Limited Liability Company
“PIK-Corporation”

Consolidated Financial Statements
for 2019 and 2018 and
Independent Auditors’ Report

Contents

Consolidated Financial Statements

Consolidated Statement of Financial Position

mln RUB	Note	31 December 2019	31 December 2018	1 January 2018
ASSETS				
Non-current assets				
Property, plant and equipment	16	32,786	25,603	23,107
Intangible assets	17	13,324	1,759	653
Investment property	18	6,626	12,683	18,300
Equity-accounted investees	8 (c)	702	7	578
Other investments	20	14,799	13,182	12,598
Accounts receivable	21	1,774	-	-
Deferred tax assets	15	1,606	6,882	6,580
Total non-current assets		**71,617**	**60,116**	**61,816**
Current assets				
Inventories	19	243,918	190,533	174,894
Other investments	20	715	8,265	6,100
Income tax receivable		1,474	1,464	964
Accounts receivable, including contract assets	21	77,899	61,235	31,723
Cash and cash equivalents	23	64,851	54,773	33,701
Other current assets		4,888	2,619	2,290
Total current assets		**393,745**	**318,889**	**249,672**
Total assets		**465,362**	**379,005**	**311,488**

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 the pages 11 to 80.

Consolidated Statement of Financial Position

mln RUB	Note	31 December 2019	31 December 2018	1 January 2018
EQUITY AND LIABILITIES				
Equity	25			
Charter capital		80,585	80,000	-
Charter capitals of companies under common control		-	-	68,937
Retained earnings/(acumulated losses)		34,909	(5,426)	(3,285)
Total equity attributable to owners of the Company		**115,494**	**74,574**	**65,652**
Non-controlling interests	27	1,496	1,788	607
Total equity		**116,990**	**76,362**	**66,259**
Non-current liabilities				
Loans and borrowings	26	85,587	4,455	2,664
Accounts payable	29	8,727	5,797	6,426
Non-current liabilities from long-term lease contracts	22	3,973	1,602	3,253
Deferred tax liabilities	15	17,775	17,349	14,714
Total non-current liabilities		**116,062**	**29,203**	**27,057**
Current liabilities				
Loans and borrowings	26	22,308	50,477	31,792
Accounts payable, including contract liabilities	29	186,249	195,495	158,627
Current liabilities from long-term lease contracts	22	1,906	2,072	1,522
Provisions	28	19,875	23,066	24,656
Income tax payable		1,972	2,330	1,575
Total current liabilities		**232,310**	**273,440**	**218,172**
Total liabilities		**348,372**	**302,643**	**245,229**
Total equity and liabilities		**465,362**	**379,005**	**311,488**

These consolidated financial statements were approved by the management of the Company on 16 April 2020 and were signed on its behalf by:

M. A. Lukianov,
General 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 the pages 11 to 80.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

mln RUB	Note	2019	2018
Revenue from sales of real estate objects accounted for at historical cost		133,334	113,907
Revenue from sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		61,956	80,670
Other revenue		52,297	14,483
Revenue, total	10	**247,587**	**209,060**
Cost of sales of real estate objects accounted for at historical cost		(88,402)	(78,740)
Cost of sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		(53,719)	(78,872)
Cost of other sales		(42,094)	(11,555)
Cost of sales, total		**(184,215)**	**(169,167)**
Gross profit from sales of real estate objects accounted for at historical cost		44,932	35,167
Gross profit from sales of real estate objects acquired through business combinations and recognised at fair value at initial recognition		8,237	1,798
Gross profit from other sales		10,203	2,928
Gross profit, total		**63,372**	**39,893**
Gain on disposal of subsidiaries and investment property, net	9	874	508
Distribution expenses		(9,423)	(4,546)
Administrative expenses	13	(5,812)	(2,581)
Change in fair value of investment property	18	(20)	(84)
Reversal on impairment losses/(impairment losses) on non-financial assets, net	24	205	(1)
Other income/(expenses), net	12	2,301	(2,738)
Profit from operating activities		**51,497**	**30,451**

The consolidated statement of profit and 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 the pages 11 to 80.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

mln RUB	Note	2019	2018
Finance income	11	6,912	4,338
Finance costs	11	(2,646)	(2,134)
Significant financing component from contracts with customers		(4,896)	(3,363)
Loss from financial activities		**(630)**	**(1,159)**
Share in losses of equity-accounted investees, net of income tax	8 (c)	(145)	(11)
Profit before income tax		**50,722**	**29,281**
Income tax expense	15	(11,189)	(7,553)
Profit and total comprehensive income for the reporting period		**39,533**	**21,728**
Attributable to:			
Owners of the Company		39,325	21,038
Non-controlling interests	27	208	690
Profit and total comprehensive income for the reporting period		**39,533**	**21,728**

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 the pages 11 to 80.

Consolidated Statement of Changes in Equity

mln RUB	Note	Attributable to equity holders of the Company					
		Paid, but not registered charter capital	Charter capitals of companies under common control*	Accumulated losses	Total	Non-controlling interests	Total equity
Balance as at 1 January 2018		**-**	**68,937**	**(3,285)**	**65,652**	**607**	**66,259**
Profit for the reproting period		-	-	21,038	**21,038**	690	**21,728**
Total comprehensive income for the reproting period		**-**	**-**	**21,038**	**21,038**	**690**	**21,728**
Transactions with owners of the Company							
Acquisition of non-controlling interests	8 (d)	-	-	-	**-**	(212)	**(212)**
Acquisition of subsidiaries from the Parent Company without change in control	8 (b)	-	(1,830)	-	**(1,830)**	-	**(1,830)**
Contribution of subsidiaries' shares by the Parent Company to the charter capital	25	79,996	(67,107)	(12,889)	**-**	-	**-**
Acquisition of companies by the Parent Company, contributed to the charter capital in 2018	25	4	-	7,856	**7,860**	-	**7,860**
Acquisition of subsidiaries, net		-	-	-	**-**	703	**703**
Dividends	25	-	-	(18,146)	**(18,146)**	-	**(18,146)**
Total transactions with owners of the Company		**80,000**	**(68,937)**	**(23,179)**	**(12,116)**	**491**	**(11,625)**
Balance as at 31 December 2018		**80,000**	**-**	**(5,426)**	**74,574**	**1,788**	**76,362**

*Total charter capitals of subsidiaries legally acquired by the Group in 2018 and held under common control as at the date of transition to IFRS.

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 the pages 11 to 80.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company					
mln RUB	**Note**	**Charter capital**	**Charter capitals of companies under common control***	**Retained earnings/(accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2019		**80,000**	**-**	**(5,426)**	**74,574**	**1,788**	**76,362**
Profit for the period		-	-	39,325	**39,325**	208	**39,533**
Total comprehensive income for the period		**-**	**-**	**39,325**	**39,325**	**208**	**39,533**
Transactions with owners of the Company							
Acquisition of subsidiaries from the Parent Company	8 (a)	-	-	(522)	**(522)**	-	**(522)**
Acquisition of subsidiaries, net	8 (a)	-	-	-	-	271	**271**
Acquisition of non-controlling interests	8 (d)	-	-	-	**-**	(22)	**(22)**
Income from transactions with related parties	25	-	-	3,104	**3,104**	-	**3,104**
Deferred tax on related party transactions	15	-	-	(394)	**(394)**	-	**(394)**
Disposal of subsidiaries	9	-	-	-	**-**	(57)	**(57)**
Contribution of subsidiary's shares by the Parent Company to the charter capital	25	585	-	(585)	**-**	-	**-**
Decrease of non-controlling interests due to the legal restructuring of subsidisries	27	-	-	692	**692**	(692)	**-**
Dividends	25	-	-	(1,285)	**(1,285)**	-	**(1,285)**
Total transactions with owners of the Company		**585**	**-**	**1,010**	**1,595**	**(500)**	**1,095**
Balance as at 31 December 2019		**80,585**	**-**	**34,909**	**115,494**	**1,496**	**116,990**

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 the pages 11 to 80.

