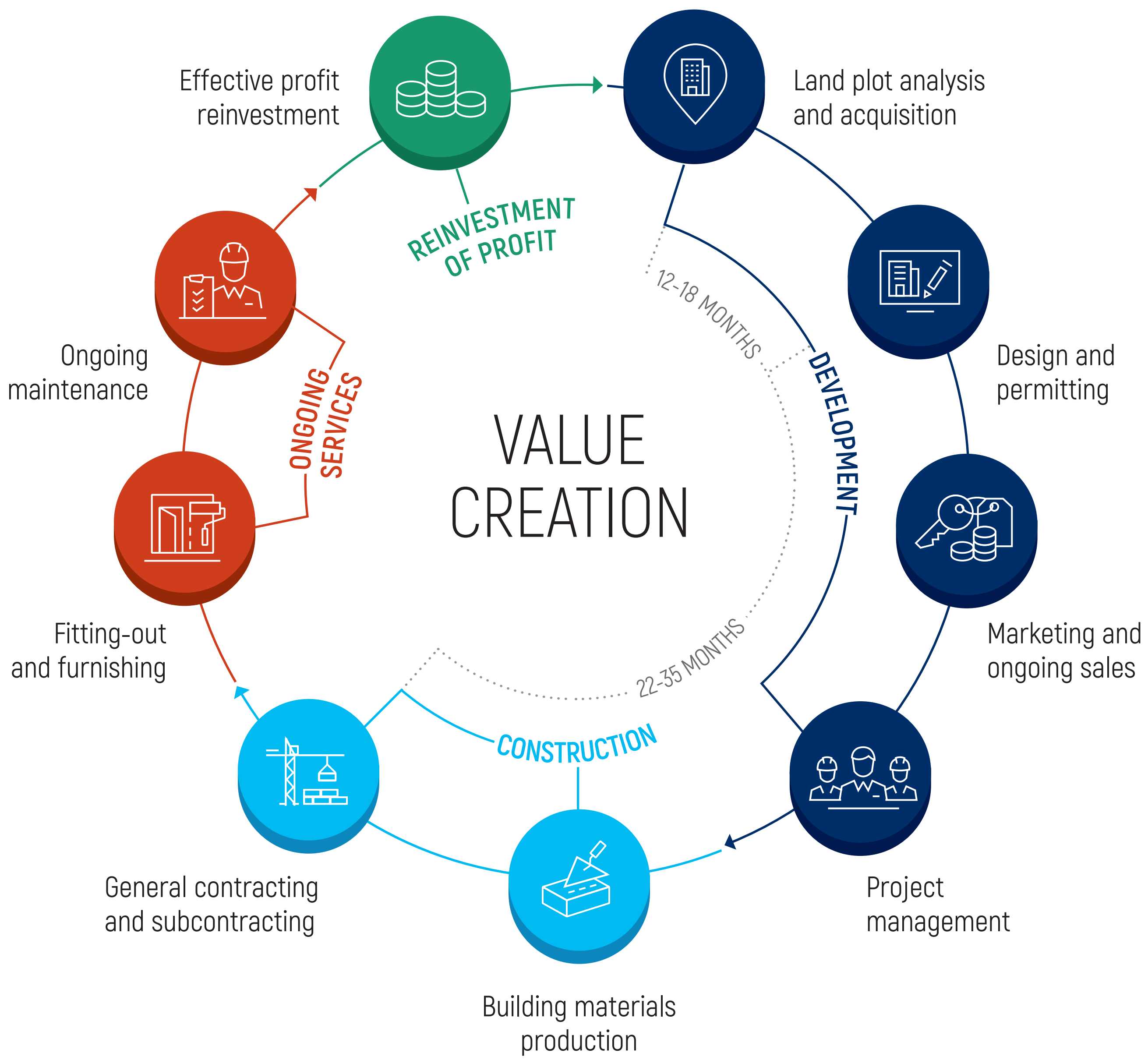
Etalon Stroy — Construction and maintenance

We maintain three main operating units that control the three key areas of our business: Etalon LenSpetsSMU and Etalon Invest are responsible for residential development work in St Petersburg and Moscow, respectively, while Etalon Stroy handles our construction and maintenance operations, including external industrial construction projects.

The head office, Etalon Group, is responsible for overall management and strategic oversight, setting standards and monitoring execution, as well as implementing Company-wide policies such as KPIs, new sales and marketing practices.

HOW WE CREATE VALUE

Our vertically integrated operations enable us to create value for our customers and for shareholders at every stage of the development cycle, from land plot analysis and acquisition all the way through ongoing maintenance of completed projects. The life cycle of a project is normally between three and four-and-a-half years, which can be divided into three key stages: development, construction and ongoing services. At every stage, we seek to maximise the return on investment, as well as to create value for our customers to support loyalty to the Etalon brand.

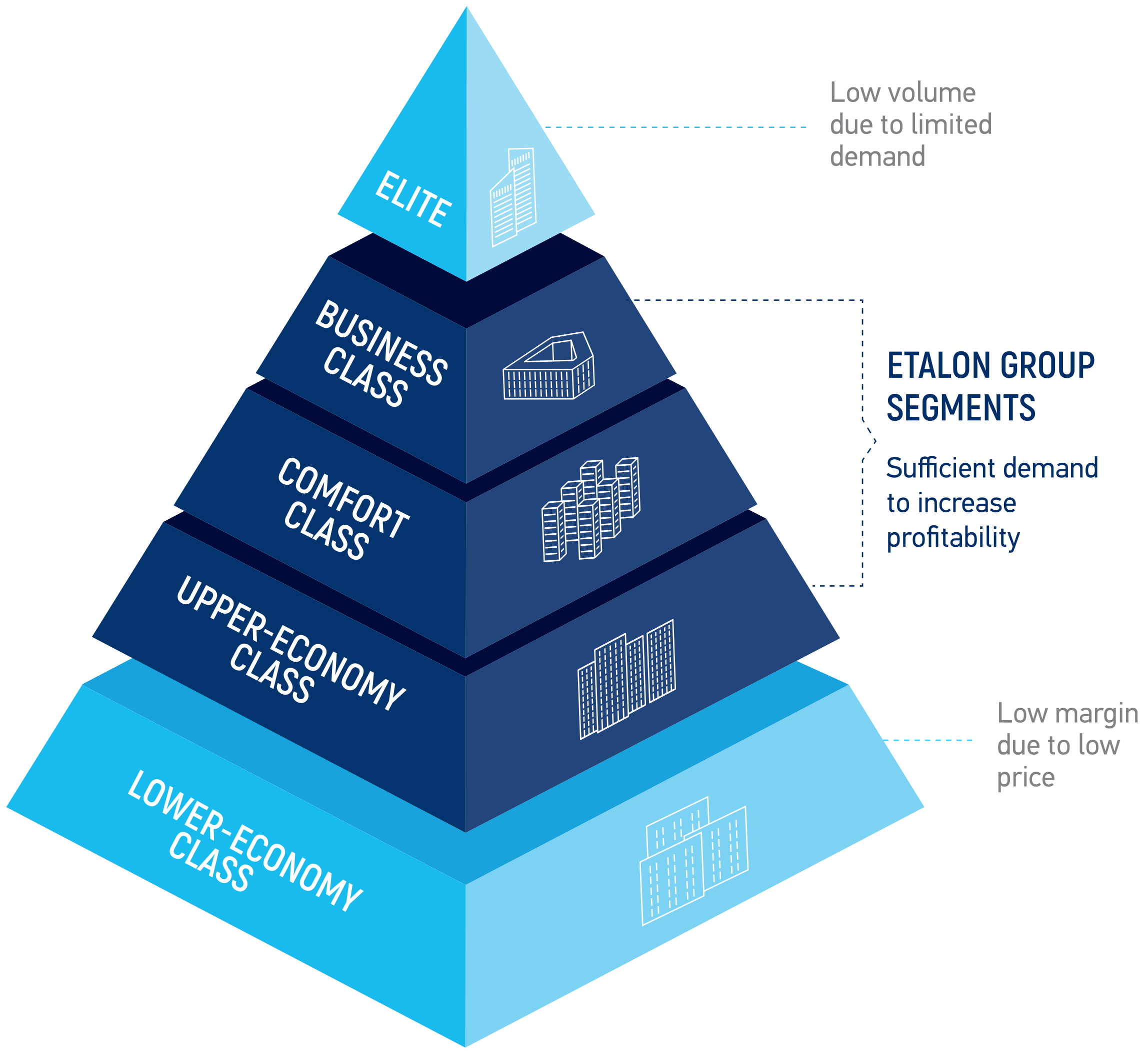


Our competencies	Value for customers and society	Value for shareholders
We only choose projects that provide a **strong foundation for the quality products** we build for our customers, and that will **ensure a high return on invested capital.**	All aspects related to the location of our future projects, such as **infrastructure, transport accessibility and leisure opportunities** are taken into account.	Being a market leader allows us to choose projects at advanced stages, with an **IRR higher than 15%.** Thus, we create conditions for a **high return on capital from the start of a project's life cycle.**
We have unique expertise in project design thanks to **our in-house design institute, science and technology centre,** and cooperation with leading architects.	We create **environmentally friendly and energy-efficient** projects using BIM, while also developing the surrounding area.	Thanks to our reputation, we can **obtain permission for land plots and start construction quickly,** while our advanced design systems **help reduce costs.**
We have a unique **regional sales network covering 58 cities,** invest in IT solutions, and **constantly improve our sales-force practice.**	We maintain **two-way communication with our customers:** providing complete information and acting on their feedback.	We can **maintain and increase our market share** despite fluctuations in the macro environment and ongoing legislative changes.
Our capabilities span from complex, **large-scale developments** of entire residential districts to **industrial construction projects.**	Our extensive project management experience helps to ensure the **quality, safety, and timely delivery of projects** that we undertake.	**We maintain stable returns on investment** and accurately forecast the resources that will be required for a given development.
Our own production facilities allow us to control quality, ensure uninterrupted supply and reduce costs by holding external tenders.	We provide customers **with high-quality housing at competitive prices** and without potential delays caused by a shortage of materials.	Vertical integration into key materials production **allows us to reduce costs,** while on-time delivery **helps us maintain our reputation and thus create new demand.**
Having delivered 6.3 million sqm, we have unique experience in **the construction of both residential and industrial projects.**	We guarantee the **quality of each project,** monitoring project safety using BIM technologies and guaranteeing **fulfilment of the construction terms.**	We aim to **reduce costs and increase return on invested capital.** We also have great **flexibility in controlling construction volumes** based on the economic conditions.
We have experience in offering both various **standard fit-outs and individual fit-out** designer options.	We keep up with the latest trends in apartment fit-outs and help our customers to acquire **housing that is ready to live in,** which is especially valuable for our regional buyers.	By offering clients fit-out and furnished apartments, we are able to reach a wider potential audience of buyers, thus **increasing demand and providing stable returns** on our operations.
We manage a portfolio of real estate with an area of 4.6 million sqm and 18.4 ths parking spaces.	Our detailed knowledge of each project means that we provide the **highest-quality ongoing maintenance** for our customers.	Efficient ongoing service provides us with **additional revenue** and helps us maintain the good reputation of our projects.
We have a strong history in effective profit allocation for sustainable growth.	We invest in **improving our products in line with consumer demand.**	We invest generated income into further growth and **return it to our shareholders** in the form of dividends.

OUR SEGMENTS OF THE RESIDENTIAL REAL ESTATE MARKET

We are focused on three segments of the residential real estate market: upper economy, comfort, and business, as they address 60-70% of potential housing demand in our core markets. We do not work in the elite sector, as potential for growth is limited due to limited demand. We also avoid the economy sector, since using brick-monolithic construction techniques will result in lower profitability due to low prices for economy-class housing. The lower-economy segment is also the least resilient to macroeconomic fluctuations, which contradicts our goal of continued, sustainable increases in market share and sales of real estate while maintaining high returns on capital. We further increased the share of business-class projects in our portfolio in 2018: as a result, the share of business-class projects in total sales increased year-on-year from 2% to 7% and from 4% to 12% in sqm and monetary terms, respectively.

The fact that buyers of business-class properties are more resilient to slight fluctuations in mortgage rates was especially important in 2018, when rates temporarily increased due to a rise in the key rate by the Bank of Russia. Looking ahead, mortgage rates are expected to continue to decline in the long term and will be one of the main demand drivers in our target segments, and we expect significant growth in the coming years (see the "Business environment and trends" section). In anticipation of these changes, we are improving our product in order to provide our customers contemporary housing solutions, while maintaining accessible pricing in line with each segment and providing for solid financial performance (see the "Advanced Product" section).



WHAT SETS US APART

Etalon Group is one of the largest and longest-established residential real estate developers in Russia, with a more than 30-year history and leading positions in the St Petersburg and Moscow markets. We believe that we create value for our stakeholders in a variety of ways that set us apart from our peers:

Reputation

In our more than 30 years of building homes in St Petersburg and Moscow, we have earned a reputation as a reliable developer that offers customers good quality for their money. Upholding this reputation is one of the keys to the long-term success and sustainability of our business.

Focus

We maintain our strategic focus on Russia's two most lucrative geographies of St Petersburg and Moscow, which benefit from sustainable population growth, some of the lowest unemployment rates in the world and increasingly accessible financing for residential real estate. **We also focus on the upper-economy-, comfort- and business-class segments of our markets, where we are able to deliver the best product for a growing number of customers.** These segments are the most resilient during economic downturns and the most active during periods of economic growth.

Transparency and governance

We analyse our policies and practices in these areas on an ongoing basis and introduce changes to ensure that Etalon Group adheres to global best practices. In February 2019, we increased the number of independent non-executive directors to six, which will help to ensure that **the interests of all shareholders are fairly represented.** We also maintain a constant focus on providing a high standard of transparency and disclosure for our investors.

Building a future for all stakeholders

We aim to ensure that **sustainability is embedded in all of our operations.** Our goal is to grow our business while maintaining high safety standards, minimising our environmental footprint, increasing our positive social impact, and ensuring that all of our stakeholders benefit from their interactions with Etalon Group.

Land bank

We aim to only purchase land plots where we can start construction within 12 to 18 months after acquisition in order to maintain a high return on capital. To ensure that our business does not depend on demand in a certain location, we focus on large and medium-size projects and avoid holding a significant volume of megaprojects in our portfolio. In February 2019, we purchased a 51% stake in Leader-Invest, thus **increasing our land bank in Moscow by a total of 1.3 mln sqm of unsold NSA**.

Outstanding operating performance

New **sales have grown with an impressive CAGR of 22% since 2010,** reaching a record-high RUB 68.7 bln in 2018. This has enabled Etalon to achieve stable positive cash flows, while consistently increasing **the volume of projects under construction.**

Strong financial position

We strive to maintain low debt levels: Etalon Group finished 2018 with **a net cash position of RUB 2.2 billion.**

Generous dividends

Etalon Group has one of the highest dividend payout ratios among Russian and international public development companies: **the payout range of 40% to 70%** of consolidated IFRS net profit, as approved by the Board of Directors in 2017, remains unchanged.

CHAIRMAN'S STATEMENT

OLEG MUBARAKSHIN

Chairman of the Board of Directors

Dear shareholders,

As you know, in early 2018 ambitious goals for growing sales of real estate were set for the Company's management team. I am pleased to say that the Company was able not only to achieve these targets but to significantly outperform them.

New contract sales performance in 2018 was outstanding, rising year-on-year by 23% in volume terms and by 37% in monetary terms to 628 ths sqm and RUB 68.7 billion, respectively. Etalon Group was thus able to further strengthen its position in Russia's two largest cities. While remaining an undisputed leader in St Petersburg, the Company has not only gained a foothold but indeed become one of the largest developers in Moscow, which is Russia's most lucrative market.

Etalon Group's strong operational results, combined with a sound approach to financial management, enabled the Company to generate free cash flow of RUB 14.7 billion and finish 2018 with net cash of RUB 2.2 billion. This is especially impressive in light of Etalon Group's record final dividend for 2017.

Etalon Group was also able to quickly adjust to the new regulatory framework for the industry that came into force on 1 July 2018. We have put in place mechanisms to ensure a smooth transition to the new rules, which take effect from 1 July 2019 and will fundamentally change the Russian housing market landscape. The new rules, which entail a transition to using escrow accounts for settlements with buyers, will create serious barriers for small and medium-sized players, and will further accelerate the consolidation of the industry. Etalon Group's current business model – including its well-established relationships with banks, strong financial position, ability to effectively manage the construction cycle, and the reliability and availability of a well-balanced portfolio of projects – will be key to ensuring its continued successful and sustainable development.

The Company was one of the first in the Russian market to agree terms for project finance in compliance with the new regulatory requirements that will come into force after 1 July 2019, which was reflected in an agreement with Russia's largest bank – Sberbank – on project financing with a reduced interest rate and settlements through escrow accounts for one of the buildings at Silver Fountain, Etalon Group's first business class project in Moscow.

The Company continued its strategic partnership with Sberbank in another major transaction with the provision of a credit line for the acquisition of a controlling stake in Leader-Invest, a large Moscow real estate developer, in February 2019.

The integration of Etalon Group's and Leader-Invest's portfolios created a new leader in the Moscow residential real estate market in terms of the number of projects available for sale. Etalon Group's land bank grew by 47% to 4 million sqm. A significant proportion of projects in the portfolio of the combined company will not fall under the new regulatory regime, creating a solid base for further expansion and increasing our market shares in both Moscow and St Petersburg while maintaining a sustainable financial position, generating positive cash flows and continuing to distribute profits via dividends to our shareholders.

Etalon Group's ability to create shareholder value was the basis for another important change. Sistema PJSFC acquired a large stake in Etalon Group from the family of its Founder, Viacheslav Zarenkov, who over the course of 30 years built a company that is not only a market leader but sets the standard for corporate governance and transparency for stakeholders – from customers who buy apartments with full confidence that Etalon Group will fulfil its obligations on time and in full to the Company's lenders and shareholders. As one of Russia's largest investment groups, Sistema will bring new opportunities for the further growth of Etalon Group's business in the interests of all of its customers and shareholders.

At the same time, it is important that we ensure continuity and maintain Etalon Group's unique corporate culture, its talented workforce and key corporate governance principles. The Group's Board of Directors has not undergone material changes – the principal shareholder's representatives have changed, and two new independent non-executive directors have been elected who will devote even greater focus to the interests of minority shareholders. In addition, to confirm both sides' commitment to accepted principles and policies, high standards of corporate governance and the interests of all of Etalon Group's shareholders, a relationship agreement was signed by Sistema and Etalon Group on 20 February 2019.

Etalon Group is even stronger after these transformations. The combined value of Leader-Invest and Etalon Group's assets, based on valuations from Knight Frank and Colliers International, is RUB 200 billion. This is significantly higher than the Company's current market capitalisation. We are working hard with the other members of the Board of Directors and the entire management team to unlock this value of Etalon Group.

I would like to thank all of our shareholders for their confidence in Etalon Group's successful future. I am also sincerely grateful to all of the Company's employees, who drove Etalon Group's impressive growth in 2018. I strongly believe that the experience and professionalism of the Company's management team, combined with the drive of all of our employees to achieve new heights and the opportunities presented by today's changing regulatory environment and the Company's new shareholders, will enable us to continue building the future together!

2.

BUSINESS ENVIRONMENT AND TRENDS

BUSINESS ENVIRONMENT AND TRENDS

As part of its development strategy, Etalon Group continues to operate in Russia's largest and fastest-growing markets: the Moscow metropolitan area and St Petersburg. The Company implements residential development projects in the upper-economy-, comfort- and business-class segments. Demand for housing in these mid-range price segments covers 60-70% of the total demand for housing and is more resistant to macroeconomic fluctuations.

In the coming years, we expect demand for housing to remain stable due to a continued shortage of supply, population growth in the cities where Etalon Group operates, as well as the large number of families who would like to improve their living conditions. On the other hand, the tightening of legislative regulations on share purchase agreements for residential construction will lead to a reduction in the number of players and to market consolidation. Thus, a reduction in supply in the residential development market, combined with continued demand and further consolidation should create a reliable base for growth and open up new opportunities for large developers, including Etalon Group.

DEMAND

The main factors driving demand growth are urbanisation, the need for better living conditions, housing affordability and the increasing availability of mortgages.

Urbanisation

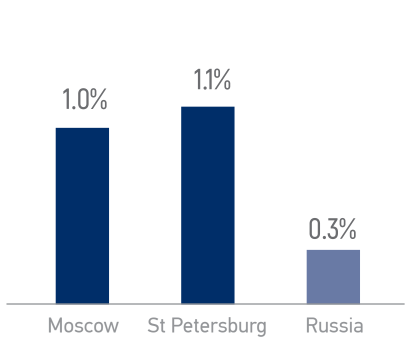
Historically, Moscow and St Petersburg have been Russia's primary business hubs. Many people move to these cities from other regions in an effort to improve their quality of life.

Population growth in Moscow and St Petersburg from 2008 to 2017 exceeded average growth in Russia and in many large European cities. The employment level in these regions has remained above the national average. At the same time, unemployment in Moscow and St Petersburg is noticeably lower than in the country as a whole and in many large European cities.

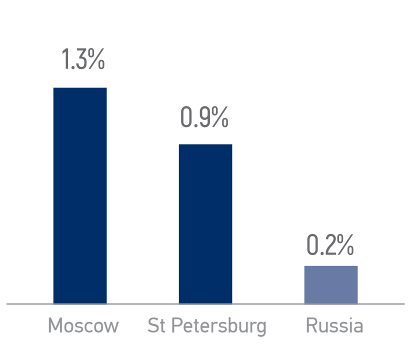
Moreover, these regions are among the leaders in terms of wages. The average monthly salary in 2018 amounted to RUB 83,678 in Moscow and RUB 60,123 in St. Petersburg, far higher than the national average of RUB 43,445.

The population growth rate in Moscow and St Petersburg has been at levels seen in large European countries, while having A SIGNIFICANTLY LOWER UNEMPLOYMENT RATE.

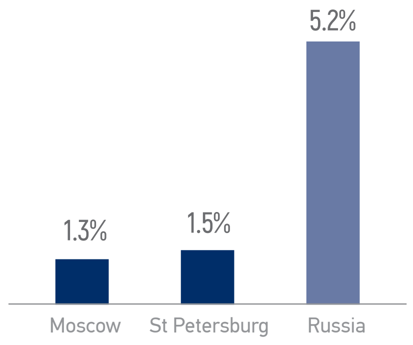
Population growth rate[1]



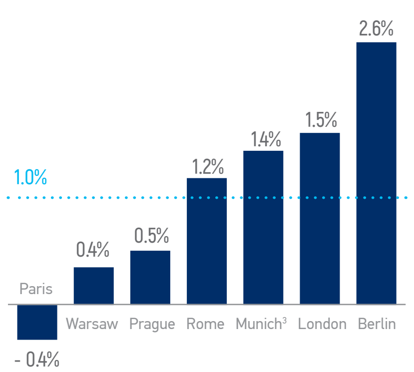
Employed persons growth rate[1]



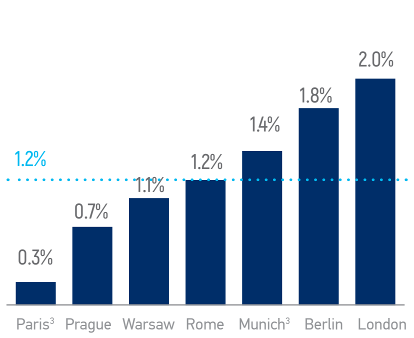
Unemployment rate[2]



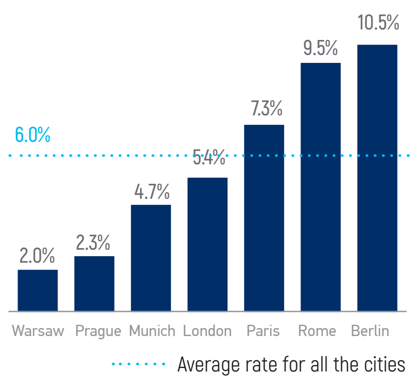
Population growth rate[1]



Employed persons growth rate[1]



Unemployment rate[2]



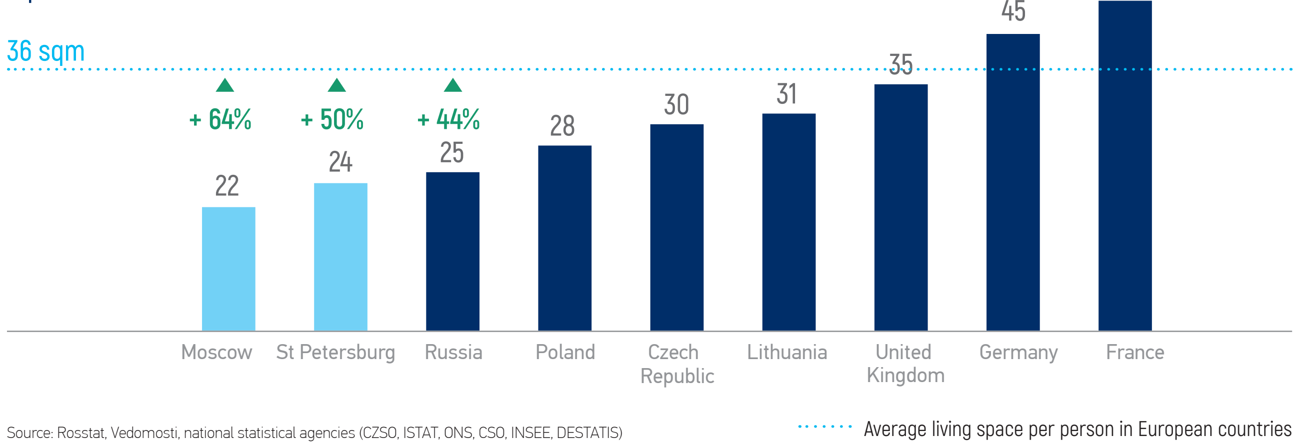
Source: Rosstat, Mosgorstat, Petrostat, Eurostat, national statistical agencies (CZSO, ISTAT, SOW, ONS, CSO, INSEE, DESTATIS, Statistik Berlin Brandenburg)

The need for better housing

Despite the fact that the amount of living space per capita in Russia increased from 20 to 25 square metres between 2005 and 2017, this figure is still low compared to other countries. In Eastern Europe, for example, there is an average of 30 square metres per person; France and Germany have more than 40 square metres per person. Due to the fact that people are striving to improve their living conditions and expand their living space, it is expected that this growth trend will continue in the future. According to forecasts by DOM.RF, Russia will reach the level of Eastern Europe by 2020, with about 30 square metres per person.

The amount of living space per person IS MUCH LOWER THAN IN EUROPEAN COUNTRIES.

Amount of living space per person, sqm



Source: Rosstat, Vedomosti, national statistical agencies (CZSO, ISTAT, ONS, CSO, INSEE, DESTATIS)

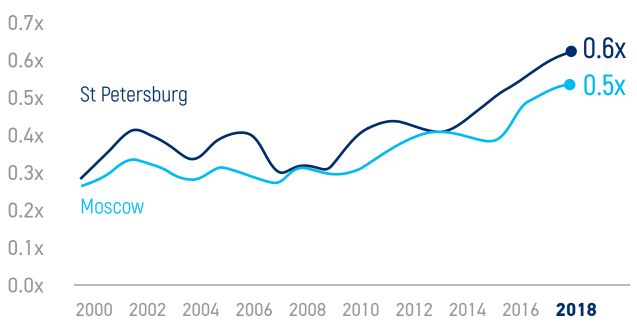
[1] 2008-2017 Compound average growth rate (CAGR).
[2] Data for 2017.
[3] 2008-2016 CAGR.

Housing affordability

The ratio of the average wage to the cost of 1 square metre of housing is 0.5x in Moscow and 0.6x in St Petersburg, which is 140% higher than it was in 2000. In addition, these indicators are very close to the average housing affordability index in major European cities, which is 0.62x, which indicates that the regions where Etalon Group operates are highly developed.

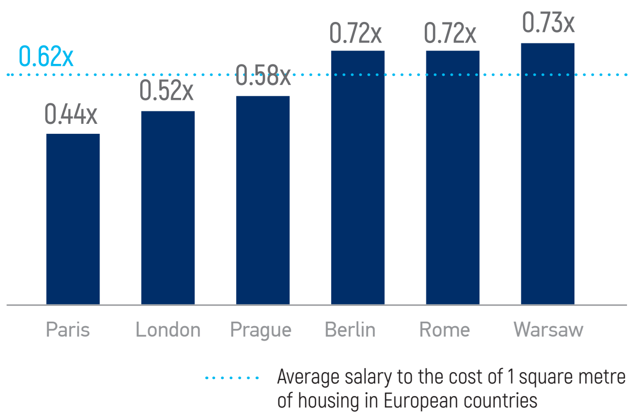
Housing affordability in Russia is at a level CLOSE TO THAT OF EUROPEAN COUNTRIES.

Average salary/cost for 1 sqm



Source: Rosstat

Average salary/cost for 1 sqm



Source: National statistical agencies (CZSO, ISTAT, SOW, ONS, CSO, INSEE, DESTATIS, Statistik Berlin Brandenburg)

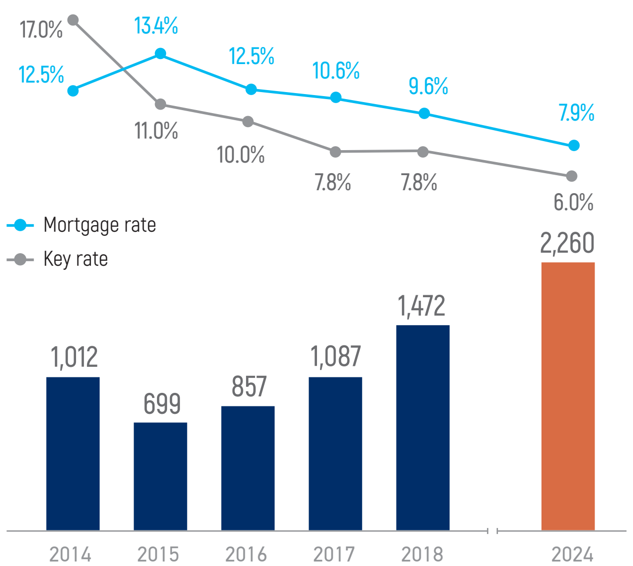
Mortgage availability

2018 was a record-setting year in Russia's mortgage market.

Mortgage rates dropped following a decrease in the key rate from March 2017 until September 2018, and they are currently at a historic low: the weighted average mortgage rate reached its lowest-ever level of 9.41% in September 2018. This was the main driver behind the 35% increase in the number of mortgage loans issued in 2018, which saw the total number of loans rise to 1.5 million. The Ministry of Finance expects that the mortgage rate will drop to under 8% by 2024 and that the number of mortgage loans issued will reach 2.3 million.

By 2024, the mortgage rate may drop to 7.9%, AND THE NUMBER OF LOANS ISSUED BY MORE THAN 50%.

Number of mortgage loans issued, ths



Source: Bank of Russia, Ministry of Finance forecasts

Low indebtedness among the population

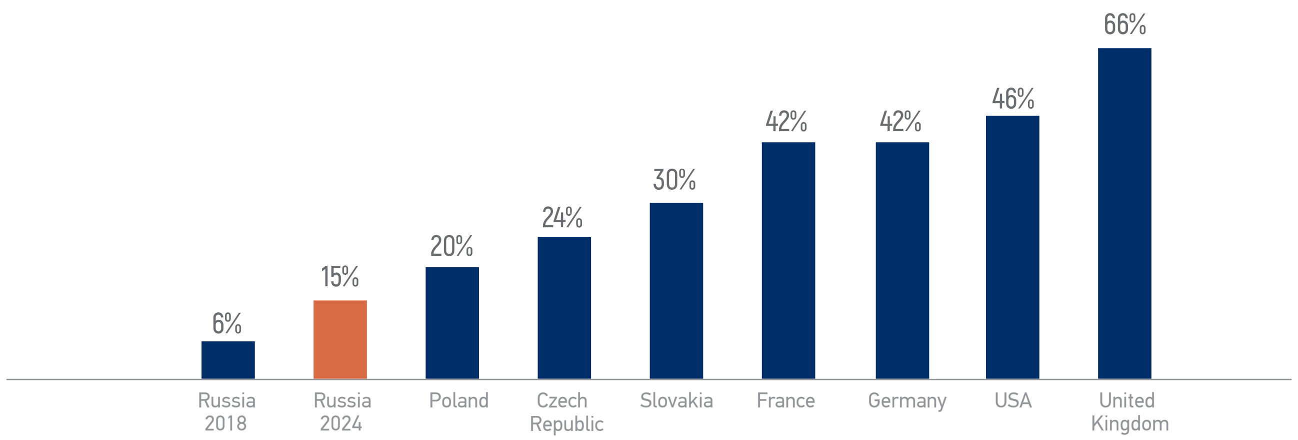
The Russian economy is characterised by a low level of indebtedness among the population. Debts owed by Russian citizens are the equivalent of 16% of the country's GDP, compared with 25-35% in Eastern Europe and more than 50% in developed countries.

The share of mortgage debt is equivalent to just 6% of GDP, while it reaches 20-30% in Eastern Europe and is above 40% in developed countries. This would indicate that the Russian mortgage market has significant growth potential.

This potential is confirmed by forecasts of the Ministry of Finance, which predict that the volume of mortgage loans will double by 2024 from the current RUB 3 trillion to RUB 6.2 trillion per year, and, at the same time, the volume of mortgage debt will increase by 162% from RUB 6.5 trillion to RUB 17 trillion and will account for 15% of GDP.

The Russian mortgage market HAS SIGNIFICANT GROWTH POTENTIAL.

Mortgage debt, % of GDP



Source: Hypostat 2018, Bank of Russia, Ministry of Finance

Choice between consumption and savings

As the key rate decreases, the attractiveness of deposits will also decline, and the availability of mortgages will increase.

Retail deposits amounted to RUB 22.3 trillion in 2018. Moreover, residents of Moscow and St Petersburg have the highest levels of savings. In 2018, some RUB 6.2 trillion in deposits were held in Moscow and a further RUB 1.6 trillion in St Petersburg.

The main source of financing for the purchase of housing are individual savings, including deposits. Their impressive volume combined with the low level of indebtedness and the existing need for better housing conditions suggests significant potential for increased demand for real estate. Moreover, as the key rate decreases, the attractiveness of deposits will also fall, and the availability of mortgages will increase.

Government support

Additional factors that stimulate demand include various federal programmes aimed at supporting the population, such as allowances for multiple-child families and mortgages at preferential rates. Moreover, it is possible to obtain tax deductions for the cost of an apartment and for interest paid on mortgage loans, which can reduce the effective mortgage rate by several percentage points relative to the base rate.

Allowances for multiple-child families

Upon the birth of a second child, families have the right to receive RUB 453 thousand from the state for the purchase of housing.

Upon the birth of a second or subsequent child, Russian families are entitled to receive material assistance in the amount of RUB 453 thousand, which can be used to purchase real estate. According to DOM.RF about 70% of mortgage borrowers are families with children, and more than half of them have two or more children, which is evidence of the importance of this programme.

Preferential mortgage rate

Families with children can get a mortgage at a reduced rate of 6%.

In addition to child allowances, a state programme offering preferential mortgages rates of 6% for families with children was launched on 1 January 2018. Under the terms of the programme, upon the birth of a second or subsequent child from 1 January 2018 to 31 December 2022, a preferential mortgage rate of 6% per annum will be offered during the entire loan period.

Conditions:

- Preferential interest rate: 6%
- Subsidy period: throughout the entire loan term
- Validity: from 1 January 2018 to 31 December 2022
- Minimum down payment: 20%
- Maximum loan amount: RUB 12 million for Moscow, the Moscow region and St Petersburg; RUB 6 million for other regions
- Purchased housing: primary market

Tax deductions

A tax deduction of up to RUB 650 thousand can be claimed for the purchase of an apartment using a mortgage.

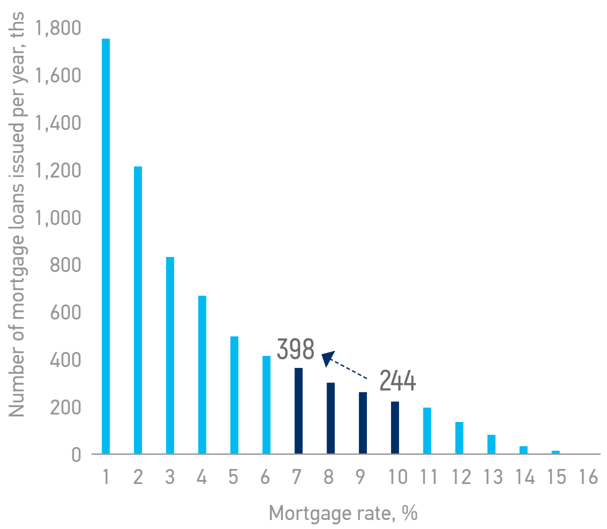
Russian citizens who regularly pay income tax have the right to receive a tax deduction. When buying a property, the deduction is 13% of the cost of housing up to a maximum of RUB 260 thousand. In addition, when using a mortgage to buy a home, buyers can also get back 13% of the interest paid up to a maximum of RUB 390 thousand. Thus, when buying an apartment with a mortgage, buyers can get a total tax deduction of up to RUB 650 thousand.

Sensitivity to price and mortgage rate increases

Mortgage loans are the main instrument for financing the purchase of housing for most Russian families, so the demand for housing largely depends on mortgage rates. In 2018, in both the Moscow region and St. Petersburg, a total of 244 thousand mortgage loans were issued with a weighted average rate of 9.6%. According to Etalon Group's forecasts, if mortgage rates were to decrease to 7%, the number of loans issued would increase by 63% to 398 thousand per year.

With a reduction in mortgage rates to 7%, the demand for housing in the Moscow region and in St Petersburg WOULD INCREASE BY 63% PER YEAR.

Demand sensitivity to mortgage rates



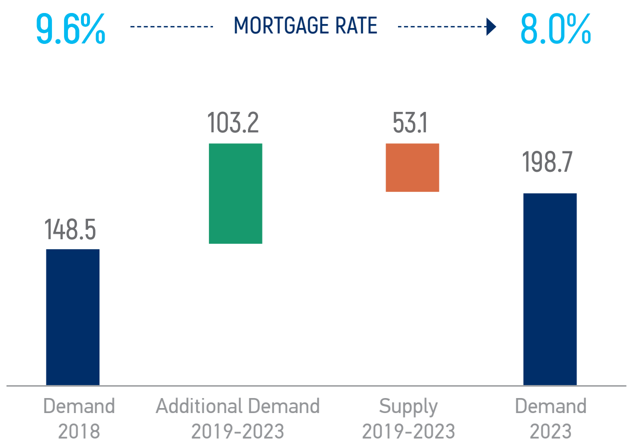
Source: Bank of Russia

SIGNIFICANT FUTURE POTENTIAL

The demand for housing in the Moscow and St Petersburg markets will significantly exceed supply in the medium term.

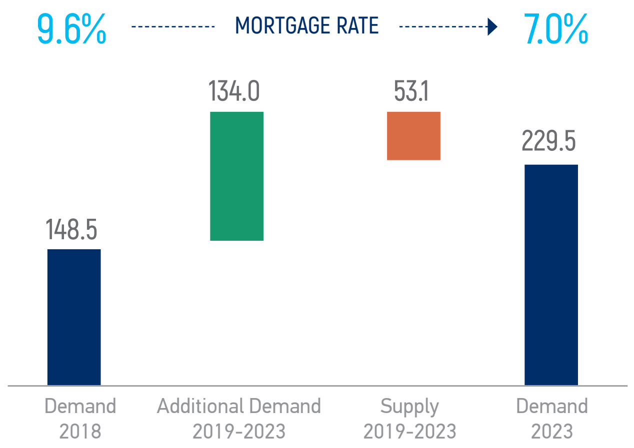
Moderate growth scenario

According to conservative forecasts, under which mortgage rates decline to 8% by 2023, demand for new housing could increase by an additional 103.2 million square metres. At the same time, supply during the same period of time is expected to be 53.1 million square metres.



Healthy growth scenario

Based on more optimistic forecasts, a decrease in mortgage rates to 7% would result in an increase in demand for new housing by 134.0 million square metres, which, with the same level of supply in the market, will create significant potential for the Company to grow.



By building reliable, high-quality homes, Etalon Group has developed an excellent reputation in the eyes of its customers. The Company will continue to strive to use every existing opportunity in the markets of Moscow and St Petersburg to improve its unique value proposition, as well as value for buyers, shareholders and other stakeholders.

CHANGES IN INDUSTRY REGULATIONS

At the end of 2018, another series of amendments were approved to the federal law (No 214-FZ) regulating share purchase agreements for residential construction. These amendments impose a restriction on the use of customer funds and provide for a mandatory transition to escrow accounts and a project financing mechanism starting from 1 July 2019. The new scheme involves freezing equity holders' funds in special bank accounts until the construction of the property in question has been completed, as well as the developers' transition to using targeted bank loans for all projects, including existing ones.

An exception can be made for properties at an advanced stage of construction, which can be funded in accordance with the former scheme. According to preliminary Government criteria, the project should be more than 30% complete, with more than 10% of the apartments already sold. In this case, the threshold values can be lowered by regional authorities in coordination with the Government.

In addition, the requirements can be eased for strategically important developers when switching to the use of escrow accounts. According to preliminary data, such companies will be able to finance properties that are more than 6% complete in accordance with the former scheme. These may include major players with leading positions in the market, such as Etalon Group. The criteria for determining strategically important developers will be specified later.

BEFORE 1 JULY 2019	AFTER 1 JULY 2019
FINANCING STRUCTURE	
FUNDS HELD BY THE DEVELOPER Former scheme using equity participation agreements	**FUNDS HELD IN ESCROW ACCOUNTS** New scheme using escrow accounts Exception: Properties at an advanced stage of construction (> 30% complete)[1] Strategically important developers (> 6% complete)[1]
COST OF FINANCING	
10-11% High cost of debt financing	**4-5%** When placing funds in escrow accounts, the cost of project financing is significantly lower, around 4-5% with 100% loan coverage and 0.01% with double coverage
RUSSIAN GOVERNMENT CRITERIA ON THE STAGE OF CONSTRUCTION[1]	
> 30% COMPLETE Regional authorities have the right to ease these requirements by agreement with the Government of the Russian Federation	**80%** of Etalon Group projects may be financed under the old scheme

Changes in the implementation and financing of development projects

As a result of the transition to escrow accounts, the ability of developers to use customer funds to finance their construction projects will be limited. Developers will be forced to use project financing, the cost of which will depend on sales. At the start of projects, for example, Sberbank will provide financing at an annual rate of 12%; with full coverage of the loan and funds held in escrow accounts, the rate will drop to 5%; and with double coverage, it will drop again to 0.01%.

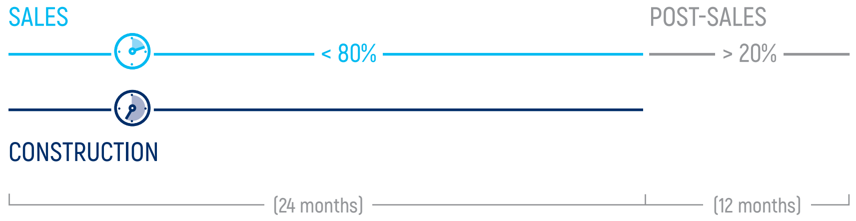
FINANCING RATE = **BASE RATE** × **SHARE OF LOAN** not covered by funds in escrow + **SPECIAL RATE** × **SHARE OF LOAN** covered by funds in escrow

In order to increase efficiency and reduce costs, Etalon Group will change the scheme used to finance development projects. Under the financing model using customer funds, it was most effective to extend the construction period in order to accumulate the necessary funds without taking on expensive debt financing. When switching to escrow accounts, the most effective scheme will be one that has been proven to work in developed and emerging markets. It involves the presale of up to 30% of apartments, which will reduce the cost of financing. Moreover, in order to release funds from escrow accounts earlier and to repay debt obligations, the pace of construction will be increased. After repayment of the debt, the Company will generate positive cash flow from the sale of the remaining space. By changing the project implementation and financing scheme, Etalon Group will be able to reduce borrowing costs on average from 10-11% to 4-5%.

