Etalon Group

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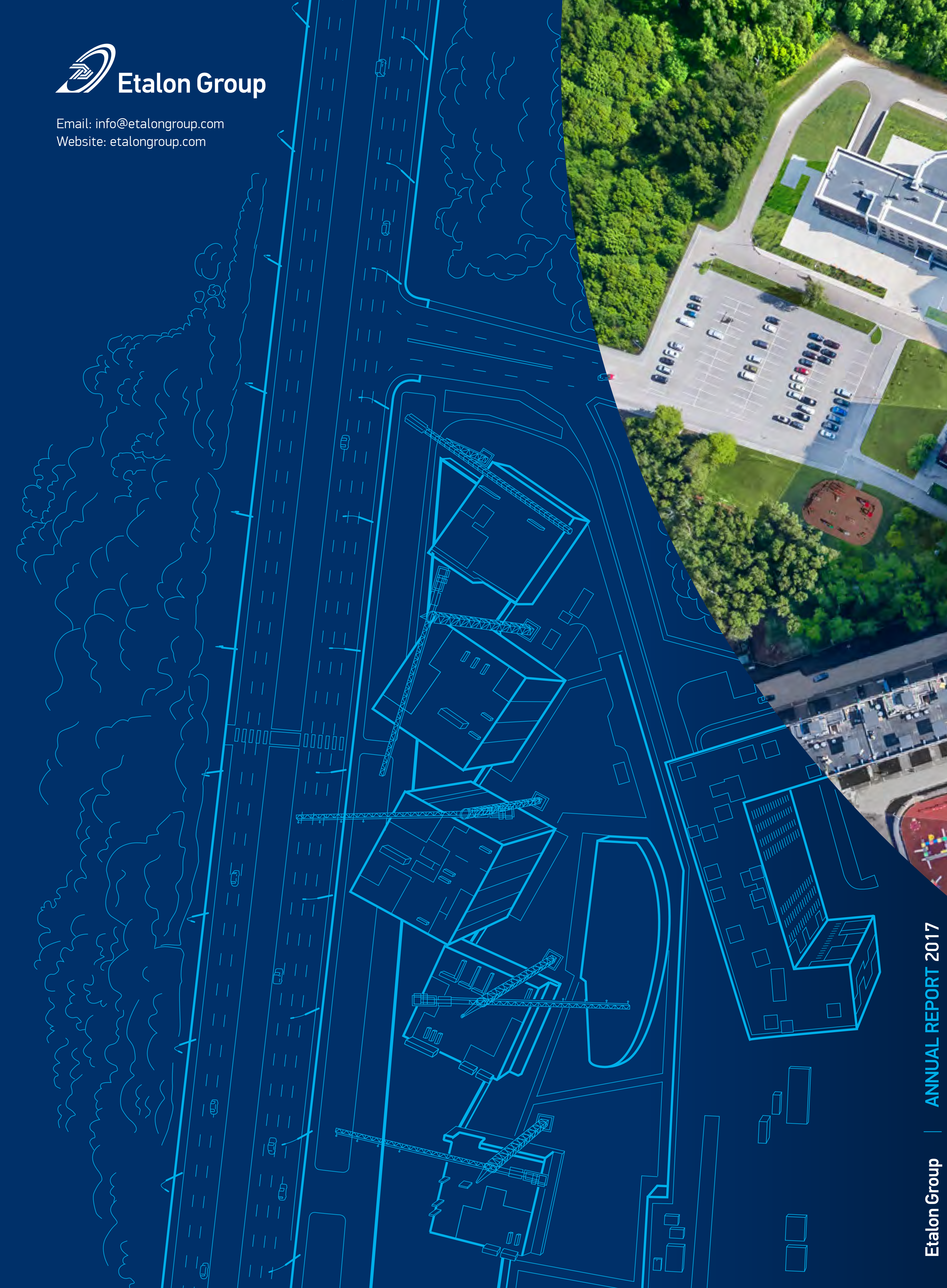


Etalon Group | ANNUAL REPORT 2017

Etalon Group

SHAPING UP TO NEW HEIGHTS

2017 ANNUAL REPORT

CONTENTS

2017 HIGHLIGHTS AND 2018 OUTLOOK

OPERATING HIGHLIGHTS

- The Company enjoyed record-high sales in FY 2017
- By the end of 2017, down payments had reached 82%
- The number of mortgage contracts increased by 64% in FY 2017
- Diversification: acquired three new business-class projects as part of the Company's strategy to increase the share of higher-end projects in its portfolio and launched sales in all three projects

CORPORATE HIGHLIGHTS

- The Board of Directors increased the target dividend payout range from 30%-50% to 40%-70% of consolidated net profit
- The Company paid an interim dividend for1H 2017 of USD 0.04 per share/GDR, representing 58% of consolidated net profit for 1H 2017

- Dmitry Kashinsky appointed as COO and First Vice President of the Company
- Etalon Group establishes Management Board
- The Company hires a new Head of Moscow Operations to support sustained growth in Moscow
- Management team is further strenghtened with new Head of Sales, HR Director and Head of Product Development

- Standard & Poor's confirms Etalon Group subsidiary LenSpetsSMU's long-term credit rating of B+
- LenSpetsSMU places RUB 5 billion five-year bond issue with an 8.95% annual coupon – the lowest rate among Russian development companies.

HSE HIGHLIGHTS

- Received Green Zoom platinum[1] certificate in recognition of leading environmental features of Silver Fountain in Moscow
- Zero fatalities at Etalon Group operations for the second year in a row
- Workplace safety features further integrated into construction and monitoring practices using BIM technologies
- Received ISO 14001:2015[2] Environmental Management System cerfitication

1 Green Zoom is a Russian national certification system that was developed on the basis of the LEED and BREEAM systems. The platinum certificate represents the highest rank in the Green Zoom system.
2 This certification specifies requirements for an environmental management system used to enhance the Company's environmental performance.

RUB 70.6 BLN

Record high revenue of RUB 70.6 bln in 2017

RUB 7.9 BLN

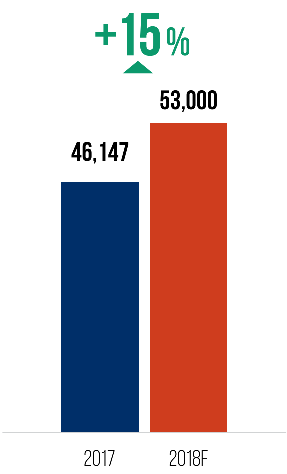
Net income increased by 61% year-on-year to RUB 7.9 bln

FINANCIAL AND OPERATING HIGHLIGHTS

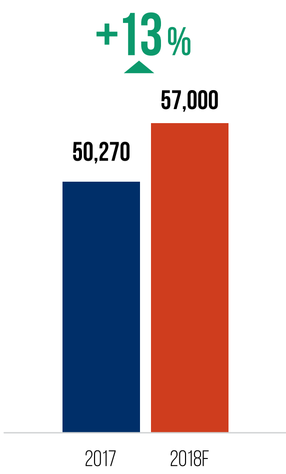
	2016	2017	% CHANGE
New contract sales (RUB mln)	47,443	**50,240**	6%
New contract sales (ths sqm)	496	**512**	3%
Average price (RUB ths/sqm)	96	**98**	3%
Cash collections (RUB mln)	39,723	**46,147**	16%
Number of new contracts	9,590	**9,916**	3%
Revenue (RUB mln)	49,022	**70,645**	44%
EBITDA (RUB mln)	7,301	**13,199**	81%
Net income (RUB mln)	4,902	**7,893**	61%

2018 OUTLOOK

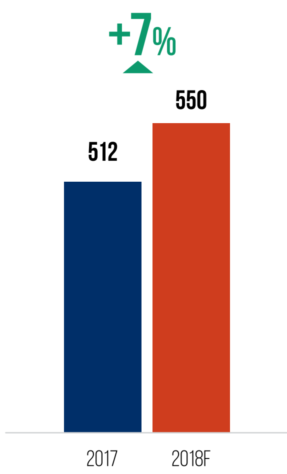
CASH COLLECTIONS
RUB MLN



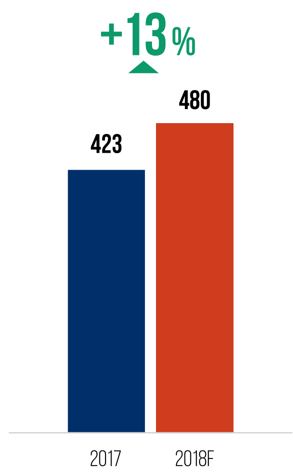
NEW CONTRACT SALES
RUB MLN



NEW CONTRACT SALES
THS SQM



DELIVERIES
THS SQM



CONSTRUCTION AND MAINTENANCE DIVISION HIGHLIGHTS:

1.5 MLN SQM
CURRENTLY UNDER CONSTRUCTION

CAN EXPAND CAPACITY UP TO
2.4 MLN SQM
WITHOUT AN INCREASE IN CAPITAL EXPENDITURE

4.3 MLN SQM
OF RESIDENTIAL AND COMMERCIAL AREA
AND 17,100 PARKING PLACES
UNDER MAINTENANCE AS OF 31 DECEMBER 2017

42 MLN BRICKS PER YEAR
BRICK PLANT PRODUCTION CAPACITY

CONCRETE PLANT PRODUCTION CAPACITY
OVER 180 THS CBM
OF READY-MIX CONCRETE AND
40 THS CBM
OF CONCRETE PRODUCTS PER YEAR

62 LIEBHERR AND WOLFF
TOWER CRANES

4 OFFICE BUILDINGS
WITH A TOTAL AREA OF 20 THS SQM

Our consolidated construction and maintenance entity will be made more competitive by offering a full range of services under one roof. Not only will it help us to compete more effectively for construction services contracts, it will also enable Etalon Group to conduct competitive tenders for the construction of its own projects, thereby ensuring that we get the best price on the market for our residential complexes.

In addition to its extensive experience in residential projects, our construction and maintenance unit is already a trusted partner for clients like General Motors, Toyota, Ford, Bosch, Siemens, Nissan, Suzuki and Gazprom. Our current industrial construction portfolio includes the Russian Railways Museum, the Federal Centre for Forensic Examinations, and the Restoration and Storage Centre of the State Hermitage Museum.

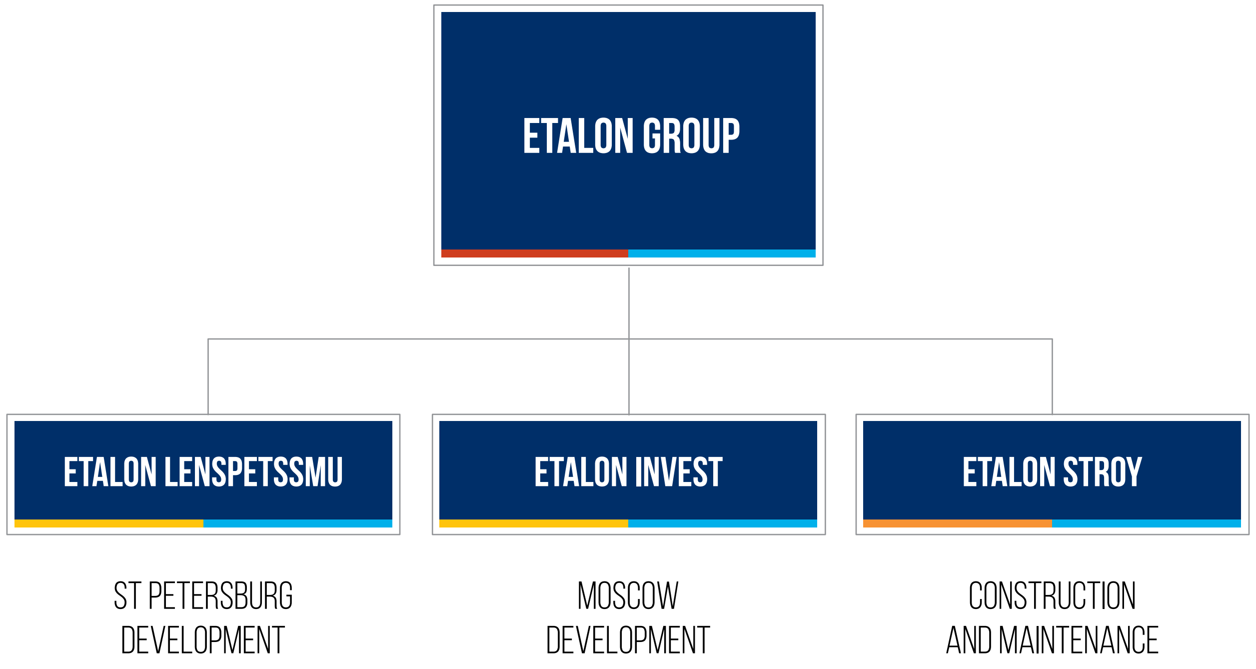
While we have updated our business model with a consolidated construction and maintenance unit, Etalon Group remains a vertically integrated business, with operations spanning from land acquisition and permitting to sales and marketing. This approach helps us to maintain control over costs, timing and quality.

OUR BUSINESS

Etalon Group is one of the largest and longest-established residential real estate development and construction companies in Russia, with a 30-year history and strong footholds in the Moscow and St Petersburg markets. Today, we employ around 5,000 people across our operations. Since its inception in 1987, the Company has commissioned 5.8 million square metres, building homes for more than 200,000 people.

We offer our customers high-quality housing at fair prices, and we are adapting our product offering to bring customers the best new living arrangements available in the market. We are investing in modern technologies like BIM systems and establishing new environmental standards for our projects in order to deliver the highest quality to our customers and adapt to evolving demand as global trends reach the Russian market. We are also improving planning solutions, offering fit-out apartments in well-thought-out public spaces in larger developments, and introducing updated and flexible floorplans that reflect modern market standards.

HOW WE OPERATE

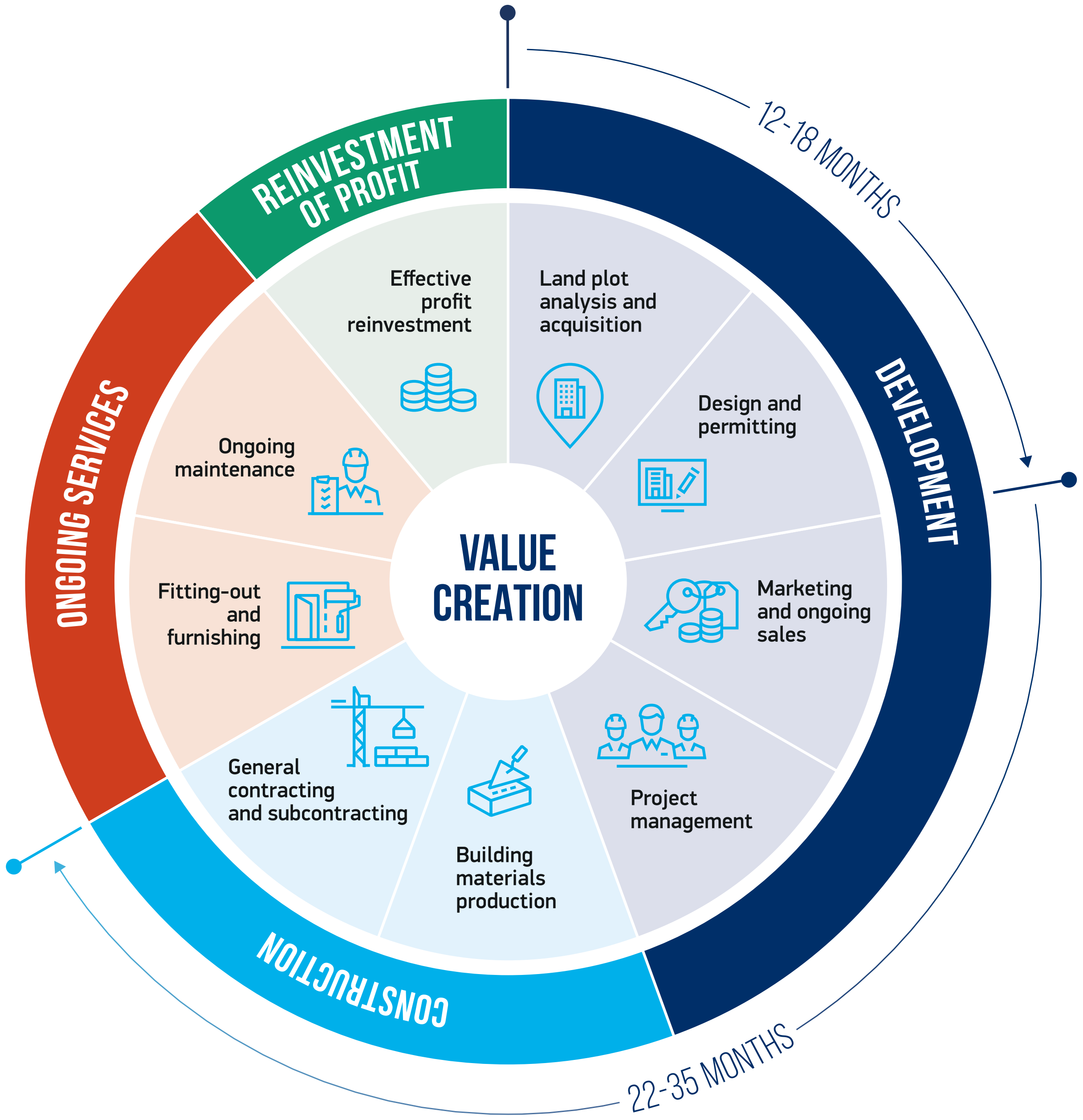


We maintain three main operating units that reflect the three key areas of our business: Etalon LenSpetsSMU and Etalon Invest are responsible for residential development work in St Petersburg and Moscow, respectively, while Etalon Stroy handles our construction and maintenance operations, including external 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 process, from land plot analysis and acquisition all the way through ongoing maintenance of completed projects. A project's life cycle is usually between three to four-and-a-half years, which can be divided into three key stages: development, construction and ongoing services. At every stage, we aim to maximise the return on investment, as well as create value for our customers to encourage loyalty to the Etalon brand.



LAND PLOT ANALYSIS AND ACQUISITION — DESIGN AND PERMITTING — MARKETING AND ONGOING SALES — PROJECT MANAGEMENT — BUILDING MATERIALS PRODUCTION — GENERAL CONTRACTING AND SUBCONTRACTING — FITTING-OUT AND FURNISHING — ONGOING MAINTENANCE — EFFECTIVE PROFIT REINVESTMENT

OUR COMPETENCIES

Land plot analysis and acquisition
Land acquisition forms the basis of every successful development project. Every year, we analyse hundreds of projects, choosing only those that have the potential to provide a strong foundation for the quality products we build for our customers, and that will ensure a high return on invested capital for the Company's shareholders.

A STRONG FOUNDATION FOR QUALITY PRODUCTS

Design and permitting
We have unique expertise in developing, harmonising and improving the efficiency of our projects, enabling us to be confident in demand for apartments at our residential complexes.

We cooperate with leading architects and have our own in-house design institute and science and technology centre for designing new projects.

We also run partner programmes with leading architects and Russian architectural universities, in order to support the continuous improvement of our projects.

Marketing and ongoing sales
We have a unique sales network, our brand is well recognised not only in our core markets of Moscow and St Petersburg, but also in the Russian regions where our partner programmes with leading corporations and banks allow us to promote our projects directly to our end buyers. We continually interact with our clients because, while we continue to improve this area, we consider it to be the key to business development, since it brings us not only income but also knowledge about our customers and their preferences. We invest in IT solutions, create a knowledge base about customers, expand our presence and create a unique ecosystem of interaction between the Company and real estate brokers through a single portal for sharing knowledge.

Project management
Our project management capabilities span from complex, large-scale developments of entire residential districts like Galactica in St Petersburg or Emerald Hills in the MMA, to industrial construction projects involving renovation or construction of factory and administrative buildings.

DIVERSE PROJECT MANAGEMENT CAPABILITIES

Building materials production
We have our own production facilities for bricks and other building materials, which enables us to control quality and ensure a continuous supply, while also being able to hold tenders between internal and external suppliers in order to reduce costs.

OWN PRODUCTION FACILITIES

General contracting and subcontracting
Construction is one of the key stages in creating value for a development project. Etalon Group has unique experience in the construction of residential projects, having already delivered 5.8 million sqm. Our expertise is not limited to housing, however. Over the years, we have implemented many high-tech projects, such as the largest exhibition centre in Russia, factories, and more. This has enabled us to gain unique experience that is applicable to our residential projects. Thanks to modern planning and monitoring technologies (including BIM), we can control costs and safety. With the goal of further increasing efficiency, we have also combined all our general contracting and subcontracting companies in order to eliminate duplicate functions in management structures and to reduce related costs. This has enabled us to hold competitive tenders between internal and external contractors for development projects, helping to further reduce costs.

Fitting-out and furnishing
By offering clients fit-out and furnished apartments, we are able to reach a wider potential audience of buyers. This option is especially attractive to buyers who do not have the time to oversee the fit-out and furnishing process themselves, or who are located in other cities.

CONVENIENCE FOR REGIONAL BUYERS

Ongoing maintenance
We manage a portfolio of real estate with an area of 4.3 million sqm and 17.1 ths parking spaces. We aim to ensure that our projects are attractive to residents and potential buyers over the long term, which is why we maintain our own maintenance operations to ensure that our projects maintain their value year after year.

4.3 MLN SQM OF REAL ESTATE UNDER MANAGEMENT

Effective profit reinvestment
We aim to reinvest the value that we create at every stage in the process in ways that benefit our clients and shareholders.

VALUE REINVESTMENT

VALUE FOR CUSTOMERS AND SOCIETY

Land plot analysis and acquisition
We take into account all aspects related to the location of our future projects, such as infrastructure, transport accessibility, leisure opportunities for future residents, as well as the possibility of implementing a truly modern project on the plot, once acquired.

IMPLEMENTING A TRULY MODERN PROJECT

Design and permitting
We were one of the pioneers in the creation of projects with integrated development of the surrounding territory. Therefore, when designing our projects, we always consider the need for roads, as well as social and other infrastructure that enhances comfort and quality of life. We create plans based on a deep analysis of consumer preferences, with the use of modern systems for design and visualisation of future projects (BIM, virtual reality, environmental standards and energy efficiency), in order to create a product that is in line with the latest market trends.

Marketing and ongoing sales
An effective sales system is essential to maintaining two-way communication with some of our key stakeholders: our customers. By giving consumers clear and comprehensive information about our projects, they are able to make informed choices about the purchase of new housing, and their feedback gives us an ever-clearer picture of how demand is evolving.

EFFECTIVE SALES SYSTEM

Project management
Our extensive project management experience helps to ensure the quality, safety, and timely delivery of projects that we undertake.

QUALITY, SAFETY, TIMELY DELIVERY OF PROJECTS

Building materials production
By reducing costs and ensuring the uninterrupted supply of key materials, we are able to provide customers with high-quality housing at competitive prices, and to avoid potential delays caused by material shortages in key bottleneck areas.

UNINTERRUPTED SUPPLY OF KEY MATERIALS

General contracting and subcontracting
Our construction and maintenance operations enable Etalon Group to guarantee the quality of each development project, while also increasing our competitiveness by giving us the ability to select an external contractor for construction when suitable. Our internal capabilities also mean that we are able to exercise full control over project safety, and to guarantee the fulfilment of the terms of construction.

FULL CONTROL OVER PROJECT SAFETY

Fitting-out and furnishing
While Russian consumers continue to prefer to buy shell and core apartments, we have introduced fit-out and furnishing options at certain developments in response to customer demand, helping them acquire housing that is ready to live in without significant additional work required.

Ongoing maintenance
Our detailed knowledge of each project, including BIM models of all recently launched developments, means that we are best-positioned to provide the highest-quality and most efficient ongoing maintenance of the homes our customers live in.

Effective profit reinvestment
By establishing a stable and sustainable company with decades of experience, we are able to invest in adapting and improving our products in line with consumer demand, and to reliably deliver high-quality housing to our customers.

IMPROVING OUR PRODUCT IN LINE WITH CONSUMER DEMAND

VALUE FOR SHAREHOLDERS

Land plot analysis and acquisition
Thanks to our experience and position as a market leader, we are always among the first to receive information about new investment opportunities. This allows us to choose projects (greenfield and brownfield) that are at an advanced stage of readiness, with an IRR higher than 15%, that have attractive acquisition schemes, such as payment in instalments or with shares for landowners. All these factors allow us to create the optimum conditions for a high return on capital right from the start of a project's life cycle.

Design and permitting
The Company's reputation as an industry leader enables us to reduce the time between the acquisition of land for a project and the beginning of construction, as the Company's project documentation is often quickly approved. Through the use of advanced design systems, we are able to cut costs due to less-material-intensive projects and create unique planning solutions to suit the needs of our customers.

Marketing and ongoing sales
Our robust marketing and sales operations give us the ability to maintain and steadily increase our market shares despite fluctuations in the macro environment, and also to be in a good position to maintain active growth in the event of legislative amendments.

STEADILY INCREASE OUR MARKET SHARES

Project management
Effective and efficient systems help us to maintain stable returns on investments from project to project, and to accurately predict the resources that will be required for a given development.

STABLE RETURNS ON INVESTMENTS

Building materials production
Shareholders benefit from our vertical integration into key construction materials through the cost savings we are able to achieve, as well as the stable income provided by on-schedule delivery of the projects that are under construction.

General contracting and subcontracting
By reducing costs and increasing return on invested capital, we are creating value for our shareholders. Under our updated business model, we have greater flexibility to reduce construction volumes in the event of a recession, or to quickly expand volumes in response to economic growth, without incurring financial losses or a significant increase in debt.

Fitting-out and furnishing
By diversifying our product offering within projects, we are able to appeal to a wider audience of potential buyers, thus increasing demand and providing stable, attractive returns on our operations.

DIVERSIFIED PRODUCT

WIDER AUDIENCE OF BUYERS

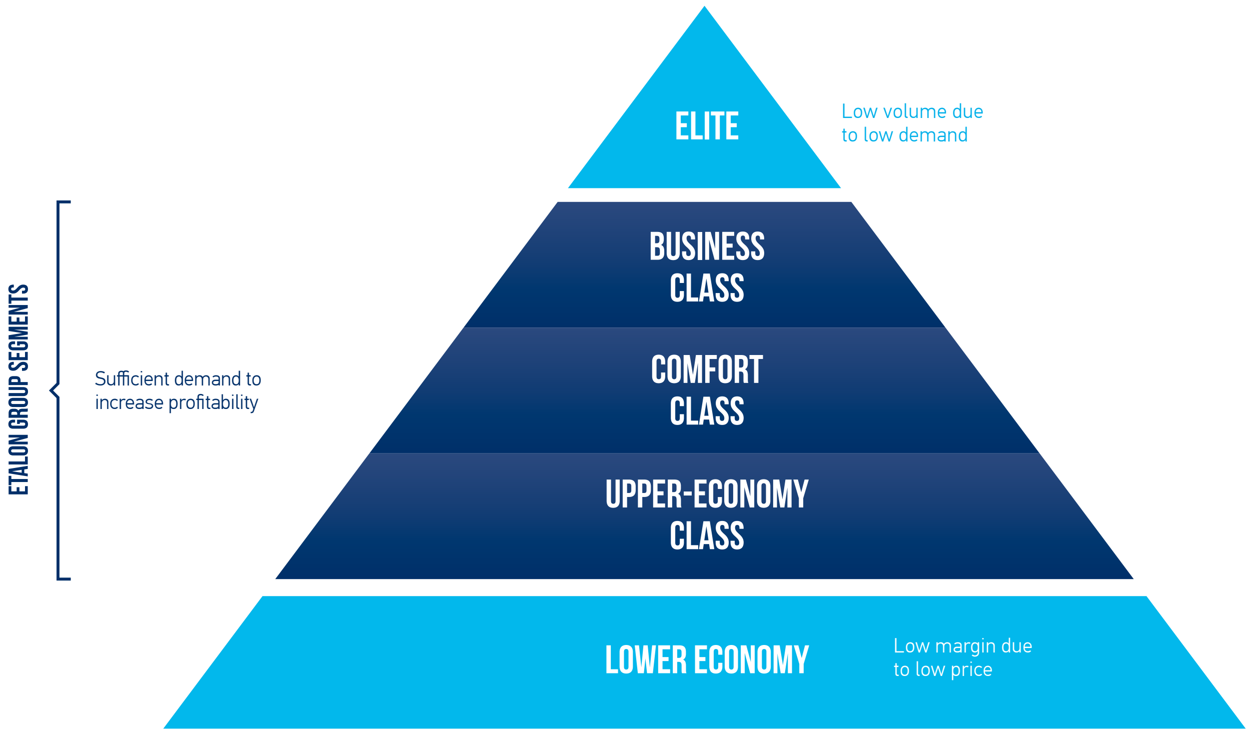
Ongoing maintenance
Efficient ongoing service of our developments provides Etalon Group with an additional source of revenue, while also ensuring the good reputation of its projects over the long term, helping to support demand.

GOOD PROJECTS REPUTATION

Effective profit reinvestment
Income generated from each stage of the business is invested into further growth, and is also returned 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. 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. Declining mortgage rates (see the "Business environment and trends" section) will be a key driver of demand in our target segments, and we expect significant growth in the coming years. In anticipation of these changes, we are improving our product in order to provide our customers with 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 **30-YEAR HISTORY AND A LEADING POSITION 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 THE REST:

REPUTATION

In our more than 30 years of building homes for residents of 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 HAVE ALSO FOCUSED ON THE UPPER-ECONOMY, COMFORT, AND BUSINESS-CLASS SEGMENTS OF OUR MARKET**, 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 economic expansion.

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 2017, for example, Etalon Group established a Management Board, and **WE MAINTAINED A CONSTANT FOCUS ON TRANSPARENCY AND DISCLOSURE FOR OUR INVESTORS**. In order to align the interests of shareholders and management, we introduced a new management incentive programme, which links management remuneration to GDR performance, net profit and the level of dividends.

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.

LANDBANK

WE 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 "mega-projects" in our portfolio.

OUTSTANDING OPERATING PERFORMANCE

NEW CONTRACT SALES HAVE GROWN WITH AN IMPRESSIVE CAGR OF 18% SINCE OUR IPO IN 2011, which 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, with a **NET DEBT/EBITDA RATIO OF 0.74X AS OF 31 DECEMBER 2017**; this is one of the lowest levels among public real estate development companies anywhere in the world.

GENEROUS DIVIDENDS

Etalon Group has one of the highest dividend payout ratios among Russian and international public development companies: in 2017, the Board of Directors increased **THE PAYOUT RANGE TO 40% TO 70%** of consolidated IFRS net profit.

STATEMENT BY THE PRESIDENT OF ETALON GROUP

Dear Stakeholders,

Etalon Group delivered another year of record sales in 2017, with new contract sales exceeding 500 thousand square meters and 50 billion roubles. This impressive performance was driven by macro stabilisation, increasing accessibility of mortgages, and of course Etalon Group's successful efforts to improve our sales approach and to reinforce our team with a number of experienced professionals. One of the achievements of our management team was the significant growth in cash collections from the contracts signed during the year, which enabled us to maintain positive operating cash flow for the second year in a row.

We continued to diversifying our project portfolio by acquiring four new promising projects in Moscow and St Petersburg, including three higher-end business class projects located in attractive central districts of Russia's "two capitals". This, combined with successful progress at existing projects, contributed to an increase in the total value of the Company's assets to RUB 135 billion, which amounts to USD 8 per GDR at the Central Bank of Russia exchange rate as of 31 December 2017, according to Knight Frank's independent evaluation.

Etalon Group's revenue increased by 44% year-on-year to a record RUB 70 billion in 2017, while gross profit and EBITDA grew by 47% and 81%, respectively. Implementation of the new revenue recognition standard under IFRS, under which Etalon Group recognises income proportionally to the level of completion of a project, has made our financial reporting better reflect current operating performance. Net profit amounted to RUB 7.9 billion in 2017, an increase of 61% year-on-year. Solid profit performance backed by stable positive operating cash flows have created good conditions for generous dividend payments.

In May 2017 we once again increased Etalon Group's dividend payout range to 40%-70% of IFRS net profit, based on our strong confidence in the Company's long-term strategy, and our expectation that we are on a trajectory for sustainable growth. I would underscore that Etalon Group is currently the only public developer in Russia that has a transparent and open dividend policy that has been communicated to the market and requires the company to pay dividends in a set range on a semi-annual basis, as well as positive cash flows to support high dividend payouts and a strong financial position with low debt levels. I believe that the approach we have chosen will create opportunities for higher returns for investors in Etalon Group shares.

Looking back at what has helped us get to where we are today, I can say that Etalon Group has shown impressive staying power through numerous external crises and an ability to continue to develop even during economic turbulence. During our more than 30 successful years on the real estate and construction services market, we developed a reputation for being a reliable partner, and we have never once missed a deadline for delivery of a project.

While actively growing the size of the business, we have always upheld our conservative financial policy, helping us to successfully manoeuvre through difficult times and capitalise on growth opportunities as they arise. Our 2017 results confirm that Etalon has emerged from the latest crisis in excellent shape, and is ready to grow, while adapting to the changing market landscape.

With over 30 years of experience running a real estate development company in Russia, I can say with full confidence that the Russian residential real estate market is on the verge of a historical change. This change will be driven by a combination of factors, ranging from the economic recovery and falling mortgage rates, to regulatory changes and government support for housing buyers. The combination of these factors will drive up demand, while also leading to further industry consolidation that will see the top players increase market shares and cement their positions for years to come.

The new law on share purchase agreements will fundamentally change the way real estate development in Russia is financed. The stricter requirements for experience and financial stability for developers will lower risks for customers. While this creates barriers for smaller and for those that are not sufficiently capitalised or do not have access to the necessary financing. Etalon meets all of the new requirements that have been announced and we expect to benefit from an acceleration in market consolidation. In addition, we believe that these regulatory changes will enable stronger players like Etalon to obtain land plots for less and to engage in interesting M&A as smaller players that do not meet the strict new standards will no longer be able to independently develop projects.

In addition to the changing regulatory environment, our customers' preferences are evolving too. We are seeing increased demand for more comfort not only in the apartments that we sell, but for a comfortable living environment as well. Monitoring trends in customer demand has always been a priority for Etalon Group. Thanks to customer feedback through our extensive sales network, and from market research, we are well-prepared to adapt to evolving customer expectations. Our partnerships with leading architects, as well as our own in-house design institute, enable us to quickly update and adapt our product and ensure that Etalon Group's product remains among the best in the market.

In addition to responding to external changes, we as a Company seek to constantly improve and adapt to global trends. We use modern technology and innovative IT systems to improve efficiency, implement new environmental standards and apply comprehensive safety standards across all construction sites, in line with the leading edge practices in this area.

Etalon Group's leadership has undergone a number of important changes in 2017. We appointed Dmitry Kashinsky as COO and Chairman of the newly-created Management Board. The Management Board consists of key managers in Etalon Group – leaders whose significant experience enables them to take balanced and well-considered decisions that take into account all aspects of the business. The management team headed by Dmitry Kashinsky has already delivered great results and I want to thank them for their efficient and professional work. Ivan Bogatov, who was appointed as head of Moscow operations, will ensure further expansion of our presence on the strategically important Moscow market. The sales and marketing teams also saw staffing changes. We have done a great deal to prepare Etalon to thrive in evolving market conditions.

I believe that Etalon Group is developing in line with the transforming market and consumer expectations. This means we are in an excellent position to deliver sustainable and profitable growth over the years ahead. We will remain focused on expanding and diversifying our portfolio, while implementing innovative systems and efficiency measures to help improve return on capital and returns on investments in shares for shareholders.

The past year was a successful stage of development for our business. I want to thank our management team and employees. We could only achieve these impressive results thanks to your cohesive and efficient work. I would also like to say thank you to all our public investors and shareholders for their continued interest in Etalon, and we hope you will stay with us as we build up to new horizons!

VIACHESLAV ZARENKOV
President of Etalon Group

02

BUSINESS ENVIRONMENT AND TRENDS

BUSINESS ENVIRONMENT AND TRENDS

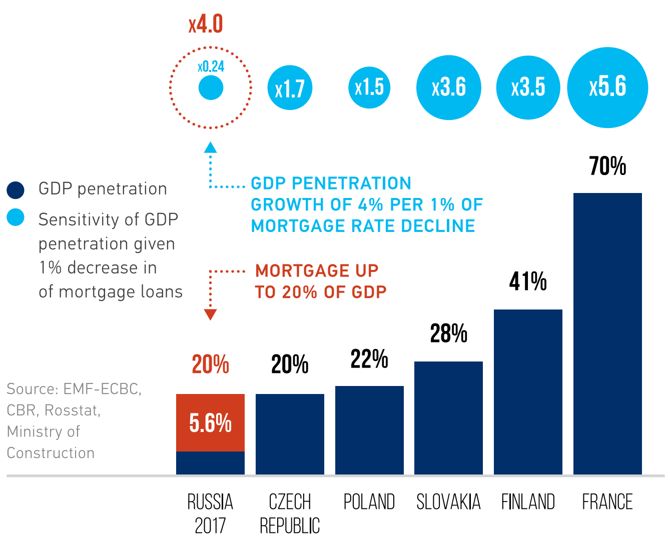
MORTGAGES BECAME SIGNIFICANTLY MORE ACCESSIBLE IN 2017, YET THE FUTURE HOLDS EVEN GREATER POTENTIAL FOR GROWTH

GROWING AVAILABILITY OF MORTGAGES

HIGH BORROWING RATES HINDERED MORTGAGE MARKET IN THE PAST

Due to historically high interest rates, Russia's mortgage market remains significantly underdeveloped compared to EU economies. In 2017, this situation began to change, as rates started to decline in line with the Russian Central Bank's ongoing key rate reductions.

RUSSIAN MORTGAGE MARKET TO SIGNIFICANTLY EXPAND BY 2025



Source: EMF-ECBC, CBR, Rosstat, Ministry of Construction

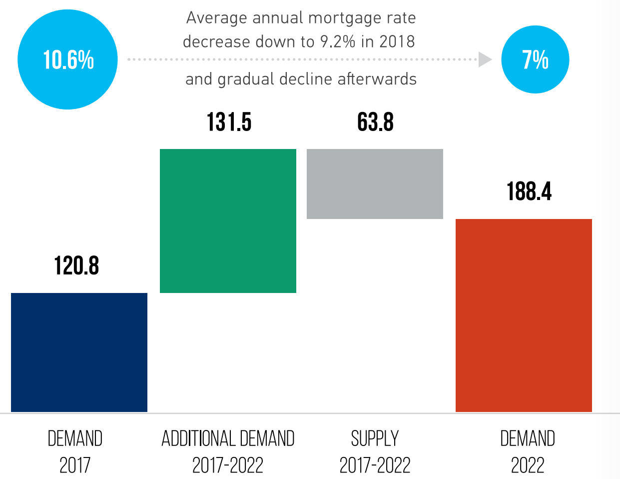
Although 2017 was a record year for Russia's mortgage market in both quantity and monetary terms, the mortgage-to-GDP ratio rose by only 0.4 percentage points and remained below 6%.

This implies a modest 0.24 percentage point change in mortgage as a share of GDP as a result of a 1 percentage point decline in the average mortgage rate, meaning that the Russian mortgage market has significant potential for rapid growth as its share in the overall economy increases in the coming years.

The housing development strategy of the Ministry of Construction of the Russian Federation has targeted growth in the ratio of mortgage debt to GDP of 15–20% by 2025. This implies an average growth of GDP penetration of 1.8% per year or a 4 percentage point change, given a 1 percentage point decrease in rates.

According to our forecast, due to the growing availability of mortgages, the demand for new housing for 2017–2022 will increase by 131.5 million square metres, with a planned supply of 63.8 million square metres for the same period.

DEMAND WILL OUTPACE SUPPLY



Souce: Demand: Etalon Group (MACON Realty Group), Supply: Knight Frank, IRN

THE RATIO OF MORTGAGE DEBT TO GDP IS EXPECTED TO REACH 15-20% BY 2025

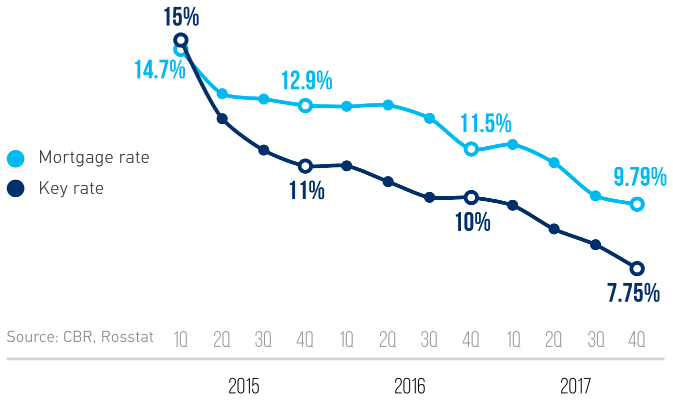
CONTINUED DECLINES IN MORTGAGE RATES WILL BE A KEY DRIVER FOR FUTURE GROWTH

MORTGAGE RATES FELL TO RECORD LOWS

Mortgage rates declined throughout 2017, in line with decreases in the key rate. Unlike in 2015 and 2016, however, when the state subsidised banks to reduce mortgage rates, the decline in 2017 was organic due to a general reduction in rates in the economy and declining actual and expected inflation.

As a result, mortgage rates fell by 2 percentage points by the end of the year to a record low of 9.79% in December 2017.

MORTGAGE RATES ARE EXPECTED TO FOLLOW THE KEY RATE AS IT DECLINES FURTHER



Source: CBR, Rosstat

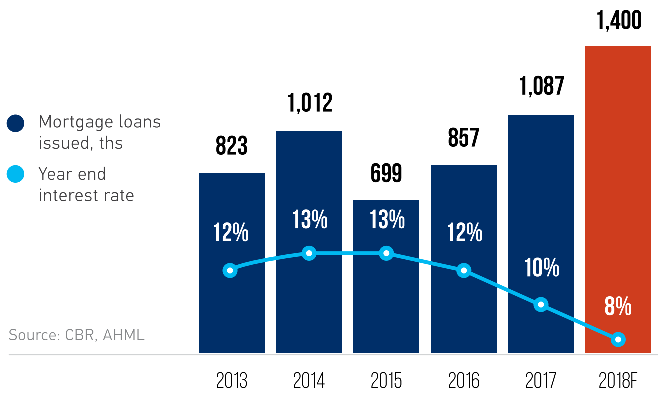
RATES DOWN BY 2 P.P. WHILE MORTGAGE ISSUANCE UP BY 37%. THE AVERAGE MORTGAGE RATES ARE EXPECTED TO FALL, IN LINE WITH THE CBR KEY RATE

MORTGAGE CONTRACTS REACHED NEW HIGH IN 2017 AND EXPECTED TO INCREASE FURTHER IN 2018

During the year, a record 1.09 million mortgage loans were issued (+27% year-on-year) worth a total of RUB 2 trillion (+37% year-on-year).

Russia's Agency for Housing and Mortgage Lending (AHML) forecasts that 1.4 million mortgages worth RUB 2.8 trillion will be issued in 2018, and that the average rate will continue to fall, in line with the CBR key rate, possibly reaching the level of 8% in December 2018.