Consolidated Statement of Cash Flows

mln RUB	**Note**	**2019**	**2018**
Cash flows from operating activities			
Profit for the reporting period		**39,533**	**21,728**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	16, 17	2,649	1,863
Gain on reversal of impairment of non-financial assets, including amounts recognised in cost of sales	19, 24	(301)	(1,025)
Loss from disposal of property, plant and equipment and other assets	12	27	262
Loss from change in fair value of investment property	18	20	84
Gain on disposal of subsidiaries and investment property, net	9	(874)	(508)
Share of loss of equity-accounted investees, net of income tax	8 (c)	145	11
Finance income	11	(6,912)	(4,338)
Finance costs	11	2,646	2,134
Income tax expense	15	11,189	7,553
Negative goodwill	8 (a)	(4,330)	(1,298)
		43,792	**26,466**
Changes in:			
Inventories		(49,256)	6,068
Accounts receivable, including contract assets*		(12,810)	(32,458)
Accounts payable, including contract liabilities and changes in provision for taxes other than income tax		10,272	23,272
Provisions		(2,347)	(1,571)
Cash flows (used in)/from operations before income taxes and interest paid**		**(10,349)**	**21,777**
Income taxes paid		(7,477)	(5,387)
Interest paid		(7,947)	(1,788)
Net cash (used in)/from operating activities		**(25,773)**	**14,602**

* Changes in accounts receivable, including contract assets, include advances issued for land plots in the amount of RUB 6,044 million as at 2019 (2018: RUB 1,005 million).

** Cash flows from operating activities do not include funds placed on escrow accounts in the authorised banks by account holders (real estate customers) as a consideration paid under share participation agreements in the amount of RUB 11,328 million (2018: RUB 1,145 million).

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on the pages 11 to 80.

Consolidated Statement of Cash Flows

mlln RUB	Note	2019	2018
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		169	49
Interest received		4,929	2,992
Acquisition of property, plant and equipment and other intangible assets		(3,740)	(3,354)
Acquisition of subsidiaries, net of cash acquired	8 (a)	(1,959)	(2,358)
Acquisition of equity-accounted investees	8 (c)	(740)	-
Proceeds from disposal of subsidiaries, net of cash		49	10
Proceeds from disposal of investment property		-	8
Loans issued		(8,178)	(7,198)
Repayment of loans issued		14,185	3,531
Net cash from/(used in) investing activities		**4,715**	**(6,320)**
Cash flows from financing activities			
Payments for lease liabilities	22	(2,854)	(1,767)
Proceeds from loans and borrowings	26	61,895	29,555
Repayment of loans and borrowings	26	(18,768)	(14,629)
Proceeds from issuance of bonds	26	8,500	-
Acquisition of non-controlling interests	8 (d)	(22)	(162)
Paid dividends	25	(19,577)	(227)
Payment under the guarantee agreement from the related party recorded directly in equity		1,971	-
Net cash from financing activities		**31,145**	**12,770**
Increase in cash and cash equivalents, net		10,087	21,052
Effect of exchange rate fluctuations on cash and cash equivalents		(9)	20
Cash and cash equivalents at the beginning of the period		54,773	33,701
Cash and cash equivalents at the end of the period		**64,851**	**54,773**

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 the pages 11 to 80.

Notes to the Consolidated Financial Statements

1 General information

(a) Organisation and operations

LLC "PIK-Corporation" (the "Company") and its subsidiaries (together referred to as the "Group") comprise mostly joint stock companies and limited liability companies incorporated in the Russian Federation, as well as companies incorporated in Cyprus. On 9 April 2019, the Company was renamed as LLC "PIK-Corporation" (formerly LLC "PIK-Development of Territories"). The Company was established in 2000 and is controlled by PJSC Group of Companies PIK (the "Parent Company"). Shares of PJSC Group of Companies PIK are traded on the Moscow Exchange.

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

The primary activities of the Group are construction of residential buildings and areas, sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements, consumed mostly by the Group internally; heat transmission services; apartment building maintenance. In 2019 and 2018, the Group operated mainly in Moscow and the Moscow Region, as well as in some other regions of Russia.

(b) Formation of the Group

As of the date of transition to IFRS on 1 January 2018, the Group had 165 subsidiaries.

During 2019 and 2018, the Parent Company transferred 2 and 24 of its subsidiaries to the Company, respectively, as a contribution to the charter capital of the Company or by selling them to it (see note 25).

These consolidated financial statements are prepared as if all subsidiaries of the Group as at 31 December 2019 and 31 December 2018 also belonged to it at the date of transition to IFRS, according to an adopted accounting policy regarding the acquisition of business under common control.

(c) 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 to develop, but are subject to varying interpretations and frequent changes, which, together with other legal and fiscal impediments, gives rise to additional challenges faced by companies operating in Russia.

Since 2014, the United States of America, the European Union, and some other countries have imposed and gradually tightened economic sanctions with respect to Russian individuals and legal entities. The imposition of the sanctions has resulted in increased economic uncertainty, including more volatile equity markets, depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and significantly reduced availability of credit. The longer-term effects of the imposed and potential additional sanctions are difficult to assess.

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 actual impact of future business conditions may differ from management estimates.

2 Basis of preparation of the consolidated financial statements

Statement of compliance with the International Financial Reporting Standards

These consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and are the first consolidated financial statements prepared under IFRS and pursuant to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The Group did not previously prepare consolidated or combined financial statements in accordance with Russian accounting standards or other accounting principles, and, therefore, the impact of the transition to IFRS on its consolidated financial position is not disclosed.

3 Functional and presentation currency

The national currency of the Russian Federation is the rouble, so it is used as the functional currency of the Company and its subsidiaries and the presentation currency of these consolidated financial statements. All numerical indicators in roubles are rounded to the nearest million.

4 Use of estimates and judgments

The preparation of consolidated financial statements under IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from the 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 in which a change in a particular estimate will have an impact on the financial statements.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 8 *Acquisition of subsidiaries, associates and non-controlling interests;*
- Note 10 *Revenue;*
- Note 18 *Investment property;*
- Note 24 *Impairment losses on non-financial assets;*
- Note 28 *Provisions*.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 8 *Acquisition of subsidiaries, associates and non-controlling interests;*
- Note 18 *Investment property;*
- Note 19 *Inventories;*
- Note 24 *Impairment losses on non-financial assets;*
- Note 28 *Provisions;*
- Note 31 *Contingencies*.

5 Restatement of information presented in previously issued preliminary consolidated financial statements

The Group amended the data for 2018 and as at 31 December 2018 and 1 January 2018 that were presented in the previously issued preliminary consolidated financial statements to reflect the changes described below.

(a) Acquisition of entities under common control

In 2019, the Group acquired from the Parent Company shares in a developer and in a company providing construction services (in 2018: 100% shares in a utility company providing electricity services for RUB 1,830 million). In addition, in 2019, the Parent Company contributed 100% of the interest in a developer to increase the charter capital of the Company.

These transactions were recorded as if they had occurred at the beginning of the earliest period presented in the consolidated financial statements. The acquired and contributed assets and liabilities were recognised at book values recorded in the consolidated financial statements of the Group's Parent Company.