[1] Preliminary data

PRIOR TO THE INTRODUCTION OF ESCROW ACCOUNTS

SALES (24 months) = CONSTRUCTION (24 months)



- **Extension of the construction period** to generate a positive cash flow
- **Less revenue recognition** over the period due to a longer construction cycle
- **IRR = 15%**

(+) Construction financing **using incoming funds from customers**

(−) **High cost** of debt financing

AFTER THE INTRODUCTION OF ESCROW ACCOUNTS

SALES (24 months) > CONSTRUCTION (18 months)

- **Reduction in the construction cycle** to release positive cash flow
- Significant **reduction in the cost of borrowing** through presales
- Repayment of debt immediately after completion of construction
- **Greater revenue recognition** for the period due to a shorter construction cycle[1]
- **IRR = 15%**

(+) **A reduction in the cost of borrowing** through project financing to 4-5%

(−) **Release of funds** from escrow accounts after completion of construction

The impact of industry changes on the market

Changes in legislation will lead to market consolidation and rising real estate prices.

As a result of the transition to the use of escrow accounts and project financing, the development market can expect significant changes. Due to limitations on the use of customer funds, developers will be forced to resort to more expensive debt financing. In order to maintain profitability, companies will strive to reduce costs, including by reducing the cost of acquiring land, which, in turn, will lead to increased pressure on landowners. Developers with a land bank in place that are able to carry out the full construction cycle and can build an effective system of financing and cost control will be at an advantage in the market.

At the same time, small players in the transition to project financing will face numerous difficulties, which would entail a reduction in the number of developers. In the face of rising costs and reduced supply in the market, housing prices will rise. According to Knight Frank, the prices of apartments in the mid-range segment may increase by 15%; in economy class, which is the most sensitive to price changes, they may increase by 20-25%. At the same time, developers that can work under the former scheme will be able to keep prices down and gain a competitive advantage.

Etalon Group expects that the new legislative changes will lead to a reduction in the number of developers and market consolidation by large players that are able to meet the new legal requirements. In addition, in view of the uncertainties associated with the new rules, buyers will prefer stable and reliable developers, such as Etalon Group.

[1] If auditors consider funds held in escrow accounts as belonging to the developer.

3. STRATEGY AND OBJECTIVES

STRATEGIC ACQUISITION OF LEADER-INVEST

On 19 February 2019, we announced the acquisition of a 51% stake in Leader-Invest JSC from Sistema PJSFC for RUB 15.2 billion. Leader-Invest is a Moscow-based residential real estate developer that focuses on the comfort-, business- and premium-class segments.

LEADER-INVEST CURRENTLY[1] HAS:

31 PROJECTS

under construction or in the design stage inside the Moscow Ring Road

1.3 MLN SQM

unsold NSA at 31 projects under construction or at the design stage, as well as at eight completed residential complexes and in commercial real estate.

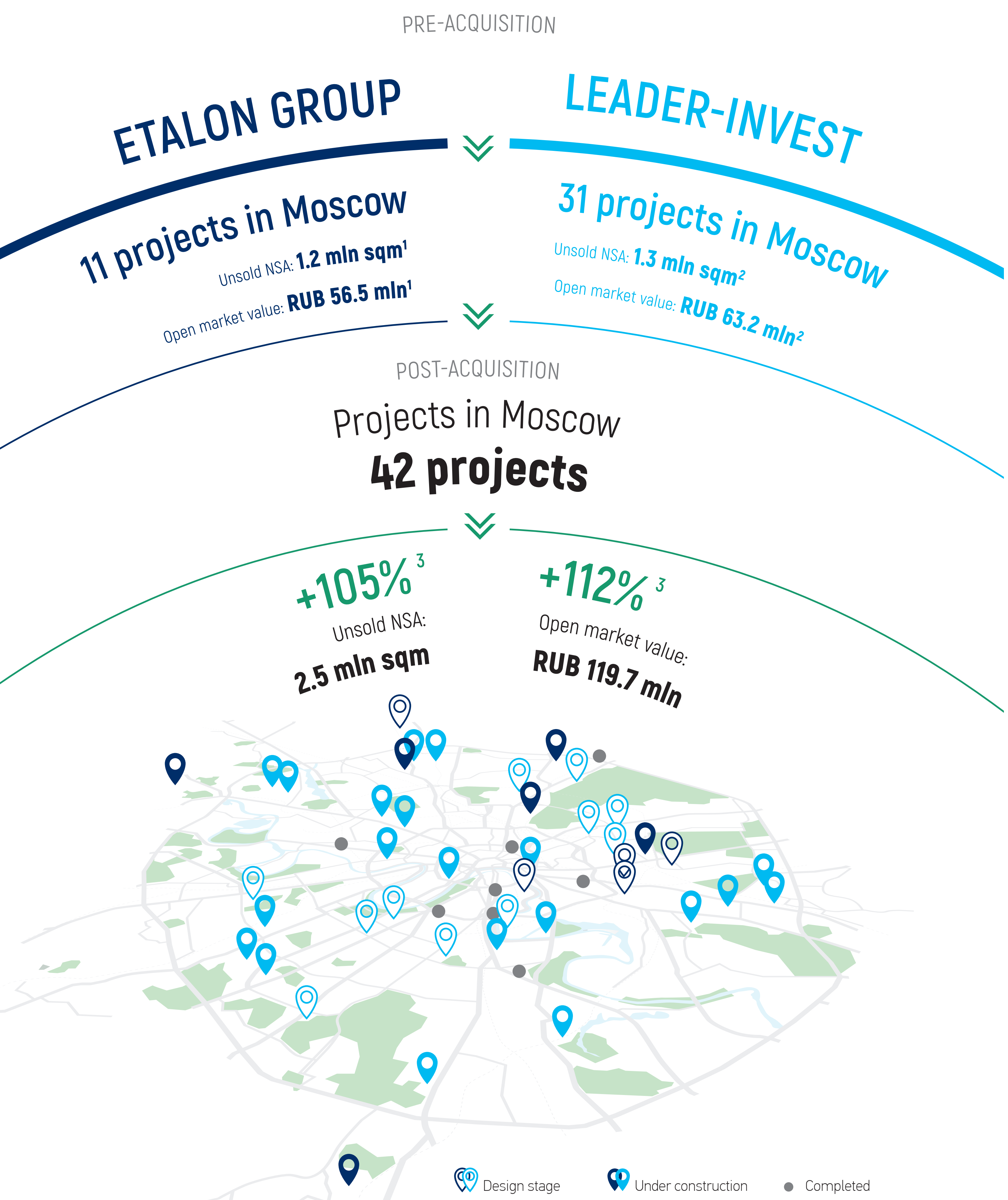
COMFORT **BUSINESS** **PREMIUM**

Leader-Invest focuses on projects in the most profitable comfort-, business- and premium-class segments

LEADER-INVEST FULLY SATISFIES ALL OF THE BOARD OF DIRECTORS' CRITERIA FOR POTENTIAL ACQUISITION TARGETS

1. High level of transparency
2. Considerable operating synergies due to the elimination of duplicate functions and monetisation of the sales network
3. Complementary portfolio and value chain
4. Focus on the same regions and segments
5. Attractive profitability across project portfolio and significant return on investments

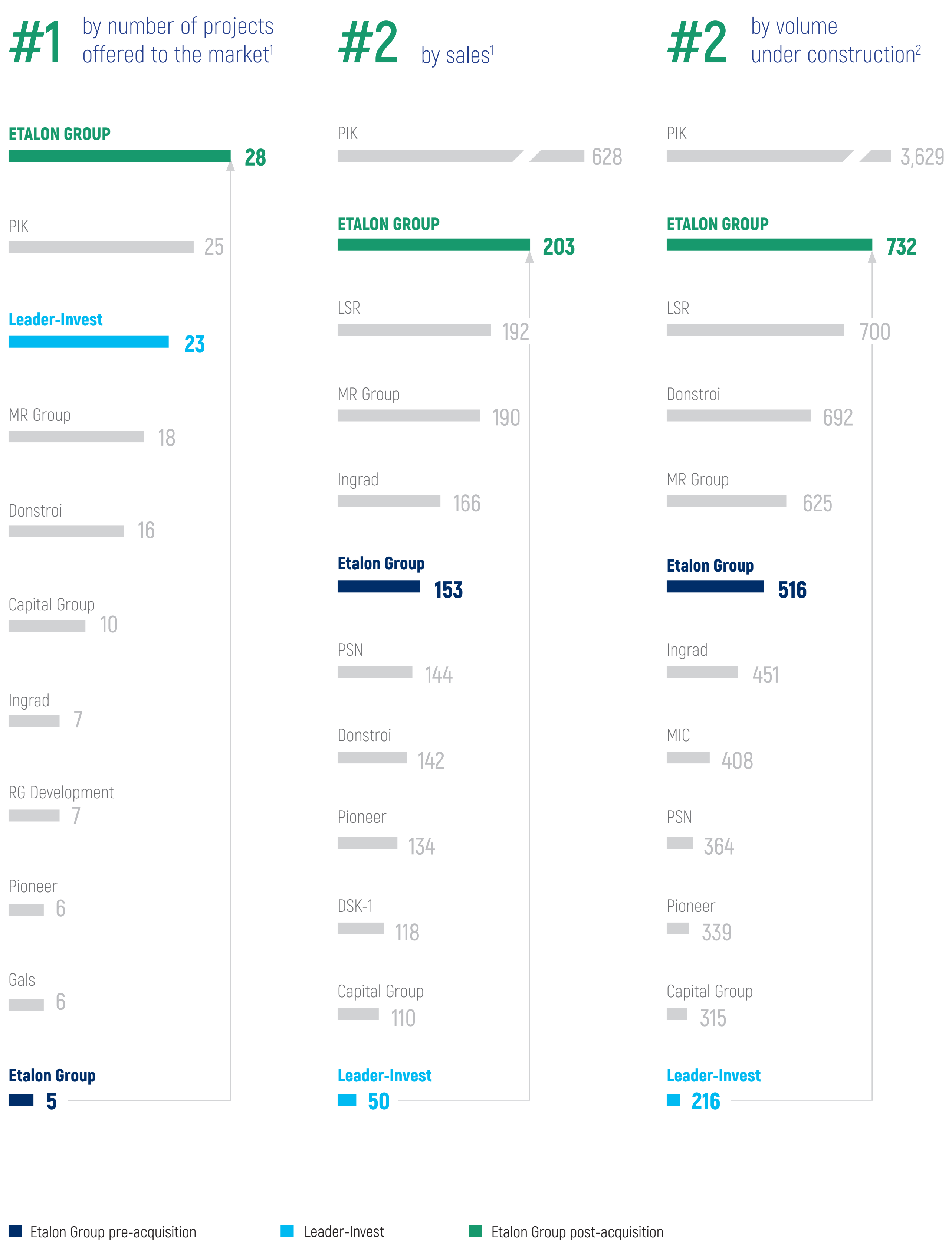
[1] As of 19 February 2019



[1] Knight Frank estimate as at 30 June 2018.
[2] Colliers International estimate as at 1 October 2018.
[3] Growth was calculated without rounding

CREATING A LEADING PLAYER IN MOSCOW

The acquisition of Leader-Invest significantly improves Etalon Group's share in the lucrative Moscow residential real estate market and will make the combined entity one of the leading developers in Moscow.



[1] Based on Knight Frank data as of 31 December 2018. For sales ranking, the data for residential real estate sales is used without commercial premises and parking.
[2] Based on the Russian Unified Registrar of Residential Real Estate Developers, data as of 31 December 2018.

LAND BANK DEVELOPMENT

This transaction will significantly enhance and improve Etalon's land bank. Unsold NSA will increase by 1.3 mln sqm, and the Group will gain exposure to the high-margin premium- and business-class segments.

Etalon Group will also significantly increase its share of projects in the Moscow market, where prices are generally higher than elsewhere.

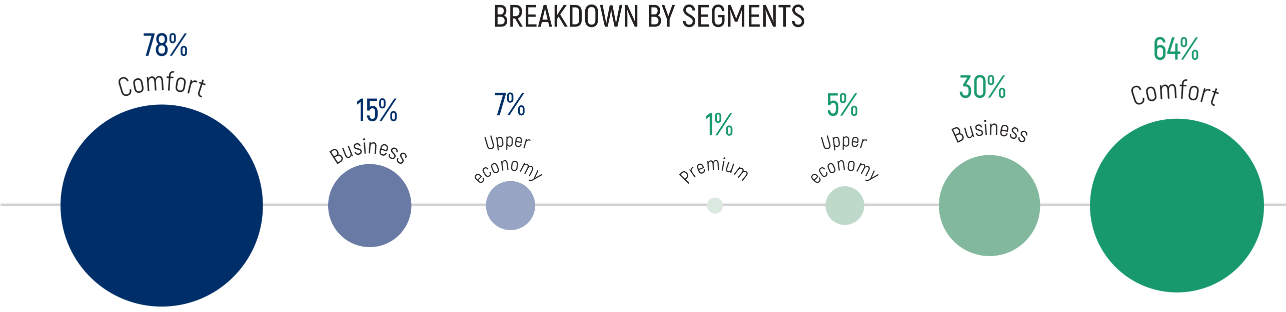
PRE-ACQUISITION | **POST-ACQUISITION**

UNSOLD NSA, MLN SQM

2.73 | **4.01**

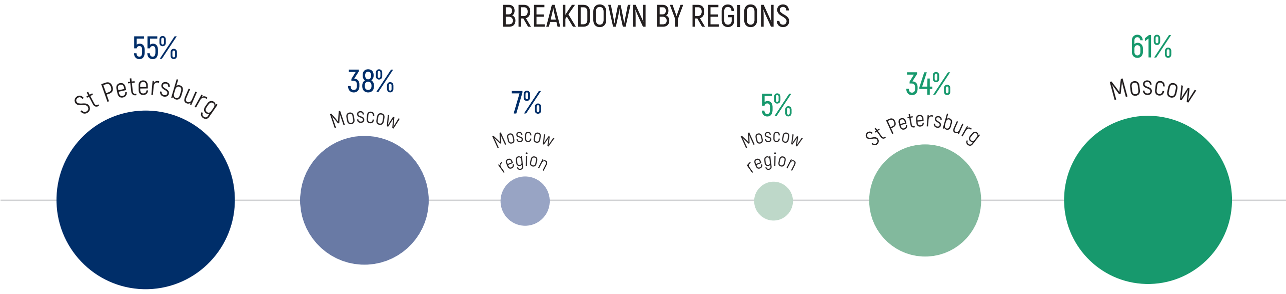
+47% Unsold NSA increased by 47% after the acquisition

BREAKDOWN BY SEGMENTS



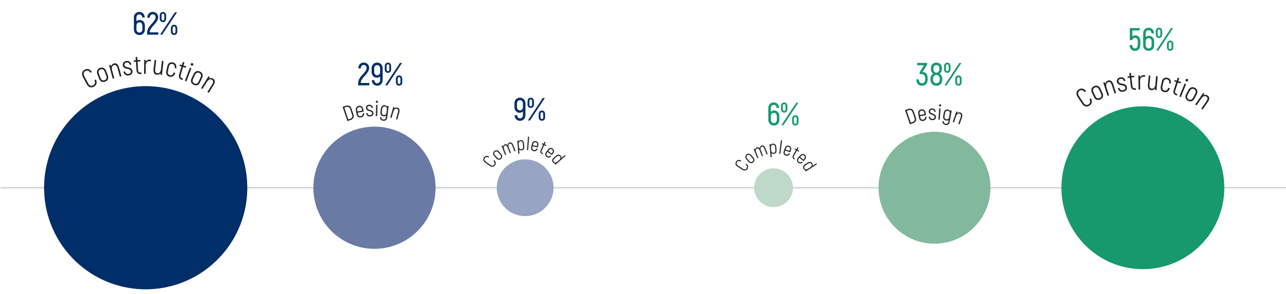
+15 p.p. Share of business-class projects increased by 15 p.p. after the acquistion

BREAKDOWN BY REGIONS



+23 p.p. Share of projects in Moscow increased by 23 p.p. after the acqusition

BREAKDOWN BY STAGE



Attractive acquisition cost

The acquisition cost for Leader-Invest of RUB 23 ths per sqm is 11% below Etalon Group's average acquisition cost of RUB 26 ths per sqm. Leader-Invest's average selling price of RUB 240 ths per sqm is significantly above Etalon Group's current range of RUB 132 ths to 200 ths per sqm.

Strengthening our portfolio

This acquisition has resulted in a 47% increase in our unsold NSA. By replenishing our land bank with a diversified portfolio of early-stage and advanced-stage projects, Etalon Group has created substantial growth opportunity. In addition, there is no overlap with Etalon's pre-acquisition project portfolio.

Creating operational synergies

Etalon Group's vertically integrated platform will help to improve the efficiency of Leader-Invest projects with our own general contractors and subcontractors. Eliminating duplicate administrative and operational functions will optimise SG&A costs. Selling expenses can also be reduced through the utilisation of Etalon's sales network and the combined procurement of marketing/advertising services. We estimate annual savings at between RUB 0.7 billion and RUB 1.1 billion.

Enhanced profitability and financial position

The acquisition of Leader-Invest is expected to improve Etalon Group's profitability due to its higher share of projects in the more profitable business- and premium-class segments. The deal is expected to lead to a significant increase in Etalon Group's revenue, while the unified company's net debt/EBITDA is calculated at 0.85x.[1]

BENEFITS OF INTEGRATION

Design and Permitting

The acquisition of Leader-Invest gives Etalon Group the potential to cut costs for external architects and increase efficiency in planning solutions, as well as in the monitoring of projects under construction.

Project Management

The acquisition will increase the quality of projects and reduce construction delays due to access to in-house construction capacities. This is expected to improve the efficiency of implementation of large-scale projects.

Marketing and Sales

The transaction will lower total costs of promoting projects and fees paid to brokers. It will also help to accelerate the pace of sales thanks to Etalon's strong sales team and additional demand from regional buyers.

Contracting and Subcontracting

With Etalon Group's own general contractors and subcontractors, project implementation cost and quality is expected to improve, helping to achieve even better margins for Leader-Invest developments.

Ongoing Maintenance

The transaction will bring in additional income for Etalon Group's property management company and expand the presence of the service company by entering the business and premium segments. It will also expand the available channels for the promotion of projects.

CONCLUSION

Etalon Group's acquisition of Leader-Invest significantly improves our share in the lucrative Moscow residential real estate market, making the combined entity one of the leading developers in Moscow. The deal strengthens Etalon Group's project portfolio and increases operational efficiency, which is expected to increase the Group's profitability and financial position. With 31 new projects under construction or in the design stage added to our portfolio, this acquisition has created significant potential for profitable future growth.

[1] Etalon Group's net cash of RUB 2.3 billion plus Leader-Invest's net debt of RUB 0.3 billion as of 31 December 2018 based on management accounts less the acquisition cost funded by the credit facility; Etalon Group plus Leader-Invest's FY 2017 EBITDA of RUB 13.2 billion and RUB 2.4 billion, respectively, according to IFRS accounts.

ADVANCED PRODUCT

Key to Etalon Group's new strategy for product development is a desire to ensure that product parameters are in line with the latest market trends, the competitive environment, as well as changing customer demand and expectations.

We base innovative decisions about the development of our product on continuous monitoring of supply and demand, a clear picture of our target audience and our goal of reducing costs.

GROWTH IN DEMAND AND PROFITABILITY

In 2018, we devoted a great deal of our product development efforts to searching for new options and solutions that help to ensure that our product remains relevant, stimulates growth in demand and expands our target audience.

At the same time, a key aspect of our product development process is ensuring that Etalon Group achieves its target growth rate in terms of profitability and market share. Our objective is to avoid unnecessary features and the sort of innovations that buyers are not yet ready for in order to start to offer them only at a future date when they will be highly valued by our target audience.

With this in mind, we are creating a balanced, competitive product at the optimal price that meets our internal requirements and customer demand.

PUSHING THE BOUNDARIES OF OUR PRODUCT

2018 ← 2017 → 2018

ENGAGE IN PROCESS:

- Cost optimisation
- Establishing project-specific technical tasks at the stage of concept, design and master planning

WORK ON THE PRODUCT IN STAGES:

- Design
- Construction and installation works

ENGAGE IN PROCESS:

- Post-sales services for homebuyers

We are pushing the boundaries of how we view our product: we are focusing on both reducing costs at existing projects and at the concept stage, as well as through the adoption of solutions to reduce material consumption and improve standardisation in order to keep production costs down and improve the cost-effectiveness of the processes involved in introducing innovations in the product.

When developing our product, Etalon Group pays attention to both positive and negative factors influencing the choices of homebuyers[1]:

+

- Safety (enclosed area, security, concierge, access control and video surveillance)
- Well-designed grounds for family walks and relaxation
- A car-free courtyard
- Managed parking
- Brick monolithic construction
- Aesthetically pleasing architectural design
- Aesthetically pleasing entrance lobby and common areas
- Small number of apartments on each floor
- Efficient apartment layouts
- Large kitchen or open-plan kitchen-diner
- Ergonomic arrangement of apartment space
- Ability to choose an apartment with a non-standard layout (uncommon formats)
- High ceilings in apartments
- Nice views (onto open green spaces, not neighbouring apartments)
- Quality soundproofing
- State-of-the-art equipment (efficient, convenient and reliable systems)

−

- High residential density
- Insufficient security, including the lack of an enclosed area
- Panel construction
- Poor soundproofing
- Low-quality, unappealing fit-out (if the apartment is purchased with fit-out)
- Lack of choice of fit-out options (if the apartment is purchased with fit-out)
- Low ceilings
- Kitchen area of less than 10-12 square metres
- No (or small) balconies
- Lack of individual parking space; chaotic parking in the courtyard
- Lack of attention to the design of facades
- Lack of environmentally friendly and energy-efficient solutions in the project

[1] According to a Kanar TNS survey.

Relevant

- Research, analytics, market monitoring, target audience

Customer-oriented

- Maintaining the loyalty of traditional customers
- Expanding target audience – attracting new customers

Leadership

- Project positioning through the product
- New tools for promoting the product
- Innovations

Efficiency

- Solutions for cost reduction
- Solutions for optimising floor plans
- Establishing project-specific technical tasks

Market research shows that there is increasing interest among homebuyers in efficient layouts using so-called European solutions: large, open-plan kitchen-diners and compact bedrooms, guest bathrooms near the entrance to the apartment, en suite master bedrooms with walk-in closets, apartments with large summer spaces (wide balconies and terraces) and other atypical solutions that meet the changing circumstances in a family's life. Buyers do their best to purchase a home that will not require time-consuming alterations to adapt it to their individual needs.

MEETING THE NEEDS OF HOMEBUYERS

In 2018, we launched sales at our new residential complex, Etalon on the Neva, which offers a wide selection of apartment layouts that were developed in accordance with current demand trends. This is an excellent example of a flexible approach to product development, our desire to meet the needs of homebuyers, and fulfilling our goal of expanding our target audience:

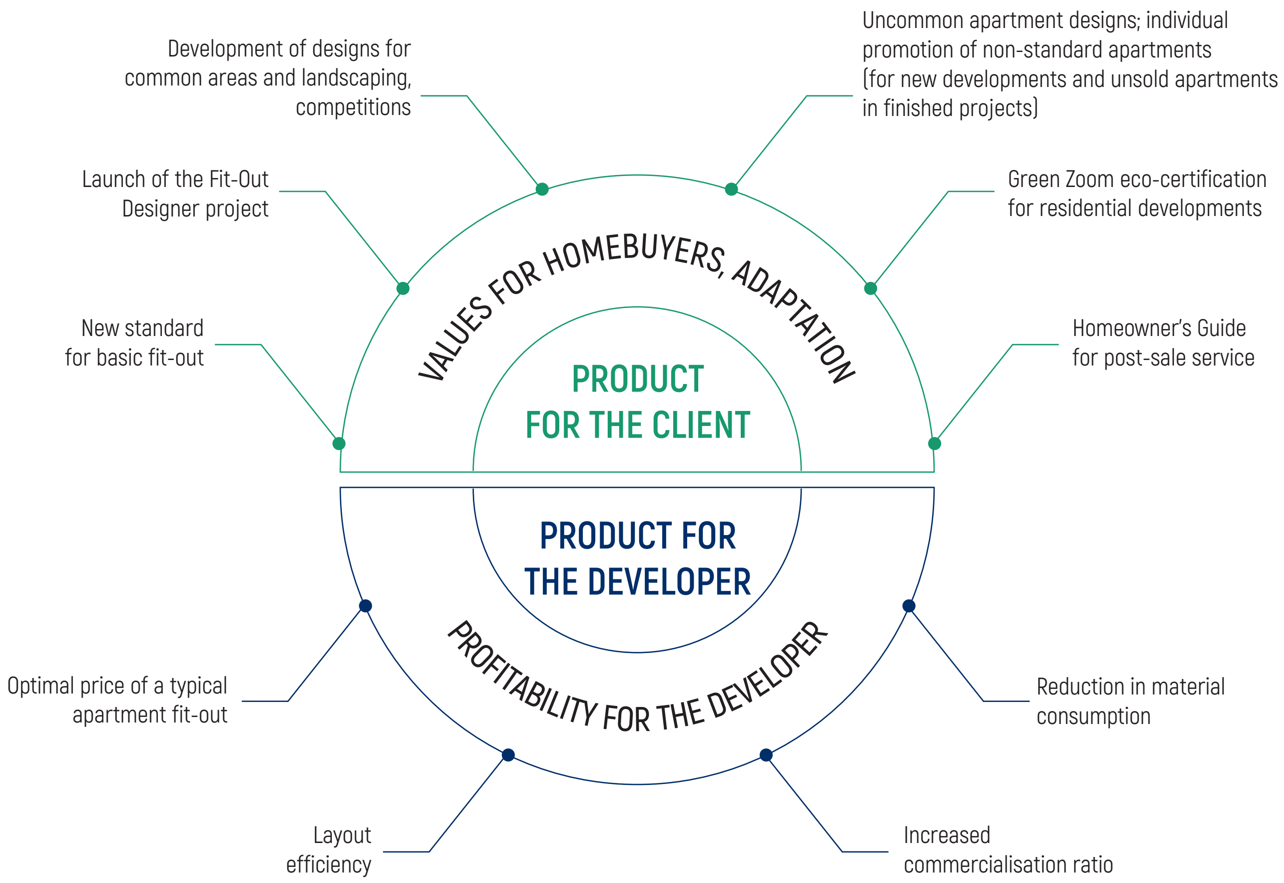
- Apartments with terraces
- Apartments with front yards and a separate entrance from the street
- Duplex apartments
- Apartments with master bedrooms
- Apartments on the upper floors with terraces offering great views
- Apartments with panoramic windows, etc.

The Etalon on the Neva residential complex also offers many other product advantages: classical architecture, state-of-the-art engineering solutions, excellent views from apartments onto the Neva, spacious underground parking with elevators to residential floors, infrastructure facilities on the ground floor, landscaped inner grounds and a walking area along the Neva embankment. Several of the uncommon designs and unique layouts available at Etalon on the Neva are shown in more detail on p.p. 39-41.

WE IMPLEMENT NEW SOLUTIONS AND IMPROVE STANDARDISATION in order to keep production costs down and improve the cost-effectiveness of the processes involved in introducing innovations in the product.

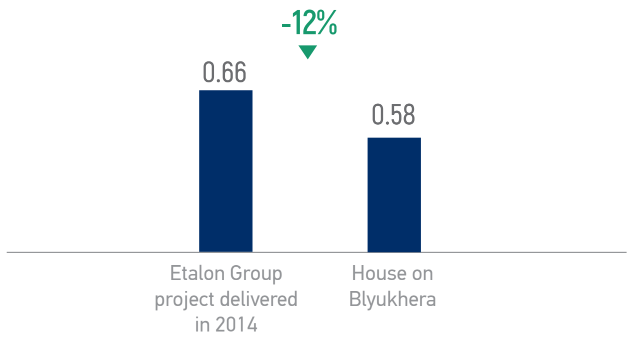
PRINCIPAL AREAS OF PRODUCT MODERNISATION

In terms of the key areas for product improvement, based on the Company's overall goals and an analysis of customer preferences, Etalon Group is taking measures in the following areas:



Effective approach to reducing construction costs

We use a modern approach to project development and new technological solutions in order to optimise the use of space and get the most out of every cubic metre. For example, the concrete coefficient[1] for the House on Blyukhera residential complex is 12% lower than that of similar projects in terms of area, number of sections and storeys.



[1] The concrete coefficient represents the ratio of the total volume of poured concrete to the net sellable area.

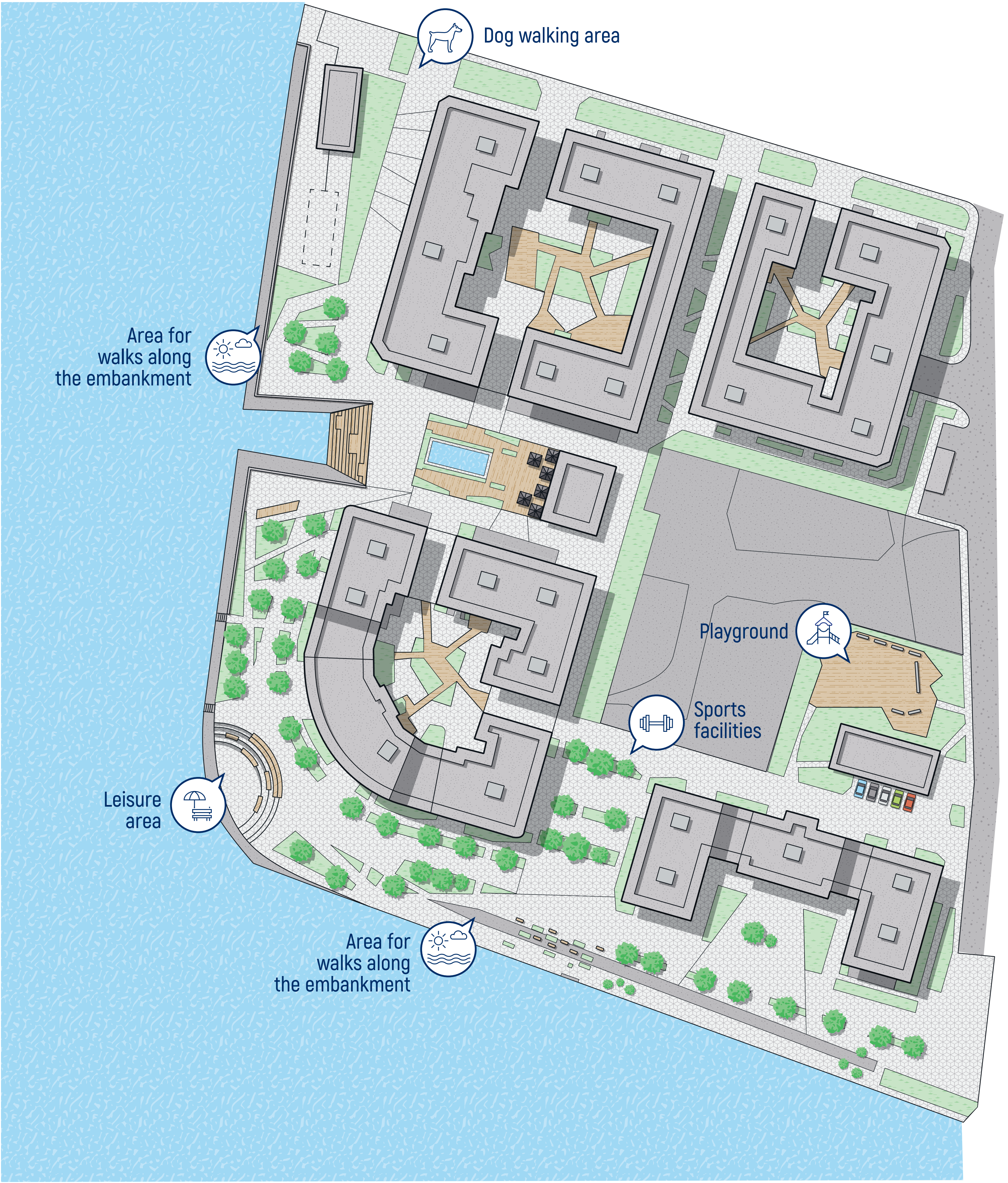
CREATION OF A LIVING ENVIRONMENT

We respond to market trends to ensure that our projects offer strong competitive advantages by paying a great deal of attention to the living environment concept, which has become very important to homebuyers. The living environment refers to the comfort and aesthetics of the spaces outside the apartment itself: the hallways between apartments and near elevators, the entrance lobby, the hallways and lobby areas on the ground floor, the courtyard and walking areas, as well as the playgrounds for children and sports grounds created within the residential complex.

A great deal of effort goes into determining the layout of these areas, along with the design concept and equipment used.

A successful example of this sort of work can be seen in the maritime and sailing concepts used for the landscaping and design of common areas at our Petrovskiy Landmark project.

Concept for the landscaping and design of common areas at the Petrovskiy Landmark project:



DEVELOPMENT OF AN OPTIMISED MODERN STANDARD FIT-OUT

According to the results of surveys conducted by the Kantor TNS, the number of people who want to buy an apartment with final finishings increased by 15 p.p. over the past four years to 43% in 2018. In response to the growing demand for apartments with a ready-made fit-out and bathroom fixtures, we are expanding our offering of these apartments and paying significant attention to their quality. With the goal of increasing value for our customers, we aim to reduce the cost of finishing and increase the efficiency of our work in terms of quality and time, while at the same time meeting the aesthetic demands of customers and keeping up with the latest trends in apartment fit-outs.

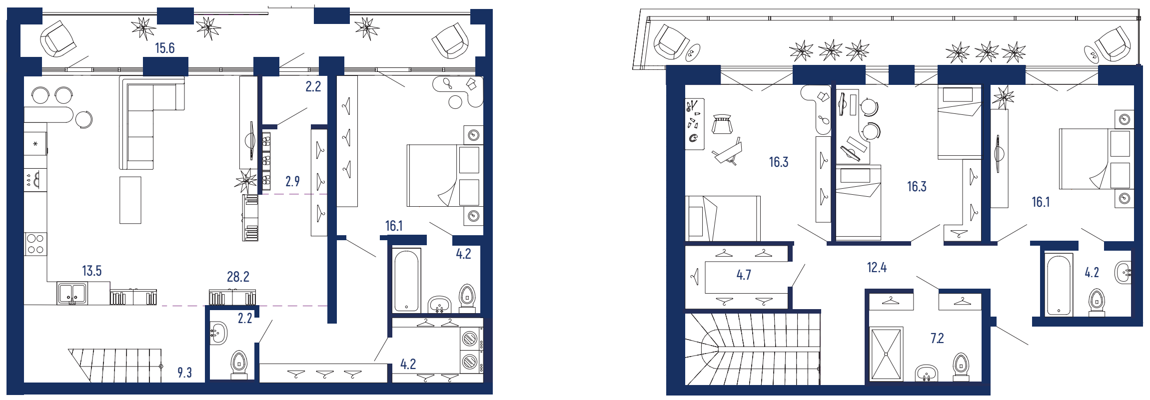
We are focused on two key areas: standardisation (a new approach to our standard package offer) and customisation (the Fit-Out Designer option, which allows homebuyers to choose an individual design from a large set of specified finishing options with an instant calculation of the total cost).

1. STANDARDISATION cost and efficiency optimisation	NEW OFFER WITH READY-MADE APARTMENT FIT-OUT		2. CUSTOMISATION Expanding target audience
For upper-economy project	1 option (beige)		The Fit-Out Designer project
For comfort-class project	Contemporary or	Classic	Number of options for comfort-class project
For business-class project	Contemporary or	Classic	Number of options for upper-economy project

UNCOMMON APARTMENT LAYOUTS AT ETALON ON THE NEVA PROJECT

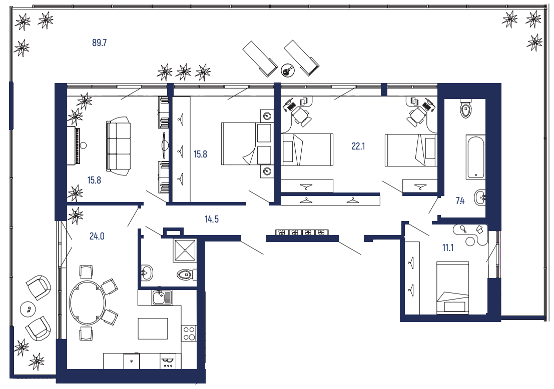
Duplex apartments with separate entrances from the ground level (unique offer for the city centre) with a master bedroom and an open-plan kitchen-diner

Total area: 169.1 SQM
Number of rooms: 5



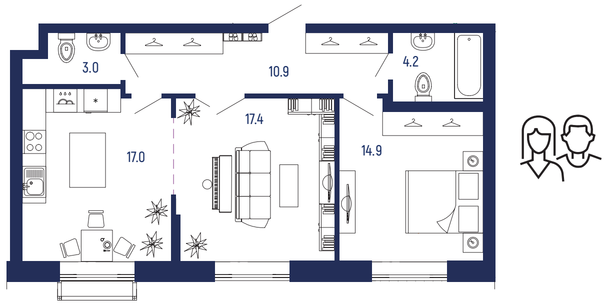
Apartments with large terraces

Total area: 114.7 SQM
Number of rooms: 4

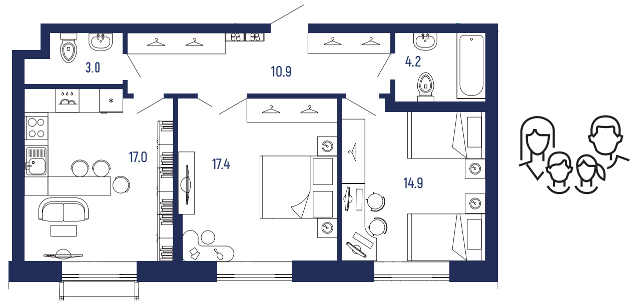


The location of the load-bearing walls makes it possible to arrange the apartment space for a variety of scenarios (e.g., a couple, a family with children).

Total area: 67.4 SQM
Number of rooms: 2

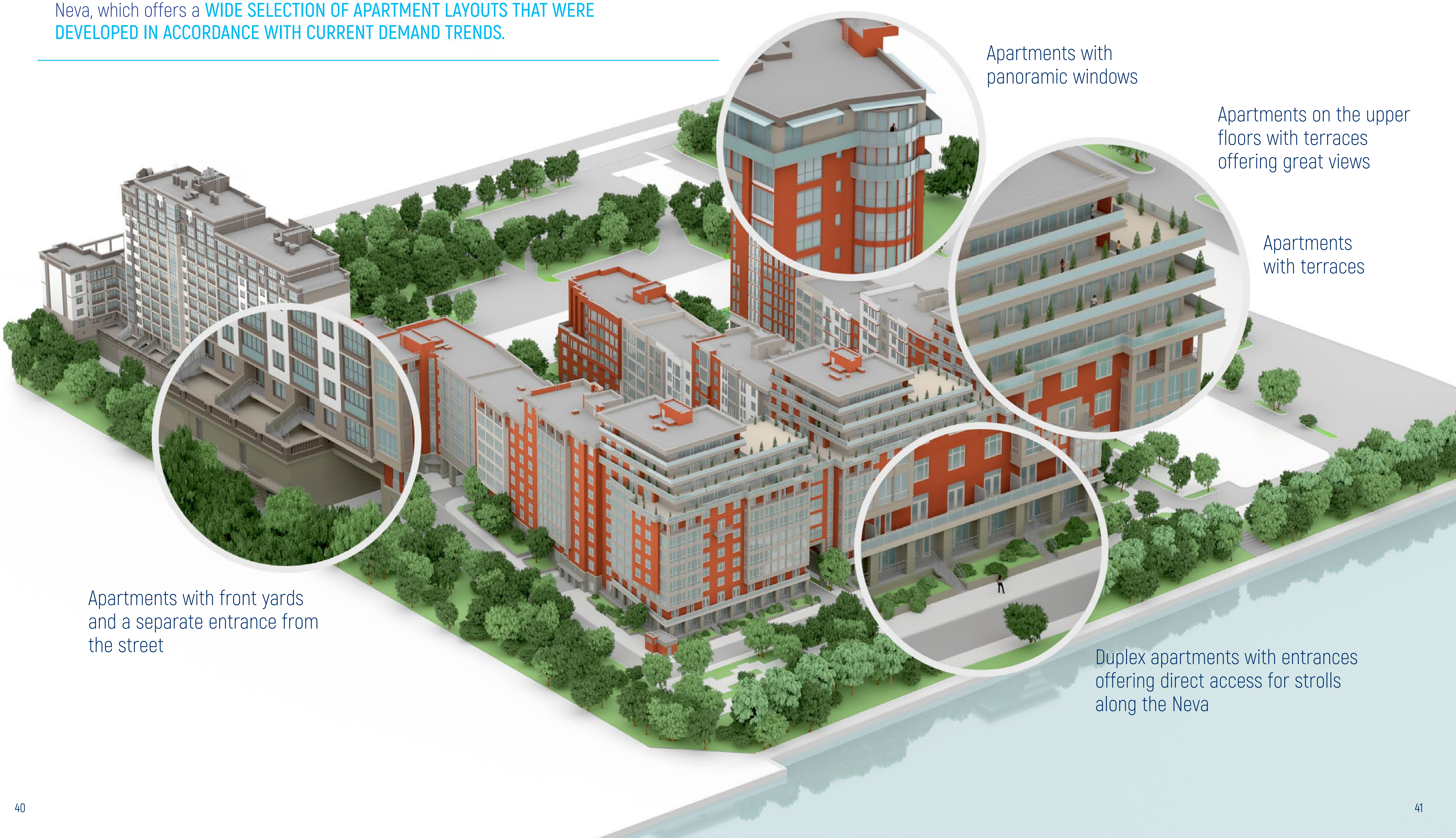


Total area: 67.4 SQM
Number of rooms: 3



UNCOMMON APARTMENT DESIGNS AT ETALON ON THE NEVA PROJECT

In 2018, we launched sales at our new residential complex, Etalon on the Neva, which offers a WIDE SELECTION OF APARTMENT LAYOUTS THAT WERE DEVELOPED IN ACCORDANCE WITH CURRENT DEMAND TRENDS.



STRENGTHENING OUR SALES FORCE

We launched an initiative to upgrade our sales force in 2017 that continued into 2018 with the introduction of a whole range of measures that aim to systematise our approach to sales and help us achieve performance targets.

2018 HIGHLIGHTS

Record new contract sales **of 628 ths sqm** and **RUB 68.7 bln**

Record cash collections of **RUB 62.8 bln**

Reduced per-apartment cost of sales in regional network by **16% year-on-year**

Etalon ranked 3rd among top 7 companies in the sector in St Petersburg and Moscow[1]

Improved call centre performance, with lost call ratio **declining to just 0.2%**

The main challenges currently facing our sales team include improving customer service and increasing the effectiveness of promotional channels while simultaneously reducing the costs related to real estate sales.

IMPROVING CUSTOMER SERVICE

We constantly strive to improve customer service in order to become the most customer-oriented company in the sector. Additional measures were developed and implemented in 2018 that have an impact on the quality of customer service, the availability of services and digitisation. We made significant upgrades to our call centres last year, which resulted in a 3 percentage point decrease in lost calls, reaching 0.2% by the end of the year. In addition, we are now planning to open a 24-hour hotline for customers.

We are also introducing state-of-the-art methods for interacting with customers: we are developing virtual showrooms and getting ready to introduce virtual-reality tools and augmented reality. The use of advanced technologies will enable us not only to attract new customers in the years ahead but also to reduce costs by decreasing the number of classic showrooms we operate and replacing them with virtual-reality tools. In the future, we also plan to launch a mobile application in which buyers will be able to use BIM technology to monitor progress on the construction of their home.

The results of our efforts to improve customer service were confirmed by an independent audit by Kantor TNS: in 2018, Etalon Group was ranked third among the seven leading companies in the sector in both St Petersburg and Moscow. In 2017, we ranked eighth out of eight participants in St Petersburg and sixth out of seven participants in Moscow.