MORTGAGE ISSUANCE



Source: CBR, AHML

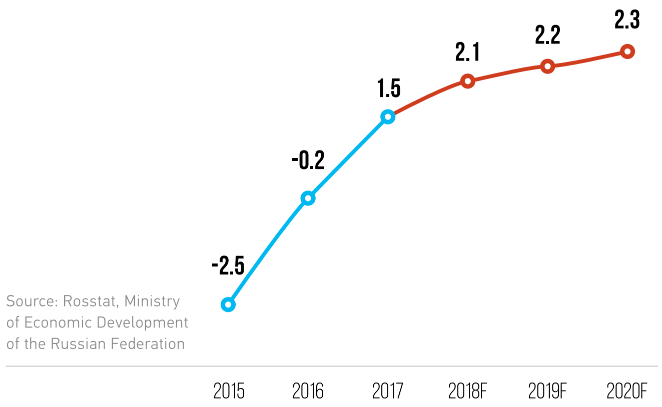
FAVOURABLE MACRO OUTLOOK AND GOVERNMENT SUPPORT

DEMAND WILL BE FURTHER SUPPORTED BY ECONOMIC RECOVERY, GROWING REAL INCOME AND STATE INITIATIVES TO SUPPORT YOUNG FAMILIES, SUCH AS SUBSIDISED 6% MORTGAGE RATES AND THE MATERNITY CAPITAL PROGRAMME

ECONOMIC RECOVERY AND GROWING REAL INCOME

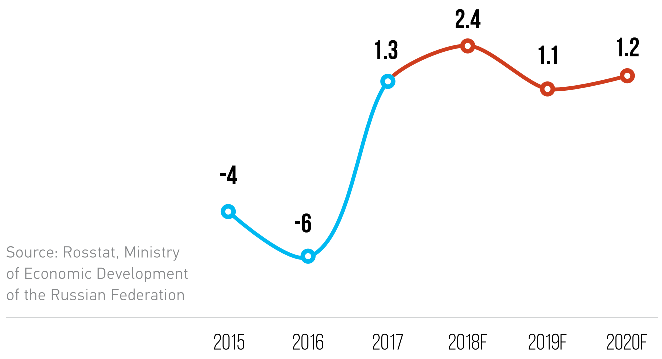
Russia's GDP returned to growth in 2017 after recession in 2015–2016, and an upward cycle of economic growth was outlined. According to preliminary Rosstat data, real income in 2017 also increased. In the baseline scenario, the Ministry of Economic Development forecasts a growth rate for the economy at above 2% per annum until 2020, combined with rising real income.

GDP
%



Source: Rosstat, Ministry of Economic Development of the Russian Federation

RUSSIA REAL DISPOSABLE INCOME FORECAST
%



Source: Rosstat, Ministry of Economic Development of the Russian Federation

GOVERNMENT SUPPORT FOR YOUNG FAMILIES WITH CHILDREN

On 1 January 2018, a new mortgage subsidy programme was enacted. The programme is very attractive to families that require significant housing space, e.g. those with two or more children. The share of families that fit this description in our key regions is growing due to natural population growth and positive net migration. If the number of families with two or more children remains at the level of 2016, at least 125,600 households will potentially be eligible for the mortgage rate subsidy programme in the regions where we operate as early as 2018. In 2016, there were 37,600 such families in St Petersburg and 88,000 in Moscow.

For the duration of the subsidy period, the monthly payment for a mortgage will be 20% lower than for a mortgage at the average market rate as of December 2017.

125,600 FAMILIES
IN OUR TARGET REGIONS WILL BE ELIGIBLE FOR GOVERNMENT SUBSIDIES TO BUY FLATS IN 2018

Programme highlights:

- subsidised mortgage rate: 6%
- average monthly payment: 20% below average for market
- maximum subsidy period (three years for the birth of a second child, five for a third): 8 years
- availability: 2018–2022
- minimum down payment: 20%.

At the same time, the "maternity capital" programme will continue to operate in Russia through the end of 2021. This programme also provides funds that can be used to improve housing conditions, equal to 11% of the cost of an apartment with sufficient space for a family with small children in an Etalon Group comfort-class development.

RECOVERING CONSUMER BEHAVIOR AND STRONG DEMAND FOR HOUSING

HOUSING AVAILABILITY PER CAPITA REMAINS RELATIVELY LOW, WHILE FALLING INTEREST RATES MAKE SAVING BEHAVIOUR LESS ATTRACTIVE. FORECASTS BY THE MINISTRY OF CONSTRUCTION PREDICT THAT OVER HALF OF THE RUSSIAN POPULATION WILL HAVE THE OPPORTUNITY TO IMPROVE THEIR LIVING CONDITIONS BY 2025 THANKS TO MORTGAGE BORROWING

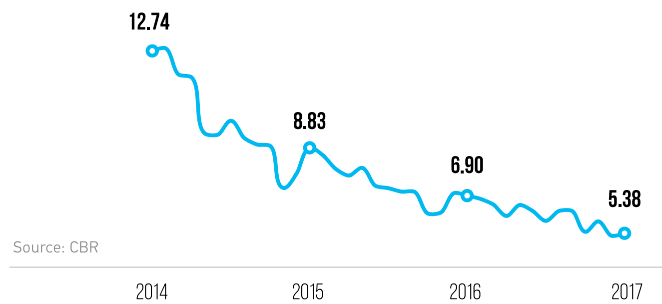
FALLING DEPOSIT INTEREST RATES FURTHER STIMULATE PURCHASES

Until relatively recently, term deposits offered attractive interest rates that often motivated people in Russia to keep savings in banks. Over the last three years, however, interest rates for deposits with a term of up to one year have decreased by 7.5 percentage points. This has led to a significant slowdown in the growth rate of household deposits, and the growth rate of outstanding mortgage payments has outpaced that of deposits for two consecutive years.

LOW HOUSING SUPPLY

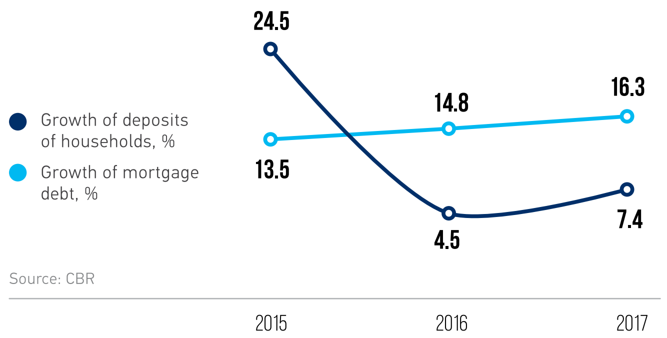
In Russia, housing supply per capita remains at a low level (24 square metres per person) compared to European countries. In a scenario of gradually decreasing rates, such as in the countries on the chart, where rates have been decreasing since 2011, there is an increase in the supply of housing. With mortgage rates actively declining, it is reasonable to expect that this will spur demand and lead to an increase in the supply of housing.

ATTRACTIVENESS OF SAVING CONTINUES TO DECLINE
INTEREST ON TERM DEPOSIT (UP TO 1 YEAR), %



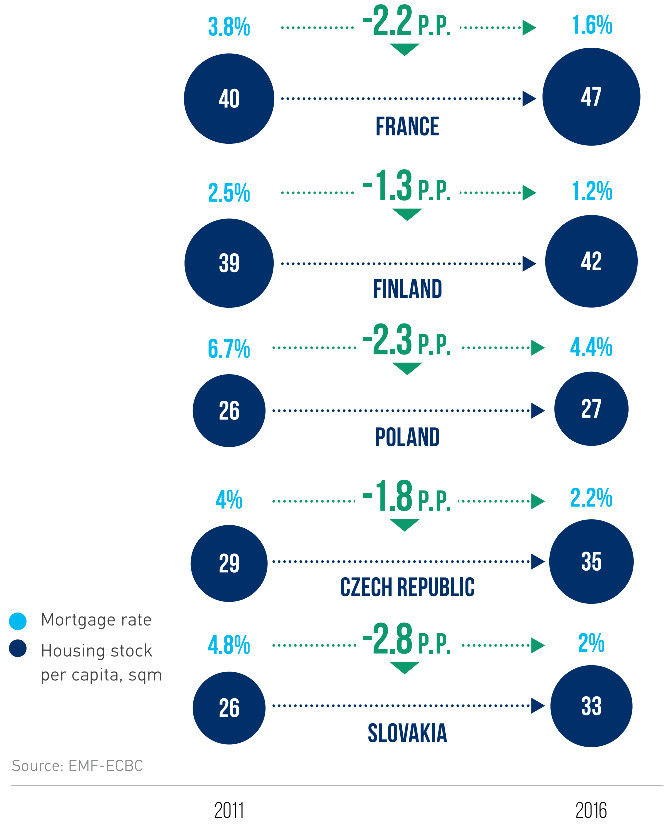
Source: CBR

MORTGAGE GROWTH HAS OUTPACED THAT OF DEPOSITS FOR TWO CONSECUTIVE YEARS



Source: CBR

HOUSING STOCK INCREASES WITH DECLINING MORTGAGE RATES



Source: EMF-ECBC

HISTORIC CHANGES IN SECTOR REGULATION

THE RUSSIAN DEVELOPMENT AND RESIDENTIAL REAL ESTATE MARKET FACES HISTORICAL CHANGES. WE ARE HEADING INTO A PERIOD OF CONSOLIDATION AND GROWING CONFIDENCE IN THE INDUSTRY, WHICH WILL PRESENT MANY INTERESTING OPPORTUNITIES

We expect a positive impact both from the regulatory changes that are due to take effect in the near future and from the general direction of development of Etalon Group's industry. First, we expect our market share to continue to grow against the background of consolidation by the top 10 players of up to 65% of the market. Second, barriers to the entry of new players will increase and, as a consequence, the supply of interesting locations will grow. Third, these changes will help increase the overall level of trust in the industry and increase customer loyalty.

AMENDMENTS TO FEDERAL LAW No FZ-214

One of the key events of 2017 was the adoption of amendments to Federal Law No FZ-214, which regulates share purchase agreements for housing. These regulations dictate capital adequacy requirements for developers, as well as the use of equity holders' funds. Under the amendments, developers wishing to sell housing under share purchase agreements must have three years of experience and deliver a minimum of 10,000 sqm, as well as disclose financial statements.

CHANGES	RELEVANCE FOR ETALON
ENHANCED REQUIREMENTS FOR CAPITAL SUFFICIENCY AND USE OF FUNDS	
• Compensation fund contribution equal to 1.2% of value of equity participation contract • Own funds worth 10% of the entire project must be deposited in a mandated bank before being able to raise funds through equity participation agreements	✓ Unlike small players, Etalon's strong balance sheet enables the Company to easily comply with new requirements
• Developer's borrowing activities are limited to housing construction activities only • No bonds, only equity issuance allowed	✓ Additional financing needs can be met by borrowings from a parent company, including bank loans, or debt securities that can be issued either by a parent company or affiliated companies
• Advances associated with design and construction are limited to 30% of total project value • SG&A to be capped at 10% of construction costs	✓ Current values for Etalon Group companies are in line with the new requirements of the amended law
ENHANCED TRANSPARENCY REQUIREMENTS	
• Audited annual financial reporting • Disclosure of interim unaudited financial results	✓ Established IFRS reporting system and semi-annual audit
ENHANCED TRACK RECORD REQUIREMENTS	
• Developer must have at least a 3-year track record, and a minimum of 10 ths sqm of area commissioned	✓ 30 years of experience ✓ Over 5.5 mln sqm commissioned
OTHER REQUIREMENTS	
• Developer may undertake only one construction project approved by authorities at a time	✓ Establishing SPEs to enable simultaneous implementation of projects

NEXT STAGE FOR DEVELOPMENT UNDER CONSIDERATION

Transition to the project finance model in the medium/long term is a logical development for the industry, corresponding to international experience in the regulation of housing construction. Meanwhile, the initiative is in the process of elaboration, and the timing of its implementation is yet to be determined. In many ways, its fate depends on how the market adapts to the amendments to Federal Law No FZ-214 that will come into force on 1 July 2018.

A TRANSITION TO PROJECT FINANCING IS A LOGICAL NEXT STEP FOR THE DEVELOPMENT OF THE INDUSTRY, WHICH IS LIKELY TO BENEFIT LARGE PLAYERS AS THE CHANGES WILL LEAD TO:

1. CONSOLIDATION OF MARKET SHARES
The abolishment of the pre-sale model will strengthen consolidation in the industry, as medium and small builders will experience difficulties in raising capital and will cede their market share to larger players.

2. BARRIERS TO ENTRY
Project financing will become a barrier to the entry of new players to the market, especially to landowners.

3. ATTRACTIVE BUSINESS OPPORTUNITIES
This will not only suppress competition, but will also potentially lead to the sale of interesting locations by the owners of land plots who had planned to develop the site on their own but will no longer be able to under the new regulation.

4. GREATER CONFIDENCE
The amendments will also have a positive impact on the relationship between developers and buyers, as they will increase the level of confidence in the industry.

THIS CHANGE IS UNLIKELY TO BE INTRODUCED IN THE SHORT TERM, however, as it would lead to a sharp reduction in construction volumes. This would contradict the Ministry of Construction's top-priority task, which is the large-scale renovation of housing stock, about 35% of which is currently obsolete. This renovation will require growth in construction from 80 million square metres to 120 million square metres per year.

RENOVATION PROGRAMME

The Moscow housing renovation programme does not pose a threat to Etalon Group's business.

LIMITED EXPOSURE
The programme is limited to just one of our two key regions, Moscow, and it will be developed mainly in locations with a predominance of economy-class housing.

TARGETED MARKET SEGMENT
New housing (economy class) will be built to replace decaying, obsolete buildings. Thus, a large volume of new supply in the comfort-class and higher segments will not materialise.

NO OVERLAP WITH OUR CUSTOMERS
There also will be no decline in demand, since a typical buyer of comfort-class or higher housing is different from a buyer of economy-class housing.

SHORTAGE OF SUPPLY IN THE SHORT TERM
In the short term, however, the supply of real estate on the open market from companies controlled by the mayor's office may decrease, as these areas will be used to resettle the first participants in the renovation programme, which may lead to supply shortages.

COOPERATION INSTEAD OF COMPETITION
Due to the long period of implementation and the significant volume of renovation, it is possible that the city will require cooperation on the part of developers to implement the programme in a timely manner.

It would be possible, for example, to implement the programme in the form of a buyout by the city of finished apartments for the resettlement of participants, or by providing developers with vacant plots in exchange for a share in projects built on those plots.

03

STRATEGY AND OBJECTIVES

CONTENTS

SUSTAINABLE GROWTH THROUGH OPERATIONAL EXCELLENCE

WE WILL FOCUS IN THE YEARS AHEAD ON EFFICIENCY, PROFITABILITY AND RETURNS ON INVESTMENT

CHAIRMAN OF THE MANAGEMENT BOARD'S STATEMENT

I am delighted to report another successful year for Etalon Group. Our performance underlines the resilience of our business model, the strength of our strategy, and the experience of our management team. While Etalon Group has consistently delivered solid results in the past, we are continuously setting higher goals for ourselves, which presents new challenges. Our approach to business enables us to adapt our operations and effectively respond to the constantly-evolving market landscape, which means we are successfully overcoming challenges while continuing to deliver profitable growth for Etalon Group.

DELIVERING ON STRATEGIC TARGETS

One of the main goals set out in our strategy is further improvement of Etalon Group's project portfolio. In 2017, we acquired four new projects in Moscow and St Petersburg, including three business class developments, thus enabling the Company to grow its presence in this higher-price segment. We believe that this increased diversification will provide several benefits, including higher margins and a wider range of potential customers. In 2017 we launched Silver Fountain, our first business class project in Moscow, which demonstrated impressive sales performance during its first year.

We pay close attention to the time between project acquisition and launch: by launching sales shortly after acquisition, we provide a project with an important source of financing, ensure a higher IRR and provide healthy cash flows for the Company. We launched sales at one of the projects acquired in 2017 within several months, and the three other projects purchased last year are on track to be launched within 12 months.

In addition to new acquisitions, we have achieved impressive results with our existing projects. In 2017, efficient design solutions enabled us to increase the net sellable area of previously-acquired projects by an additional 160 ths sqm, while also improving these projects' living environment.

We continue to make progress on keeping sales and construction volumes better aligned. With more than 500 ths sqm of new contract sales for the year, the total area commissioned was just 423 ths sqm. This has helped us to reduce inventory levels and put us on a track for more balanced growth in the future.

Another significant achievement by our management team was implementation of a set of measures aimed at maintaining positive operating cash flow, including higher conversion of new contract sales into cash collections. We saw the highest-ever level of down payments for Etalon Group in 2017, driven by the growing share of mortgage sales, which increased by almost 20 percentage points from Q1 to Q4 2017. This result was partially achieved thanks to the efficient work of our mortgage brokers, as well as by strengthening the Group's collaboration with banks.

Finally, I would highlight our efficiency efforts, which are also delivering tangible results. In 2017, general and administrative expenses as a share of revenue declined from 9% to 7%, while our EBITDA margin increased by four percentage points to 19% for the full year.

LAYING THE GROUNDWORK FOR SUSTAINABLE GROWTH IN A CHANGING MARKET

One of the key steps we took in 2017 to streamline Etalon Group and improve efficiency was the creation of the unified Maintenance and Construction Unit, which combined a number of subsidiaries focused on construction, maintenance and other services into a separate division with centralised management led by Maxim Berlovich. This reorganisation has eliminated duplicate functions that previously existed, enabled us to offer a comprehensive set of services under one brand and increased our ability to conduct competitive tenders. With this new unit treated as a separate profit centre with its own set of business KPIs, we expect to see solid contributions to Etalon Group's business going forward.

In 2017, we also significantly strengthened our sales function by appointing Andrey Ostanin as Commercial Director. Andrey brought a team of experienced professionals to Etalon Group and successfully completed a number of organisational changes in our sales system. This team have already demonstrated an excellent understanding of customers' needs and a commitment to excellence in their field. As a result of the changes introduced in 2017, our sales force is in an excellent position to ensure further growth in sales in accordance with our key goal of increasing Etalon Group's market share. The staffing changes made in 2017 have already had a positive impact on our sales performance in 2H 2017, when we achieved double-digit growth in key performance measures.

I would like to specifically highlight the contributions of Gennadiy Shcherbina and Ivan Bogatov, the heads of Etalon Group's St Petersburg and Moscow operations. Their fast and effective work enabled us to promptly introduce important strategic changes into our day-to-day operations.

Through a combination of in-house feedback mechanisms and market research, we have significantly enhanced our ability to track evolving customer demand and respond to these changes. This improved connection with our customers is reflected in the updates we have made to our product. Our new projects feature a wider variety of floorplans for different types of buyers, smarter use of internal building space and enhanced outdoor areas that will create a greater sense of comfort for residents. Furthermore, our product improvements enable us to establish an optimal balance between construction and installation costs and the selling price for apartments.

LOOKING AHEAD

While we have already seen significant progress from the changes we have implemented, with improved flexibility of our business and an enhanced ability to deliver quick and profitable growth, we have set new and ambitious goals for ourselves. Thanks to our adaptable business model, we plan to increase our share in our core markets to target levels in the mid-term, and to benefit from changes in the market driven by Russia's economic recovery, better accessibility of mortgages and new regulations due to come into force.

We are in an excellent position to deliver on our long-term strategic goals, while continuing to maintain the flexibility and financial resources that we need to respond in the event of external volatility. Etalon Group has a long track record of successfully navigating periods of economic instability, and we are emerging from the latest such period ready to bring new impetus to our development. Over the longer term, we will focus on stability and sustaining value creation through operational excellence.

More than any other time in our history, in the years ahead we will focus on efficiency, profitability and returns on investment. To ensure that our product continues to attract strong demand, we will focus on improvements by promptly adapting our offering in line with our customers' evolving needs.

I want to thank everyone who has had a hand in making 2017 a successful year for Etalon Group, and I am grateful to all of our stakeholders who will continue to be with us as we embark on a new stage of growth at Etalon Group!

DMITRY KASHINSKY
COO and Chairman of the Management Board

ENHANCED BUSINESS MODEL

WE COMPLETED A REORGANISATION OF THE COMPANY IN 2017, TRANSITIONING TO A NEW BUSINESS MODEL THAT WILL HELP TO IMPROVE EFFICIENCY AND CUT COSTS

While our proven business model has successfully delivered stable and profitable growth, we constantly seek ways to introduce further enhancements. In 2017, for example, we combined a number of Etalon Group's smaller subsidiaries into a single Construction and Maintenance unit.

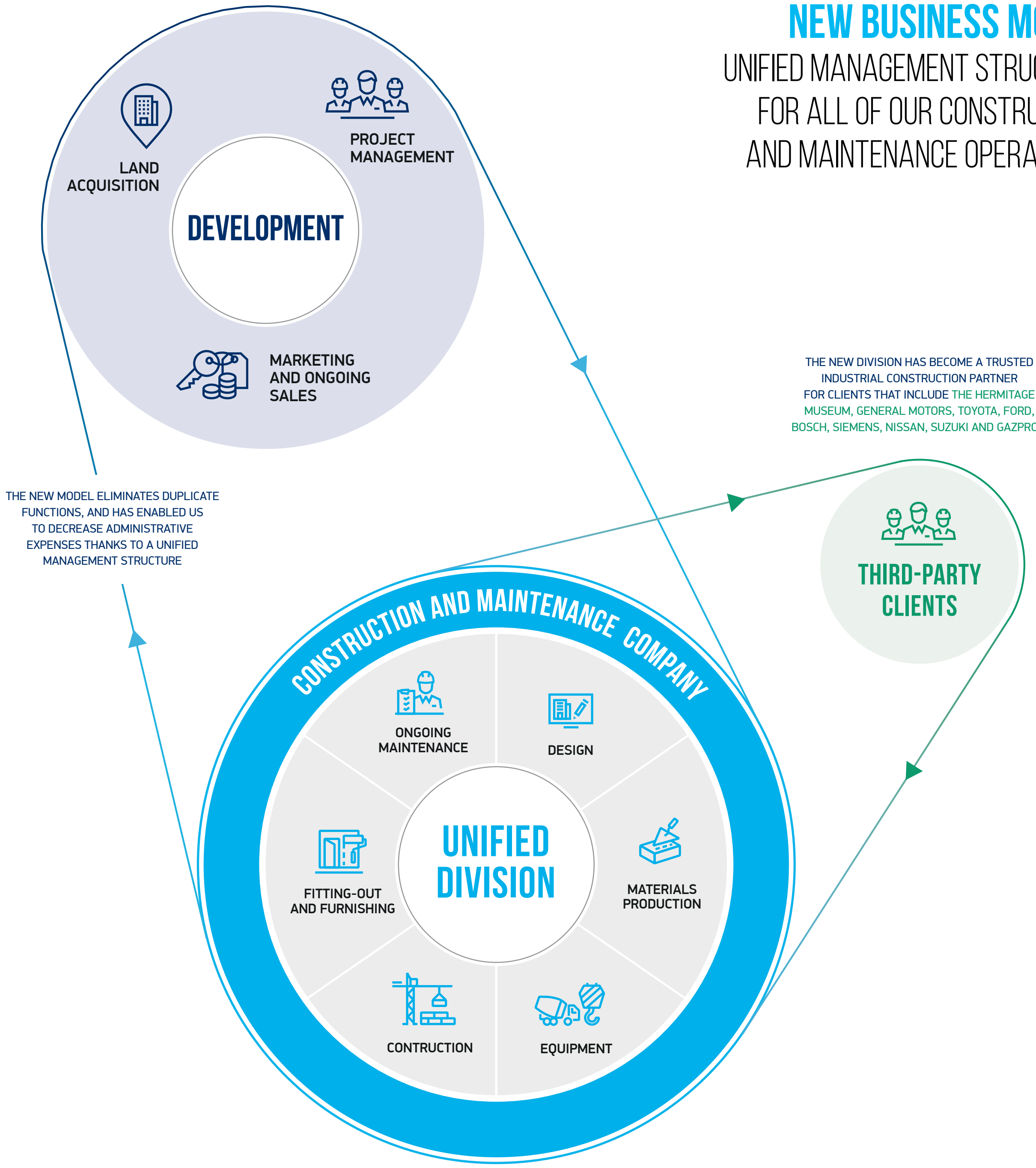
This new model has eliminated duplicate functions that existed in the past, and has enabled Etalon Group to decrease administrative expenses thanks to a unified management structure for all of its construction and maintenance operations. Furthermore, combining multiple small entities into a single company is expected to deliver valuable operational synergies.

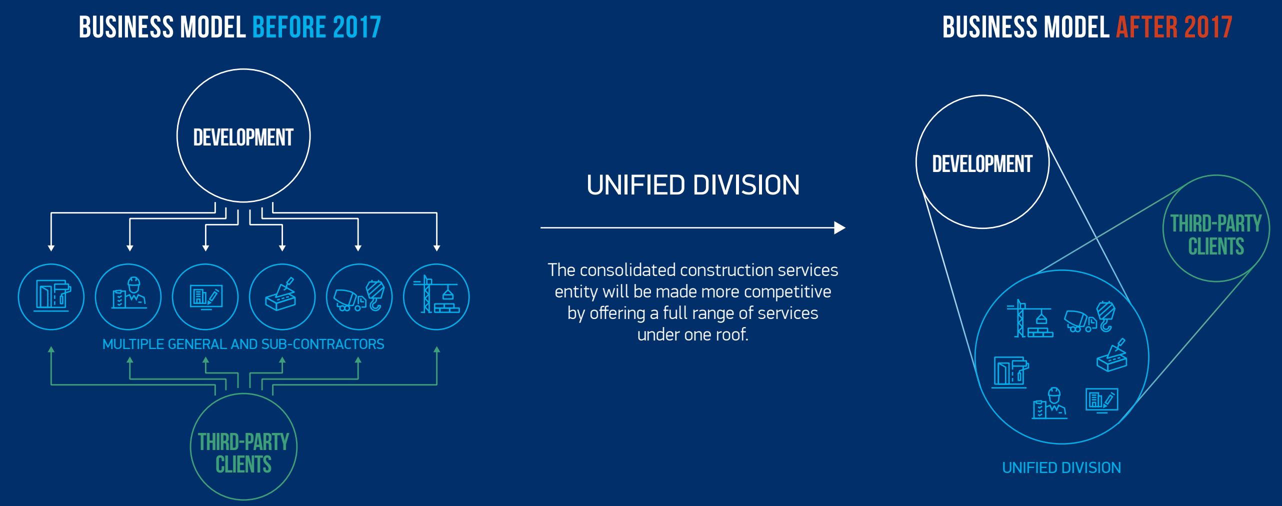
We believe that improved communication and feedback between the combined units will help to streamline processes and increase operational productivity. The unified company will also benefit from economies of scale. In addition, Etalon Group now has the option to consider selling or spinning off this business unit in the future if it reaches sufficient size.

The Construction and Maintenance division is now treated as a separate profit centre, with its own set of performance targets, including growing the share of external orders in its revenue from the current 35% in 2017 to 50% by 2021. The creation of a unified construction and maintenance business unit also enabled Knight Frank to conduct a valuation of this unit for the first time, valuing it at **RUB 8.3 BILLION** as of 31 December 2017. This valuation covered 21 legal entities, including general contractors, subcontractors, brick and concrete structure production facilities, a real estate broker, ongoing maintenance and service companies, and office premises.

NEW BUSINESS MODEL

UNIFIED MANAGEMENT STRUCTURE FOR ALL OF OUR CONSTRUCTION AND MAINTENANCE OPERATIONS.





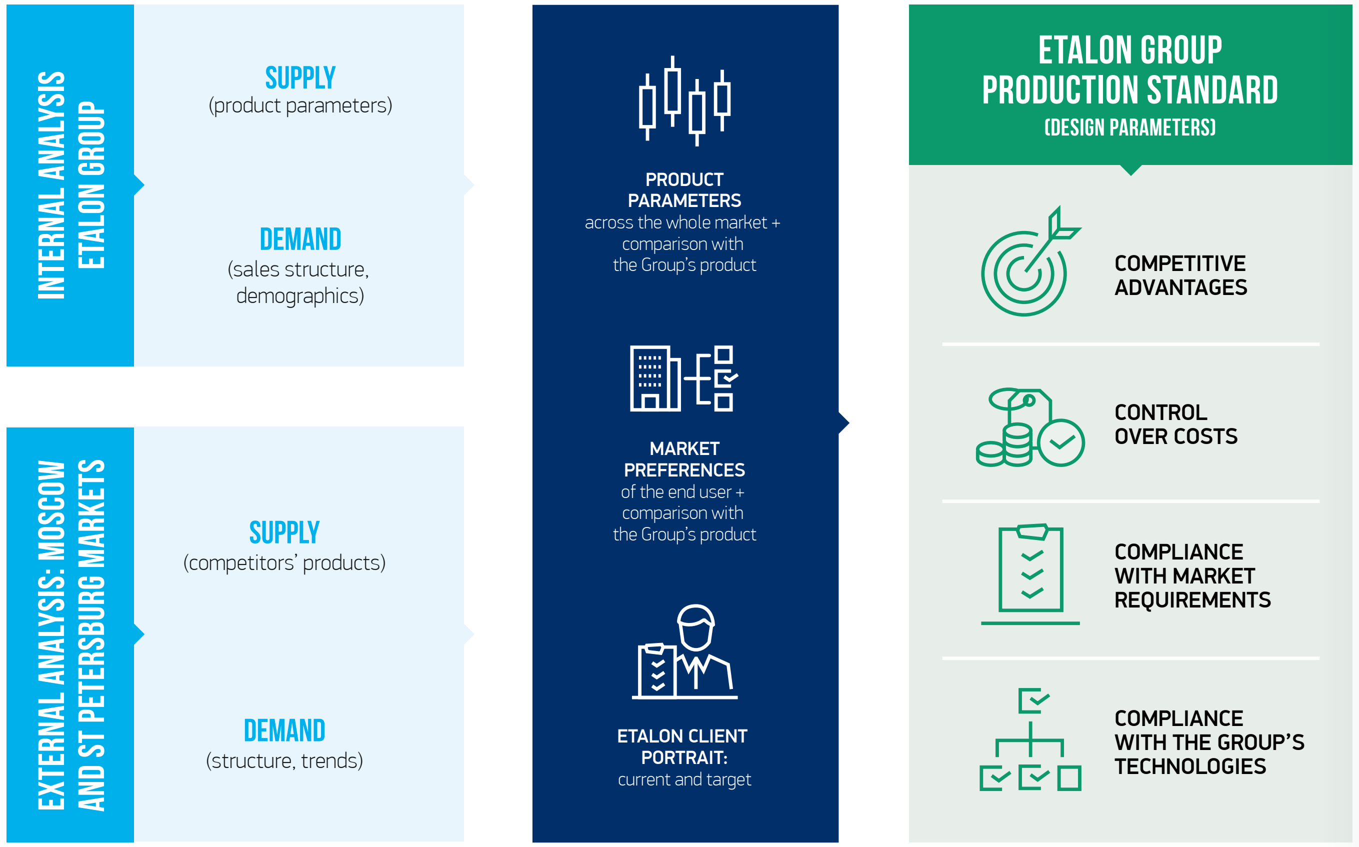
ADVANCED PRODUCT

We aim to adapt our product to meet evolving customer demand, using customer feedback and market research to identify new trends, as well as introducing innovative solutions to underpin the value of our offering to customers while allowing for a decrease in construction costs and improvements in efficiency.

RESEARCH

We use an integrated, multi-step approach to product planning. We have developed an analytical tool that we use to identify internal potential and assess the external environment to create our product. Internally, we evaluate our strengths and weaknesses by looking at the characteristics of the product we currently offer, and at our customers. We then look at external factors, observing competitors' products, elements influencing demand, and we analyse the latest technological advances to understand whether we can apply them.

Having combined our internal capabilities with external market factors, we aim to eliminate weaknesses and threats and to compare the Company's offering with customer preferences in order to create a competitive product that meets the market and the Group's requirements and has optimised associated costs.



CUSTOMER PROFILE

During our analysis, we examine our customer profile and compare it with the target profile. We are constantly adapting our product to meet changing customer needs in order to ensure that Etalon Group's offering keeps pace with or even leads the market as new trends in demand develop. Etalon Group's core customers are middle-aged white-collar professionals or business owners that buy apartments for themselves or their family.

55%

OVER 55% ARE YOUNG BUYERS

83%

WHITE-COLLAR PROFESSIONALS OR BUSINESS OWNERS

89%

PURCHASING HOUSING FOR SELF OR THEIR FAMILY

NOTE FROM HEAD OF ST PETERSBURG OPERATIONS

During its more than 30-year history, Etalon Group has established itself as the undisputed leader in the St Petersburg real-estate market, as a Company that is able to successfully deliver even the most complex projects and to respond quickly to customers' rising expectations regarding the quality of residential accommodation. Our success is built not just on our many years of experience, but also on constant communication with our customers in order to better understand what they expect of their future homes. We analyse all of the latest trends in residential real-estate construction and adopt those that will help us to create a product that will be in demand today and will also possess all of the qualities needed to remain contemporary for many years to come.

In 2017 our flagship project in St Petersburg was Galactica, which combines a unique location with modern architecture and flexible layouts, and also creates a high-quality environment for living and recreation in close proximity to the historical centre of St Petersburg. To achieve commercial success for the project, we brought in leading Russian and international architects, who worked closely with Etalon's R&D centre established a year ago by our product quality service, and also with our engineers and architects. This intensive teamwork paid off, and we were able to create a project that enjoyed impressive demand: in 2017 sales in the first phase of the project, which will come to market in 2018, reached 50%, while for individual buildings that went on sale in late 2016, this figure was over 70%.

During the year we acquired two outstanding business-class projects: Botanica and a project on Petrovskiy Island, as well as a comfort-class project in the Nevsky district. These will be our banner projects for the next stage of Etalon Group's growth, as we focus on each individual detail of each project, from individual floor-plan solutions to the surrounding environment. We are improving our product in the full understanding that in a competitive marketplace this will allow us to retain our leadership position and be able to create not just comfortable living spaces but also support high levels of return on investment.

GENNADIY SHCHERBINA
Head of St Petersburg operations

MEETING BUYERS' REQUIREMENTS

Etalon Group analyses the key preferences of buyers in St Petersburg and Moscow in order to ensure that the Company's products are aligned with current market trends.

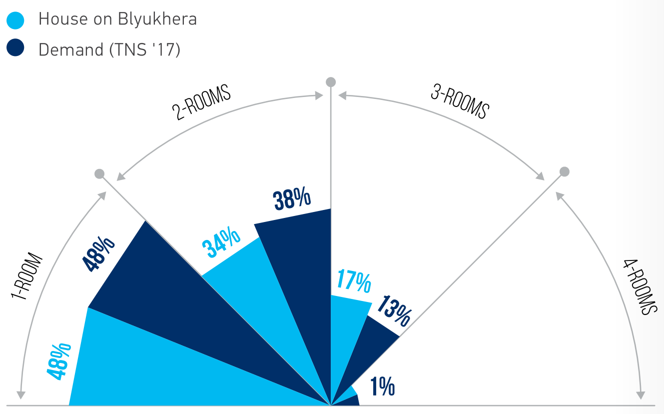
THE MOST IMPORTANT POSITIVE AND NEGATIVE FACTORS FOR BUYERS WHEN CHOOSING HOUSING ARE[1]:

+ Safety (enclosed territory, security, concierge, CCTV)
+ Good sound insulation
+ Spacious apartment
+ Large kitchen
+ Modern space (new and reliable appliances)
+ Pleasant landscaped area where the entire family can stroll around and relax
+ Yard without cars
+ Brick or brick-monolithic building
+ High ceilings
+ Not too many apartments on each floor
+ Parking
+ Pleasant views (overlooking green, open spaces, not other windows)

– Overcrowding/high-density development
– Insufficient level of security, incl. no closed territory
– Concrete panel construction
– Poor soundproofing
– Fully finished (and furnished) apartments with no say in how they are decorated
– Low ceilings
– Kitchen smaller than 10–12 sqm
– Lack of balconies/loggias
– Lack of private parking; parking in the yard

We constantly examine customer demand to ensure that we can adapt our offer accordingly. When our accumulated offering was compared to customer preferences by a TNS survey conducted in 2017, we found that there was a slight discrepancy. However, one of our recently launched projects, House on Blyukhera, demonstrates that we have begun to adapt, as apartment floorplans for this project correspond to customer demand, per the TNS survey. This is a good example of our agile approach to product planning and our readiness to adapt to meet the needs of our customers. We aim to adhere to this principle of matching demand and supply as we add new projects to our portfolio.

ADAPTING TO CUSTOMER DEMAND



Etalon Group not only takes into account the specific requirements of buyers when building new residential complexes, but also offers a wide range of layouts that are designed for different types of households.

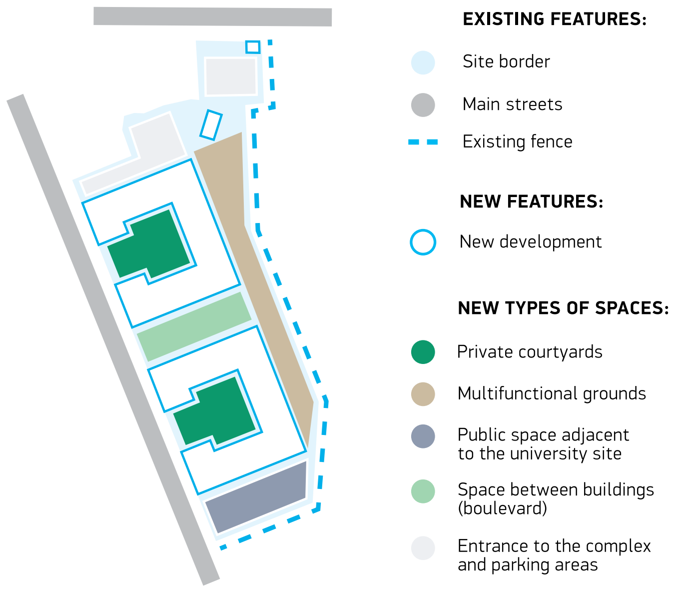
1 According to the survey by Kanar TNS.

KEY AREAS FOR PRODUCT IMPROVEMENT

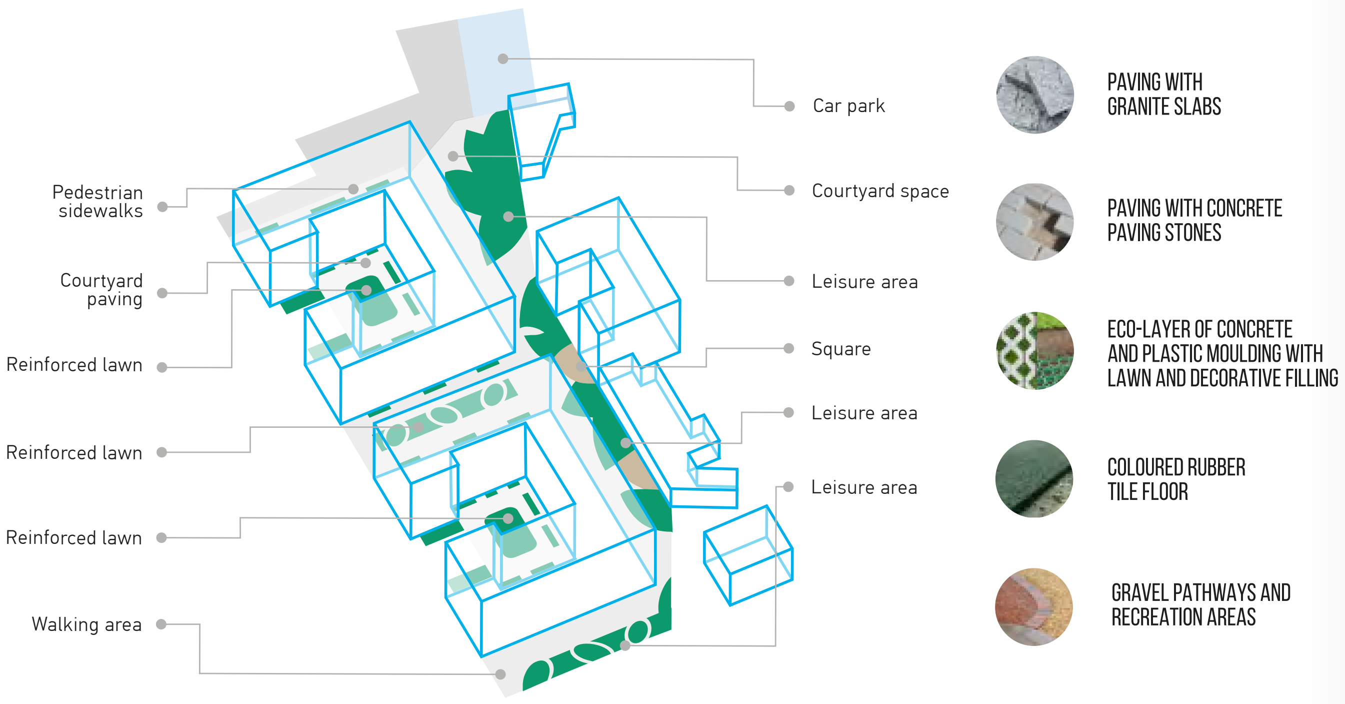
HAVING CONDUCTED OUR ANALYSIS AND EXAMINED CUSTOMER PREFERENCES, WE HAVE DEVISED FOUR MAIN AREAS FOR PRODUCT IMPROVEMENT:

1. CREATING A LIVING ENVIRONMENT

Taking into account the requirements and wishes of buyers regarding safety, nicely landscaped grounds and yards without cars, we create modern master plans, dividing the space into different areas for different activities, such as recreation, games and family events. The master plans include private spaces for residents, including a yard without cars and the allocation of public areas with attractions. A variety of textures and types of covering are used to divide spaces into different zones – trees, shrubs and plastic forms for landscaping are integrated into the topography of the yard, making the space more comfortable. An example of improvements aimed at creating a living environment is the master plan for the Botanica project.



BOTANICA ENVIRONMENT PLANNING



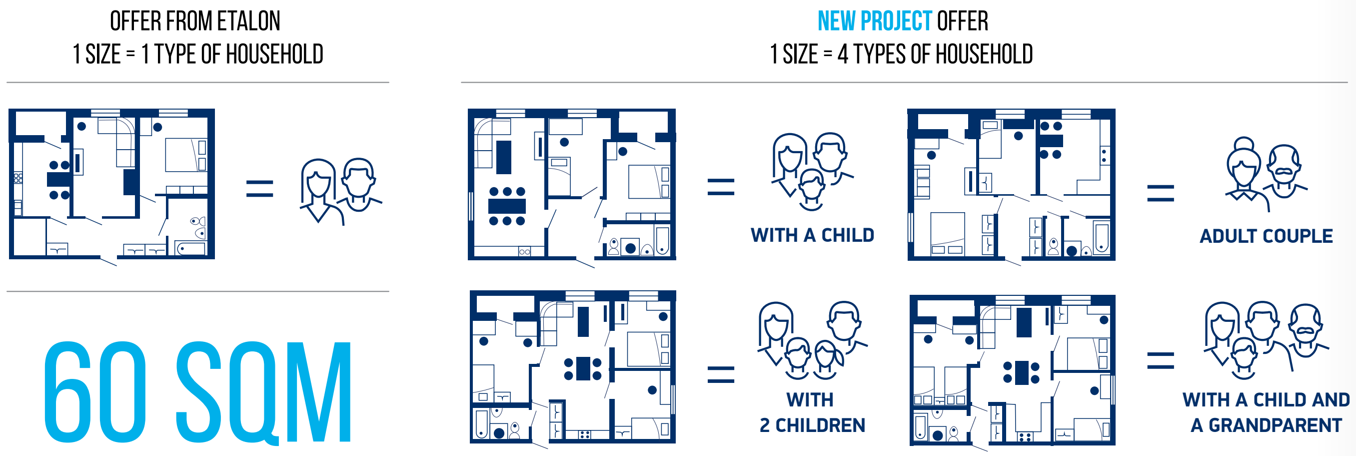
2. CREATION OF UNIVERSAL PLANNING SOLUTIONS

Previously, apartments with the same area had exactly the same layout – the usage scenario was based on the average family. Our research shows that there are many different types of households, and each family needs their own options. We pay a great deal of attention to identifying projects' potential target audiences and expanding the range of potential consumers.