The effect on the consolidated statement of financial position as at 31 December 2018 is presented in the table below:

	As at 31 December 2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
ASSETS			
Non-current assets			
Property, plant and equipment	25,556	47	25,603
Deferred tax assets	6,858	24	6,882
Current assets			
Inventories	179,804	252	180,056
Other investments	8,475	(210)	8,265
Income tax receivable	1,462	2	1,464
Accounts receivable, including contract assets	70,385	(9,150)	61,235
Cash and cash equivalents	51,333	3,440	54,773

mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
EQUITY AND LIABILITIES			
Equity			
Accumulated losses	(15,452)	1,644	(13,808)
Non-current liabilities			
Deferred tax liabilities	14,976	278	15,254
Current liabilities			
Loans and borrowings	71,015	(20,538)	50,477
Accounts payable, including contract liabilities	184,676	12,891	197,567
Income tax payable	2,200	130	2,330

The effect on the consolidated statement of financial position as at 1 January 2018 is presented in the table below:

	As at 1 January 2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
ASSETS			
Non-current assets			
Property, plant and equipment	22,997	110	23,107
Deferred tax assets	6,561	19	6,580
Current assets			
Inventories	169,104	480	169,584
Income tax receivable	961	3	964
Accounts receivable, including contract assets	31,704	19	31,723
Cash and cash equivalents	33,608	93	33,701

mln RUB	As at 1 January 2018 Before adjustment	Adjustment	After adjustment
EQUITY AND LIABILITIES			
Equity			
Accumulated losses	(8,033)	500	(7,533)
Current liabilities			
Loans and borrowings	31,919	(127)	31,792
Accounts payable, including contract liabilities	159,799	350	160,149
Income tax payable	1,574	1	1,575

The effect on the consolidated statement of profit or loss and other comprehensive income for 2018 is shown in the table below:

mln RUB	2018 Before adjustment	Adjustment	After adjustment
Other revenue	12,870	1,574	14,444
Revenue, total	**207,486**	**1,574**	**209,060**
Cost of other sales	(11,516)	(39)	(11,555)
Cost of sales, total	**(168,701)**	**(39)**	**(168,740)**
Gross profit from other sales	1,354	1,535	2,889
Gross profit, total	**38,785**	**1,535**	**40,320**
Gain on disposal of subsidiaries and investment properties, net	170	338	508
Administrative expenses	(2,546)	(35)	(2,581)
Gain on reversal of impairment losses/(impairment losses) on non-financial assets, net	6	(7)	(1)
Other income/(expenses), net	(2,620)	(118)	(2,738)
Profit from operating activities	**29,165**	**1,713**	**30,878**
Finance income	4,309	29	4,338
Finance costs	(6,571)	(14)	(6,585)
Loss from financial activities	**(6,768)**	**15**	**(6,753)**
Profit before income tax	**22,386**	**1,728**	**24,114**
Income tax expense	(6,082)	(438)	(6,520)
Profit and total comprehensive income for the reporting period	**16,304**	**1,290**	**17,594**
Attributable to:			
Owners of the Company	15,614	1,290	16,904
Non-controlling interests	690	-	690
Profit and total comprehensive income for the reporting period	**16,304**	**1,290**	**17,594**

The effect on the consolidated statement of cash flows for 2018 is presented in the table below:

	2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
Cash flows from operating activities			
Profit for the period	**16,304**	**1,290**	**17,594**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	1,859	4	1,863
Impairment losses/(reversal of impairment losses) of non-financial assets, including amounts recognised in cost of sales, net	(6)	7	1
Loss on disposal of property, plant and equipment and other assets	152	110	262
Gain from disposal of subsidiaries and investment property, net	(170)	(338)	(508)
Finance income	(4,309)	(29)	(4,338)
Finance costs	6,571	14	6,585
Income tax expense	6,082	438	6,520
Changes in:			
Accounts payable, including contract liabilities and changes in provision for taxes other than income tax	1,127	22,145	23,272
Cash flows from financing activities			
Loans received	49,849	(20,294)	29,555

(b) Capitalisation of interest expenses

In preparing the preliminary consolidated financial statements for 2018, the Group applied an exemption provided for in IAS 23 *Borrowing Costs*, which allows not to consider inventories generated over a long period of time, in large quantities on a regular basis not to be classified as a qualifying asset, subject to certain conditions. Interest expenses were not capitalised in the cost of real estate construction-in-progress and were expensed as incurred.

Due to changes in legislation and the transfer to sales using the escrow accounts, the Group is expanding the project financing. Funds received from banks are used to purchase land plots for development and to finance the construction of real estate. These circumstances lead to project financing having a significant impact on the cost of construction, and the Group has, therefore, decided to change its approach and capitalise interest expenses to achieve a more balanced ratio of interest expenses in cost of assets financed by the credit facilities. According to the amended accounting policy, interest expenses are capitalised to inventories that are qualifying assets, the preparation of which for sale takes a long time period of finance. Such assets include acquisition of land plots, construction of infrastructure and social and cultural facilities classified as inventories and created over a long period of time, as well as right-of-use assets.

The effect on the consolidated financial statements is shown below:

Consolidated statement of financial position as at 31 December 2018:

	As at 31 December 2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
Inventories	180,056	10,477	190,533
Accumulated losses	**(13,808)**	**8,382**	**(5,426)**
Deferred tax liabilities	15,254	2,095	17,349

Consolidated statement of financial position as at 1 January 2018:

	As at 1 January 2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
Inventories	169,584	5,310	174,894
Accumulated losses	**(7,533)**	**4,248**	**(3,285)**
Deferred tax liabilities	13,652	1,062	14,714

Consolidated statement of profit or loss and other comprehensive income for 2018:

	2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
Cost of sales	(168,740)	(427)	(169,167)
Gross profit	**40,320**	**(427)**	**39,893**
Profit from operating activities	**30,878**	**(427)**	**30,451**
Finance income	4,338	-	4,338
Finance costs	(6,585)	4,451	(2,134)
Significant financing component from contracts with customers	(4,506)	1,143	(3,363)
Profit before income tax	**24,114**	**5,167**	**29,281**
Income tax expense	(6,520)	(1,033)	(7,553)
Profit and total comprehensive income	**17,594**	**4,134**	**21,728**
Attributable to:			
Owners of the Company	16,904	4,134	21,038
Non-controlling interests	690	-	690

Consolidated statement of cash flows for 2018:

	2018		
mln RUB	**Before adjustment**	**Adjustment**	**After adjustment**
Profit for the period	**17,594**	**4,134**	**21,728**
Finance costs	6,585	(4,451)	2,134
Income tax expense	6,520	1,033	7,553
Changes in:			
Inventories	5,758	310	6,068

6 Measurement of fair values

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

Property, plant and equipment

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

In the absence of quoted market prices, the fair value was determined mainly on the basis of the replacement cost with accumulated depreciation. This method involved calculating the amount of costs required to reproduce or replace an asset which then was adjusted for the amount of decrease in its value caused by physical wear and tear, functional or economic reasons (including the use of the discounted cash flow method) and obsolescence.

Investment property

The fair value of investment property is based on valuations performed by independent appraisers holding recognised, recent and relevant professional qualifications. The valuation uses the income or the comparative approach selected individually for each specific investment property being valued.

The comparative method is mainly used in the valuation of land plots for which no construction plans have been developed. The income method applies to the valuation of leased or intended for lease properties, as well as land plots for which construction plans have been prepared.

Intangible assets

The fair value of client relations (client base) acquired in a business combination was determined using the income approach with the multi-period excess earnings method, whereby the client base was measured based on the net present value of cash flows after deducting all the other assets and liabilities of the business.

The fair value of other intangible assets, including those acquired in a business combination, was based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in business combinations was based on their estimated discounted selling price in the ordinary course of business less expected costs of completion and sale to the end buyer by an independent market participant.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities, which was determined for disclosure purposes only, was calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

7 Operating segments

As at 31 December 2019, the Group identified six reporting segments which are its strategic business units:

- Development: development projects planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, management of projects, construction and sale of real estate.
- Commercial Construction: development of construction projects for third-party developers, general contractor's activities, technical supervision and granting rights to use the Group's trademark.

- Maintenance: maintenance and management of residential buildings and other properties, technical maintenance of utility systems and rendering heat, water and electricity supply services, provision of Internet services
- Industrial Segment: production and assembly of prefabricated panel buildings and other related activities, including production of construction materials and components, production and sale of IoT-devices.
- Proptech: rent of apartment services, purchase and sale of real estate in the secondary housing market, repair of premises, agency services for the sale of real estate, implementation of IT solutions.
- Other: rental services and other activities.