We also strive to improve both pre- and post-sales customer service. An example of the latter is the opening of a service centre for new tenants at the Samotsvety residential complex. In a single office, customers can get their keys and resolve any issues related to our services without having to visit the Company's main office. In the future, we are planning to make this service available at all our facilities. The centre has enabled us to reduce the time required for new tenants to complete all the necessary documentation and receive the keys to their apartment from one or two days to just one hour. Any minor repairs noted by new tenants are completed within three days. We also plan to launch a mobile application in the near future that will enable residents to make payments and enter meter readings online. The impact of these measures on growth can be seen in the percentage of customers who return to Etalon Group for repeat purchases: in 2017–2018, this figure increased from 28% to 35% in St Petersburg and from 6% to 11% in Moscow.

IMPROVING THE EFFECTIVENESS OF SALES CHANNELS

One of our main sales channels is our regional sales network. In 2018, Etalon Group's regional sales network expanded to six more cities, reaching 58 in total by the end of the year. We also continue to implement corporate programmes for leading regional companies: placing ads on corporate websites, sharing special offers for employees and conducting marketing activities in the offices of partner companies. As a result of our work, our share of sales to corporate clients outside Moscow and St Petersburg increased by 11 percentage points year-on-year, reaching 27% in 2018. We are also developing uniform standards for our sales teams in St Petersburg, Moscow and other regions, which involves the introduction of uniform formats and tools for active sales. In 2018, this approach enabled us to reduce unit costs for the sales per apartment outside Moscow or St Petersburg by 16%.

As contract sales volumes increase, regional sales remain around our target level of 35%. In 2018, for example, the number of contracts concluded increased by 24%, while the share of regional sales was 36.3%, which confirms the effectiveness of the measures we are taking and proves that our regional network is capable of supporting a further increase in sales.

Another key area of improvement is the development of mortgage sales. We have introduced an integrated mortgage centre for our customers, who can now apply for a mortgage without a trip to the bank. We have also begun promoting our product at banking offices and on bank websites. Thanks to these measures, the percentage of new contracts involving mortgage loans remained well above 40% throughout the year, which is a high figure for mortgage sales in our segments.

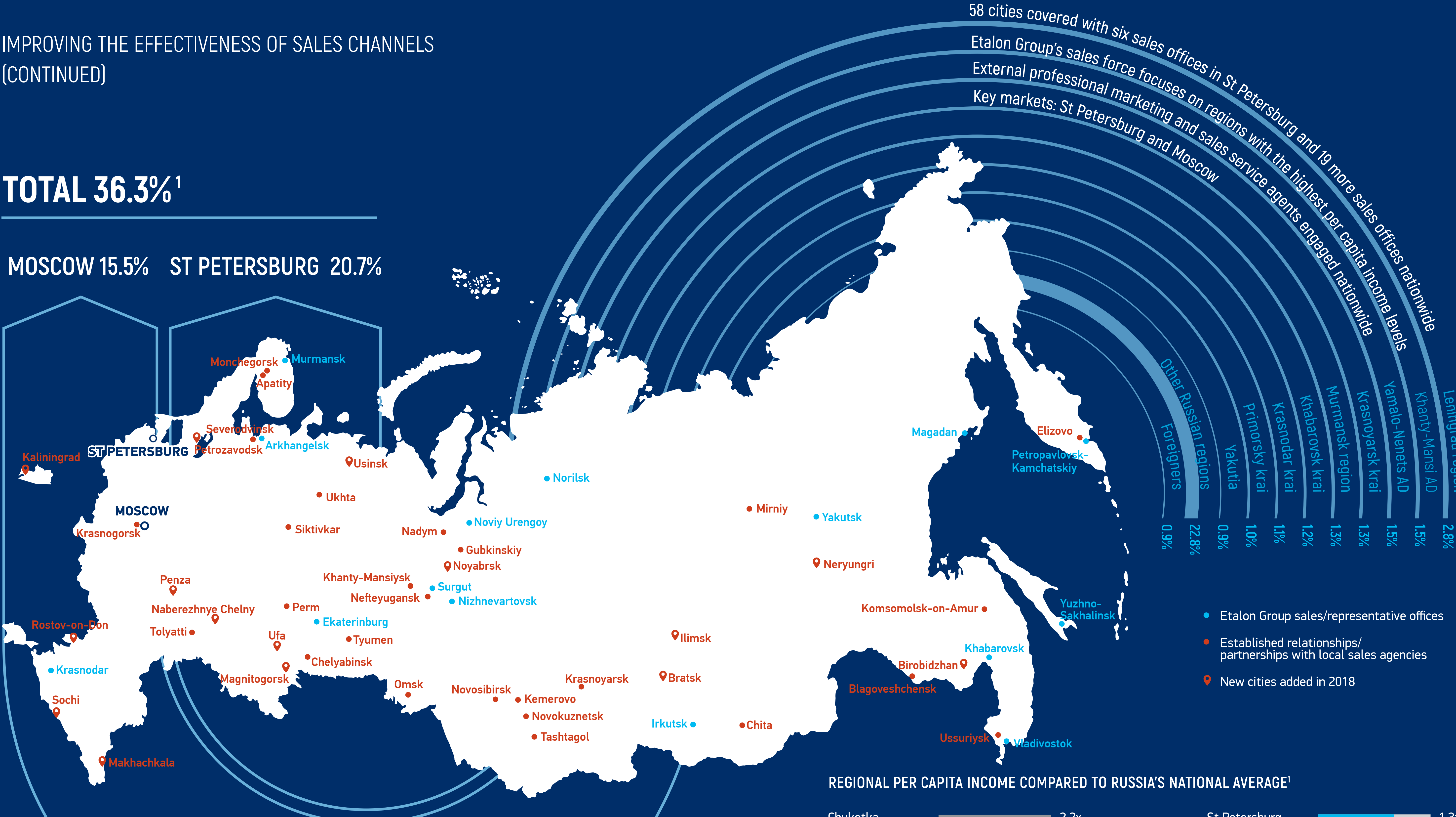
In 2018, Etalon Group's regional sales network expanded to six more cities, reaching **58 IN TOTAL** by the end of the year.

[1] By customer service level, according to an independent audit by Kantar TNS conducted in 2018.

IMPROVING THE EFFECTIVENESS OF SALES CHANNELS (CONTINUED)

TOTAL 36.3%[1]

MOSCOW 15.5% ST PETERSBURG 20.7%



REGIONAL POPULATION ACTIVELY BUYS APARTMENTS IN MOSCOW AND ST PETERSBURG

REGIONAL PER CAPITA INCOME COMPARED TO RUSSIA'S NATIONAL AVERAGE[1]

Chukotka	2.2x	St Petersburg	1.3x
Nenets AD	2.1x	Yakutia	1.3x
Yamalo-Nenets AD	2.1x	Kamchatskiy krai	1.3x
Moscow	1.9x	Tyumen region	1.3x
Magadan region	1.6x	Khabarovsk krai	1.2x
Sakhalin region	1.5x	Murmansk region	1.1x
Khanty-Mansi AD	1.4x	Russia average	1.0x
Moscow region	1.3x		

Etalon Group's target regions

[1] Total was calculated without rounding.
Data for 2018

[1] Average monthly cash income per capita, Rosstat's preliminary estimates for 12M 2018.

STRATEGY

In our more than 30 years as a residential developer, Etalon Group's strategy has enabled the Company to steadily grow sales while maintaining a comfortable and sustainable financial position.

In the years ahead, adhering to our core strategic priorities will enable us to continue to grow as the regulatory environment changes and to take advantage of opportunities as they emerge to strengthen our market position and to benefit from our leadership in two of Russia's most attractive residential real estate markets.

Our long-term goal is to be Russia's leading company in the development and construction sector, consolidating our market shares in St Petersburg and Moscow while maintaining tight control over costs, maintaining our financial position and creating value for our shareholders.

MAINTAIN SOLID FINANCIAL POSITION IN CHANGING MARKET ENVIRONMENT

WHAT WE DID IN 2018

- ✓ Finished 2018 with a net cash position of RUB 2.2 billion, backed by strong cash collections and average down payments for apartments at the level of 80% during the year
- ✓ Standard & Poor's affirmed its long-term credit rating of B+/Stable for Etalon Group's key operating subsidiary, Etalon LenSpetsSMU
- ✓ After the reporting date, completed acquisition of 51% of Leader-Invest for RUB 15.2 billion, maintaining a comfortable net debt/2018 EBITDA ratio of 0.85x on a pro-forma basis
- ✓ Completed our first project finance agreement to fund construction of the Silver Fountain project, placing Etalon among the first in the industry to work with escrow accounts, which were chosen by the Russian Government as the main intermediary tool for market participants

LONG-TERM GOALS

- Keep net debt/EBITA ratio below 2x
  - We aim to maintain our traditionally strong financial position, which is particularly important under new market regulations, with banks and clients paying close attention to developers' financial standing
- Decrease financing costs by using escrow accounts as part of project financing model
  - The use of pre-marketing will enable us to accumulate funds in escrow accounts in order to achieve lower interest rates for borrowed funds. At the same time, increasing the pace of construction will enable us to free up funds from the escrow accounts sooner in order to repay the funds borrowed to implement a project

STRENGTHEN MARKET SHARE IN CORE GEOGRAPHIES

WHAT WE DID IN 2018

- ✓ Purchased new project in the Moskovskiy district of St Petersburg in August 2018 with a planned NSA of over 100 sqm
- ✓ Launched sales on a total of 481 ths sqm of NSA for projects in St Petersburg and 154 ths sqm of NSA for projects in Moscow
- ✓ After the reporting date, acquired a 51% stake in Moscow-based developer Leader-Invest, which has 1.3 mln sqm of unsold NSA in its land bank

This transaction makes Etalon Group the #1 developer in Moscow by projects currently offered and #2 by construction volumes

LONG-TERM GOALS

- Increasing market share through organic growth in core geographies
  - Continue to enhance and refine product offering, as well as marketing and sales functions in order to better adapt to changing consumer needs
  - We aim to continue to increase sales volumes in Moscow and St Petersburg, bringing our market shares in these two cities to 7% and 15%, respectively, by 2021.
- Act as market consolidator through acquisitions
  - Regulatory changes are creating new opportunities and a unique chance for strong players like Etalon Group to acquire new projects on attractive terms. We are continuously reviewing potential acquisitions of both land plots and companies with good land banks

KEY CRITERIA

for acquisition of new projects

QUANTITATIVE:

- Size: Large-scale (> 300 ths sqm) and medium-sized (30-300 ths sqm) projects
- Return: Target IRR exceeds 15%

QUALITATIVE:

- Focus on upper-economy, comfort and business segments
- Prime locations and outskirts with well-developed public transport access and social infrastructure

for acquisition of companies

- Focus on the same regions and segments
- Complementary portfolio with little overlap
- Transparent business structure
- Potential for considerable synergies from combination of two businesses

OPTIMISE BUSINESS TO HEIGHTEN PROFITABILITY

WHAT WE DID IN 2018

- ✓ Headcount decreased by 10%
- ✓ Introduced changes to management team aimed at optimising business processes and lowering SG&A costs
- ✓ The incentive programme for key employees was adjusted to heighten the focus on financial performance

LONG-TERM GOALS

- Reduce SG&A costs
  - Ongoing measures to optimise cost per sqm for residential real estate sales
  - Implement new planning and forecasting tools to improve monitoring and reduce construction costs
- Successful integration of Leader-Invest
  - We aim to improve operational efficiency and lower costs by eliminating duplicate functions and establishing a unified management team, as well as centralisation of all management and control functions and the unification of reporting systems

CREATE VALUE FOR SHAREHOLDERS

WHAT WE DID IN 2018

- ✓ Maintained highest free float among Russian developers (61.9% of shares), supporting the liquidity of our shares and diversity of shareholdings
- ✓ After the end of the reporting period, acquired Moscow-based developer Leader-Invest, creating significant opportunities to grow our presence in this market while benefiting from synergetic effects on top and bottom lines
- ✓ After the end of the reporting period, AFK Sistema bought a 25.0% stake from the Zarenkov family, helping to remove market expectations of an overhang risk

LONG-TERM GOALS

- Continue to pay dividends in line with dividend policy
  - We will continue to adhere to our dividend policy, under which Etalon Group aims to pay out dividends equal to 40%-70% of consolidated IFRS net profit
- Pursue additional opportunities to increase market capitalisation and share liquidity
  - Etalon Group already has the largest free float among Russian development companies, and we are constantly working to increase liquidity and the diversity of our shareholder base. We continue to uphold our transparency and disclosure principles and to improve the quality of information provided to the market.
  - We also aim to improve Etalon Group's return on investments for its project portfolio

4. PROJECT PORTFOLIO

PROJECT PORTFOLIO OVERVIEW

During 2018, Etalon Group's portfolio consisted of a growing number of upper-economy-, comfort-, and business-class projects in St Petersburg and Moscow. In 2018, we acquired the rights to a land plot in the Moskovskiy district of St Petersburg for the development of a new residential project with a planned NSA of more than 100 ths sqm.

In February 2019, we significantly diversified our portfolio of comfort- and business-class projects in Moscow by purchasing a 51% stake in Leader-Invest. The acquisition of Leader-Invest increased our land bank in Moscow by a total of 1.3 mln sqm of unsold NSA and strengthened our position in the capital city, which is the most attractive residential real estate market in Russia. For more details about the acquisition, please see "Strategic acquisition of Leader-Invest" on page 26.

We continue to aim to minimise the period between the purchase of a project and the launch of sales, with a target time frame of 6–18 months. For instance, in September and October 2018 we launched sales for two projects purchased in December 2017: Petrovskiy Landmark and Etalon on the Neva, respectively. In 2018, we also started sales at House on Blyukhera, Okhta House, as well as at a number of new buildings in the Galactica, Silver Fountain, and Normandy projects.

In the years ahead, we expect to see market consolidation among the top players in residential real estate and the continued departure of smaller developers that do not comply with the requirements of the amended regulations governing our industry. Consequently, as the number of land buyers decreases, we expect to see lower costs for project acquisition. As this happens, we will consider expanding our portfolio by purchasing new projects at attractive prices. Etalon Group plans to adhere to its established policy of focusing on large (> 300 thousand sqm) and medium-sized projects (30–300 thousand sqm) with a target IRR above 15%. We will target upper-economy-, comfort- and business-class projects that are centrally located or are in residential districts with well-developed transport and social infrastructure.

OPEN MARKET VALUE OF PROJECT PORTFOLIO

190 RUB BLN

The market value of Etalon Group's project portfolio is RUB 190 billion[1]

UNSOLD NSA

4 MLN SQM

Unsold NSA amounted to 4.0 mln sqm[1], which is sufficient for 6.4 years based on FY 2018 NCS volumes

TOTAL PROJECTS IN ST PETERSBURG AND MOSCOW

57

As of 19 February 2019, Etalon Group's project portfolio comprised 57 projects that are well diversified by location: 34%, 61%, and 5% in St Petersburg, Moscow, and the Moscow region, respectively

THE SHARE OF BUSINESS-CLASS PROJECTS

30 %

After the acquisition of Leader-Invest, the share of business-class projects in our portfolio increased to 30%

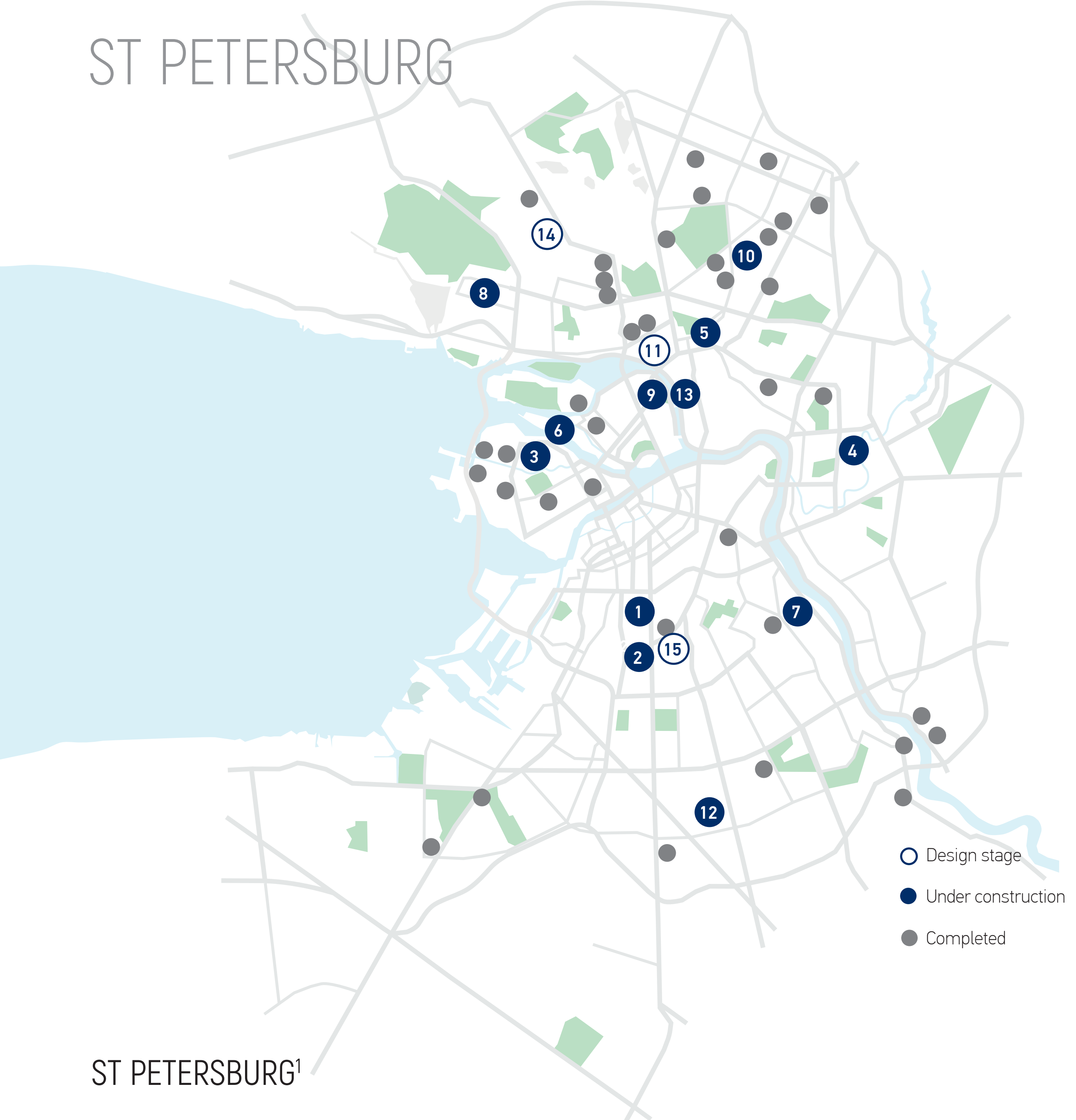
[1] Including Sistema PJSFC's 49% minority stake in Leader-Invest projects.

		PROJECT	CLASS	STATUS	TOTAL NSA ('000 SQM)	UNSOLD NSA ('000 SQM)[1]
CURRENT PROJECTS						
ST PETERSBURG	1	Galactica	comfort	under construction	809	517
	2	Moscow Gates	comfort	under construction	235	41
	3	Samotsvety	comfort	under construction	209	67
	4	Okhta House	comfort	under construction	133	131
	5	House on Blyukhera	comfort	under construction	105	66
	6	Petrovskiy Landmark	business	under construction	89	73
	7	Etalon on the Neva	comfort	under construction	76	74
	8	Morskaya zvezda	comfort	under construction	61	31
	9	Botanica	business	under construction	47	37
	10	House on Obruchevykh Street	comfort	under construction	44	19
	11	Beloostrovskaya	comfort	design stage	29	28
	12	House on Kosmonavtov	comfort	under construction	27	21
	13	Fusion	business	under construction	14	11
	14	Korolyova Prospekt	comfort	design stage	6	6
	15	New project in Moskovskiy District	comfort	design stage	139	135
TOTAL ST PETERSBURG					**2,023**	**1,258**
MOSCOW	1	Emerald Hills	upper economy	under construction	850	188
	2	Etalon City	comfort	under construction	363	77
	3	Summer Garden	comfort	under construction	294	158
	4	Silver Fountain	business	under construction	225	199
	5	Perovo Region	comfort	design stage	162	130
	6	Ryazanskiy Prospekt	comfort	design stage	145	119
	7	Normandy	comfort	under construction	129	101
	8	Mytishinskiy District	comfort	design stage	93	82
	9	Nizhegorodskiy Region	comfort	design stage	86	72
	10	Golden Star	comfort	under construction	85	10
	11	Letnikovskaya Street	business	design stage	82	81
	12	ZIL-Yug	comfort/ business	design stage	623	623
	13	Central Park (Nagatino I-Land)	business	under construction	333	333
	14	Wings (Lobachevskogo 120)	business	under construction	160	153
	15	Schastye v Tushino (Yana Raynisa 4)	comfort	under construction	14	7
	16	Schastye na Volgogradke (Fyodora Poletaeva 15A)	comfort	under construction	13	11
	17	Fotievoi 5	premium	design stage	12	12
	18	Nagornaya 28	comfort	design stage	12	12
	19	Schastye v Lianozovo (Abramtsevskaya, 10)	comfort	under construction	11	3
	20	Schastye v Kuzminkakh (Zelenodolskaya St., 41/2)	comfort	under construction	11	5
	21	Snezhnaya 20	comfort	design stage	11	11
	22	Electrozavodskaya 60	business	design stage	10	10
	23	Schastye na Sokole (Usievicha St., 10B)	business	under construction	9	5
	24	Dom v Konkovo (Akademika Kapitsy, 32)	business	design stage	9	9
	25	Yaroslavskoe 51	comfort	design stage	9	9
	26	Schastye v Chertanovo (Chertanovskaya 59)	comfort	under construction	9	3
	27	Schastye na Skhodnenskoy (Fabriciusa 18 bldg. 1)	comfort	under construction	9	3
	28	Schastye na Maslovke (Mishina 14)	business	under construction	8	5
	29	Schastye v Sadovnikakh (Nagatinskaya St., 4/3)	comfort	under construction	8	3
	30	Kremenchugskaya 3	business	design stage	8	8
	31	Schastye v Tsaritsyno (Kavkazskiy Blvd. 27k2)	comfort	under construction	8	2
	32	Schastyev Olimpiyskoy Derevne (Olimpiyskaya Derevnya, 10/1)	business	under construction	7	2
	33	Schastye v Veshnyakakh (Veshnyakovskaya 18G)	comfort	under construction	7	5
	34	Schastye na Dmitrovke (Sofyi Kovalevskoy St., 20)	comfort	under construction	7	5
	35	Schastye na Semyonovskoy (Izmailovskoe shosse 20)	comfort	design stage	7	7
	36	Lomonosovskiy Plus (Lomonosovskiy Ave. 36)	business	design stage	7	7
	37	Residence on Pokrovskiy Boulevard (Pokrovskiy Blvd. 5/2)	premium	under construction	7	3
	38	Schastye na Leninskom (Leninskiy 154)	business	under construction	7	3
	39	Schastye na Presne (Krasnogvardeyskiy 15 bldg. 2)	business	under construction	7	4
	40	Schastye v Kuskovo (Veshnyakovskaya St., 10)	business	under construction	6	6
	41	Bolshaya Cherkizovskaya St. 4	business	design stage	6	6
	42	Residence on Vsevolozhskiy (Vsevolozhskiy Per., 5)	premium	under construction	5	4
TOTAL MOSCOW					**3,872**	**2,496**
TOTAL CURRENT PROJECTS					**5,895**	**3,754**
COMPLETED						
Residential property in completed projects					2,099	234
Completed stand-alone commercial properties and property rights					24	23
TOTAL COMPLETED PROJECTS					**2,124**	**257**
TOTAL ETALON GROUP PROJECTS					**8,019**	**4,011**
PRODUCTION UNIT						
Production Unit's business and properties						20
TOTAL ETALON GROUP PORTFOLIO					**8,019**	**4,031**

[1] Including parking. Parking area in launched projects with partially sold parking lots is calculated as 30 sqm per parking place.

Source: Knight Frank valuation report as of 30 June 2018 and Colliers International valuation report as of 1 October 2018.

ST PETERSBURG



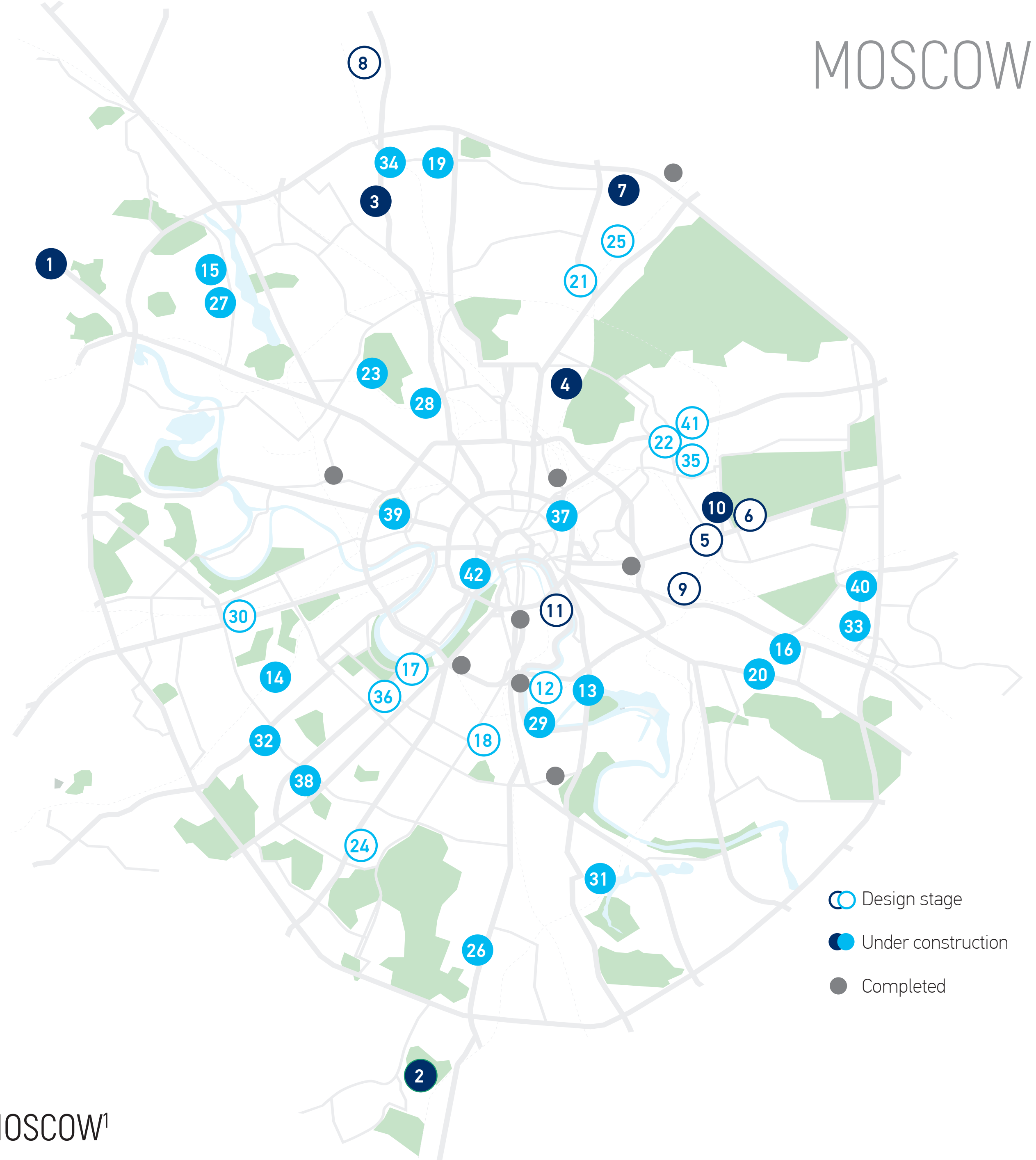
ST PETERSBURG[1]

Etalon's projects

1 Galactica
2 Moscow Gates
3 Samotsvety
4 Okhta House
5 House on Blyukhera
6 Petrovskiy Landmark
7 Etalon on the Neva
8 Morskaya zvezda
9 Botanica
10 House on Obruchevykh Street
11 Beloostrovskaya
12 House on Kosmonavtov
13 Fusion
14 Korolyova Prospekt
15 New project in Moskovskiy District

[1] As of 31 December 2018

MOSCOW



MOSCOW[1]

Etalon's projects

1 Emerald Hills
2 Etalon City
3 Summer Garden
4 Silver Fountain
5 Perovo region
6 Ryazanskiy Prospekt
7 Normandy
8 Mytishinskiy District
9 Nizhegorodskiy region
10 Golden Star
11 Letnikovskaya Street

Leader's projects

12 Zil-Yug
13 Central Park (Nagatino i-land)
14 Wings
15 Schastye v Tushino
16 Schastye na Volgogradke
17 Fotievoi Street 5
18 Nagornaya Street 28
19 Schastye v Lianozovo
20 Schastye v Kuzminkakh
21 Snezhnaya Street 20
22 Electrozavodskaya Street 60
23 Schastye na Sokole
24 Dom v in Konkovo
25 Yaroslavskoe 51
26 Schastye v Chertanovo
27 Schastye na Skhodnenskoy
28 Schastye na Maslovke
29 Schastye v Sadovnikakh
30 Kremenchugskaya Street 3
31 Schastye v Tsaritsyno
32 Schastye v Olimpiyskoy Derevne
33 Schastye v Veshnyakakh
34 Schastye na Dmitrovke
35 Schastye na Semyonovskoy
36 Lomonosovskiy Plus
37 Residence on Pokrovskiy Boulevard
38 Schastye na Leninskom
39 Schastye na Presne
40 Schastye v Kuskovo
41 Bolshaya Cherkizovskaya Street 4
42 Residence on Vsevolozhskiy

[1] As of 31 December 2018

GALACTICA. RESIDENTIAL QUARTER

ST PETERSBURG

COMFORT CLASS

TOTAL NSA
809 THS SQM

OPEN MARKET VALUE[1]
RUB 18,234 MLN

INCOME FROM SALES[1]
RUB 74,907 MLN

The scope of the Galactica project is astonishing for a central city district: c. 10 thousand apartments, three schools, 10 preschools, its own park, as well as rich and diverse on-site infrastructure make it a full-fledged small town within city limits. While the Galactica residential quarter spans the prestigious Admiralteyskiy and Moskovskiy Districts, the project boasts comfortable mid-rise buildings. The project features not only intimate cours d'honneur but also large, active public spaces. Future residents have a wide choice of floor plans, from conventional apartments to apartments with large kitchen-dining rooms, and some of the buildings have 3-metre ceilings on the top floors. Elegant architecture, cutting-edge technologies and engineering systems all meet the high standards of the project.

In May 2018, Etalon Group launched sales at Galactica Premium, a business-class project that is part of the Galactica residential quarter. The project includes four 19-storey residential buildings with superior apartments and floor-to-ceiling windows that let in more light and provide excellent views.

The Galactica residential quarter is located close to three metro stations and is close to several major roads: Moskovskiy Prospekt, Naberezhnaya Obvodnogo Kanala, the Mitrofanyevskoye highway, as well as an exit to the Western High-Speed Diameter highway (WHSD). One can reach the historic centre of the city in 15 minutes by car, and a trip to the airport will take about 20 minutes.

The surrounding neighbourhoods are developing rapidly under the city's downtown redevelopment programme. Plans are underway to build new roads, including Parfenovskaya Street, a part of which has already been completed close to the first blocks of the Galactica project. New commercial premises will also appear, along with green areas, museums and shopping malls.

[1] Knight Frank estimate as of 30 June 2018.

BOTANICA

ST PETERSBURG | BUSINESS CLASS | GREEN ZOOM[1]

Botanica is a "green" residential complex built in the Petrogradskiy district of St Petersburg, just 200 metres away from the Botanical Gardens. While creating the Botanica project, we thought through every detail: modern architecture, heat-saving ventilated facades made of hand-formed brick and natural stone and decorated with designer trellises, panoramic windows, convenient ergonomic layouts, wide and spacious warm loggias, terraces, and on-site heated parking with direct access from the building using elevators.

Botanica is the Company's first project in St Petersburg with Green Zoom certification, Russia's energy-efficiency and environmental standards for real estate. Even at the concept development stage, we did our best to integrate all the modern technologies currently used in sustainable construction, including efficient ventilation systems, centralised air conditioning, additional water purification and enhanced noise insulation. Quiet patios, a private park and tailored landscaping of green areas will create a unique atmosphere for this residential complex.

The project is located less than 4 km from the historic centre, enjoys excellent transport access and has developed infrastructure, which will attract business people and their family members.

The project is located less than 4 km from the historic centre, enjoys **EXCELLENT TRANSPORT ACCESS** and has **DEVELOPED INFRASTRUCTURE**, which will attract business people and their family members.

TOTAL NSA
47 THS SQM

OPEN MARKET VALUE[2]
RUB 1,866 MLN

INCOME FROM SALES[2]
RUB 6,516 MLN

[1] Received gold Green Zoom certificate

[2] Knight Frank estimate as of 30 June 2018

SILVER FOUNTAIN

MOSCOW | BUSINESS CLASS | GREEN ZOOM[1]

Well-planned zoning and landscaping gives a singular charm to the complex. Green zones occupy around one third of the project's area. This approach to the project's development earned it a **PLATINUM GREEN ZOOM CERTIFICATE.**

Silver Fountain is being built in the Alekseevskiy District of the south-east administrative district of Moscow. The project consists of five residential and commercial buildings, including a business centre, as well as social infrastructure and parking. The Company worked with leading architects to create a unique residential complex in the historic centre of Moscow. On the same territory, modern developments are found side by side with 19th-century buildings, thus creating a uniform architectural ensemble. Each building, however, has its own look. The heart of the complex is a unique, well-restored and functioning 19th-century fountain situated in the middle of the historic lime tree avenue.

The design of the new buildings is inspired by historical facades, while allowing for modern floor plans and engineering solutions. Special attention has been paid to energy efficiency and the environment. Well-planned zoning and landscaping gives a singular charm to the complex. Green zones occupy around one third of the project's area. This approach to the project's development earned it a platinum Green Zoom certificate.

Silver Fountain is very conveniently located. Its residents will be able to quickly reach Moscow's business and cultural centre both by car and by public transport. The Alekseevskaya metro station is within a five-minute walk, and the city centre and the Garden Ring are within a 10-minute drive.

TOTAL NSA
225 THS SQM

OPEN MARKET VALUE[2]
RUB 10,622 MLN

INCOME FROM SALES[2]
RUB 43,917 MLN

[1] Received gold Green Zoom certificate.

[2] Knight Frank estimate as of 30 June 2018

FUSION

ST PETERSBURG

BUSINESS CLASS

TOTAL NSA

14 THS SQM

OPEN MARKET VALUE[1]

RUB 740 MLN

INCOME FROM SALES[1]

RUB 2,210 MLN

5 minutes
to Finlyandskiy Railway Station

7 minutes
to Bolshoy Prospekt P.S.

7 minutes
to Peter and Paul Fortress

10 minutes
to Nevskiy Prospekt

In this project, Etalon Group adopted a number of INNOVATIVE SOLUTIONS, including THE MOST ADVANCED SECURITY SYSTEMS AND CUTTING-EDGE SMART HOME TECHNOLOGIES.

Another business-class project, Fusion, is situated in the Vyborgskiy District of St Petersburg, 2 kilometres from Botanica. This residential complex has just 110 apartments. A hallmark of the project is its vast living spaces and wide range of floor plans, as well as breathtaking views of the Neva River and the historic centre from terraces and windows.

In this project, Etalon Group adopted a number of innovative solutions, including the most advanced security systems and cutting-edge smart home technologies.

This place will be the ideal home for those who prefer to live just a few steps from downtown and at the same time want to enjoy the closest contact with nature. Low-density housing in this part of the Vyborgskiy District allows for a feeling of freedom and space. Well-developed infrastructure in the neighbourhood will provide everything necessary for comfortable living. A plethora of green areas and a nearly private embankment, coupled with the Botanical Garden nearby, will make it possible to go jogging in the mornings and to take evening walks surrounded by nature, while also creating a special local climate.

[1] Knight Frank estimate as of 30 June 2018.

PETROVSKIY LANDMARK

ST PETERSBURG   BUSINESS CLASS

This project, situated on Petrovskiy Island in St Petersburg, is an integral blend of its special location by the water, modern design and a well-thought-out living environment. The Petrovskiy Landmark residential complex consists of three buildings inspired by European brick architecture. The ground floors will house commercial premises. On higher floors, there will be apartments of different sizes (from one- to six-bedroom apartments) and of various layouts. Windows on two sides of the buildings will overlook the water: the Malaya Neva from the south; the Southern Pier, yacht slipway and the Gulf of Finland from the west. All of the apartments have open balconies or loggias with floor-to-ceiling glazing, terraces or winter gardens. This provides for excellent insulation and also makes every apartment special in its own way.

The Petrovskiy Landmark project is located in one of the most attractive and prominent neighbourhoods of central St Petersburg. On the one hand, it is close to the business districts and downtown; thanks to the bridges that are never raised, it is easy to reach any destination on the Petrograd Side, Krestovskiy Island with its parks, and Vasilievskiy Island. One of the bridges, Betankur, has an exit to the Western High-Speed Diameter highway. On the other hand, lovers of peace and quiet will enjoy the insular privacy, the beauty of the Neva and the Gulf of Finland embankments with the yacht marina, the quiet parks located nearby. The neighbouring Krestovskiy Island is an elite residential area with major recreational, leisure and sports venues.

This project, situated on Petrovskiy Island in St Petersburg, is an integral blend of its SPECIAL LOCATION BY THE WATER, MODERN DESIGN AND A WELL-THOUGHT-OUT LIVING ENVIRONMENT.

TOTAL NSA
89 THS SQM

OPEN MARKET VALUE[1]
RUB 6,005 MLN

INCOME FROM SALES[1]
RUB 17,982 MLN

[1] Knight Frank estimate as of 30 June 2018

PROJECT ON LETNIKOVSKAYA STREET

MOSCOW

BUSINESS CLASS

TOTAL NSA

82 THS SQM

OPEN MARKET VALUE[1]

RUB 8,397 MLN

INCOME FROM SALES[1]

RUB 19,563 MLN

This project is on Letnikovskaya Street in the Zamoskvoretskiy and Danilovskiy districts of Moscow, less than 1 kilometre from the Garden Ring and the Moscow River embankment. The neighbourhood conveniently combines low-rise historic buildings with extensive public, commercial, medical and educational infrastructure, as well as a close proximity to a business district that is home to the headquarters of several financial institutions and international companies. The project is located not far from the Paveletskiy Railway Station, with an aeroexpress terminal to Domodedovo Airport.

This project is on Letnikovskaya Street in the Zamoskvoretskiy and Danilovskiy districts of Moscow, LESS THAN 1 KILOMETRE FROM THE GARDEN RING AND THE MOSCOW RIVER EMBANKMENT.

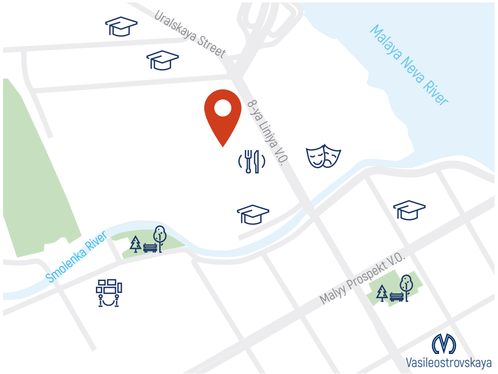
[1] Knight Frank estimate as of 30 June 2018.

SAMOTSVETY

ST PETERSBURG COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
209 THS SQM	RUB 5,188 MLN	RUB 20,694 MLN

The Samotsvety project benefits from its location in the very heart of St Petersburg on Vasilievskiy Island, just a 10-minute walk from the Vasileostrovskaya metro station. Residents of Samotsvety have easy access not only to the project's on-site infrastructure, but also to shops, private and municipal schools and preschools, as well as medical centres situated practically at their doorstep in the surrounding neighbourhood. The project concept is based on a green lifestyle, with environmentally friendly solutions and energy-efficient technologies contributing to high standards of comfort, safety and aesthetics. Etalon Group has developed a unique concept to upgrade the project's living environment: the territory of the complex includes a public space with interesting works of art that create a special, inspiring atmosphere.

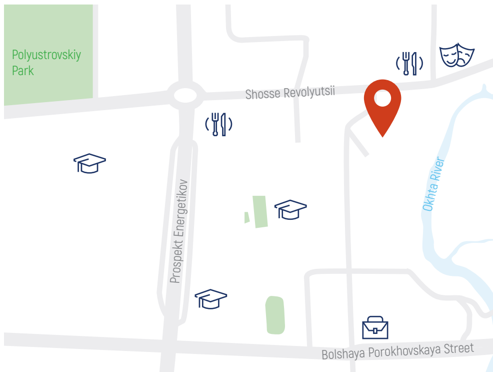


OKHTA HOUSE

ST PETERSBURG COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
133 THS SQM	RUB 4,435 MLN	RUB 15,951 MLN

The Okhta House project is in the Krasnogvardeyskiy District of St Petersburg close to the Okhta River, in a quiet and green well-developed residential quarter. The nearby Polyustrovskiy Park and Ilyinskiy Garden are excellent places for walks or family activities. Okhta House will consist of two residential buildings with built-in commercial premises and underground parking. There are a good number of public transport links within the vicinity of the complex.



[1] Knight Frank estimate as of 30 June 2018.

HOUSE ON BLYUKHERA

ST PETERSBURG COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
105 THS SQM	RUB 2,233 MLN	RUB 9,219 MLN

This residential complex includes two 17-storey buildings and a multilevel parking garage, all of which are currently under construction on Marshala Blyukhera Prospekt in a well-developed neighbourhood of the Kalininskiy District. The interior and layouts are designed in line with the latest trends in modern living spaces to ensure maximum comfort for residents. The flexible and convenient floor plans, large apartments with high ceilings and good views, as well as functional zoning of living spaces, set a new bar for contemporary comfort-class apartments.

The ground floor will be occupied by pharmacies, beauty salons, health clinics and other non-residential establishments. Outdoor areas will include children's playgrounds, walking paths, sports grounds and recreational zones. Within 1.5 kilometres, there are several preschools, schools, fitness centres, as well as numerous boutiques and shopping malls. The lovely Forestry Academy Park and the Polyustrovskiy Garden make the neighbourhood even more attractive.

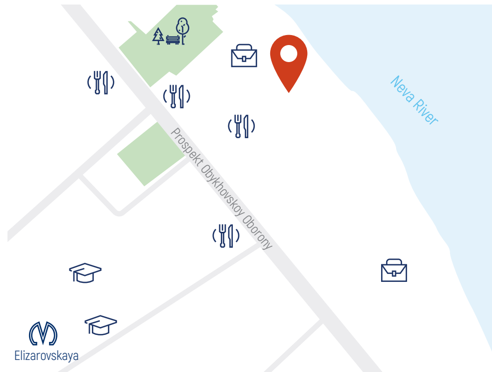
ETALON ON THE NEVA

ST PETERSBURG COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
76 THS SQM	RUB 1,966 MLN	RUB 6,409 MLN

A distinguishing feature of this project is its location on the Neva embankment, which allows for excellent views from the apartment windows. The project will feature unique apartment configurations, including top-floor residences with spacious terraces, two-level apartments, and apartments with private entrances on the lower floors offering direct access for strolls along the Neva.

On the waterfront near the project there are cafes and restaurants to suit any taste. Sports and outdoor enthusiasts will enjoy fitness centres and two parks in the vicinity. The nearest metro station, Elizarovskaya, is within a five-minute walk. Motorists will be able to take advantage of easy access to the main transport arteries: thanks to the proximity of the Alexandr Nevskiy, Vantoviy and Volodarskiy bridges, they will be able to reach the city centre in around 15 minutes.