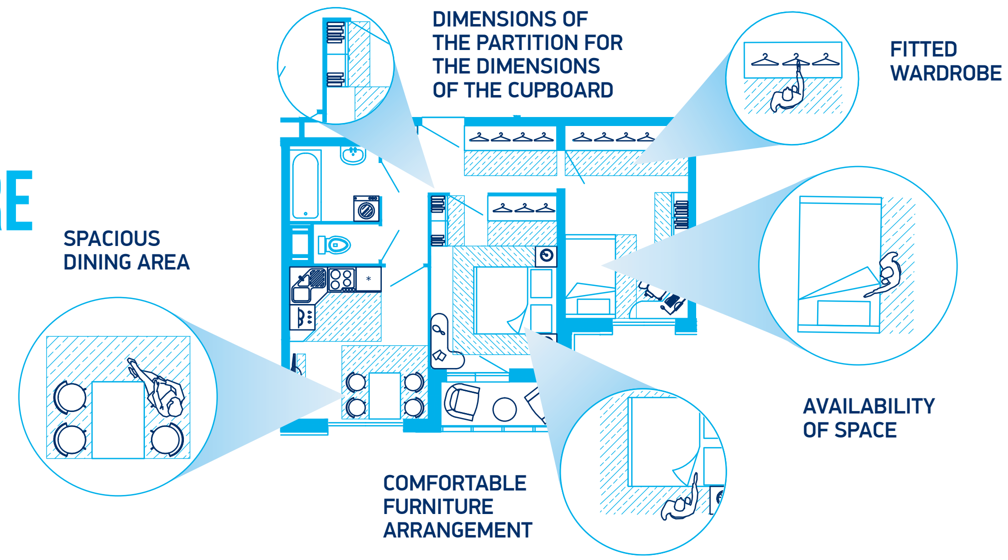
Current layouts for the same area offer far more variety and are designed for different types of households.

In connection with the overall growth in supply, buyers have begun to demand more from their apartments; the Company also has a high proportion of repeat purchases from buyers who already know exactly what they need from the apartment. Therefore, all new layouts take the following priorities into account:

- The apartment's functional areas (communal/private)
- Room dimensions, allowing for normal use after the furniture is arranged (working spaces near furniture)
- The future arrangement of furniture in the apartment (space between windows with dimensions for furniture)



EFFECTIVE USE OF EVERY SQUARE METRE

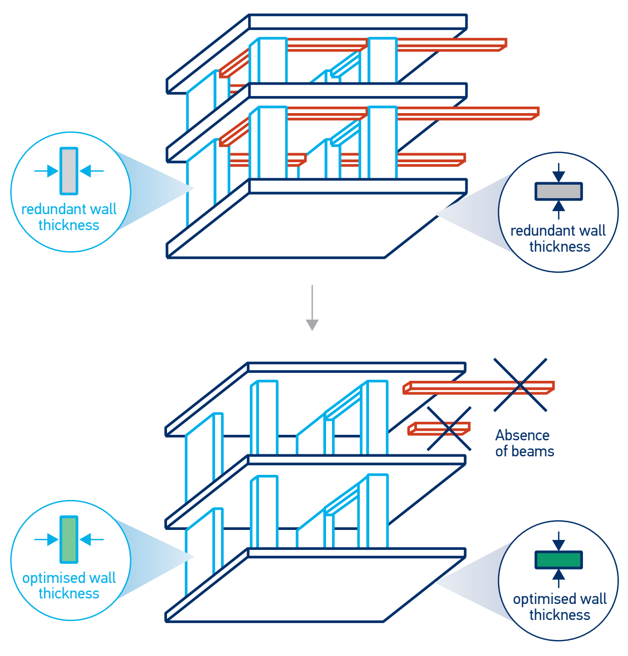


While simultaneously increasing value for our clients, the Company aims to reduce the costs associated with construction and to increase the efficiency of design solutions.

3. EFFICIENT CONSTRUCTION SCHEME

Modern design systems and new technological solutions make it possible to reduce the thickness of walls and ceilings to the optimum level, as well as to remove redundant structural elements, which, on average, leads to a 2% reduction in construction and installation costs.

EFFICIENT CONSTRUCTION SCHEME

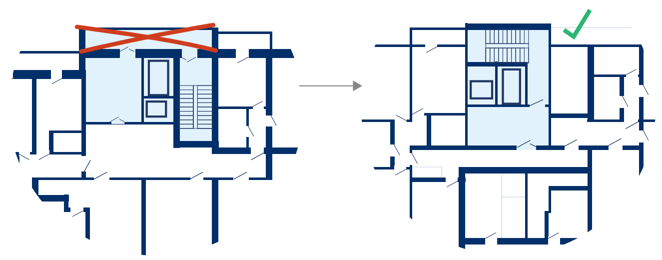


4. INCREASED COMMERCIALISATION COEFFICIENT

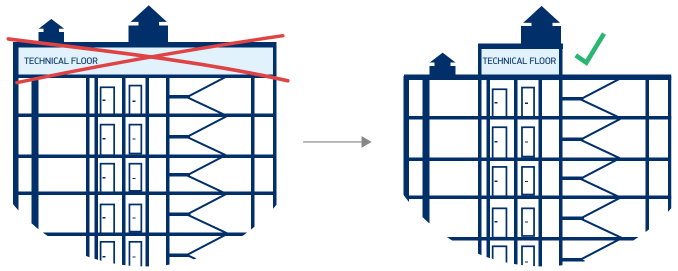
A 1 percentage point improvement in the commercialisation coefficient reduces the cost of construction and installation works by 1.3%.

We are optimising and reducing inefficient areas that are not used and are not required by regulatory standards. The layout of the staircase-elevator units and corridors, for example, will become more compact.

STAIRWAY REFORMATTING



We are also reducing the above-ground and below-ground spaces for technical premises. This will allow us to increase the height of ceilings in a building, which will in turn increase the marketability of the apartments.



STRENGTHENED SALES FORCE

Etalon Group's sales volumes have grown significantly since our IPO in 2010; however, oфur construction volumes have accelerated even faster. In 2015, we decided to address the accumulation of available and ready-for-sale apartments by focusing on decreasing inventory levels in order to make it possible to keep sales and construction volumes better aligned in the future.

In 2017, we implemented two key elements of our approach to further improving sales and inventory management: hiring a new sales team and introducing new sales systems. We believe that these steps will help us achieve more balanced growth in the future and will enable us to react with greater flexibility to changes in the market. We are confident that our enhanced sales force means that Etalon Group will be able to increase sales levels in line with planned growth in delivery volumes.

These comprehensive and interrelated changes will affect our sales strategy as a whole. Instead of implementing individual measures aimed at improving one target, we have taken a holistic approach that will allow for continuous improvements.

ORGANISATIONAL CHANGES

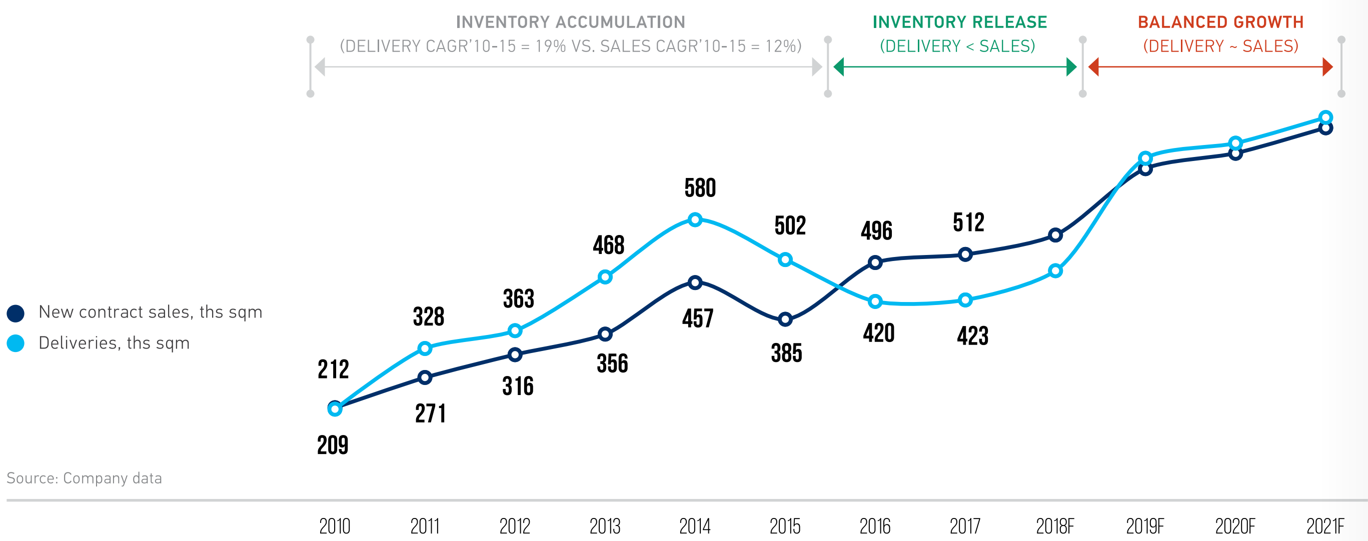
In order to provide greater alignment for sales staff with our overall goals, we introduced a unified system of KPIs in 2017 for employees with sales responsibilities, tying remuneration to sales performance and efficiency metrics. Commercial Department business units now provide regular reports on over 50 efficiency performance measures, which enables Etalon Group management to remain well-informed about performance.

Another area of focus for improving sales has been deepening our understanding of the market. We have also established a set of criteria for customer service and have begun an audit of these criteria in comparison with peers in order to identify potential areas for improvement. We are now using the Net Promoter Score to track the loyalty and satisfaction of both customers and potential customers who did not end up buying an apartment. These steps, combined with market research and centralised analysis of customer feedback, have helped improve our understanding of how to best serve our customers and how demand is evolving.

Finally, we have updated our inventory management practices in order to provide the Marketing Department with regular reports that make it possible to plan targeted promos and special offers.

Results: we set new records for sales in both sqm and RUB terms in 2017, which was partly due to the improvements and refinements we introduced to our sales and marketing departments.

BALANCED APPROACH TO INVENTORY RELEASE AND FURTHER SALES GROWTH



Source: Company data

SALES FORCE DEVELOPMENTS

In addition to updating the organisational structure of our sales function based on the performance of key managers, we have introduced a number of measures aimed at improving sales staff performance, including:

- Updating recruitment processes with new elements like case studies and test assignments to further refine candidate selection
- Instituting a system of regular educational seminars on Etalon's product portfolio for sales staff
- Holding monthly meetings to provide updates on sales performance
- Introducing two-week orientation programmes for new staff.

Our KPIs for 2020 call for increases in mortgage sales, partner sales and regional sales. Some of the key changes that we plan to implement in order to achieve these goals include:

- Introducing online purchases for apartments, even if a customer is using mortgage financing for the transaction
- Launching a 24/7 customer hotline
- Potentially offering trade-in apartment purchases
- Continuing to standardise and modernise sales offices and showrooms
- Conducting annual independent audits of customer service performance

Our goal is to offer the best customer service among our peers.

NOTE FROM HEAD OF MOSCOW OPERATIONS

The fact that Moscow is one of the largest housing construction markets not only in Russia but also in Europe indicates just how ambitious our goal of increasing our market share in this core market is. Even more significant is the fact that in 2017 we closed in on the top five in the Moscow region, ranking 6th among developers with a market share of more than 3%, according to various brokers.

One of the most significant achievements in 2017 was the commissioning of all of the residential buildings at the Golden Star project, making it Etalon Group's first fully-completed project in Moscow. At the time of completion, more than 75% of the apartments in the complex were contracted, and the price per square metre rose by 25% during construction. Last year we also delivered another building at Etalon City, with the share of contracted apartments at an outstanding 95% when the building was delivered.

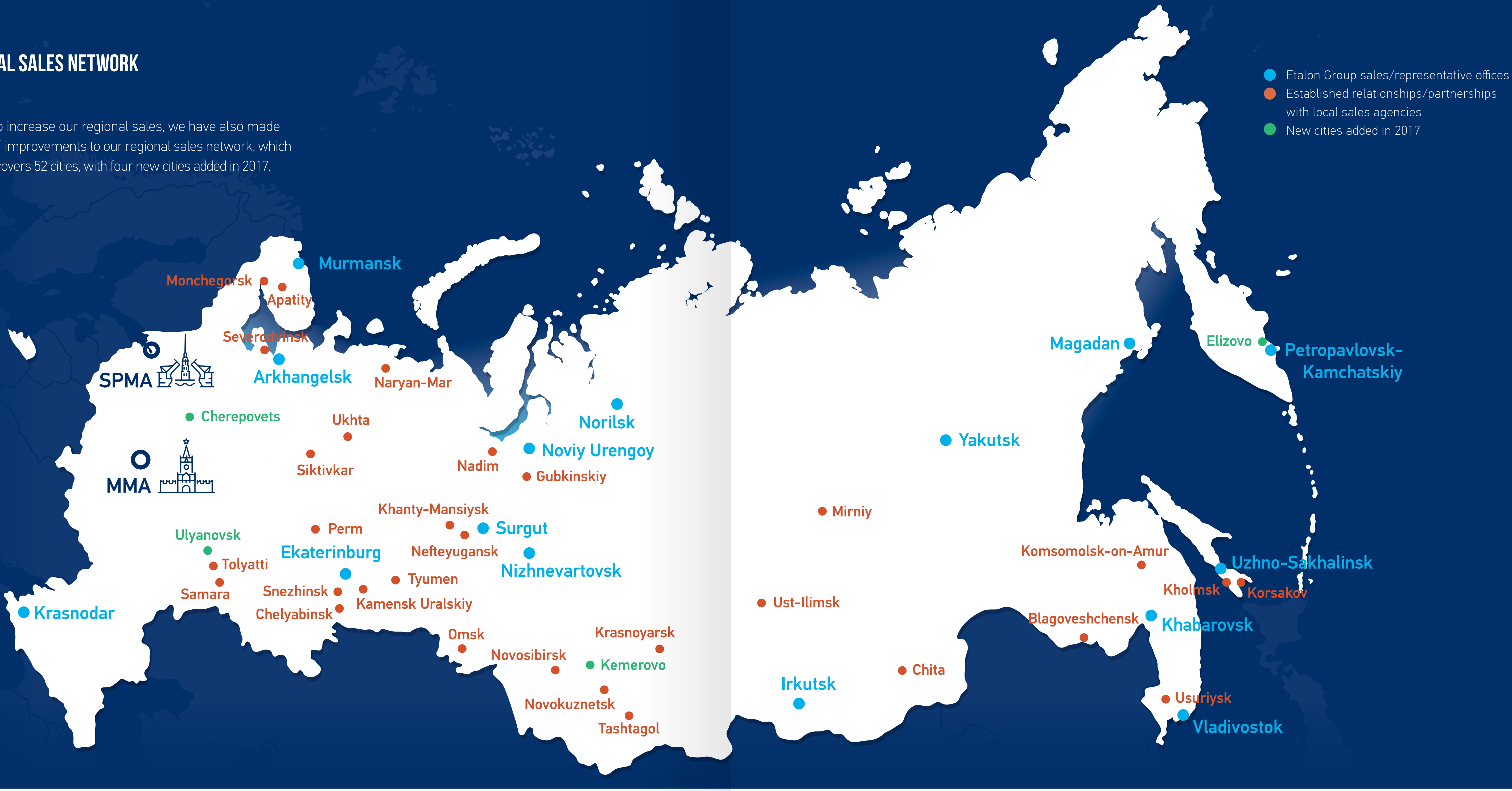
During the year we launched Normandy and Silver Fountain, two unique projects that enjoy strong demand, and also purchased a new site for the construction of a business-class complex on Letnikovskaya Street in the centre of Moscow. These achievements are a solid start towards our goal of doubling Etalon Group's share in the Moscow market in the years ahead. Our success in 2017 was helped by staffing additions, with highly-qualified professionals joining the sales, marketing and advertising teams. We also launched a number of measures to further enhance Etalon Group's brand recognition. In addition, we created a KPI system for our sales offices and external brokers that helps them focus on achieving the highest possible results.

As the head of one of Etalon Group's key profit centres, I see significant potential for strengthening the Company's position in the Moscow market, and this will help to achieve further growth in our financial performance.

IVAN BOGATOV
Head of Moscow operations

REGIONAL SALES NETWORK

In order to increase our regional sales, we have also made a series of improvements to our regional sales network, which currently covers 52 cities, with four new cities added in 2017.

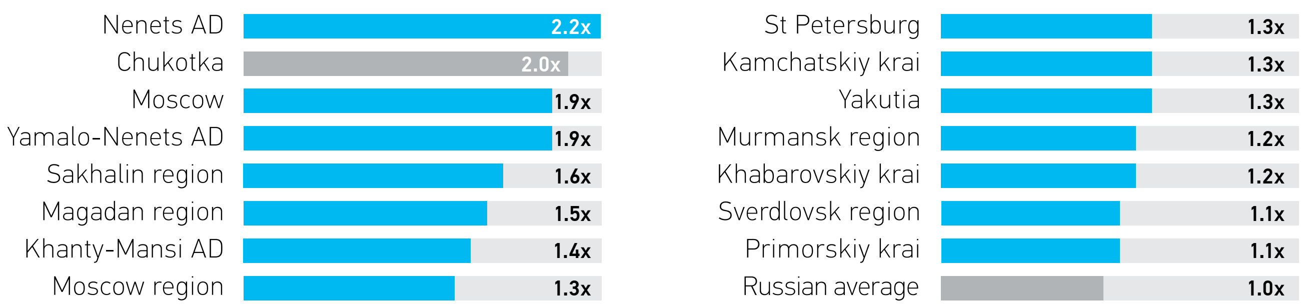


UNIFIED STANDARDS AND BRANDING: starting from 2017, we enabled our partners to sell the full range of Etalon's portfolio, and we started providing marketing materials that are consistent with the Company's unified branding. We also further unified standards for our regional sales offices.

TRAINING AND MOTIVATION PROGRAMMES FOR PARTNERS: we conduct regular training events, seminars, site visits and other product awareness activities for our partners. In order to enhance sales through our partner network, we have updated our motivation scheme for sales functions in line with market practices. Moreover, we regularly monitor and evaluate partners' satisfaction with our partnership and cooperation.

CORPORATE SALES PROGRAMMES FOR LEADING REGIONAL COMPANIES: we are also implementing special corporate sales programmes for major companies with operations in Russia's regions, including Norilsk Nickel, Surgutneftegaz, Severstal, Polyus Gold, Alrosa and others. Corporate partnerships give us access to advertising on corporate intranet portals, the ability to distribute special offers to employees, and enable us to conduct marketing events at the offices of these companies.

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



1 Average monthly cash income per capita, Rosstat's preliminary estimates for 12M 2017.

EFFECTIVE LONG-TERM STRATEGY

ETALON GROUP'S STRATEGIC CONSISTENCY IN THE SEVEN YEARS FOLLOWING ITS IPO DELIVERED EXCELLENT RESULTS: WE MORE THAN TRIPLED NEW CONTRACT SALES, FROM RUB 14.1 BILLION IN 2010 TO RUB 50.2 BILLION IN 2017

Having finished the transition to our new business model, adapted our product to better meet customers' needs, improved our sales systems, and updated our sales management team, we can move forward confidently to achieve our strategic goals.

In future, we will keep making continuous improvements, striving to improve the efficiency of our operations and the profitability of our business.

	LONG-TERM TARGETS	RATIONALE
CONSOLIDATE MARKET SHARE IN ST PETERSBURG AND MOSCOW METROPOLITAN AREA	Market share in new sales by 2021: • St Petersburg: 15% • Moscow: 7% • Target for acquisition of 1,200–1,600 ths sqm of NSA through 2019	These are Etalon Group's core geographies, and they remain the most lucrative residential markets in Russia, with years of demand growth still expected.
STRENGTHEN PROFITABILITY THROUGH STREAMLINED BUSINESS AND NEW MARKET SEGMENTS	• Further sales growth while maintaining high level of gross and net profit margin • ROE target of 15%	We see significant opportunities to further improve Etalon Group's profitability by controlling costs, implementing a new business model and continuing to expand into the lucrative business-class market segment that has proven to be robust in both Moscow and St Petersburg.
FINANCIAL STABILITY	• Maintain strong liquidity position • Net debt/EBITDA level below 2x • Maintain low interest payments	Etalon aims to maintain its traditionally strong financial position with prudent policies to keep debt levels comfortable, minimise borrowing and interest costs, and enhance liquidity.
DISTRIBUTING VALUE TO SHAREHOLDERS	• Focus on return on invested capital and increasing dividend payments by combining high payout ratios with significant growth in profits	By building a sustainable and profitable business that has the financial resources to return a significant share of cash to shareholders, Etalon Group aims to create value for its investors over the long term.
ADOPTING TO REGULATORY CHANGES	• Maintain a highly diversified project portfolio sufficient for the next five years • Smart balance between the sales of completed apartments and sales of apartments under construction	We constantly analyse how regulatory changes can affect our business to make sure we can continue to operate successfully in the future.

NEW CHALLENGES

Etalon Group has a lengthy track record of successfully going through economic downturns and adapting to new regulatory changes. As of today, we are already in compliance with the recently adopted Federal Law No FZ-218, and we are ready to handle possible future regulatory changes, including restrictions on our share participation scheme and sales of only completed residential projects (please see Section 2, "Business environment and trends" for further information about current and future trends).

Etalon Group expertise:

- Over 30 years of successful experience in the market
- Cooperation with local authorities regarding new regulatory changes
- Meeting all the requirements of new regulations

Etalon Group opportunities:

- Possibility to consolidate market share due to Etalon's solid financial position and small players' inability to compete under new regulations
- A decrease in mortgage interest rates will maintain the boost in sales and support further price growth

CHANGE IN THE AVERAGE PRICE FOR 1 SQM

NUMBER OF DEVELOPERS IN ST PETERSBURG, MOSCOW AND THE MOSCOW REGION

MORTGAGE RATE	290	276	248	211	169
10%	100%	102%	104%	106%	108%
9%	102%	104%	106%	108%	110%
8%	104%	106%	108%	110%	112%
7%	106%	108%	110%	112%	114%
6%	108%	110%	112%	114%	117%

CRITERIA FOR EXPANSION IN MOSCOW AND ST PETERSBURG

We have established a robust set of guidelines that are used to assess new projects or non-organic growth opportunities.

PROJECT ACQUISITION

QUANTITATIVE:

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

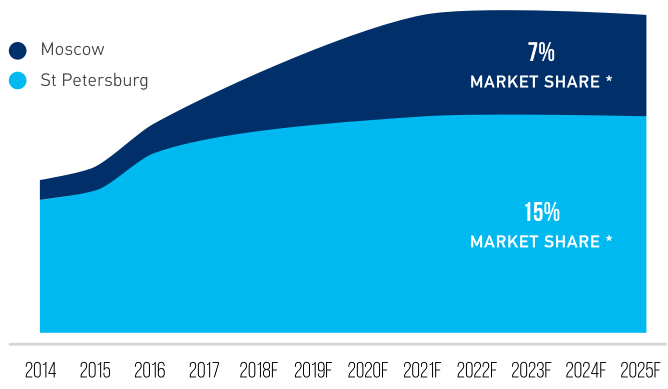
QUALITATIVE:

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

DISCIPLINED APPROACH FOR ACQUISITIONS

The aforementioned regulatory changes might create additional possibilities for Etalon Group to further strengthen its market position through M&A with companies that meet the following criteria:

- Focus on the same regions and segments
- Complementary portfolio and value chain
- Considerable operating synergies due to the elimination of duplicate functions and monetisation of sales networks
- Attractive profitability across project portfolio and significant return on investments.



* As share of new contracts in sqm during the period

04

PROJECT PORTFOLIO

CONTENTS

PROJECT PORTFOLIO OVERVIEW

Etalon Group's portfolio includes a growing array of upper-economy, comfort, and business-class projects in St Petersburg and Moscow. In 2017, we further diversified our portfolio and focused on acquiring more centrally located, high-end projects in addition to attractive and modern comfort-class projects. We now aim to reduce the time from purchase to launch of sales down to 6–18 months; in 2017, for example, we managed to launch the Botanica project just two months after acquisition. In total, in 2017, we acquired four new projects and launched sales at four projects.

In the following year, we expect that big developers like Etalon Group are going to have more opportunities to acquire new projects. We plan to consider potential new projects based on our policy, which will ensure further improvement of our portfolio. We will focus on large (>300 thousand sqm) and medium-sized projects (30–300 thousand sqm) with a target IRR above 15%. We will focus on projects in the three aforementioned project classes that are centrally located and in residential districts with developed transport and social infrastructure.

ACQUIRED	LAUNCHED
Project on Petrovskiy Island	Botanica
Botanica	Fusion
Project on Letnikovskaya Street	Normandy
Nevsky district	Silver Fountain

OPEN MARKET VALUE OF PROJECT PORTFOLIO

RUB 127 BILLION

The market value of Etalon Group's project portfolio **GREW BY 10% YEAR-ON-YEAR** in rouble terms and reached RUB 127 billion.

UNSOLD NSA

2.8 MILLION SQM

Volume of unsold net sellable area (NSA) remains unchanged at 2.8 million sqm, which is sufficient until 2022.

TOTAL PROJECTS IN ST PETERSBURG AND MOSCOW

38 PROJECTS

As of 31 December 2017, Etalon Group's project portfolio comprised 38 projects in St Petersburg and Moscow.

Projects are well diversified by locations within both St Petersburg and Moscow. Moscow projects represent 51% of current projects and **47% OF TOTAL PROJECTS**.

COMPLETED AND AVAILABLE-FOR-SALE PROPERTY

475 THOUSAND SQM

The current portfolio includes 475 thousand sqm of completed and available-for-sale property at projects that are completed or still underway. This includes **210 THOUSAND SQM** of completed and available-for-sale apartments.

Knight Frank estimates potential income from the sale of all completed and available-for-sale property at **RUB 36,939 MILLION**, including **RUB 25,381 MILLION** from the sale of completed and available-for-sale apartments.

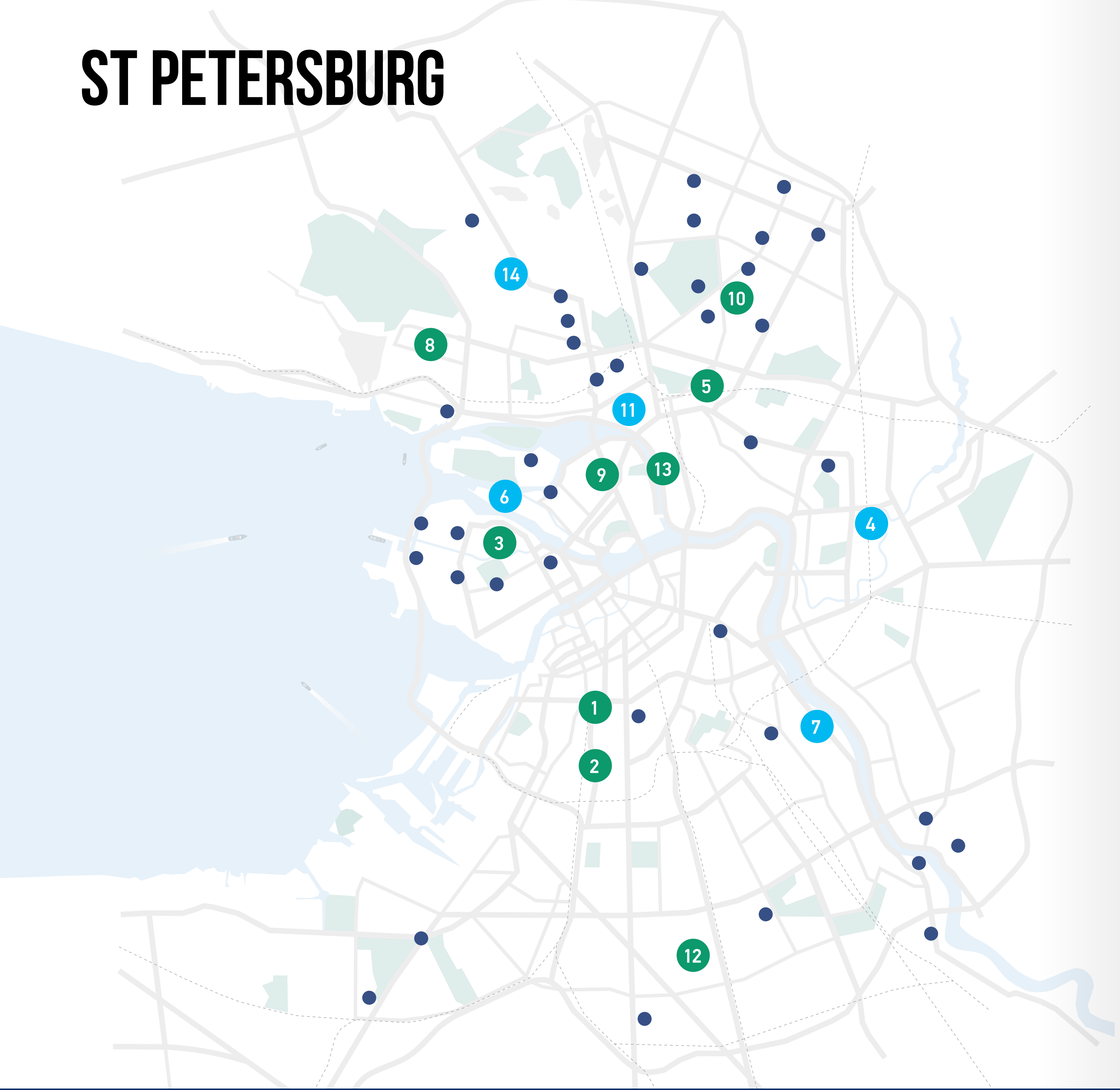
ETALON GROUP PROJECT PORTFOLIO

PROJECT	STATUS	TOTAL NSA (THS SQM)	UNSOLD NSA ETALON'S SHARE (THS SQM)[1]	UNSOLD PARKING (LOTS), #	OMV (RUB MLN)	INCOME FROM SALES (RUB MLN)[2]	CONSTRUCTION BUDGET (RUB MLN)[3]	OUTSTANDING BUDGET (RUB MLN)[3]
CURRENT PROJECTS								
ST PETERSBURG (SPMA)								
1. Galactica	Construction	797	564	3,888	18,425	70,712	48,125	36,995
2. Moscow Gates	Construction	235	52	740	4,268	21,733	11,068	1,052
3. Samotsvety	Construction	212	79	1,332	5,67	20,104	9,703	1,322
4. Krasnogvardeiskiy district	Design stage	141	138	80	4,431	18,254	6,195	6,169
5. House on Blyukhera (Kalininskiy district)	Construction	107	92	338	2,014	9,761	5,235	4,825
6. Project on Petrovskiy Island	Design stage	77	75	395	6,454	15,032	5,083	4,933
7. Nevsky district	Design stage	76	74	501	1,868	7,153	4,105	4,105
8. Morskaya zvezda	Construction	61	31	148	286	3,167	2,351	2,325
9. Botanica	Construction	47	45	363	1,564	6,67	2,894	2,705
10. House on Obruchevykh Street	Construction	42	28	440	1,634	4,967	2,845	1,633
11. Beloostrovskaya	Design stage	29	28	235	646	4,166	1,684	1,666
12. House on Kosmonavtov	Construction	27	22	198	947	2,56	1,356	1,25
13. Fusion (Project on Krapivniy Pereulok)	Construction	14	12	83	607	1,756	985	813
14. Korolyova Prospekt	Design stage	6	6	47	222	556	372	340
TOTAL SPMA		**1,872**	**1,247**	**8,788**	**49,037**	**186,591**	**102,003**	**70,132**
MOSCOW METROPOLITAN AREA (MMA)[4]								
1. Emerald Hills	Construction	850	227	1,607	12,497	62,04	40,427	6,447
2. Etalon-City	Construction	356	94	902	6,041	29,607	20,146	6,039
3. Summer Garden (Dmitrovskoe shosse)	Construction	294	177	1,177	7,425	30,491	17,426	11,88
4. Silver Fountain (Alekseevskiy district)	Construction	225	206	2,071	10,79	44,227	21,223	19,66
5. Perovo Region	Design stage	162	130	1,063	2,729	17,77	9,03	9,03
6. Ryazanskiy Prospekt	Design stage	145	119	732	2,745	18,576	8,572	8,572
7. Normandy (Losinoostrovskiy district)	Construction	131	113	706	4,544	15,691	7,765	6,861
8. Mytishinskiy district	Design stage	93	82	322	722	6,864	4,469	4,376
9. Nizhegorodskiy region	Design stage	86	72	734	1,529	9,446	4,821	4,821
10. Golden Star (Budennogo)	Construction	85	20	168	1,978	10,536	6,02	680
11. Letnikovskaya Street	Design stage	75	75	511	8,188	24,478	7,026	7,005
TOTAL MMA		**2,502**	**1,314**	**9,993**	**59,189**	**269,726**	**146,925**	**85,370**
TOTAL CURRENT PROJECTS		**4,374**	**2,562**	**18,781**	**108,226**	**456,316**	**248,927**	**155,502**
COMPLETED PROJECTS								
Residential property in completed projects		2,005	237	4,803	17,775	141,022		
Completed stand-alone commercial properties		24	19	55	924	—		
TOTAL COMPLETED PROJECTS		**2,030**	**257**	**4,858**	**18,699**	**141,022**		
TOTAL ETALON GROUP PROJECT PORTFOLIO		**6,403**	**2,818**	**23,639**	**126,925**	**597,338**	**248,927**	**155,502**

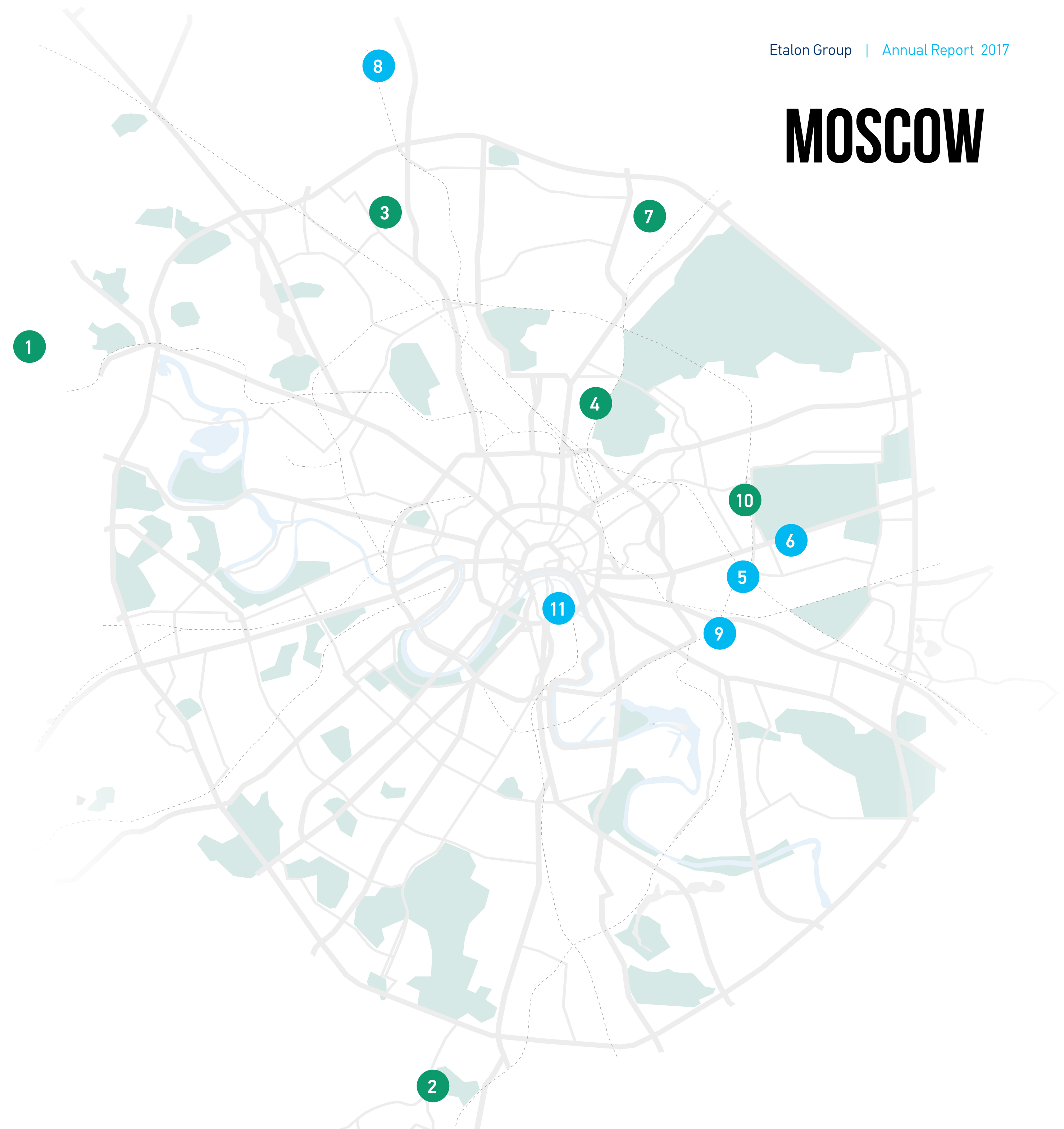
1 Including parking. Parking area in launched projects with partially sold parking lots is calculated as 30 sqm per parking place.
2 Income from sales includes potential and received incomes as of 31 December 2017.
3 Excluding land acquisition costs.
4 Moscow, New Moscow and Moscow region within 30 km from the Moscow Ring Road.

Source: Knight Frank valuation report as of 31 December 2017.

ST PETERSBURG



MOSCOW



PROJECTS IN ST PETERSBURG METROPOLITAN AREA[1]

UNDER CONSTRUCTION

1 Galactica
2 Moscow Gates
3 Samotsvety
5 House on Blyukhera (Kalininskiy district)
8 Morskaya zvezda
9 Botanica
10 House on Obruchevykh Street
12 House on Kosmonavtov
13 Fusion (Project on Krapivniy Pereulok)

DESIGN STAGE

4 Krasnogvardeiskiy district
6 Project on Petrovskiy Island
7 Nevsky district
11 Beloostrovskaya
14 Korolyova Prospekt

COMPLETED

PROJECTS IN MOSCOW METROPOLITAN AREA[1]

UNDER CONSTRUCTION

1 Emerald Hills
2 Etalon-City
3 Summer Garden (Dmitrovskoe shosse)
4 Silver Fountain (Alekseevskiy district)
7 Normandy (Losinoostrovskiy district)
10 Golden Star (Budennogo)

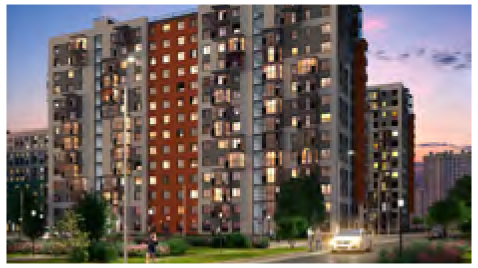
DESIGN STAGE

5 Perovo region
6 Ryazanskiy Prospekt
8 Mytishinskiy district
9 Nizhegorodskiy region
11 Letnikovskaya Street

1 As of 31 December 2017.

GALACTICA RESIDENTIAL QUARTER

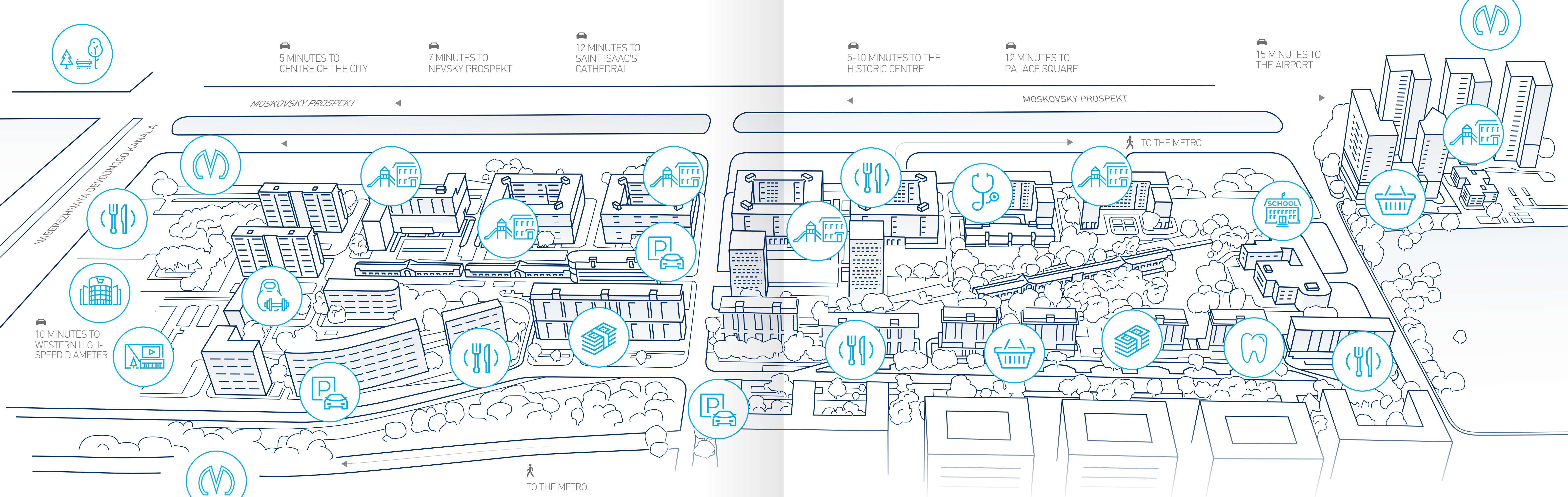
ALTHOUGH WE FOCUS ON LARGE AND MEDIUM-SIZE PROJECTS AND AVOID HOLDING A SIGNIFICANT VOLUME OF MEGAPROJECTS IN OUR PORTFOLIO IN ORDER TO ENSURE THAT OUR BUSINESS DOES NOT DEPEND ON DEMAND IN A CERTAIN LOCATION, WE HAVE INVESTED IN A LARGE DEVELOPMENT PROJECT IN ST PETERSBURG. WE ARE CERTAIN THAT ITS CENTRAL LOCATION AND UNIQUE FEATURES WILL CREATE SUFFICIENT DEMAND



Total NSA	797 THS SQM
Open market value[1]	RUB 18,425 MLN
Income from sales[1]	RUB 70,712 MLN

Galactica is the largest-scale development project in central St Petersburg. The project is situated across two districts: Admiralteiskiy and Moskovskiy, next to the Naberezhnaya Obvodnogo Kanala. With a convenient location just south of central St Petersburg, this is a prestigious location both for living and for doing business. Each building has its own courtyard and unique exterior design concept. A large selection of carefully thought-out floorplans will enable future tenants to organise their living space in an ergonomic way. Located nearby are a shopping centre with a cinema, as well as a concert hall and sports area, stores, restaurants and cafés, parks and museums. On the ground floor of the apartment buildings, there are commercial premises for shops, beauty salons, repair workshops, and bank branches. There are also plans to include preschools, schools and a medical practice on the premises.