The results of companies providing maintenance and management services for apartment buildings, which were acquired in July 2019, are included in the result of the Maintenance segment, see note 8 (a).

(a) Segment profits and losses

	Development		Commersial construction		Maintenance		Industrial segment		Proptech		Other		Total	
mln RUB	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External revenues*	195,365	194,616	31,089	6,711	16,575	4,320	2,461	2,055	435	17	1,662	1,341	**247,587**	**209,060**
Inter-segment revenue	981	660	12,492	499	2,621	1,063	36,388	17,977	14	-	154	248	**52,650**	**20,447**
Total revenue for reportable segments	**196,346**	**195,276**	**43,581**	**7,210**	**19,196**	**5,383**	**38,849**	**20,032**	**449**	**17**	**1,816**	**1,589**	**300,237**	**229,507**
Gross profit/(loss) for reportable segment	**53,228**	**36,939**	**3,774**	**1,611**	**4,903**	**1,023**	**489**	**331**	**(62)**	**15**	**1,040**	**(26)**	**63,372**	**39,893**
Gross margin	**27%**	**19%**	**12%**	**24%**	**30%**	**24%**	**20%**	**16%**	**(14)%**	1	**63%**	**(2)%**	**26%**	**19%**
Segment assets after eliminating assets between segments	372,696	314,169	15,771	13,115	42,233	15,068	26,925	30,839	2,779	59	4,958	5,755	465,362	379,005
Segment liabilities after eliminating inter-segment liabilities	(301,873)	(268,656)	(1,608)	(8,490)	(19,388)	(3,257)	(22,960)	(20,775)	(1,199)	(38)	(1,344)	(1,427)	(348,372)	(302,643)
Net intragroup assets / (liabilities)	25,392	11,951	(4,440)	(10)	(14,306)	(5,655)	(3,561)	(4,289)	(1,479)	(68)	(1,606)	(1,929)	-	-
Segment net assets / (liabilities)	**96,215**	**57,464**	**9,723**	**4,615**	**8,539**	**6,156**	**404**	**5,775**	**101**	**(47)**	**2,008**	**2,399**	**116,990**	**76,362**

* External revenues from the Development segment include:

- revenue from sales of residential properties recognised over time, in the amount of RUB 181,283 million (2018: RUB 181,543 million)
- revenue from sales of non-residential properties and parking spaces recognised over time, in the amount of RUB 14,007 million (2018: RUB 13,034 million)
- other development revenues in the amount of RUB 75 million (2018: RUB 39 million).

(b) Geography of operations

The operations of reportable segments are concentrated mainly in three geographical areas, named “Moscow”, “Moscow Region” and “Other Regions of Russia” for the purposes of these consolidated financial statements.

Information about segment revenues is based on the geographical location of the respective segment’s key assets and presented below.

mln RUB	2019	2018
Moscow	144,651	118,238
Moscow Region	85,021	79,978
Other regions of Russia	17,915	10,844
	247,587	**209,060**

(c) Reconciliation of reportable segments’ revenues and profit or loss

mln RUB	2019	2018
Revenue		
Total revenue of reportable segments	300,237	229,507
Elimination of reportable inter-segment's revenue	(52,650)	(20,447)
Consolidated revenue	**247,587**	**209,060**
Reconciliation of gross profit to profit before tax		
Adjusted reportable segments' gross profit	63,372	39,893
Consolidated gross profit	**63,372**	**39,893**
Unallocated amounts		
Gain on disposal of subsidiaries and investment property, net	874	508
Distribution expenses	(9,423)	(4,546)
Administrative expenses	(5,812)	(2,581)
Loss from change in fair value of investment property	(20)	(84)
Gain/(loss) from impairment of non-financial assets, net	205	(1)
Other income/(expenses), net	2,301	(2,738)
Finance income	6,912	4,338
Finance costs	(2,646)	(2,134)
Significant financing component from contracts with customers	(4,896)	(3,363)
Share in loss of equityaccounted investees, net of income tax	(145)	(11)
Consolidated profit before income tax	**50,722**	**29,281**

8 Acquisition of subsidiaries, associates and non-controlling interests

(a) Acquisition of subsidiaries in 2019

Acquisition of companies providing residential buildings' maintenance services

In the second half of 2019, the Group entered into a number of related agreements with a third party to acquire an apartment building maintenance and management business, resulting in the Group obtaining control over a 99.9% stake in the Parent Company of the business and its subsidiaries. In addition, the transaction included purchase and sale in December 2019 of 17 companies providing utility services. These companies were purchased solely for resale and, therefore, were classified as assets held for sale. The total acquisition cost amounted to RUB 4,168 million, of which RUB 2,006 million was paid in cash, and the remaining part of RUB 2,162 million was settled against existing receivables. The receivables were recognised by the Parent Company in 2017 as a result of the sale of several companies initially acquired back within this acquisition.

Between the date of acquisition and 31 December 2019, the Group's revenue and profit grew by RUB 10,882 million and RUB 951 million, respectively, due to the business combination transaction.

If the business combination had been completed on 1 January 2019, the revenue would have increased by RUB 19,893 million, while profit for the year would have increased by RUB 1,386 million, according to management estimates. In determining these indicators, management assumed that the adjustments to fair value made at the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Purchase of a rental service for residential real estate

In 2019, the Group acquired an additional 31.01% interest in a company providing rental services for residential real estate, thus increasing its overall share in the entity to 51%. The total amount of consideration was RUB 360 million, with RUB 30 million paid in 2018, and RUB 330 million paid in 2019.

The effect of the acquisition of subsidiaries is shown in the table below:

mln RUB	**Total**	**Maintenance of apartment buildings**	**Service for renting apartments**
Property, plant and equipment	739	738	1
Intangible assets	11,124	10,742	382
Deferred tax assets	318	318	-
Inventories	194	188	6
Other investments	178	178	-
Accounts receivable	11,859	11,806	53
Cash and cash equivalents	899	721	178
Assets held for sale	2,911	2,911	-
Deferred tax liabilities	(2,093)	(2,029)	(64)
Loans and borrowings	(2,822)	(2,822)	-
Accounts payable	(13,893)	(13,880)	(13)
Provisions	(285)	(285)	-
Net identifiable assets, liabilities and contingent liabilities	**9,129**	**8,586**	**543**
Negative goodwill	(4,330)	(4,330)	-
Non-controlling interests	(271)	(88)	(183)
Total consideration	**4,528**	**4,168**	**360**
Offsetting with receivables and other investments	2,192	2,162	30
Consideration paid	2,336	2,006	330
Cash acquired	(899)	(721)	(178)
Acquisition of subsidiaries, net of cash aquired	**1,437**	**1,285**	**152**

As a result of the acquisition, the Group recognised negative goodwill in the amount of RUB 4,330 million as the transaction was completed in a short period of time taking into account the existing market conditions.

As part of business combination transactions involving companies maintaining and managing apartment buildings, the Group recognised identifiable intangible assets in the form of a client base and property, plant and equipment at fair value determined by the independent appraiser engaged by the Group's management.

The fair value of the assets held for sale was determined based on the selling price less selling expenses that were known at the date of acquisition.

The fair value measurement of the identified assets was based on the following assumptions and valuation techniques:

- all acquired companies were operating companies and would continue their activities in the future;
- as part of the income approach, the Multi-Period Excess Earnings (MPEEM) method was used to determine the fair value of the Client base:
  - The revenue forecast was based on the management companies' tariffs and service fees effective in 2019, adjusted for the consumer price index growth and areas under maintenance as at the valuation date;
  - The EBITDA from the existing client base was expected by management to be earned at 8.7% on average;
  - The Client base disposal ratio was set at 1.5% per year;
  - The discount rate applied equaled the cost of equity of 15.3%;
  - The tax rate applied was the Russian statutory income tax rate of 20%.

As a result of the analysis of property, plant and equipment, the most material assets identified by the Group in the acquired business were real estate items (land, non-residential buildings and premises), the fair value of which was determined by the comparative method.