[1] Knight Frank estimate as of 30 June 2018.

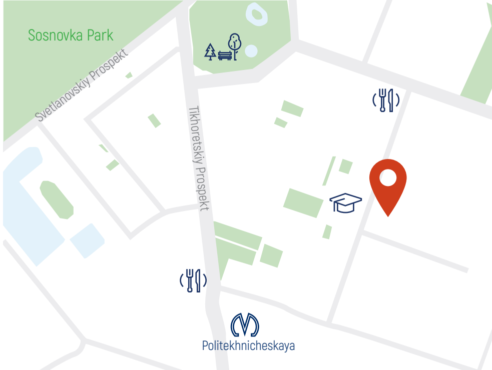
HOUSE ON OBRUCHEVYKH STREET

ST PETERSBURG   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
44 THS SQM	**RUB 1,230 MLN**	**RUB 4,720 MLN**

The project is situated in St Petersburg in an established residential quarter of the Kalininskiy District, just a few steps away from two metro stations. Residents of the complex will have a wide choice of restaurants, bars and cafes to visit. Numerous boutiques, supermarkets and malls will also make shopping easy and enjoyable. In addition, there are many social establishments nearby, such as schools, preschools, and hospitals.

The neighbourhood boasts good ecological conditions, with major parks, like the Polytechnic University and Sosnovka Park, Benois Garden and Vavilovsky Square, all within easy reach.

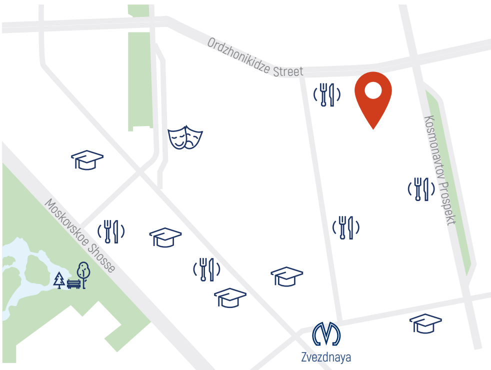


HOUSE ON KOSMONAVTOV PROSPEKT

ST PETERSBURG   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
27 THS SQM	**RUB 944 MLN**	**RUB 2,504 MLN**

The project is situated in the Moscovskiy District, which is a popular neighbourhood among St Petersburg residents, with established social, commercial, recreational and transport infrastructure, and it is close to main roads. It is also a 10-minute walk to the Zvezdnaya metro station. In contrast to densely populated areas with little greenery, the House on Kosmonavtov Prospekt is near the picturesque Pulkovo Park and a pond. In the landscaped areas of the complex, there are places for sports and walks, and inside the building there is a preschool with space for 50 children.



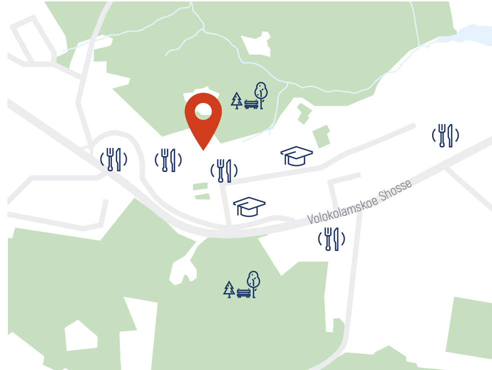
[1] Knight Frank estimate as of 30 June 2018.

EMERALD HILLS

MOSCOW   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
850 THS SQM	**RUB 10,296 MLN**	**RUB 60,069 MLN**

The large Emerald Hills residential complex combines urban comfort with the advantages of living close to nature. The project is located in one of the most environmentally clean areas of the Moscow region, next to the Krasnogorskiy Forest-Park and the Chernevskaya Gorka ski area. At the same time, it is just 9 kilometres from the Moscow Ring Road. Part of the coniferous forest adjacent to the residential complex is a landscaped park with recreation areas and walking paths. As an integrated development project, Emerald Hills includes many and various social, commercial, and leisure facilities: preschools, schools, clinics, cafes, sports and recreational centres, as well as an art school for children. A ballet school and a municipal hospital are currently under development.



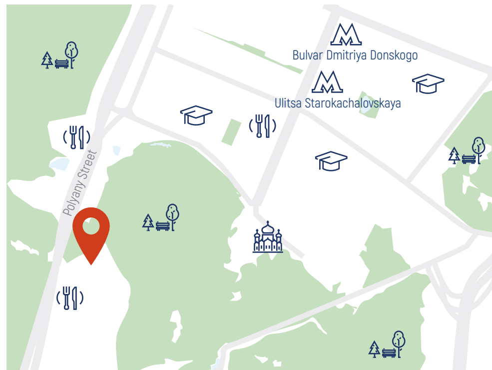
ETALON CITY

MOSCOW   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
363 THS SQM	**RUB 5,664 MLN**	**RUB 30,154 MLN**

Etalon City is situated in the south-west of Moscow, in North Butovo, a well-developed residential district. For this project, the Company has chosen a beautiful place surrounded by parks and forests. The complex consists of nine residential buildings, as well as commercial and social facilities. The land plot has good access to main roads and transport hubs: the Moscow Ring Road, Kaluzhskoe Highway and the Varshavskoe Highway. One can walk to Etalon City from the Ulitsa Skobelevskaya metro station.

A hallmark of Etalon City is its architectural concept. Each building possesses a unique facade reminiscent of a certain city. In addition to the facade design, the themes are developed through the decoration of public areas and landscape design. The facades of the six buildings completed in 2018 are decorated to resemble *The Great Wave off Kanagawa*, a well-known woodblock print by Japanese artist Katsushika Hokusai.



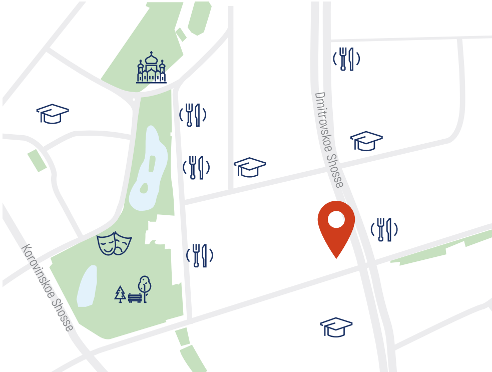
[1] Knight Frank estimate as of 30 June 2018.

SUMMER GARDEN

MOSCOW   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
294 THS SQM	RUB 6,750 MLN	RUB 33,447 MLN

This project comprises 11 residential buildings of up to 24 storeys, as well as commercial and social infrastructure. Summer Garden will have more than 3,000 apartments and 1,000 parking lots. The project enjoys good transport access via Yakhromskiy Passage or Dmitrovskoe Highway and is also surrounded by greenery: it is located in a picturesque neighbourhood close to the Angarsk Prudy Park, Dmitrovskiy Park and the Veteran Theme Park. In March 2018, a new metro station, Seligerskaya, opened just 1.5 kilometres from the complex. There are plans to build another metro station, Ulitsa 800-Letiya Moskvy, adjacent to the site.

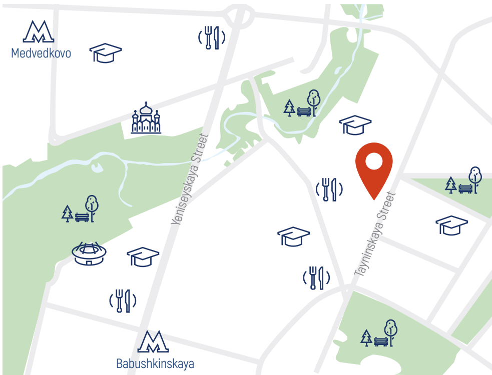


NORMANDY

MOSCOW   COMFORT CLASS

TOTAL NSA	OPEN MARKET VALUE[1]	INCOME FROM SALES[1]
129 THS SQM	RUB 5,003 MLN	RUB 14,730 MLN

Normandy is a residential project in the Losinoostrovskiy District of Moscow that includes four 22-storey buildings with underground parking, a preschool and a school. The Losinoostrovskiy District is one of the greenest Moscow neighbourhoods, with the 12,000-hectare Losiny Ostrov National Park less than 3 km away from the complex, and Torfyanoy and Tayezhny Parks within a 10-minute walk. The district lies in close proximity to the Moscow Ring Road; thanks to convenient access to key transport arteries, residents of Normandy will also be able to quickly reach most destinations by car. The Medvedkovo and Babushkinskaya metro stations are also within walking distance of the site.



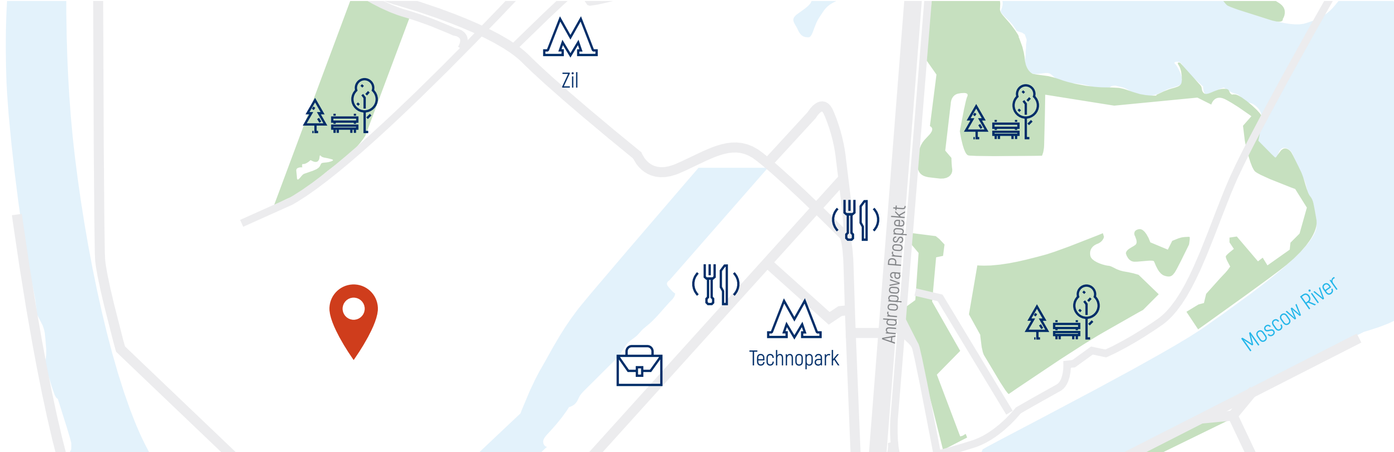
[1] Knight Frank estimate as of 30 June 2018.

ZIL-YUG

LEADER-INVEST PROJECTS

MOSCOW   COMFORT CLASS   BUSINESS CLASS

TOTAL NSA	OPEN MARKET VALUE[1]
623 THS SQM	RUB 19,139 MLN



ZIL-YUG is a large-scale multi-use development project located on the former grounds of the ZIL automobile plant in the Danilovskiy part of Moscow's southern administrative district. With a total area of 109 hectares, the project will be located just 6 km from the Kremlin, near the Moscow River, as well as the Tyufeleva Roshcha and Kozhukhovo parks. The project is based on the Smart City concept, which means there will be recharging stations for electric vehicles, sorting facilities for recycling, as well as digital infrastructure that makes it possible to resolve home-related issues and to make use of various services that will turn ZIL-YUG into the most state-of-the-art residential district in the world. The community will be home to approximately 60,000 residents, with its own cultural and exhibition centre, shopping centre, schools and preschools, as well as a polyclinic and a hospital. Its proximity to the Third Ring Road and Prospekt Andropova ensures excellent transport accessibility for the community, which is also within walking distance of the ZIL, Tekhnopark and Avtozavodskaya metro stations.

[1] Colliers International estimate as of 1 October 2018.

CENTRAL PARK

LEADER-INVEST PROJECTS

MOSCOW

BUSINESS CLASS

TOTAL NSA
333 THS SQM

OPEN MARKET VALUE[1]
RUB 19,459 MLN

The Central Park residential complex, developed in collaboration with the British firm AHR Architects, is an eco-business-class project in Moscow. This is a unique residential neighbourhood located next to the Moscow River and several parks: Kolomenskoye, Tyufeleva Roshcha and Nagatinskaya Poyma. Also located nearby are large shopping centres, business centres in the state-of-the-art Nagatino i-Land office cluster, as well as the world's largest amusement park, Island of Miracles, which is set to open in the near future. The project is based on the principle of integrated residential development to create a comfortable environment for living and working. Residential complexes of 5 to 32 storeys, office centres, as well as social, medical, sports and commercial infrastructure will also be built as part of the new neighbourhood. Particular attention will be paid to the creation of a landscape park with small garden squares and pedestrian boulevards covering an area of almost 2.5 hectares. The Central Park residential complex includes apartments with functional layouts with a ceiling height of 3.1 m and stunning views of the Moscow River, and there will be unique public spaces for socialising, games and sports on the roofs of the low-rise buildings. The project offers convenient transport accessibility: following the Nagatinskaya Embankment, one can reach the historic centre of Moscow in 10 minutes. In addition, the Tekhnopark metro station, the ZIL Moscow Central Circle station and access to the Third Ring Road and the Moscow Ring Road are all within easy reach of the estate.

[1] Colliers International estimate as of 1 October 2018.

WINGS

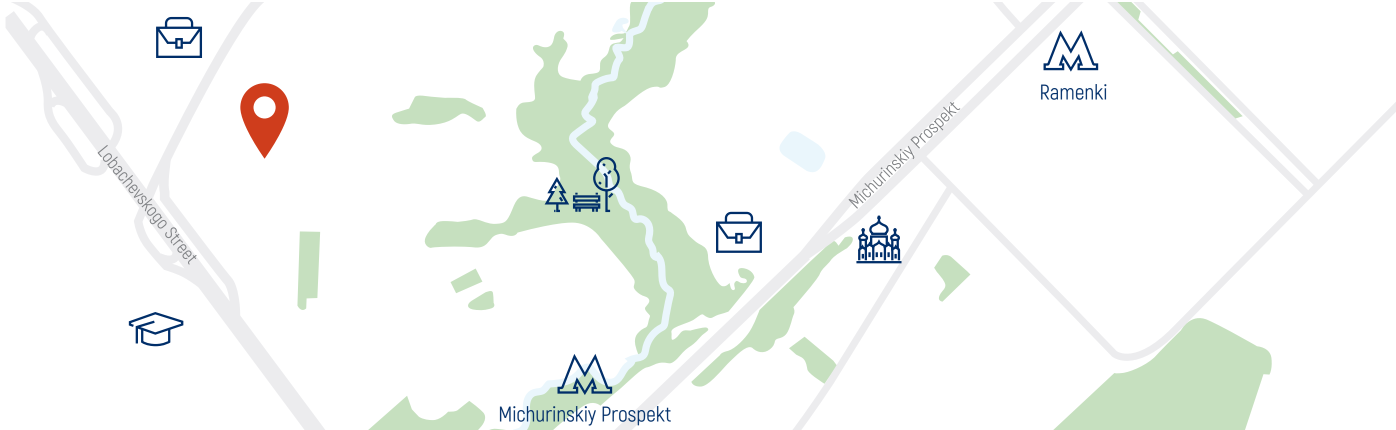
LEADER-INVEST PROJECTS

MOSCOW

BUSINESS CLASS

TOTAL NSA
160 THS SQM

OPEN MARKET VALUE[1]
RUB 10,966 MLN



The Wings residential complex is located in the picturesque Ramenki part of Moscow's western administrative district, an area with an array of amenities that is considered one of the most prestigious parts of the capital. Several of Russia's leading universities are located within easy reach of the complex: Lomonosov Moscow State University, MGIMO University, the Russian Presidential Academy of National Economy and Public Administration and several others. The project, which was developed in collaboration with the British architectural services company AEDAS, forms a single ecosystem of three buildings of varying heights, with parking, social amenities, an office and commercial centre, a fitness centre with a pool and a private landscape park with a pond. One of the signature features of the residential complex is that the roofs are covered with spacious green terraces. With plenty of space between the buildings, one aspect that makes this project stand out is its extensive selection of apartments that offer excellent views, with enlarged window openings and a ceiling height of no less than 3.1 m. The apartments offer ergonomic layouts with niches for household appliances, spacious kitchens, living rooms, walk-in closets, several bathrooms, as well as terraces of up to 40 square metres. In addition, every apartment will be equipped with a touchpad that can be used to control various aspects of the home. The complex offers convenient access to several of the capital's main transport arteries: the Moscow Ring Road, the Third Ring Road, Michurinskiy Prospekt and Lobacheskogo Street. The Michurinskiy Prospekt metro station is within walking distance. In addition, by 2024, a mass transit station will be available at the Aminevskoe Shosse metro station, which is currently under construction. This will enable residents of the complex to reach the city centre in 15 minutes.

[1] Colliers International estimate as of 1 October 2018.

5.

OPERATING PERFORMANCE

OPERATING PERFORMANCE

FY 2018 OPERATING HIGHLIGHTS

NEW SALES

2018 **628** THS SQM +23%

2017 512 THS SQM

NEW SALES

2018 **68.7** BLN RUB +37%

2017 50.2 BLN RUB

AVERAGE PRICE

2018 **109.4** THS RUB/SQM +12%

2017 98.1 THS RUB/SQM

CASH COLLECTIONS

2018 **62.8** BLN RUB +36%

2017 46.1 BLN RUB

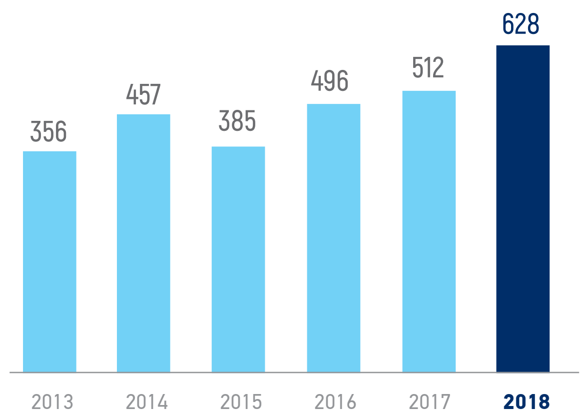
MORTGAGE SALES

2018 **5,027** CONTRACTS +50%

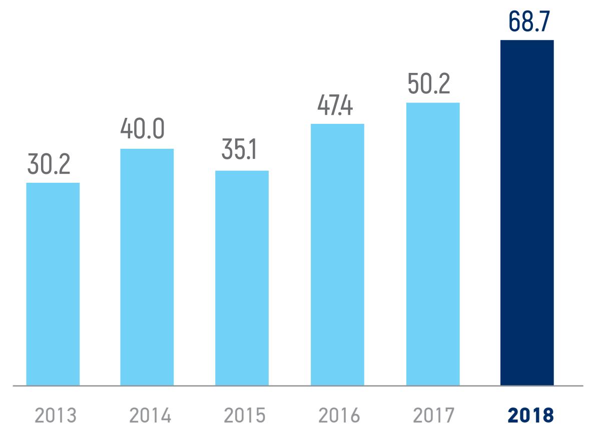
2017 3,357 CONTRACTS

Etalon Group's **RECORD-SETTING NEW CONTRACT SALES IN 2018,** both in volume and monetary terms, were supported by our ongoing focus on improving every aspect of our operations. New contract sales reached an impressive **628 THS SQM AND RUB 68.7 BLN.** These numbers exceeded our initial guidance and even beat the ambitious upgraded targets we provided at the end of 3Q 2018 by 13 p.p. and 17 p.p., respectively.

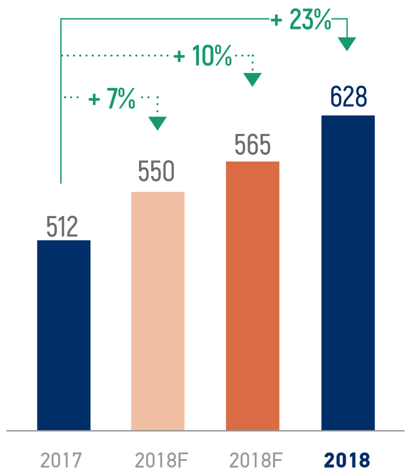
New contract sales,
ths sqm



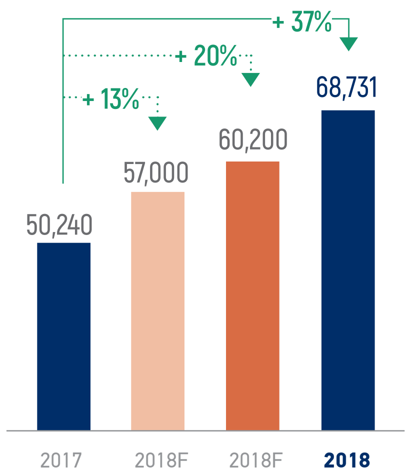
New contract sales,
RUB bln



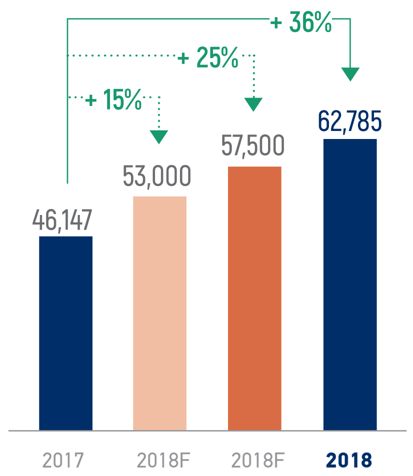
New contract sales,
ths sqm



New contract sales,
RUB mln



Cash collections,
RUB mln



● Actual performance ● Initial guidance ● Upgraded guidance

124

RUB THS PER SQM

RECORD HIGH AVERAGE PRICE FOR APARTMENTS

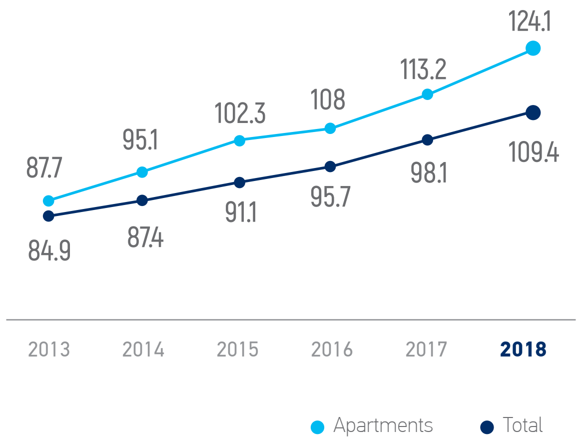
After steadily declining through 2017, interest rates in Russia hit new historical lows in 2018, which supported further growth in mortgage lending: the share of mortgage sales rose to 41% in 2018, or 5,027 contracts, an increase of 50% year-on-year from 3,357 contracts in 2017. Buoyed by the higher level of mortgage-financed sales, Etalon Group's average down payment rose to 82% for 2018.

Record new sales performance in 2018 was not the only sign of strong demand for Etalon Group's product during the year. Our balanced sales portfolio contributed to positive dynamics in the average price per sqm for all types of real estate: both average total sales price and the price of apartments increased significantly in FY 2018, by 12% and 10% year-on-year, respectively. Notably, this growth was driven both by the higher share of business-class projects in the portfolio and by rising prices across all projects: while the share of business-class projects in total sales increased from 2% in 2017 to 7% in 2018 in sqm terms, average prices at all non-business-class projects rose by more than 6% year-on-year in both St Petersburg and Moscow in FY 2018.

The average price for apartments **ROSE BY 10% YEAR-ON-YEAR,** from RUB 113,160 per sqm in 2017 to RUB 124,113.

Higher average down payments and the rising price per sqm helped us to achieve impressive cash collections for FY 2018, which rose by 36% year-on-year to RUB 62.8 bln.

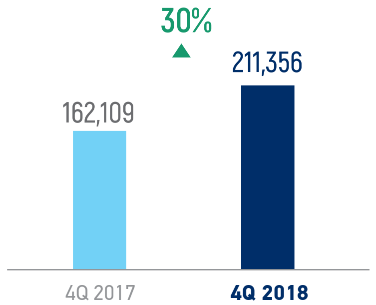
Average price,
RUB ths/sqm



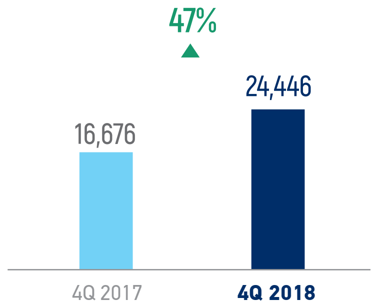
In keeping with seasonal dynamics for Russia's residential real estate market, the fourth quarter of 2018 saw a surge in sales. Etalon Group's performance in the last quarter of the year significantly exceeded even the strong 4Q 2017 results across all key metrics. New contract sales amounted to 211,356 sqm and RUB 24,446 million, representing year-on-year growth of 30% and 47%, respectively. In addition to seasonal factors, this exceptionally strong performance was partly helped by consumer expectations of rising prices for real estate and the general uncertainty caused by ongoing regulatory changes. These factors led some consumers considering purchases to accelerate their decisions. At the same time, the impressive 4Q and FY 2018 sales figures were primarily supported by Etalon Group's sales portfolio, with newly launched projects and new buildings at existing projects that were brought to market at the end of 2017 and during 2018.

4Q 2018 OPERATING RESULTS

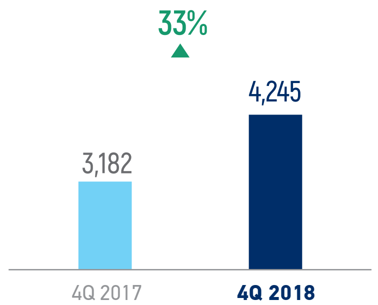
New sales,
sqm



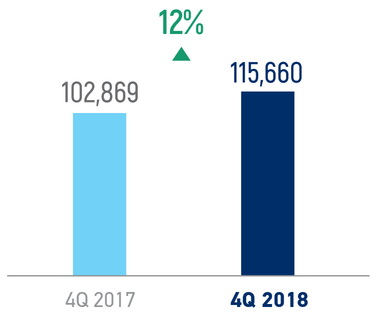
New sales,
RUB mln



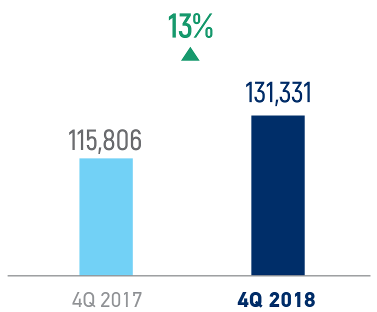
Number of contracts



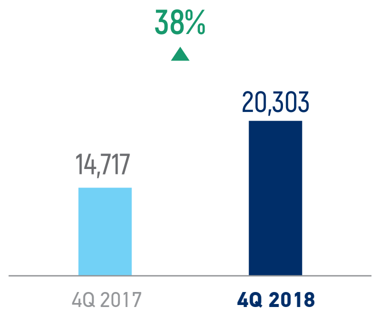
Average price,
RUB/sqm



Average price (apartments),
RUB/sqm



Cash collections,
RUB mln



Share of business-class projects in total sales **INCREASED FROM 4% TO 12%** in monetary terms in FY 2018.

In 2018, Etalon Group launched sales for over 630 ths sqm of net sellable area at existing and new projects, including Petrovskiy Landmark, a business-class project on Petrovskiy Island in St Petersburg, as well as three comfort-class projects: House on Blyukhera, Okhta House and Etalon on the Neva. The Company also launched sales at a number of new buildings in the Galactica, Summer Garden, Silver Fountain and Normandy projects, which are in great demand.

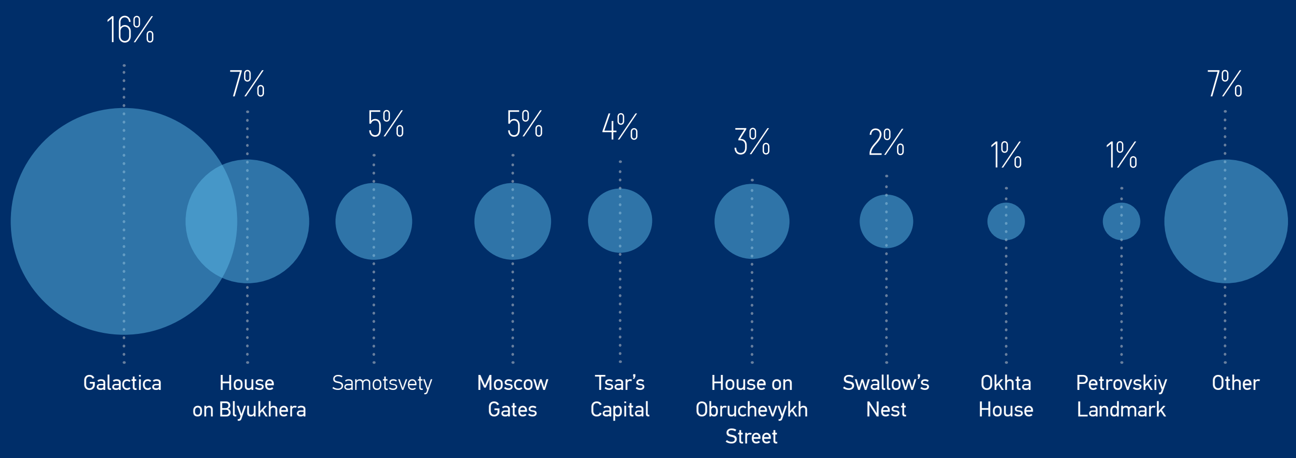
Petrovskiy Landmark, a new business-class project in St Petersburg, was launched in mid-September and has already accounted for contracts worth over RUB 1.5 billion as of 31 December 2018. The selection of higher-end housing in the Company's sales portfolio was further extended by new NSA launched at Silver Fountain in Moscow. As a result, the share of business-class projects in total sales increased from 4% to 12% in monetary terms in FY 2018.

In order to meet growing demand for high-end housing, Etalon Group has begun to offer apartments at a new phase at the Galactica project that feature unique characteristics, called Galactica Premium. Apartments in Galactica Premium provide more spacious and flexible layouts, greater comfort and excellent views.

Comfort-class projects in the Company's portfolio enjoyed strong demand as well during 2018. House on Blyukhera was launched in February 2018, for example, and 49% of the apartments available for sale were sold by year end. New buildings in the Galactica, Summer Garden, Silver Fountain and Normandy projects, which were delivered to

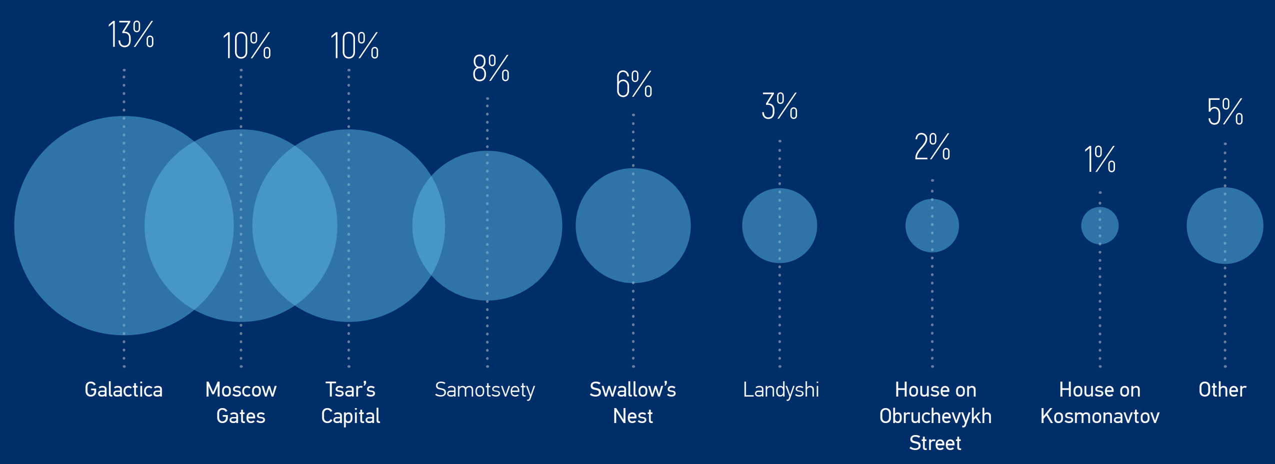
New contract sales by project 2018, sqm[1]

ST PETERSBURG 52%



New contract sales by project 2017, sqm[1]

ST PETERSBURG 56%



[1] Percentages may not add up due to rounding.

the market during 2018, also saw strong sales. Summer Garden, for instance, made the biggest contribution to new sales in 4Q 2018 in monetary terms, bringing in an impressive RUB 4 billion during the quarter.

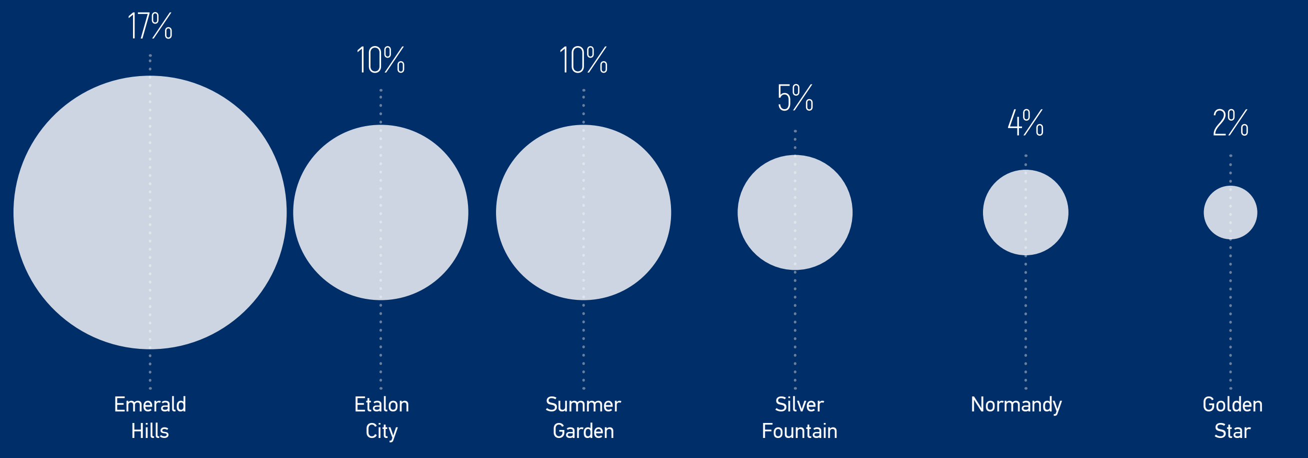
In 2018, Etalon Group commissioned 479 ths sqm of NSA, in line with the construction programme and up 13% year-on-year. The deliveries breakdown by project is as follows:

2018 deliveries breakdown, ths sqm

Etalon City	171
Galactica	152
Samotsvety	56
Summer Garden	47
House on Obruchevykh Street	39
Emerald Hills	8
Moscow Gates	6
Total	**479**

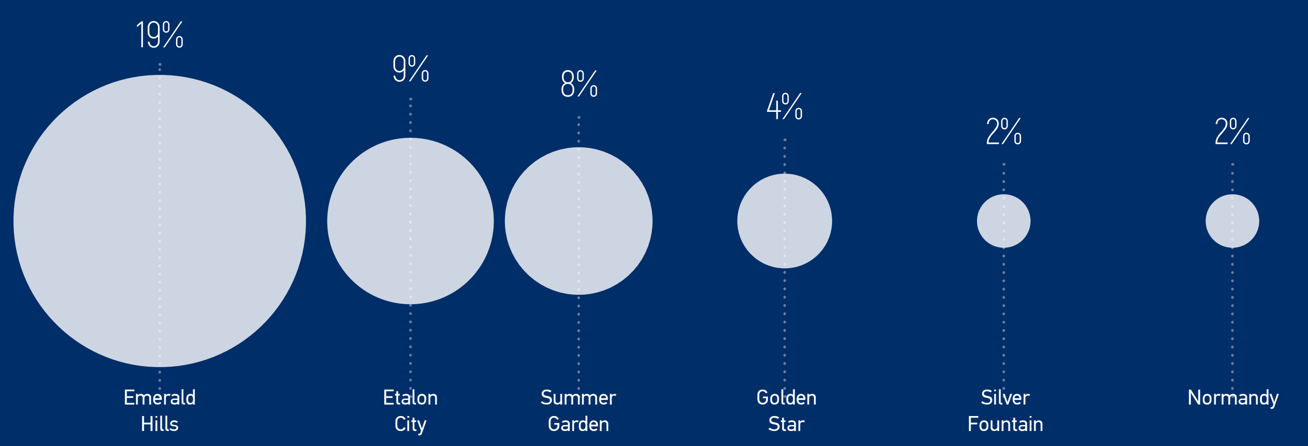
New contract sales by project 2018, sqm[1]

MOSCOW 48%



New contract sales by project 2017, sqm[1]

MOSCOW 44%



[1] Percentages may not add up due to rounding.

6.

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

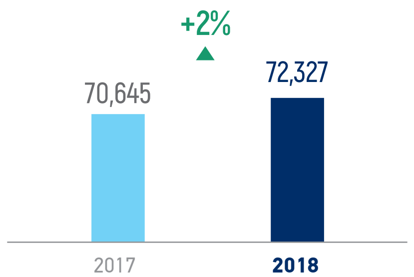
Following record new contract sales performance in FY 2018, Etalon Group reported all-time high revenue of RUB 72 billion for the year, which contributed to positive operating cash flow of RUB 17 billion and free cash flow of RUB 15 billion.

This performance enabled Etalon Group to finish 2018 with a net cash position of RUB 2.2 billion. At the same time, during 2018 the Company took a highly conservative approach to recognition of items that could potentially have a negative effect on future financial results: we accrued costs for planned social infrastructure and a significant part of the costs related to installation of utilities and engineering infrastructure at the Galactica and Silver Fountain projects. As a result, we minimised the potential negative impact of recognising these costs on net income in future periods, when newly adopted legislation will be enacted and maintaining financial performance that is comfortably in line with covenants will be a high priority. This approach has created a solid basis for stronger P&L performance in future periods.

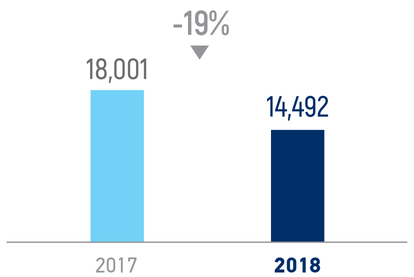
INCOME STATEMENT

Etalon Group's consolidated IFRS revenue increased by 2% year-on-year to RUB 72,327 million, while revenue in our core residential development business line increased by 6% year-on-year to RUB 58,072 million. Our consolidated gross profit and residential development adjusted[1] gross profit declined by 19% and 20% year-on-year, respectively. This decline in profitability was due to recognition of a significant part of the overall costs related to installation of utilities and other infrastructure at our large-scale development projects.

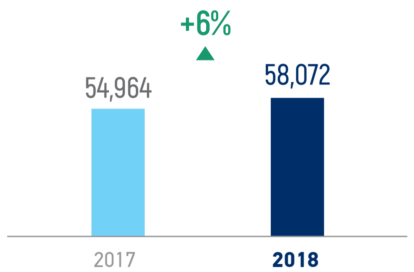
Consolidated revenue,
RUB mln



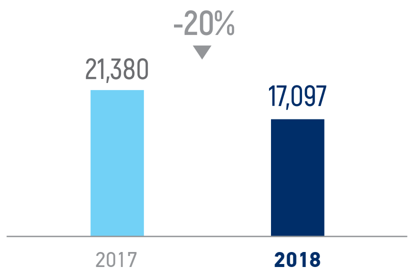
Consolidated gross profit,
RUB mln



Total residential development revenue,
RUB mln



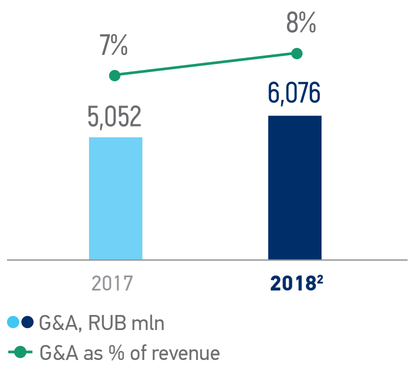
Residential development adjusted gross profit[1],
RUB mln



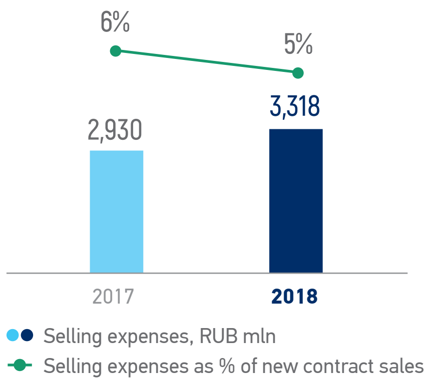
[1] Adjusted for borrowing costs and significant financing component in cost of sales.

General and administrative expenses as a percentage of revenue increased by 1 p.p. year-on-year. Thanks to our efforts to optimise business processes and lower selling costs, selling expenses as a percentage of new contract sales decreased by 1 p.p to 5%, while new contract sales increased by 37% year-on-year to RUB 68,731 million.

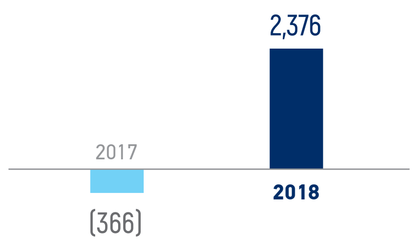
General and administrative expenses, RUB mln



Selling expenses,
RUB mln

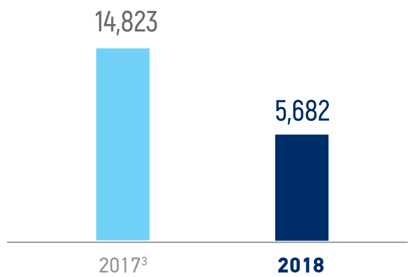


Other expenses (income),
RUB mln

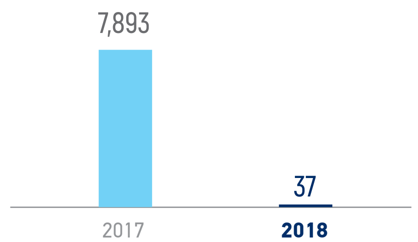


The conservative approach that we took for recognising items that could potentially have a negative effect on future financial performance significantly impacted the P&L in 2018. EBITDA for FY 2018 amounted to RUB 5,682 million, down by 62% year-on-year, while net income came to RUB 37 million. Our EBITDA and bottom line were affected by costs related to installation of utilities and infrastructure, as well as by non-cash items, including: impairment for social infrastructure, equity-settled share-based payments, the revenue discounting for parking instalments and impairments for trade receivables in accordance with the new IFRS 9 standard (please see page 163 for more details on IFRS 9).

EBITDA,
RUB mln



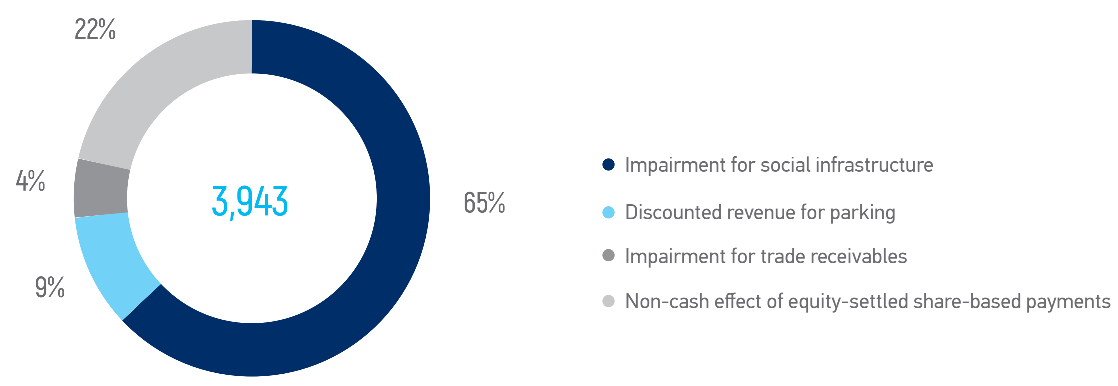
Net income,
RUB mln



Following record new contract sales performance in FY 2018, Etalon Group reported ALL-TIME HIGH REVENUE OF RUB 72 BILLION FOR THE YEAR, which contributed to positive operating cash flow of RUB 17 billion and free cash flow of RUB 15 billion.