Despite the scope of the project, it has good access to public transport throughout. In the southern section of the plot, the project neighbours the Moskovskie Vorota metro station. The Frunzenskaya and Baltiyskaya metro stations are located near the north part of the project. There are plans to build an aero-express train terminal at the nearby Vitebsky railway station, which will make it possible to reach the airport quickly. Close by are the prominent thoroughfare Moskovsky Prospekt, Naberezhnaya Obvodnogo Kanala, and the Mitrofanov highway, as well as an exit to the Western High-Speed Diameter highway (WHSD). The historical city centre can be reached in 5–10 minutes by car, and the city airport in 15–20 mintues.



1 Knight Frank estimate as of 31 December 2017.

BUSINESS-CLASS PROJECTS

BOTANICA

ST PETERSBURG

Total NSA	47 THS SQM
Open market value[1]	RUB 1,564 MLN
Income from sales[1]	RUB 6,670 MLN

BOTANICA

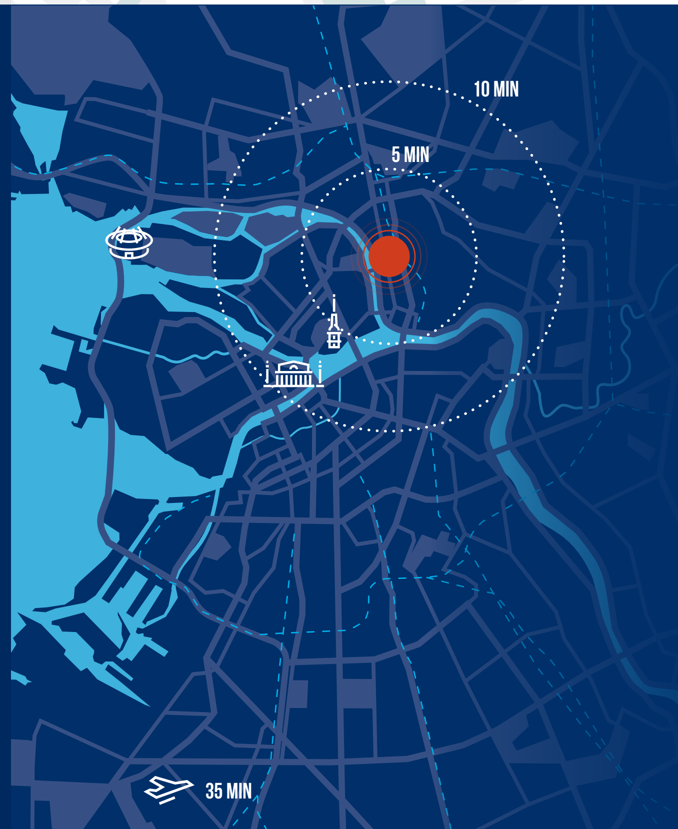
This project is situated on Aptekarskiy Prospekt in the prestigious Petrogradskiy district of St Petersburg. Botanica's name takes its inspiration from the St Petersburg Botanical Gardens located just 200 metres from the complex, and because the project will be constructed to meet modern environmental standards. As a business-class project, Botanica will offer a wide range of apartments with unique floorplans. The building's external facade fits in harmoniously with St Petersburg's architectural traditions while integrating modern features and design elements. The contemporary landscaping for Botanica's multi-zone internal courtyard will provide residents with space for walking as well as for leisure activities. The prestigious, centrally located neighbourhood surrounding Botanica contains several cutting-edge medical centres, as well as long-established educational institutions. The project is also near the Aptekarskaya Embankment of the Neva River, where residents can enjoy walking along the river on wide, tree-lined sidewalks.

1 Knight Frank estimate as of 31 December 2017.

FUSION

ST PETERSBURG

Total NSA	14 THS SQM
Open market value[1]	RUB 607 MLN
Income from sales[1]	RUB 1,756 MLN



FUSION

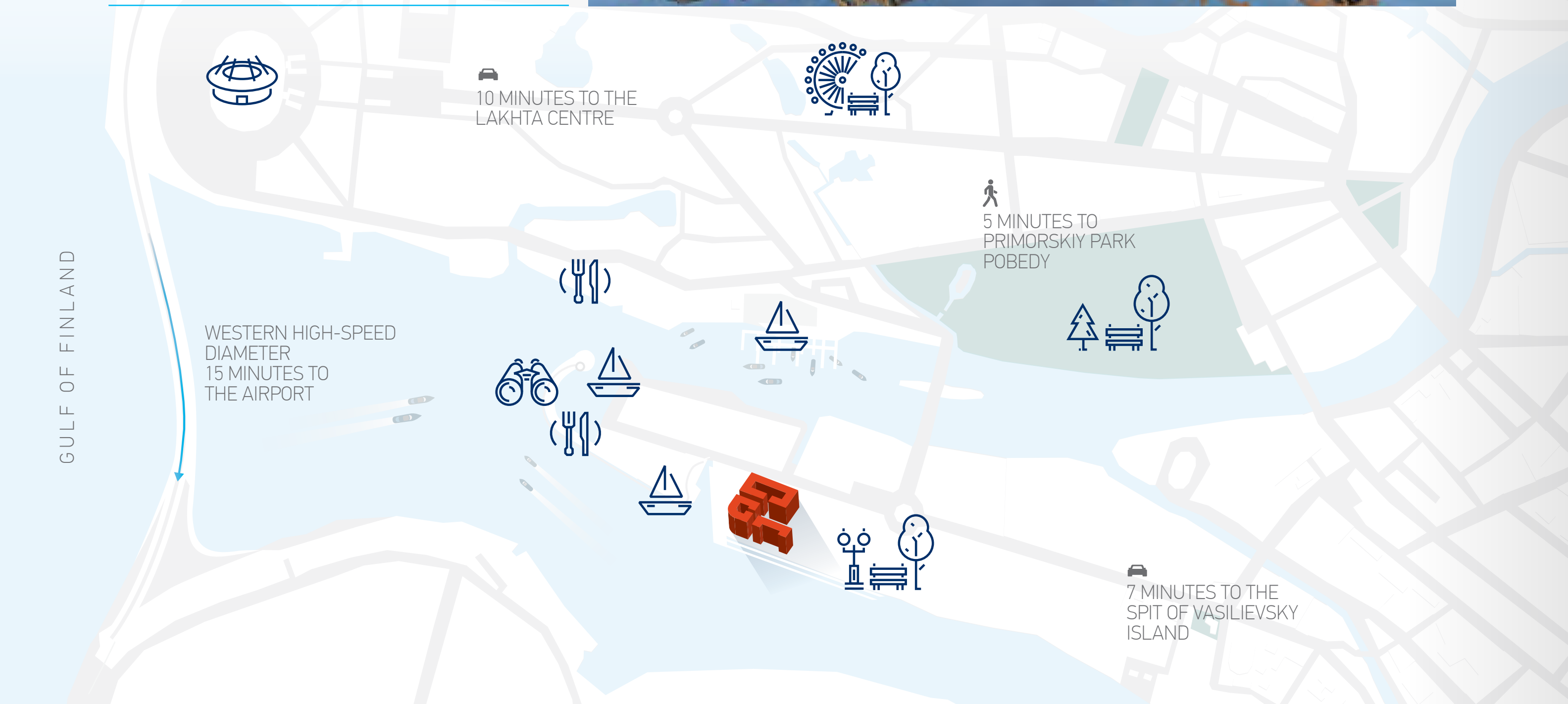
Located near the historic centre of St Petersburg and the Neva Embankment on a quiet side street on the border of the Vyborgskiy and Petrogradskiy districts, this business-class project is in a well-developed area of the city, with educational, medical and sporting facilities, as well as shops, banks and cafes, all in close proximity. The custom architecture of the project includes a facade of natural stone and terracotta panels and stained glass. The project is surrounded by parks, with Grenaderskiy Garden and Sampsonievskiy Garden just around the corner. Vyborgskaya metro station is within five minutes' walk. The project has easy access to major transport routes, including Vyborgskaya Embankment, Bolshoy Sampsonievskiy Prospekt, and Lesnoy Prospekt.

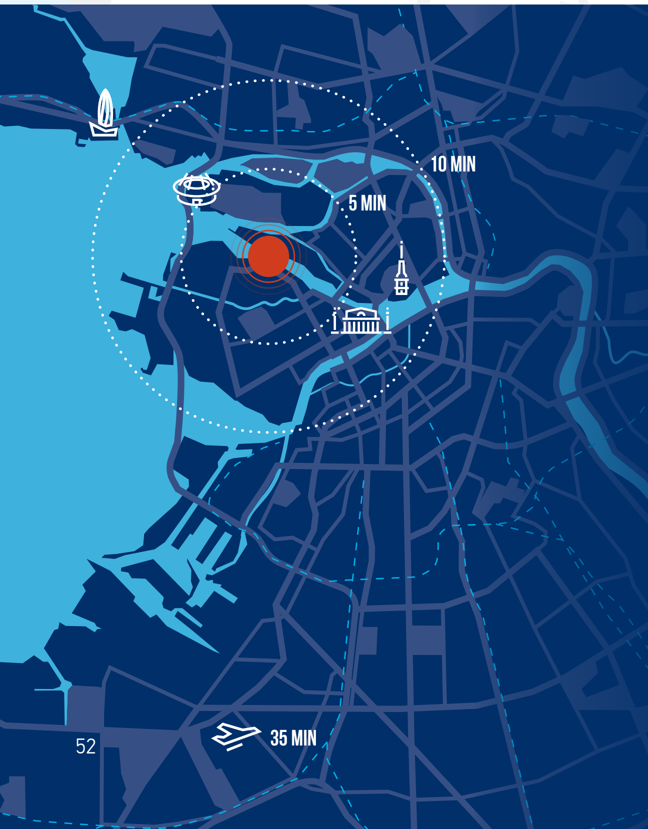
1 Knight Frank estimate as of 31 December 2017.

PROJECT ON PETROVSKIY ISLAND

ST PETERSBURG

Total NSA	77 THS SQM
Open market value[1]	RUB 6,454 MLN
Income from sales[1]	RUB 15,032 MLN





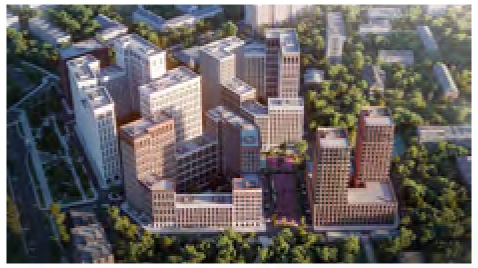
PROJECT ON PETROVSKIY ISLAND

This project will be built in one of the most prestigious locations in St Petersburg. It benefits from direct access to a long embankment and close proximity to parks, which will provide excellent views of the Neva River and green areas. Various recreation areas, including a yacht club, upscale restaurants, Petrovskiy Park and parks on Krestovskiy Island, as well as stadiums and sports facilities, are located nearby. This development will have vivid and memorable buildings containing a wide variety of flats that meet the highest standards. All of the apartments will have 3.3-metre-high ceilings, with spacious and functional living spaces. The development will also feature urban landscaping covering more than 7,000 square metres, creating a unique atmosphere of amenity and comfort. Outdoor areas will include playgrounds, sitting areas, walking paths and sports facilities; small architectural features and landscaping designed specifically for this project will make these areas more unique. The western section of the land plot will include a public square that connects to the beautiful Southern Pier.

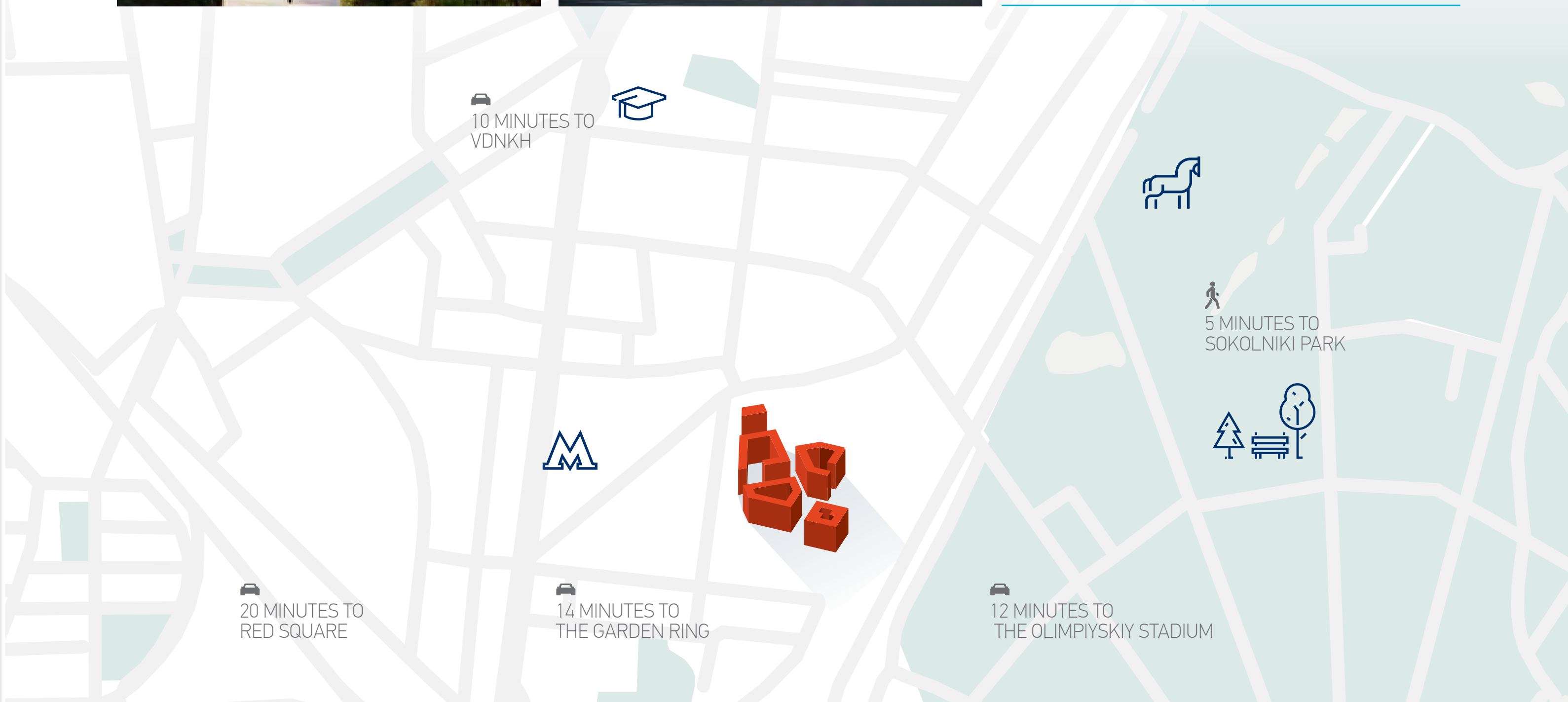
1 Knight Frank estimate as of 31 December 2017.

SILVER FOUNTAIN

MOSCOW



Total NSA	225 THS SQM
Open market value[1]	RUB 10,790 MLN
Income from sales[1]	RUB 44,227 MLN



SILVER FOUNTAIN

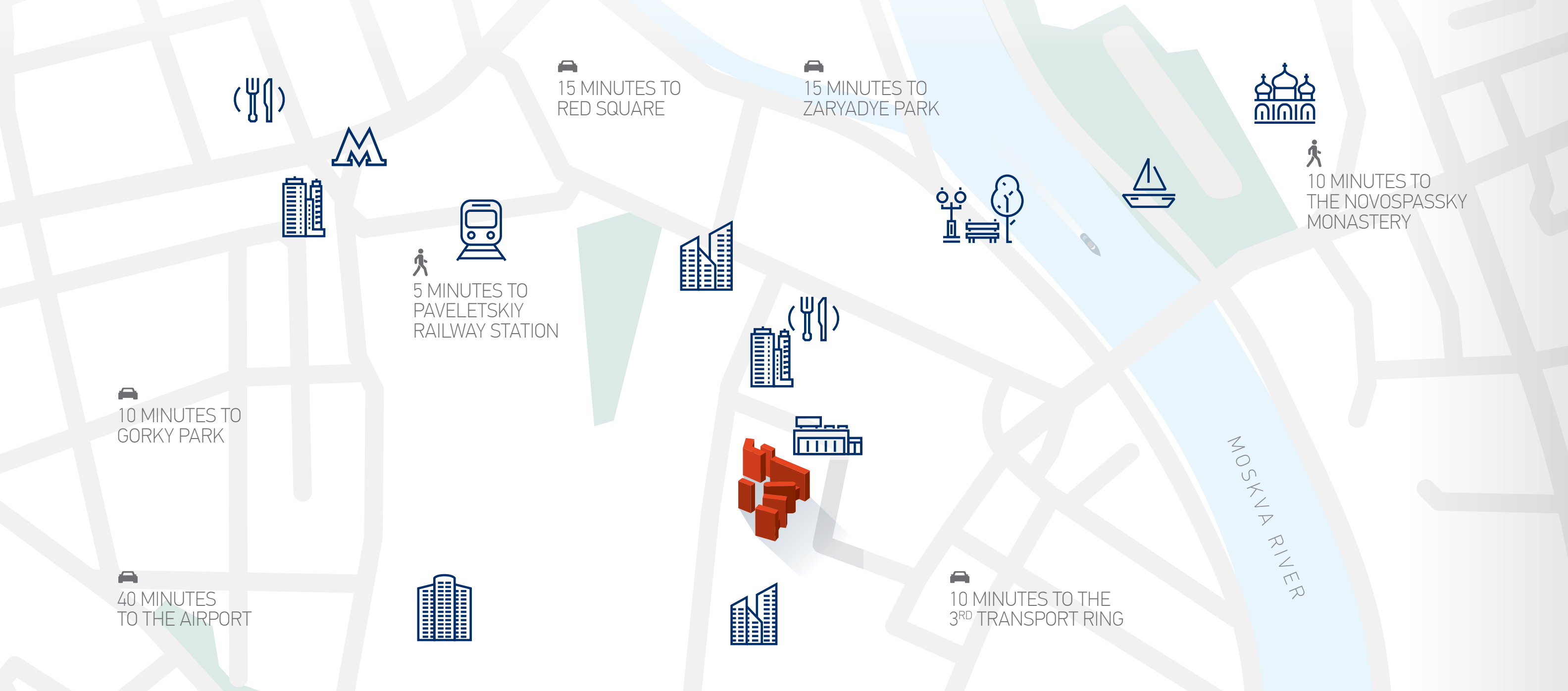
Silver Fountain is Etalon Group's first high-end business-class project in Moscow. It is located in Moscow's North-Eastern Administrative Division, close to Prospekt Mira. Silver Fountain will consist of five residential and commercial buildings, including a business centre, as well as social infrastructure and parking. The Company worked with leading architects to create a unique gated residential complex in the historic centre of Moscow. The design of the new buildings is inspired by historical facades, while allowing for modern floorplans. The neighbourhood where Silver Fountain is located is surrounded by the green area of Sokolniki Park. VDNKh, one of Moscow's most popular parks and exhibition centres, is also within walking distance of the site. The heart of the city, Red Square, is just 15 minutes by car from the project.

1 Knight Frank estimate as of 31 December 2017.

PROJECT ON LETNIKOVSKAYA STREET

MOSCOW

Total NSA	75 THS SQM
Open market value[1]	RUB 8,188 MLN
Income from sales[1]	RUB 24,478 MLN



PROJECT ON LETNIKOVSKAYA STREET

Situated in the city centre on Letnikovskaya Street, this project is in a well-established and prestigious neighbourhood, with modern residential and entertainment infrastructure, as well as cultural sites, all located close by. Near the project are landscaped green areas, as well as the Moscow River. The project also benefits from its close proximity to a business district that is home to the headquarters of several financial institutions and international companies. The project will have excellent transport accessibility; Red Square is just a 10-minute drive from the project, and Paveletskiy railway station is located at the northern end of Letnikovskaya Street.

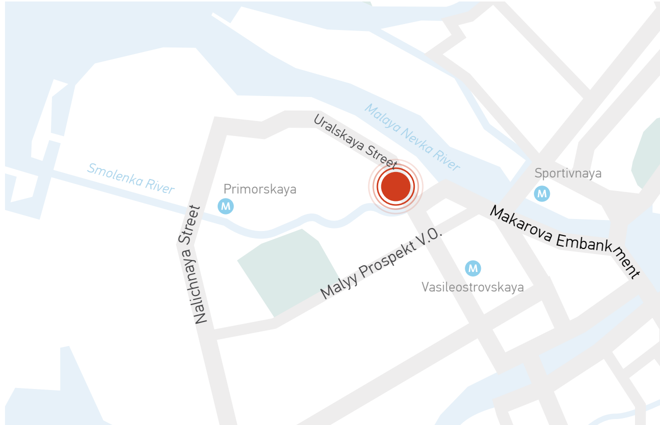
1 Knight Frank estimate as of 31 December 2017.

COMFORT-CLASS PROJECTS

COMFORT-CLASS PROJECTS IN ST PETERSBURG

SAMOTSVETY

Samotsvety is located in the Vasileostrovsky district of St Petersburg. The district's proximity to the centre of the city makes it a prestigious location. The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site. All necessary commercial and social infrastructure is within walking distance of the residential complex. The project is built in accordance with the concept of green living: the residential complex meets high standards of comfort, safety, environmental friendliness, energy efficiency, and aesthetics. Etalon Group has developed a concept for unique improvements and upgrades for the Samotsvety complex: the grounds include a public area with works of art to create an interesting, inspiring space.



Total NSA	212 THS SQM
Open market value[1]	RUB 5,670 MLN
Income from sales[1]	RUB 20,104 MLN

KRASNOGVARDEISKIY DISTRICT

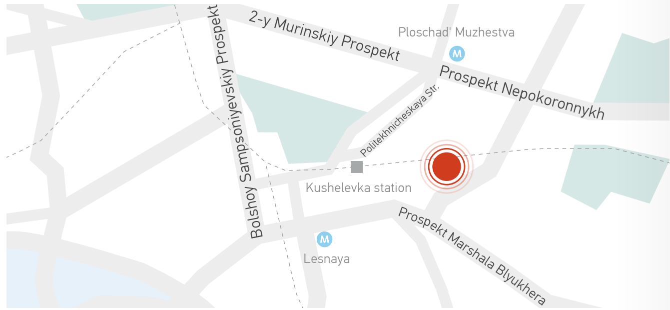
This project, called Okhta House, is in the Krasnogvardeisky district near long-established neighbourhods and well-developed infrastructure. It is located in a cozy green area near the Okhta River. Nearby are Polustrovsky Park and Ilyinsky Gardens. The complex consists of two residential buildings with built-in commercial premises, underground parking, and two freestanding commercial buildings. There are sufficient public transport routes within the vicinity of the complex.

Total NSA	141 THS SQM
Open market value[1]	RUB 4,431 MLN
Income from sales[1]	RUB 18,254 MLN

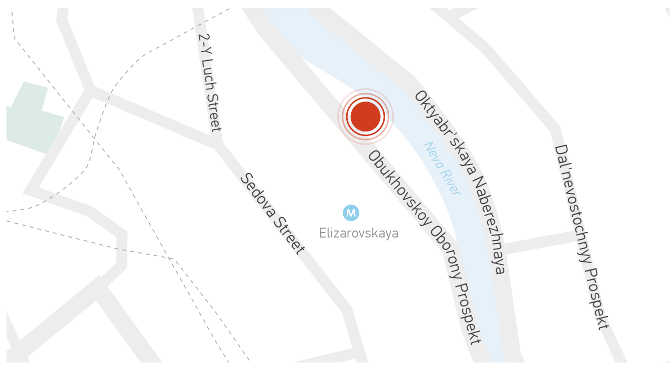
1 Knight Frank estimate as of 31 December 2017.

HOUSE ON BLYUKHERA

This project is located in the Kalininskiy district of St Petersburg and will include two 17-storey buildings and a multi-storey parking garage. The development will feature new floorplan options that reflect the latest trends in modern living spaces, in line with the Company's strategic goal of continually improving its product offering. The modern, flexible and convenient floorplans, large apartments with high ceilings and good views, and functional zoning of living space take the standards of contemporary comfort-class apartments to a whole new level. The ground floor will be occupied by non-residential establishments, including pharmacies, beauty salons, and clinics. Outdoor areas that are part of the development will include playgrounds, sitting areas, walking paths and sports infrastructure. The site is located on Marshala Blyukhera Prospekt in a well-developed neighbourhood in the Kalininskiy district. This project enjoys close proximity to preschools, schools, fitness clubs, as well as numerous stores, shopping and entertainment centres. The lovely Forestry Academy park and the Polustrovsky Garden make the neighbourhood an even more attractive and pleasant place to live in.



Total NSA	107 THS SQM
Open market value[1]	RUB 2,014 MLN
Income from sales[1]	RUB 9,761 MLN

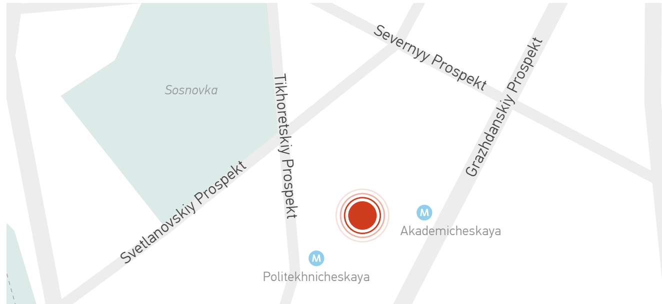


NEVSKY DISTRICT

The hallmark of this new project is its direct access to the Neva River, which will give residents a view of the water from their apartment windows. On the waterfront near the project, there are cafes and restaurants to suit any taste. Several fitness centres are also situated close by, along with two parks. The site is located in a district with well-developed residential and transport infrastructure. It is just a five-minute walk from the Elizarovskaya metro station, while the historic centre can be reached in 15 minutes by car. The site's proximity to the Alexandr Nevskiy, Voldarskiy and Vantoviy bridges, as well as to Obvodniy Canal, provides easy access to major transport routes.

Total NSA	76 THS SQM
Open market value[1]	RUB 1,868 MLN
Income from sales[1]	RUB 7,153 MLN

1 Knight Frank estimate as of 31 December 2017.



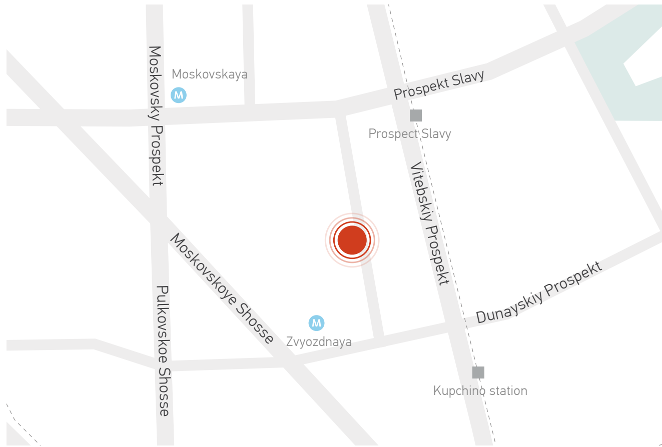
HOUSE ON OBRUCHEVYKH STREET

This project is located in the Kalininskiy district of St Petersburg, within walking distance of two metro stations in a well-developed neighbourhood with stores, entertainment and fitness centres, as well as schools and preschools, all in close proximity. The environmental conditions in this area are among the most favourable in St Petersburg. In the immediate vicinity are the largest parks in the city: the Polytechnic University and Sosnovka Park, Benois Garden and Vavilovsky Square.

Total NSA	42 THS SQM
Open market value[1]	RUB 1,634 MLN
Income from sales[1]	RUB 4,967 MLN

HOUSE ON KOSMONAVTOV PROSPEKT

One of the main advantages of this project is its location. It is located in a popular Moscow district, with established social, recreational, shopping, and entertainment infrastructure and excellent transport accessibility. The project is a 10-minute walk from the Zvyozdnaya metro station and has access to major roads. The complex is situated close to a number of stores, as well as educational and sports facilities. In contrast to densely populated areas where there is little greenery, the House on Kosmonavtov Prospekt is near the picturesque Pulkovo park, which features a pond. In the landscaped areas of the complex, there are places for sports and walking as well as a preschool with space for 50 children.



Total NSA	27 THS SQM
Open market value[1]	RUB 947 MLN
Income from sales[1]	RUB 2,560 MLN

1 Knight Frank estimate as of 31 December 2017.

COMFORT-CLASS PROJECTS IN MOSCOW

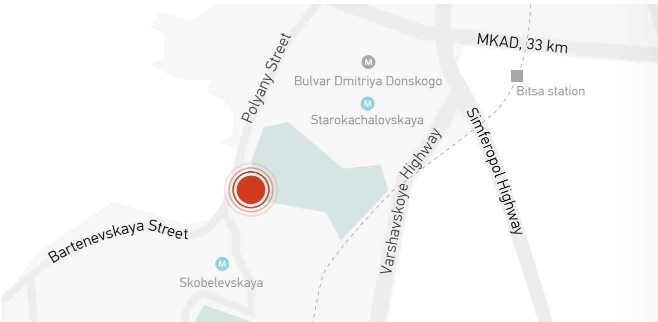
EMERALD HILLS

Emerald Hills is Etalon Group's flagship project in the MMA. The complex is built in one of the most environmentally clean areas in the Moscow region. It is surrounded by coniferous forest, and adjacent to one side is a landscaped park with space to relax and walking paths that will be developed. The project also includes seven preschools, five schools, a medical centre with a polyclinic for adults and children, a ballet school, a shopping centre, a sports and entertainment complex and a fitness centre.

Total NSA	850 THS SQM
Open market value[1]	RUB 12,497 MLN
Income from sales[1]	RUB 62,040 MLN

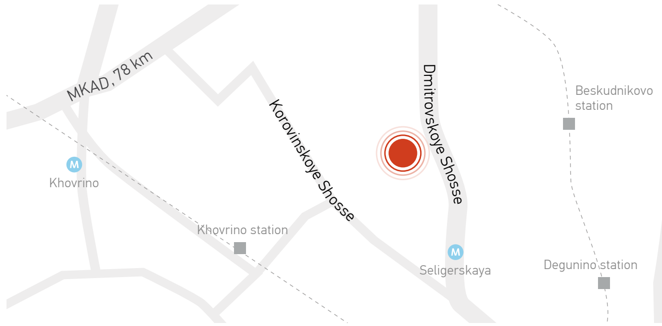
ETALON CITY

Etalon City is located in the South Butovo region in south-west Moscow, which is a well-developed residential area that benefits from natural surroundings. The complex will include nine comfort-class residential buildings, commercial premises, and other social infrastructure. Etalon City has good transport accessibility; the Ulitsa Skobelevskaya metro station and a number of bus stops are situated within walking distance. One special aspect of this complex is its architectural concept. Each house will have a facade that symbolises a different city. The first planned facades will reproduce the silhouettes of New York, Chicago, Barcelona, and Monaco. In addition to the facade design, the themes will be developed through the decoration of public areas and landscape design.



Total NSA	356 THS SQM
Open market value[1]	RUB 6,041 MLN
Income from sales[1]	RUB 29,607 MLN

1 Knight Frank estimate as of 31 December 2017.



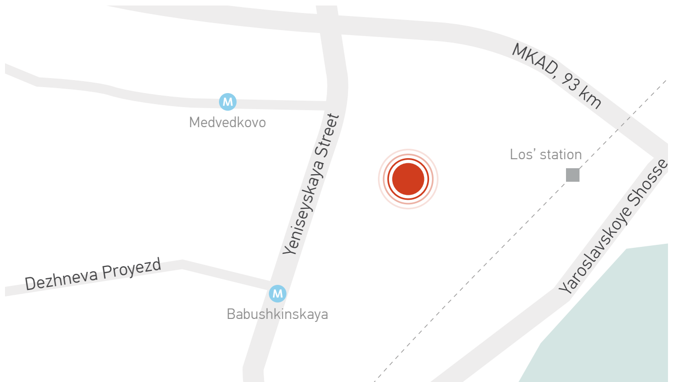
SUMMER GARDEN

This project is comprised of 11 residential buildings of up to 24 storeys, as well as commercial and social infrastructure. The project includes 3,081 apartments and 1,181 parking spaces. The project benefits from both good transport accessibility and proximity to parks. Summer Garden is situated in a pleasant area close to the Angarsk Prudy Park, Dmitrovsky Park, and the Veteran Theme Park. It is easily accessed from Yahromsky Passage and the Dmitrovskoye Shosse. Seligerskaya metro station, on which construction recently started, is just 1.5 km from the complex, and there are plans to build another metro station, Yubileinaya, adjacent to the site.

Total NSA	294 THS SQM
Open market value[1]	RUB 7,425 MLN
Income from sales[1]	RUB 30,491 MLN

NORMANDY

Normandy is a comfort-class residential project comprising four residential buildings of up to 22 storeys each, underground parking facilities, a preschool and a primary school. The project is located in Moscow's Losinoostrovsky district, which has well-developed infrastructure, including educational and healthcare facilities, shopping malls and cafes. It is one of Moscow's greenest 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 City Ring Road (MKAD) and has easy access to major transport routes. The complex is within walking distance of two metro stations, Medvedkovo and Babushkinskaya.



Total NSA	131 THS SQM
Open market value[1]	RUB 4,544 MLN
Income from sales[1]	RUB 15,691 MLN

1 Knight Frank estimate as of 31 December 2017.

05

OPERATING PERFORMANCE

OPERATING PERFORMANCE

FY 2017 OPERATING HIGHLIGHTS

NEW CONTRACT SALES
50,240
RUB MLN
YEAR-ON-YEAR **+6%**

CASH COLLECTIONS
46,147
RUB MLN
YEAR-ON-YEAR **+16%**

MORTGAGE SALES
3,357
CONTRACTS
YEAR-ON-YEAR **+64%**

AVERAGE DOWN PAYMENT
79%
YEAR-ON-YEAR **+11 P.P.**

RUB 50.2 BLN
New contract sales

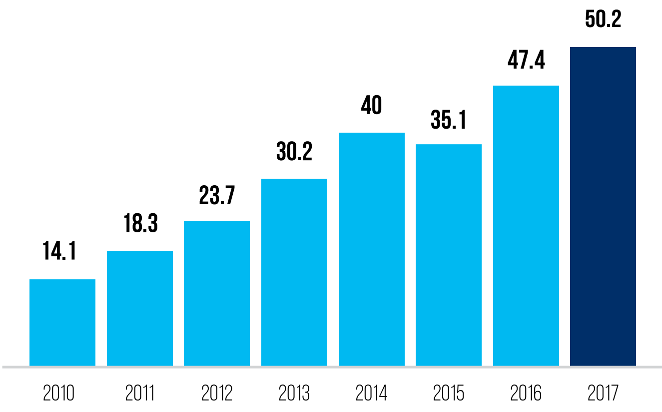
512 THS SQM
All-time high new contract sales

WE SET YET ANOTHER NEW CONTRACT SALES RECORD IN BOTH RUB AND SQM TERMS IN 2017

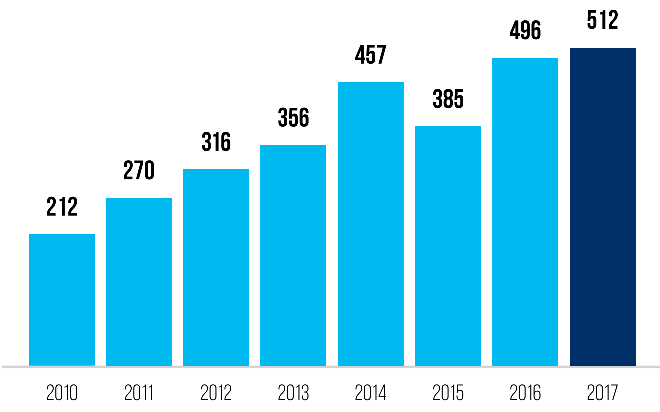
Etalon Group delivered yet another record year in 2017, with new contract sales amounting to RUB 50.2 billion and 512 ths sqm. This solid performance was made possible thanks to the enhanced sales and marketing management team that joined the Company in 2017, further diversification of our portfolio, including into higher-end business-class projects, and strong demand for our offering supported in part by declining mortgage rates throughout the year.

Our strong operating results in 2017 were driven by a combination of external and internal factors; stabilisation in Russia's macro environment and falling mortgage rates helped increase activity in the housing sector overall, while our efforts to diversify our portfolio, adapt our product to current trends in customer demand, and strengthen our sales and marketing team enabled Etalon Group to outgrow the market in 2017. Sales were especially strong in the second half of the year, with new contract sales in rouble terms rising by 18% year-on-year in 2H 2017.

NEW CONTRACT SALES
RUB BLN



NEW CONTRACT SALES
THS SQM



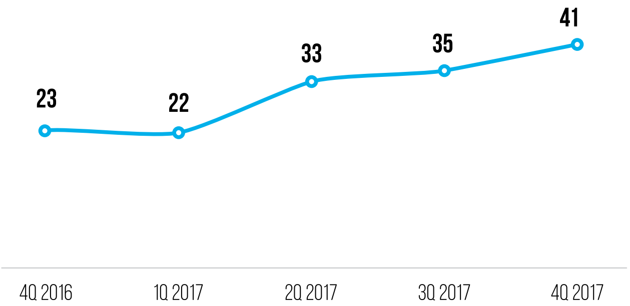
	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
New contract sales (sqm)	153,745	113,646	122,427	113,979	162,109
New contract sales (RUB mln)	13,725	10,248	11,346	11,970	16,676
Number of contracts	3,001	2,082	2,321	2,331	3,182
Average price (RUB/sqm)	89,272	90,178	92,676	105,015	102,869
Average price (apartments) (RUB/sqm)	105,928	111,382	109,390	114,582	115,806
Cash collections (RUB mln)	11,123	9,714	9,283	12,433	14,717

One of the key factors affecting the residential real estate market in 2017 was the increasing accessibility of mortgage financing, thanks to a combination of a drop in the Bank of Russia's key rate and state programmes to subsidise mortgage rates for certain groups of the population. This encouraged strong growth in mortgage sales in 2017, accounting for 34% of new sales, compared to 21% in 2016. By the fourth quarter, mortgage sales represented 41% of our total sales.

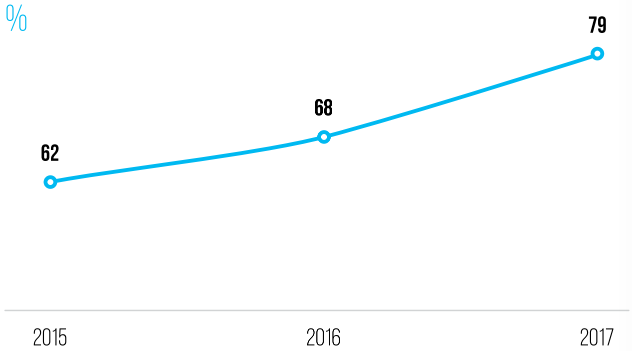
The increasing share of mortgage sales is seen as a sustainable trend, in line with the factors described above.

The growing share of mortgages in our total sales led to an increasing number of contracts paid in full upon signing. This helped to bring the average down payment for new sales contracts up to 82% in 4Q 2017 and 79% for FY 2017, vs 68% in 2016.

SHARE OF MORTGAGES
%

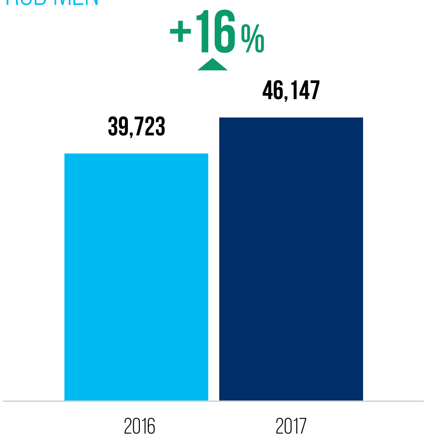


DOWN PAYMENT
%



Etalon's business model has historically set a target level of a 50% down payment for new contracts, and the high level achieved in 2017 supported a 16% year-on-year increase in cash collections, which reached RUB 46.1 billion for 2017.

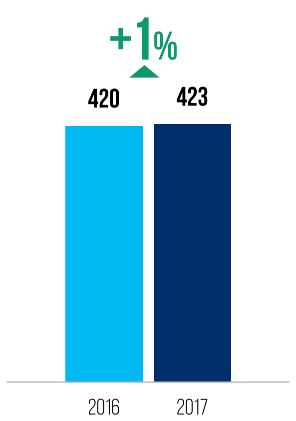
CASH COLLECTION
RUB MLN



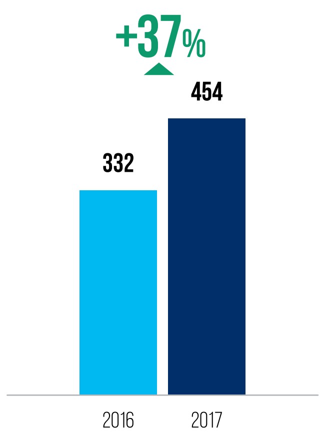
With the introduction of IFRS 15 rules starting from our FY 2017 financial results, revenue recognition will not depend on the volume of transfers to customers, and this indicator will have an informative nature that will not directly affect financial results. Under the new standard, sales revenue for contracted premises will be recognised over time, depending on the completion status of construction works. This new standard will align information reported in the financial statements with actual operating performance, thus making our financial statements more accurate (see "IFRS 15 Adoption" on page 70 for a detailed description of the changes). Deliveries in 2017 amounted to 423 ths sqm, in line with 2016 performance and with our guidance for the year.