The value of movable items (machinery and equipment, vehicles and tools) was determined using both the comparative and cost approaches. The comparative approach was based on selling prices for equipment offered in the second market. The cost approach assumed applying coefficients and other factors to adjust or directly use the prices of manufacturer. The fair value of other property, plant and equipment was assumed to be equal to their book value due to their recent acquisition and the insignificance of potential adjustments.

Sensitivity analysis

Management defined the EBITDA margin and discount rate as the key assumptions changes in which are reasonably possible.

A decrease of 1 percentage point in the EBITDA margin would reduce the fair value of the client base by RUB 960 million. An increase of 1 percentage point in the EBITDA margin would increase the value by RUB 980 million.

An increase in the discount rate by 1 percentage point would lead to a decrease in the value of the recognised intangible asset by RUB 720 million. A decrease in the discount rate by 1 percentage point would result in the opposite effect of RUB 840 million.

(b) Acquisition of subsidiaries in 2018

In May 2018, the Group acquired a 100% stake in a utility company providing heat, water, sanitation and electricity services to commercial and household consumers in the Moscow Region for RUB 1,220 million, including RUB 1,132 million paid in cash. The outstanding amount as at 31 December 2018 was to RUB 88 million, of which RUB 21 million was paid in cash during 2019, while the debt in the amount of RUB 67 million was settled through set-off.

In October 2018, the Group acquired an additional 5.89% stake in an associated company providing Internet access services, as well as building and construction and assembly low-current communication networks. As a result, the Group's interest in the Internet provider reached 50.01%. The consideration was partially paid in the previous reporting periods, while the amount attributable to the acquisition of the share in the 2018 was settled by set-off.

In December 2018, the Group acquired a 100% interest in a company providing construction services for a minor consideration. As a result of the acquisition, the Group recorded an acquisition income of RUB 1,168 million.

In December 2018, the Group acquired a 100% stake in two utility companies providing heat supply services for RUB 155 million paid in January 2019.

(c) Acquisition of associates

In 2019, the Group acquired non-controlling interests in two service companies that allow it to exert significant influence. The total amount of the consideration paid was RUB 840 million, with RUB 740 million paid in 2019, and RUB 100 million paid in 2018. The share in the fair value of the net assets of the acquired companies roughly corresponds to the amount of the consideration paid.

(d) Acquisition of non-controlling interests

In May 2019, the Group acquired an additional 1.01% stake in a leading Russian developer of smart home systems for RUB 22 million, increasing its share to 65.01%, which was accounted for directly in equity.

In February 2018, the Group acquired an additional 26.69% interest in the elevator and electronic equipment manufacturer for RUB 84 million, increasing its stake to 87.14%, which was recognised directly in equity.

In February and July 2018, the Group acquired an additional 4.4% stake in a leading Russian developer of smart home systems for RUB 80 million, increasing its share to 64%, which was accounted for directly in equity.

The effect of acquisition of non-controlling interests in 2018 was recognised for in equity as a decrease in non-controlling interests in the amount of RUB 212 million and in other income in the amount of RUB 48 million.

9 Disposal of subsidiaries

In 2019 and 2018, the Group sold companies that were part of the Development segment for the purpose of legal restructuring after the completion of construction, and the Other segment, as well as the assets held for sale, information about which is disclosed in Note 8(a). The disposal result is presented in the table below:

mln RUB	2019	2018
Property, plant and equipment	(21)	-
Intangible assets	(2)	(3)
Investment property	(23)	(127)
Equity-accounted investees	-	(1)
Inventories	(98)	(27)
Other investments	(28)	-
Income tax receivable	(346)	-
Accounts receivable, including contract assets	(8,506)	(5,602)
Assets held for sale	(2,911)	-
Deferred tax assets	(572)	(261)
Deffered tax liabilities	262	89
Loans and borrowings	12	-
Trade and other payables	8,283	6,327
Provisions	1,241	-
Income tax payable	251	-
Net assets	**(2,458)**	**395**
Non-controlling interest	57	-
Accounts receivable for disposal of subsidiaries	**3,226**	16
Consideration received in cash	**141**	
Cash and cash equivalents of disposed subsidiaries	(92)	(6)
Gain on disposal of subsidiaries, net	**874**	**405**
Gain on disposal of investment property, net	-	103
Gain on disposal of subsidiaries and investment property, net	**874**	**508**

10 Revenue

(a) Disaggregation of revenue depending from timing of revenue recognition

mln RUB	2019	2018
Revenue from sales of real estate and other development revenue	**195,365**	**194,616**
Revenue from sales of residential properties recognised over time	181,283	181,543
Revenue from sales of non-residential premises and parking spaces recognised over time	14,007	13,034
Other development revenue	75	39
Revenue from other sales	**52,222**	**14,444**
Revenue from other sales of goods and services recognised at a point in time	4,558	3,413
Revenue from construction services recognised over time	31,089	6,711
Revenue from maintenance services, recognised over time	16,575	4,320
Total revenue from contracts with customers	**247,587**	**209,060**

The significant financing component as part of the transaction price amounted to RUB 6,045 million (2018: RUB 8,184 million) for 2019.

In 2019, the revenue from real estate sales under share participation agreements concluded to settle payables for acquired land plots amounted to RUB 279 million (2018: RUB 1,289 million).

During the reporting period, the Group revised several construction project budgets. As a result, the progress towards the complete satisfaction of performance obligations for certain contracts with customers changed by an average of 1% compared to the percentage of completion used in the preparation of the consolidated financial statements for 2018.

In 2019, contracts for sale of real estate, the revenue from which had been recognised in prior reporting periods in the amount of RUB 1,022 million (2018: RUB 726 million), were terminated. This revenue was reversed in the respective reporting period.

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

mln RUB	31 December 2019	31 December 2018	1 January 2018
Contract assets	8,285	999	1,045
Trade receivables	464	377	296
Contract liabilities	(93,536)	(91,512)	(90,052)

Contract assets represent the Group's rights to receive funds under contracts with customers that stipulate deferred payment and where construction progress ahead the payment schedule, or where sales are exercised using escrow accounts. Contract liabilities are advance payments received from customers under share participation agreements, and accrued amounts of a significant financing component recognised in accounts payable. As at 31 December 2019, the net significant financing component as part of contract liabilities amounted to RUB 1,084 million (31 December 2018: RUB 464 million; as at 1 January 2018: RUB 4,142 million).

The transaction price was determined taking into account the significant financing component estimated under contracts with customers concluded in 2019 based on the interest rates of 8% to 9.6% (2018: 8.5% to 9.5%).

The full amount of the performance obligation not performed at the end of the reporting period is expected to be recognised in revenue over the next three years. As at 31 December 2019, advances received from customers with a book value of RUB 76,465 million are expected to be settled over the next 12 months (31 December 2018: RUB 79,351 million).

In 2019, the Group recognised revenue of RUB 61,548 million with respect to contract liabilities outstanding as at 1 January 2019 (2018: RUB 79,217 million).

(c) Assets and liabilities under contracts for the sale of other products and services

Performance obligations and contract assets in sales of other services mainly arise from construction works and provision of technical supervison services, etc. as presented below:

mln RUB	**31 December 2019**	**31 December 2018**	**1 January 2018**
Trade receivables	17,519	5,712	1,575
Contract liabilities, including:	(21,208)	(19,238)	(1,231)
– liabilities from contracts with revenue recognised at a point in time	(1,253)	(1,398)	(1,022)
– liabilities from contracts with revenue recognised over time	(19,955)	(17,840)	(209)

11 Finance income and costs

mln RUB	**2019**	**2018**
Interest income	4,787	3,562
Reversals of impairment of financial assets	704	-
Foreign exchange gains, net	-	428
Write-off of accounts payable	518	96
Other financial income	903	252
Finance income	**6,912**	**4,338**
Interest expense before capitalisation in inventory *	(8,398)	(5,873)
Capitalised interest expense**	6,305	4,451
Total interest expense after capitalisation	**(2,093)**	**(1,422)**
Foreign exchange losses, net	(61)	-
Loss on impairment of financial assets	-	(698)
Non-controlling interest's share in the profits of the Group's limited liability companies	(391)	-
Other finance costs	(101)	(14)
Finance costs	**(2,646)**	**(2,134)**
Net finance income for the period	**4,266**	**2,204**

* In 2019, interest expenses before capitalisation in inventory included RUB 6,489 million of interest on bank loans and bonds (2018: RUB 5,202 million).