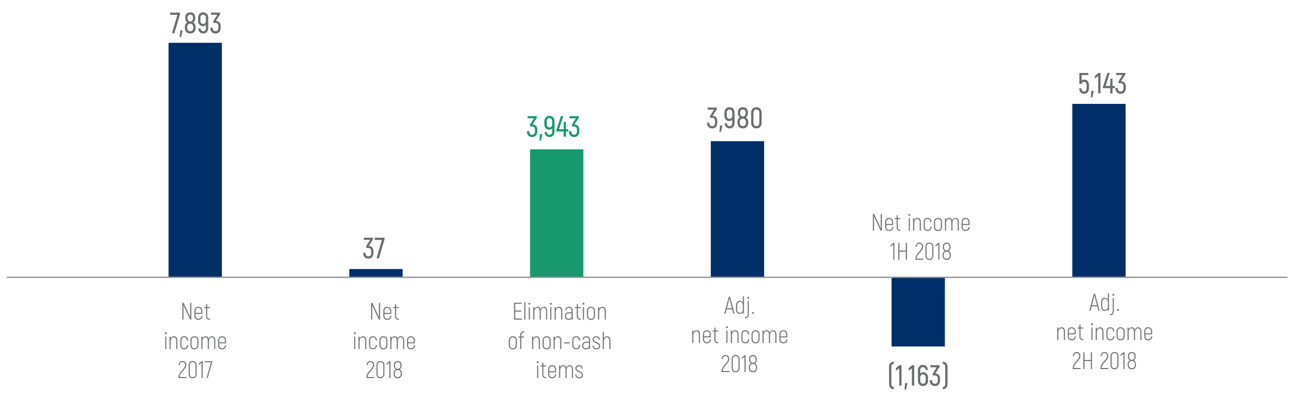
[2] G&A expenses with elimination of non-cash effect from equity-settled share-based payment.
[3] EBITDA for 2017 was recalculated.

Breakdown of non-cash items,
RUB mln



Adjusted for these non-cash items, net income for 2H 2018 amounted to RUB 5,143 million, representing a good base for a final dividend for 2018 in accordance with our dividend policy, which aims to pay out 40% to 70% of consolidated IFRS net income and allows for dividend distribution based on adjusted net income. A final dividend for 2018 is subject to the recommendation of the Etalon Group Board of Directors and the final approval by the Company's shareholders at the Annual General Meeting.

FY and 2H 2018 adjusted net income calculation,
RUB mln

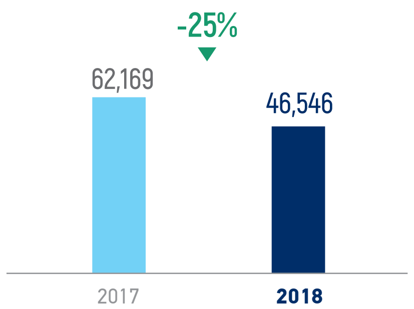


In 2018, the Company took a highly conservative approach to recognition of items that could potentially have a negative effect on future financial results, which has helped to create A SOLID BASIS FOR STRONGER P&L PERFORMANCE IN FUTURE PERIODS.

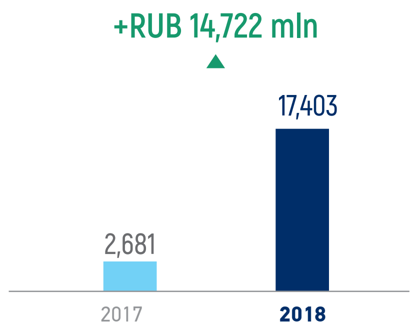
CASH FLOW

Thanks to the high level of cash collections and effective management of our residential development projects in FY 2018, we optimised working capital levels by 25% and achieved positive operating cash flow for the third year in a row. Operating cash flow less interest paid increased by RUB 14,722 million year-on-year and amounted to RUB 17,403 million, while free cash flow was up by RUB 14,429 million and reached RUB 14,672 million. This was achieved despite the acquisition of a project in the Moskovskiy District of St Petersburg and record dividends paid out during the year.

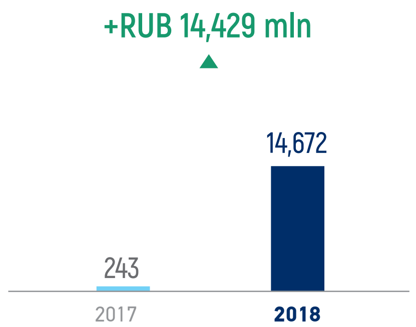
Working capital,
RUB mln



Operating cash flow,
RUB mln



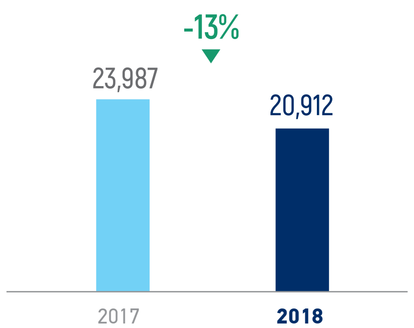
Free cash flow,
RUB mln



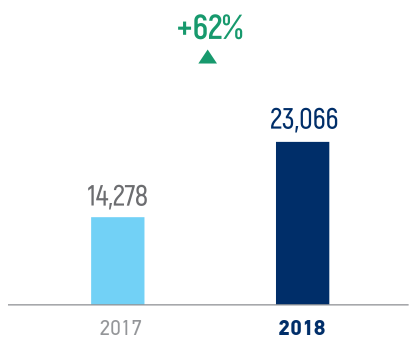
BALANCE SHEET

In 2018, we further improved our financial position in line with our goal of maintaining a solid balance sheet in the current changing market environment. Etalon Group finished 2018 with a net cash position of RUB 2.2 billion, compared to net debt of RUB 9.7 billion as of 31 December 2017. This result was achieved thanks to strong cash collections and average down payments for apartments exceeding 80% during the year.

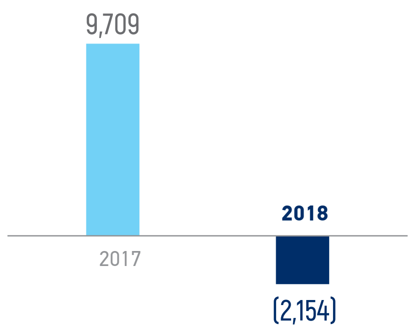
Total debt,
RUB mln



Cash and cash equivalents[1],
RUB mln



Net debt (cash),
RUB mln



Following the end of the reporting period, in February 2019, we completed one of the largest M&A transactions in Russia's development sector in recent years, while continuing to adhere to our strict leverage targets: after the acquisition of Leader-Invest by Etalon Group, S&P once again affirmed the long-term global scale credit rating of Etalon Group subsidiary Etalon LenSpetsSMU at B+ with a stable outlook[2]. We also continued working on improving our borrowing costs and repayment schedule. As a result, average cost of borrowings declined from 10.29% at the end of 2017 to 9.85% at the end of 2018.

[1] Including bank deposits over three months.
[2] As of 29 March 2019.

7.

SUSTAINABILITY

STAKEHOLDER ENGAGEMENT

We view establishing and maintaining good relationships with stakeholders as an important part of our ability to create value and deliver sustainable growth. By engaging with the groups listed here, we are able to better understand their needs, receive feedback that may improve our business, and communicate important information about our own performance and priorities. Ongoing stakeholder interactions form a key foundation of our ability to make informed business decisions and continue to grow Etalon Group.

Why we interact

Customers

- Inform customers about Etalon Group's projects
- Explain our key advantages, communicate the benefits of dealing with the Company
- Provide customers an opportunity to give us feedback about our product and services
- Understand and address the needs and concerns of our customers
- Increase repeated and referral sales

Employees

- Retain and develop a workforce of committed, skilled employees
- Keep employees informed about the Company's strategic goals and targets they are expected to reach
- Maintain a dialogue with employees in order to identify opportunities to further improve our operations

Investors

- Provide clear and transparent information about the Company and its investment case
- Educate investors about our strategy and key decisions made in accordance with the strategy
- Inform investors about Etalon Group's operating and financial performance and other significant events
- Explain Etalon Group's capital markets activities

Society

- Improve urban living conditions in the areas where we operate
- Keep the public informed about Etalon Group's impact on the environment and city infrastructure
- Create and maintain a strong reputation

How we interact

Customers

- We maintain and continuously improve customer hotline operations
- Develop regional sales network
- We aim to respond to inquiries, requests and complaints from our customers in a timely and complete manner
- We communicate with our customers on social media
- We develop and use advanced means of visualisation and demonstration, such as VR
- We develop mobile applications where customers can pay their utility bills and track the progress of construction of their future home

Employees

- Implement orientation programme to familiarise new employees with the Company and its history
- Educate employees about health and safety procedures in the workplace
- Use our corporate newspaper and employee intranet to distribute important information
- Arrange town hall forums with key managers
- Provide social support for employees in cases of long-term illness or accidents, bereavement, or loss of property
- Offer a variety of professional training and development programmes
- Recognise significant contributions to the Company's development

Investors

- Maintain investor website with annual reports, financial statements, press releases, presentations and other relevant information
- Participate in roadshows and in investor conferences
- Arrange conference calls and meetings for management with analysts and investors
- Hold site visits for investors and analysts
- Publish monthly visual updates on progress at our projects
- Ensure that the interests of public shareholders are represented by having six independent non-executive directors on the Board of Directors

Society

- Publish press releases and interviews with key management regarding important topics related to the Company's activities
- Arrange regular meetings and site visits for journalists covering Etalon Group's activities
- Use efficient channels of communication with key media and journalists
- Maintain an online project gallery listing past, present and future projects

Performance in 2018

Customers

- Sales network expanded by six cities in 2018, covering 58 cities across Russia
- We received over 68,000 incoming calls from customers in 2018 and managed them using an updated CRM system, which resulted in missing less than 1% of calls.
- Customer service level was improved: according to a Kantar RNS survey, Etalon is now ranked third in both St Petersburg and Moscow, up from eighth and seventh in 2017, respectively
- We opened the first support office for new residents at our Samotsvety project

Employees

- We conducted a survey to measure the level of involvement and degree of satisfaction of our employees. Survey results will be used to improve on these measures.
- More than 900 employees participated in training programmes
- 278 new employees participated in the orientation programme
- 23,882 person-hours invested in training programmes by Etalon employees
- 129 employees received financial assistance after the birth of a child
- 68 employees received financial assistance after bereavement
- 44 retired employees received financial assistance

Investors

- Four conference calls for investors on operating and financial results
- Over 100 meetings with analysts/investors, including group meetings for analysts or investors and site visits to selected projects in Moscow and St Petersburg
- 14 investor conferences
- 45 regulatory news service press releases
- Monthly visual updates

Society

- 233 press releases
- 7,847 mentions of Etalon in domestic and international media
- 14 in-person events with journalists

OCCUPATIONAL HEALTH AND SAFETY

Etalon Group is a large company with more than 15 development projects ongoing at any one time. Our responsibilities towards every one of our more than 5,000 employees are our #1 priority, and we consider it our fundamental obligation to provide them with a safe and secure working environment. We are pleased to report that 2018 was our third consecutive year with no fatalities at our construction sites.

OCCUPATIONAL HEALTH AND SAFETY POLICY

Our occupational health and safety (OHS) policy is based on three key principles:

- Implementation of the latest practices and techniques
- Continuous improvement
- Employee training and taking a proactive approach

We do not merely insist on strict compliance with applicable Russian legislation and implementation of advanced industry standards. Our goal is to set a higher standard: we implement best global practices, and we also use building information modelling (BIM) technology to advance and improve our OHS system.

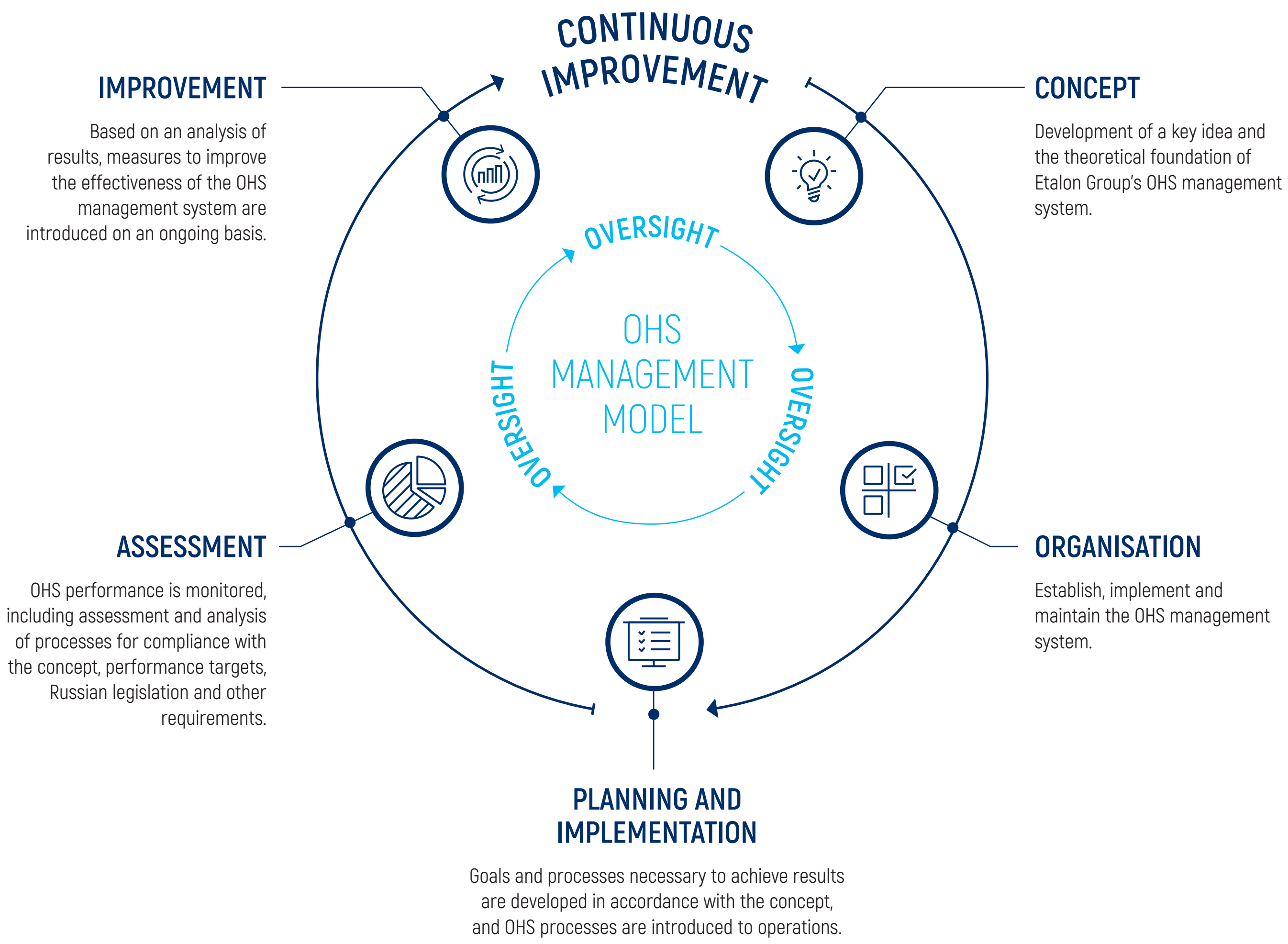
Etalon Group's policy regarding labour protection, as well as occupational safety and formal regulations are governed by two key documents:

1. The Etalon Group Policy on OHS Management, which sets out the key principles of our OHS system, the functional responsibilities for our OHS management system, the rights and responsibilities of departments and department heads in the field of OHS, compliance with occupational health and safety rules and regulations at the Company's construction sites, the actions that must be taken in response to incidents, as well as preventative measures and personnel training.

2. The Safety Index methodology for Etalon Group's construction sites, which details how data is collected and analysed to determine a site's Safety Index, and it also regulates the preparation and distribution of reports on the results of safety monitoring.

At the heart of our OHS system is the principle of continuous monitoring and development.

ETALON GROUP'S WORKPLACE HEALTH AND SAFETY MANAGEMENT MODEL



OCCUPATIONAL HEALTH AND SAFETY POLICY

Key principles of OHS at Etalon Group:

- Clearly structured vertical management of OHS processes
- Personal responsibility for managers at all levels to ensure adherence to our OHS policies in their respective business units
- Regular, independent monitoring of safety at construction sites
- Motivating individuals involved in the construction process to contribute to ensuring occupational health and safety
- Systematic OHS training and certification for personnel

The Technical Director is responsible for management of our Group-wide OHS function, with primary responsibility for developing the methodology and parameters for regular independent monitoring of working conditions at our facilities. This vertical structure also includes functional divisions at Etalon Group's regional operating companies as well as at individual subsidiaries of the Group that have OHS divisions and specialists.

Over the past three years, there has NOT BEEN A SINGLE FATAL ACCIDENT at any of our construction sites.

Key objectives of the OHS management system:

- To implement the Etalon Group Policy on OHS Management and the Safety Index methodology, as well as key rules and regulations governing OHS
- To study and implement global best practices in the field of OHS
- To implement preventative measures to minimise workplace injuries, adhere to workplace safety codes and improve working conditions
- To inform and consult managers and line employees on OHS issues

General contractors are responsible for maintaining a safe workplace and overseeing the activities of subcontractors at Etalon Group's construction sites.

Occupational health and safety specialists have significant authority, which allows them to monitor compliance with OHS rules and regulations within Etalon Group, thereby maintaining a high level of safety and preventing injuries. All incidents are investigated to identify operational issues that need addressing. Group subsidiaries submit monthly reports on implementation of labour protection rules and regulations and on the occurrence of injuries in their divisions. These practices help to monitor and analyse safety conditions Group-wide, to identify any patterns and weakness, and to highlight key areas for improvement in our OHS system.

This approach to OHS helps to reduce safety violations, minimise risks and avoid serious or even fatal injuries.

OHS ACTIVITIES

Equipment protocol

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

Education and training

Etalon Group employees are required to undergo training and testing concerning their health and safety knowledge and skills in accordance with the laws of the Russian Federation. In addition, we offer classes, training and seminars on various OHS subjects. In 2018, we conducted 12,117 hours of health and safety training for 535 participants.

Prevention of workplace injuries

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

Safety Index

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

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

Our Safety Index assessments are constantly being improved. In 2018, a risk-based approach was incorporated. The data processing system is fully automated and enables regular reporting.

Our Company-wide OHS standard is the Safety Index value set by the Technical Council and approved by the Etalon Group CEO.

The application of the Safety Index has resulted in a marked decrease in injuries and improvements in the workplace culture and in labour productivity. Over the past three years, there has not been a single fatal accident at any of our construction sites, and the Safety Index has exceeded 80% over this period, which is higher than our target level of 75%.

Monitoring and enforcement of workplace safety

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

In addition, we regularly carry out independent assessments of the Safety Index for each facility and for all construction sites belonging to Etalon Group, as well as using the Safety Index to monitor the results of the OHS system and of the functional management of OHS processes. The regular independent monitoring of the Safety Index at our facilities is organised by the heads of Etalon Group's regional divisions.

Assessment of OHS compliance by contractors

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

In 2018, we conducted 12,117 HOURS of health and safety training for 535 PARTICIPANTS.

ENVIRONMENT

At every stage of our construction projects, we strive to limit our impact on the environment, minimise energy costs and resource consumption, and provide future residents with a comfortable and environmentally friendly living space. When designing, building and operating residential facilities, our professionals are guided by strict legal regulations and recommendations in the field of environmental protection, while also applying best practices and the latest innovations.

2018 HIGHLIGHTS:

INVESTMENTS INTO ENVIRONMENTAL PROTECTION FOR CONSTRUCTION ACTIVITIES

+18 %

year-on-year **increase in environmental protection investments in 2018**

SECONDARY RECYCLING

+14 %

year-on-year **increase in secondary recycling** in 2018

FUEL CONSUMPTION

-1.2 %

year-on-year **reduction in fuel consumption** in 2018

PETROL

-1.8 %

year-on-year **reduction in petrol consumption** in 2018

DIESEL

-1.1 %

year-on-year **reduction in diesel consumption** in 2018

ELECTRICITY

-0.6 %

year-on-year **reduction in electricity consumption** in 2018

Our policy complies with Russia's **STRICT RULES AND REGULATIONS ON WASTE MANAGEMENT** at construction sites and other regulations on environmental protection.

FUNDAMENTAL PRINCIPLES FOR ENVIRONMENTAL PROTECTION:

Strict compliance with environmental requirements and recommendations

- We have been implementing an environmental policy for over a decade: first adopted in 2008, our Management Policy on Quality and the Environment was revised in 2017 in connection with the transition to new versions of the ISO standards on quality management and on environmental management. Our policy complies with Russia's strict rules and regulations on waste management at construction sites and other regulations on environmental protection.

  Our projects undergo a comprehensive environmental impact assessment at every stage. During the development of a project, we conduct engineering and environmental surveys and assess noise levels, air quality and soil quality. Project documentation reflects measures to limit any environmental impact in both the construction phase and during a facility's ongoing use.

  During construction, measures are taken to prevent environmental pollution, including land restoration, measures to protect the air and water resources and noise reduction, among others. During construction, the Company does not use water from natural reservoirs, instead drawing water entirely from the urban water supply network. In order to reduce the amount of dust removed from construction sites, the wheels of all vehicles are washed before leaving. The Company's investment in environmental protection measures related to construction activities in 2018 increased by almost 18% year-on-year.

  Once construction is completed, projects are tested for compliance with regulations on heating, ventilation, microclimate and indoor air quality, natural and artificial lighting and insolation, noise, vibration, ultrasound and infrasound levels, electric and electromagnetic fields and radiation. We also pay attention to the grounds surrounding our residential facilities, including landscaping and beautification of outdoor areas, as well as equipping recreation areas, sports facilities and playgrounds for children.

- The equipment and materials used in the construction of Etalon Group facilities comply with all applicable sanitary and ergonomic requirements. We use modern, environmentally friendly materials for the decor in lobbies, corridors and stairways. Ceiling, wall and floor coatings, as well as insulation materials, paints, adhesives and sealants give off only low levels of emissions of volatile organic compounds. Energy-efficient LED lights that do not contain mercury or other harmful substances are used to illuminate common areas.

- Etalon Group strictly complies with requirements for environmental protection. To monitor risks and prevent violations, we also conduct our own inspections of facilities for compliance with environmental regulations. In 2018, no fewer than 20 such inspections were conducted in St Petersburg alone. This allows us to avoid fines and non-monetary penalties for non-compliance with environmental regulations.

Openness and responsibility

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

- We regularly prepare environmental reports for Etalon Group companies and for shareholders, on request. In 2018, four environmental reports were presented, three of which were prepared at reporting meetings on quality and environmental issues between Etalon Group's main operating company in St Petersburg, Etalon LenSpetsSMU JSC, and NTC Etalon LLC.

- Our internal reports on the results of inspections of Group facilities for compliance with environmental standards are subject to independent audit.

- We also expect all our suppliers and contractors to meet high standards. According to our Tender Regulations, all suppliers and contractors are assessed according to a number of criteria and are included in our register of accredited companies. Materials and equipment used by the Company are subject to environmental monitoring and are checked to ensure that they have the necessary health and safety certificates.

  In 2018, Etalon Group began working with two new general contractors for construction projects in St Petersburg, having assessed them in advance for compliance with the requirements of our environmental management system.

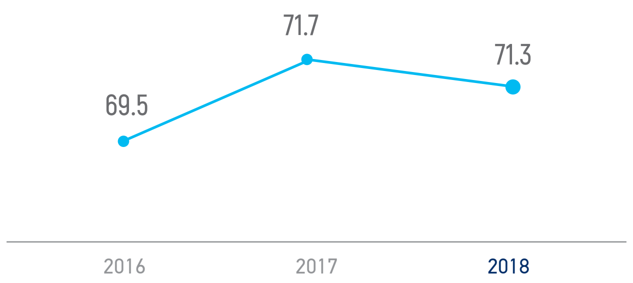
Ongoing improvements

- Since 2008, Etalon Group has been using an integrated quality and environmental management system. Every three years, the system undergoes an independent audit for compliance with regulations. After the publication of the most recent version of the international environmental management standard ISO 14001: 2015, the management of Etalon Group's regional arm in St Petersburg decided to improve the quality and environmental management system and to certify it in accordance with the requirements of the most recent standard, which was done in 2017. An independent audit conducted in June 2018 confirmed the integrated system's compliance with the requirements of the international standards for quality management (ISO 9001: 2015) and environmental management (ISO 14001: 2015), as well as the validity of conformity certificates up to 2020.
- Etalon Group strives to adhere to key global initiatives aimed at developing corporate social responsibility, such as the UN Global Compact. The Company adheres to the principles of socially responsible business, including those regarding the emission of greenhouse gases and the use of fossil fuels. We strive to reduce emissions and electricity consumption during the construction and operation of our facilities.

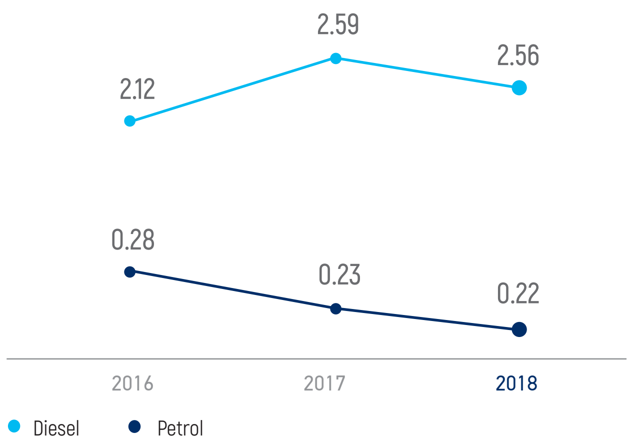
  For construction work, we have abandoned diesel generators in favour of electricity from the municipal network, which has enabled us to reduce our environmental impact and energy consumption, even as we have increased construction volumes. At the same time, our energy consumption was further improved by optimising the logistics of integrated production companies into a single administrative business structure.

Although the Group does use fossil fuels such as petrol and diesel for its vehicles and construction equipment, **CONSUMPTION IN 2018 DECLINED YEAR-ON-YEAR (-1.8%[1] FOR PETROL, -1.1%[1] FOR DIESEL).**

Electricity consumption,
mln kWh



Fuel consumption,
mln litres



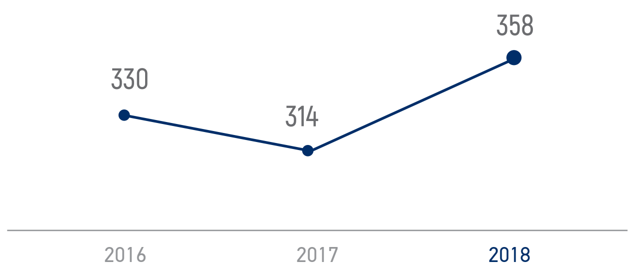
We have begun implementing energy-efficient solutions that enable homeowners to reduce resource consumption and that allow us to reduce the cost of property maintenance. This includes the use of high-performance water fittings, air handling units with heat recovery, a weather-dependent heat supply schedule, the use of motion sensors and energy-saving lighting, a single dispatch system and a utilities management system. To check the quality of the internal environment, we use the latest advanced technologies, such as computational fluid dynamics to analyse the microclimate, which makes it possible to calculate the optimal temperature, humidity and air speed.

Two Etalon Group projects — the Silver Fountain and Botanica residential complexes — have been awarded Green Zoom certificates for energy efficiency. In 2017, Silver Fountain also received a Green Award — a national competition for environmental development and energy efficiency — in the Residential Construction category.

[1] Change was calculated without rounding

- We strive to minimise our environmental impact by adhering to strict waste management practices at all of our sites. The Company aims to recycle all of the recyclable waste that it produces. Any waste that cannot be recycled is sent to landfills. In 2018, Etalon Group's unified production unit increased the volume of recycled waste by 14% year-on-year.

Recycled construction waste,
tonnes[1]



- The Fusion business-class project is a pilot project for the St Petersburg government that is using elements of a Smart City system: remote meter reading, a dispatch system for city services, the installation of an intelligent module in apartments for remote control of electrical appliances. This is a priority development programme for Russia's northern capital that is aimed at creating a system for managing city resources and that will improve residents' quality of life and ensure sustainable development of the city.

[1] Data for the construction and maintenance division.

EMPLOYEES

At Etalon Group, we believe that a successful business can only be built with a professional, ambitious and cohesive team that is committed to a common goal. With this in mind, we pay particular attention to creating a healthy and comfortable working environment, where everyone has the opportunity to exhibit their professional talents, to learn and to share their experience with their colleagues as they turn ambitious projects into reality.

Our teams in Moscow and St Petersburg comprise more than 5,000 professionals in a variety of fields. At the core of our HR strategy is the desire to maintain and augment the wealth of potential and diversity that we see among our employees, to guarantee them equal opportunities, to create conditions for their professional and personal growth, to ensure their safety and health and to enable their careers and their personal lives to co-exist comfortably.

We pay particular attention to CREATING A HEALTHY AND COMFORTABLE WORKING ENVIRONMENT, where everyone has the opportunity to exhibit their professional talents, to learn and to share their experience.

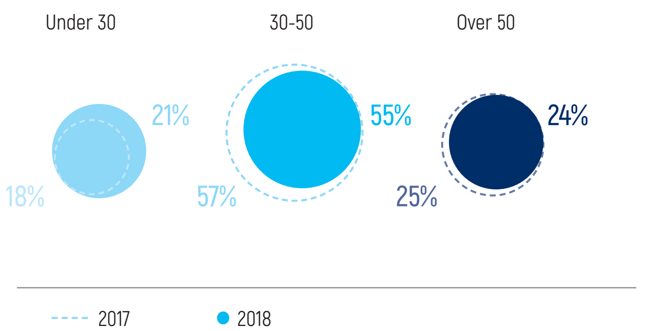
5,196 = **2,863** + **2,333**

5,196 — Total workforce in 2018 (5,059 in 2017)

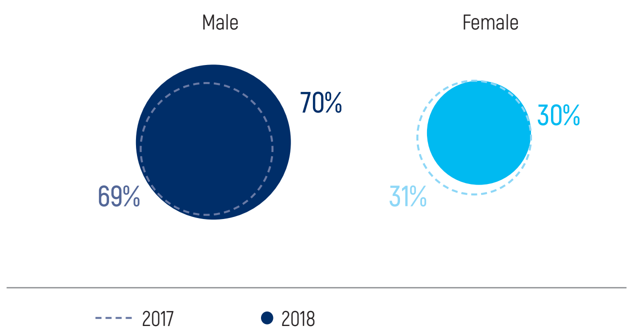
2,863 — (55%) Blue-collar workers

2,333 — (45%) White-collar workers

Workforce and breakdown of employees by age



Workforce and breakdown of employees by gender



STAFF DEVELOPMENT

Professional development

We strive to increase the value of every employee and to ensure their professional development. To this end, we offer a range of opportunities:

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

Etalon Group invests in the education and professional training of its employees. Every year, about a thousand employees take part in training programmes and workshops in various fields: construction technologies, occupational health and safety, information technologies and software, sales techniques and personal performance. In addition to traditional workshops and training on occupational health and safety and building technologies for construction specialists and health and safety engineers, in 2018 we organised two training programmes to support the development of our enhanced sales function for managers and heads of sales departments. Each of these programmes included four sessions on the development of sales skills, communication and management. Some 133 people participated in these training courses. Training was also organised on the use of various IT products and software for 54 employees in both Moscow and St Petersburg.

Etalon Group employee training in 2018

	Number of employees trained	Number of hours of training	Number of hours per employee
Management	472	8,948	19
Specialists	256	9,700	38
Blue-collar workers	176	5,234	30
Total	**904**	**23,882**	**26**

Attracting promising young employees

By partnering with universities and providing students with internship opportunities, Etalon Group is able to contribute to the education of young specialists, while also assessing the potential of university graduates and offering the best students an opportunity to work for the Company. In 2018, students from St Petersburg's leading universities—St Petersburg State University, Peter the Great St Petersburg Polytechnic University, St Petersburg State University of Architecture and Civil Engineering (GASU)—undertook internships at Etalon Group. The Company also takes part in events organised by universities related to careers and other professional issues, such as GASU Career Day and the GASU Case Club educational platform, Management Career Week (St Petersburg State University) and the Drucker Awards (St Petersburg University Graduate School of Management).

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

Etalon Group employee training in 2018

	2018	2017
Number of employees taking part in the orientation programme:	278	765
St Petersburg	86	335
Moscow	80	200
Production unit	112	230

Concern for health and safety

The notion of zero harm is one of the Company's fundamental principles. In addition to our efforts to create a safe working environment and to prevent injuries, which are described in detail in the chapter "Occupational Health and Safety", we also offer additional health insurance programmes for our employees. In 2018, 1,981 Company employees took advantage of our additional medical insurance programmes (up from 1,847 in 2017).

We provide life insurance and disability compensation programmes for employees working at construction sites. This programme provided coverage to 2,294 people in 2018 (up from 1,540 in 2017). At the same time, we are proud to say that no compensation had to be paid out in 2018 or the year before, nor were there any fatalities at Etalon Group construction sites.

Employee support

Etalon Group provides support to its employees facing difficult life situations, such as the death of a relative, a serious illness or an accident. In addition, we also offer financial assistance to our employees who leave the Company when they retire, as well as to existing employees following the birth of a child.

Etalon Group pays a corporate pension to employees who spent many years working for the Company and who made a significant contribution to its development. In 2018, 44 people received such pensions (compared to 26 in 2017).

We have created conditions that enable our employees to maintain a good work-life balance, and so we allow employees to work remotely on an individual schedule or part-time if it is compatible with the nature of their duties.

Financial assistance to Etalon Group employees in 2018

	2018	2017
Number of employees who received financial assistance:	312	359
death of a close relative	68	108
birth of a child	129	111
retired former employees	43	31
other	72	109

Feedback and improvement of personnel management strategies

Two-way communication between employees and managers is important for employees' professional development and for implementing an effective HR strategy. In addition to feedback from direct supervisors, Etalon Group regularly conducts monitoring and surveys for line employees and managers.

In an effort to improve the standards and procedures of corporate conduct, Etalon Group held a personnel assessment in 2018 that focused on qualities essential for staff employed in the sales departments in Moscow and St Petersburg. A total of 90 employees received feedback on the results of these assessments.

In October 2018, Etalon Group conducted a survey to assess employee engagement and satisfaction. The purpose of the survey was to study the degree to which employees were taking part in the life and activities of the Company, as well as the degree to which their interests coincided with those of the Company and their attitude to their work. Some 1,225 Etalon Group employees took part in the survey. An employee engagement index was calculated using 13 key organisational indicators and compared with the top results from other companies in the construction industry:

- Objectives and strategy
- Business processes
- Communication
- Training
- Career
- Remuneration
- Working conditions
- Evaluation and recognition
- Values
- Atmosphere
- Colleagues
- Immediate supervisor
- Top management

The survey showed a very high level of commitment on the part of Etalon Group employees to the Company. In addition to showing our strengths, the survey also enabled us to specify goals for further improvement of our HR strategy.

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

DIVERSITY AND EQUAL OPPORTUNITIES

All our employees are offered equal opportunities that depend exclusively on their personal qualities and professionalism. In 2018, for example, women held 39% of senior positions at Etalon Group, which was up from 34% in 2017 and 9 percentage points higher than the percentage of women in the Company as a whole. In 2019, changes were made to the composition of Etalon Group's Board of Directors: it now includes 10 directors, including two women.

Percentage of women among Etalon Group employees

	St Petersburg	Moscow	Production unit	Total in Etalon Group
Management				
female	47%	44%	36%	**39%**
male	53%	56%	64%	**61%**
Line employees				
female	63%	65%	51%	**56%**
male	37%	35%	49%	**44%**
Blue-collar workers				
female	-	-	6%	**6%**
male	-	-	94%	**94%**

Management

	2018	2017	Change
Number of managers at all levels	973	1,031	-6%
age:			
under 30	11%	8%	3 p.p.
30-50	66%	67%	(1 p.p.)
over 50	23%	25%	(2 p.p.)
gender:			
female	39%	34%	5 p.p.
male	61%	66%	(5 p.p.)

Etalon Group takes part in inclusiveness programmes and fosters conditions for the full participation of people with disabilities in professional activities and in social life. As part of its social responsibility projects, Etalon Group took part in events and projects in 2018 aimed at creating equal opportunities for socially vulnerable groups, e.g., a trade fair organised by Rabota-i for children leaving orphanages and for disabled young people; round tables on issues of inclusiveness and equal opportunities for people with disabilities organised by the St Petersburg International Business Association and the St Petersburg Committee for Labour and Employment.

WORK-LIFE BALANCE

The Company recognises the importance of a reasonable balance between one's work and one's personal life. We give our employees the opportunity to successfully combine their work and family responsibilities; if necessary, the nature of their duties may also allow them to work on their own schedule or remotely. In 2018, 36 Company employees (19 women and 17 men) worked on an individual schedule, either remotely or part-time.

In 2018, 98 Company employees took advantage of the right to parental leave. Only 3% of the employees who took parental leave in 2017 were men, while this figure increased to 8% in 2018.

SOCIAL RESPONSIBILITY

Etalon Group participates in the life of local communities by contributing to the development of the regions where it operates. The Company does what it can to help and to have as much impact as possible. First of all, in view of our business profile, this involves the construction of infrastructure both at Etalon Group residential complexes and in facilities unrelated to the Group. In addition, we are involved in the restoration of historical monuments, the organisation of cultural and sporting events, as well as charity activities.

DEVELOPMENT OF SOCIAL INFRASTRUCTURE:

In 2018, Etalon Group built six preschools and schools in St Petersburg and the Moscow region:

- 3 built-in preschools in the first phase of the Galactica project;
- a preschool for 220 children at the Moscow Gates residential complex;
- a preschool educational facility with a section for primary classes at the Emerald Hills residential complex. The preschool is designed for 140 places in six groups, and the section for primary classes is designed for 10 classes with a total of 250 pupils.

In April, the Company received permission to build a dance school at the Emerald Hills complex. With places for 280 students, the school will occupy a separate four-storey building with a total area of almost 4,000 square metres. The building will include nine choreography halls with a ceiling height of about 4 metres, dance halls with special flooring, an auditorium, a break area, changing rooms, administrative rooms and a medical unit. The opening of the school is planned for 2019.

In addition, in 4Q 2018, construction began at the Emerald Hills complex on a medical centre with a polyclinic for adults and children designed to handle 413 visits per shift. The commissioning of the facility is scheduled for 4Q 2019.

Development of transport infrastructure

In 2018, Etalon Group completed the construction of a significant infrastructure facility for St Petersburg, the Yuzhnoye depot. The new electric-train depot is the first to be built in the City on the Neva in the last 15 years. It will create a reserve of production capacity, which will make it possible in the near future to open new stations of the St Petersburg metro.

In addition, in 4Q 2018, construction began at the Emerald Hills complex on A MEDICAL CENTRE WITH A POLYCLINIC FOR ADULTS AND CHILDREN designed to handle 413 visits per shift. The commissioning of the facility is scheduled for 4Q 2019.

Preservation of cultural and historical heritage

In an effort to preserve the link between the past and the future, Etalon Group is involved in the restoration and maintenance of Russia's cultural and historical heritage.

- Etalon Group is planning to rebuild, by the end of 2019, the historical buildings of the Alekseevskaya lifting station, which has a total area of about 4,500 square metres, at the Silver Fountain business-class project in Moscow. In August 2018, the 19th-century fountain was reopened to mark the station's 125th anniversary.
- Etalon Group supported the creation of an architectural composition called "To Russia's First Pilots, the Heroic Aviators of the Commandant Airfield", which was officially opened in St Petersburg in August 2018.
- Year after year, the Company organises events aimed at preserving the memory of people who died during World War II. In the garden square at the Moscow Gates residential complex, a flower-laying ceremony was held in memory of workers from the Vagonmash plant who died in World War II. Moscow Gates was built by Etalon Group on the grounds of the former plant. In the Nevskiy District, Group employees together with students from school No 690 laid flowers at the memorial to the heroic defenders of Leningrad near the Swallow's Nest residential complex.

Strengthening local communities

Etalon Group holds regular events at its residential complexes:

- Open-air entertainment events to ring in the New Year.
- Festivities and open lessons on Knowledge Day, 1 September.
- Landscaping activities on the grounds of residential complexes: Etalon Group employees and residents plant trees and shrubs together.

In addition, the Company takes part in and also organises events that go beyond its residential complexes and are aimed at strengthening local communities, promoting a healthy lifestyle and education.

In April 2018, for example, the Company organised a celebration to mark Cosmonautics Day at the Emerald Hills complex. Guests included not only residents of the complex but also residents of Krasnogorsk and officials from the city and the Moscow region. They visited the History of Cosmonautics Museum at secondary school No 18, which was commissioned by the Company in September 2015. Today, the museum serves as an educational platform called "The cosmos is accessible to everyone".

Last year, Company employees also took part in the Business Alley project, which saw them plant an alley of maple trees in Pulkovskiy Park together with representatives of the city government and journalists from *Delovoy Peterburg*. As part of the project, representatives of St Petersburg-based companies and well-known business people together with prominent public, political and cultural figures plant trees in different parts of St Petersburg every year.

Etalon Group employees once again made an effort to promote a healthy lifestyle by participating in the city-wide bike ride to mark Builder's Day.

Charity

Etalon Group supports charitable organisations that provide assistance to homeless and needy people, children with serious illnesses and orphans, and the Company also finances cultural projects. In 2018, for example, Etalon Group provided financial support to the Construction Veterans of Moscow Foundation and cultural institutions, as well as directly to combat veterans and distinguished workers. In addition, the Company sponsored sporting and health-related events in St Petersburg in 2018.

BUSINESS CONDUCT

Etalon Group adheres to regulatory requirements and ethical standards across its operations. We aim to ensure that any contractors, consultants and agents representing our interests also follow best practices in terms of business conduct. Etalon Group currently implements a number of provisions aimed at combating corruption and discrimination, and also ensuring fair and competitive tender procedures for our counterparties.

These include the Company's Code of Corporate Ethics and the Etalon Group Regulation on Tenders, which govern the Company's key values and ethical principles, as well as how the rules are monitored and enforced. In accordance with the provisions of these documents, the Company has established and maintains a zero-tolerance policy towards corruption and discrimination.

FAIR COMPETITION

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

- The Company does not permit violations of antitrust laws, including unfair competition;
- Etalon Group strives to work with contractors who have an impeccable reputation, comply with the law, and generally accept the norms of corporate and business ethics;
- All applicants must undergo a standard screening procedure. The requirements for applicants have been formalised and include:
  - positive experience working with large construction companies;
  - high quality in terms of the materials supplied, equipment used and work performed;
  - strict compliance with deadlines;
  - availability of sufficient human resources and the necessary production and technical facilities;
  - sound financial standing;
  - solid business reputation; and
  - compliance with regulatory requirements, including the availability of the necessary licences and certificates;
- Companies that do not fulfil these requirements and thus are not listed in Etalon Group's Register of Accredited Counterparties and Suppliers are not eligible to participate in tenders for the performance of work for, or the provision of supplies to, Etalon Group. Decisions to include a counterparty in the Register or to remove a counterparty from the Register are made by the Accreditation Committee in the region where the applicant company is located;
- Group employees have no hidden preferences and do not create advantages for individual suppliers or contractors. The Company has a standing Tender Committee, which is designed to ensure open competition between counterparties and to determine the best-possible conditions for Etalon Group in terms of collaboration. The Tender Committee selects the winners of competitive tenders and appoints experts on technical and economic issues in the framework of the tender process;
- The Company conducts random quarterly reviews of counterparties on the basis of the following key criteria: quality, compliance with deadlines, safety, fulfilment of contractual obligations and accounts receivable owed to the Company. Disreputable contractors are excluded from the Register and are not considered as candidates for collaboration in the subsequent 12 months.