AVERAGE DOWN PAYMENT REACHED 82% IN 2H 2017

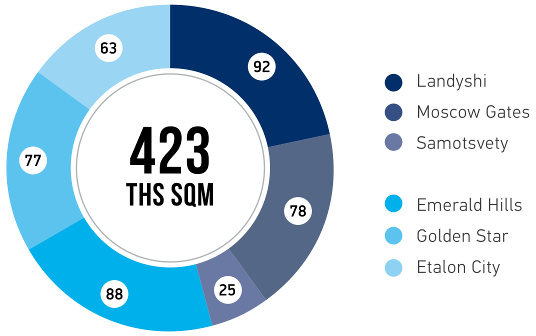
DELIVERIES
THS SQM



TRANSFERS
THS SQM



2017 DELIVERIES, NSA
THS SQM

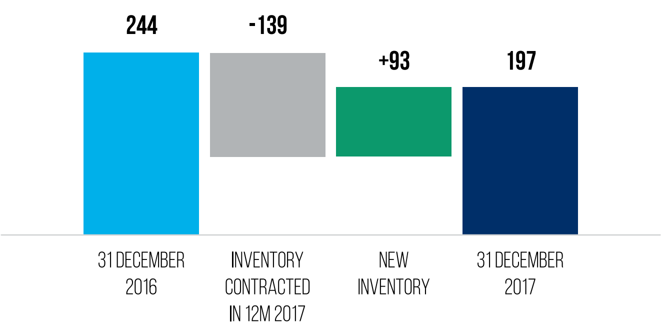


RUB 113 THS PER SQM
RECORD HIGH AVERAGE PRICE FOR APARTMENTS

In line with our strategic goal of enhancing our inventory management by reducing inventories of available and ready-for-sale apartments, we have maintained deliveries at stable levels in the last two years, while increasing sales volumes as we successfully sell down available and ready-for-sale properties in our portfolio. Going forward, we aim to grow deliveries in line with sales.

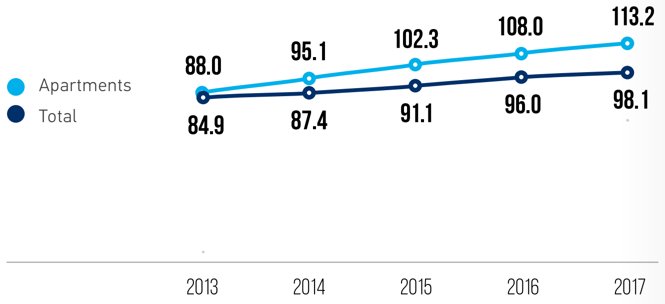
During 2017, we decreased the volume of available and ready-for-sale apartments by 19% to 197 ths sqm as of 31 December 2017.

INVENTORY OF COMPLETED AND AVAILABLE-FOR-SALE APARTMENTS[1]
THS SQM



As we gear up for a new era of growth in the size of our business, we also aim to increase profitability. One of the keys to achieving this will be achieving higher prices for the property we sell. Prices per sqm continued to grow in 2017, supported in part by Etalon Group's successful diversification into higher-end business-class projects like Silver Fountain in Moscow. The average price for apartments rose by 5% year-on-year, from RUB 107,959 per sqm in 2016 to RUB 113,160 per sqm in 2017.

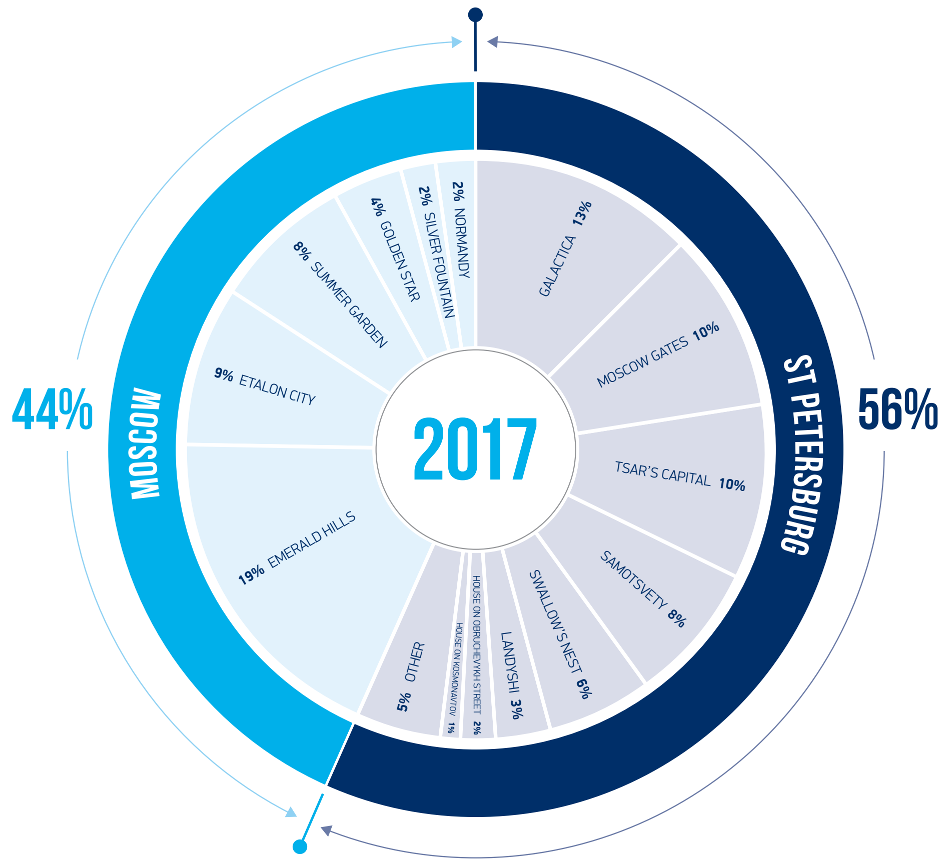
AVERAGE PRICE
RUB THS PER SQM

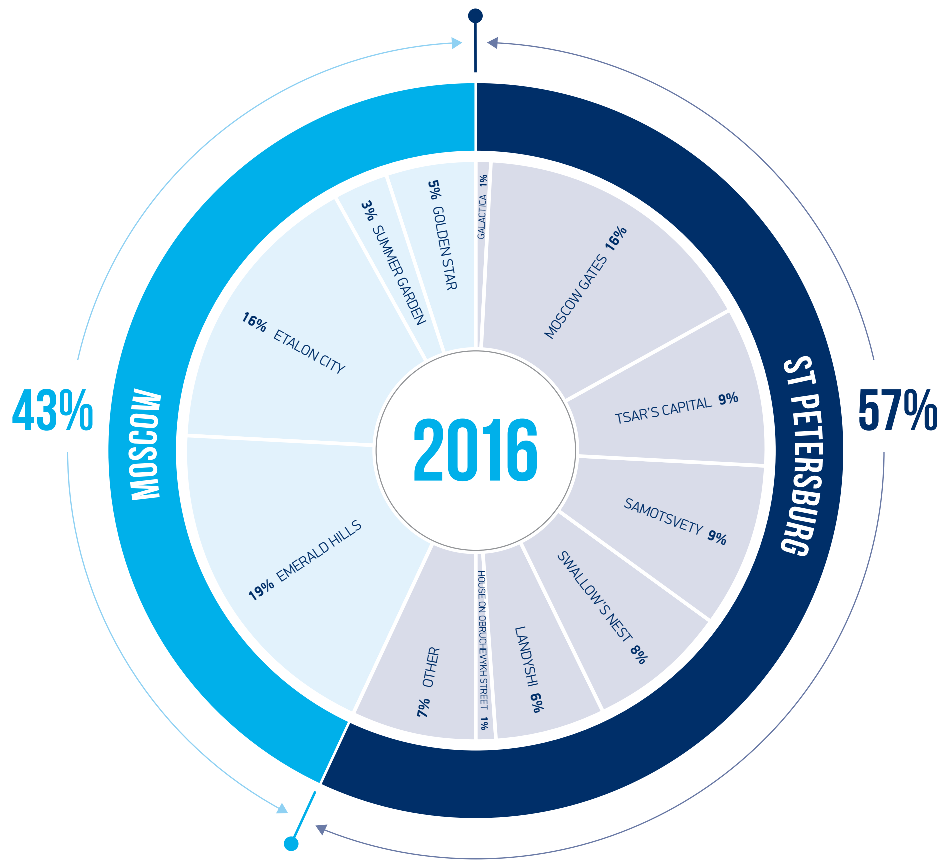


Etalon Group continues to successfully diversify its sales portfolio by launching new and modern comfort-class projects in attractive regions of Moscow and St Petersburg, as well as with new business-class projects or new stages at existing projects. This includes the launch of Silver Fountain, our first business-class project in Moscow, as well as high-end projects like Botanica and Fusion in St Petersburg. In addition, we began selling flats at Normandy in Moscow. This brought the share of active projects in premium locations to 65% as of 4Q 2017, compared to 43% a year earlier. In 2018, Etalon Group plans to further diversify its offering, including with the launch of new projects acquired in 2017.

1 Numbers in this chart were calculated without rounding.

NEW CONTRACT SALES BY PROJECT, SQM[1]





1 Percentages may not add up due to rounding.

06

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

IFRS 15 ADOPTION

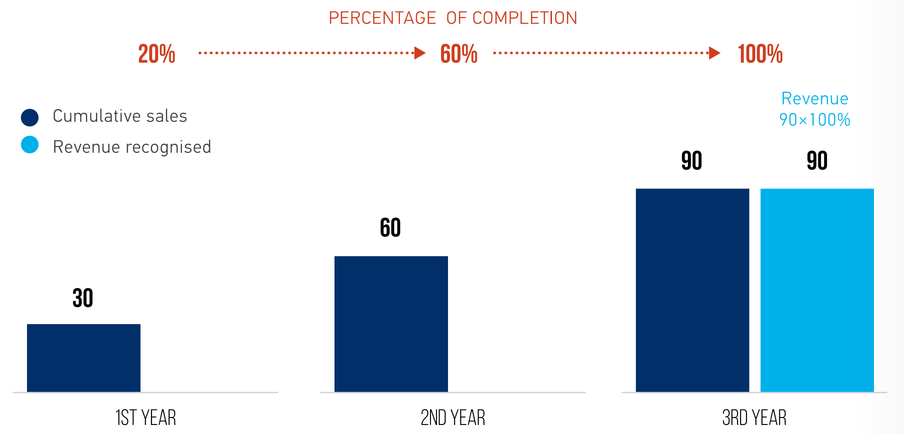
In line with global IFRS practice, Etalon Group adopted IFRS 15 "Revenue from Contracts with Customers", and has been applying the new rule since 1 January 2017. The Company's management chose to implement this new standard early in order to improve the transparency of its financial reporting, as under IFRS 15, Etalon Group's financial results are now better aligned with the Company's actual operating performance in a given reporting period.

Implementation of the new IFRS 15 standard has enabled us to recognise revenue and income for 2017 and future periods based not only on finished properties, but also for the contracted and completed portions of projects currently under construction. This resulted in a significant recovery in profitability across all lines in 2017, which we believe will be sustainable in the future.

ILLUSTRATIVE EFFECT FROM IFRS 15 ADOPTION

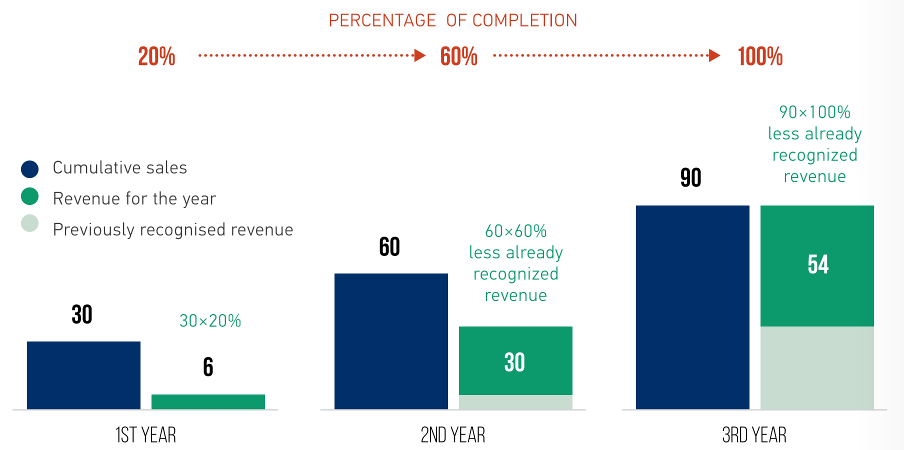
BEFORE IMPLEMENTATION

- Revenue from pre-sales of apartments and other contracted premises before construction completion was only recognised upon completion



AFTER IMPLEMENTATION

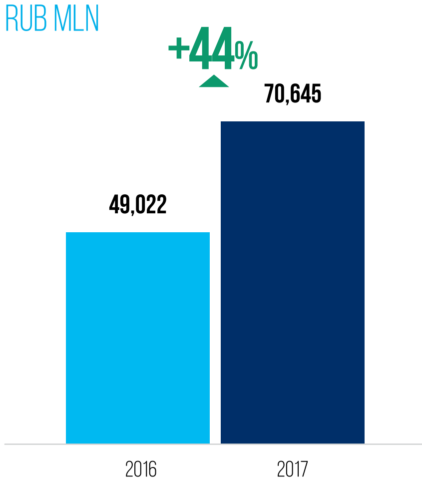
- Revenue from sales of apartments and other contracted premises will be recognized as a percentage of completion while construction is ongoing



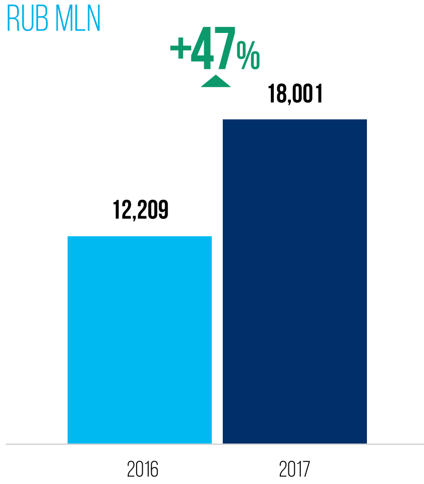
INCOME STATEMENT

Etalon Group's consolidated revenue for 2017 increased by 44% year-on-year to RUB 70,645 million, from RUB 49,022 million in 2016. On the back of record-setting revenue growth combined with a slower, 43% year-on-year increase in cost of sales, Etalon Group's gross profit was up by 47% year-on-year to RUB 18,001 million.

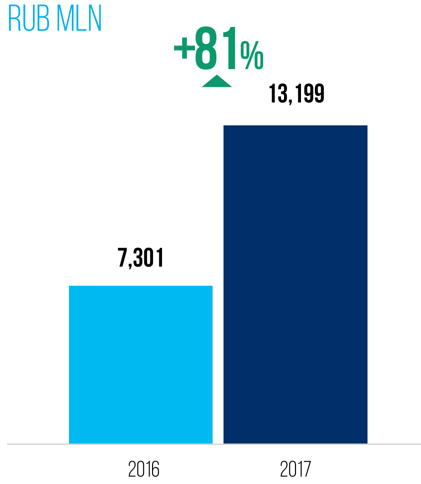
CONSOLIDATED REVENUE
RUB MLN



GROSS PROFIT
RUB MLN

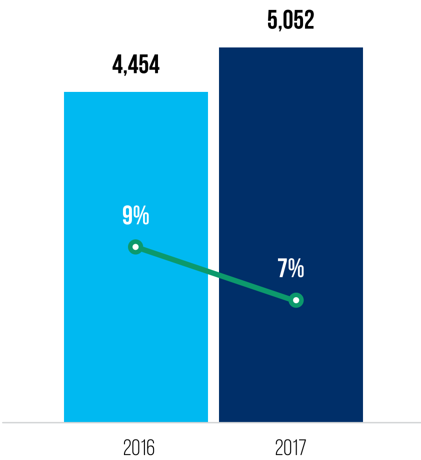


EBITDA
RUB MLN

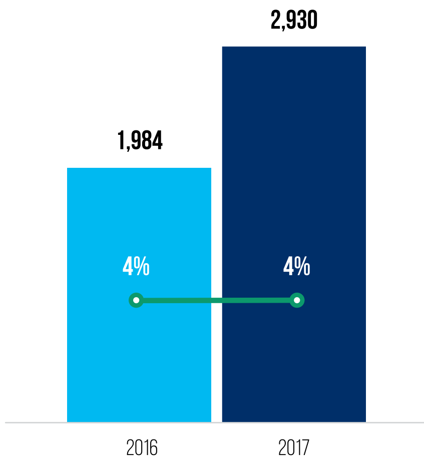


Thanks to successful efforts by the management team to maintain strict control over costs, even as the business grew and organisational changes were implemented, we managed to keep SG&A expenses growth to a minimum. General and administrative expenses as a share of revenue declined from 9% in 2016 to 7% in 2017, while selling expenses as a share of revenue were stable at 4%.

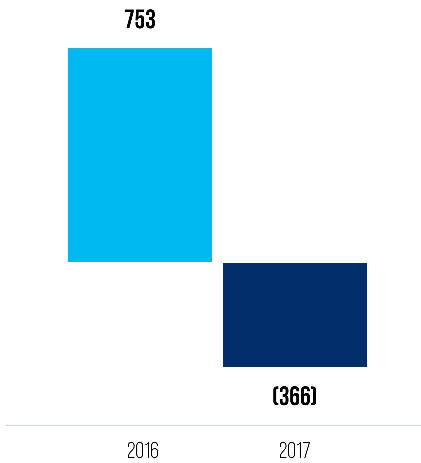
GENERAL AND ADMINISTRATIVE EXPENSES
RUB MLN



SELLING EXPENSES
RUB MLN



OTHER EXPENSES (INCOME)
RUB MLN

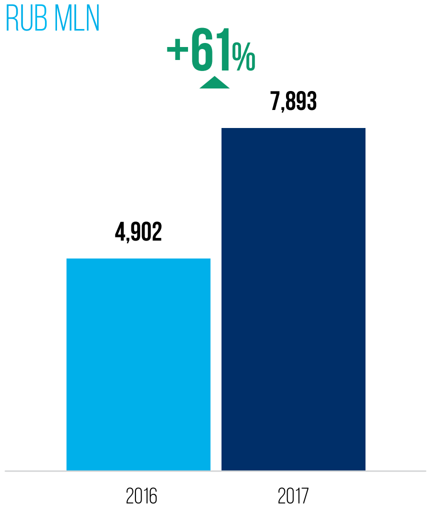


These factors contributed to an 81% year-on-year rise in earnings before interest, taxes, depreciation and amortisation (EBITDA) for 2017, which amounted to RUB 13,199 million. Etalon Group's EBITDA margin for the year was 19%, an impressive increase of 4 p.p. year-on-year.

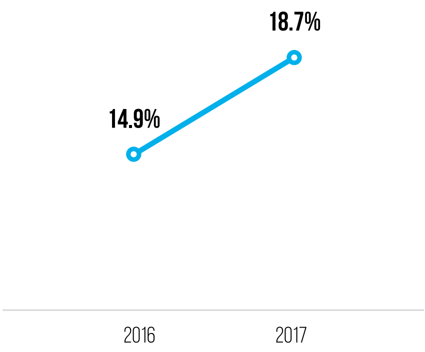
Profit for the period was RUB 7,893 million, up by 61% year-on-year, bringing net profit margin up by 1 p.p. to 11%.

In line with Etalon Group's dividend policy, which aims to pay out between 40% and 70% of consolidated IFRS net profit on a semi-annual basis, the Board of Directors is due to consider a dividend recommendation based on the Company's 2H 2017 net income of RUB 6,679 million, compared to a net income of RUB 3,594 million for 2H 2016.

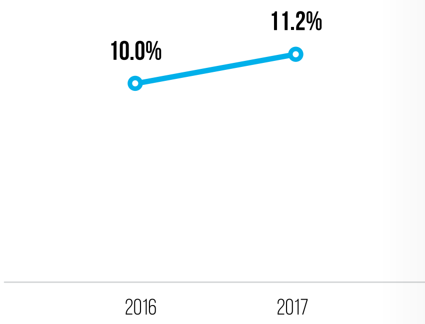
NET INCOME
RUB MLN



EBITDA MARGIN



NET MARGIN

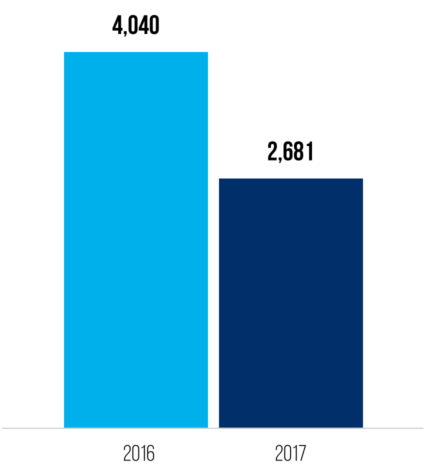


CASH FLOWS

Operating cash flow less interest paid remained positive for the second consecutive year in 2017 and amounted to RUB 2,681 million. This was made possible by continued implementation of improvements implemented by management in 2016, as well as further growth in average downpayments, supported primarily by growth in mortgage sales.

Etalon's strong ability to generate operating cash flow meant that operating cash flow remained positive despite acquisition of four new projects with 271 ths sqm of NSA during the year, including two business-class projects in St Petersburg and one in Moscow.

OPERATING CASH FLOW[1]
RUB MLN

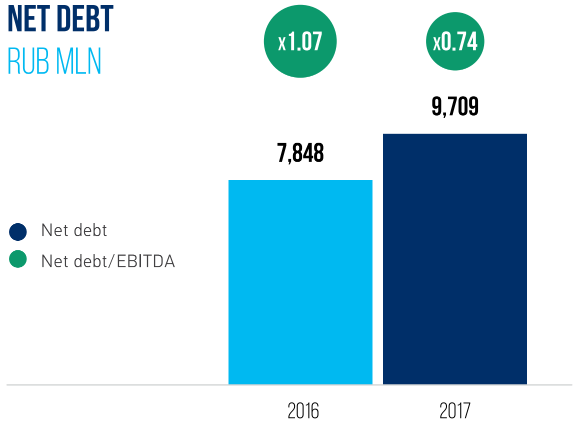


1 Operating cash flow less interest paid.
2 As of 31.12.2017.

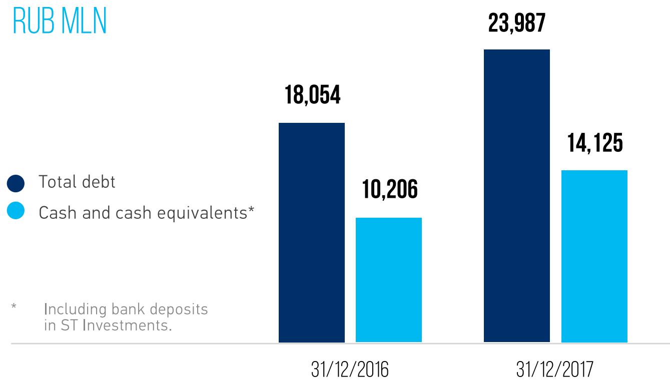
BALANCE SHEET

Etalon Group further improved its financial position, in line with its track record of maintaining low debt levels. Our net debt to EBITDA ratio decreased to 0.7x as of 31 December 2017 from 1.1x as of 31 December 2016.

NET DEBT
RUB MLN



STRONG LIQUIDITY POSITION
RUB MLN



As a company that sells to domestic customers with RUB-based revenue, we maintain 100% of our debt denominated in RUB.

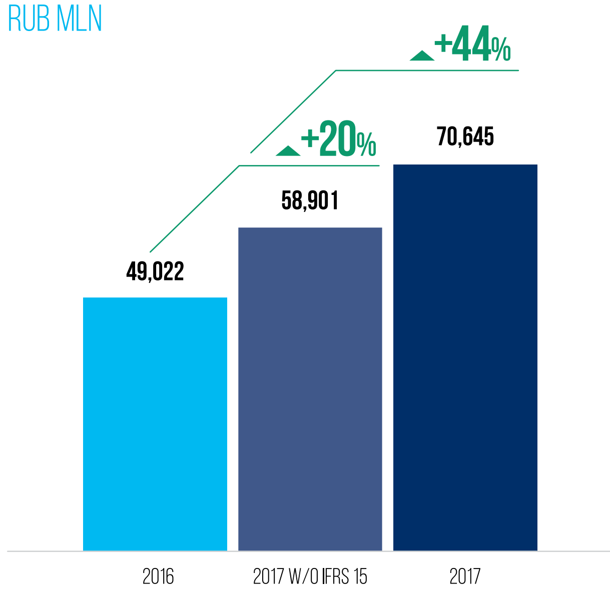
One of our key focuses in 2017 was to improve our borrowing costs and repayment schedule. In September 2017, Etalon Group subsidiary Etalon LenSpetsSMU placed bonds in the amount of RUB 5 billion with a five-year term and a coupon rate of 8.95%, which is the lowest ever in Etalon Group's history of public borrowing.

As a result of this and other measures, the average cost of borrowing declined from 12.71% at the end of 2016 to 10.29% at the end of 2017. This resulted in Etalon Group's interest payments decreasing by 13% year-on-year in 2017, despite an increase in gross debt.

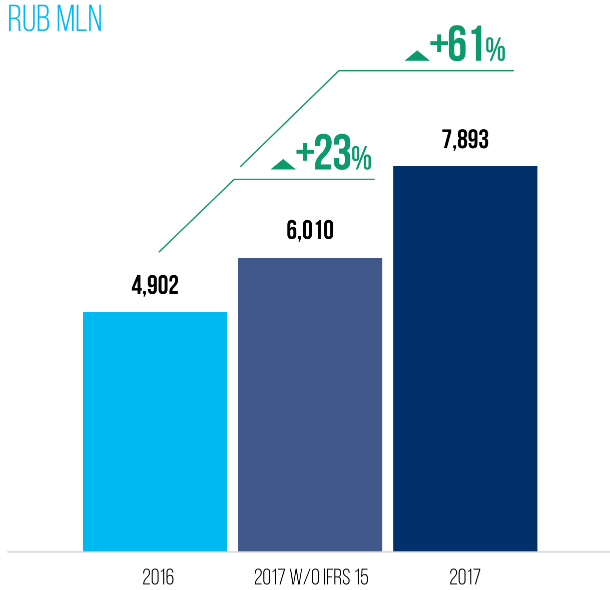
RESULTS WITHOUT IFRS 15 ADOPTION

While the adoption of IFRS 15 amplified the positive impact of Etalon Group's performance in 2017, the charts below illustrate that we achieved strong top-line and bottom-line growth last year even without the impact of the new reporting standard.

REVENUE
RUB MLN



NET INCOME
RUB MLN



07

SUSTAINABILITY

CONTENTS

STAKEHOLDER ENGAGEMENT

Building and maintaining good relationships with our stakeholders is a key component of our efforts to create value and achieve sustainable long-term growth. Engagement with the key groups listed below helps us to identify their expectations, generate ideas for improving our business, inform our stakeholders about the Company's performance and respond to their feedback. Our interaction with different groups of stakeholders with different interests helps us make better business decisions and creates a strong basis for further growth.

WE AIM TO IMPROVE URBAN LIVING CONDITIONS IN THE AREAS WHERE WE OPERATE

	CUSTOMERS	EMPLOYEES	INVESTORS	SOCIETY
WHY WE INTERACT	• Inform customers about Etalon Group's projects • Explain our key advantages, communicate the benefits of dealing with the Company • Provide customers the opportunity to give us feedback about our product and services • Understand and address the needs and concerns of our customers	• Retain and develop a workforce of skilled and committed 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	• 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	• 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	• We maintain and continuously improve customer hotline operations • Develop sales network, including our own sales offices throughout the country, and long-term relations with reputable sales agencies • We aim to respond to inquiries, requests and complaints from our customers in a timely and complete manner • We provide our customers with high-quality housing that meets or exceeds established safety requirements	• 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	• 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 four independent non-executive directors on the Board of Directors	• 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 2017	• Sales network covers 52 cities across Russia, four new cities added in 2017 • Etalon Group recognised by the Committee for Housing Policy of St Petersburg as the best privately owned management and maintenance company for residential housing • Silver Fountain, launched in 2017, was certified by the Russian Guild of Property Managers and Developers as the most energy-efficient project in Russia • We handled over 24,000 incoming calls from customers in 2017 and managed them using an enterprise content management system that enables us to track the status of every incoming question, request or complaint	• 1,315 employees participated in training programmes • 46,756 person-hours invested in training programmes by Etalon employees • 111 employees received financial assistance after the birth of a child • 108 employees received financial assistance after bereavement • 31 retired employees received financial assistance	• Four conference calls for investors on operating and financial results • Over 200 meetings with analysts/investors, including group meetings for analysts or investors and site visits to selected projects in Moscow and St Petersburg • 13 investor conferences • 55 regulatory news service press releases • 12 monthly visual updates	• 209 press releases • 8,511 mentions of Etalon in domestic and international media • Five in-person events with journalists

WORKPLACE HEALTH AND SAFETY

WORKPLACE HEALTH AND SAFETY IS OUR SINGLE GREATEST OPERATIONAL RESPONSIBILITY. OUR POLICY NOT ONLY COMPLIES WITH RUSSIAN REGULATIONS, IT ALSO REPRESENTS A COMPREHENSIVE STRATEGY COVERING ALL OF OUR OPERATIONS. ETALON GROUP IS PLEASED TO REPORT THAT IT HAD ZERO FATALITIES ACROSS ALL OF ITS OPERATIONS IN 2017, THE SECOND YEAR RUNNING.

POLICY HIGHLIGHTS

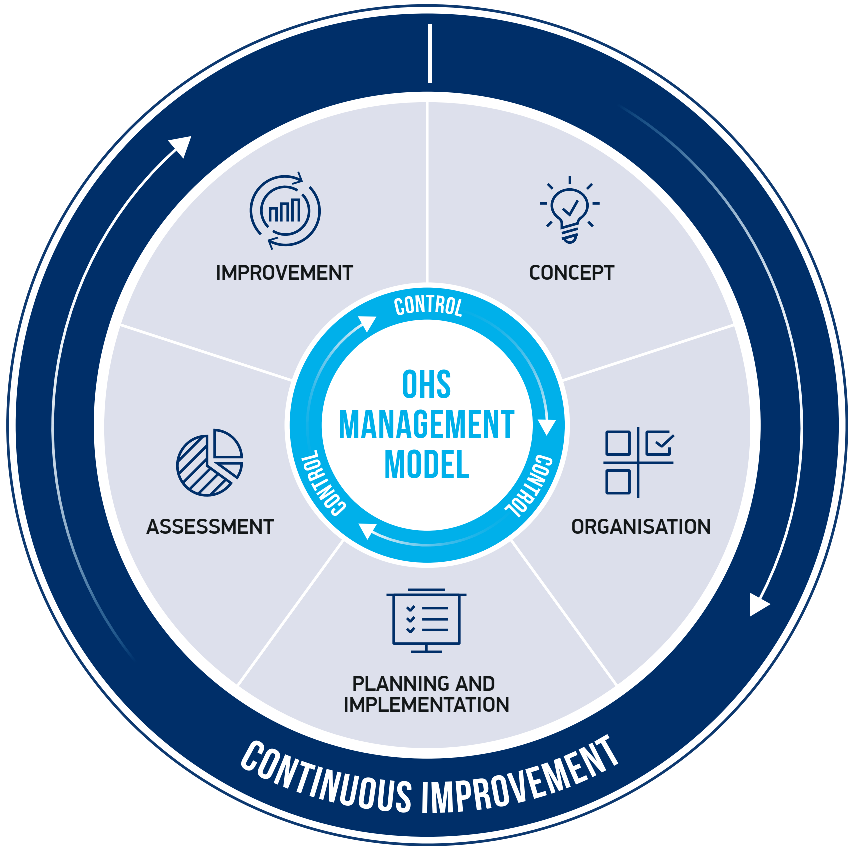
- We comply with relevant local and national regulations, frameworks, guidelines, globally applicable standards and best practice at all times.
- We establish and apply health and safety standards across all of our operational units according to international best practice and ensure that they are communicated to all our employees and contractors.
- We encourage and promote knowledge sharing within our business to ensure that the causes of incidents are fully understood and health and safety risks are minimised.
- We ensure that all of our employees and contractors have the necessary health and safety skills and expertise by applying regular training, communication and education methods in line with industry best practice.
- We have introduced KPIs for relevant management personnel that are tied to safety index performance at our construction sites and across the Company as a whole.

SYSTEM HIGHLIGHTS

- **Monitoring and reporting:** We regularly monitor our health and safety performance at senior management and Board level.
- **Education and training:** Employees of Etalon Group are required to undergo training and testing for health and safety knowledge and skills in accordance with the laws of the Russian Federation. The Company conducts special additional training classes on workplace health and safety legislation. In 2017, we conducted 16,805 hours of health and safety training for 592 participants.
- **Equipment protocol:** In addition to being certified by Russian authorities to ensure compliance with Russian law, all of our equipment is subject to in-house inspections, which ensure proper installation and ongoing maintenance.
- **Safety index:** We maintain a safety index with the help of BIM technology that provides a regularly updated overview of our workplace health and safety performance, enabling people with workplace health and safety oversight responsibility to monitor the level of hazard exposure during construction and installation works.
- **Digital modelling:** A key factor in our safety index is BIM (building information modelling). We create 3D digital models that include comprehensive details and structural information about all our buildings, helping make our sites safer.

WE CONDUCTED **16,805 HOURS** OF HEALTH AND SAFETY TRAINING FOR **592 PARTICIPANTS**

ETALON GROUP'S WORKPLACE HEALTH AND SAFETY MANAGEMENT MODEL



CONCEPT
Development of a key idea and the theoretical foundation of Etalon Group's occupational health and safety (OHS) management system.

ORGANISATION
Establish, implement and maintain the OHS management system.

PLANNING AND IMPLEMENTATION
Goals and processes necessary to achieve results are developed in accordance with the concept, and OHS processes are introduced to operations.

ASSESSMENT
OHS performance is monitored, including assessment and analysis of processes for compliance with the concept, performance targets, Russian legislation and other requirements.

IMPROVEMENT
Based on the analysis of results, measures to improve the effectiveness of the OHS management system are introduced on an ongoing basis.

2017 SAFETY INDEX PERFORMANCE

The safety index is determined by an independent external organisation that has no other relation to Etalon Group sites. Using BIM technology and a 3D model of the construction site, as well as site visits, checkpoints are marked and inspected by a specialist responsible for safety at least once every two weeks.

IN 2017, THE SAFETY INDEX **EXCEEDED THE TARGET LEVEL BY 7 P.P.**

- Our overall safety index performance in 2017 was 82%, which exceeds our target level by 7 percentage points. In addition, since the introduction of the safety index in 2014, the index's CAGR has been 7%.
- In 2017, we received a patent and registered the copyright for our safety index, so that the technology and methodology can be implemented by other organisations.
- During the past year, we also extended the use of our safety index to our external contractors through an audit of their compliance with its criteria.

ENVIRONMENT

WE CARE ABOUT THE ENVIRONMENT AND THE COMFORT OF RESIDENTS, AND WE **USE ENVIRONMENTALLY FRIENDLY CONSTRUCTION MATERIALS**

Our approach to environmental management is to manage all aspects of the potential and real impact of our development work on the environment, as well as to provide future residents of our projects with safe and pleasant environmental conditions. We also recently began introducing energy-efficient solutions that reduce consumption for property owners and our ongoing maintenance work.

WE AIM TO **CONSERVE RESOURCES** AND **PROTECT THE ENVIRONMENT**

POLICY HIGHLIGHTS

- We aim to conserve resources and protect the environment where we operate and minimise any adverse impacts resulting from our operations.
- As outlined in the Management Policy on Quality and the Environment, our environmental practices comply with Russia's strict rules on waste management at construction sites and their extensive environmental regulations.
- Our environmental management system is evaluated annually by an external auditor and certified to ISO 4001:2004 standards.
- We hold all external contractors to the standards that we have established for Etalon Group's own operations.
- We apply reuse and recycling methods wherever possible throughout our operations.
- We aim to minimise waste generation and dispose of waste responsibly.
- We regularly monitor our environmental performance at senior management and Board level.
- We encourage dialogue and stakeholder participation in our approach to managing our impact on the environment.

SYSTEM HIGHLIGHTS AND 2017 PERFORMANCE

PROJECT PLANNING

Each new project undergoes a comprehensive environmental review during the planning stage. We assess air and soil quality, noise levels and the physical characteristics of the site. Following the assessment, we draft new project documentation, which aims to limit any environmental impact in both the construction phase and during a facility's ongoing use.

Prior to initiating any project, we inform our contractors about our approach to environmental management and the rules regulating this issue. Contractors are obliged to instruct anyone with access to a construction site about these rules. We appoint people who are responsible for monitoring compliance with requirements for environmental management at every construction site.

In order to ensure the high quality and environmental compliance of the materials used at our sites, we carry out supplier audits. For example, in 2017, we examined the production facilities of 15 of our 35 suppliers of ready-mix concrete against a checklist consisting of 41 requirements.

After completion of construction, buildings and the surrounding area must comply with regulatory standards and are assessed for compliance based on domestic air quality, radiation, noise and light levels, physical characteristics, microclimate, as well as soil quality post-construction.

WASTE MANAGEMENT

Our environmental control systems ensure that we adhere to waste standards at all production sites, as well as comply with the established local limits for water, air and noise pollution.

We endeavour to minimise our environmental impact by adhering to strict waste management practices at all of our sites. All waste that cannot be recycled is sent to landfills.

In 2014, we began to install special facilities at all our residential projects to enable residents to sort paper, glass, plastic, fluorescent bulbs and batteries for more efficient recycling.

ENVIRONMENTAL MANAGEMENT STANDARDS

Etalon Group has implemented an integrated quality and environmental management system since 2008. The system is audited every three years to ensure compliance with ISO 14001:2004 standards. In 2017, certification under the new requirements was conducted by independent auditors. The auditors noted that the Company's integrated management system is properly maintained and improved in accordance with the principle of continuous improvement, and can be certified according to the requirements of the new version of ISO 9001:2015.

In addition to the three-year independent assessment of Etalon Group's environmental management system, the system is internally assessed on an annual basis and is further supported by management's independent assessment of the system's effectiveness.

In 2017, no fines or non-monetary sanctions were imposed on Etalon Group companies for non-compliance with environmental protection requirements.

ENERGY AND EMISSIONS

Etalon Group strives to reduce emissions and electricity consumption at our sites. To this end, we have replaced diesel generators with direct connections to the power grid, and installed LED lighting, which is far more energy-efficient and safer than halogen or other lighting technologies.

In 2017, we updated power meters at each of our active sites. This enabled us to precisely measure electricity consumption and report its levels directly to the electricity provider.

SILVER FOUNTAIN IS OUR **FIRST BUSINESS-CLASS PROJECT** IN MOSCOW, AND IT WAS **AWARDED THE PLATINUM GREEN ZOOM CERTIFICATE** BY AN INDEPENDENT APPRAISER

The project is tailored to satisfy the most demanding customers who seek comfortable and modern living standards. The project's philosophy is synchronised with the environment and is based on an approach that we call the 3Es: ergonomics, environment and efficiency.

We care about the environment and the comfort of residents, and we use environmentally friendly construction materials. "Smart home" systems will be installed to improve the project's efficiency, including: energy-efficient equipment, automated resource accounting systems and motion sensors on stairs and in public hallways.

Air supplied to the premises of the residential complex will be filtered, and residents will be able to control the air temperature in their apartments.

The extensive glazing on the building facade serves not only as an element of style, but creates sufficient natural illumination, which helps save energy. This, coupled with energy-saving lighting to be installed in residential and common areas, makes Silver Fountain one of the most energy-efficient projects in its class. Based on the results of energy modelling, the energy-saving solutions used will enable residents to reduce energy consumption by up to one third.

To enhance the surrounding environment, we decided to cover 30% of the project's grounds with plants and to instal a separate recycled waste collection system. Finally, owners of electric vehicles will be able to install charging stations in the underground parking garage.

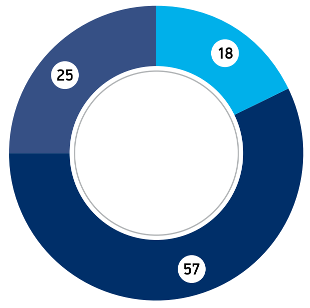
EMPLOYEES

WE BELIEVE THAT THE SUCCESS OF OUR BUSINESS DEPENDS ON THE PEOPLE WHO WORK AT ETALON GROUP. THE GOALS OF OUR HR STRATEGY ARE THEREFORE: **RECRUITING CANDIDATES WITH THE NECESSARY SKILLS**, CREATING A COMFORTABLE WORK ENVIRONMENT, AND DEVELOPING EMPLOYEES

EQUAL OPPORTUNITY

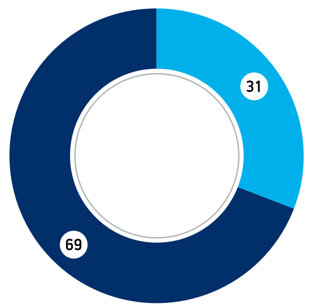
The Etalon Group pays significant attention to providing equal opportunities to all employees. In 2017, the total share of women in the workforce was 31% (+1 p.p. vs. 2016). The share of women in management positions was 34%, which is above the Company-wide average. Women accounted for 49% of all new employees recruited in 2017 by Etalon Group, with the exception of our construction and maintenance unit.

TOTAL WORKFORCE BY AGE, %



under 30	905
30-50	2,891
over 50	1,263

TOTAL WORKFORCE BY GENDER, %



female	1,579
male	3,480

5,059 TOTAL NUMBER OF EMPLOYEES (AS OF 31 DECEMBER 2017)

ACHIEVED GENDER BALANCE AMONG NEWLY HIRED EMPLOYEES IN 2017

EMPLOYEE TRAINING AND CAREER OPPORTUNITIES

We offer our employees:

- Competitive salaries and benefits
- Opportunities for career development
- Opportunities for professional education
- A fair work-life balance. Opportunities to work from home or take flextime
- Financial and pastoral support for unforeseen changes in personal circumstances.

New employees take part in an orientation programme. The objectives of the programme are to provide each employee with all the necessary information to effectively prepare them for their jobs, including: information about the Company's activities, history, corporate values and standards for conduct both internally and with external contractors and with partners. The programme also includes the integration of new employees into their teams and training in the skills necessary for the work. Each new employee is assigned a supervisor, who monitors the success of the employee, gives them feedback, and makes an intermediate and final evaluation. The Company's corporate intranet includes a section with informational videos about the Company. A new employee can access it at any time. In 2017, a total of 765 employees took part in the orientation programme.

EDUCATION AND PROFESSIONAL TRAINING

Investment in our employees is a fundamental value at Etalon Group. We offer tangible support for education and professional training in the following areas:

1. Occupational health and safety
2. Construction technologies and techniques
3. Construction oversight
4. Sales techniques
5. Information technology.

In 2017, a total of 1,315 employees (up 7% year-on-year) took part in 46,756 hours (up 16% year-on-year) of professional training activities.

	EMPLOYEES	HOURS	HOURS PER EMPLOYEE
Management	657	22,603	34
Specialists	548	14,153	26
Construction workers	110	10,000	91
TOTAL	**1,315**	**46,756**	**36**

We work closely with St Petersburg universities, partnering with St Petersburg State University, the St Petersburg State Academy of Architecture and Civil Engineering, St Petersburg Polytechnic University and St Petersburg State University of Economics, among others. In 2017, 53 students participated in internships with Etalon Group, and we also organised site visits and gave lectures to students at the universities.