** The weighted average capitalisation rate in 2019 was 9.9% (2018: 10.8%).

In 2019, the interest expenses capitalised in inventories were recognised in cost of sales in the amount of RUB 3,501 million (2018: RUB 1,608 million).

12 Other income/(expenses), net

mln RUB	2019	2018
Penalties and fines, including provision for litigation and claims	(1,832)	(2,164)
Charity	(65)	(378)
Loss from disposal of property, plant and equipment	(93)	(185)
Tax expenses	(438)	(675)
Result from sale and write-off of other assets	66	(77)
Other income/(expenses), net	333	(557)
Negative goodwill from acquisition of subsidiaries	4,330	1,298
	2,301	**(2,738)**

13 Administrative expenses

mln RUB	2019	2018
Personnel costs	2,769	985
Professional and other services	723	195
Research and development	487	62
Taxes	450	418
Depreciation of property, plant and equipment, amortisation of intangible assets and right-of-use assets	254	294
Rent	156	18
Material costs	254	158
Other administrative expenses	719	451
	5,812	**2,581**

14 Personnel costs

mln RUB	2019	2018
Salaries and wages		
Cost of sales	19,907	10,809
Administrative expenses	2,336	831
Distribution expenses	64	35
	22,307	**11,675**
Social charges		
Cost of sales	4,749	2,711
Administrative expenses	433	154
Distribution expenses	13	8
	5,195	**2,873**
Total	**27,502**	**14,548**

15 Income tax

(a) Amounts recognised in profit and loss

The Group's applicable tax rate for income tax is 20% for Russian companies (2018: 20%). Subsidiaries registered in Cyprus were taxed at a rate of 12.5%.

The income tax expense was as follows:

mln RUB	2019	2018
Current tax expense		
Current income tax for the period	(7,337)	(5,476)
Underprovided in prior years	(92)	(38)
Accrual of tax provision	(397)	19
	(7,826)	**(5,495)**
Deferred income tax		
Origination and reversal of temporary differences	(3,363)	(2,058)
	(3,363)	**(2,058)**
Total income tax expense	**(11,189)**	**(7,553)**

(b) Reconciliation of effective tax rate

mln RUB	2019	%	2018	%
Profit before income tax	50,722	100	29,281	100
Income tax expense at applicable tax rate	(10,144)	(20)	(5,856)	(20)
Unrecognized tax assets	(225)	-	(654)	(2)
Underprovided in prior years	(92)	-	(38)	-
Non-deductible expenses	(951)	(2)	(1,368)	(5)
Negative goodwill	609	1	260	1
Effect of tax rates in foreign jurisdictions	11	-	84	-
Reversal/(accrual) of tax provision	(397)	(1)	19	-
	(11,189)	**(22)**	**(7,553)**	**(26)**

(c) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
mln RUB	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Property, plant and equipment	2,007	1,805	(1,379)	(1,105)	628	700
Investment property	7	325	(1,125)	(1,797)	(1,118)	(1,472)
Investments	235	506	(61)	-	174	506
Intangible assets	7	-	(2,425)	(279)	(2,418)	(279)
Inventories	2,884	4,864	(20,500)	(18,382)	(17,616)	(13,518)
Trade and other receivables	918	2	(427)	-	491	2
Trade and other payables	874	60	(1,123)	(7)	(249)	53
Loans and borrowings	-	-	(1)	-	(1)	-
Tax loss carry-forwards	3,940	3,541	-	-	3,940	3,541
Tax assets/(liabilities)	10,872	11,103	(27,041)	(21,570)	(16,169)	(10,467)
Set-off of tax	(9,266)	(4,221)	9,266	4,221	-	-
Net deferred tax assets/(liabilities)	**1,606**	**6,882**	**(17,775)**	**(17,349)**	**(16,169)**	**(10,467)**

(d) Movement in deferred tax balances

mln RUB	1 January 2019	Recognized in profit and loss	Recognized in equity	Reclassifications	Effect of disposals	Effect of acquisitions	31 December 2019
Property, plant and equipment	700	47	-	-	(88)	(31)	628
Investment property	(1,472)	(340)	-	686	8	-	(1,118)
Investments	506	(323)	-	-	(14)	5	174
Intangible assets	(279)	19	-	-	-	(2,158)	(2,418)
Inventories	(13,518)	(3,378)	-	(686)	(34)	-	(17,616)
Trade and other receivables	2	562	-	-	(93)	20	491
Trade and other payables	53	(163)	(394)	-	(1)	256	(249)
Loans and borrowings	-	-	-	-	-	(1)	(1)
Tax loss carry-forwards	3,541	213	-	-	(88)	274	3,940
	(10,467)	**(3,363)**	**(394)**	**-**	**(310)**	**(1,635)**	**(16,169)**

mln RUB	1 January 2018	Recognized in profit and loss	Effect of disposals	Acquired	31 December 2018
Property, plant and equipment	199	622	(82)	(39)	700
Investment property	(1,915)	443	-	-	(1,472)
Investments	276	230	-	-	506
Intangible assets	79	(195)	-	(163)	(279)
Inventories	(9,353)	(4,221)	36	20	(13,518)
Trade and other receivables	(118)	170	(1)	(49)	2
Trade and other payables	-	48	(123)	128	53
Tax loss carry-forwards	2,698	845	(2)	-	3,541
	(8,134)	**(2,058)**	**(172)**	**(103)**	**(10,467)**

(e) Unrecognised deferred tax assets

Deferred tax assets of RUB 6,142 million (31 December 2018: RUB 5,917 million; 1 January 2018: RUB 5,263 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward because it was unlikely that future taxable profits would be available against which the Group could utilise the benefits.

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

As at 31 December 2018, the Group did not recognise a deferred tax liability related to taxable temporary differences of RUB 74,773 million (31 December 2018: RUB 57,839 million; 1 January 2018: RUB 55,485 million) because the Group could control the dividend policy of subsidiaries and the timing of the reversal of the temporary differences, or due to the zero rate of the applicable dividend tax.

16 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
As at 1 January 2018	**20,724**	**6,236**	**633**	**2,269**	**29,862**
Acquisitions through business combinations	722	315	50	145	1,232
Additions	-	-	-	4,144	4,144
Disposals	(220)	(250)	(64)	(532)	(1,066)
Reclassification to inventories	(699)	(40)	-	-	(739)
Transfers	2,009	1,380	152	(3,541)	-
As at 31 December 2018	**22,536**	**7,641**	**771**	**2,485**	**33,433**
Acquisitions through business combinations	504	126	92	17	739
Additions	1,629	128	27	3,160	4,944
Additions from inventories	-	-	-	3,530	3,530
Disposals	(369)	(250)	(26)	(102)	(747)
Disposal of subsidiaries	(17)	(4)	(2)	(1)	(24)
Reclassification to inventories	(80)	(6)	(6)	-	(92)
Reclassification between groups	145	(145)	-	-	-
Transfers	3,102	608	286	(3,996)	-
As at 31 December 2019	**27,450**	**8,098**	**1,142**	**5,093**	**41,783**
Accumulated depreciation and impairment losses					
As at 1 January 2018	**(4,420)**	**(1,950)**	**(311)**	**(74)**	**(6,755)**
Depreciation charge	(977)	(553)	(100)	-	(1,630)
Disposals	75	142	43	-	260
Reclassification to inventories	255	40	-	-	295
As at 31 December 2018	**(5,067)**	**(2,321)**	**(368)**	**(74)**	**(7,830)**
Depreciation charge	(1,432)	(718)	(199)	-	(2,349)
Reversal of impairment (note 24 (a))	689	-	-	-	689
Disposals	172	279	16	-	467
Disposal of subsidiaries	1	1	1	-	3
Reclassification to inventories	17	1	5	-	23
As at 31 December 2019	**(5,620)**	**(2,758)**	**(545)**	**(74)**	**(8,997)**
Net book value					
As at 1 January 2018	**16,304**	**4,286**	**322**	**2,195**	**23,107**
As at 31 December 2018	**17,469**	**5,320**	**403**	**2,411**	**25,603**
As at 31 December 2019	**21,830**	**5,340**	**597**	**5,019**	**32,786**

(a) Accrued depreciation

In 2019, the depreciation expense of RUB 2,018 million was charged to cost of sales, RUB 83 million to distribution expenses, RUB 248 million to administrative expenses (2018: RUB 1,249 million, RUB 102 million, and RUB 279 million, respectively).