ANTI-CORRUPTION POLICY

The provisions of the Code of Corporate Ethics establish the following guidelines:

- Etalon Group employees are required to comply both in Russia and abroad with the relevant requirements and restrictions outlined in anti-corruption legislation;
- Etalon Group does not tolerate any form of illegal influence on the decisions of state bodies. These include bribery, offering inappropriate gifts, the practice of nepotism among civil servants, engaging in charity or sponsorship at the request of civil servants;
- Etalon Group does not participate in political activities and does not finance political organisations;
- The employees of Etalon Group are prohibited from representing the Company in business relations with organisations in whose activities an Etalon Group employee has significant personal interest other than the interests of Etalon Group, including (but not limited to) cases of where an employee, close relatives or family members have significant participation in the authorised capital or management bodies of such organisations;
- Employees are prohibited from engaging in business or other commercial activity (including participation in the authorised capital or management of legal entities) that is made possible as a result of a position held within Etalon Group. This includes the use of business connections and of opportunities provided by the Company;
- Etalon Group employees are prohibited from accepting gifts either in kind or in monetary terms from a third party in connection with their professional duties;
- Employees of the Company should avoid situations in which there may be a conflict of interest.

ANTI-DISCRIMINATION POLICY

Our main principles of zero tolerance towards discrimination are:

- The Company does not tolerate any form of discrimination against employees based on age, race, ethnicity, sex, or other principles defined in Russian Federation law;
- No form of harassment or coercion is accepted, whether by word of mouth, writing, image, gesture, action or otherwise;
- Etalon Group provides employees with favourable conditions as well as equal opportunities to upgrade their qualifications and achieve their potential;
- Etalon Group welcomes so-called work dynasties, where specific skills are passed down from one generation to the next, but protectionism based on nepotism is prohibited. The Company limits cases of direct or indirect subordination involving relatives;
- The Company ensures protection against any form of discrimination. In the implementation of the Company's personnel, wage and social security policies, any preferences based on nationality, sex, age, etc. are prohibited.

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

The Corporate Conduct Officer's responsibility is to tackle violations of corporate ethics, eliminate conflicts of interest or clarify the procedure for applying the Code. The Officer may convene a Commission on Corporate Conduct to address challenging situations. In the event of a violation of internal regulations by a Company employee, disciplinary measures are applied to said employee in accordance with the current labour legislation. In the event there are signs of violations of administrative or criminal legislation in an employee's activities, information on the violation in question shall be transferred immediately to the relevant authorised state body responsible for observance of administrative and criminal legislation.

RISK MANAGEMENT

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

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

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

We have developed a robust culture of risk management at Etalon Group, which we believe is important to delivering sustainable value to our stakeholders: the Company's risk management systems and processes are designed to minimise potential threats to achieving our goals; internal control and risk management systems are continuously reviewed to incorporate market best practices. Our risk management view is cascaded top-down from the Company's Board of Directors and through management, employee and connected stakeholder activities, as we believe that a proactive, risk-aware culture across the business is crucial for effective risk identification and mitigation.

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

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

Identification

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

Assessment

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

Response

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

Reporting

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

KEY RISK MANAGEMENT FUNCTIONS

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

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

While ultimate responsibility for the Group's risk management rests with the Board of Directors, the Audit Committee plays a key role in this process. With assistance from the Head of Internal Audit, the Audit Committee oversees and challenges management's assessment of the principal risks to the Group's strategy and the risk appetite for each of those risks, as well as the effectiveness of established risk management controls and assurance activities. In addition, it sets the Group's risk management policies and procedures and monitors compliance with the approved policies.

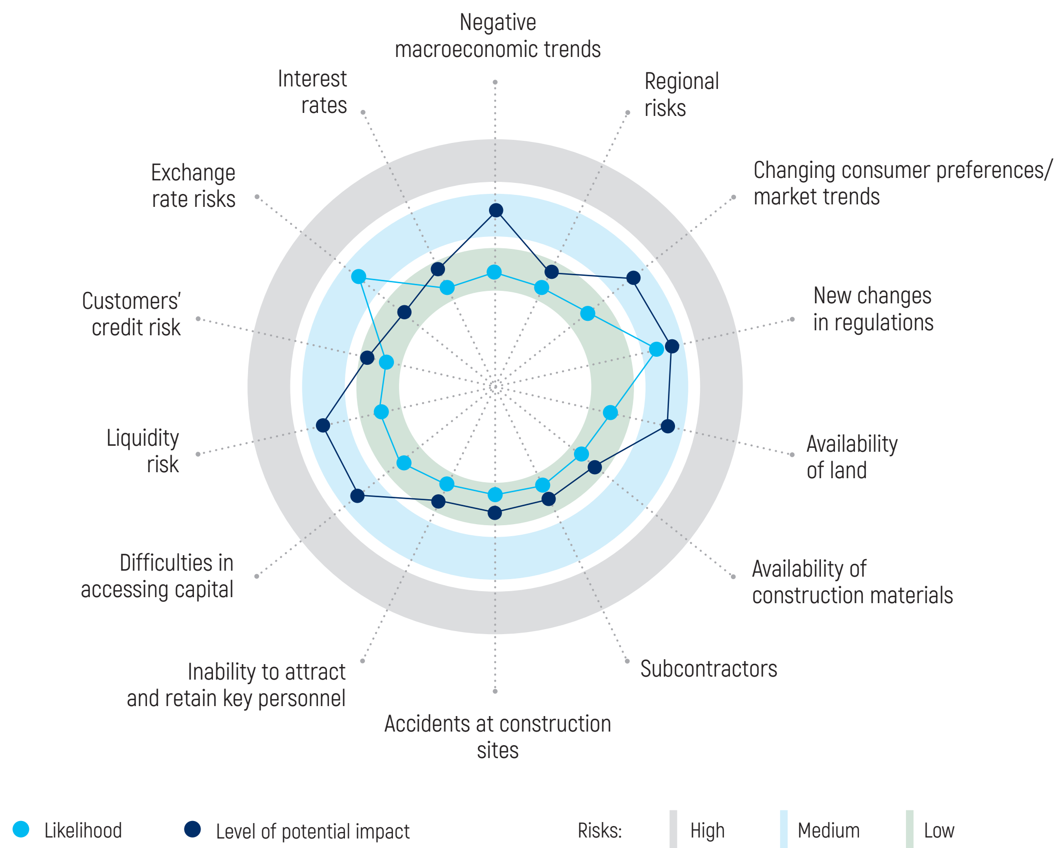
The Board of Directors determines Etalon Group's strategy and agrees the nature and profile of the risks it is willing to take to achieve its strategic objectives. The Board of Directors is accountable for ensuring that a sound system of internal control and risk management is in place, including approval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

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

RISKS

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

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



Risk	Why it affects the Company	Mitigation/minimisation of the consequences	Likelihood/level of potential impact
MACROECONOMIC, INDUSTRY RISKS			
Negative macroeconomic trends	Decrease in purchasing power of Russian citizens could negatively affect demand. Inflation, on the other hand, could adversely affect the Company and lead to an increase in the cost of land, materials and labour.	• The Company can independently regulate the volumes and rates of construction, depending on actual demand for real estate in a given area. • In case of a decline in demand, the Company may reschedule the launch and construction of new projects to match potential construction costs with expected cash collections from sales. • The Company maintains land bank volume that is sufficient for at least five years of construction and sales without new land acquisitions. Real estate is viewed as a hedge against inflation: while inflation was just 4.3% in 2018 and is expected to reach 4.7-5.2% in 2019 due to the VAT increase and the weakening of the rouble in 2018, with a return to 4% in 2020, an uptick in inflation rates could lead potential buyers to accelerate purchases.	Low likelihood/ medium level of impact
Regional risks	Deteriorated economic situation affecting all market participants in key markets could equally have a negative impact on the Company.	• The Company has chosen to focus on Russia's two most resilient and economically stable regions, where economic downturns are less likely to affect demand than in other parts of Russia. • The Company is not dependent on any development programmes financed by the federal budget; therefore, its financial position would not be affected by government expenditure cuts on these programmes.	Low likelihood/ low level of impact
Changing consumer preferences/ market trends	The Company's ability to manage inventory is intrinsically linked to current and forecast consumer demand. Unanticipated changes in consumer preferences can have an adverse effect on the business, particularly given long project life cycles in the industry.	• The poured-concrete construction technology allows for free-pattern floor plans and architectural design flexibility, and it has the advantage of high scalability. • The Company has a substantial portfolio of complementary business- and comfort-class projects, with a wide range of apartments to suit different tastes within each project. • The Company conducts research, both with the help of independent specialists and by monitoring customers' feedback at every stage of cooperation, including after commissioning, in order to monitor changes in demand and adjust the product accordingly.	Low likelihood/ medium level of impact
OPERATIONAL RISKS			
Availability of land	An inability to find and purchase adequately priced land for future development might negatively affect the Company's business and its operational and financial results.	• The Company maintains its land bank at a level sufficient to ensure construction and sales for a period of at least four years. The Company's current project portfolio of 4 mln sqm of unsold NSA represents 6.4x the volume of new contract sales for FY 2018. • The Company's territorial offices carry out continuous monitoring of the land market and maintain a database of sites whose parameters (location, town planning and permits, proposed terms of acquisition, etc.) satisfy the Company's marketing strategy, required profitability and financial capabilities. • Amendments to the Federal Law on Share Participation Agreements for Construction provide additional opportunities for the Company to purchase new projects and market entrants. In February 2019, Etalon Group acquired Leader-Invest, a Moscow-based development company with the largest number of projects currently being developed in the capital, thereby significantly expanding the range of the Group's projects and strengthening the Company's position in Moscow.	Low likelihood/ medium level of impact
Availability of construction materials	Changes in exchange rates could trigger an increase in the cost of imported materials; inflation, on the other hand, could cause an increase in the cost of domestic materials. Any supply interruption or shortages could delay the construction of our projects, which, in turn, could harm our reputation with our customers and could result in lost sales opportunities.	• The Company's vertically integrated business model helps maintain the optimal load of companies with internal orders. • The growth in the operating efficiency of the Company's contract and production companies makes it possible to control the cost of their services while maintaining an acceptable level of profitability. • As one of the biggest real estate developers in Russia with over 30 years of operations and more than 1 mln sqm under construction, the Company can choose the most reliable external suppliers and decrease costs of materials through bulk purchases. • The share of imported construction materials and the cost of maintaining imported equipment used in construction historically constituted about 15% of the total construction budget of the Company's facilities; therefore, the change in price of imported materials/equipment would not have a significant impact on the cost of construction.	Low likelihood/ low level of impact
Subcontractors	An inability to find qualified subcontractors and enter into subcontracting arrangements on acceptable terms could lead to an increase in costs. Furthermore, the Company relies on external subcontractors to perform certain types of construction and development activities and therefore assumes additional risks associated with the subcontractors – low quality of their work, delays, accidents, etc.	• The Company uses a tender procedure to identify and select the best suppliers, as well as to create a competitive environment. • The Company constantly monitors and evaluates its suppliers against various criteria. • All subcontractors are subject to compulsory annual accreditation to ensure compliance with the Company's requirements. • The Company puts in place retention plans for subcontractors to further control costs, quality and timely delivery of projects. • The Company requires its subcontractors to provide weekly reports on work progress, its Safety Index, etc. • The Company conducts comprehensive inspections at production sites of factories that supply concrete and mortar mixes; all suppliers are inspected against a comprehensive list of 41 items. • Thanks to its vertically integrated structure, the Company can minimise its dependence on subcontractors in both construction and service maintenance areas.	Low likelihood/ low level of impact
Accidents at construction sites	Etalon Group operates in the construction industry, where health and work-safety accidents relating to the Company's operations could be costly in terms of potential liability and reputational damage.	• The Company complies with relevant health and safety regulatory requirements. • All employees attend workshops on occupational safety. • All equipment is certified by relevant authorities and additionally inspected by the Company.	Low likelihood/ low level of impact

Risk	Why it affects the Company	Mitigation/minimisation of the consequences	Likelihood/level of potential impact
Inability to attract and retain key personnel	Etalon Group's future success depends on its ability to find qualified personnel in various business areas. An inability to motivate key personnel could also have a negative impact on operations.	• The Company maintains an extensive talent pool to attract qualified staff for strategically important positions. The pool is developed through direct searches on job sites and cooperation with verified recruitment agencies. The Company looks for sector specialists at all levels of management and regularly adds new applicants to the pool. • The Company offers competitive salary packages, life insurance, financial assistance, and flexible working hours to motivate current personnel.	Low likelihood/ low level of impact

REGULATORY RISKS

New changes in regulations	The Company operates in a business that is highly regulated; any failure to comply with the regulations might negatively impact the Company's operating and financial performance. Failure to receive timely approval of a project might lead to delays in the development process.	• The Company monitors any legislative changes that may affect its business in order to address them proactively and decrease associated risks. • Etalon Group's management participates in committees established by the industry in order to reconcile different views and to develop potential amendments with regard to recent regulatory changes such as those that came into force in July 2018 and introduced additional requirements for developers. More new regulations are due to take effect in July 2019. For more details about the potential impact of the new regulations, please see page 21. • A strong financial position, efficient financial planning, access to a variety of sources of capital and one of the longest track records in the industry enable Etalon Group to meet the requirements of the new law. Furthermore, after the changes in Federal Law 214 entered into force, the Company was one of the first in the market to introduce schemes for working with escrow accounts as part of a project finance agreement. In 2018, Etalon Group signed a framework agreement with Sberbank for financing the Silver Fountain residential complex. Funds for the construction of one of the buildings of the residential complex will be raised using escrow accounts with the possibility of reducing the interest rate to 4.5%. This will enable the Company to work out the mechanism for financing projects using escrow accounts in full compliance with the new regulations before they come into effect.	Medium likelihood/ medium level of impact

FINANCIAL RISKS

Interest rates	An increase in mortgage interest rates might limit customers' ability to finance the purchase of new apartments, thus decreasing new sales volume. On the other hand, an increase in the rates on the Company's outstanding debt obligations will cause unexpected growth in expenditures.	• If mortgage interest rates increase or the number of available mortgages decreases, the Company could offer its customers more instalment payment options. • To avoid paying high interest rates, the Company might repay certain loans before maturity; it could renegotiate loan terms or look for alternative financing sources.	Low likelihood/ low level of impact

Risk	Why it affects the Company	Mitigation/minimisation of the consequences	Likelihood/level of potential impact
Customers' credit risk	The Company could suffer financial losses if customers fail to meet their contractual obligation on financial instruments used for the purchase of real estate.	• Receivables from customers are secured against sold apartments. • A large part of sales to individuals are made on a pre-payment basis.	Low likelihood/ low level of impact
Difficulties in accessing capital	Real estate development is a capital-intensive industry, and the Company should always have access to capital to finance its projects.	• The Company's funding sources are diversified, including a variety of debt instruments and cash collections from presales. • With new amendments to the law on shared construction, the Company successfully introduced new schemes for working with escrow accounts as part of project finance agreements. Etalon Group will reduce the cost of financing by changing its project implementation model. The Company will introduce presales to raise required funds in escrow accounts so as to reduce the interest rate. For the quick release of escrow funds and repayment of the principal loan debt, Etalon Group will also increase the pace of construction. The sale of remaining NSA will generate positive cash flow. • As a public company, Etalon Group also has the ability to raise equity capital to finance large acquisitions.	Low likelihood/ medium level of impact
Liquidity risk	The Company's failure to meet its financial obligations could result in operational delays, damage to its reputation, increased credit rates in the short term and bankruptcy in the long term.	• The Company adheres to a conservative financing policy and strives to maintain low debt levels, with a target net debt/LTM EBITDA ratio of below 2x (Etalon Group reported a net cash position of RUB 2.2 billion as of 31 December 2018, and even after the acquisition of Leader-Invest, the Company maintained a stable financial position with a net debt/FY 2017 EBITDA ratio of 0.85x based on the financial performance and balance sheet position of both companies). • The Company avoids excessive capital investment in projects requiring a long period of document preparation. • The two outstanding bonds issued by the Company's subsidiary LenSpetsSMU in 2017 and 2018 received a B+ credit rating from Standard & Poor's.	Low likelihood/ medium level of impact
Exchange rate risks	Appreciation of foreign currencies against the rouble could lead to an increased burden for those companies that issued debt instruments in foreign currencies. Furthermore, this could lead to a price increase of imported construction materials.	• The Company does not have any debt instruments in foreign currencies. Its current debt structure includes bonds denominated in roubles issued by its subsidiary, LenSpetsSMU. • Imported goods make up only a small part of the Company's business costs; issues related to the import of construction materials are discussed further in the "Availability of construction materials" sections.	Medium likelihood/ low level of impact

8.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

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

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

On 19 February 2019, the composition of the Board of Directors changed significantly following the acquisition of 25% of the share capital of Etalon Group by Capgrowth Investments Limited (a subsidiary of Sistema PJSFC). The changes in the composition of the Board of Directors did not affect Etalon Group's corporate governance policy, and the Company continues to focus on the previously outlined principles of transparency and protection of shareholders' rights.

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

BOARD OF DIRECTORS

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

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

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

The Board comprises independent directors and non-executive directors. Independent directors are an important element of the contemporary corporate governance system.

The essential features of independent directors are their autonomy, independence of decision-making and impeccable business reputation.

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

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

In 2018, a number of changes occurred in the Board of Directors. Viacheslav Zarenkov was elected Chairman of the Board of Directors on 27 April 2018. Former Chairman Dmitry Zarenkov continued to sit on the Board of Directors as a non-executive director in 2018. In addition, Maxim Berlovich was elected to the Board as executive director. At the same meeting, the Board of Directors accepted the resignation of two directors: non-executive director Michael Calvey and independent non-executive director Marios Theodosiou indicated their willingness to leave the Company.

At the meeting held on 9 November 2018, Dennis Vinokourov, proposed by international institutional investors, joined the Board as an independent non-executive director. Olga Shevchuk also became a member of the Board as a non-executive director, and Anton Shatov joined as an executive director. On 14 December 2018, Dmitry Kashinskiy announced his resignation as CEO and member of the Board of Directors. Also in 2018, Viktor Vasenev left the Audit Committee, and Victoria Tsytrina left the Information Disclosure Committee.

As of 31 December 2018, the members of the Board of Directors were as follows:

Viacheslav Zarenkov, Dmitry Zarenkov, Kirill Bagachenko, Maxim Berlovich, Alexey Kalinin, Charalampos Avgousti, Martin Cocker, Boris Svetlichny, Olga Shevchuk, Anton Shatov and Dennis Vinokourov.

Following the meeting on 19 February 2019, the following changes occurred in the Board of Directors: the Chairman of the Board of Directors, Viacheslav Zarenkov, and Board members Dmitry Zarenkov, Olga Shevchuk and Anton Shatov resigned from their posts. Oleg Mubarakshin, Sergey Egorov, Marina Ogloblina, and Ganna Khomenko were admitted as a members of the Board. Oleg Mubarakshin was elected Chairman of the Board of Directors. At a Board of Directors meeting on 29 March 2019, Alexey Kalinin resigned from his post as a Board member.

As of 1 April 2019, the Board and its Committees were structured as follows:

Shareholders

Audit Committee	Remuneration and Nomination Committee	Strategy Committee	Information Disclosure Committee
Martin Cocker Chairman	**Oleg Mubarakshin** Chairman	**Maxim Berlovich** Chairman	**Kirill Bagachenko** Chairman
Boris Svetlichny	**Sergey Egorov**	**Oleg Mubarakshin**	**Ksenia Savchuk**
Ganna Khomenko	**Ganna Khomenko**	**Sergey Egorov**	
	Martin Cocker	**Gennadiy Shcherbina**	
	Charalampos Avgousti	**Kirill Bagachenko**	
		Marina Ogloblina	
		Dennis Vinokourov	

Executive management

OLEG MUBARAKSHIN

Chairman of the Board of Directors, non-executive director

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

KIRILL BAGACHENKO

Executive Director, Chief Financial Officer

Kirill Bagachenko has 14 years of experience in corporate finance and investments. Prior to joining Etalon Group, he was a senior equity portfolio manager at TKB BNP Paribas Investment Partners, where he co-managed funds with assets totalling USD 3 billion. Kirill was voted one of the top three portfolio managers in Russia in the 2013 Thomson Reuters Extel Survey. His experience includes management of real estate, equity and fixed income investment funds, as well as pension fund management. Kirill graduated from St Petersburg State University of Economics and Finance.

MAXIM BERLOVICH

Executive director

Maxim Berlovich has over 10 years of experience in the construction industry. Before joining Etalon Group in 2014, he was deputy CEO of one of the largest power grid construction companies in Russia. Since 2017, he has served as the head of the construction and maintenance division of Etalon Group. Maxim graduated from Peter the Great St Petersburg Polytechnic University and holds an MBA from Vlerick Business School.

SERGEY EGOROV

Non-executive director

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

GANNA KHOMENKO

Independent non-executive director

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

MARINA OGLOBLINA

Independent non-executive director

Marina Ogloblina has many years of experience in the administrations of the city and region of Moscow. Most recently, she served as Minister for Construction and the Residential and Utility Sector of the Moscow Region, before being appointed advisor for construction to the regional governor. Previously she worked for 20 years in economic planning roles in the Moscow city administration. She began her career at the State Bank of the USSR before being appointed senior auditor for two districts of Moscow at the Russian SFSR Finance Ministry's Audit Directorate.

MARTIN COCKER

Independent non-executive director

Martin Cocker has 22 years of experience in audit and nine years' experience in the construction industry. He runs his own development business in Portugal, and he previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the UK. He graduated from the University of Keele.

BORIS SVETLICHNY

Independent non-executive director

Boris Svetlichny brings to the Company 29 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services in Russia, VimpelCom and Golden Telecom. From March 2014 to August 2016, Boris served as CFO of Etalon Group. Mr Svetlichny has a BBA in Accounting from the University of Massachusetts and received an MBA from Carnegie-Mellon University.

CHARALAMPOS AVGOUSTI

Independent non-executive director

Charalampos Avgousti is an experienced legal professional in the real estate, corporate and banking sectors. He is the founder and Managing Director of Ch. Avgousti & Partners LLC (Advocates & legal consultants). Charalampos is a board member at the CYTA – Cyprus Telecommunication Authority and a member of the Advisory Council of Limassol for the Central Cooperative Bank. Charalampos graduated from the Democritus University of Thrace and has an LLM in International Commercial Law from the Northumbria University Newcastle.

DENNIS VINOKOUROV

Independent non-executive director

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

Matters specifically reserved for the Board include:

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

In 2018, the Board addressed a wide variety of issues. They included strategy, budgets and long-term plans for the Company, review of estimates of future cash flows, financing arrangements and fundraising, industry and competitive environment, responding to the changing dynamics of the Russian economy, corporate governance, individual business and overall Group performance and future capital expenditures, financial statements and announcements, reviewing reports from the Committees reporting to the Board, shareholder feedback and reports from brokers and analysts, risk management and risk oversight.

BOARD COMMITTEES

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

All Committees act within their competence, report to the Board on their activities after each meeting and take decisions or make recommendations to the Board on such decisions within their field of responsibility.

AUDIT COMMITTEE

As of 1 April 2019, the members of the Audit Committee were as follows:

MR MARTIN COCKER
Committee Chairman and independent non-executive director

MR BORIS SVETLICHNY
Independent non-executive director

MS GANNA KHOMENKO
Independent non-executive director

As of 31 December 2018, the members of the Audit Committee were as follows:

MR MARTIN COCKER
Committee Chairman and independent non-executive director

MR BORIS SVETLICHNY
Independent non-executive director

MR GABBAS KAZHIMURATOV
Chief Financial Officer at Baring Vostok funds

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

Responsibilities

The Audit Committee is responsible for:

- Monitoring the financial reporting process and the integrity of Etalon Group's financial statements;
- Reviewing internal controls, overseeing how management monitors compliance with risk management policies and procedures, the effectiveness of the Internal Audit function and the independence, objectivity and the effectiveness of the external audit process;
- Considering the terms of appointment and remuneration of the external auditor.

The Audit Committee held a number of meetings in 2018, where the key matters for consideration were:

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

External Audit

In 2018, the external audit was performed by KPMG. The Audit Committee regularly meets with the external auditor without management present.

Internal Audit

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

In 2018, the engagements undertaken by Internal Audit focused on Etalon's major management systems and business processes and included production and financial cost management, legal support and the incentive system, among others.

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

Internal Controls and Risk Management Systems

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

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

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

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

The main objective of the Board of Directors is TO ENSURE THE LONG-TERM SUCCESS of the Company and SUSTAINED RETURNS for shareholders.

REMUNERATION AND NOMINATION COMMITTEE

As of 1 April 2019, the members of the Remuneration and Nomination Committee were as follows:

MR OLEG MUBARAKSHIN
Committee Chairman, Chairman of the Board of Directors, non-executive director

MR SERGEY EGOROV
Non-executive director

MS GANNA KHOMENKO
Independent non-executive director

MR MARTIN COCKER
Independent non-executive director

MR CHARALAMPOS AVGOUSTI
Independent non-executive director

As of 31 December 2018, the members of the Remuneration and Nomination Committee were as follows:

MR VIACHESLAV ZARENKOV
Committee Chairman, Chairman of the Board of Directors, founding shareholder

MR DMITRY ZARENKOV
Non-executive director

MR ALEXEY KALININ
Non-executive director

MR MARTIN COCKER
Independent non-executive director

MR CHARALAMPOS AVGOUSTI
Independent non-executive director

MS OLGA SHEVCHUK
Non-executive director

Responsibilities

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

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

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

The Committee held a number of meetings in 2018 at which it considered amendments to the Group's incentive plans, as well as changes to the membership of the Board and its Committees.

STRATEGY COMMITTEE

As of 1 April 2019, the members of the Strategy Committee were as follows:

MR MAXIM BERLOVICH
Committee Chairman, executive director

MR OLEG MUBARAKSHIN
Non-executive director

MR SERGEY EGOROV
Non-executive director

MR GENNADIY SHCHERBINA
Chief Executive Officer

MR KIRILL BAGACHENKO
Executive director, Chief Financial Officer

MR DENNIS VINOKOUROV
Independent non-executive director

MS MARINA OGLOBLINA
Independent non-executive director

As of 31 December 2018, the members of the Strategy Committee were as follows:

MR VIACHESLAV ZARENKOV
Committee Chairman, Chairman of the Board of Directors, founding shareholder

MR DMITRY ZARENKOV
Non-executive director

MR KIRILL BAGACHENKO
Executive director, Chief Financial Officer

MR MAXIM BERLOVICH
Executive director

MR ALEXEY KALININ
Non-executive director

Responsibilities

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

The Strategy Committee held several meetings in 2018, where the key matters for consideration were: review of Etalon Group's development priorities and strategic guidelines, further improvements in operational efficiency and consideration of new development opportunities.

INFORMATION DISCLOSURE COMMITTEE

As of 1 April 2019, the members of the Information Disclosure Committee were as follows:

MR KIRILL BAGACHENKO
Committee Chairman, executive director, CFO

MS KSENIA SAVCHUK
Head of PR of GK Etalon AO

Responsibilities

The Information Disclosure Committee is responsible for overseeing the Company's information disclosure process, which includes identifying inside information, reviewing information and documents prior to disclosure, preparing announcements and determining the form of disclosure. The Committee analyses the Etalon Group Ltd Information Disclosure Policy on a regular basis and makes recommendations to the Board regarding any changes. It also makes recommendations with regard to training for Etalon Group's management and staff to help ensure consistent implementation of the Information Disclosure Policy.

The Information Disclosure Committee held several meetings in 2018, where it considered matters of insider information disclosure, adjustment of the Group's approach to insider dealing and dealing involving persons discharging managerial responsibilities.

Chief Executive Officer

On 17 December 2018, Gennadiy Shcherbina took over from Dmitry Kashinskiy and was appointed as Chief Executive Officer. Gennadiy has 14 years of construction industry experience, having started his career with Etalon Group in 2003. He has been in charge of Etalon Group's St Petersburg operations since 2007. Gennadiy holds a PhD in Economics and graduated from the Marshal A. A. Grechko Naval Academy and St Petersburg State University for Architecture and Construction.

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

Key responsibilities

(a) implementation of strategic and business decisions as approved by the Board of Directors;

(b) management of day-to-day operations;

(c) representation of Etalon Group interests in negotiations pertaining to any transactions made by the Etalon Group companies.

9.

SHAREHOLDER INTERACTIONS

SHAREHOLDER INTERACTIONS

LETTER FROM THE CFO

Etalon Group continues to deliver on its promises to build value for investors and to share its success with shareholders. In 2018, we paid out a total of USD 0.18 per share in dividends, which represents a new record for the Company.

While giving a portion of our profit back to shareholders, we also stuck to our key financial policies and maintained a strong balance sheet, helping us to maintain one of the highest credit ratings among Russian residential developers.

Our strict adherence to our conservative financial policies, combined with significant positive free cash flow driven by record-setting sales and a high average down payment throughout 2018, left us well-positioned to pursue the acquisition of another major residential developer without a serious impact on our balance sheet ratios. Since the acquisition of Leader-Invest in February 2019, we have maintained a net debt/LTM EBITDA ratio that is comfortable for the Company and in line with our existing target levels.

Further confirmation of Etalon Group's strong financial standing is the financing that we have received from Sberbank. In late 2018, we announced a project finance loan, which was granted for the Sliver Fountain business-class project in Moscow. This RUB 18.8 billion credit facility from Sberbank complies with recent changes to regulations governing the financing of residential real estate projects. After the reporting date, Sberbank granted Etalon Group a second loan for RUB 16.8 billion to finance the acquisition of Leader-Invest.

Looking ahead, following the acquisition of a 25% stake in Etalon Group by Sistema we confirmed our commitment to implementing best practices in our corporate governance, transparency and disclosure practices and investor relations activities. The team and I believe that Etalon Group is a compelling investment proposition, and we aim to demonstrate this to current and potential investors in all of our interactions.

Thank you for your continued interest in Etalon Group, and please be in touch with the IR team if you have any questions, would like to arrange a meeting with Company management or discuss the possibility of a site visit.

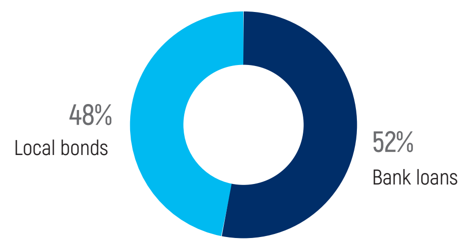
Kirill Bagachenko
CFO

Etalon Group has a long-established history with debt and equity capital markets. In 2011, the Company placed its global depository receipts on the Main Market of the London Stock Exchange, which raised over USD 500 million that was used for the development of investment projects in Russia. In 2017, Etalon Group held two SPOs, increasing its free float to 61%. The Company's subsidiaries have been successfully using public debt instruments for over 14 years.

DEBT CAPITAL MARKETS

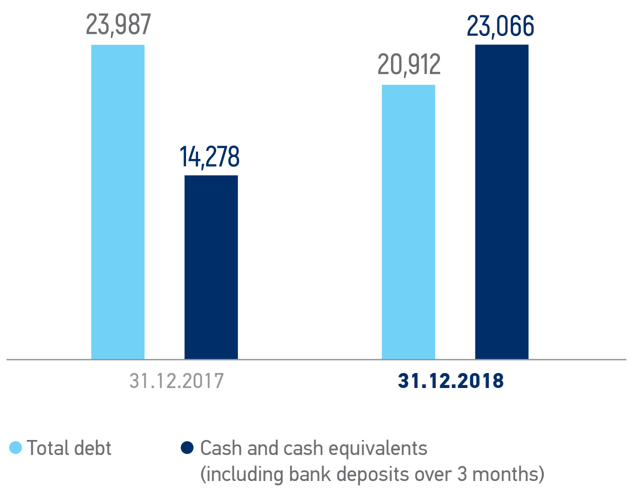
Basic information on debt financing instruments

As of the end of 2018, the Company's debt portfolio included credit lines and exchange-traded bonds denominated in RUB that are traded on the Moscow Exchange.



Our principles:

In order to finance our projects, the Company raises capital through real estate sales and debt financing. Given the volatility of the Russian market, the Company adheres to a conservative debt financing policy in order to minimise financial risk. We maintain an optimal level and cost of debt, reflecting the size of our business, funding required for projects and plans for future development. Following this principle and as a result of record cash collections in 2018, Etalon Group's cash balance exceeded its debt by RUB 2.2 billion at the end of the year.



Our activity:

In order to improve the Company's debt portfolio, in 2018, Etalon Group signed new loan agreements with a total credit limit of about RUB 20 billion and reduced debt under existing loan agreements by RUB 6.2 billion. The Company was able to obtain new loans at more attractive interest rates and renegotiated interest rates for existing loan agreements. In addition, we have signed a framework agreement with Sberbank with a credit limit of RUB 18.8 billion for financing the Silver Fountain residential complex. This is the first time Etalon Group has received a project finance loan following the implementation of amendments to Federal Law No 214-FZ. Funds for the construction of one of the buildings of the residential complex will be raised using escrow accounts with the possibility of reducing the interest rate to 4.5%. This will enable the Company to work out the mechanism for financing projects using escrow accounts in full compliance with the new regulations before they come into effect.

As of 31 December 2018, there were two outstanding bonds issued by Etalon Group subsidiary JSC Etalon LenSpetsSMU in 2016 and 2017, respectively. Each bond issue amounted to RUB 5 billion.

	2016	2017
Debt instrument	Series 001P-01 bond issue	Series 001P-02 bond issue
Amount	RUB 5 billion	RUB 5 billion
Amount of debt outstanding	RUB 5 billion	RUB 5 billion
Date of first repayment	20.06.2019	11.09.2020
Maturity	5 years	5 years
Issue date/Maturity date	23.06.2016/17.06.2021	15.09.2017/09.09.2022
Coupon rate	11.85%	8.95%

When the Company placed its series 001P-02 bonds, the order book was 4.8 times oversubscribed. Etalon Group's series 001P-01 and 001P-02 bond issues are listed on the Moscow Exchange as level 1 securities.[1]

[1] The first level is the highest level. It includes only those securities originating from issuers that comply with all the requirements of the Moscow Exchange's listing rules.

Results:

At the end of 2018, the average cost of borrowing was about 9.85%, which represents a 44 basis point year-on-year decline.

Etalon Group has one of the highest credit ratings among comparable companies in the residential real estate sector in Russia. In 2018, Standard & Poor's confirmed JSC Etalon LenSpetsSMU's long-term credit rating of B+ with a stable outlook. The Company received an ruA credit rating from the Expert RA national rating agency, also with a stable outlook.

EQUITY CAPITAL MARKETS

Key information on Etalon Group GDRs

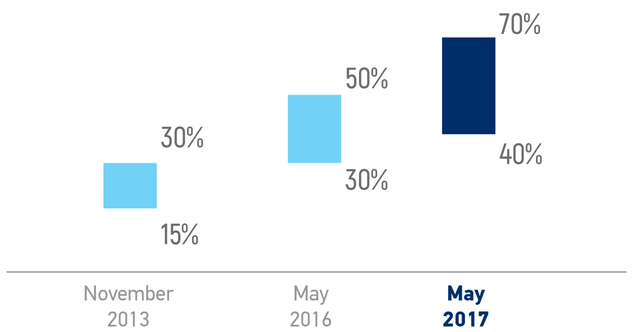
Etalon Group's global depository receipts (GDRs) been traded on the main market of the London Stock Exchange since April 2011, under the ticker ETLN.

Key information as of 31 December 2018

Ticker	ETLN:LI
Market	MAIN MARKET
FTSE Sector	Real Estate Investments & Services
FTSE Subsector	Real Estate Ownership & Development
MIFID Status	Regulated Market
SEDOL	B5TWX80
ISIN NUMBER	US29760G1031
Cost of one GDR	
In USD (closing price)	1.63
52-week maximum price (USD)	3.34 (8 January 2018)
52-week minimum price (USD)	1.63 (31 December 2018}
Market capitalisation	
Market capitalisation (USD million)	481
Trading volume	
Trading volume for the year (USD million)	129 (excluding OTC)

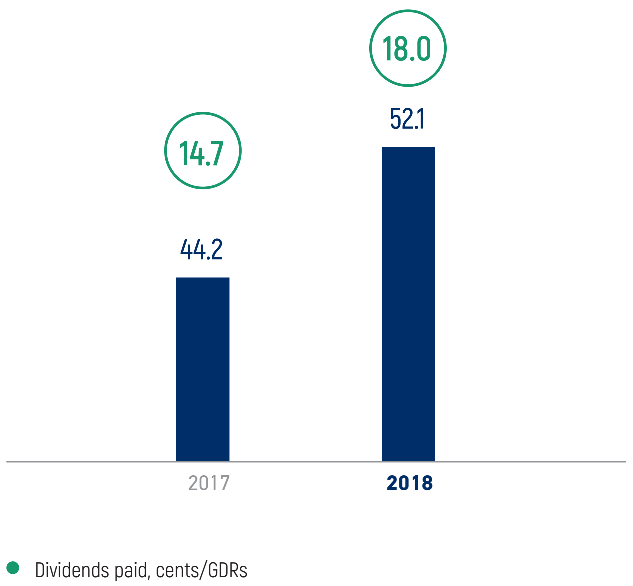
Dividend policy

High dividend payouts under new dividend policy



Etalon Group's commitment to creating value for its shareholders is illustrated by its generous dividend payouts. Since 2013, the Company has gradually raised its target dividend payout range from 15-30% to the level of 40-70% of consolidated IFRS net profit, which was approved by the Board of Directors in May 2017.

Dividend payouts[1], USD mln



[1] At the CBR rate on the date of approval of the dividends

Our principles:

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

Our activity:

Etalon Group discloses all key information about its activity, including:

- Results of shareholder meetings
- Results of key meetings of the Board of Directors
- Information on material transactions and changes in the structure of the Company ownership
- Information on important changes in the Company's management
- Quarterly operating results
- Half-year and full-year financial results
- Updates on key stages in projects, such as acquisitions, obtaining permits, launch of sales and delivery
- Monthly visual updates on the status of projects currently under construction
- Results of project portfolio evaluations
- Data pack

The Company holds conference calls for investors and analysts for quarterly operating results and IFRS financial results semi-annually.

Etalon Group also interacts with analysts on a regular basis through face-to-face meetings, correspondence, telephone calls and meetings. In this way, we aim to provide comprehensive and accurate coverage of the Company's activity based on a detailed understanding of our business strategy, performance, assets and of the management team. Analysts from leading international and Russian brokerages such as Citi, Goldman Sachs, Renaissance Capital, J.P. Morgan, Gazprombank, Sberbank CIB, VTB Capital, ATON and BCS cover Etalon Group's GDRs.

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In 2018, Etalon Group held four conference calls on its operational and financial results, over 100 meetings with investors and no fewer than 14 conferences, as well as a number of meetings with investors and analysts for a tour of the Group's facilities under construction. We disclosed 45 regulatory press releases and provided monthly visual updates on the progress of our projects.

Results:

Currently 75% of analysts have a Buy recommendation for Etalon Group, while the average potential upside for the Company's GDRs compared to analyst target prices is 74%.[1]

Etalon Group's GDR performance was influenced both by the Russian stock market and, most importantly, by industry developments related to legislative changes affecting the regulation of share participation agreements for residential construction. In addition to this, in 2018, there was further pressure on the share price due to the expected sale of a stake by the largest shareholder, the family of Company founder Viacheslav Zarenkov.

The Company has been among the finalists of the IR Awards of IR magazine Russia and CIS for four years running.

Analyst recommendations

Buy	Hold
75%	25%

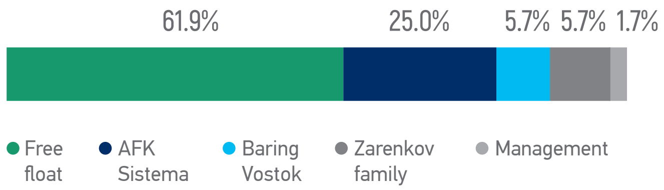
Average target price is $3.65

Average potential upside for the Company's GDRs compared to analyst TARGET PRICES IS 74%[1].

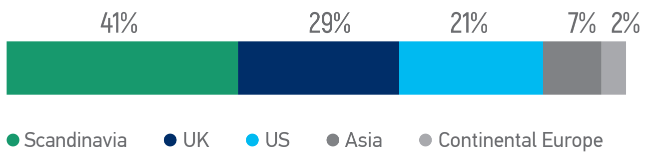
2019 SIGNIFICANT EVENTS, INVESTOR CALENDAR AND CONTACT INFORMATION

Sistema becomes a shareholder of Etalon Group

On 19 February 2019, Sistema PJSFC became the largest shareholder of Etalon Group by purchasing 25% of Company shares from the family of its founder, Viacheslav Zarenkov, who retained a minority stake equal to around 5.7%. Changes in the shareholder structure do not imply any changes in Etalon Group's policies on investor relations. We remain committed to being open with our shareholders, to providing all our investors and shareholders with equal access to information, and to complying with all obligations under Etalon Group's previous policies, including the dividend policy as revised in May 2017. A Relationship Agreement between Sistema and Etalon Group was signed on 20 February 2019, confirming our continued commitment to these high standards of corporate governance and reflecting the interests of all Etalon Group shareholders. The market reacted well to the new shareholder (and Etalon Group's purchase of 51% of the shares in JSC Leader-Invest), as evidenced by the growth in the Company's GDR price by 15% within less than a week of the announcement. Following the completion of the transaction and as of 19 February 2019, the Company had the following shareholder structure:



Etalon Group's publicly traded shares are held by international institutional investors across the world, primarily in continental Europe, Scandinavia, the United Kingdom and the United States.[2]



[1] The growth potential in GDR value and the average target price are calculated relative to the closing price and target prices available as of the date of writing, 12 March 2019.
[2] Data as of the end of February 2019. Source: Ipreo.

Investor calendar

Date	Location	Event
3 APRIL 2019		2018 Financial Results
3-4 APRIL 2019	Moscow	MOEX Forum Moscow Session
17 APRIL 2019		1Q 2019 Operating Results
30 APRIL 2019		Annual Report Publication
MAY 2019		2018 Assets Valuation Report
4-5 JUNE 2019	Moscow	Sberbank CIB "The Russian Forum" meeting 1:1
6-8 JUNE 2019	St Petersburg	St Petersburg International Economic Forum
17-19 JUNE 2019	London	UBS LATEMEA Conference
JULY 2019		1H 2019 Operating Results
SEPTEMBER 2019		1H 2019 Financial Results
OCTOBER 2019		9M 2019 Operating Results
11-12 NOVEMBER 2019	London	Goldman Sachs CEEMEA Conference
26-27 NOVEMBER 2019	London	UBS Global Real Estate Conference

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10. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Etalon Group PLC
Consolidated Financial Statements For the year ended 31 December 2018

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Oleg Mubarakshin (appointed on 19 February 2019)
Sergey Egorov (appointed on 19 February 2019)
Marina Ogloblina (appointed on 19 February 2019)
Ganna Khomenko (appointed on 19 February 2019)
Alexey Kalinin (appointed on 12 November 2010 and resigned on 29 March 2019)
Martin Robert Cocker (appointed on 12 November 2010)
Boris Svetlichny (appointed on 15 April 2013)
Charalampos Avgousti (appointed on 10 November 2016)
Kirill Bagachenko (appointed on 15 November 2013)
Maxim Berlovich (appointed on 27 April 2018)
Denis Vinokurov (appointed on 9 November 2018)
Viacheslav Adamovich Zarenkov (appointed on 8 November 2007 and resigned on 19 February 2019)
Dmitry Viacheslavovich Zarenkov (appointed on 29 July 2016 and resigned on 19 February 2019)
Olga Shevchuk (appointed on 9 November 2018 and resigned on 19 February 2019)
Anton Shatov (appointed on 9 November 2018 and resigned on 19 February 2019)
Dmitry Kashinskiy (appointed on 10 November 2016 and resigned on 14 December 2018)
Michael Calvey (appointed on 12 November 2010 and resigned on 27 April 2018)
Marios Theodosiou (appointed on 10 November 2016 and resigned on 27 April 2018)

Secretary

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Cyprus

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Independent auditors

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

CONSOLIDATED MANAGEMENT REPORT

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

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

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

(a) Revenue

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

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

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

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

(b) Gross profit

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

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

(c) Results from operating activities

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

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

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

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

(d) Other expenses, net

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

(e) Net finance income

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

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

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

(f) Income tax expense

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

(g) Profit for the year ended 31 December 2018

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

Principal risks and uncertainties

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

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

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

Nonrecurring or unusual activities and other significant events

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

Future developments of the Group

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

Activities related to research and development

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

Branches

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

Use of financial instruments by the Group

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

Dividends

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

Changes in the Company's share capital

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

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

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

Events that occurred after the reporting period

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

Recommendation regarding the distribution of profits

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

Independent Auditors

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

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

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

Shareholders	%
Free float	61.9%
Zarenkov family	30.7%
Baring Vostok Funds	5.7%
Management of the Company	1.7%
TOTAL	**100%**

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

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

Restrictions in exercising of voting rights of shares

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

The rules regarding the appointment and replacement of board members

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

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

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

The office of a director shall be vacated if:

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

(b) he is prohibited from acting as director in accordance with section 180 of the Law; or

(c) becomes bankrupt or makes any arrangement or composition with his creditors generally or otherwise has any judgment executed on any of his assets; or

(d) he dies; or

(e) he resigns his office by written notice to the Company; or

(f) the Company removes him from his position in accordance with section 178 of the Law.