1,315 EMPLOYEES TOOK PART IN **46,756 HOURS** OF PROFESSIONAL TRAINING ACTIVITIES

IN 2017, WE PROVIDED **1,847 MEDICAL PROGRAMMES/HEALTH INSURANCE**

LOOKING AFTER OUR EMPLOYEES

Etalon offers both financial and non-monetary support to employees who experience changes or challenges in their lives. In the past, these have included: the birth of a child, long-term illnesses, accidents that prevent an employee from working, the death of a family member and damages to personal property due to natural disasters. Last year, 359 employees received financial support: 108 after the death of a family member, 111 after the birth of a child, 31 retired former employees received material support, and 109 people received other material assistance.

We provide life and health insurance for our employees. In 2017, this included:

- Life insurance: 1,540 employees
- Medical programmes/health insurance: 1,847 employees
- Maternity leave: 133 employees.

Twenty-six people receive a corporate pension. 135 employees used their leave to care for a child. Sixty-seven employees finished their parental leave and returned to work for Etalon Group.

The Company wants its employees to cultivate a good work-life balance, and therefore allows employees to work from home if this is possible within the scope of their job. In 2017, 47 employees worked according to their own schedule, from home or part-time.

We also make bonus payments to employees to recognise their long-term commitment and significant contribution to the Company.

BUILDING COMMUNITIES

OUR DEVELOPMENT PROJECTS ARE DESIGNED **TO INCLUDE SOCIAL INFRASTRUCTURE** THAT HELPS SUPPORT THE DEVELOPMENT OF A FULLY FUNCTIONING COMMUNITY FOR NEW RESIDENTS. OUR STRATEGY FOR DEVELOPING SOCIAL INFRASTRUCTURE **FOCUSES ON WORKING TOGETHER WITH LOCAL AUTHORITIES** WHEN WE SIGN INVESTMENT CONTRACTS IN ORDER TO ENSURE THAT **WE ADDRESS LOCAL NEEDS**

HOW WE HELP BUILD COMMUNITIES

- We want to support families with children and thus encourage the long-term sustainability of the communities created by our larger projects. Educational facilities form an important component of our projects.
- We support cultural and historical awareness and meeting municipal needs.
- We provide financial assistance towards the costs of specialist treatment and care for children with serious illnesses, and support purchases by charitable foundations of medical supplies and equipment needed to treat and care for sick children.
- We aim to support local communities in the areas where we operate and throughout Russia.

PERFORMANCE IN 2017

- In 2017, preschools and schools with a capacity for up to 2,130 children were at various stages of construction by Etalon Group:
  - A 5,209 sqm preschool for 190 children was built as part of the Samotsvety project.
  - At Moscow Gates, we started construction of a preschool that will meet all modern requirements and will have capacity for 11 groups of children aged 1 to 7 years old.
  - At Etalon City, we are a building a 2,952 sqm preschool for 225 children aged 3 to 7 years old. This will be a detached, three-story building featuring unique planning.

- The Company won a tender for the construction of a school for 825 students in the Moskovskiy district of St Petersburg.
- Etalon LenSpetsSMU (part of Etalon Group) plans to implement Russia's first-ever public-private partnership project for construction of social facilities in St Petersburg. The project provides for the construction of two schools in the Admiralteyskiy district, each of which is designed for 825 students.

- The Company implements projects to help restore and support cultural and historical heritage:

  - The Museum of Russian Railways in St Petersburg held its grand opening on 30 October 2017. During the reconstruction of the pavilion, Etalon Group retained the structure and monumentality of these buildings erected in Tsarist Russia.
  - A historic building used by the Russian Ministry of Justice, originally built in 1789–1802, was restored for use for administrative purposes, while preserving its status as a cultural heritage site. The original structure of the building, which had belonged to the patron, Aleksandr Uvarov, was restored as part of this project.
  - At Emerald Hills, we unveiled the third spaceship replica to be installed at Cosmonaut's Alley: a Soyuz capsule was presented on 30 May 2017 at an event dedicated to the birthday of Alexei Leonov, a pilot and cosmonaut who was twice honoured as a Hero of the Soviet Union.
  - Etalon LenSpetsSMU completed a monument dedicated to employees of the Vagonmash factory who died in service during World War II.

- Etalon Group actively promotes charitable organisations, and in 2017 we:

  - Provided funds to support a charity implementing a project to help homeless and needy people.
  - Supported the Centre for the Treatment and Rehabilitation of Children.
  - Sponsored the renovation of the St Petersburg State Architectural and Construction University.
  - Provided financial support to a charitable movement in support of veterans and families of dead servicemen.
  - Provided financial assistance to a volleyball club.

IN 2017, PRESCHOOLS AND SCHOOLS WITH A CAPACITY FOR UP TO **2,130 CHILDREN** WERE AT VARIOUS STAGES OF CONSTRUCTION

OTHER PROJECTS

- As part of a Year of the Environment initiative to landscape and improve the grounds of residential complexes in St Petersburg, the staff of Etalon Group planted more than 300 saplings and 7,500 shrubs, as well as more than 56,000 annual and 1,200 perennial flowers. In addition, around 7,600 tulips and daffodils will grow when spring arrives in 2018, decorating the flower beds of residential courtyards.
- We have created a Botanical Garden at Etalon City, which will be an oasis of wildlife on the grounds of the residential complex. The garden's unique landscape design will create a special aesthetic comfort for residents and their guests.
- We have built in facilities for a general practitioner's office at the Samotsvety residential complex in the Vasileostrovskiy district of St Petersburg. The GP's office will serve around 5,000 people and is designed to handle up to 100 visits per shift. The facilities include a vaccination room, a functional diagnostic room, an express laboratory, and an outpatient ward.
- As part of its 30th-anniversary celebrations, Etalon Group supported the White Nights marathon. Etalon Group employees and their family members defended the Company's sporting honour and helped to popularise healthy lifestyles by participating in this noteworthy international sporting event.

BUSINESS CONDUCT

WE WILL CARRY OUT OUR BUSINESS IN A WAY THAT IS **FAIR TO ALL COUNTERPARTIES** AND **ADHERES TO THE LEGAL REQUIREMENTS** IN THE GEOGRAPHIES WHERE WE OPERATE

POLICY HIGHLIGHTS

Etalon Group's Code of Corporate Conduct governs the Company's key values and ethical principles, as well as how the rules are monitored and enforced.

- We will not tolerate discrimination against employees based on age, race, ethnicity, sex, sexual orientation, religion, or other social or political status or views, in line with the principles defined in Russian Federation law
- Employees must seek advice about and report potential or actual conflicts of interest
- While "work dynasties" are welcomed in situations where specific skills are passed down from one generation to the next within the Company, we carefully monitor and regulate situations where one family member may have a supervisory role over another
- Employees shall not accept presents worth more than EUR 100 in value, in any monetary form, or in return for acting/not acting on a certain issue
- Etalon Group purchases goods and services solely on the basis of price, quality, value and benefit to the Company
- We do not make political donations and will not directly or indirectly participate in political activities
- We will not tolerate bribery or corruption.

SYSTEM HIGHLIGHTS

- We maintain a register of service providers, including a blacklist of providers who violate Etalon Group policies, including with regard to bribery and corruption
- Responsibility for implementing the requirements of the Code of Corporate Conduct is assigned to the Code of Corporate Conduct Officer
- Employees may raise issues related to the policies outlined above, including with regard to gifts, by contacting the officer responsible for the Code of Corporate Conduct by letter or email
- The Code of Corporate Conduct Officer reviews all inquiries and advises employees on adherence to the Code or on steps that must be taken to adhere
- If needed, the Code of Corporate Conduct Officer may convene a commission to review an issue.

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.

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

IDENTIFICATION

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

ASSESSMENT

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

RESPONSE

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

REPORTING

Ongoing monitoring processes are embedded in our day-to-day operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the 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, the Audit Committee and the Management Board. 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.

The Management Board oversees the identification, review and ongoing monitoring of the Company's principal risks, as well as reviews and challenges risks submitted by the Company's functional units.

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 the Moscow Metropolitan Area. 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 land cost, 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 4-5 years of construction and sales without new land acquisitions. • Real estate is viewed as a hedge against inflation: while inflation was just 2.5% in 2017 and is expected to remain low in 2018, 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 to these programmes.	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. • With regard to recent regulatory changes that introduce additional requirements for developers and are due to come into force in July 2018, Etalon Group's management participates in committees established by the industry in order to reconcile different views and to develop potential amendments. • 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. For more details about the potential impact of the new regulations, please see page 22.	Medium 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 2.8 mln sqm of NSA unsold represents 5.5x the volume of new contract sales for FY 2017. • 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. • All prospective projects are reviewed by the Board of Directors of each territorial office on a quarterly basis. • Amendments to the Federal Law on Shared Construction may provide additional opportunities for the Company to purchase new projects (see "New changes in regulations" risk and page 22 for more details).	Low likelihood/ medium 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. • The Company is a pioneer in Russia for using Building Information Modelling to increase safety at construction sites.	Low likelihood/ low level of impact

RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL 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
An inability to attract and retain key personnel could adversely affect the Company's business	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

RISK	WHY IT AFFECTS THE COMPANY	MITIGATION/MINIMISATION OF THE CONSEQUENCES	LIKELIHOOD/LEVEL OF POTENTIAL IMPACT
FINANCIAL RISKS			
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. • Due to the efficiency of presales, a significant part of the required construction budget is covered by cash collections form sales, thus allowing Etalon Group to decrease the need for additional financing for a given project. • 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 (actual results are 1.1x as of 31 December 2016 and 0.7x as of 31 December 2017) • The Company avoids excessive capital investment in projects requiring a long period of preparation of documentation. • The two outstanding bonds issued by the Company's subsidiary LenSpetsSMU in 2016 and 2017 received a B+ credit rating from Standard & Poor's.	Low likelihood/ medium level of impact
Customers' credit risk	The Company could suffer financial losses if customers fail to meet their contractual obligation on financial instruments used for the purchase of real estate.	• 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
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 materials" sections.	Medium likelihood/ low level of impact
Interest rates	An increase in mortgage 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

08

CORPORATE GOVERNANCE REVIEW

CORPORATE GOVERNANCE

THE COMPANY CONTINUES TO BE COMMITTED TO MAINTAINING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

The change of domicile and migration of the Company to Cyprus was one of the most significant events of 2017. In accordance with a Shareholders' Resolution approved at an Extraordinary Meeting of Shareholders, the Company was registered in Cyprus on 5 April 2017 under the name ETALON GROUP PUBLIC COMPANY LIMITED with registration number HE 368052 and its registered office at Arch. Makariou III, 2-4 CAPITAL CENTER, 9th floor 1065, Nicosia, Cyprus.

On 27 July 2017, the Annual Meeting of Shareholders approved the change of the Company's name to ETALON GROUP PLC and respective changes to the Company's Articles of Association.

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;
- Accountability of the Board of Directors to shareholders, and of executive bodies to the General Meeting of Shareholders and the Board of Directors;
- Reliability and efficiency of share ownership accounting;
- Timely disclosure of reliable information on the Company's activities;
- Open dialogue with representatives of all stakeholders and respect for their rights and legitimate interests.

The Company is governed on several levels 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 Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules.

THE BOARD OF DIRECTORS

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

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

THE MAIN OBJECTIVE OF THE BOARD IS TO ENSURE **THE LONG-TERM SUCCESS** OF THE COMPANY

The Board comprises independent Directors and non-executive Directors. The institution of independent directors is an important part 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, as well as evaluating the performance of the Company's executive bodies, and assessing the efficacy of the risk management and internal control systems. The Company highly appreciates the contributions 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 are responsible 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.

There were no changes in Board composition in 2017. On page 99 of Etalon Group's 2016 Annual Report, the Company disclosed that at a Board of Directors meeting held on 10 November 2016, the Board terminated the appointment of Mr Andrew Howat as a Director of the Company. The Company wishes to clarify that the effective resignation date for Mr Howat was 18 January 2017, not 10 November 2016.

AS OF 31 DECEMBER 2017, THE BOARD AND ITS COMMITTEES WERE STRUCTURED AS FOLLOWS:

SHAREHOLDERS

THE BOARD

LEADERSHIP, STRATEGY, RISK, GOVERNANCE, VALUES AND STANDARDS

AUDIT COMMITTEE

Chairman
Martin Cocker

Members
Boris Svetlichny
Gabbas Kazhimuratov
Viktor Vasenev
(up to 16 February 2018)

REMUNERATION AND NOMINATION COMMITTEE

Chairman
Viacheslav Zarenkov

Members
Dmitry Zarenkov
Alexey Kalinin
Martin Cocker
Charalampos Avgousti
Kirill Bagachenko
Michael Calvey

STRATEGY COMMITTEE

Chairman
Dmitry Kashinsky

Members
Viacheslav Zarenkov
Dmitry Zarenkov
Alexey Kalinin
Kirill Bagachenko
Viktor Vasenev
Alexander Tyapin

INFORMATION DISCLOSURE COMMITTEE

Chairman
Kirill Bagachenko

Members
Viktoria Tcytrina
Ksenia Savchuk

EXECUTIVE COMMITTEE – MANAGEMENT BOARD

Chairman
Dmitry Kashinsky

Members
Gennadiy Shcherbina
Kirill Bagachenko
Viktor Vasenev
Viktoria Tcytrina

EXECUTIVE MANAGEMENT

THE BOARD OF DIRECTORS

DMITRY ZARENKOV

CHAIRMAN OF THE BOARD

Dmitry Zarenkov has 21 years of experience in the construction industry and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering and graduated from the Institute of Aeronautical Instrumentation, St Petersburg University of Architecture and Civil Engineering and St Petersburg University of Internal Affairs.

VIACHESLAV ZARENKOV

CEO, FOUNDING SHAREHOLDER AND PRESIDENT

Viacheslav Zarenkov has 48 years of experience in the construction industry and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture and also holds the title of professor.

DMITRY KASHINSKY

FIRST VICE PRESIDENT OF ETALON GROUP, COO

Dmitry Kashinsky is the First Vice President and COO of Etalon Group and has over 16 years of experience in the construction industry. Before joining Etalon Group in 2011, he worked at Barkli and AFI Development (Russia), where he served as CEO. Dmitry graduated from the Moscow Aviation Institute.

KIRILL BAGACHENKO

DEPUTY CEO AND VICE PRESIDENT

Kirill Bagachenko has over 13 years' experience in corporate finance and asset management. Prior to joining Etalon Group, he held the position of senior equity portfolio manager at TKB BNP Paribas Investment Partners. In 2013, he was voted one of the top three portfolio managers in Russia by Thomson Reuters Extel Survey. Kirill graduated from St Petersburg State University of Economics and Finance.

MARTIN COCKER

INDEPENDENT NON-EXECUTIVE DIRECTOR

Martin Cocker has over 20 years of experience in audit, and seven years' experience in the construction industry. He runs his own development business in Portugal and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the 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 he has held various senior finance positions at Orange Business Services in Russia, VimpelCom and Golden Telecom. From March 2014 to August 2016, Boris served as CFO of Etalon Group. Boris has a BBA in Accounting from the University of Massachusetts, and received an MBA from Carnegie-Mellon University.

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). Previously, he worked at several law firms, including Totalserve Group and Nasos A. Kyriakides & Partners Advocates. Charalampos is a board member at Cyprus Telecommunication Authority, a member of the Advisory Council of Limassol for the Central Cooperative Bank.

MARIOS THEODOSIOU

INDEPENDENT NON-EXECUTIVE DIRECTOR

Marios Theodosiou is an experienced professional in international marketing and strategy. He is affiliated with several professional associations, including the American Marketing Association (AMA) and the Academy of International Business. In 2015, he won an Excellence in Global Marketing Research Award from the AMA's special interest group on Global Marketing. Marios graduated from the University of Cyprus and the University of Wales, Cardiff.

MICHAEL CALVEY

NON-EXECUTIVE DIRECTOR

Michael Calvey has been a Senior Partner at Baring Vostok Capital Partners since 1999. He is a board member at Europlan, Volga Gas and Gallery Media Group, among others. He previously worked at the EBRD, Salomon Brothers and Sovlink Corporation, and was a board member at CTC Media, Golden Telecom and Burren Energy. He graduated from the University of Oklahoma and the London School of Economics.

ALEXEY KALININ

NON-EXECUTIVE DIRECTOR

Alexey Kalinin is a Senior Partner at Baring Vostok Capital Partners, where he has been since 1999. Previously, he worked at Alfa Bank and Alfa Capital. He is Chairman of the Board of Directors at Volga Gas and a board member at Samarenergo and at two Russian glass companies. He graduated from the Moscow Power Engineering University and holds a PhD in Engineering.

The roles and responsibilities of Directors as well as issues relating to their particular competencies are defined by the Management Policy. This document provides the principles for the system of internal policies and procedures, and is subject to continuous review and adjustment in line with the developing corporate governance framework.

Matters specifically reserved for the Board of Directors include:

- Approval of the Company's long-term objectives and corporate strategy;
- Approval of material acquisitions, disposal of property, 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 of Directors and membership of other key senior management committees;
- 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 2017, the Board of Directors addressed a wide variety of issues. These included strategy; budgeting and long-term plans for the Company; review of estimates of future cash flows, financing arrangements and fundraising; review of the state of the industry and competition; responding to the changing dynamics of the Russian economy; corporate governance, individual business and overall Group performance and future capital expenditures; financial statements and Company announcements; reviewing reports from its Committees, shareholder feedback and reports from brokers and analysts; and risk management and risk oversight.

BOARD COMMITTEES

The Board has delegated specific responsibilities to five Committees: the Audit Committee, the Remuneration and Nomination Committee, the Strategy Committee and the Information Disclosure Committee. On 9 November 2017, upon the recommendation of the Remuneration and Nomination Committee, the Board approved the creation of the Executive Committee – Management Board.

All Committees act within their specific remits, report to the Board of Directors on their activities after each meeting and make decisions or make recommendations to the Board regarding decisions that fall within their respective fields of responsibility.

AUDIT COMMITTEE

The members of the Audit Committee were as follows:

UP TO 16 FEBRARY 2018:

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

MR VIKTOR VASENEV
Chief Financial Officer of Etalon Group

FROM 16 FEBRARY 2018 AND TO THE DATE OF THIS REPORT:

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, the head of Internal Audit and other members of senior management are invited to attend meetings where 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 the Company's risk management policies and procedures, the effectiveness of its Internal Audit function and the independence, objectivity and the effectiveness of its external audit process;
- Considering the terms of appointment and remuneration of the external auditor.

The Audit Committee held a number of meetings in 2017, where the key matters considered 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 of the external auditor;
- Matters raised by the external auditor as part of the audit process requiring the attention of management and the actions taken by management to address those matters;
- Reviewing the performance and independence of the external auditor;
- Recommending to the Board of Directors 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 the Internal Audit function 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

The Audit Committee continues to be satisfied with the performance of KPMG and has recommended to the Board of Directors that they be reappointed as auditors. The Audit Committee also considered and approved non-audit services performed by the external auditor during the year to ensure that those services did not threaten the auditor's independence. 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. The Audit Committee commissioned a review of the Internal Audit function by the external auditor. Following consideration of the report, the Audit Committee accepted the recommendations made by the external auditor and continues to enhance the role and responsibility of the Internal Audit function.

In 2017, the engagements undertaken by the Internal Audit function focused on Etalon's major management systems and business processes, and included HR and Sales and Purchases, among others.

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

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

The Audit Committee, and the Board of Directors 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. In particular, the risk management framework identifies risks that might, if not appropriately managed, materially affect the ability of the Group to achieve its objectives or lead to a material misstatement in the Group's financial results. Risk management policies and systems are reviewed periodically by the Audit Committee to ensure that they remain appropriate, relevant and comprehensive, taking into account any variations in market conditions and the Group's activities. The review also considers whether the identified risks are being managed effectively.

The Audit Committee is responsible for overseeing how management monitors compliance with the Group's risk management policies and procedures, and also 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 over, the amendments undertaken.

REMUNERATION AND NOMINATION COMMITTEE

As of the date of the report, the members of the Remuneration and Nomination Committee were as follows:

MR VIACHESLAV ZARENKOV
Committee Chairman, CEO and President of Etalon Group

MR DMITRY ZARENKOV
Chairman of the Board and Non-executive Director

MR ALEXEY KALININ
Non-executive Director

MR MARTIN COCKER
Independent Non-executive Director

MR CHARALAMPOS AVGOUSTI
Independent Non-executive Director

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO
and Vice President of Etalon Group

MR MICHAEL CALVEY
Non-executive Director

RESPONSIBILITIES

The Committee advises the Board of Directors on the remuneration of the executive management team 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 alongside 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, Strategy, and Information Disclosure Committees.

The Committee held a number of meetings in 2017 at which it considered amendments to the Group's incentive plans, as well as changes to the membership of the Board and its Committees.

STRATEGY COMMITTEE

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

MR DMITRY KASHINSKY
Committee Chairman and Vice President of Etalon Group

MR VIACHESLAV ZARENKOV
Chief Executive Officer and President of Etalon Group

MR DMITRY ZARENKOV
Chairman of the Board and Non-executive Director

MR ALEXEY KALININ
Non-executive Director

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO
and Vice President of Etalon Group

MR VIKTOR VASENEV
Chief Financial Officer of Etalon Group

MR ALEXANDER TYAPIN
Investment Director at Baring Vostok funds

RESPONSIBILITIES

The Strategy Committee's responsibilities are set out in detail in its terms of reference. In summary, the Strategy Committee's role is to assist the Board of Directors 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 2017, where the key matters for consideration were: review of Etalon Group's development priorities and strategic guidelines for the period from 2018 to 2023, further improvements in operational efficiency, and consideration of new development opportunities.

INFORMATION DISCLOSURE COMMITTEE

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

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO
and Vice President of Etalon Group

MS VIKTORIA TCYTRINA
Chief Legal Officer of Etalon Group

MS KSENIA SAVCHUK
Head of PR of Etalon Group

RESPONSIBILITIES

The Information Disclosure Committee is responsible for overseeing the Company's information disclosure process, which includes identifying inside information, reviewing information and documents prior to disclosure, preparing announcements and defining the form of disclosure. The Committee analyses the Etalon Group Ltd Information Disclosure Policy on a regular basis and makes recommendations to the Board of Directors 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 2017, where it considered matters of insider information disclosure, adjustment of the Group's approach to insider dealing, and transactions involving individuals with managerial responsibilities.

EXECUTIVE COMMITTEE – MANAGEMENT BOARD

On 9 November 2017, upon the recommendation of the Remuneration and Nomination Committee, the Board approved the creation of the Executive Committee – Management Board and election of the following people to the Committee:

MR DMITRY KASHINSKY
Committee Chairman and Vice President of Etalon Group

MR GENNADIY SHCHERBINA
Vice President of Etalon Group, CEO of AO Etalon LenSpetsSMU

MR KIRILL BAGACHENKO
Executive Director, Deputy CEO
and Vice President of Etalon Group

MR VIKTOR VASENEV
Chief Financial Officer of Etalon Group

MS VIKTORIA TCYTRINA
Chief Legal Officer of Etalon Group

This new executive body comprises the Group's top managers, who have unique experience and knowledge, and managerial and strategic skills.

RESPONSIBILITIES

In accordance with a decision of the Board of Directors, the Executive Committee is responsible for the implementation of strategic decisions made by the Board, and the management of day-to-day operations. The Committee reports to the Board and the Company's shareholders.

The Company's policy in the area of corporate governance improvement consistently focuses on boosting the significance of the Management Board in managing current activities, and positioning it as the body that implements the uniform approach of the Company's management across key operational areas. The activities of the Management Board are also enhanced by a more extensive application of the principle of collective leadership regarding the adoption of management decisions. This helps to minimise the risk of ineffective management decisions.

The key responsibilities of the Management Board include:

- Development and submission of long-term plans for, and reports on, the implementation of the Company's major lines of activity, for review by the Board of Directors;
- Approval of the Company's major transactions;
- Determining the Company's stance on the management of a number of crucial issues relating to the activity of the Company's subsidiaries;
- Development of draft resolutions and recommendations for the Company's Board of Directors.

09

SHAREHOLDER INTERACTIONS

SHAREHOLDER INTERACTIONS

LETTER FROM THE DEPUTY CEO

We are happy that in 2017 Etalon Group became the most liquid Russian developer in terms of average daily trading volumes, and to date is the largest public real estate development company in terms of free float market capitalisation. I believe this is some of the best evidence of the success of our efforts to refine the Company's investor relations practices.

We actively pursue a dialogue with the investment community: in 2017, Etalon Group participated in 13 conferences and events for investors, including a special CEO briefing in August, and held more than 200 meetings with representatives of the investment community.

In 2017, the Board made an important decision to increase Etalon Group's dividend payout range for the second consecutive year, making Etalon Group one of the most generous among public Russian companies and supporting greater total shareholder returns.

We have also established a Management Board responsible for implementation of the Board of Directors' strategic decisions, and for managing the Company. The Management Board comprises key members of the Company's leadership with responsibility for the development, construction and finance functions, as well as overall Company management. This enables us to take key decisions based on a balanced consideration of business growth and return on capital for Etalon Group's investors. We strive, on an ongoing basis, to increase transparency, protect the interests of minority shareholders and align the interests of shareholders and management as the Company grows.

In June 2017, Etalon Group launched a GDR buyback programme after the Board determined that the Company's GDR price did not reflect its true market value. We believe that the Company's GDRs hold excellent potential for investors, taking into account the opportunities arising from the historic decline in mortgage rates, new legislation governing our industry, and the Company's leading position in the Russian real estate market.

With the entry into force of MiFID II at the start of the year, the Company is looking to expand opportunities for direct interaction with our current and potential investors. Investors may contact me and my team, as well as Etalon Group's management, through a number of channels, and we are more than happy to arrange a conference call or to organise a meeting in a different format, including site visits to the Group's projects, which have been very popular among our shareholders.

KIRILL BAGACHENKO
Deputy CEO

60.8%

of shares in free float

40-70%

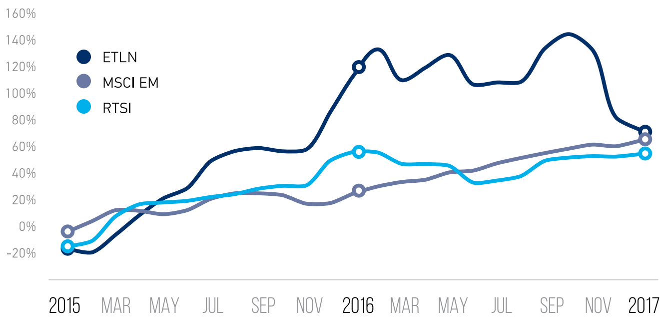
target dividend payout range

INTRODUCTION

Etalon Group GDRs have traded on the Main Market of the London Stock Exchange since 20 April 2011 under the ticker ETLN.

TICKER	ETLN:LI
MARKET	MAIN MARKET
FTSE SECTOR	Real Estate Investment & Services
FTSE SUBSECTOR	Real Estate Holding & Development
MIFID STATUS	Regulated Market
SEDOL	B5TWX80
ISIN NUMBER	US29760G1031

ETALON GROUP GDR PRICE PERFORMANCE

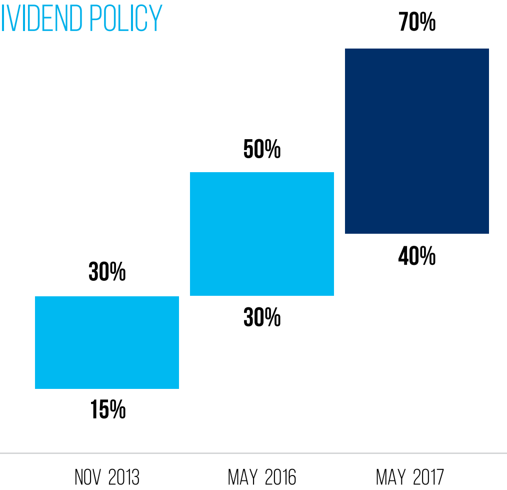


Source: Bloomberg

DIVIDEND POLICY

ETALON GROUP DIVIDEND POLICY DEVELOPMENT

DIVIDEND PAYOUT INCREASED
UNDER NEW DIVIDEND POLICY



Source: Etalon

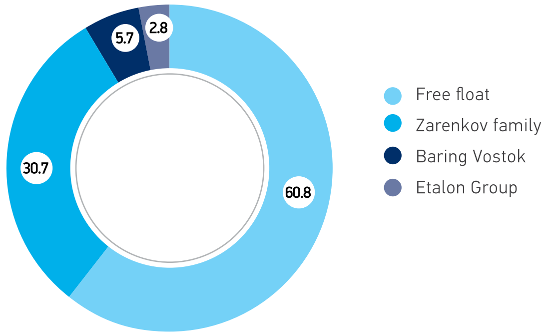
On 16 May 2017, the Board of Directors increased the Company's target dividend payout range to 40%-70% of consolidated IFRS net profit. Based on this new range, the Board of Directors will continue to consider semi-annual dividend payments, taking into account the pre-sales performance and funding needs for the Company's development programme.

This updated policy took effect after Etalon Group's IFRS financial results for 1H 2017.

OWNERSHIP STRUCTURE

As of 31 December 2017, the Company was aware of the following interests in its shareholding structure:

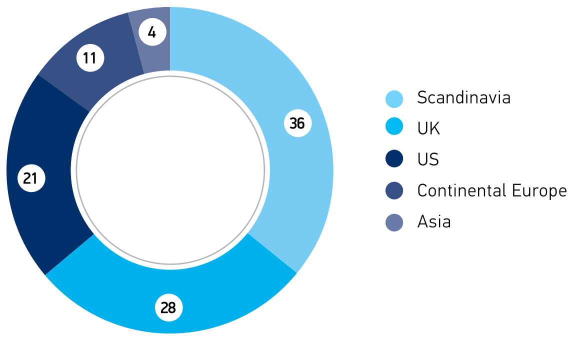
THE COMPANY'S SHAREHOLDING STRUCTURE %



Source: Etalon Group

The Company's free float includes investors from all over the world, with investors from Scandinavia, the UK and USA accounting for a cumulative 85% of the total free float.

INSTITUTIONAL OWNERSHIP %



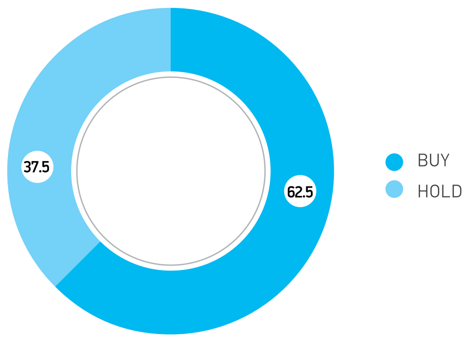
Source: Ipreo (09.04.2018)

AVERAGE TARGET PRICE USD 4.41

ANALYST COVERAGE AND RECOMMENDATIONS

Analysts from leading international and Russian brokerages cover Etalon Group's GDRs. We interact with analysts on an ongoing basis during results calls, one-on-one meetings and emails, and at special events like CEO briefings. The goal of our work with analysts is to ensure informed and accurate coverage of the Company based on a comprehensive understanding of its strategy, performance, assets and management team. Analysts covering Etalon Group:

ANALYST RECOMMENDATIONS* %



* According to latest available recommendations as of 6 April 2018.

Source: Etalon Group

FREE FLOAT INCREASED TO 61% AT THE END OF 2017

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Renaissance Capital	David Ferguson	+7 495 641 4189	dferguson@rencap.com
J.P. Morgan	Elena Jouronova	+7 495 967 3888	elena.jouronova@jpmorgan.com
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BCS	Marat Ibragimov	+7 495 785 5336	mibragimov@bcsprime.com

CAPITAL MARKETS

EQUITY CAPITAL MARKETS

Etalon Group shareholders undertook two SPOs during 2017, which attracted a total of USD 227.7 million, and increased the Company's free float from 41% as of 31 December 2016 to 61% at the end of 2017.

DEBT CAPITAL MARKETS

Etalon Group subsidiary Etalon LenSpetsSMU placed a RUB 5 billion five-year bond with a coupon rate of 8.95% in September 2017. This represents a new benchmark for the Company's public borrowings, and demand exceeded the offering by 4.8 times during the marketing of the deal – reflecting the Company's strong financial position and its appeal to debt investors. The Etalon Group 001P-02-series bonds now trade on Moscow Exchange's Level 1 List.

Etalon Group received the following credit ratings:
STANDARD & POOR'S: B+/Stable long-term credit rating
RAEX: ruA+/Stable creditworthiness rating

Public debt instruments:

DEBT INSTRUMENT	Series 001P-01 bond issue	Series 001P-02 bond issue
AMOUNT	RUB 5 billion	RUB 5 billion
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%

INVESTOR RELATIONS

TRANSPARENCY AND DISCLOSURE

Etalon Group discloses all material information about its activities, including:

- Monthly visual updates on the status of projects currently under construction
- Quarterly updates on operating performance, including a press release, presentation and conference call
- Semi-annual updates on IFRS financial results, including a press release, presentation and conference call
- Annual updates on portfolio valuation, including a press release and a presentation

The Company also discloses information about the results of key Board of Directors meetings, all Meetings of Shareholders and important milestones in its development projects (permitting, launch of sales, and delivery of property).

MEETINGS, ROADSHOWS AND CONFERENCES

During 2017, Etalon Group management and the investor relations team took part in over 200 meetings with investors, including 13 investor conferences, group meetings for analysts or investors and site visits to selected projects in Moscow and St Petersburg.

AWARDS AND RECOGNITION

In July 2017, Etalon Group Deputy CEO and Vice President Kirill Bagachenko won recognition for the fourth year in a row at the IR Magazine Russia & CIS awards ceremony. Kirill was named the best IR professional in the real estate sector and among all Russian public companies with a market capitalisation of up to USD 4 billion.

INVESTOR CALENDAR

DATE	EVENT	LOCATION
12 MARCH 2018	2017 Assets Valuation Results	
16 APRIL 2018	1Q 2018 Operating Results	
27 APRIL 2018	Annual Report Publication	
24 – 26 MAY 2018	St Petersburg International Economic Forum	St Petersburg
26 – 28 JUNE 2018	UBS LATEMEA Conference	London
16 JULY 2018	1H 2018 Operating Results	
12 – 14 SEPTEMBER 2018	Renaissance Capital 22nd Annual Russia Investor Conference	Moscow
27 SEPTEMBER 2018	1H 2018 Financial Results	
16 OCTOBER 2018	9M 2018 Operating Results	
12 – 13 NOVEMBER 2018	Goldman Sachs CEEMEA Conference	London
6 – 7 DECEMBER 2018	WOOD's Winter Wonderland Conference	Prague
6 – 7 DECEMBER 2018	MOEX Forum London Session	London

CONTACT INFORMATION

INVESTOR RELATIONS

Etalon Group IR Team:

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Petr Kryuchkov
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General IR contacts:

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Attention: ADR Division
Fax: +1 212 571 3050

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

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FINANCIAL STATEMENTS

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

BOARD OF DIRECTORS	Viacheslav Adamovich Zarenkov Dmitry Viacheslavovich Zarenkov (appointed on 29 July 2016) Dmitry Kashinskiy (appointed on 10 November 2016) Kirill Bagachenko (appointed on 15 November 2013) Michael Calvey (appointed on 12 November 2010) Alexey Kalinin (appointed on 12 November 2010) Martin Robert Cocker (appointed on 12 November 2010) Boris Svetlichny (appointed on 15 April 2013) Charalambos Avgousti (appointed on 10 November 2016) Marios Theodosiou (appointed on 10 November 2016) Andrew Russell Howat (appointed on 1 March 2015 and resigned on 18 January 2017) Anton Evdokimov (appointed on 8 November 2007 and resigned on 10 November 2016)
SECRETARY	Intertrust Secretaries (Jersey) Limited Esplanade, 44 St. Helier, JE4 9WG, Jersey (before 5 April 2017) G.T. Globaltrust Services Limited Themistokli Dervi, 15 Margarita House, 5th floor, flat/office 502 1066 Nicosia Cyprus (effective from 5 April 2017)
REGISTERED OFFICE	St. Julian's Avenue, Redwood House St. Peter Port, Guernsey GY1 1WA, the Channel Islands (before 5 April 2017) 2-4 Arch. Makariou III Avenue Capital Center, 9th floor 1065 Nicosia Cyprus (effective from 5 April 2017)
INDEPENDENT AUDITORS	KPMG Limited Certified Public Accountants and Registered Auditors 14 Esperidon Street 1087, Nicosia Cyprus

CONSOLIDATED MANAGEMENT REPORT

The Board of Directors of Etalon Group PLC (the "Company") presents to the members its Consolidated Management Report together with the audited Consolidated Financial Statements of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2017. 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 2017 are set out on pages 127 to 173 of the Consolidated Financial Statements.

(a) Revenue

The Group's total revenue for the year ended 31 December 2017 amounted to RUB 70,645 million as compared to RUB 49,022 million for the year ended 31 December 2016, recording an increase of 44%.

Revenue of reportable segment "Residential development" increased by RUB 9,749 million or 29%, mainly due to increased sales of flats in both St Petersburg and Moscow metropolitan areas.

Revenue of reportable segment "Construction services" increased by RUB 498 million or 6% mainly due to new project for construction of metro depot in St Petersburg.

Revenue in reportable segment "Other" decreased by RUB 340 million or 5%. Increase in sales of construction materials by RUB 918 million was offset by the impact of adoption of IFRS 15 in the amount of RUB 1,601 million. Following the adoption of IFRS 15, the Group recognises revenue and cost of utilities (heating, water) supplied to the residential buildings that it services on a net basis.

The adoption of IFRS 15 contributed RUB 11,744 million to the total increase in revenue during the year ended 31 December 2017, see details in note 2e).

(b) Gross profit

The gross profit for the year ended 31 December 2017 is RUB 18,001 million as compared to RUB 12,209 million for the year ended 31 December 2016, recording an increase of 47%. The adoption of IFRS 15 as of 1 January 2017, contributed RUB 2,964 million out of the total increase in gross profit in 2017.

(c) Results from operating activities

Results from operating activities, during the year ended 31 December 2017 amounted to RUB 10,385 million versus RUB 5,018 million for the year ended 31 December 2016 showing an increase of RUB 5,367 million or 107%.

During the year ended 31 December 2017, general and administrative expenses increased by RUB 598 million, or 13%, selling expenses increased by RUB 946 million, or 48%, other income, net increased by RUB 1,119 million, as compared to the year ended 31 December 2016.

Growth in general and administrative expenses was mainly caused by growth in payroll and related taxes by RUB 362 million or 11%, while the remainder increase of RUB 236 million is represented mainly by growth in third-party services.

Selling expenses increased mainly due to growth of advertising expenses, driven by new, more aggressive marketing strategy and due to growth in agency fees, caused by change in sales strategy in 2017. Starting from 2017, the Group puts more emphasis on sales through third-party agents by increasing their commissions and involving third-party agents in sales of all of the Groups development projects.

The adoption of IFRS 15 contributed RUB 3,184 million out of the total increase in results from operating activities in 2017.

(d) Finance income

Net finance income for the year ended 31 December 2017 decreased by RUB 1,506 million or 98% as compared to the year ended 31 December 2016.

Finance income decreased by RUB 145 million or 8% mainly due to decrease in interest income on bank deposits by RUB 334 million or 40%, offset by increase in interest income on loans and receivables by RUB 99 million or 32% and by increase in unwinding of discount on trade receivables by RUB 140 million or 22%.

Finance costs increased by RUB 1,361 million mainly as a result of expensing of financing component recognized under IFRS 15 in the amount of RUB 909 million (2016: nil), increase in allowance for doubtful accounts receivable of RUB 301 million (2016: nil) and increase in allowance for investments by RUB 123 million or 90%.

The early adoption of IFRS 15 as of 1 January 2017, contributed RUB 830 million out of the total decrease in net finance income in 2017.

(e) Income tax expense

Income tax expense for the year ended 31 December 2017 increased to RUB 2,524 million as compared to RUB 1,654 million during the year ended 31 December 2016.

The adoption of IFRS 15 contributed RUB 471 million to the total increase in income tax expense in 2017.

(f) Profit for the year ended 31 December 2017

The profit for the year attributable to the owners of the Company amounted to RUB 7,890 million (as compared to the profit of RUB 4,902 million for year ended 31 December 2016) and is transferred to retained earnings.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group are disclosed in the notes 1b) and 26 of the Consolidated 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 2017, 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 which have been realized or intended, whether active or passive.

NONRECURRING OR UNUSUAL ACTIVITIES AND OTHER SIGNIFICANT EVENTS

On 1 January 2017, the Group early adopted IFRS 15 Revenue from Contracts with Customers. As a result, the Group has changed its accounting policy for revenue recognition as described in note 2e).

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 2017.

BRANCHES

The Group operated through branches in Moscow and Saint Petersburg and 14 representative (sales) offices across the Russian Federation during the year ended 31 December 2017. 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 28 April 2017, the Board of Directors recommended a final dividend of USD 0.107 per share for the year ended 31 December 2016. A final dividend of USD 0.107 per share (or RUB 1,858 million in total) was approved by the Annual General Meeting of shareholders on 27 July 2017. On 23 August 2017, the dividends were paid. On 13 November 2017, the Board of Directors recommended an interim dividend of USD 0.04 per share for the six months ended 30 June 2017, and on 13 December 2017 interim dividends of RUB 684 million were paid.

CHANGES IN THE COMPANY'S SHARE CAPITAL

All changes in share capital composition including new shares issued during 2017 are disclosed in note 21a) of the consolidated financial statements. There were no changes in share capital during 2016.

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.

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 (as at 31 December 2016: 2,728,000 own shares or 1% of issued share capital) for the consideration of RUB 1,629 million (as at 31 December 2016: RUB 440 million), see note 21c) of the consolidated financial statements. There was no acquisition of own shares during 2016.

CHANGES IN THE COMPOSITION, ALLOCATION OF RESPONSIBILITIES OR COMPENSATION OF THE BOARD OF DIRECTORS

There were no significant changes in the composition, allocation of responsibilities or compensation of the Board of Directors.

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 2017, 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 2017 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 is in 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 2017, the Company is aware of the following interests in its share capital:

SHAREHOLDERS	%
Free float	60.8%
Zarenkov family	30.7%
Baring Vostok Funds	5.7%
Own shares acquired by the Group	2.8%
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 of association. Any alteration or addition shall be as valid as if originally contained therein, and be subject in like manner to alteration by special resolution.

By order of the Board of Directors,

CHARALAMPOS AVGOUSTI
Director
Nicosia, 6 April 2018

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT OF THE COMPANY

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') for the year ended 31 December 2017, the names of which are listed below, confirm that, to the best of our knowledge:

(a) The consolidated financial statements for the year ended 31 December 2017 on pages 127 to 173:

 (i) Have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law;

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

(b) The Management Report provides a fair overview on information required as per section 6 of article 10 of Law 190(I)/2007 as amended.

DMITRY VIACHESLAVOVICH ZARENKOV,
Chairman of the Board of Directors

VIACHESLAV ADAMOVICH ZARENKOV,
Member of the Board of Directors, CEO

VIKTOR VASENEV,
CFO

6 April 2018

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 127 to 173, and comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 are independent of the Group 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.