(b) Right-of-use assets

As at 31 December 2019, the net book value of the leased property was RUB 1,673 million (as at 31 December 2018: RUB 68 million; as at 1 January 2018: RUB 475 million).

Information on the lease agreements is disclosed in Note 22.

(c) Transfer from inventories

In 2019, the Group revised expectations for further use of some engineering infrastructure and plans to use it in the operations of the Maintenance segment. These assets worth RUB 3,308 million were transferred to property, plant and equipment from inventories (2018: RUB 3 million).

17 Intangible assets

mln RUB	Client base	Goodwill	Concession	Software	Other	Total
Cost / Deemed cost						
Balance at 1 January 2018	-	197	-	229	360	786
Acquisitions through business combinations	539	-	367	40	7	953
Additions	-	-	-	228	186	414
Disposals	-	-	-	(7)	(204)	(211)
Disposal of subsidiaries	-	-	-	-	(3)	(3)
Balance at 31 December 2018	**539**	**197**	**367**	**490**	**346**	**1,939**
Acquisitions through business combinations	11,103	-	-	-	21	11,124
Additions	-	-	253	256	300	809
Disposals	-	-	-	(50)	(181)	(231)
Disposal of subsidiaries	(2)	-	-	-	-	(2)
Reclassification between groups	(306)	-	-	-	306	
Balance at 31 December 2019	**11,334**	**197**	**620**	**696**	**792**	**13,639**
Accumulated depreciation and impairment losses						
Balance at 1 January 2018	-	-	-	(36)	(97)	(133)
Amortisation charge	-	-	-	(11)	(222)	(233)
Disposals	-	-	-	-	186	186
Balance at 31 December 2018	**-**	**-**	**-**	**(47)**	**(133)**	**(180)**
Amortisation charge	-	-	(23)	(48)	(229)	(300)
Disposals	-	-	-	3	162	165
Balance at 31 December 2019	**-**	**-**	**(23)**	**(92)**	**(200)**	**(315)**
Net book value						
As at 1 January 2018	**-**	**197**	**-**	**193**	**263**	**653**
As at 31 December 2018	**539**	**197**	**367**	**443**	**213**	**1,759**
As at 31 December 2019	**11,334**	**197**	**597**	**604**	**592**	**13,324**

The client base acquired in 2019 as part of a business combination mainly relates to subsidiaries of the Maintenance segment that services completed real estate properties and to the apartment rental service. The client base is mainly represented by agreements with residents of apartment buildings. The Group estimates the probability to prolong these contracts as high, and it is difficult to determine the time at which the Group will cease to receive economic benefits from this asset. As a result, the client base is recognised as an intangible asset with an indefinite useful life, and it is not amortised.

The client base acquired in 2018 is mainly represented by contracts with subscribers for Internet and cable television services, as well as a portfolio of contracts for construction and installation works.

18 Investment property

(a) Reconciliation of carrying amount

mln RUB	2019	2018
As at 1 January	12,683	18,300
Reclassification to inventories	(6,009)	(5,407)
Change in fair value	(20)	(84)
Disposal	(28)	(126)
As at 31 December	**6,626**	**12,683**

Investment property comprises land plots with undetermined future use. The negative change in the fair value of such land plots for 2019 was RUB 20 million (2018: RUB 84 million).

(b) Measurement of fair value

The fair value of investment property was determined by external, independent real estate appraisers who had the appropriate recognised professional qualifications and recent experience in the appraisal of this type of real estate at that location.

For land plots in 2019, the fair value was measured using the comparative method based on an analysis of all available information on sales of analogues, adjusted to reflect the differences between analogues an Group's assets. Under this approach, current bids for land plots similar to those under valuation were analysed. The selling prices were adjusted for differences in characteristics between items under valuation and comparable land plots. The fair value of the land plots measured using the comparative approach as at 31 December 2019 amounted to RUB 6,626 million (31 December 2018: RUB 6,674 million). The fair value measurement of investment property was classified as Level 3 of the fair value hierarchy based on input data for the measurement methods used and the level of adjustments applied to market equivalents.

In 2018, land plots were included in the investment property, which, in substance, were ready for development. The Group used the discounted cash flow method for their valuation. Their fair value as at 31 December 2018 was RUB 6,009 million. When using this method, the Group applied the following assumptions:

- Property sale prices were forecast based on the market prices for similar properties in December of each reporting year.
- In determining the recoverable amount of projects, cash flows in RUB were discounted at pre-tax rates ranging from 13% to 18% on average.
- The growth rates of prices and investment costs were assumed based on the forecast inflation rate.
- Future sales corresponded to sales in similar projects implemented by the Group.
- The projected density of land development was in line with the average ratio for similar projects of the Group.

During 2019, the Group transferred the land plots to inventories.

Sensitivity analysis

In 2019, management defined the discount rate and the basic selling price as the key assumptions changes in which were reasonably possible.

A 5% decrease in the basic selling price of investment properties measured using the comparative method would decrease the fair value of the properties by RUB 331 million (31 December 2018: RUB 334 million). A 5% decrease in the basic selling price of investment properties measured using the income approach as at 31 December 2018 would result in a decrease of RUB 6,112 million in the fair value of the properties. A 5%

increase in the basic selling price would have the opposite effect on the value of the investment properties by approximately the same amount.

An increase in the discount rate by 1 percentage point for investment properties measured using the discounted cash flow method would result in a decrease in the fair value of the investment properties by RUB 6,532 million as at 31 December 2018. A decrease in the discount rate by 1 percentage point would have the opposite effect on the value of the investment properties by approximately the same amount.

19 Inventories

mln RUB	31 December 2019	31 December 2018	1 January 2018
Construction work in progress, intended for sale, accounted at historical cost	140,009	89,586	98,430
Construction work in progress, intended for sale, acquired through business combinations	72,638	75,353	55,479
Finished goods and goods for resale	18,698	16,527	13,496
Raw materials and consumables	7,729	5,768	2,736
Right-of-use asset	4,844	3,299	4,753
	243,918	**190,533**	**174,894**
Impairment	(2,656)	(2,735)	(4,040)

A significant part of the construction-in-progress and finished goods consists of apartments, commercial and parking spaces, costs to acquire land, to build infrastructure and social and cultural facilities, allocated to properties which were not sold to customers and those for which contracts with customers were made, but costs were not fully recognised in cost of sales based on the percentage of completion.

In 2019, the Group purchased several land plots for future development projects in Moscow, Moscow Region and other regions of Russia for the total amount of RUB 37,390 million mostly through the acquisition of control over companies that owned the land plots. The companies had no other significant assets, liabilities or financial results as at the acquisition date. Therefore, the consideration paid by the Group to purchase these subsidiaries was accounted for as the value of construction-in-progress intended for sale. The payment was partially made in cash, the remaining amount of RUB 4,645 million is to be paid in the following reporting periods.

In the reporting period, the Group did not conclude contracts for the acquisition of land (right-of-use assets) to be settled by share participation agreements (2018: RUB 3,980 million; as at 1 January 2018: RUB 6,124 million). Information on the lease agreements is disclosed in Note 22.