The rules regarding the amendment of the articles of association

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

By order of the Board of Directors

CHARALAMPOS AVGOUSTI
Director

Nicosia, 1 April 2019

RESPONSIBILITY STATEMENT OF THE DIRECTORS AND MANAGEMENT OF THE COMPANY IN ACCORDANCE WITH THE TRANSPARENCY LAW

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of ETALON GROUP PLC (the 'Company'), the names of which are listed below, in accordance with the requirements of the Section 9 of the Transparency Requirements (Security Admitted to Trading) Law 190(1)/2007 (hereinafter the "Transparency Law"), as amended, confirm that we have complied with the requirements in preparing the financial statement and that to the best of our knowledge:

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

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

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

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

OLEG MUBARAKSHIN,
Chairman of the Board of Directors

KIRILL BAGACHENKO,
Member of the Board of Directors,
Chief Financial Officer

MAXIM BERLOVICH,
Member of the Board of Directors

SERGEY EGOROV,
Member of the Board of Directors

MARINA OGLOBLINA,
Member of the Board of Directors

GANNA KHOMENKO,
Member of the Board of Directors

MARTIN ROBERT COCKER,
Member of the Board of Directors

BORIS SVETLICHNY,
Member of the Board of Directors

CHARALAMPOS AVGOUSTI,
Member of the Board of Directors

DENIS VINOKUROV,
Member ofthe Board of Directors

GENNADIY SHCHERBINA,
Chief Executive Officer

April I. 2019

KPMG

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Independent Auditors' report

TO THE MEMBERS OF ETALON GROUP PLC

Report on the audit of the consolidated financial statements

Opinion

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

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

Basis for opinion

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

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KPMG

Key Audit Matters

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

Sales of premises transferred over time

Please refer to Note 3(h)(i) and Note 6 in the financial statements.

The key audit matter	***How the matter was addressed in our audit***
The Group recognizes revenue for premises sold to customers under share participation agreements regulated by law over time whereby the progress towards complete satisfaction of the performance obligation is measured using the input method. We focused on this area, due to significant estimates and judgements related to the measurement of the progress towards complete satisfaction of performance obligation affecting the amount of revenue recognized for the reporting period and complexity of supporting calculations.	Our audit procedures included, among others: - Testing the accuracy of construction budgets underlying the calculations under the input method for a sample of projects, by assessing the budget to actual variance analysis of costs incurred performed by the Group. - Testing the operating effectiveness of controls over existence, accuracy and completeness of costs incurred as at reporting date to construct a multiunit building; - Examining the mathematical accuracy of the calculations underlying the achieved progress towards complete satisfaction of performance obligation. - Evaluating the reasonableness of key judgements and assumptions underlying the calculations of the progress towards completed satisfaction of performance obligation. Within the context of this evaluation we: • enquired management of the Group and divisional management about the process and controls in place to understand how the total costs to construct the building are initially estimated and approved and theprocess of approval of subsequent revisions of the total costs; • evaluated accuracy of the planned construction costs by the following substantive audit procedures: ▪ we agreed planned construction costs to signed construction budgets and compared planned construction costs used to determine the progress towards complete satisfaction of performance obligation as at reporting date to planned construction costs used as at previous reporting date; ▪ we compared planned construction costs per square meter in different buildings in the same project and investigated unusual fluctuations; • we evaluated the existence, accuracy and completeness of costs incurred to date by comparing the amount of those costs to the supporting progress schedule, prepared by planning economic department.

KPMG

Carrying value of inventories relating to parking places

Please refer to Note 17(b) in the financial statements.

The key audit matter	***How the matter was addressed in our audit***
The balance of parking places is increasing year on year. Due to the current economic environment, the demand for parking places is rather low. Therefore, the parking places' sales are much slower than the sales of other types of the Group's inventory. In the consolidated financial statements, the parking places (finished parking places and parking places under construction) form part of the inventory and are stated at the lower of cost and net realisable value (i.e. the forecasted selling price less remaining costs to build and sell). The assessment of the net realisable value of the parking places depends on the Group's estimate of selling prices and allocation of building costs. Accordingly, a change in the Group's estimate of selling prices and the allocation of percentage of building costs could have a material impact on the carrying value of parking places in the Group's consolidated financial statements. Thus, there is a risk that a parking places may be overstated as at the reporting date. We identified the carrying value of parking places as a key audit matter due to: - Significant carrying amount of parking places as at the reporting date; - Estimates and judgements affecting the net realisable value; - Complex manual calculations performed by the Group for the purpose of estimation of the net realisable value of the parking places.	Our audit procedures included, among others: - testing the accuracy of construction budgets for a sample of projects, by reviewing the budget to actual variance analysis performed by the Group. - assessing the model used by the Group to calculate the net realisable value by: - Testing the Group's expected period of sales of parking places by comparing it with the historical turnover of parking places determined based on historical information relating to contracts entered into with customers; - Assessing the appropriateness of inflation rates used in the model by comparing them to external independent sources; - Assessing the appropriateness of discount rate involving our own valuation specialists; - Challenging the Group's forecasted selling prices by comparing the forecasted with actual selling prices for a sample of the parking places; - Assessing the reasonableness of the Group's selection of similar parking places, in cases where there was no historical information on sales of certain parking places; - Testing the Group's forecasted costs to complete by comparing them to construction budgets. Our audit work was focused on sites with lower turnover of parking places, which are hence considered most sensitive to changes in the Group's assumptions. We also considered the adequacy of the Group's disclosures on the allowance for obsolete inventory and assessed whether they meet the requirements of the relevant accounting standards.

Construction of social infrastructure

Please refer to Note 17 in the financial statements.

The key audit matter	***How the matter was addressed in our audit***
In the course of implementation of development projects the Group may be obliged to construct and transfer certain social infrastructure objects to the City Authorities without compensation of construction cost. These costs are recoverable as part of the projects they relate to. The risk specifically relates to the level of judgement involved in measuring the obligation described above and identifying the moment when the obligation becomes unavoidable.	Our procedures included: - We enquired management of the Group, divisional management and in-house legal counsel about actual or potential obligations to construct social infrastructure objects and transfer it to the City Authorities without compensation of construction cost. - We inspected the construction permitting documentation for a sample of projects to evaluate the completeness of the obligations.

KPMG

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

Other information

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

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

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

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

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

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other legal and regulatory requirements

Other regulatory requirements

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

Date of our appointment and period of engagement

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

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

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

Provision of non-audit services ("NAS'")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(1)2017, as amended from time to time ("Law L53(1)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53(1)2017, and based on the work undertaken in the course of our audit, we report the following:

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

Other matter

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

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

Antonis Shiammoutis

Certified Public Accountant and Registered Auditor
for and on behalf of
KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia, Cyprus

1 April 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

mln RUB	Note	2018	2017*
Revenue	6	72,327	70,645
Cost of sales		(57,835)	(52,644)
GROSS PROFIT		**14,492**	**18,001**
General and administrative expenses	7	(6,922)	(5,052)
Selling expenses		(3,318)	(2,930)
Impairment loss on trade and other receivables	26(b)(iii)	(800)	(673)
Other (expenses)/income, net	8	(2,376)	366
RESULTS FROM OPERATING ACTIVITIES		**1,076**	**9,712**
Finance incomeinterest revenue	11	2,101	1,696
Finance income - other	11	183	16
FINANCE COSTS	11	(2,015)	(1,007)
NET FINANCE INCOME		**269**	**705**
PROFIT BEFORE INCOME TAX		**1,345**	**10,417**
Income tax expense	12	(1,308)	(2,524)
PROFIT FOR THE YEAR		**37**	**7,893**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37**	**7,893**
PROFIT ATTRIBUTABLE TO			
Owners of the Company		35	7,890
Non-controlling interest		2	3
PROFIT FOR THE YEAR		**37**	**7,893**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the Company		35	7,890
Non-controlling interest		2	3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**37**	**7,893**
EARNINGS PER SHARE			
BASIC AND DILUTED EARNINGS PER SHARE (RUB)	**22**	**0.12**	**27.15**

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018 (continued)

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

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

These Consolidated Finansial Statements were were approved by the Board of Directors on 1 April 2019 ans were signet on its behalf by:

CHARALAMPOS AVGOUSTI
Director

KIRILL BAGACHENKO
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

mln RUB	Attributable to equity holders of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Reserve for own shares	Share options reserve	Retained earnings	Total		
BALANCE AT 1 JANUARY 2017	**1**	**15,509**	**(440)**	**-**	**43,354**	**58,424**	**28**	**58,452**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	7,890	7,890	3	7,893
Total comprehensive income for the year	-	-	-	-	7,890	7,890	3	7,893
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Issuance of preference shares	1	-	-	-	-	1	-	1
Dividends to equity holders	-	-	-	-	(2,542)	(2,542)	-	(2,542)
Equity-settled share-based payment	-	-	-	221	-	221	-	221
Acquisition of own shares	-	-	(1,189)	-	-	(1,189)	-	(1,189)
CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL								
Changes in ownership interest in subsidiaries	-	-	-	-	-	-	(31)	(31)
Other reclassifications	-	(23)	23	-	-	-	-	-
TOTAL TRANSACTIONS WITH OWNERS	**1**	**(23)**	**(1,166)**	**221**	**(2,542)**	**(3,509)**	**(31)**	**(3,540)**
BALANCE AT 31 DECEMBER 2017	**2**	**15,486**	**(1,606)**	**221**	**48,702**	**62,805**	**-**	**62,805**

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

mln RUB	Share capital	Share premium	Reserve for own shares	Share options reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2018, as previously reported*	2	15,486	(1,606)	221	48,702	62,805	-	62,805
Adjustment from adoption of IFRS 9, net of tax, note 2(e)	-	-	-	-	(312)	(312)	-	(312)
Adjusted balance at 1 January 2018	2	15,486	(1,606)	221	48,390	62,493	-	62,493
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	35	35	2	37
Total comprehensive income for the year	-	-	-	-	35	35	2	37
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Dividends to equity holders	-	-	-	-	(3,260)	(3,260)	-	(3,260)
Equity-settled share-based payment	-	-	1,605	(221)	(538)	846	-	846
TOTAL TRANSACTIONS WITH OWNERS	**-**	**-**	**1,605**	**(221)**	**(3,798)**	**(2,414)**	**-**	**(2,414)**
BALANCE AT 31 DECEMBER 2018	**2**	**15,486**	**(1)**	**-**	**44,627**	**60,114**	**2**	**60,116**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

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

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

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

1. BACKGROUND

a) Organisation and operations

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

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

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

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

The Company's registered office is located at:
2-4 Arch. Makariou III Avenue
Capital Center, 9th floor
1065 Nicosia
Cyprus

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

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

b) Business environment

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

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

b) Basis of measurement

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

c) Functional and presentation currency

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

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

d) Use of estimates and judgments

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

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

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

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

e) Changes in accounting policies

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

i) Adoption of IFRS 9

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

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

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

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

Classification and measurement of financial assets

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

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

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

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

Impairment of financial assets

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

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

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

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

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

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

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

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

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

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

Measurement of Expected credit losses

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

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and other comprehensive income. As a result, the Group reclassified impairment losses amounting to RUB 673 million, recognised under IAS 39, from 'finance expenses' to 'impairment loss on trade and other receivables' in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017.Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

Transition

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

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

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

c) Financial instruments

(i) Financial assets

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

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

Loans and receivables

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

Cash and cash equivalents.

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

(ii) Financial liabilities

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

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

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

d) Advances received and paid

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

e) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of selfconstructed 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, standalone 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 sharebased payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. For share based-payment awards with vesting market conditions, which creates variability in the number of equity instruments that will be received by employees, the Group determines the grant-date fair value of the right to receive a variable number of equity instruments reflecting the probability of different outcomes.

h) Revenue

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Revenue from construction services

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

1. Contracts for provision of construction services;
2. Contracts for construction of an asset.

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

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

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

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

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

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

(iii) Revenue from sale of construction materials

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

i) Income tax

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

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

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

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

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

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

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

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

j) New Standards and Interpretations

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

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

IFRS 16 Leases

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

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

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

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

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

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

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

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

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

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

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

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

Other standards and interpretations

Various Improvements to IFRSs and other amendments have been dealt with on a standard-bystandard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2019.

The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. DETERMINATION OF FAIR VALUES

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

a) Non-derivative financial assets

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

b) Non-derivative financial liabilities

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

5. OPERATING SEGMENTS

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

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

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

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

a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	2018	2017 (recalculated*)	2018	2017	2018	2017	2018	2017 (recalculated*)
External revenues	58,072	54,964	8,312	9,024	5,943	6,657	**72,327**	70,645
Inter-segment revenue	-	-	14,964	13,341	629	584	**15,593**	13,925
TOTAL SEGMENT REVENUE	**58,072**	**54,964**	**23,276**	**22,365**	**6,572**	**7,241**	**87,920**	**84,570**
Gross profit	13,992	17,509	393	358	107	134	**14,492**	18,001
Borrowing costs and significant financing component in cost of sales	3,105	3,871	-	-	-	-	**3,105**	3,871
GROSS PROFIT ADJUSTED FOR INTEREST IN COST OF SALES	**17,097**	**21,380**	**393**	**358**	**107**	**134**	**17,597**	**21,872**
Gross profit adjusted, %	29%	39%						
	2018	**2017 (recalculated*)**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017 (recalculated*)**
Reportable segment assets: inventories	70,263	75,426	1,541	779	1,925	1,917	73,729	78,122
TOTAL LIABILITIES FOR REPORTABLE SEGMENTS: CONTRACT LIABILITIES	**26,716**	**25,501**	**83**	**35**	**350**	**113**	**27,149**	**25,649**

* The Group represented segment information for constistency with 2018

b) Geographical information

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

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

c) Major customer

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

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

mln RUB	2018	2017 (recalculated)
REVENUES		
Total revenue for reportable segments	87,920	84,570
Elimination of inter-segment revenue	(15,593)	(13,925)
CONSOLIDATED REVENUE	**72,327**	**70,645**
PROFIT OR LOSS		
Gross profit for reportable segments	14,492	18,001
General and administrative expenses	(6,922)	(5,052)
Selling expenses	(3,318)	(2,930)
Impairment loss on trade and other receivables	(800)	(673)
Other expenses, net	(2,376)	366
Finance income and interest revenue	2,284	1,712
Finance costs	(2,015)	(1,007)
CONSOLIDATED PROFIT BEFORE INCOME TAX	**1,345**	**10,417**
	2018	**2017**
ASSETS		
TOTAL ASSETS FOR REPORTABLE SEGMENTS: INVENTORIES	**73,729**	**78,122**
Total inventories	73,729	78,122
LIABILITIES		
Total liabilities for reportable segments : contract liabilities	27,149	25,649
TOTAL CONTRACT LIABILITIES	**27,149**	**25,649**

6. REVENUE

mln RUB	2018	2017
Sale of flats - transferred at a point in time	26,187	33,379
Sale of flats - transferred over time	27,327	16,270
Sale of built-in commercial premises - transferred at a point in time	1,650	1,940
Sale of built-in commercial premises - transferred over time	1,519	546
Sale of parking places - transferred at a point in time	1,025	2,723
Sale of parking places - transferred over time	364	106
TOTAL REVENUE - SEGMENT RESIDENTIAL DEVELOPMENT (NOTE 5 (A))	**58,072**	**54,964**
Long term construction contracts - transferred over time	7,459	8,105
Short term construction services - transferred over time	853	919
TOTAL REVENUE OF SEGMENT CONSTRUCTION SERVICES (NOTE 5 (A))	**8,312**	**9,024**
Sale of construction materials - transferred at a point in time	3,601	4,146
Sale of stand-alone commercial premises - transferred at a point in time	42	479
Other revenue - transferred at a point in time	1,677	1,334
TOTAL OTHER REVENUE (NOTE 5 (A))	**5,320**	**5,959**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**71,704**	**69,947**
Rental revenue (note 5 (a))	623	698
TOTAL REVENUES	**72,327**	**70,645**

Contract balances

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

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

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

Contract liabilities relate to advance consideration received from customers.

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

	2018		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	-	20,780	-	20,514
Increases due to cash received, excluding amounts recognized as revenue during the period	-	(22,280)	-	(21,843)
Transfers from contract as sets recognised at the beginning of the period to receivables	(1,154)	-	(843)	-
Increase as a result of changes in the measure of progress	1,211	-	1,046	-
TOTAL CHANGE IN THE REPORTING PERIOD	**57**	**(1,500)**	**203**	**(1,329)**

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

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

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

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

7. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

8. OTHER (EXPENSES)/INCOME, NET

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

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

9. PERSONNEL COSTS

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

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

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

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

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

10. SHARE-BASED PAYMENT ARRANGEMENTS

Share option programme (equity-settled)

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

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

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

The following key assumptions were used by the appraiser:

- Monthly volatility – 7,6%;
- Annual yield rate – 2,3%;
- Risk-free interest rate (USD) – 2.3% per annum.

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

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

- Volatility – 14,88%;
- Annual yield rate – (2,2)%;
- Discount rate – 2,56%;
- Risk-free interest rate (USD) - 2.56% per annum;
- Dividend yield – 4,76%.

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

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

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

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

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

- Dividend yield – 4,76%;
- Risk-free rate – 2,95% (yield to maturity of US Treasury bonds with a 10-year maturity);
- Volatility – 50,79%;
- Actual and strike price – 2.78 USD;
- Validity period of the sales restriction - 7 years.

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

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

- Volatility – 14,66%;
- Annual yield rate – (1,98)%;
- Discount rate – 2,78%;
- Risk-free interest rate (USD) - 2.78% per annum;
- Dividend yield – 4,76%.

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

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

11. FINANCE INCOME AND FINANCE COSTS

mln RUB	2018	2017
RECOGNISED IN PROFIT OR LOSS		
FINANCE INCOME		
Interest income under the effective interest method on:		
Bank deposits - at amortised cost	453	-
Bank deposits - loans and receivables	-	505
Unwinding of discount on trade receivables	976	778
Cash and cash equivalents (except bank deposits)	672	413
TOTAL INTEREST INCOME ARISING FROM FINANCIAL ASSETS MEASURED AT AMORTISED COST	**2,101**	**1,696**
Net foreign exchange gain	64	-
Gain on write-off of accounts payable	101	16
Reversal of impairment loss on investments	18	-
FINANCE INCOME - OTHER	**183**	**16**
FINANCE COSTS		
Financial liabilities measured at amortised cost:		
Interest expenses- financing component under IFRS 15	(1,387)	(909)
Interest expenses - borrowing costs	(496)	-
Interest expense on finance leases	-	(3)
Impairment loss on advances paid to suppliers	(118)	(1)
Net foreign exchange loss	-	(79)
Other finance costs	(14)	(15)
FINANCE COSTS	**(2,015)**	**(1,007)**
NET FINANCE INCOME RECOGNISED IN PROFIT OR LOSS	**269**	**705**

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

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

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

12. INCOME TAX EXPENSE

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

mln RUB	2018	2017
CURRENT TAX EXPENSE		
Current year	2,310	1,931
(Over-provided)/Under-provided in prior year	(314)	44
	1,996	**1,975**
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	(688)	549
INCOME TAX EXPENSE	**1,308**	**2,524**

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

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

Leased plant and machinery

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

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

14. INVESTMENT PROPERTY

mln RUB	2018	2017
COST		
Balance at 1 January	596	806
Disposals	(9)	(210)
BALANCE AT 31 DECEMBER	**587**	**596**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Balance at 1 January	(263)	(245)
Depreciation for the year	(19)	(22)
Disposals	1	4
BALANCE AT 31 DECEMBER	**(281)**	**(263)**
Carrying amount at 1 January	333	561
CARRYING AMOUNT AT 31 DECEMBER	**306**	**333**

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

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

15. OTHER LONG-TERM INVESTMENTS

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

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

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

16. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

(b) Unrecognised deferred tax liability

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

(c) Movement in temporary differences during the year

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

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

17. INVENTORIES

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

a) Barter transactions

Project 1

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

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

The following key assumptions were used by the appraiser:

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

Project 2

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

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

The following key assumptions were used by the appraiser:

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

Project 3

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

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

The following key assumptions were used by the appraiser:

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

Project 4

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

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

The following key assumptions were used by the appraiser:

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

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

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

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

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

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

b) Allowance for impairment of inventories

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

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

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

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

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

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

c) Rent out of property classified as inventories

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

d) Pledges

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

e) Change in estimates

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

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

mln RUB	2018
Sale of flats - transferred over time	325
Cost of sales	(893)
Other (expenses)/income, net	2 236
Income tax expense	(334)
PROFIT FOR THE YEAR	**1,334**

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

18. CONTRACT ASSETS, TRADE AND OTHER RECEIVABLES

mln RUB	2018	2017
LONG-TERM TRADE AND OTHER RECEIVABLES		
Trade receivables	5,600	5,734
Less: Allowance for doubtful trade accounts receivable	(65)	-
TRADE LONG-TERM LESS ALLOWANCE	**5,535**	**5,734**
Other receivables	233	131
Less: Allowance for doubtful other accounts receivable	(10)	-
OTHER LONG-TERM LESS ALLOWANCE	**223**	**131**
Advances paid to suppliers	19	2
TOTAL LONG-TERM TRADE AND OTHER RECEIVABLES	**5,777**	**5,867**
SHORT-TERM TRADE AND OTHER RECEIVABLES		
Contract assets	1,244	1,187
Trade receivables	8,625	14,016
Less: Allowance for doubtful trade accounts receivable andcontract assets	(654)	(465)
TRADE SHORT-TERM LESS ALLOWANCE	**9,215**	**14,738**
Advances paid to suppliers	8,075	10,894
Less: Allowance for doubtful advances paid to suppliers	(348)	(230)
ADVANCES PAID TO SUPPLIERS SHORT-TERM LESS ALLOWANCE	**7,727**	**10,664**
VAT recoverable	1,380	2,478
Income tax receivable	424	579
Trade receivables due from related parties	9	6
Other taxes receivable	27	22
Other receivables due from related parties	9	9
Other receivables	2,131	1,832
	3,980	**4,926**
Less: Allowance for doubtful other accounts receivable	(514)	(144)
OTHER SHORT-TERM LESS ALLOWANCE	**3,466**	**4,782**
TOTAL SHORT-TERM TRADE AND OTHER RECEIVABLES	**20,408**	**30,184**
TOTAL	**26,185**	**36,051**

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

19. SHORT-TERM INVESTMENTS

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

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

20. CASH AND CASH EQUIVALENTS

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

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

At 31 December 2018, the most significant amount of cash and cash equivalents held with one bank totaled RUB 7,324 million (31 December 2017: RUB 3,786 million). At 31 December 2018, the Group also had outstanding loans and borrowings with the same bank of RUB 3,345 million (31 December 2017: RUB 2,012 million).

The bank has Standard & Poor's credit rating of BB+. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

21. CAPITAL AND RESERVES

a} Share capital

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

Number of shares unless otherwise stated	2018		2017	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
AUTHORISED SHARES				
Par value at the beginning of the year	0.00005 GBP	-	0.00005 GBP	-
On issue at the beginning of the year	286,741,593	20,000	292,229,971	20,000
Par value at the end of the year	0.00005 GBP	1 GBP	0.00005 GBP	1 GBP
Own shares disposed/(acquired) during the year	8,212,432	-	(5,488,378)	-
ON ISSUE AT THE END OF THE YEAR, FULLYPAID	**294,954,025**	**20,000**	**286,741,593**	**20,000**

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

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

b) Share premium

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

c) Reserve for own shares

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

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

During the year ended 31 December 2018, the Group transferred 8,212,432 shares to certain members of its key management personnel as part of their remuneration, see note 10. As at 31 December 2018, the total number of own shares acquired by the Group amounted to 3,946 shares or 0.001% of issued share capital.

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

d) Share options reserve

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

e) Dividends

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

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

f) Non-controlling interests in subsidiaries

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

22. EARNINGS PER SHARE

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

Number of shares unless otherwise stated

	2018	2017
Issued shares at 1 January	286,741,593	292,229,971
Effect of own shares disposed/(acquired) during the year	5,050,739	(1,653,553)
Weighted average number of shares for the year	291,792,332	290,576,418
Profit attributable to the owners of the Company, mln RUB	35	7,890
BASIC AND DILUTED EARNINGS PER SHARE (RUB)	**0.12**	**27.15**

23. LOANS AND BORROWINGS

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

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

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

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

mln RUB	Currency	Nominal interest rate	Year of maturity	2018 Face value	2018 Carrying amount	2017 Face value	2017 Carrying amount
SECURED BANK LOANS				**1,622**	**1,622**	**6,275**	**6,275**
Secured bank loan	RUB	CBR's key rate + 1.5%	2020	-	-	2,287	2,287
Secured bank loan	RUB	11.75%	2022	802	802	802	802
Secured bank loan	RUB	10.40%	2021	237	237	750	750
Secured bank loan	RUB	13.10%	2020	-	-	1,028	1,028
Secured bank loan	RUB	9.50%	2020	332	332	332	332
Secured bank loan	RUB	9.50%	2020	202	202	127	127
Secured bank loan	RUB	10.68%	2021	49	49	215	215
Secured bank loan	RUB	12.00%	2021	-	-	734	734
UNSECURED BANK LOANS				**9,298**	**9,298**	**7,665**	**7,665**
Unsecured bank loan	RUB	8.75% - 9.70%	2021	2,544	2,544	3,004	3,004
Unsecured bank loan	RUB	8.70% - 8.90%	2021	1,502	1,502	1,246	1,246
Unsecured bank loan	RUB	8.80%	2020	1,300	1,300	1,300	1,300
Unsecured bank loan	RUB	9.00%	2019	1,000	1,000	1,000	1,000
Unsecured bank loan	RUB	8.74 - 9.00%	2020	1,200	1,200	-	-
Unsecured bank loan	RUB	9.00%	2018	-	-	1,000	1,000
Unsecured bank loan	RUB	8.75%	2021	501	501	50	50
Unsecured bank loan	RUB	8.70%	2022	501	501	-	-
Unsecured bank loan	RUB	CBR's key rate + 1.75%	2021	500	500	-	-
Unsecured bank loan	RUB	CBR's key rate + 1.75%	2021	250	250	50	50
Unsecured bank loan	RUB	8.75%	2018	-	-	12	12
Unsecured bank loan	RUB	10.10%	2019	-	-	3	3
UNSECURED BOND ISSUES				**10,039**	**9,992**	**10,115**	**10,047**
Unsecured bonds	RUB	8.95%	2022	5,021	4,995	5,020	4,985
Unsecured bonds	RUB	11.85%	2021	5,018	4,997	5,016	4,983
Other unsecured issues	RUB	9.00%	2018	-	-	79	79
				20,959	**20,912**	**24,055**	**23,987**

Bank loans are secured by:

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

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

24. PROVISIONS

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

a) Warranties

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

b) Provision for deferred works

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

25. CONTRACT LIABILITIES, TRADE AND OTHER PAYABLES

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

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

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

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Accounting classifications and fair values

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

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

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

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

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

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

Risk management framework

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

b) Credit risk

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

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

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

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

(i) Trade and other receivables

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

(ii) Guarantees

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

(iii) Exposure to credit risk

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

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

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

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

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

Impairment losses

The ageing of trade receivables at the reporting date was:

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

The ageing of loans given at the reporting date was:

	Gross	Impairment	Gross	Impairment
mln RUB		**2018**		**2017**
Not past due	169	(13)	119	-
Past due 0-30 days	-	-	-	-
Past due 31-90 days	-	-	-	-
Past due 91-120 days	137	(137)	137	(137)
	306	**(150)**	**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 year ended 31 December 2017 represent the allowance account for impairment losses under IAS 39.

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

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

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

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

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

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

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

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

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

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

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

Allowance for impairment in respect of other receivables

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

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

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

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

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

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

Allowance for impairment of cash and cash equivalents

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

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

Allowance for impairment in respect of advances paid to suppliers

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

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

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

c) Liquidity risk

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

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

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

Contractual maturities of financial liabilities were as follows:

31 December 2018									
mln RUB	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**
NON-DERIVATIVE FINANCIAL LIABILITIES								**-**	**-**
Secured bank loans	1,622	1,961	161	218	931	598	53	-	-
Unsecured bank loans	9,298	10,727	915	1,328	4,923	3,396	165	-	-
Unsecured bond issues	9,992	12,125	1,103	1,571	4,022	3,661	1,768	-	-
Trade and other payables (excluding taxes payable and contract liabilities)	15,074	15,362	12,827	471	1,438	588	38	-	-
	35,986	**40,175**	**15,006**	**3,588**	**11,314**	**8,243**	**2,024**	**-**	**-**

31 December 2018									
mln RUB	**Caкrying amount**	**Contrac-tualcash 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**

в) Market risk

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

(i) Currency risk

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

mln RUB	**USD-denominated**	**EUR-denominated**	**USD-denominated**	**EUR-denominated**
	2018		**2017**	
Cash and cash equivalents (see note 20)	171	19	2.936	68
NET EXPOSURE	**171**	**19**	**2.936**	**68**

The following significant exchange rates applied during the year:

mln RUB	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**31 December 2018**	**31 December 2017**
USD 1	62.71	58.35	69.47	57.60
EUR 1	73.95	65.90	79.46	68.87

(ii) Interest rate risk

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

Profile

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

mln RUB	**Carrying amount**	
	2018	**2017**
FIXED RATE INSTRUMENTS		
Financial assets	29,624	20,783
Financial liabilities	(19,162)	(20,656)
	10,462	**127**
VARIABLE RATE INSTRUMENTS		
Financial liabilities	(1,750)	(3,337)
	(1,750)	**(3,337)**

Fair value sensitivity analysis for fixed rate instruments

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

e) Capital management

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

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

mln RUB	2018	2017
TOTAL BORROWINGS	**20,912**	**23,987**
Less: cash and cash equivalents	(23,066)	(14,125)
Less: bank deposits over 3 months, note 19	-	(153)
NET DEBT	**(2,154)**	**9,709**
TOTAL EQUITY	**60,114**	**62,805**
Debt to capital ratio at end of period	(0.04)	0.15

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

27. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

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

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

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

Lease payments are usually increased annually to reflect market rentals.

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

28. CAPITAL COMMITMENTS

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

29. CONTINGENCIES

a) Insurance

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

b) Litigation

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

c) Taxation contingencies

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

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

30 RELATED PARTY TRANSACTIONS

a) Transactions with management

(i) Management remuneration

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

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

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

(ii) Other transactions

Sales to key management personnel are disclosed below:

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

b) Transactions with other related parties

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

(i) Revenue

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

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

(ii) Expenses

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

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

31. GROUP ENTITIES

Significant subsidiaries

Significant subsidiaries Subsidiary	Country of incorporation	31 December 2018	31 December 2017
JSC "GK Etalon"	Russian Federation	100.00%	100.00%
LLC "EtalonAktiv"	Russian Federation	100.00%	100.00%
JSC "Etalon LenSpetsSMU" (JSC "SSMO LenSpetsSMU" before 18 April 2017)	Russian Federation	100.00%	100.00%
JSC "Novator"	Russian Federation	100.00%	100.00%
JSC "LenSpetsSMU- Reconstruktsiya"	Russian Federation	100.00%	100.00%
LLC "Etalon-Invest"	Russian Federation	100.00%	100.00%
JSC "Zatonskoe"	Russian Federation	100.00%	100.00%
LLC "SPM-Zhilstroy"	Russian Federation	100.00%	100.00%
LLC "Zolotaya Zvezda"	Russian Federation	100.00%	100.00%

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

32. EVENTS SUBSEQUENT TO THE REPORTING DATE

Financing events

On 4 February 2019, the Group has entered into a framework agreement with Sberbank to provide project financing for the Company's project located in Moscow region for the total amount of RUB 18,8 billion with the final repayment date in the first half of 2024. As of the date of this report, no funds have been utilised by the Group.

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

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

Operating events

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

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

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

mln RUB	2018 Unaudited	2017
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	242	310
Intangible assets	42	31
Investment property	850	4,340
Investment rights	991	5,712
Equity accounted investees	-	35
Advances paid for acquisition of investment rights	2,237	-
Other financial assets	4	6
Deferred tax assets	1,314	1,117
TOTAL NON-CURRENT ASSETS	**5,680**	**11,551**
CURRENT ASSETS		
Inventories	13,626	9,050
Trade and other receivables	938	837
Advances paid to suppliers	1,603	1,217
Income tax receivable	76	222
Other financial assets	1,052	500
Other current assets	316	173
Cash and cash equivalents	4,343	425
TOTAL CURRENT ASSETS	**21,954**	**12,424**
TOTAL ASSETS	**27,634**	**23,975**

mln RUB	2018 Unaudited	2017
EQUITY AND LIABILITIES		
Equity		
Share capital and additional paid-in capital	8,603	8,603
Retained earnings	174	1,201
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**8,777**	**9,804**
Non-controlling interest	-	(617)
TOTAL EQUITY	**8,777**	**9,187**
Non-current liabilities		
Loans and borrowings	616	1,387
Bonds	4,941	-
Trade and other payables	1,414	757
Provisions	-	44
Deferred tax liabilities	739	684
TOTAL NON-CURRENT LIABILITIES	**7,710**	**2,872**
Current liabilities		
Loans and borrowings	213	1,509
Bonds	78	2,972
Contract liabilities, advances received and other payables	9,822	7,001
Provisions	708	388
Income tax payable	326	46
TOTAL CURRENT LIABILITIES	**11,147**	**11,916**
TOTAL LIABILITIES	**18,857**	**14,788**
TOTAL EQUITY AND LIABILITIES	**27,634**	**23,975**

Acquisition of shares in Etalon Group PLC by Sistema PJSFC

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

PARENT COMPANY FINANCIAL STATEMENTS

Etalon Group PLC
For the year ended 31 December 2018

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Oleg Mubarakshin (appointed on 19 February 2019)
Sergey Egorov (appointed on 19 February 2019)
Marina Ogloblina (appointed on 19 February 2019)
Ganna Khomenko (appointed on 19 February 2019)
Alexey Kalinin (appointed on 12 November 2010 and resigned on 29 March 2019)
Martin Robert Cocker (appointed on 12 November 2010)
Boris Svetlichny (appointed on 15 April 2013)
Charalampos Avgousti (appointed on 10 November 2016)
Kirill Bagachenko (appointed on 15 November 2013)
Maxim Berlovich (appointed on 27 April 2018)
Denis Vinokurov (appointed on 9 November 2018)
Viacheslav Adamovich Zarenkov (appointed on 8 November 2007 and resigned on 19 February 2019)
Dmitry Viacheslavovich Zarenkov (appointed on 29 July 2016 and resigned on 19 February 2019)
Olga Shevchuk (appointed on 9 November 2018 and resigned on 19 February 2019)
Anton Shatov (appointed on 9 November 2018 and resigned on 19 February 2019)
Dmitry Kashinskiy (appointed on 10 November 2016 and resigned on 14 December 2018)
Michael Calvey (appointed on 12 November 2010 and resigned on 27 April 2018)
Marios Theodosiou (appointed on 10 November 2016 and resigned on 27 April 2018)

Secretary

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

Registered Office

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

Independent auditors

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

MANAGEMENT REPORT

The Board of Directors presents its report together with the audited financial statements of Etalon Group PLC (the "Company") for the year ended 31 December 2018.

Country of incorporation

Etalon Group PLC was registered in the Republic of Cyprus on 5 April 2017. Its registered office became 2-4 Arch. Makariou III Avenue, Capital Center, 9th floor, 1065 Nicosia, Cyprus.

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.

Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding of investments and provision of financing to related parties.

Changes in group structure

During the year ended 31 December 2018 there were no significant changes in the structure of Etalon Group PLC's subsidiaries. Transactions that took place after 31 December 2018 are disclosed in Note 18 "Events after reporting period".

Going concern

The financial statements are prepared on a going concern basis.

Review of developments, position and performance of the Company's business

The profit of the Company for the year ended 31 December 2018 was Russian Rouble ('RUB')'000 4,442,362 (2017: profit of RUB'000 7,279,217). The main source of income for the period is the effect of change in fair value of investments in subsidiaries in the amount of RUB'000 2,822,961 (2017: RUB'000 3,273,019).

In 2018, there was a decrease in the Company's profit compared to 2017, the reasons for which was that the Company did not receive dividend income and had no other income, comprises fees received from a financial institution in respect of the issuance of the Company's GDRs.

On 31 December 2018, the total assets of the Company were RUB'000 70,634,175 (31 December 2017: RUB'000 69,242,430; 01 January 2017 RUB'000: 64,886,417) and the net assets were RUB'000 69,888,615 (31 December 2017: RUB'000 68,554,396; 01 January 2017 RUB'000: 64,807,615). Investment in subsidiaries was RUB'000 59,122,033 (31 December 2017: RUB'000 55,734,380; 01 January 2017 RUB'000: 52,214,879).

The financial position, development and performance of the Company as presented in these financial statements are considered satisfactory.

More details are set out on pages 220 and 221 (statement of financial position and statement of profit or loss and other comprehensive income).

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113.

Dividends

As at 31 December 2018, the retained earnings were RUB'000 37,816,736 (31 December 2017: RUB'000 37,448,893; 01 January 2017 RUB'000: 32,736,583). During the year ended 31 December 2018, the Board of Directors approved dividends of RUB' 000 3,260,357 (31 December 2017: RUB'000 2,566,907).

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company are disclosed in Note 3 of the financial statements.

This operating environment may have a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Use of financial instruments by the Company

The Company's activities expose it to a variety of financial risks: market risk, currency risk, credit risk and liquidity risk.

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Board provides principles for overall risk management, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The detailed analysis of the Company's exposure to financial risks as at the reporting date and the measures taken by the Management in order to mitigate those risks are disclosed in Note 3 of the financial statements.

Future developments of the Company

The Board of Directors does not expect any significant changes or developments in the operations, financial position and performance of the Company in the foreseeable future.

Share capital

During the year ended 31 December 2018, the share capital of the Company hasn't changed.

Acquisition of 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.

As of 31 December 2017, the total number of own shares acquired by the Company amounted to 5,488,378 shares or 1,9% of issued share capital and the total consideration amounted to RUB'000 1,188,952.

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

During the year ended 31 December 2018, the Company signed an agreement for set-off of loan given to subsidiary Etalon Development Limited. Under the agreement, Etalon Development Limited transfers 2,728,000 global depository receipts for the ordinary shares of the Company to the Company as a mean of repayment of loan due to the Company and accrued interest in the total amount of RUB'000 199,056 and capital contribution to the subsidiary in the amount of RUB'000 280,899.

Board of Directors

The members of the Board of Directors of the Company at 31 December 2018 and at the date of this report are shown on page 209. The details of all appointment and resignations of Directors are shown on page 209.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the reporting period

The material events after the reporting period which have a bearing on the understanding of the financial statements for the year ended 31 December 2018 are disclosed in Note 18.

Branches

The Company did not operate through any branches during the year ended 31 December 2018.

Independent auditors

The Independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

Significant direct or indirect shareholdings

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

Shareholders	%
Free float	61.9%
Zarenkov family	30.7%
Baring Vostok Funds	5.7%
Management of the Company	1.7%
TOTAL	**100%**

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

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

Restrictions in exercising of voting rights of shares

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

The rules regarding the appointment and replacement of board members

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

A director may resign from office as a director by giving notice in writing to that effect to the Company, which notice shall be effective upon such date as may be specified in the notice. The directors have the power from time to time, without sanction of the Company in general meeting, to appoint any person to be a director, either to fill a casual vacancy or as an additional director. Any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

The office of a director shall be vacated if:

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

(b) he is prohibited from acting as director in accordance with section 180 of the Law; or

(c) becomes bankrupt or makes any arrangement or composition with his creditors generally or otherwise has any judgment executed on any of his assets; or

(d) he dies; or

(e) he resigns his office by written notice to the Company; or

(f) the Company removes him from his position in accordance with section 178 of the Law.

The rules regarding the amendment of the articles of association

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

By order of the Board of Directors

CHARALAMPOS AVGOUSTI
Director

Nicosia, 26 April 2019

RESPONSIBILITY STATEMENT OF THE DIRECTORS AND MANAGEMENT OF THE COMPANY IN ACCORDANCE WITH THE TRANSPARENCY REQUIREMENTS (SECURITIES ADMITTED TO TRADING) LAW OF 2007

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

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

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

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

(b) The Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company face. The management report provides a fair overview on information required as per Section 9(6)(a) of the Transparency Law.

OLEG MUBARAKSHIN,
Chairman of the Board of Directors

KIRILL BAGACHENKO,
Member of the Board of Directors,
Chief Financial Officer

MAXIM BERLOVICH,
Member of the Board of Directors

SERGEY EGOROV,
Member of the Board of Directors

MARINA OGLOBLINA,
Member of the Board of Directors

GANNA KHOMENKO,
Member of the Board of Directors

MARTIN ROBERT COCKER,
Member of the Board of Directors

BORIS SVETLICHNY,
Member of the Board of Directors

CHARALAMPOS AVGOUSTI,
Member of the Board of Directors

DENIS VINOKUROV,
Member ofthe Board of Directors

GENNADIY SHCHERBINA,
Chief Executive Officer

26 April 2019

KPMG Limited
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ETALON GROUP PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying financial statements of parent company Etalon Group PLC (the "Company") which are presented on pages 220 to 244, and comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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Key Audit Matters

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

Investments in subsidiaries: change in accounting policy from cost to fair value

Please refer to Note 10 in the financial statements.

The key audit matter	*How the matter was addressed in our audit*
As at 31 December 2018, the Company reported total investments in subsidiaries of RUB'000 59,122,033 which represented 59,122,033 84% of the total assets of the Company. During the year ended 31 December 2018, the Company changed the accounting policy for investments in subsidiaries, which previously were measured at cost, to fair value through profit or loss measurement. Determination of fair value of investments in subsidiaries is a key audit matter given the significance of the balances and the uncertainty and subjectivity associated with the fair value assessment.	Our audit procedures included among others the following: - evaluating, involving our own valuation specialists the appropriateness of the methodology and the reasonableness of the assumptions underlying the estimation of fair value of investments in subsidiaries as at 31 December 2016, 31 December 2017 and 31 December 2018 ('valuation dates'); - for subsidiaries operating in residential development, on a sample basis we challenged: • the Company's forecasted selling prices by comparing them to actual selling prices at valuation dates; • area available for sale by comparing total area per construction permits and actual sales occurred before the valuation dates; • consistency of the outstanding construction costs to complete between the valuation dates. - for all subsidiaries we assessed completeness and accuracy of cash flows from financing activities through review of existing portfolio of loans and borrowings; - we considered the adequacy of the Company's disclosures relating to the change in the accounting policy and fair value measurement of investments in subsidiaries and its compliance with the relevant accounting standards.