Early adoption of IFRS 15 – Revenue from contracts with customers	
Refer to notes 2(e), 3(h), 6 to the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
The Group has early adopted IFRS 15 “Revenue from Contracts with Customers” with a date of initial application of 1 January 2017. The Group has applied IFRS 15 using the cumulative effect method. As a result, the Group has changed its accounting policy for revenue recognition, specifically for the Residential development segment as follows: - Following the amendments to the federal law 214-FZ, effective 1 January 2017, revenue from sales of units in residential properties under share participation agreements is recognized over time; - The Group adjusts the promised amount of consideration from customers for the 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. We identified the early adoption of IFRS 15 as a key audit matter because of: - New estimates and judgments affecting the amount and timing of revenue recognized, including the impact of laws regulating the Group’s contracts with customers; - increased complexity in relation to measurement of revenue; - Extensive new disclosures required by the new standard.	We evaluated the Group’s revenue accounting policies related to measurement and recognition of revenue in accordance with IFRS 15. Among other procedures, we tested the accuracy of construction budgets for a sample of projects, by reviewing variance analysis performed by the Group. We performed the following audit procedures to evaluate key judgements and assumptions underlying the calculations of the revenue amount and the significant financing component recognized for the year and to date: - We tested the inputs supporting the calculations, including payment schedules, planned construction costs and measure of progress, by agreeing them to appropriate sources such as contracts with customers and construction budgets; - We evaluated whether the discount rates applied by the Group reflect the credit characteristics of the party receiving financing in the contract at contract inception; - We recalculated the revenue and significant financing component for a sample of contracts. - We recalculated cost of sales related to the revenue recognized over time, considering the portion of share participation agreements concluded with customers in respective residential properties. We have also considered the adequacy of the Group’s disclosures in accordance with requirements of IFRS 15.

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Valuation of parking places	
Refer to note 17 to the consolidated 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) 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 forecasted selling prices and building costs. Accordingly, a change in the Group’s estimate of selling prices and 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 parking places may be overstated as at the reporting date. We identified the valuation of parking places as a key audit matter due to: - Significant carrying amount of parking places as at the reporting date; - Estimates and judgments affecting the net realisable value; - Complex calculations performed by the Group for the purpose of estimation of the net realisable value of the parking places.	Among other procedures, we tested the accuracy of construction budgets for a sample of projects, by reviewing variance analysis performed by the Group. We also assessed 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 years of turnover of parking places determined based on historical information on contracts entered into with customers; - assessing the appropriateness of inflation rates used by comparing them to external independent sources; - assessing the appropriateness of discount rates involving our own valuation specialists; - challenging the Group’s forecasted selling prices by comparing the forecasted and 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 the construction budgets. Our audit work was focused on the sites with lower turnover of parking places that are considered most sensitive to 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the consolidated management report (but does not include the consolidated financial statements and our auditors’ report thereon), which we obtain 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.

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

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

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

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 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 is 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 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 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 business activities of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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.

Report on other regulatory and legal requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information, 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 total uninterrupted period of engagement is one year covering the year ended 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 4 April 2018.

Provision of non-audit services ("NAS")

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

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.

Other matter

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

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016 were audited by another auditor, who expressed an unmodified opinion on those statements on 3 April 2017.

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
6 April 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

RUB MLN	NOTE	2017	2016
Revenue	6	70,645	49,022
Cost of sales		(52,644)	(36,813)
GROSS PROFIT		**18,001**	**12,209**
General and administrative expenses	7	(5,052)	(4,454)
Selling expenses		(2,930)	(1,984)
Other income/(expenses), net	8	366	(753)
RESULTS FROM OPERATING ACTIVITIES		**10,385**	**5,018**
Finance income	11	1,712	1,857
Finance costs	11	(1,680)	(319)
NET FINANCE INCOME		**32**	**1,538**
PROFIT BEFORE INCOME TAX		**10,417**	**6,556**
Income tax expense	12	(2,524)	(1,654)
PROFIT FOR THE YEAR		**7,893**	**4,902**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,893**	**4,902**
PROFIT ATTRIBUTABLE TO:			
Owners of the Company		7,890	4,902
Non-controlling interest		3	–
PROFIT FOR THE YEAR		**7,893**	**4,902**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		7,890	4,902
Non-controlling interest		3	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,893**	**4,902**
EARNINGS PER SHARE			
BASIC AND DILUTED EARNINGS PER SHARE (RUB)	**22**	**27.15**	**16.77**

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 134 to 173.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

RUB MLN	NOTE	2017	2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,085	2,889
Investment property	14	333	561
Other long-term investments	15	739	545
Trade and other receivables	18	5,867	5,063
Deferred tax assets	16	2,173	1,414
TOTAL NON-CURRENT ASSETS		**12,197**	**10,472**
CURRENT ASSETS			
Inventories under construction	17	55,441	47,742
Inventories – finished goods	17	21,458	22,580
Other inventories	17	1,223	939
Advances paid to suppliers	18	10,664	9,970
Contract assets	18	1,187	–
Trade receivables	18	13,551	7,341
Other receivables	18	4,782	4,098
Short-term investments	19	185	793
Cash and cash equivalents	20	14,125	10,206
TOTAL CURRENT ASSETS		**122,616**	**103,669**
TOTAL ASSETS		**134,813**	**114,141**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	2	1
Share premium	21	15,486	15,509
Reserve for own shares	21	(1,606)	(440)
Share options reserve	21	221	–
Retained earnings		48,702	43,052
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**62,805**	**58,122**
Non-controlling interest		–	28
TOTAL EQUITY		**62,805**	**58,150**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

RUB MLN	NOTE	2017	2016
NON-CURRENT LIABILITIES			
Loans and borrowings	23	21,418	12,415
Trade and other payables	25	2,546	859
Provisions	24	102	107
Deferred tax liabilities	16	2,941	1,557
TOTAL NON-CURRENT LIABILITIES		**27,007**	**14,938**
CURRENT LIABILITIES			
Loans and borrowings	23	2,569	5,639
Trade and other payables	25	14,920	10,083
Contract liabilities	25	25,649	–
Advances from customers	25	–	23,583
Provisions	24	1,863	1,748
TOTAL CURRENT LIABILITIES		**45,001**	**41,053**
TOTAL EQUITY AND LIABILITIES		**134,813**	**114,141**

These Consolidated Financial Statements were approved by the Board of Directors on 6 April 2018 and were signed on its behalf by:

CHARALAMPOS AVGOUSTI
Director

MARIOS THEODOSIOU
Director

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

RUB MLN	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 2016	**1**	**15,438**	**(440)**	**–**	**39,697**	**54,696**	**147**	**54,843**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	–	–	–	–	4,902	4,902	–	4,902
Total comprehensive income for the year	–	–	–	–	4,902	4,902	–	4,902
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Dividends to equity holders	–	–	–	–	(1,504)	(1,504)	–	(1,504)
CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL								
Changes in ownership interest in subsidiaries	–	–	–	–	28	28	(119)	(91)
Other reclassifications	–	71	–	–	(71)	–	–	–
TOTAL TRANSACTIONS WITH OWNERS	**–**	**71**	**–**	**–**	**(1,547)**	**(1,476)**	**(119)**	**(1,595)**
BALANCE AT 31 DECEMBER 2016	**1**	**15,509**	**(440)**	**–**	**43,052**	**58,122**	**28**	**58,150**

RUB MLN	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, as previously reported	1	15,509	(440)	–	43,052	58,122	28	58,150
Impact of change in accounting policy	–	–	–	–	302	302	–	302
Restated balance at 1 January 2017	1	15,509	(440)	–	43,354	58,424	28	58,452
TOTAL COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	–	–	–	–	7,890	7,890	3	7,893
Total comprehensive income for the year	–	–	–	–	7,890	7,890	3	7,893
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY								
Issuance of preference shares	1	–	–	–	–	1	–	1
Dividends to equity holders	–	–	–	–	(2,542)	(2,542)	–	(2,542)
Equity-settled share-based payment	–	–	–	221	–	221	–	221
Acquisition of own shares	–	–	(1,189)	–	–	(1,189)	–	(1,189)
CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES THAT DO NOT RESULT IN A LOSS OF CONTROL								
Changes in ownership interest in subsidiaries	–	–	–	–	–	–	(31)	(31)
Other reclassifications	–	(23)	23	–	–	–	–	–
TOTAL TRANSACTIONS WITH OWNERS	**1**	**(23)**	**(1,166)**	**221**	**(2,542)**	**(3,509)**	**(31)**	**(3,540)**
BALANCE AT 31 DECEMBER 2017	**2**	**15,486**	**(1,606)**	**221**	**48,702**	**62,805**	**-**	**62,805**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

RUB MLN	NOTE	2017	2016
OPERATING ACTIVITIES			
PROFIT FOR THE YEAR		**7,893**	**4,902**
ADJUSTMENTS FOR:			
Depreciation	13, 14	340	434
Gain on disposal of property, plant and equipment	8	(113)	(52)
Gain on disposal of investment property	8	(27)	(267)
Decrease of impairment of investment property	8	–	(41)
Impairment loss on inventories	8	819	430
Equity-settled share-based payment transactions	10	221	–
Finance income, net	11	(32)	(1,538)
Income tax expense	12	2,524	1,654
CASH FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS		**11,625**	**5,522**
Change in inventories		(1,009)	(1,780)
Change in accounts receivable		(6,953)	(3,746)
Change in accounts payable		161	7,812
Change in provisions	24	112	(1,808)
Change in contract assets	6	(203)	–
Change in contract liabilities	6	1,329	–
CASH GENERATED FROM OPERATING ACTIVITIES		**5,062**	**6,000**
Income tax paid		(2,381)	(1,960)
Interest paid		(2,257)	(2,603)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**424**	**1,437**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

RUB MLN	NOTE	2017	2016
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		294	93
Proceeds from disposal of investment property		232	–
Interest received		918	1,153
Acquisition of property, plant and equipment		(707)	(711)
Loans given		(60)	(435)
Loans repaid		93	25
Acquisition of other investments	15, 19	(263)	(265)
Dispos al of other investments	15, 19	385	507
NET CASH FROM INVESTING ACTIVITIES		**892**	**367**
FINANCING ACTIVITIES			
Acquisition of non-controlling interest		(29)	(94)
Proceeds from borrowings		15,889	9,016
Repayments of borrowings		(10,009)	(10,404)
Acquisition of own shares		(628)	–
Dividends paid		(2,542)	(1,504)
NET CASH FROM FINANCING ACTIVITIES		**2,681**	**(2,986)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,997**	**(1,182)**
Cash and cash equivalents at the beginning of the year		10,206	11,532
Effect of exchange rate fluctuations on cash and cash equivalents		(78)	(144)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**20**	**14,125**	**10,206**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 134 to 173.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. BACKGROUND

A) ORGANISATION AND OPERATIONS

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

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

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

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

The Company's registered office is located at:

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

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

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

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

B) BUSINESS ENVIRONMENT

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

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

The consolidated 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.

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 Group's subsidiaries, including foreign operations, is RUB, as the activities of foreign operations are carried out as an extension of the activities of the Group in the Russian Federation.

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

D) USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with 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 – barter transactions, obsolescence provisions;
- Note 24 – provisions;
- Note 29 – contingencies.

E) CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has early adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of equity at 1 January 2017. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15.

The details of the significant changes and quantitative impact of the changes are set out below.

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

The Group concludes sale contracts with its customers when the properties are either completed or are in the process of construction. Properties undergoing construction are sold via share participation agreements (in accordance with the requirements of the Federal Law No. 214-FZ "About participation in the funding of construction of multicompartment buildings") or via housing cooperatives.

Previously, the Group recognised revenue when persuasive evidence existed that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. Transfer of risks and rewards may have varied depending on the individual terms of the sales contracts.

In accordance with IFRS 15, the Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Previously, when sales were contracted under share participation agreements, the significant risks and rewards of ownership were considered to have been transferred to individual buyers when the construction was completed and the building approved by the State commission for acceptance of finished buildings.

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

The application of IFRS 15 does not affect the timing of revenue recognition for sales via housing cooperatives and for sales of completed properties not contracted before their completion.

Previously, revenue from sale of real estate properties was measured at the fair value of the consideration received or receivable.

In accordance with IFRS 15, as the performance obligation is satisfied, the Group recognises as revenue the amount of the transaction price. In determining the transaction price, the Group adjusts the promised amount of consideration for the effects 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.

Revenue from construction services

The application of IFRS 15 does not have a significant impact on the accounting for contracts for provision of construction services and contracts for construction of an asset, previously falling within the scope of IAS 11 "Construction contracts".

IMPACTS ON FINANCIAL STATEMENTS

The following tables summarises the impacts of adopting IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2017.

Consolidated statement of profit or loss and other comprehensive income

2017, RUB MLN	AS REPORTED	ADJUSTMENTS	BALANCES WITHOUT ADOPTION OF IFRS 15
Revenue	70,645	(11,744)	58,901
Cost of sales	(52,644)	8,752	(43,892)
GROSS PROFIT	**18,001**	**(2,992)**	**15,009**
Other income / (expenses), net	366	(192)	174
Finance income	1,712	(79)	1,633
Finance costs	(1,680)	909	(771)
NET FINANCE INCOME	**32**	**830**	**862**
Other	(7,982)	–	(7,982)
Income tax expense	(2,524)	471	(2,053)
PROFIT FOR THE YEAR	**7,893**	**(1,883)**	**6,010**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,893**	**(1,883)**	**6,010**
EARNINGS PER SHARE			
BASIC AND DILUTED EARNINGS PER SHARE (RUB)	**27.15**	**(6.5)**	**20.65**

Consolidated statement of financial position

2017, RUB MLN	AS REPORTED	ADJUSTMENTS	BALANCES WITHOUT ADOPTION OF IFRS 15
CURRENT ASSETS			
Inventories under construction	55,441	3,198	58,639
Inventories – finished goods	21,458	3,009	24,467
Trade receivables and contract assets	14,738	(5,097)	9,641
Other	30,979	–	30,979
TOTAL CURRENT ASSETS	**122,616**	**1,110**	**123,726**
Retained earnings	48,702	(2,185)	46,517
Other	14,103	–	14,103
TOTAL EQUITY	**62,805**	**(2,185)**	**60,620**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	2,941	(547)	2,394
Other	24,066	–	24,066
TOTAL NON-CURRENT LIABILITIES	**27,007**	**(547)**	**26,460**
CURRENT LIABILITIES			
Contract liabilities and advances received	25,649	3,958	29,607
Trade and other payables	14,920	(116)	14,804
Other	4,432	–	4,432
TOTAL CURRENT LIABILITIES	**45,001**	**3,842**	**48,843**

Consolidated statement of cash flows

2017, RUB MLN	AS REPORTED	ADJUSTMENTS	BALANCES WITHOUT ADOPTION OF IFRS 15
OPERATING ACTIVITIES:			
PROFIT FOR THE YEAR	**7,893**	**(1,883)**	**6,010**
Finance income, net	(32)	(830)	(862)
Income tax expense	2,524	(471)	2,053
Other	1,240	–	1,240
CASH FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS	**11,625**	**(3,184)**	**8,441**
Change in inventories	(1,009)	(6,207)	(7,216)
Change in accounts receivable	(6,953)	5,097	(1,856)
Change in contract liabilities	1,329	3,958	5,287
Change in accounts payable	161	(116)	45
Income tax paid	(2,381)	449	(1,932)
Other	(2,348)	3	(2,345)
NET CASH FROM OPERATING ACTIVITIES	**424**	**–**	**424**

3 SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF CONSOLIDATION

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

B) FOREIGN CURRENCY

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

C) FINANCIAL INSTRUMENTS

(i) Financial assets

The Group's financial assets comprise investments in equity and debt securities, loans given, trade and other receivables, and cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated.

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.

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.

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 comprise trade and other receivables.

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 ofthe Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(ii) Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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.

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

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for loans given and receivables at a specific asset level. All receivables and loans are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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. In the comparative period, advances received and paid were recognised on an undiscounted basis. Following the adoption of IFRS 15, the Group adjusts advances received for the significant financing component if the timing of payments agreed to by the parties provides the Group with a significant benefit of financing.

E) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2017.

F) INVENTORIES

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

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

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

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

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

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

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

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

G) SHARE-BASED PAYMENT ARRANGEMENTS

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

H) REVENUE

The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in note 2e).

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

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

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

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

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

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

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

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

In the comparative period, revenue was measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue was recognised when persuasive evidence existed that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably.

When sales were contracted under share participation agreements the significant risks and rewards of ownership were considered to have been transferred to individual buyers when the construction is completed and the building has been approved by the State commission for acceptance of finished buildings.

(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 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 recognized 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.

In the comparative period, the Group recognised the following assets and liabilities related to construction contracts within the scope of IAS 11:

- unbilled receivables represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Unbilled receivables are presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings;
- billings in excess of work completed are recognised as a part of trade and other payables if progress billings exceed costs incurred plus recognised profits.

(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.

(iv) Rental income

Rental income from stand-alone and built-in commercial properties (see note 3(f)) is recognised in the consolidated statement of profit or loss and other comprehensive income over time using output method on the basis of time elapsed over the term of the lease.

l) 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, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing this consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 9 Financial Instruments adopted by the EU will be effective for annual periods beginning on or after 1 January 2018 and will replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The Group does not intend to adopt this standard early.

The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 January 2018 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.

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items

(i) Classification – Financial assets and Financial liabilities

IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which assets and liabilities are managed and their cash flow characteristics.

IFRS 9 introduces three classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The standard eliminated the categories of held to maturity, loans and receivables and available for sale that previously existed in IAS 39.

Based on its assessment, the Group does not expect that the new classification requirements will have a material impact on its accounting for financial assets including trade receivables, loans, and investments in debt securities.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities, except for financial liabilities at fair value through profit or loss. Since the Group has not designated any financial liabilities at fair value through profit or loss, it does not expect that the new classification requirements will have a material impact on the classification of its financial liabilities at 1 January 2018.

(i) Impairment — Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost and to contract assets that result from transactions that are within the scope of IFRS 15.

Under IFRS 9, loss allowances will be 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;
- 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 elected to use 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.

The Group has been measuring impairment losses in respect of financial assets measured at amortised cost as the difference between their carrying amounts and the present value of the estimated future cash flows discounted at the assets' original effective interest rates, in accordance with the requirements of IAS 39. Such an approach corresponds to the measurement of expected credit losses in accordance with IFRS 9. The Group does not expect that the application of IFRS 9 will result in any significant increase of impairment of financial assets measured at amortised cost as compared to impairment recognised under IAS 39.

In accordance with IAS 39, the Group has been establishing an allowance for impairment of trade and other receivables and loans given. The main components of this allowance is a specific loss component that relates to individually significant exposures. The Group does not expect that the application of IFRS 9 will result in any significant increase of impairment of trade and other receivables, contract assets that result from transactions that are within the scope of IFRS 15 as well as loans given as compared to impairment recognised under IAS 39.

- 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. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases. The Group has started an initial assessment of the possible impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land plots for development purposes. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight–line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions.

The standard is effective for annual periods beginning on or after 1 January 2019. The Group does not plan to early adopt IFRS 16 in its consolidated financial statements for the year ended 31 December 2017.

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

4. DETERMINATION OF FAIR VALUES

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

A) NON-DERIVATIVE FINANCIAL ASSETS

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

B) DERIVATIVES

For the contracts concluded before April 2015 the Group denominates its trade receivables from sales of commercial and residential properties in conditional units that are linked to RUB/USD exchange rate. The upper and lower ranges of possible fluctuations of exchange rate are fixed in the sales contracts.

Due to current market conditions the Group suspends applying upper and lower ranges of exchange rate (corridor 32 RUB – 36 RUB per a conditional unit, prescribed by sales contracts) for its settlements and used conversion rate equal to 33 RUB per a conditional unit.

Starting from April 2015 all sales are denominated in RUB.

C) 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 2017 or 2016.

Performance of the reporting segments is measured by the management based on gross profits, excluding the impact of adopting IFRS 15, 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 (2016: advances from customers) 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

RUB MLN	RESIDENTIAL DEVELOPMENT		CONSTRUCTION SERVICES		OTHER		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
External revenues (for residential development – recognised at point of time)	43,220	33,499	9,024	8,526	6,657	6,997	**58,901**	**49,022**
Inter-segment revenue	–	–	13,341	9,900	584	581	**13,925**	**10,481**
TOTAL SEGMENT REVENUE	**43,220**	**33,499**	**22,365**	**18,426**	**7,241**	**7,578**	**72,826**	**59,503**
Gross profit	14,545	11,434	358	605	134	170	**15,037**	**12,209**
Interest in cost of sales (note 11)	2,049	1,241	–	–	–	–	**2,049**	**1,241**
GROSS PROFIT ADJUSTED FOR INTEREST IN COST OF SALES	**16,594**	**12,675**	**358**	**605**	**134**	**170**	**17,086**	**13,450**
Gross profit adjusted, %	38%	38%						

	2017	2016	2017	2016	2017	2016	2017	2016
Reportable segment assets: inventories	81,633	69,436	779	622	1,917	1,203	**84,329**	**71,261**
TOTAL LIABILITIES FOR REPORTABLE SEGMENTS: CONTRACT LIABILITIES (ADVANCES FROM EXTERNAL CUSTOMERS)	**29,360**	**22,292**	**35**	**1,233**	**113**	**69**	**29,508**	**23,594**

B) GEOGRAPHICAL INFORMATION

In presenting information on the basis of geographical information, revenue is based on the geographical location of properties.

RUB MLN	REVENUES		NON-CURRENT ASSETS	
	2017	2016	2017	2016
St Petersburg metropolitan area	33,930	31,908	6,311	5,926
Moscow metropolitan area	24,971	17,114	5,886	4,546
	58,901	**49,022**	**12,197**	**10,472**

C) MAJOR CUSTOMER

Revenue from one customer of the Group, recognised within the segment "Construction services", amounted to RUB 3,274 million or 6% of the Group's total revenue for the year ended 31 December 2017 (revenue from one customer of the Group, recognised within the segment "Construction services", amounted to RUB 3,002 million or 6% of the Group's total revenue for the year ended 31 December 2016).

D) RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, ASSETS AND LIABILITIES AND OTHER MATERIAL ITEMS

RUB MLN	2017	2016
REVENUE		
Total revenue for reportable segments	72,826	59,503
Additional revenue due to early adoption of IFRS 15	11,744	–
Elimination of inter-segment revenue	(13,925)	(10,481)
CONSOLIDATED REVENUE	**70,645**	**49,022**
PROFIT OR LOSS		
Gross profit for reportable segments	15,037	12,209
Additional profit due to early adoption of IFRS 15	2,964	–
General and administrative expenses	(5,052)	(4,454)
Selling expenses	(2,930)	(1,984)
Other expenses, net	366	(753)
Finance income	1,712	1,857
Finance costs	(1,680)	(319)
CONSOLIDATED PROFIT BEFORE INCOME TAX	**10,417**	**6,556**
ASSETS		
Total assets for reportable segments: inventories	84,329	71,261
Adjustment due to early adoption of IFRS 15	(6,207)	–
TOTAL INVENTORIES	**78,122**	**71,261**
LIABILITIES		
Total liabilities for reportable segments: advances from external customers	29,508	23,594
Adjustment due to early adoption of IFRS 15	(3,958)	–
TOTAL CONTRACT LIABILITIES AND ADVANCES FROM EXTERNAL CUSTOMERS	**25,550**	**23,594**

6. REVENUE

RUB MLN	2017	2016
Sale of flats – transferred at a point in time	33,379	31,487
Sale of flats – transferred over time	16,270	–
Sale of built-in commercial premises – transferred at a point in time	1,940	1,104
Sale of built-in commercial premises – transferred over time	546	–
Sale of parking places – transferred at a point in time	2,723	908
Sale of parking places – transferred over time	106	–
TOTAL REVENUE – SEGMENT RESIDENTIAL DEVELOPMENT (NOTE 5 (A))	**43,220**	**33,499**
EFFECT OF REVENUE RECOGNISED UNDER IFRS 15	**11,744**	**–**
Long term construction contracts – transferred over time	8,105	7,277
Short term construction services – transferred over time	919	1,249
TOTAL REVENUE OF SEGMENT CONSTRUCTION SERVICES (NOTE 5 (A))	**9,024**	**8,526**
Sale of construction materials – transferred at a point in time	4,146	3,228
Sale of stand-alone commercial premises – transferred at a point in time	479	205
Rental revenue transferred over time	698	825
Other revenue – transferred at a point in time	1,334	2,739
TOTAL OTHER REVENUE (NOTE 5 (A))	**6,657**	**6,997**
TOTAL REVENUES FROM CONTRACTS WITH CUSTOMERS	**70,645**	**49,022**

CONTRACT BALANCES

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

RUB MLN	2017	
	31 DECEMBER	1 JANUARY
Trade receivables	19,291	12,323
Contract assets	1,187	984
Contract liabilities	(25,649)	(24,320)

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, concluded since 1 January 2017 and long-term construction contracts. The Contract assets are transferred to Trade receivables when the rights become unconditional.

The Contract liabilities relate to the 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.

RUB MLN	2017	
	CONTRACT ASSETS	CONTRACT LIABILITIES
Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period	–	20,514
Increases due to cash received, excluding amounts recognized as revenue during the period	–	(21,843)
Transfers from contract assets recognised at the beginning of the period to receivables	(843)	–
Increase as a result of changes in the measure of progress	1,046	–
TOTAL CHANGE IN THE REPORTING PERIOD	**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.

RUB MLN	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

RUB MLN	2017	2016
Payroll and related taxes	3,676	3,314
Services	405	295
Audit and consulting services	150	141
Bank fees and commissions	122	133
Other taxes	162	136
Materials	57	62
Depreciation	47	62
Repair and maintenance	89	37
Other	344	274
TOTAL	**5,052**	**4,454**

Remuneration of the statutory audit firm for the year ended 31 December 2017 amounted to RUB 4.3 million for audit services (2016: RUB 2.6 million) and RUB 1.7 million for other assurance services (2016: nill). Remuneration of other members of the statutory auditors' network for the year ended 31 December 2017 amounted to RUB 11.1 million for audit services (2016: RUB 11.6 million) and RUB 8.4 million for non-audit services (2016: RUB 4 million).

8. OTHER INCOME/ (EXPENSES), NET

RUB MLN	2017	2016
OTHER INCOME		
Gain on disposal of property, plant and equipment	113	52
Gain on disposal of investment property	27	267
Gain on disposal of inventory	2	–
Fees and penalties received	17	42
Decrease of impairment of investment priperty (Note 14)	–	41
Other income	1,186	21
	1,345	**423**
OTHER EXPENSES		
Impairment loss on inventories (Note 17)	(819)	(430)
Other expenses	(149)	(363)
Loss on disposal of inventories	–	(312)
Charity	(11)	(71)
	(979)	**(1,176)**
OTHER INCOME/(EXPENSES), NET	**366**	**(753)**

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

RUB MLN	2017	2016
Wages and salaries	5,832	5,704
Contributions to State pension fund	1,340	1,193
Equity-settled share based payments	221	–
	7,393	**6,897**

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 2017 personnel costs and related taxes included in cost of production amounted to RUB 3,004 million (year ended 31 December 2016: RUB 2,907 million). The remaining part of personnel expenses was subsumed within general and administrative expenses (see note 7) and selling expenses in the amount of RUB 713 million (year ended 31 December 2016: RUB 676 million).

The average number of staff employed by the Group during the year ended 31 December 2017 was 4 558 employees (2016: 4 236 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 commences from 1 July 2017 and will 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.

During the year ended 31 December 2017, no options have been exercised since the vesting condition in respect of the market price of the Group's GDRs has not been met.

11. FINANCE INCOME AND FINANCE COSTS

RUB MLN RECOGNISED IN PROFIT OR LOSS	2017	2016
FINANCE INCOME		
Interest income on bank deposits	505	839
Interest income on loans and receivables	413	314
Unwinding of discount on trade receivables	778	638
Gain on write-off of accounts payable	16	55
Decrease in allowance for doubtful accounts receivable	–	11
FINANCE INCOME	**1,712**	**1,857**
FINANCE COSTS		
Interest expenses (financing component under IFRS 15)	(909)	–
Increase in allowance for doubtful accounts receivable	(301)	–
Loss on write-off of accounts receivable	(113)	(71)
Net foreign exchange loss	(79)	(78)
Interest expense on finance leases	(3)	(10)
Increase in allowance for investments	(260)	(137)
Interest expense on loans	-	(2)
Other finance costs	(15)	(21)
FINANCE COS TS	**(1,680)**	**(319)**
NET FINANCE INCOME RECOGNISED IN PROFIT OR LOSS	**32**	**1,538**

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

RUB MLN	2017	2016
Borrowing costs capitalised during the year	4,150	2,625
Weighted average capitalisation rate	9.8%	13.8%

During the year ended 31 December 2017, borrowing costs and significant financing component that have been capitalised into the cost of real estate properties under construction in the amount of RUB 3,871 million (year ended 31 December 2016: RUB 1,241 million), were included into the cost of sales upon completion of construction and sale of those properties (borrowing costs in the amount of RUB 2,247 million, significant financing component in the amount of 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% (2016: 20%).

RUB MLN	2017	2016
CURRENT TAX EXPENSE		
Current year	1,931	2,124
Under-provided/(over-provided) in prior year	44	38
	1,975	**2,162**
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	549	(508)
INCOME TAX EXPENSE	**2,524**	**1,654**

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

RUB MLN	2017	2016
Profit before income tax	10,417	6,556
Theoretical income tax at statutory rate of 20%	2,083	1,311
Adjustments due to:		
Effect of 16.5% tax rate (2016: 15.5% tax rate) *	(117)	(260)
Expenses not deductible and income not taxable for tax purposes, net	558	603
INCOME TAX EXPENSE	**2,524**	**1,654**

* the operations of JSC "Etalon LenSpetsSMU" (JSC "SSMO LenSpetsSMU" before 18 April 2017) are taxable at a rate of 16.5% due to applied tax concession.

13. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2017, depreciation expense of RUB 261 million (year ended 31 December 2016: RUB 321 million) has been charged to cost of sales, RUB 45 million (year ended 31 December 2016: RUB 44 million) to cost of real estate properties under construction, RUB 10 million (year ended 31 December 2016: RUB 4 million) to selling expenses and RUB 47 million (year ended 31 December 2016: RUB 62 million) to general and administrative expenses.

A) 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 2017 the net book value of leased plant and machinery was RUB 187 million (31 December 2016: RUB 205 million). The leased equipment secures lease obligations.

RUB MLN	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	VEHICLES	OTHER	LAND	CONSTRUCTION IN PROGRESS	TOTAL
COST							
Balance at 1 January 2016	938	2,462	110	163	117	533	4,323
Additions	141	105	29	24	–	412	711
Reclassification from inventories	171	–	–	–	–	–	171
Disposals	(119)	(143)	(5)	(8)	–	–	(275)
Transfers	24	1	–	10	–	(35)	–
BALANCE AT 31 DECEMBER 2016	**1,155**	**2,425**	**134**	**189**	**117**	**910**	**4,930**
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**
DEPRECIATION AND IMPAIRMENT LOSSES							
Balance at 1 January 2016	(255)	(1,430)	(60)	(99)	–	–	(1,844)
Depreciation for the year	(135)	(246)	(23)	(27)	–	–	(431)
Disposals	94	129	3	8	–	–	234
BALANCE AT 31 DECEMBER 2016	**(296)**	**(1,547)**	**(80)**	**(118)**	**–**	**–**	**(2,041)**
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)**
CARRYING AMOUNTS							
Balance at 1 January 2016	683	1,032	50	64	117	533	2,479
Balance at 31 December 2016	859	878	54	71	117	910	2,889
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

14. INVESTMENT PROPERTY

RUB MLN	2017	2016
COST		
Balance at 1 January	806	1,456
Transfers from inventories	–	292
Disposals	(210)	(942)
BALANCE AT 31 DECEMBER	**596**	**806**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Balance at 1 January	(245)	(918)
Depreciation for the year	(22)	(42)
Impairment gain/(loss)	–	41
Disposals	4	674
BALANCE AT 31 DECEMBER	**(263)**	**(245)**
Carrying amount at 1 January	561	538
CARRYING AMOUNT AT 31 DECEMBER	**333**	**561**

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 2017, fair value amounted to RUB 458 million (31 December 2016: RUB 771 million), which was determined based on discounted cash flows from the use of the property using the income approach. During the year ended 31 December 2017, the Group has recognised no impairment loss for properties (year ended 31 December 2016: gain from reversal of impairment in amount of RUB 41 million).

15. OTHER LONG-TERM INVESTMENTS

RUB MLN	2017	2016
Bank promissory notes	652	541
Loans, at amortised cost	87	4
	739	**545**

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

As at 31 December 2017 bank promissory notes in the amount of RUB 451 million are pledged as security of secured bank loans (as at 31 December 2016: RUB 541 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:

RUB MLN	ASSETS		LIABILITIES		NET	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	318	318	(738)	(629)	(420)	(311)
Investments	273	9	(23)	–	250	9
Inventories	3,775	1,931	(994)	(865)	2,781	1,066
Contract assets and trade and other receivables	504	646	(4,842)	(2,536)	(4,338)	(1,890)
Deferred expenses	239	139	(555)	(469)	(316)	(330)
Loans and borrowings	172	30	(28)	(9)	144	21
Provisions	100	119	44	8	144	127
Contract liabilities and trade and other payables	2,032	1,625	(1,166)	(702)	866	923
Tax loss carry-forwards	150	134	(1)	(3)	149	131
Other	73	138	(101)	(27)	(28)	111
TAX ASSETS/(LIABILITIES)	**7,636**	**5,089**	**(8,404)**	**(5,232)**	**(768)**	**(143)**
Set off of tax	(5,463)	(3,675)	5,463	3,675	–	–
NET TAX ASSETS/(LIABILITIES)	**2,173**	**1,414**	**(2,941)**	**(1,557)**	**(768)**	**(143)**

(B) UNRECOGNISED DEFERRED TAX LIABILITY

At 31 December 2017 a deferred tax liability arising on temporary differences of RUB 47,494 million (31 December 2016: RUB 44,528 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

RUB MLN	1 JANUARY 2017	RECOGNISEDIN PROFIT OR LOSS	RECOGNISED IN EQUTY	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)**

RUB MLN	1 JANUARY 2017	RECOGNISEDIN PROFIT OR LOSS	31 DECEMBER 2017
Property, plant and equipment	(72)	(239)	(311)
Investments	14	(5)	9
Inventories	921	145	1,066
Contract assets and trade and other receivables	(1,932)	42	(1,890)
Deferred expenses	(523)	193	(330)
Loans and borrowings	12	9	21
Provisions	179	(52)	127
Contract liabilities and trade and other payables	564	359	923
Tax loss carry-forwards	145	(14)	131
Other	41	70	111
	(651)	**508**	**(143)**

17. INVENTORIES

RUB MLN	2017	2016
INVENTORIES UNDER CONSTRUCTION		
Own flats under construction	43,595	35,596
Built-in commercial premises under construction	5,809	4,830
Parking places under construction	7,775	8,294
	57,179	**48,720**
Less: Allowance for inventories under construction	(1,738)	(978)
TOTAL INVENTORIES UNDER CONSTRUCTION	**55,441**	**47,742**
INVENTORIES – FINISHED GOODS		
Own flats	14,925	16,180
Built-in and stand-alone commercial premises	3,715	3,176
Parking places	3,233	3,650
	21,873	**23,006**
Less: Allowance for inventories – finished goods	(415)	(426)
TOTAL INVENTORIES - FINISHED GOODS	**21,458**	**22,580**
OTHER INVENTORIES		
Construction materials	879	719
Other	347	232
	1,226	**951**
Less: Allowance for other inventories	(3)	(12)
TOTAL OTHER INVENTORIES	**1,223**	**939**
TOTAL	**78,122**	**71,261**

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. In 2017 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 4,395 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

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 2017 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 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 2017, the cost of land plots (Project 1) measured as described above and related to sold premises, was recognised in cost of sales during 2013–2017 in the amount of RUB 7,372 million, while the remaining balance of RUB 1,170 million is included into finished goods and RUB 482 million — into inventories under construction.

At 31 December 2017, 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 2017 in the amount of RUB 321 million, while the remaining balance of RUB 4,201 million is included into inventories under construction.

At 31 December 2017, 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 2017 in the amount of RUB 592 million, while the remaining balance of RUB 3,803 million is included into inventories under construction.

At 31 December 2017, Project 4 was under construction, therefore no cost of land component was recognised in cost of sales during 2017.

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 2017, the cost of such social infrastructure amounts RUB 1,570 million and is included into the balance of finished goods and inventories under construction (31 December 2016: RUB 2,461 million). These costs are recoverable as part of projects they relate to.

B) ALLOWANCE FOR OBSOLETE INVENTORIES

The following is movement in the allowance for obsolete inventories:

RUB MLN	2017	2016
Balance at 1 January	1,416	986
Impairment loss on inventories (Note 8)	819	430
Reversed in equity due to change in accounting policy	(79)	–
BALANCE AT 31 DECEMBER	**2,156**	**1,416**

As at 31 December 2017 the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 2,156 million (31 December 2016: RUB 1,416 million) and the respective allowance was recognised in other expenses, see note 8. As at 31 December 2017, the allowance of RUB 2,153 million relates to parking places.

The balance of parking places is equal to RUB 11,008 million as at 31 December 2017 (31 December 2016: RUB 11,944 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 — 9.79% per annum;
- Inflation rates — 4.0–4.8% 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. The total carrying value of these items of property was RUB 670 million as at 31 December 2017 (31 December 2016: RUB 909 million). The Group is actively seeking buyers for these properties.

D) PLEDGES

Inventories with a carrying amount of RUB 9,371 million (31 December 2016: RUB 6,746 million) are pledged as security for borrowings, see note 23.

18. CONTRACT ASSETS, TRADE AND OTHER RECEIVABLES

RUB MLN	2017	2016
LONG-TERM TRADE AND OTHER RECEIVABLES		
Trade receivables	5,734	4,970
Advances paid to suppliers	2	8
Other receivables	131	85
	5,867	**5,063**
SHORT-TERM TRADE AND OTHER RECEIVABLES		
Trade receivables	14,016	7,733
Less: Allowance for doubtful trade accounts receivable	(465)	(392)
TRADE SHORT-TERM LESS ALLOWANCE	**13,551**	**7,341**
Advances paid to suppliers	10,894	10,058
Less: Allowance for doubtful Advances paid to suppliers	(230)	(88)
ADVANCES PAID TO SUPPLIERS SHORT-TERM LESS ALLOWANCE	**10,664**	**9,970**
VAT recoverable	2,478	2,370
Income tax receivable	579	412
Contract assets	1,187	–
Unbilled receivables	–	984
Trade receivables due from related parties	6	12
Other taxes receivable	22	13
Other receivables due from related parties	9	9
Other receivables	1,832	394
	6,113	**4,194**
Less: Allowance for doubtful other accounts receivable	(144)	(96)
OTHER SHORT-TERM LESS ALLOWANCE	**5,969**	**4,098**
TOTAL SHORT-TERM TRADE AND OTHER RECEIVABLES	**30,184**	**21,409**
TOTAL	**36,051**	**26,472**

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

RUB MLN	2017	2016
Bank deposits (over 3 months)	153	–
Bank promissory notes	–	385
Loans given	169	545
	322	**930**
Less: Allowance for doubtful loans given	(137)	(137)
TOTAL	**185**	**793**

As at 31 December 2016, bank promissory notes in the amount of RUB 23 million were pledged as security of secured bank loans and banks' guarantees.

The Group's exposure to credit and currency risks and impairment losses related to loans given are disclosed in note 26.

20. CASH AND CASH EQUIVALENTS

RUB MLN	2017	2016
Cash in banks, in RUB	6,902	3,483
Cash in banks, in USD	2,936	516
Cash in banks, in EUR	68	52
Cash in banks, in GBP	2	–
Petty cash	49	21
Cas h in trans it	3	20
Short-term deposits (less than 3 months)	4,165	6,114
TOTAL	**14,125**	**10,206**

The Group keeps major bank balances in the major Russian banks including Sberbank, VTB, Alfa Bank and Bank of St Petersburg as well as in Citibank, N.A., London branch and in the Cypriot Hellenic Bank.

At 31 December 2017, one of the banks where the Group held its operating bank accounts, had a rating of B1 with Moody's Investors Service. At 31 December 2017, cash and cash equivalents held with that bank totaled RUB 3,786 million (31 December 2016: RUB 3,289 million). At 31 December 2017, the Group also had outstanding loans and borrowings with the same bank of RUB 2,012 million (31 December 2016: RUB 2,500 million).

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

21. CAPITAL AND RESERVES

A) SHARE CAPITAL

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

NUMBER OF SHARES UNLESS OTHERWISE STATED	2017		2016	
	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	292,229,971	20,000	292,229,971	–
Par value at the end of the year	0.00005 GBP	1 GBP	0.00005 GBP	–
Own shares acquired during the year	(5,488,378)	–	–	–
ON ISSUE AT THE END OF THE YEAR, FULLY PAID	**286,741,593**	**20,000**	**292,229,971**	**–**

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 (GDRs) on the London Stock Exchange on 4 April 2011, and from issuance of 117,647 ordinary £0.01 shares for a consideration of US$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 (as at 31 December 2016: 2,728,000 own shares or 1% of issued share capital) for the consideration of RUB 1,629 million (as at 31 December 2016: RUB 440 million).

At 31 December 2017, the consideration payable for acquisition of own shares in the amount of RUB 560 million remains outstanding to the broker and is included into the line Short Term Other payables in note 25. Own shares are collateralised to the broker as security for payables.

The consideration paid and payable 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 2017, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 45,846 million (31 December 2016: RUB 43,469 million).

During the year ended 31 December 2017, the Company paid dividends in the amount of RUB 2,542 million (year ended 31 December 2016: dividend of RUB 1,504 million).

F) NON-CONTROLLING INTERESTS IN SUBSIDIARIES

During the year ended 31 December 2017 the Group has acquired certain interests in a number of its subsidiaries. The transactions resulted in a decrease of non-controlling interest of RUB 31 million during year ended 31 December 2017 (year ended 31 December 2016: a decrease in non-controlling interest of RUB 119 million).

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	2017	2016
Issued shares at 1 January	292,229,971	292,229,971
Effect of own shares acquired during the year	(1,653,553)	–
Weighted average number of shares for the year	290,576,418	292,229,971
Profit attributable to the owners of the Company, mln RUB	7,890	4,902
BASIC AND DILUTED EARNINGS PER SHARE (RUB)	**27.15**	**16.77**

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.