Recoverability of loans receivable	
Please refer to Note 11 in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
On 1 January 2018, the Company adopted IFRS 9, a new and complex accounting standard for financial instruments. This standard introduced a model of expected credit losses ("ECLs"), rather than incurred loss model which was previously applied under IAS 39. The application of I FRS 9 involves considerable judgement in a number of significant areas. At 31 December 2018, the Company had loans receivable from related parties amounting to RUB'000 10,863,179, which represents 15% of the total assets of the Company. The recoverability of the loans receivable and the estimation of ECL is a key audit matter due to the significance of the balances and the uncertainty and subjectivity associated with the ECLs assessment.	Our audit procedures included among others the following: - assessing the appropriateness of the impairment methodology applied for all loans; - testing the completeness and accuracy of the data used in the calculation of ECLs, through reconciliation to the source systems and testing inputs; - assessing mathematical accuracy of the model used for calculation of ECLs; - identification and measurement the individually assessed provisions, - assessing management rationalization of the overall calculated impact of I FRS 9 on the statement of financial position at 1 January 2018; - assessing the adequacy of the disclosures for compliance with the applicable accounting standards.
Share based p[ayment arrangements — Recognition	
Please refer to Note 8 and Note 10 in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
In 2017 the Company implemented a share based payment arrangement with certain members of top management of the Company's subsidiaries as part of management long-term incentive plan. In 2018 the Company changed the conditions of the arrangement established in 2017. We focused on this area, as the share based payments is a complex accounting area and there is a risk that the amounts are incorrectly determined and/or inappropriately accounted for and disclosed in the financial statements.	Our audit procedures included, among others: - enquiries with the Company management to understand the share based payment schemes in place and the changes made to the arrangement introduced in 2017; - inspection of documents supporting the approval by the Company and communications made to participants of the program regarding these changes; - agreed new conditions of the arrangement used by management for evaluation of accounting treatment and measurement of the transaction to the revised arrangement documents; - evaluating, involving our own valuation specialists the methodology and assumptions underlying the estimation of fair value of equity instruments granted to the participants of the incentive plan at the measurement date; - evaluating, involving our own IFRS specialists, the accounting treatment and its compliance with the relevant accounting standards; - evaluating the adequacy of the Company's disclosures in respect of share based payment arrangements in accordance with the requirements of IFRS 2.

Other information

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

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

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

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

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

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other legal and regulatory requirements

Other regulatory requirements

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

Date of appointment and period of engagement

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

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

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 24 April 2019.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537 /2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(1)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53(1)2017, and based on the work undertaken in the course of our audit, we report the following:

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

Other matter

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

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018. The engagement partner on the audit resulting in this independent auditors' report is Antonis Shiammoutis.

Antonis Shiammoutis

Certified Public Accountant and Registered Auditor
for and on behalf of
KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia, Cyprus

26 April 2019

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

RUB'000	Note	31 December 2018	31 December 2017 restated*	1 January 2017 restated*
ASSETS				
NON-CURRENT ASSETS				
Investments in subsidiaries	10	59,122,033	55,734,380	52,214,879
Loans receivable	11	8,713,630	9,665,237	12,344,255
TOTAL NON-CURRENT ASSETS		**67,835,663**	**65,399,617**	**64,559,134**
CURRENT ASSETS				
Loans receivable	11	2,149,549	499,808	-
Other receivables and prepayments	12	547,767	363,675	150,672
Cash and cash equivalents	13	101.196	2,979,330	176,611
TOTAL CURRENT ASSETS		**2,798,512**	**3,842,813**	**327,283**
TOTAL ASSETS		**70,634,175**	**69,242,430**	**64,886,417**
EQUITY				
Share capital	14	2,266	2,266	725
Share premium	14	15,486,109	15,486,109	15,486,109
Reserve for own shares	14	(694)	(1,188,952)	-
Capital contribution	14	16,584,198	16,584,198	16,584,198
Share options reserve	8	-	221,882	-
Retained earnings		37,816,736	37,448,893	32,736,583
TOTAL EQUITY		**69,888,615**	**68,554,396**	**64,807,615**
CURRENT LIABILITIES				
Other payables and accruals	15	159,872	688,034	78,775
Borrowings	16	585,688	-	27
TOTAL CURRENT LIABILITIES		**745,560**	**688,034**	**78,802**
TOTAL EQUITY AND LIABILITIES		**70,634,175**	**69,242,430**	**64,886,417**

On 25 April 2019, the Board of Directors of Etalon Group PLC authorised these financial statements for issue.

* - The Company has changed its accounting policy for investments in subsidiaries, see Note 2.
- The Company has initially applied IFRS 9 for debt financial instruments at 1 January 2018. Under the transition method chosen, comparative information is not restated, see Note 2(e).

The notes on pages 224 to 244 are an integral part of these financial statements.

CHARALAMPOS AVGOUSTI
Director

KIRILL BAGACHENKO
Director

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

RUB'000	Note	2018	2017 restated*
Change in fair value of investments in subsidiaries	10	2,822,961	3,273,019
Interest income		459,484	475,562
Interest expenses	17(v), (vi)	(8,359)	(2,167)
Dividend income from subsidiary		-	3,367,511
Impairment loss on trade and other receivables and loans	17(iii), (iv)	(20,559)	(136,592)
Loss from write-off of loans and receivables	17(iv)	(21,257)	(478)
Administrative expenses	5	(327,011)	(292,918)
Other expenses		(57,572)	-
Other income	6	8,083	1,170,552
OPERATING PROFIT BEFORE NET FINANCE INCOME/(EXPENSES)		**2,855,770**	**7,854,489**
Finance income		1,964,727	59,333
Finance expenses		(378,135)	(634,605)
NET FINANCE INCOME/(EXPENSES)	**7**	**1,586,592**	**(575,272)**
PROFIT BEFORE TAX		**4,442,362**	**7,279,217**
Income tax expense	9	-	-
PROFIT FOR THE YEAR		**4,442,362**	**7,279,217**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,442,362**	**7,279,217**

* - The Company has changed its accounting policy for investments in subsidiaries, see Note 2.
- The Company has initially applied IFRS 9 for debt financial instruments at 1 January 2018. Under the transition method chosen, comparative information is not restated, see Note 2(e).

The notes on pages 224 to 244 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

RUB'000	Share capital	Share premium	Capital contribution	Reserve for own shares	Share options reserve	Retained earnings	Total
Balance at 1 January 2017 as previously reported	**725**	**15,486,109**	**16,584,198**	**–**	**–**	**2,057,743**	**34,128,775**
Impact of change in accounting policy (Note 2(e))	–	–	–	–	–	30,678,840	30,678,840
Balance at 1 January 2017 as restated	**725**	**15,486,109**	**16,584,198**	**–**	**–**	**32,736,583**	**64,807,615**
PROFIT FOR THE YEAR							
Profit for the year	–	–	–	–	–	7,279,217	7,279,217
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**–**	**–**	**–**	**7,279,217**	**7,279,217**
Transactions with owners							
Share- based payment arrangements (Note 8)	–	–	–	–	221,882	–	221,882
Issue of redeemable preference shares (Note 14)	1,541	–	–	–	–	–	1,541
Acquisition of own shares (Note 14)	–	–	–	(1,188,952)	–	–	(1,188,952)
Dividends paid	–	–	–	–	–	(2,566,907)	(2,566,907)
TOTAL TRANSACTIONS WITH OWNERS	**1,541**	**–**	**–**	**(1,188,952)**	**221,882**	**(2,566,907)**	**(3,532,436)**
Balance at 31 December 2017	**2,266**	**15,486,109**	**16,584,198**	**(1,188,952)**	**221,882**	**37,448,893**	**68,554,396**
Balance at 1 January 2018 *	**2,266**	**15,486,109**	**16,584,198**	**(1,188,952)**	**221,882**	**37,448,893**	**68,554,396**
Adjustment from adoption of IFRS 9 (Note 2(e))	–	–	–	–	–	(213,424)	(213,424)
Adjusted balance at 1 January 2018	**2,266**	**15,486,109**	**16,584,198**	**(1,188,952)**	**221,882**	**37,235,469**	**68,340,972**
Profit for the year	–	–	–	–	–	4,442,362	4,442,362
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**–**	**–**	**–**	**4,442,362**	**4,442,362**
Transactions with owners							
Share- based payment arrangements (Note 8)	–	–	–	1,668,211	(221,882)	(600,738)	845,591
Acquisition of own shares (Note 14)				(479,953)	–	–	(479,953)
Dividends paid	–	–	–	–	–	(3,260,357)	(3,260,357)
Total transactions with owners	–	–	–	1,188,258	(221,882)	(3,861,095)	(2,894,719)
Balance at 31 December 2018	**2,266**	**15,486,109**	**16,584,198**	**(694)**	**–**	**37,816,736**	**69,888,615**

* - The Company has initially applied IFRS 9 for debt financial instruments at 1 January 2018. Under the transition method chosen, comparative information is not restated, see Note 2(e).

The notes on pages 224 to 244 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

RUB'000	Note	2018	2017 restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		4,442,362	7,279,217
Adjustments for:			
Change in fair value of investments in subsidiaries	10	(2,822,961)	(3,273,019)
Impairment loss on trade and other receivables and loans	17(iii), (iv)	20,559	136,592
Loss from write-off of receivables	17(iv)	21,257	478
Dividend income from subsidiary		–	(3,367,511)
Interest income on bank deposits		(4,369)	(322)
Interest income on loans issued	17(iii)	(455,115)	(475,240)
Interest expenses	17 (vi), 17(v)	8,359	2,167
Foreign exchange (gains)/losses, net		(1,586,954)	574,740
CASH FLOWS (USED IN)/FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL		**(376,862)**	**877,102**
Change in other receivables and prepayments		(138,533)	18,042
Change in other payables and accruals		77,700	(99,732)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		**(437,695)**	**795,412**
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of loans by subsidiaries	17(iii)	1,125,456	1,793,999
Repayment of interest on loans by subsidiaries	17(iii)	102,462	406,786
Payment of loans to subsidiaries	17(iii)	(409,098)	(300,000)
Contribution to share capital of subsidiaries		–	(12,000)
Dividends received from subsidiary		–	3,367,511
NET CASH FROM INVESTING ACTIVITIES		**818,820**	**5,256,296**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of own shares		(651,121)	(628,717)
Proceeds from issue of preference shares		-	1,541
Dividends paid		(3,566,787)	(2,535,158)
Borrowings received from relared parties	17(vi)	555,616	–
NET CASH USED IN FINANCING ACTIVITIES		**(3,662,292)**	**(3,162,334)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,281,167)**	**2,889,374**
Cash and cash equivalents at beginning of year		2,979,330	176,584
Effects of exchange rate changes on cash and cash equivalents		403,033	(86,628)
Cash and cash equivalents at end of year	13	101,196	2,979,330

Non-cash transactions:

During the year ended 31 December 2018, the Company settled-off loan receivable from its subsidiary Etalon Development against own GDRs received from the subsidiary (Note 14).

* - The Company has changed its accounting policy for investments in subsidiaries, see Note 2.
- The Company has initially applied IFRS 9 for debt financial instruments at 1 January 2018. Under the transition method chosen, comparative information is not restated, see Note 2(e).

The notes on pages 224 to 244 are an integral part of these financial statements.

1. GENERAL INFORMATION

Country of incorporation

Etalon Group PLC (the "Company") was incorporated on 8 November 2007 in Bailiwick of Guernsey as a limited liability company under the Companies (Guernsey) Law. Its registered office was St. Julian's Avenue, Redwood House, St. Peter Port, Guernsey, GY1 1WA, the Channel Islands.

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

On 27 July 2017, the shareholders at the Annual General Meeting 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.

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.

Principal activity

The principal activity of the Company, which remained unchanged from the prior year, is the holding of investments and provision of financing services to related companies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113.

The Company has also prepared consolidated financial statements in accordance with IFRS-EU and Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the "Group"). The consolidated financial statements can be obtained from the registered office of the Company at 2-4 Arch. Makariou III Avenue, Capital Center, 9th floor, 1065 Nicosia, Cyprus.

Users of these parent's separate financial statements should read together with the Group's consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(b) Basis of measurement

The financial statements have been prepared under the historic cost conversion except for investments in subsidiaries that are measured at fair value. The preparation of financial statements in conformity with IFRS-EUs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

c) Adoption of new and revised IFRS-EUs

Effective from 1 January 2018, the Company 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 Company applied the new standard retrospectively, except for the items that have already been derecognised at the date of initial application. The Company 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 (1 January 2018) in the opening retained earnings.

As a result of the adoption of IFRS 9, the Company 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.

The adoption of IFRS 9 has not had a significant effect on the Company'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.

d) Classification and measurement of financial assets

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 financial statements of the Company:

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.

e) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost 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 Company has elected to measure loss allowances for trade receivables 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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 Company is exposed to credit risk.

The adoption of IFRS 9 resulted in an increase in the allowance for impairment of financial assets in the amount of RUB'000 213,424 due to recognition of expected credit losses 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 Company's financial assets as at 1 January 2018.

Financial assets RUB'000	Original carryin gamount under IAS 39	New carrying amountunder IFRS 9
Trade and other receivables	363,547	360,675
Loans given	10,15,045	9,954,493
Cash and cash equivalents	2,979,330	2,979,330
TOTAL FINANCIAL ASSETS	**13,507,922**	**13,294,498**

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 Company 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 are presented separately in the statement of profit or loss and other comprehensive income.

Transition

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

- The Company 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 has been made on the basis of the facts and circumstances that existed at the date of initial application.

Foreign currency translation

(i) Functional and presentation currency

The financial statements are presented in Russian Rubles (RUB), which is the Company's functional and presentation currency.

All financial information has been rounded to the nearest thousand, except when otherwise indicated.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

Financial instruments

(i) Financial assets

The Company's financial assets comprise loans receivable, other receivables and prepayments and cash and cash equivalents. All of them are classified at amortised cost category as defined by IFRS 9.

The Company 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 Company is recognised as a separate asset or liability.

Investments in subsidiaries

Subsidiaries are all the entities (including structured entities) over which the Company has control. The Company controls an entity when the Company 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.

As at 31 December 2018 considering the fact that the Company financial statements are publically available and can be used by investors for their economic decisions, the management has decided that measurement of investments in subsidiaries at fair value would provide more reliable and more relevant information about the Company's financial position than the measurement of investments at cost. Therefore the Company management decided to change the accounting policy and from 2018 financial statements started to measure investments in its subsidiaries at fair value in accordance with IFRS 9.

The Company made an irrevocable election under IFRS 9 to present subsequent changes in the investments' fair value through profit or loss (FVTPL).

At the date of initial application of FVTPL model, the difference between the previous carrying amount of the equity instruments and the fair value was recognised in the retained earnings as at January 2017.

The following tables summarise the change in the accounting policy and the impacts on the Company's financial statements:

(a) Statement of financial position

RUB'000	Impact of change in accounting policy		
31 December 2017	**As previously reported**	**Adjustments**	**As restated**
Investments in subsidiaries	21,728,929	34,005,451	55,734,380
Other assets	13,508,050	–	13,508,050
TOTALS ASSETS	**35,236,979**	**34,005,451**	**69,242,430**
Other liabilities	688,034	–	688,034
TOTAL LIABILITIES	**688,034**	**–**	**688,034**
Retained earinings	34,548,945	34,005,451	68,554,396
TOTAL EQUITY	**34,548,945**	**34,005,451**	**68,554,396**

RUB'000	Impact of change in accounting policy		
1 January 2017	**As previously reported**	**Adjustments**	**As restated**
Investments in subsidiaries	21,536,039	30,678,840	52,214,879
Other assets	12,671,538	–	12,671,538
TOTALS ASSETS	**34,207,577**	**30,678,840**	**64,886,417**
Other liabilities	78,802	–	78,802
TOTAL LIABILITIES	**78,802**	**–**	**78,802**
Retained earinings	34,128,775	30,678,840	64,807,615
TOTAL EQUITY	**34,128,775**	**30,678,840**	**64,807,615**

(b) Statement of profit or loss and other comprehensive income

RUB'000	Impact of change in accounting policy		
Year ended 31 December 2017	**As previously reported**	**Adjustments**	**As restated**
Change in fair value of investments in subsidiaries	-	3,273,019	3,273,019
Other income	5,072,958	–	5,072,958
Other expenses	(1,120,352)	53,592	(1,066,760)
PROFIT BEFORE TAX	**3,952,606**	**3,326,611**	**7,279,217**
Income tax expense	–	–	–
PROFIT FOR THE YEAR	**3,952,606**	**3,326,611**	**7,279,217**
TOTAL INCOME FOR THE YEAR	**3,952,606**	**3,326,611**	**7,279,217**

Fair value hierarchy

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

- **Level 1 inputs.** Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2 inputs.** Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3 inputs.** Level 3 inputs are unobservable inputs for the asset or liability.

RUB'000	Carrying amount			Fair value			
2018	Financial assets	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE							
Loans receivable	10,863,179	–	10,863,179	–	9,473,056	–	9,473,056
Other receivables and prepayments	547,767	–	547,767	–	547,767	–	547,767
Cash and cash equivalents	101,196	–	101,196	101,196	–	–	101,196
	11,512,142	**–**	**11,512,142**	**101,196**	**10,020,823**	**–**	**10,122,019**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Other payables and accruals	-	(159,872)	(159,872)	-	(159,872)	-	(159,872)
Borrowings	-	(585,688)	(585,688)	-	(585,688)	-	(585,688)
	-	**(745,560)**	**(745,560)**	**-**	**(745,560)**	**-**	**(745,560)**

RUB'000	Carrying amount			Fair value			
2017	Financial assets	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE							
Loans receivable	10,165,045	–	10,165,045	–	8,865,760	–	8,865,760
Other receivables and prepayments	363,675	–	363,675	–	363,675	–	363,675
Cash and cash equivalents	2,979,330	–	2,979,330	,2,979,330,	–	–	2,979,330
	13,508,050	**–**	**13,508,050**	**2,979,330**	**9,229,435**	**–**	**12,208,765**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Other payables and accruals	–	(688,034)	(688,034)	-	(688,034)	-	(688,034)
	–	**(688,034)**	**(688,034)**	**–**	**(688,034)**	**–**	**(688,034)**

RUB'000	Carrying amount			Fair value			
2016	Financial assets	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE							
Loans receivable	12,344,255	–	12,344,255	–	11,027,855	–	11,027,855
Other receivables and prepayments	150,672	–	150,672	–	150,672	–	150,672
Cash and cash equivalents	176,611	–	176,611	176,611	–	–	176,611
	12,671,538	**–**	**12,671,538**	**176,611**	**11,178,527**	**–**	**11,355,138**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Other payables and accruals	-	(78,775)	(78,775)	-	(78,775)	-	(78,775)
Borrowings	-	(27)	(27)	–	(27)	–	(27)
	-	**(78,802)**	**(78,802)**	**–**	**(78,802)**	**–**	**(78,802)**

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.

The company assessed individual impairment based on discounted cash flows attributed to certain loans amount.

And for others loans and receivables the Company within the application of IFRS 9 calculates ECL based on of the credit risk rating assigned to respective debtors and the remaining maturity of financial instruments. The Company determines the inputs for calculation of ECL such as probability of default and loss given default using both internal and external statistical data.

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 Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. In accordance with IFRS 9, cash and cash equivalents are classified at amortised cost.

(i) Financial liabilities

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

At initial recognition, the Company 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 Company derecognises a financial liability when its obligations specified in the contracts are discharged or cancelled or expire.

The Company 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 statement of financial position when, and only when, the Company 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.

Other payables and accruals

Other payables and accruals represent amounts outstanding at the reporting date and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Tax

Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country in which the Company operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes a provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account. The capital contribution reserve relates to the fair value of the shares issued to the shareholders in exchange for investment in subsidiary (Note 14).

The preference 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. 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.

Share-based payment arrangements

The Company operates an equity-settled share-based compensation plan, under which certain members of the key management personnel of the Company's subsidiaries are entitled to receive a predetermined number of ordinary shares in the Company based on an increase in the market price of the Company's GDRs. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. The cost is recognised in share options reserve in equity, together with a corresponding increase in investments in respective subsidiaries, over the vesting period of the awards. Equity-settled transactions for which vesting is conditional upon a market condition are treated as vested irrespective of whether or not the market condition is satisfied, provided that service conditions are satisfied, and the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no adjustment for the differences between expected and actual outcomes.

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

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.

Interest income

Interest income includes loan interest income which is recognised in the statement of profit or loss and other comprehensive income on an accrual basis using the effective interest rate method.

Interest expenses

Interest expenses include interest expense on amounts payable to related parties which is recognised in the statement of profit or loss and other comprehensive income on an accrual basis using the effective interest rate method.

Dividend income

Dividend income is recognised in the statement of profit or loss and other comprehensive income when the right to receive payment is established.

Finance income

Finance income includes foreign exchange gains, which are recognised in the statement of profit or loss and other comprehensive income as incurred.

Finance expenses

Finance expenses include foreign exchange losses and bank charges, which are recognised in the statement of profit or loss and other comprehensive income as incurred and on an accrual basis, respectively.

New Standards and Interpretations

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

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

3. INANCIAL RISK MANAGEMENT AND TAX RISK

Financial risk factors

The Company's activities expose it to credit risk, liquidity risk, market price risk and currency risk, arising from the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect in market conditions and the Company's activities.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligation could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has policies in place to ensure loans are made to companies with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. The Company has considerable concentration of credit risk since all the loans receivable are due from related parties.

RUB'000	31 December 2018	31 December 2017	1 January 2017
Loans to related party	10,863,179	10,165,045	12,344,255
Other receivables and prepayments	547,767	363,675	150,672
Cash and cash equivalents	101,196	2,979,330	176,611
TOTAL	**11,512,142**	**13,508,050**	**12,671,538**

Allowance for impairment in respect of loans given

The movement in the allowance for impairment in respect of loans given during the reporting period was as follows:

RUB'000	2018	2017
Balance at 1 January	**(3,356,921)**	**(3,220,329)**
Adjustment on initial application of IFRS 9	(210,552)	-
Balance at 1 January per IFRS 9	**(3,567,473)**	**(3,220,329)**
Change of impairment for the period	(21,093)	(136,592)
FOREX	(669,061)	-
Balance at 31 December	**(4,257,627)**	**(3,356,921)**

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company's management monitors its liquidity on a continuous basis and acts accordingly.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

RUB'000	Carrying amounts	Contractual cash flows	Between 0-12 months
31 DECEMBER 2018			
Borrowings	585,688	601,076	601,076
Other payables and accruals	159,872	159,872	159,872
	745,560	**760,948**	**760,948**

RUB'000	Carrying amounts	Contractual cash flows	Between 0-12 months
31 DECEMBER 2017			
Other payables and accruals	688,034	688,034	688,034
	688,034	**688,034**	**688,034**

RUB'000	Carrying amounts	Contractual cash flows	Between 0-12 months
1 JANUARY 2017			
Borrowings	27	27	27
Other payables and accruals	78,775	78,775	78,775
	78,802	**78,802**	**78,802**

Market price risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Loans receivable and borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency.

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollars (US$) and Euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

RUB'000	31 December 2018	31 December 2017	1 January 2017
ASSETS			
US DOLLAR			
Cash and cash equivalents	40,286	2,904,800	175,064
Loans receivable	8,092,279	7,120,582	9,607,300
Other receivables	258,674	212,470	35,547
TOTAL	**8,391,239**	**10,237,852**	**9,817,911**
EURO			
Cash and cash equivalents	3,109	2,008	568
Loans receivable	-	-	3
Other receivables	180,140	149,782	112,272
TOTAL	**183,249**	**151,790**	**112,843**
LIABILITIES			
US DOLLAR			
Other payables and accruals	(183)	(566,759)	(6,870)
Borrowings	(585,688)	-	-
TOTAL	**(585,871)**	**(566,759)**	**(6,870)**
Euro			
Other payables and accruals	(153,180)	(102,955)	(70,783)
TOTAL	**(153,180)**	**(102,955)**	**(70,783)**
NET POSITION			
US Dollar	7,805,368	9,671,093	9,811,041
Euro	30,069	48,835	42,060

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate		
	2018	2017	31 December 2018	31 December 2017	1 January 2017
USD 1	62.71	58.35	69.47	57.60	60.66
EUR 1	73.95	65.90	79.46	68.87	63.81

Sensitivity analysis

A 10% strengthening of the US$ against the RUB at 31 December 2018, 31 December 2017 and 1 January 2017 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the US$ against the RUB, there would be an equal and opposite impact on profit and equity.

RUB'000	Equity 2018	Profit or Loss 2018
US Dollar	780,537	780,537

RUB'000	Equity 2017	Profit or Loss 2017
US Dollar	967,109	967,109

RUB'000	Equity 2016	Profit or Loss 2016
US Dollar	981,104	981,104

A 10% strengthening of the Euro against the RUB at 31 December 2018, 31 December 2017 and 1 January 2017 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the Euro against the RUB, there would be an equal and opposite impact on profit and equity.

RUB'000	Equity 2018	Profit or Loss 2018
Euro	3,007	3,007

RUB'000	Equity 2017	Profit or Loss 2017
Euro	4,884	4,884

RUB'000	Equity 2016	Profit or Loss 2016
Euro	4,206	4,206

A 10% strengthening of the GB Pound against the RUB at 31 December 2018 and 31 December 2017 and 1 January 2017 would not have any material effect on equity and profit or loss.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of expected credit losses

Expected credit losses are an estimate weighted by the probability of credit losses. Credit losses are measured as the present value of all expected cash losses. The amount of expected credit losses is discounted using the effective interest rate on the relevant financial asset.

Share-based payment arrangements

The Company measures the cost of equity-settled share-based payment transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, as well as determination of the most appropriate inputs to the valuation model and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8.

Fair value of investments in subsidiaries

The fair value of investments in subsidiaries recorded in the statement of financial position cannot be derived from active markets, and they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates and assumptions were made, and a degree of judgment has been applied in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of investments in subsidiaries.

Functional currency

The Management of the Company has considered which currency is the currency of the primary economic environment in which the Company operates. In making this assessment, Management has used judgment to determine the functional currency that most faithfully represents the underlying transactions, events and conditions of the Company. Management has concluded that the functional currency of the Company is the RUB because the Company is seen as an extension of its subsidiaries operating in the Russian Federation.

5. ADMINISTRATIVE EXPENSES

RUB'000	2018	2017 restated
Directors' remuneration (Note 17(i))	212,781	181,173
Auditors' remuneration	35,941	19,793
Legal, consulting and other professional services	32,723	53,484
Payroll tax	25,174	15,808
Accounting and administration expenses	10,100	11,440
Insurance expenses	8,440	8,196
Social insurance contribution	939	1,187
Secretarial fees	913	1,837
TOTAL	**327,011**	**292,918**

Remuneration of the statutory auditor firm for the year ended 31 December 2018 amounted to RUB'000 14,316 (2017: RUB'000 3,606), including prior year fees of RUB'000 451, for audit services and RUB'000 2,105 (2017: 1,707) for other assurance services.

6. OTHER INCOME

RUB'000	2018	2017 restated
Other income	8,083	1,170,552
TOTAL	**8,083**	**1,170,552**

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

7. NET FINANCE INCOME/(EXPENSES)

RUB'000	2018	2017 restated
Foreign exchange gains	1,964,727	59,333
FINANCE INCOME	**1,964,727**	**59,333**
Foreign exchange losses	(377,773)	(634,073)
Bank charges	(362)	(532)
FINANCE EXPENSES	**(378,135)**	**(634,605)**
NET FINANCE INCOME/(EXPENSES)	**1,586,592**	**(575,272)**

8. SHARE-BASED PAYMENT ARRANGEMENTS

Share option programme (equity-settled)

On 1 July 2017, the Company granted share options to the certain members of top management of the Company and its subsidiaries as part of management long-term incentive plan. Each option entitles the holder to a predetermined number of Company's GDRs 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 commences from 1 July 2017 and will last up to 31 December 2021.

The Company recognised share option reserve in the amount of RUB'000 221,882 arising from share-based payment arrangements for the year ended 31 December 2017 with the corresponding increase in Investments in subsidiaries 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 Company's subsidiaries.

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 Company 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 Company 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 of the Company and its subsidiaries. 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, amounted to RUB 71 million.

In June 2018, the Company 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 Company, unless such sell, transfer or disposal have been approved by the Company.

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 following inputs to the model:

- Dividend yield – 4.76%;
- Risk-free rate – 2.95% (yield to maturity of US Treasury bonds with a 10-year maturity);
- Volatility – 50.79%;
- Actual and strike price – 2.78 USD;
- Validity period of the sales restriction - 7 years.

Expected volatility was determined based on historical 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.

9. INCOME TAX EXPENSE

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

RUB'000	2018	2017 restated
Profit before tax	4,442,362	7,279,217
Tax calculated at the applicable tax rate of 12.5% (2017: tax rate of 12.5%)	555,295	909,902
Tax effect of expenses not deductible and income not taxable for income tax purposes, net	(508,581)	(672,951)
Notional Interest Deduction (NID)	(37,371)	(222,975)
Application of group relief	(9,343)	(13,976)
TAX FOR THE PERIOD	**–**	**–**

10. INVESTMENTS IN SUBSIDIARIES

RUB'000	2018	2017 restated
At beginning of year 01 January	55,734,380	52,214,879
Change in fair value of investments in subsidiaries	2,822,961	3,273,019
Set-off investments due to shares bay-back	(280,899)	-
Share-based payments arrangements with top-management of subsidiaries (Note 8)	845,591	221,882
Acquisition of shares and additional contribution to share capital (Note 17(v))	-	24,600
AT END OF YEAR 31 DECEMBER	**59,122,033**	**55,734,380**

The Company's main subsidiaries, which are unlisted, are as follows:

Name	Principal Activity	Country of incorporation	31 December 2018	31 December 2017	1 January 2017
Etalon Group Limited	Holding of investments	Cyprus	99.99%	99.99%	99.99%
Elzinga Holdings Limited	Holding of investments	Cyprus	100%	100%	100%
Fagestrom Limited	Provision of financing services	Cyprus	100%	100%	100%
JSC GK Etalon	Holding of investments	Russia	1%	1%	-

The investments are measured at fair value through profit or loss.

As at 31 December 2018 and 31 December 2017 the Company holds 1% in JSC GK Etalon, but the Company is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power over other subsidiaries owning remaining 99% in the subsidiary.

During 2018, the Company changed its accounting policy for investments in subsidiaries from cost to fair value through profit or loss.

Fair value of investments in subsidiaries as at 31 December 2018, 31 December 2017 and 1 January 2017 was assessed by an independent appraiser. The fair value hierarchy of investments in subsidiaries belongs to Level 3 as a fair value measurement uses unobservable inputs that require significant adjustment.

To determine fair value of investments in subsidiaries the independent appraiser projected cash flows from development projects and objects completly constructed owned by the respective subsidiaries. These cash flows were adjusted by the other assets controlled by those subsidiaries, and minority interest, where applicable, and discounted at applicable risk adjusted rate.

The key assumptions used in the estimation of the fair value of subsidiaries are set out below.

	31 December 2018	31 December 2017	1 January 2017
CAPM	17.93%	18.02%	17.66%

The values assigned to the key assumptions represented management's assessment of future trends in residential development and were based on historical data from both external and internal sources.

The cash flows projections included specific estimates for 8 years.

As a result of this assessment, the Company recognized an increase in fair value of investments in subsidiaries in the amount of RUB'000 2,822,961 for the year ended 31 December 2018 (31 December 2017: increase of RUB'000 3,273,019).

Sensitivity analysis

The following tables demonstrate changes in key inputs and sensitivity of fair value measurement:

	31 December 2018		
	Change of parameter	Impact on fair value	In monetary terms, RUB'000
Growth of discount rate	1%	(2.23%)	(1,318,433)
Growth of cost of construction projects	5%	(2.49%)	(1,472,975)
Reducing of revenue from construction projects	(5%)	(4.80%)	(2,837,901)
Growth of expenses on non-developer types of activities	5%	(11.94%)	(7,250,765)

	31 December 2017		
	Change of parameter	Impact on fair value	In monetary terms, RUB'000
Growth of discount rate	1%	(2.87%)	(1,590,949)
Growth of cost of construction projects	5%	(8.13%)	(4,509,138)
Reducing of revenue from construction projects	(5%)	(12.79%)	(7,090,760)
Growth of expenses on non-developer types of activities	5%	(10.60%)	(5,879,230)

	1 January 2017		
	Change of parameter	Impact on fair value	In monetary terms, RUB'000
Growth of discount rate	1%	(2.58%)	(1,340,210)
Growth of cost of construction projects	5%	(7.66%)	(3,974,777)
Reducing of revenue from construction projects	(5%)	(12.26%)	(6,362,337)
Growth of expenses on non-developer types of activities	5%	(10.94%)	(5,677,974)

11. LOANS RECEIVABLE

RUB'000	31 December 2018	31 December 2017	1 January 2017
NON-CURRENT			
Loans to related parties (Note 17(iii))	8,713,630	9,665,237	12,344,255
TOTAL NON-CURRENT LOANS RECEIVABLE	**8,713,630**	**9,665,237**	**12,344,255**
CURRENT			
Loans to related parties (Note 17(iii))	2,149,549	499,808	–
TOTAL CURRENT LOANS RECEIVABLE	**2,149,549**	**499,808**	**–**
TOTAL LOANS RECEIVABLE	**10,863,179**	**10,165,045**	**12,344,255**

Due to significant devaluation of the RUB against the US$ subsequent to the issuance of US$-denominated loans, the Company concluded that there is an objective evidence that an impairment loss on loans has been incurred.

The company assessed individual impairment based on discounted cash flows attributed for part of its loans through their recoverable amount.

The recoverable amount of loans was determined based on the present value of the expected cash flows to be received from the loans, discounted at the original effective interest rate of 3,5%, and a provision in the amount of RUB'000 4,186,004 was recognised as at 31 December 2018 (31 December 2017: RUB'000 3,356,921; 1 January 2017: 3,220,329).

And for others loans the Company within the application of IFRS 9 calculates ECL based on of the credit risk rating assigned to respective debtors and the remaining terms to maturity. The Company determines the inputs for calculation of ECL such as probability of default and loss given default using both internal and external statistical data.

12. OTHER RECEIVABLES AND PREPAYMENTS

RUB'000	31 December 2018	31 December 2017	1 January 2017
Receivable from related parties (Note 17(iv))	547,614	363,547	150,557
Prepayments	153	128	115
	547,767	**363,675**	**150,672**

The fair values of other receivables and prepayments approximate their carrying amounts.

For its receivables the Company within the application of IFRS 9 calculates ECL based on of the credit risk rating assigned to respective debtors and the remaining maturity of the financial instruments. The Company determines the inputs for calculation of ECL such as probability of default and loss given default using both internal and external statistical data.

13. CASH AND CASH EQUIVALENTS

RUB'000	31 December 2018	31 December 2017	1 January 2017
Cash at bank	101.196	2,979,330	176,611

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Number of redeemable preference shares	Share capital RUB'000	Reserve for own shares RUB'000	Share premium RUB'000	Total RUB'000
At 1 January 2017	**294,957,971**	**–**	**725**	**–**	**15,486,109**	**15,486,834,**
Acquisition of own shares	(5,488,378)	–	–	(1,188,952)	–	(1,188,952)
REDEEMABLE PREFERENCE SHARES	**–**	**20,000**	**1,541**	**–**	**–**	**1,541**
At 31 December 2017 / At 1 January 2018	**289,469,593**	**20,000**	**2,266**	**(1,188,952)**	**15,486,109**	**14,299,423**
Share- based payment arrangements (Note 8)	8,212,432	–	–	1,668,211	–	1,668,211
Acquisition of own shares	(2,728,000)	–	–	(479,953)	–	(479,953)
At 31 December 2018	**294,954,025**	**20,000**	**2,266**	**(694)**	**15,486,109**	**15,487,681**

At 1 January 2017, 31 December 2017 and at 31 December 2018, the authorized share capital of the Company was GBP 14,748 divided into 294,957,971 ordinary shares having a par value of GBP £0,00005 each. All issued ordinary shares are fully paid. The holders of ordinary shares are entitled to receive dividends and to one vote per share at meetings of the Company.

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

During the year ended 31 December 2018, the Company signed an agreement for the set-off of loan given to subsidiary Etalon Development Limited. Under the agreement, Etalon Development Limited transfers 2,728,000 global depository receipts for the ordinary shares of the Company to the Company as a mean of repayment of loan due to the Company and accrued interest in the total amount RUB'000 199,056 and capital contribution to the subsidiary in the amount of RUB'000 280,899.

(i) 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.

As of 31 December 2017, the total number of own shares acquired by the Company amounted to 5,488,378 shares or 1,9% of issued share capital and the total consideration amounted to RUB'000 1,188,952.

During the year ended 31 December 2018, the Company transferred 8,212,432 shares to certain members of key management personnel of its subsidiaries as part of their remuneration.

As of 31 December 2018, the total number of own shares acquired by the Company amounted to 3,946 shares or 0.001% of issued share capital.

The grant-date fair value of equity-settled share-based payment arrangements granted to employees of Company's subsidiaries is generally recognized in share option reserve, with a corresponding increase in investments in respective subsidiaries, 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.

(ii) 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.

(iii) 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 Company's subsidiaries' key management personnel , as part of their remuneration. In June 2018, the Company replaced the share option programme dated 1 July 2017 by another share based payment with grant date of 8 June 2018.

(iv) Dividends

As at 31 December 2018, the retained earnings were RUB'000 37,816,736 (31 December 2017: RUB'000 37,448,893; 1 January 2017: 32,736,583). During the year ended 31 December 2018, the Board of Directors approved dividends in the amount of RUB' 000 3,260,357 (31 December 2017: RUB'000 2,566,907).

(v) Capital contribution

Capital contribution represents the excess of deemed cost of shares in subsidiary Etalon Group Limited transferred to the Company by its shareholder in 2008 over book value of these shares at the date of transaction. Deemed cost was determined at the date of transfer by reference to the terms of transaction with unrelated party for acquisition of a minority stake in the Company which took place close to the date of issuance of shares by the Company.

15. OTHER PAYABLES AND ACCRUALS

RUB'000	31 December 2018	31 December 2017	1 January 2017
Remuneration payable to Board of Directors	134,694	99,001	-
Accrued audit fees	21,600	8,206	950
Other payables and accruals	2,600	561,111	-
Accrued accounting and administration expenses	978	820	-
Payables to related parties (Note 17(v))	-	18,896	77,825
	159,872	**688,034**	**78,775**

The fair value of other payables and accruals which are due within one year approximates their carrying amount at the reporting date.

16. BORROWINGS

RUB'000	31 December 2018	31 December 2017	1 January 2017
CURRENT			
Borrowings to related parties (Note 17(vi))	585,688	-	-
Bank overdrafts	-	-	27
TOTAL CURRENT BORROWINGS	**585,688**	**-**	**27**

On 14 August 2018, the Company signed a loan agreement with its related party for a total amount of US$10,000,000. The loan bears interest of 4% per annum and is repayable by 31 August 2019.

17. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(i) Directors' remuneration

RUB'000	2018	2017
Directors' remuneration (Note 5)	212,781	181,173
Payroll and social tax (Note 5)	26,113	16,995
	238,894	**198,168**

As at 31 December 2018, outstanding balances of remuneration payable to the Board of Directors was RUB'000 134,694 (Note 15) (31 December 2017: RUB'000 99,001; 1 January 2017: nil).

(ii) Year-end balances

RUB'000	31 December 2018	31 December 2017	1 January 2017
Payables to related parties (Note 15)	–	(18,896)	(77,825)
Receivables from related parties (Note 12)	547,614	363,547	150,557
Borrowings from related party (Note 16)	(585,688)	–	–
Loans due from related parties (Note 11)	10,863,179	10,165,045	12,344,255

(iii) Loans due from related parties

RUB'000	2018	2017
LOANS DUE FROM RELATED PARTIES:		
On 1 January	10,165,045	12,344,255
Adjustment from adoption of IFRS 9, net of tax	(210,552)	-
Adjusted balance at 1 January	9,954,493	-
Loans issued during the year	409,098	300,000
Loans repaid during the year	(1,125,456)	(1,793,999)
Set off of settlement agreement	(199,056)	(59,302)
Interest charged	455,115,	475,240,
Interest repaid during the year	(102,462)	(406,786)
Impairment for loans receivable from related parties	(21,093)	(136,592)
Foreign exchange gains/(losses)	**1,492,540**	**(557,771)**
ON 31 DECEMBER	**10,863,179**	**10,165,045**

During 2017, the Company issued a loan to its related party in the amount RUB 300 million. The loan was nominated in Russian rubles, bore interest of 6.2% p.a. and was repaid in 2018.

During 2018, the Company issued a loan to its related party in the amount RUB 409 million. The loan is nominated in US Dollars, bears interest of 3.5% per annum.

As at 31 January 2018 the loans amounted to RUB'000 10,863,179 (31 December 2017: RUB'000 10,165,045; 1 January 2017: RUB'000 12,344,255) were nominated in US Dollars and Russian rubles, bear interest 3.5-6 % per annum and were initially repayable on 31 December 2016, 31 December 2017 and 30 September 2018. During 2016 and 2017 years, part of the loans were prolonged to 31 December 2019.

The loans amounted to 8,713,630 were classified as non-current as at 31 December 2018, based on management's intention to collect them in 2020-2023, when development projects, for which these loans were issued, to be completed.

(iv) Receivables from related parties

RUB'000	2018	2017
Receivables from related parties:		
On 1 January	363,547	150,557
Adjustment from adoption of IFRS 9, net of tax	(2,872)	-
Adjusted balance at 1 January	360,675	-
Transfers of funds under reimbursement agreements	149,138	231,852
Set-off agreements loans and payable	-	(5,573)
Payment of expenses by subsidiary on behalf of the Company	-	(18,055)
Set-off agreements payables and receivables	(11,496)	
Write-off of receivables due from related parties	(21,257)	(478)
Reversal of impairment for receivables from related parties	534	-
Foreign exchange gains	70,020	5,244
ON 31 DECEMBER (NOTE 12)	**547,614**	**363,547**

(v) Payables to related parties

RUB'000	2018	2017
Payables to related parties:		
On 1 January	18,896	77,825
Other changes	(1,104)	(64,875)
Set-off agreements payables and recevables	(11,496)	-
Repayments under reimbursement agreements	-	(11,962)
Acquisition of shares and additional contribution to share capital of subsidiaries	-	24,600
Contribution paid to share capital of subsidiary	-	(12,000)
Interest accrued	-	2,167
Write-off payables with subsidiary company	(8,083)	-
Foreign exchange losses	1,787	3,141
ON 31 DECEMBER (NOTE 15)	**-**	**18,896**

(vi) Borrowings from related parties

RUB'000	2018	2017
On 1 January	-	-
Borrowings received during year	555,616	-
Interest accrued	8,359	-
Foreign exchange losses	21,713	-
ON 31 DECEMBER (NOTE 16)	**585,688**	**-**

18. EVENTS AFTER THE REPORTING PERIOD

Acquisition of major shareholder share by Sistema PJSFC

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

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

On 19 February 2019, the Company's subsidiary JSC «GK Etalon» acquired 51% of the share capital and voting rights of Leader-Invest JSC from Sistema PJSFC and its affiliates for the cash consideration of RUB 15,185 million.

Leader-Invest is a Moscow-based residential developer focusing on projects in comfort, business and premium-class segments. Leader-Invest's portfolio includes 31 projects under construction or at the design stage, unsold inventory at eight completed residential complexes, and commercial real estate, with a total NSA of 1.3 million sqm.

The primary reason for the acquisition is to increase Etalon Group's share of the Moscow residential real estate market and to replenish land bank.

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

JSC «GK Etalon» has agreed with the seller certain indemnities that give to JSC «GK Etalon» the right to demand from the seller monetary compensation for breach of certain operating performance targets by Leader-Invest.

There were no other material events after the reporting period, which have a bearing on the understanding of the financial statements of the Company for the year ended 31 December 2018.

Independent auditors' report on pages 214-219.