RUB MLN	2017	2016
NON-CURRENT LIABILITIES		
Secured bank loans	5,303	2,409
Unsecured bank loans	6,183	5,050
Unsecured bond issues	9,932	4,956
	21,418	**12,415**
CURRENT LIABILITIES		
Current portion of secured bank loans	972	2,650
Current portion of unsecured bank loans	1,482	712
Current portion of unsecured bond issues	36	2,277
Current portion of other unsecured loans	79	–
	2,569	**5,639**

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

RUB MLN	1 JANUARY 2017	PROCEEDS FROM BORROWINGS	REPAYMENT OF BORROWINGS	OTHER CHANGES	31 DECEMBER 2017
Secured bank loans	5,059	6,199	(4,972)	(11)	6,275
Unsecured bank loans	5,762	4,690	(2,787)	–	7,665
Unsecured bond issues	7,233	5,000	(2,250)	(15)	9,968
Current portion of other unsecured loans	–	–	–	79	79
	18,054	**15,889**	**(10,009)**	**53**	**23,987**

RUB MLN	CURRENCY	NOMINAL INTEREST RATE	YEAR OF MATURITY	2017		2016	
				FACE VALUE	CARRYING AMOUNT	FACE VALUE	CARRYING AMOUNT
SECURED BANK LOANS				**6,275**	**6,275**	**5,059**	**5,059**
Secured bank loan	RUB	CBR's key rate + 1.5%	2020	2,287	2,287	–	–
Secured bank loan	RUB	14.01%	2020	1,028	1,028	1,574	1,574
Secured bank loan	RUB	11.75%	2022	802	802	–	–
Secured bank loan	RUB	10.40%	2021	750	750	986	986
Secured bank loan	RUB	13.00%	2021	734	734	–	–
Secured bank loan	RUB	9.50%	2020	332	332	–	–
Secured bank loan	RUB	10.68%	2021	215	215	240	240
Secured bank loan	RUB	9.50%	2020	127	127	–	–
Secured bank loan	RUB	13.00%	2017	–	–	1,804	1,804
Secured bank loan	RUB	13.20%	2017	–	–	455	455
UNSECURED BANK LOANS				**7,665**	**7,665**	**5,762**	**5,762**
Unsecured bank loan	RUB	8.75% – 9.7%	2021	3,004	3,004	–	–
Unsecured bank loan	RUB	9.30%	2020	1,300	1,300	1,300	1,300
Unsecured bank loan	RUB	9.50%	2021	1,246	1,246	–	–
Unsecured bank loan	RUB	9.75%	2018	1,000	1,000	1,500	1,500
Unsecured bank loan	RUB	9.75%	2019	1,000	1,000	1,000	1,000
Unsecured bank loan	RUB	CBR's key rate + 1%	2021	50	50	250	250
Unsecured bank loan	RUB	10.80%	2021	50	50	–	–
Unsecured bank loan	RUB	9.25%	2018	12	12	–	–
Unsecured bank loan	RUB	10.10%	2019	3	3	506	506
Unsecured bank loan	RUB	11.50%	2020	–	–	1,002	1,002
Unsecured bank loan	RUB	13.20%	2017	–	–	174	174
Unsecured bank loan	RUB	12.90%	2017	–	–	30	30
UNSECURED BOND ISSUES				**10,115**	**10,047**	**7,279**	**7,233**
Unsecured bonds	RUB	8.95%	2022	5,020	4,985	–	–
Unsecured bonds	RUB	11.85%	2021	5,016	4,983	5,015	4,971
Unsecured bonds	RUB	12.90%	2017	–	–	2,264	2,262
Other unsecured issues	RUB	9.00%	2018	79	79	–	–
				24,055	**23,987**	**18,100**	**18,054**

Bank loans are secured by:

- inventories with a carrying amount of RUB 9,371 million (31 December 2016: RUB 6,746 million), see note 17;
- bank promissory notes with a carrying amount of RUB 451 million (31 December 2016: RUB 541 million), see note 15;
- pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 3,555 million in its net assets (31 December 2016: pledge of 50% of shares in a subsidiary company JSC "Zatonskoe" which represents RUB 2,333 million in its net assets);
- pledge of 100% of shares in a subsidiary company LLC "Daikar" which represents RUB 4,542 million in its net assets (31 December 2016: none).
- pledge of 100% of shares in a subsidiary company LLC "LS-Rielty" which represents RUB 970 million in its net assets (31 December 2016: none).
- pledge of 100% of shares in a subsidiary company LLC "UK Dmitrovskaya" which represents RUB 2,050 million in its net assets (31 December 2016: none).
- pledge of 100% of shares in a subsidiary company LLC "Parkoviy Kvartal" which represents RUB 7 million in its net assets (31 December 2016: none).

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. There has been no significant 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 covenant relating to loans with a combined carrying value of RUB 966 million. The respective loans in amount of RUB 943 million are classified as current liabilities as at 31 December 2017.

The Group obtained waiver from the bank for such loans after the reporting date.

24. PROVISIONS

RUB MLN	WARRANTIES	PROVISION FOR DEFERRED WORKS	PROVISION FOR ONEROUS CONTRACTS	TOTAL
Balance at 1 January 2016	117	3,546	–	3,663
Provisions made during the year	41	2,088	–	2,129
Provisions used during the year	(51)	(3,696)	–	(3,747)
Provision reversed during the year	–	(190)	–	(190)
BALANCE AT 31 DECEMBER 2016	**107**	**1,748**	**–**	**1,855**
Balance at 1 January 2017	107	1,748	–	1,855
Provis ions 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**
Non–current	102	–	–	102
Current	–	1,792	71	1,863
	102	**1,792**	**71**	**1,965**

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

RUB MLN	2017	2016
LONG–TERM		
Trade payables	62	64
Finance lease liabilities	–	6
Advances from customers	–	11
Other payables	2,484	778
	2,546	**859**
SHORT–TERM		
Trade payables	7,260	2,999
Contract liabilities	25,649	–
Billings in excess of work completed	–	737
VAT payable	3,188	2,134
Payroll liabilities	733	536
Other taxes payable	251	190
Income tax payable	85	399
Finance lease liabilities	6	44
Other payables	3,397	3,044
	40,569	**10,083**
Advances from customers	–	23,583
	40,569	**33,666**
TOTAL	**43,115**	**34,525**

Long-term other payables and short-term other payables mainly consist of obligation equal to RUB 1,938 million (31 December 2016: RUB 1,961 million) to construct the social infrastructure objects and liability of RUB 3,526 million (31 December 2016: RUB 1,185 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 4,430 million which will be satisfied after 12 months from the reporting date (31 December 2016: advances from customers in the amount of RUB 4,051 million).

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.

RUB MLN	CARRYING AMOUNT			FAIR VALUE		
	LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
2017						
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)**

RUB MLN	CARRYING AMOUNT			FAIR VALUE		
	LOANS AND RECEIVABLES	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
2016						
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	14,111	–	14,111	–	14,111	14,111
Bank deposits (over 3 months)	–	–	–	–	–	–
Bank promissory notes	926	–	926	–	930	930
Cash and cash equivalents	10,206	–	10,206	10,206	–	10,206
	25,243	**–**	**25,243**	**10,206**	**15,041**	**25,247**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE						
Secured bank loans	–	(5,059)	(5,059)	–	(5,214)	(5,214)
Unsecured bank loans	–	(5,762)	(5,762)	–	(5,355)	(5,355)
Unsecured bond issues	–	(7,233)	(7,233)	(7,494)	–	(7,494)
Trade and other payables	–	(8,208)	(8,208)	–	(7,977)	(7,977)
	–	**(26,262)**	**(26,262)**	**(7,494)**	**(18,546)**	**(26,040)**

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 2017 the receivables of one customer was equal to RUB 1,338 million or 6% of the Group's consolidated trade and other receivables (31 December 2016: RUB 996 million or 8%).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The Group includes specific loss component that relates to individually significant exposures in its allowance for impairment of trade and other receivables and investments.

(ii) Guarantees

As at 31 December 2017 the Group had not provided any financial guarantees to entities outside the Group (31 December 2016: nil).

(iii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

RUB MLN	CARRYING AMOUNT	
	2017	2016
FINANCIAL ASSETS AT AMORTIZED COST		
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	21,238	14,111
Bank promissory notes	652	926
Bank deposits (over 3 months)	153	–
Cash and cash equivalents	14,125	10,206
	36,168	**25,243**
FINANCIAL LIABILITIES AT AMORTIZED COST	**38,029**	**28,061**

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:

RUB MLN	2017		2016	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not past due	18,065	–	10,137	–
Past due 0-30 days	434	–	1,219	–
Past due 31-120 days	256	–	341	–
Past due more than 120 days	1,001	(465)	1,018	(392)
	19,756	**(465)**	**12,715**	**(392)**

The ageing of loans given at the reporting date was:

RUB MLN	2017		2016	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not past due	119	–	112	–
Past due 0-30 days	–	–	72	(72)
Past due 31-120 days	–	–	338	(38)
Past due more than 120 days	137	(137)	27	(27)
	256	**(137)**	**549**	**(137)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

RUB MLN	2017	2016
Balance at 1 January	392	372
Increase during the year	222	102
Decrease due to reversal	(149)	(82)
BALANCE AT 31 DECEMBER	**465**	**392**

The movement in the allowance for impairment in respect of loans given during the year was as follows:

RUB MLN	2017	2016
Balance at 1 January	137	–
Increase during the year	–	137
Decrease due to reversal	–	–
BALANCE AT 31 DECEMBER	**137**	**137**

The movement in the allowance for impairment in respect of advances paid to suppliers and other receivables during the year was as follows:

RUB MLN	2017	2016
Balance at 1 January	185	216
Increase during the year	308	250
Decrease due to reversal	(119)	(281)
BALANCE AT 31 DECEMBER	**374**	**185**

C) LIQUIDITY RISK

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

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

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

RUB MLN	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
31 DECEMBER 2017									
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 advances from customers)	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**

RUB MLN	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
31 DECEMBER 2016									
NON-DERIVATIVE FINANCIAL LIABILITIES									
Secured bank loans	5,059	6,099	1,487	1,704	1,702	667	443	96	–
Unsecured bank loans	5,762	7,441	505	849	1,737	2,680	1,398	272	–
Unsecured bond issues	7,233	9,507	1,542	1,498	592	2,187	2,491	1,197	–
Trade and other payables (excluding taxes payable and advances from customers)	8,208	8,213	6,752	613	569	274	1	1	3
	26,262	**31,260**	**10,286**	**4,664**	**4,600**	**5,808**	**4,333**	**1,566**	**3**

D) MARKET RISK

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

(i) Currency risk

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

RUB MLN	2017		2016	
	USD- DENOMINATED	EUR- DENOMINATED	USD- DENOMINATED	EUR- DENOMINATED
Cash and cash equivalents (see note 20)	2,936	68	516	52
NET EXPOSURE	**2,936**	**68**	**516**	**52**

The following significant exchange rates applied during the year:

IN RUB	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2017	2016	31 DECEMBER 2017	31 DECEMBER 2016
USD 1	58.35	67.03	57.60	60.66
EUR 1	65.90	74.23	68.87	63.81

(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:

RUB MLN	CARRYING AMOUNT	
	2017	2016
FIXED RATE INSTRUMENTS		
Financial assets	20,783	16,514
Financial liabilities	(20,656)	(18,104)
	127	**(1,590)**
VARIABLE RATE INSTRUMENTS		
Financial liabilities	(3,337)	–
	(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:

RUB MLN	2017	2016
TOTAL BORROWINGS	**23,987**	**18,054**
Less: cash and cash equivalents	(14,125)	(10,206)
Less: bank deposits over 3 months, note 19	(153)	–
NET DEBT	**9,709**	**7,848**
TOTAL EQUITY	**62,805**	**58,150**
Debt to capital ratio at end of period	0.15	0.135

Finance lease liabilities RUB 6 million at 31 December 2017 (RUB 50 million at 31 December 2016) 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:

RUB MLN	2017	2016
Less than one year	469	428
Between one and five years	953	1,598
More than five years	198	701
	1,620	**2,727**

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

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

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

During the year ended 31 December 2017 the amount of RUB 22 million (year ended 31 December 2016: RUB 33 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 189 million (year ended 31 December 2016: RUB 449 million) were capitalised into the cost of residential and commercial premises under construction.

28. CAPITAL COMMITMENTS

As at 31 December 2017 the Group has no capital commitments (31 December 2016: 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 2017, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

C) TAXATION CONTINGENCIES

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

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

30. RELATED PARTY TRANSACTIONS

A) TRANSACTIONS WITH MANAGEMENT

(i) Management remuneration

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

RUB MLN	2017	2016
Salaries and bonuses	362	647
	362	**647**

During the year ended 31 December 2017 and 2016, the Group did not grant any loans and pensions to its key management personnel. In 2017, the total cash remuneration of key management personnel amounted to RUB 362 million (2016: RUB 647 million). The Group has also accrued RUB 221 million in relation to share-based payment program for key management personnel as disclosed in the note 10.

(ii) Other transactions

Sales to key management personnel are disclosed below:

RUB MLN	TRANSACTION VALUE		OUTSTANDING BALANCE	
	2017	2016	2017	2016
Sale of apartments and premises	–	106	(2)	(144)
	–	**106**	**(2)**	**(144)**

B) TRANSACTIONS WITH OTHER RELATED PARTIES

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

(i) Revenue

RUB MLN	TRANSACTION VALUE		OUTSTANDING BALANCE	
	2017	2016	2017	2016
Other related parties	47	46	7	(14)
	47	**46**	**7**	**(14)**

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

(ii) Expenses

RUB MLN	TRANSACTION VALUE		OUTSTANDING BALANCE	
	2017	2016	2017	2016
Other related parties	148	125	(8)	(30)
	148	**125**	**(8)**	**(30)**

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

31. GROUP ENTITIES

SIGNIFICANT SUBSIDIARIES

SUBSIDIARY	COUNTRY OF INCORPORATION	31 DECEMBER 2017	31 DECEMBER 2016
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 2017 the Group controlled 141 legal entities (31 December 2016: 138). 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

A) FINANCING EVENTS

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2017 for the total amount of RUB 2,358 million.

Subsequent to the reporting date the Group has obtained an additional tranche of a loan for the total amount of RUB 177 million with an interest rate of 9.96% (repayable in 2020) and additional tranche of a loan for the total amount of RUB 906 million with an interest rate of 8.57% (repayable in 2021).

PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

BOARD OF DIRECTORS

Viacheslav Adamovich Zarenkov (appointed on 8 November 2007)
Michael Calvey (appointed on 12 November 2010)
Alexey Kalinin (appointed on 12 November 2010)
Martin Robert Cocker (appointed on 12 November 2010)
Boris Svetlichny (appointed on 15 April 2013)
Kirill Bagachenko (appointed on 15 November 2013)
Dmitry Viacheslavovich Zarenkov (appointed on 29 July 2016)
Dmitry Kashinskiy (appointed on 10 November 2016)
Charalampos Avgousti (appointed on 10 November 2016)
Marios Theodosiou (appointed on 10 November 2016)
Andrew Russell Howat (appointed on 1 March 2015 and resigned on 18 January 2017)
Anton Evdokimov (appointed on 8 November 2007 and resigned on 10 November 2016)

SECRETARY

Intertrust Secretaries (Jersey) Limited
Esplanade, 44
St. Helier, JE4 9WG, Jersey (before 5 April 2017)

G.T. Globaltrust Services Limited
Themistokli Dervi, 15
Margarita House, 5th floor, flat/office 502
1066 Nicosia
Cyprus (effective from 5 April 2017)

REGISTERED OFFICE

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

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

INDEPENDENT AUDITORS

KPMG Limited
14 Esperidon Street
1087 Nicosia
Cyprus (appointed on 27 July 2017)

MANAGEMENT REPORT

The Board of Directors presents its report together with the audited financial statements of Etalon Group PLC (Etalon Group Public Company Limited before 27 July 2017 and Etalon Group Limited before 5 April 2017) (the "Company") for the year ended 31 December 2017.

COUNTRY OF INCORPORATION

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 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 there were no material changes in the Group structure of the Company. The Company does not intend to proceed with any acquisitions or mergers.

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 2017 was Russian Rouble ('RUB')'000 3,952,606 (2016: loss of RUB'000 2,054,288). The main source of income for the period was dividends received from the subsidiaries of the Company totaling RUB'000 3,367,511 (2016: nil) and other income as explained in Note 6.

On 31 December 2017, the total assets of the Company were RUB'000 35,236,979 (31 December 2016: RUB'000 34,207,577; 1 January 2016: RUB'000 38,395,853) and the net assets were RUB'000 34,548,945 (31 December 2016: RUB'000 34,128,775; 1 January 2016: RUB'000 37,698,227). Investment in subsidiaries was RUB'000 21,728,929 (31 December 2016: RUB'000 21,536,039; 1 January 2016: RUB'000 21,209,275).

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 185 and 186 (statement of profit or loss and other comprehensive income and statement of financial position).

The Board of Directors, following consideration of the availability of profits for distribution as well as the liquidity position of the Company, recommends the payment of a dividend as detailed below and the remaining profit for the year is retained.

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 2017, the retained earnings were RUB'000 3,443,442 (31 December 2016: RUB'000 2,057,743; 1 January 2016: 5,627,195). During the year ended 31 December 2017, the Board of Directors approved and the Company distributed dividends in the amount of RUB' 000 2,566,907 (31 December 2016: RUB'000 1,515,164).

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, 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 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.

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.

At 31 December 2017, the part of the consideration payable for acquisition of shares in the amount of RUB'000 560,235 remains outstanding to the broker and is included as part of the Other payables and accruals. Own shares are collateralised to the broker as security for payables.

More details are disclosed in Note 14 of the financial statements.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company at 31 December 2017 and at the date of this report are shown on page 174. The details of all appointment and resignations of Directors are shown on page 174.

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 2017 are disclosed in Note 17.

BRANCHES

The Company did not operate through any branches during the year ended 31 December 2017.

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 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 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

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 redeemable 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 2017, the Company is aware of the following interests in its share capital:

SHAREHOLDERS	%
Free float	60.8%
Zarenkov family	30.7%
Baring Vostok Funds	5.7%
Own shares acquired by the Group and its subsidiary	2.8%
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 valid as if originally contained therein, and be subject in like manner to alteration by special resolution.

By order of the Board of Directors,

CHARALAMPOS AVGOUSTI
Director
Nicosia, 26 April 2018

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 and respective capacity of which are listed below, in accordance with the requirements of Section 9 of the Transparency Requirements (Securities Admitted to Trading) Law of 2007 (hereinafter the "Transparency Law 190(I)/2007), 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 2017:

(i) Have been prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union and in accordance with the provisions of section 9(4) of the Transparency Law L.190(I)/2007.
(ii) Give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

(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 faces.

DMITRY VIACHESLAVOVICH ZARENKOV, Chairman of the Board of Directors	
VIACHESLAV ADAMOVICH ZARENKOV, Member of the Board of Directors, CEO	
ALEXEY KALININ, Member of the Board of Directors	
BORIS SVETLICHNY, Member of the Board of Directors	
CHARALAMPOS AVGOUSTI, Member of the Board of Directors	
DMITRY KASHINSKIY, Member of the Board of Directors	
KIRILL BAGACHENKO, Member of the Board of Directors	

MARIOS THEODOSIOU, Member of the Board of Directors	
MARTIN ROBERT COCKER, Member of the Board of Directors	
MICHAEL CALVEY, Member of the Board of Directors	
VIKTOR YURIEVICH VASENEV, CFO	

26 April 2018

KPMG Limited
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ETALON GROUP PLC

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Etalon Group PLC (the "Company"), which are presented on pages 185 to 203, and comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2017, 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 2017, 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 are independent of the Company 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 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.

Recoverability of loans receivable	
Refer to note 11 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
At 31 December 2017, the Company had loans receivable from related parties amounting to RUB'000 10.165.045, which represents 29% of the total assets of the Company. The recoverability of the loans receivable is a key audit matter due to the significance of the balances and the uncertainty and subjectivity associated with the impairment assessment.	Our audit procedures included among others the following: - Assessing the appropriateness of the impairment methodology applied for all loans. - Inspecting the terms of the loan agreements to identify any breaches of the terms; - Challenging management credit assessment by reviewing financial information of the borrowers and by considering the economic environment in which the borrowers operate; - Assessing the adequacy of the disclosures in the financial statements relating to the impairment of loans receivable.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management report and the Annual Report, but does not include the consolidated and 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.

With regards to the annual report we have nothing to report.

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 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 is responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the 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 to influence the economic decisions of users taken on the basis of these 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 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 the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Board of Directors, 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.

Report on other regulatory and legal requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information, 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 Company by the General Meeting of the Company's members on 27 July 2017. Our total uninterrupted period of engagement is 1 year covering the period ending 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 26 April 2018.

Provision of non-audit services ("NAS")

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

Other legal requirements

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

- In our opinion, the 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.

Other matters

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

We have separately reported on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2107.

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

Antonis I. Shiammoutis, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

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

26 April 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017	2016
		RUB'000	RUB'000
Interest income		475,562	589,298
Interest expenses		(2,167)	(17,179)
Dividend income from subsidiary		3,367,511	–
(Impairment) / reversal of impairment for loans receivable from related parties	16(iii)	(136,592)	305,094
(Impairment) / reversal of impairment for investment in subsidiary	10	(53,592)	326,764
Loss from write-off of receivables	16(iv)	(478)	(121,871)
Administrative expenses	5	(292,918)	(329,960)
Other income	6	1,170,552	–
OPERATING PROFIT BEFORE NET FINANCE EXPENSES		**4,527,878**	**752,146**
Finance income		59,333	86,673
Finance expenses		(634,605)	(2,893,107)
NET FINANCE EXPENSES	7	**(575,272)**	**(2,806,434)**
PROFIT/(LOSS) BEFORE TAX		**3,952,606**	**(2,054,288)**
Income tax expense	9	–	–
PROFIT/(LOSS) FOR THE YEAR		**3,952,606**	**(2,054,288)**
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		**3,952,606**	**(2,054,288)**

The notes on pages 189 to 203 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
		RUB'000	RUB'000	RUB'000
ASSETS				
NON-CURRENT ASSETS				
Investments in subsidiaries	10	21,728,929	21,536,039	21,209,275
Loans receivable	11	9,665,237	12,344,255	16,493,153
TOTAL NON-CURRENT ASSETS		**31,394,166**	**33,880,294**	**37,702,428**
CURRENT ASSETS				
Loans receivable	11	499,808	–	–
Other receivables and prepayments	12	363,675	150,672	178,557
Cash and cash equivalents	13	2,979,330	176,611	514,868
TOTAL CURRENT ASSETS		**3,842,813**	**327,283**	**693,425**
TOTAL ASSETS		**35,236,979**	**34,207,577**	**38,395,853**
EQUITY				
Share capital	14	2,266	725	725
Share premium	14	15,486,109	15,486,109	15,486,109
Reserve for own shares	14	(1,188,952)	–	–
Capital contribution	14	16,584,198	16,584,198	16,584,198
Share options reserve	8	221,882	–	–
Retained earnings		3,443,442	2,057,743	5,627,195
TOTAL EQUITY		**34,548,945**	**34,128,775**	**37,698,227**
CURRENT LIABILITIES				
Other payables and accruals	15	688,034	78,775	697,457
Borrowings		–	27	169
TOTAL CURRENT LIABILITIES		**688,034**	**78,802**	**697,626**
TOTAL LIABILITIES		**688,034**	**78,802**	**697,626**
TOTAL EQUITY AND LIABILITIES		**35,236,979**	**34,207,577**	**38,395,853**

On 26 April 2018, the Board of Directors of Etalon Group PLC authorised these financial statements for issue.

CHARALAMPOS AVGOUSTI
Director

KIRILL BAGACHENKO
Director

The notes on pages 189 to 203 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL CONTRIBUTION	RESERVE FOR OWN SHARES	SHARE OPTIONS RESERVE	RETAINED EARNINGS	TOTAL
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
BALANCE AT 1 JANUARY 2016	**725**	**15,486,109**	**16,584,198**	**–**	**–**	**5,627,195**	**37,698,227**
COMPREHENSIVE EXPENSES							
Loss for the year	–	–	–	–	–	(2,054,288)	(2,054,288)
Total comprehensive expenses	–	–	–	–	–	(2,054,288)	(2,054,288)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY							
Dividends	–	–	–	–	–	(1,515,164)	(1,515,164)
Other reclassifications	–	–	–	–	–	(1,515,164)	(1,515,164)
BALANCE AT 31 DECEMBER 2016	**725**	**15,486,109**	**16,584,198**	–	–	**2,057,743**	**34,128,775**

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL CONTRIBUTION	RESERVE FOR OWN SHARES	SHARE OPTIONS RESERVE	RETAINED EARNINGS	TOTAL
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
BALANCE AT 1 JANUARY 2017	**725**	**15,486,109**	**16,584,198**	**–**	**–**	**2,057,743**	**34,128,775**
COMPREHENSIVE INCOME							
Profit for the year	–	–	–	–	–	3,952,606	3,952,606
Total comprehensive income	–	–	–	–	–	3,952,606	3,952,606
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	–	–	–	–	–	(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	**3,443,442**	**34,548,945**

The notes on pages 189 to 203 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 RUB'000	2016 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT/(LOSS) FOR THE YEAR BEFORE TAX		**3,952,606**	**(2,054,288)**
ADJUSTMENTS FOR:			
Impairment/(reversal of impairment) for loans receivable from related parties	16(iii)	136,592	(305,094)
Impairment / (reversal of impairment) for investment in subsidiary	10	53,592	(326,764)
Loss from write-off of receivables	16(iv)	478	121,871
Dividend income from subsidiary		(3,367,511)	–
Interest income on bank deposits		(322)	–
Interest income on loans issued	16(iii)	(475,240)	(589,298)
Interest expenses	16(v)	2,167	17,179
Foreign exchange losses, net		574,740	2,805,684
CASH FLOWS FROM/(USED IN) OPERATIONS BEFORE CHANGES IN WORKING CAPITAL		**877,102**	**(330,710)**
Increase/(decrease) in other receivables and prepayments		18,042	(57,312)
(Decrease)/increase in other payables and accruals		(99,732)	849
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**795,412**	**(387,173)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of loans by subsidiaries	16(iii)	1,793,999	1,506,010
Repayment of interest on loans by subsidiaries	16(iii)	406,786	230,499
Payment of loans to subsidiaries	16(iii)	(300,000)	–
Contribution to share capital of subsidiaries	16(v)	(12,000)	(93,629)
Dividends received from subsidiaries		3,367,511	–
NET CASH FROM INVESTING ACTIVITIES		**5,256,296**	**1,642,880**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of own shares		(628,717)	–
Proceeds from issue of preference shares		1,541	–
Dividends paid	14(iii)	(2,535,158)	(1,515,164)
NET CASH USED IN FINANCING ACTIVITIES		**(3,162,334)**	**(1,515,164)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,889,374	(259,457)
Cash and cash equivalents at beginning of year		176,584	514,699
Effects of exchange rate changes on cash and cash equivalents		(86,628)	(78,658)
CASH AND CASH EQUIVALENTS AT END OF YEAR	13	**2,979,330**	**176,584**

The notes on pages 189 to 203 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

COUNTRY OF INCORPORATION

Etalon Group PLC (Etalon Group Public Company Limited before 27 July 2017 and Etalon Group Limited before 5 April 2017) (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

The principal accounting policies applied in the preparation of these financial statements are set out below.

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.

These financial statements for the year ended 31 December 2017 are the Company's first set of IFRS-EU financial statements, and have been prepared in accordance with IFRS-EU 1 First-time Adoption of International Financial Reporting Standards.

The Company has not prepared its separate financial statements in accordance with accounting principles generally accepted in the United Kingdom, as the Company, in accordance with the Companies (Guernsey) Law, had to prepare consolidated financial statements. Accordingly, no reconciliation between these IFRS-EU financial statements and financial statements prepared in accordance with accounting principles generally accepted in the United Kingdom, has been prepared.

The Company has also prepared consolidated financial statements in accordance with IFRSs 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 them together with the Group's consolidated financial statements as at and for the year ended 31 December 2017 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 historical cost convention.

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.

CONSOLIDATED FINANCIAL STATEMENTS

The Company prepares consolidated financial statements in accordance with IFRS-EUs and the requirements of the Cyprus Companies Law, Cap. 113. The consolidated financial statements can be obtained from the Company's registered office which is at 2-4 Arch. Makariou III Avenue, Capital Center, 9th floor, 1065 Nicosia, Cyprus.

ADOPTION OF NEW AND REVISED IFRS-EUS

During the current year, the Company adopted all the new and revised IFRS-EUs that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Company.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing this financial statements. The Company plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Company's operations.

- IFRS 9 Financial Instruments adopted by the EU will be effective for annual periods beginning on or after 1 January 2018 and will replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The Company does not intend to adopt this standard early.

The Company has assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements. The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Company.

FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Russian Rubles (RUB), which is the Company's functional and presentation currency.

(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.

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.

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.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised though profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

OTHER RECEIVABLES AND PREPAYMENTS

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. If collection of receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

LOANS RECEIVABLE

Loans originated by the Company by providing money directly to the borrower are categorised as loans receivable and are carried at amortised cost. The amortised cost is the amount at which the loan granted is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. All loans are recognised when cash is advanced to the borrower.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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.

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.

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise of cash at bank less bank overdrafts.

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 4).

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.

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.

3. FINANCIAL RISK MANAGEMENT

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.

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:

31 DECEMBER 2017	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	BETWEEN 0-12 MONTHS	BETWEEN 1-5 YEARS
	RUB'000	RUB'000	RUB'000	RUB'000
Other payables and accruals	688,034	688,034	688,034	–
	688,034	**688,034**	**688,034**	**–**

31 DECEMBER 2016	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	BETWEEN 0-12 MONTHS	BETWEEN 1-5 YEARS
	RUB'000	RUB'000	RUB'000	RUB'000
Other payables and accruals	78,775	78,775	78,775	–
Borrowings	27	27	27	–
	78,775	**78,775**	**78,775**	**–**

1 JANUARY 2016	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	BETWEEN 0-12 MONTHS	BETWEEN 1-5 YEARS
	RUB'000	RUB'000	RUB'000	RUB'000
Other payables and accruals	697,457	697,457	697,457	–
Borrowings	169	169	169	–
	697,457	**697,457**	**697,457**	**–**

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.

	31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
	RUB'000	RUB'000	RUB'000
ASSETS			
US DOLLAR			
Cash and cash equivalents	2,904,800	175,064	513,091
Loans receivable	7,120,582	9,607,300	13,652,103
Other receivables and prepayments	212,470	35,547	54,849
TOTAL	**10,237,852**	**9,817,911**	**14,220,043**
EURO			
Cash and cash equivalents	2,008	568	1,755
Loans receivable	–	3	7
Other receivables and prepayments	149,782	112,272	132,486
TOTAL	**151,790**	**112,843**	**134,248**
LIABILITIES			
US DOLLAR			
Other payables and accruals	(566,759)	(6,870)	(612,203)
TOTAL	**(566,759)**	**(6,870)**	**(612,203)**
EURO			
Other payables and accruals	(102,955)	(70,783)	(84,274)
TOTAL	**(102,955)**	**(70,783)**	**(84,274)**
NET POSITION			
US DOLLAR	**9,671,093**	**9,811,041**	**13,607,840**
EURO	**48,835**	**42,060**	**49,974**

Sensitivity analysis

A 10% strengthening of the US$ against the RUB at 31 December 2017, 31 December 2016 and 31 December 2015 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.

	EQUITY 2017	PROFIT OR LOSS 2017
	RUB'000	RUB'000
US Dollar	967,109	967,109

	EQUITY 2016	PROFIT OR LOSS 2016
	RUB'000	RUB'000
US Dollar	981,104	981,104

	EQUITY 2015	PROFIT OR LOSS 2015
	RUB'000	RUB'000
US Dollar	1,360,784	1,360,784

A 10% strengthening of the Euro against the RUB at 31 December 2017, 31 December 2016 and 31 December 2015 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.

	EQUITY 2017	PROFIT OR LOSS 2017
	RUB'000	RUB'000
Euro	4,883	4,883

	EQUITY 2016	PROFIT OR LOSS 2016
	RUB'000	RUB'000
Euro	4,206	4,206

	EQUITY 2015	PROFIT OR LOSS 2015
	RUB'000	RUB'000
Euro	4,997	4,997

A 10% strengthening of the GB Pound against the RUB at 31 December 2017 and 31 December 2016 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.

Impairment of investments in subsidiaries

The Company follows the guidance of IAS 36 for its subsidiary undertakings in determining when an investment is impaired. This determination requires significant judgment especially for unquoted investments. In making this judgment the Company evaluates, among other factors, the duration and extent to which the fair value of an investment or an asset is less than its cost and the financial health and near-term business outlook for the investee, based primarily on the current financial statement of the companies concerned and their asset position at year-end.

Recoverability of receivables from related parties

The Company follows the guidance of IAS 39 to determine the recoverable amount of receivables from related parties. Recoverable amount is determined based on present values of the expected future cash flows to be received from the related parties. This determination requires significant judgment, particularly regarding timing and amounts of future cash flows, which depend to a significant degree on the prospects of construction projects, undertaken by the Company's related parties.

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.

Investment in subsidiary company acquired via a share for share exchange

The cost of the investment in Etalon Group Limited amounting to RUB'000 21,207,205 is equal to the deemed cost of the shares issued by the Company to its shareholders in exchange for the investment in Etalon Group Limited. The estimation of the deemed cost of the investment in Etalon Group Limited was based on an arm's length transaction representing a part of share capital sold by the existing shareholders. The excess of deemed cost over book value of the shares in the amount of RUB'000 16,584,198 and was recognized as capital contrbution within equity and an increase in investments in subsidiaries (Notes 10, 14).

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

	2017 RUB'000	2016 RUB'000
Directors' remuneration (Note 16(i))	181,173	252,311
Legal, consulting and other professional services	53,484	56,427
Payroll tax	15,808	–
Auditors' remuneration	19,793	5,603
Accounting and administration expenses	11,440	5,825
Insurance expenses	8,196	9,794
Secretarial fees	1,837	–
Social insurance contribution	1,187	–
TOTAL	**292,918**	**329,960**

Remuneration of the statutory auditor firm for the year ended 31 December 2017 amounted to RUB'000 3,606 (2016: RUB'000 1,620) for audit services and RUB'000 1,707 (2016: nil) for other assurance services.

6. OTHER INCOME

	2017 RUB'000	2016 RUB'000
Other income	1,170,552	–
TOTAL	**1,170,552**	**–**

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

7. NET FINANCE EXPENSES

	2017 RUB'000	2016 RUB'000
Foreign exchange gains	59,333	86,673
FINANCE INCOME	**59,333**	**86,673**
Foreign exchange losses	(634,073)	(2,892,357)
Bank charges	(532)	(750)
FINANCE EXPENSES	**(634,605)**	**(2,893,107)**
NET FINANCE EXPENSES	**(575,272)**	**(2,806,434)**

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's 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.

During the year ended 31 December 2017, no options have been exercised since the vesting condition in respect of the market price of the Company's GDRs has not been met.

9. INCOME TAX EXPENSE

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2017 RUB'000	2016 RUB'000
PROFIT/(LOSS) BEFORE TAX	**3,952,606**	**(2,054,288)**
Tax calculated at the applicable tax rate of 12.5% (2016: tax rate of 0%)	494,076	–
Tax effect of expenses not deductible and income not taxable for income tax purposes, net	(263,824)	–
Notional Interest Deduction (NID)	(222,975)	–
Application of group relief	(7,277)	–
TAX FOR THE PERIOD	**–**	**–**

10. INVESTMENTS IN SUBSIDIARIES

	2017	2016
	RUB'000	RUB'000
At beginning of year	21,536,039	21,209,275
(Impairment) / reversal of impairment for investment in subsidiary	(53,592)	326,764
Share-based payments arrangements with top-management of subsidiaries (Note 8)	221,882	–
Acquisition of shares and additional contribution to share capital (Note 16(v))	24,600	–
AT END OF YEAR	**21,728,929**	**21,536,039**

The Company's main subsidiaries, which are unlisted, are as follows:

NAME	PRINCIPA ACTIVITY	COUNTRY OF INCORPORATION	2017 % HOLDING	2016 % HOLDING
Etalon Group Limited	Holding of investments	Cyprus	99.99%	99.99%
Elzinga Holdings Limited	Holding of investments	Cyprus	100%	100%
Etalon Development Limited	Cost centre	Guernsey	100%	100%
Fagestrom Limited	Provision of financing services	Cyprus	100%	100%
JSC GK Etalon	Holding of investments	Russia	1%	–

The investments are measured at acquisition costs net of accumulated impairment.

As at 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.

The Company, as a first-time adopter of IFRS-EU, tested for impairment its investments in subsidiaries as of 1 January 2016, the date of transition to IFRS-EU, and an impairment amounting to RUB'000 1,075,857 was recognized as an adjustment to retained earnings at the date of transition to IFRS-EU. As of 31 December 2017 and 31 December 2016, the Company reviewed its unimpaired investments in subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2017 and 31 December 2016 did not reveal any indicators of impairment for any of the Company's subsidiaries.

11. LOANS RECEIVABLE

	31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
	RUB'000	RUB'000	RUB'000
NON-CURRENT			
Loans to related parties (Note 16(iii))	9.665.237	12,344,255	16,493,153
TOTAL NON-CURRENT LOANS RECEIVABLE	**9.665.237**	**12,344,255**	**16,493,153**
CURRENT			
Loans to related parties (Note 16(iii))	499.808	–	–
TOTAL CURRENT LOANS RECEIVABLE	**499.808**	**–**	**–**
TOTAL LOANS RECEIVABLE	**10,165,045**	**12,344,255**	**16,493,153**

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 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 3,356,921 was recognised as at 31 December 2017 (31 December 2016: RUB'000 3,220,329; 1 January 2016: RUB'000 3,525,423).

12. OTHER RECEIVABLES AND PREPAYMENTS

	31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
	RUB'000	RUB'000	RUB'000
Receivable from related parties (Note 16(iv))	**363,547**	**150,557**	**178,365**
Prepayments	128	115	192
	363,675	**150,672**	**178,557**

The fair values of other receivables and prepayments approximate their carrying amounts.

13. CASH AND CASH EQUIVALENTS

	31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
	RUB'000	RUB'000	RUB'000
Cash at bank	2,979,330	176,611	514,868

Cash and cash equivalents comprise the following for the purposes of the statement of cash flows:

	31 DECEMBER 2017 RUB'000	31 DECEMBER 2016 RUB'000	1 JANUARY 2016 RUB'000
Cash at bank	2,979,330	176,611	514,868
Less:			
Bank overdrafts	–	(27)	(169)
CASH AND CASH EQUIVALENTS	**2,979,330**	**176,584**	**514,699**

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 2016/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	**289,469,593**	**20,000**	**2,266**	(1,188,952)	**15,486,109**	**14,299,423**

At 1 January 2016 and at 31 December 2016, 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.

As of 31 December 2017, 31 December 2016 and 1 January 2016 the subsidiary of the Company, Etalon Development Limited, holds 2,728,000 global depository receipts for the ordinary shares of the Company, representing 0,92% share in the Company.

(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.

At 31 December 2017, the consideration payable for acquisition of own shares in the amount of RUB 560 million remains outstanding to the broker and is included as part of the Other payables and accruals. Own shares are collateralised to the broker as security for payables. The consideration paid and payable 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.

(II) 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, see Note 8.

(III) DIVIDENDS

As at 31 December 2017, the retained earnings were RUB'000 3.443.442 (31 December 2016: RUB'000 2.057.743; 1 January 2016: 5.627.195). During the year ended 31 December 2017, the Board of Directors approved and the Company distributed dividends in the amount of RUB' 000 2.566.907 (31 December 2016: RUB'000 1.515.164).

(IV) CAPITAL CONTRIBUTION

Capital contribution represents the excess of deemed cost of shares in subsidiary Etalon Group Limited transferred to the Company by its shareholders in 2008 over book value of these shares. 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

	31 DECEMBER 2017 RUB'000	31 DECEMBER 2016 RUB'000	1 JANUARY 2016 RUB'000
Payables to related parties (Note 16(ii))	18,896	77,825	697,457
Other payables and accruals (Note 14(i))	561,111	–	–
Remuneration payable to Board of Directors	99,001		
Accrued audit fees	8,206	950	–
Accrued accounting and administration expenses	820	–	–
	688,034	**78,775**	**697,457**

The fair value of other payables and accruals which are due within one year approximates their carrying amount at the reporting date.

16. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(I) DIRECTORS' REMUNERATION

	2017 RUB'000	2016 RUB'000
Directors' remuneration (Note 5)	181,173	252,311
Payroll and social tax (Note 5)	16,995	–
	198,168	**252,311**

As at 31 December 2017, outstanding balances of remuneration payable to the Board of Directors was RUB'000 99.001 (Note 15) (31 December 2016 and 1 January 2016: nil).

(II) YEAR-END BALANCES

	31 DECEMBER 2017	31 DECEMBER 2016	1 JANUARY 2016
	RUB'000	RUB'000	RUB'000
Payables to related parties (Note 15)	(18,896)	(77,825)	(697,457)
RECEIVABLES FROM RELATED PARTIES (NOTE 12)	**363,547**	**150,557**	**178,365**

The above balances bear no interest and are repayable on demand.

(III) LOANS DUE FROM RELATED PARTIES

	2017	2016
	RUB'000	RUB'000
LOANS DUE FROM RELATED PARTIES:		
On 1 January	12,344,255	16,493,153
Loans issued during the year	300,000	–
Loans repaid during the year	(1,793,999)	(1,506,010)
Set-off agreements loans and payable	(59,302)	
Settlement by means of transfer of rights of claim of loans receivable from related parties (Note 16(iv))	–	(528,536)
Interest charged	475,240	589,193
Interest repaid during the year	(406,786)	(230,499)
(Impairment) / reversal of impairment for loans receivable from related parties	(136,592)	305,094
Foreign exchange losses	(557,771)	(2,778,140)
ON 31 DECEMBER	**10,165,045**	**12,344,255**

As at 1 January 2016 the loans amounted to RUB'000 16,493,153 (31 December 2017: RUB'000 9,863,465; 31 December 2016: RUB'000 12,344,255) were nominated in US Dollars and Russian rubles, bear interest 3.5–6.0% per annum and were initially repayable on 31 December 2016 and 31 December 2017. During 2016 and 2017 years, the loans were prolonged to 31 December 2019.

During 2017, the Company issued a loan to its related party in the amount RUB 300 million. The loan nominated in Russian rubles, bears interest of 6.2% per annum and is repayable in 2018.

(IV) RECEIVABLES FROM RELATED PARTIES

	2017	2016
	RUB'000	RUB'000
RECEIVABLES FROM RELATED PARTIES:		
On 1 January	150,557	178,365
Settlement by means of transfer of rights of claim of loans receivable from related parties (Note 16(iii))	–	528,536
Transfers of funds under reimbursement agreements	231,852	97,320
Set-off agreements loans and payable	(5,573)	–
Repayments under reimbursement agreements	–	(4,725)
Payment of expenses by subsidiary on behalf of the Company	(18,055)	(35,206)
Written-off during the year	(478)	(121,871)
Offset against payables to related parties (Note 16(v))	–	(456,494)
Foreign exchange gains/(losses)	5,244	(35,368)
ON 31 DECEMBER (NOTE 12)	**363,547**	**150,557**

(V) PAYABLES TO RELATED PARTIES

	2017	2016
	RUB'000	RUB'000
PAYABLES TO RELATED PARTIES:		
On 1 January	77,825	697,457
Offset against receivables from related parties (Note 16(iv))	–	(456,494)
Set-off agreements loans and payable	(64,875)	–
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)	(93,629)
Interest accrued	2,167	17,179
Foreign exchange losses/(gains)	3,141	(86,688)
ON 31 DECEMBER (NOTE 15)	**18,896**	**77,825**

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date, the Company signed an agreement with its subsidiary Etalon Development Limited to set-off a loan due from the subsidiary in exchange for 2,728,000 global depository receipts for the ordinary shares of the Company that were owned by Etalon Development Limited (Note 14).

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 2017.

Independent auditors' report on pages 180–184.