The construction-in-progress amounted to RUB 148,572 million relates to items that will be completed in more than 12 months after the reporting date (31 December 2018: RUB 136,058 million).

A change to an accounting policy for capitalising interest expenses led to an increase in the historical cost of construction-in-progress and finished products. As a result of impairment testing of the assets, the Group reversed impairment losses of RUB 96 million (as at 31 December 2018: RUB 1,026 million), see Note 24.

The balance of capitalised interest in construction-in-progress as at 31 December 2019 amounted to RUB 14,982 million (31 December 2018: RUB 10,477 million; as at 1 January 2018: RUB 5,310 million). The effect of capitalisation of interest and a significant financing component under contracts with customers, accounted for in cost of sales of real estate, amounted RUB 3,805 million (2018: RUB 427 million).

The construction-in-progress amounted to RUB 523 million pertains to projects of the Parent Company where the Group acts as technical supervisor (31 December 2018: RUB 343 million; 1 January 2018: RUB 199 million).

20 Other investments

mln RUB

*Non-current**	**31 December 2019**	**31 December 2018**	**1 January 2018**
Parent Company's bonds, nominated in RUB at fixed rates 8.7-13%	14,536	12,802	12,293
Loans issued to third parties in RUB at fixed rates of 9.0-17.5%	68	72	89
Other investments	2	91	29
Bank deposits	193	217	187
	14,799	**13,182**	**12,598**
Impairment losses	(184)	(450)	(465)
Current*			
Parent Company's bonds, nominated in RUB at fixed rates 8.7-13%	499	7,950	2,828
Loans issued to third parties in RUB at fixed rates of 9.0-17.0%	123	315	3,272
Bank deposits	93	-	-
	715	**8,265**	**6,100**
Impairment losses	(189)	(324)	(227)

* As at 31 December 2019 and 31 December 2018, other investments were recognised at amortised cost

21 Accounts receivable, including contract assets

mln RUB	31 December 2019	31 December 2018	1 January 2018
Non-current			
Accounts receivable for disposal of subsidiaries	1,774	-	-
	1,774	**-**	**-**
Impairment losses	(54)	-	-
Current			
Trade receivables and contract assets from the development segment for own projects	9,087	2,244	4,199
Trade receivables and contract assets of the development segment for the Parent Company's projects	2,672	496	-
Trade receivables under contracts for the provision of construction services and other activities	5,311	4,714	1,826
Trade receivables of maintenance segment	9,396	1,334	-
Advances issued to suppliers and contractors of the development segment for own projects	9,470	10,802	10,306
Advances issued to suppliers and contractors of the development segment for the Parent Company's projects	906	592	383
Advances issued to suppliers and contractors under contracts for the provision of construction services and other activities	4,302	1,155	694
Advances issued for the acquisition of land plots/right-of-use assets, including acquisition of subsidiaries	6,451	3,917	8,483
Advances to other suppliers and contractors	4,924	1,350	1,131
Taxes receivable	6,108	4,394	3,218
Other accounts receivable	19,272	30,237	1,483
	77,899	**61,235**	**31,723**
Impairment losses	(3,155)	(2,144)	(1,450)

22 Leases

The contract portfolio of the Group mostly consists of leases of land plots for the construction of residential property for sale.

During 2019, changes to the lease liabilities were as follows:

mln RUB	Land plots	Buildings and constructions	Equipment	Other	Total
As at 1 January 2019	**3,645**	**29**	**-**	**-**	**3,674**
New contracts	1,843	1,452	198	94	3,587
Modifications of contracts	2,220	27	-	-	2,247
Acquisitions through business combinations	-	218	-	-	218
Interest expense on lease liability	433	109	10	5	557
Lease payments, including offsets	(3,970)	(370)	(47)	(17)	(4,404)
As at 31 December 2019	**4,171**	**1,465**	**161**	**82**	**5,879**

During 2018, changes to the lease liabilities were as follows:

mln RUB	Land plots	Buildings and constructions	Equipment	Other	Total
As at 1 January 2018	**4,696**	**79**	**-**	**-**	**4,775**
New contracts	358	-	-	-	358
Interest expense on lease liability	394	5	-	-	399
Lease payments, including offsets	(1,803)	(55)	-	-	(1,858)
As at 31 December 2018	**3,645**	**29**	**-**	**-**	**3,674**

During 2019, changes to the right-of-use asset were as follows:

mln RUB	Land plots	Buildings and constructions	Equipment	Other	Total
As at 1 January 2019	**3,299**	**32**	**-**	**-**	**3,331**
New contracts	1,882	1,452	220	94	3,648
Modifications of contracts	2,220	27	-	-	2,247
Acquisitions through business combinations	-	205	-	-	205
Accrued to cost of salesof real estate objects	(2,166)	(221)	(30)	(6)	(2,423)
Amortisation recognised in administrative expenses	-	(137)	-	(6)	(143)
Reclassification to construction-in-progiess	(391)	-	-	-	(391)
As at 31 December 2019	**4,844**	**1,358**	**190**	**82**	**6,474**

During 2018, changes to the right-of-use asset were as follows:

mln RUB	Land plots	Buildings and constructions	Equipment	Other	Total
As at 1 January 2018	**4,753**	**87**	**-**	**-**	**4,840**
New contracts	358	-	-	-	358
Accrued to the cost of sales of real estate objects	(1,812)	-	-	-	(1,812)
Amortisation recognised in administrative expenses	-	(55)	-	-	(55)
As at 31 December 2018	**3,299**	**32**	**-**	**-**	**3,331**

The conclusion of additional agreements to lease contracts on the purchase of land plots and/or changes in the purchase price were material factors for the modification of assets and liabilities under lease agreements in 2019.

23 Cash and cash equivalents

mln RUB	31 December 2019	31 December 2018	1 January 2018
Cash on hand	1	-	1
Cash in banks	64,505	54,773	33,700
Restricted cash	345	-	-
Cash and cash equivalents	**64,851**	**54,773**	**33,701**

Cash balance on escrow accounts (for reference only)

mln RUB	31 December 2019	31 December 2018	1 January 2018
Escrow accounts	12,473	1,145	-

The balance of cash on escrow accounts, which is not recognised in the Group's statement of financial position, represents the amounts deposited by the owners of the accounts (customers of real estate properties) with an authorised bank as a consideration for an acquired property under share participation agreements.

As at 31 December 2019, cash amounting to RUB 24,161 million was placed on special bank accounts which are subject to special banking control (31 December 2018: RUB 14,157 million; 1 January 2018: 0) pursuant to Federal Law No. 214-FZ.

24 Impairment losses on non-financial assets

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

- property, plant and equipment;
- intangible assets;
- inventories;
- advances issued.

(a) Property, plant and equipment

The Group analysed property, plant and equipment for impairment as at 31 December 2019, 31 December 2018 and 1 January 2018 and did not identify any evidence of impairment.

In addition, in 2019, the Group analysed the value of an administrative building used as its headquarters for which an impairment loss was recognised previously. The Group engaged an independent appraiser to determine the fair value of the building. The fair value was determined based on the percentage weighting of the results obtained using the comparative method and the discounted cash flow method under the income approach. As the fair value of the building exceeded its carrying amount, the Group reversed an impairment loss of RUR 689 million previously recognised.

(b) Inventories

In most cases, the Group used the discounted cash flows method and engaged an independent appraiser to estimate the net realisable value of the Group's work in progress at the reporting dates.

The following key assumptions of the discounted cash flow method were used in determining the net realisable value of construction-in-progress:

- Cash flows were projected for each significant project individually;
- The expected selling prices for apartments were based on market prices effective in December 2019 for similar real estate;
- The cost of construction was projected based on cost per square meter and the pace of construction of similar real estate in December 2019;
- An average pre-tax discount rate of 12 to 14% was applied to rouble cash flows to determine the recoverable amount of projects.

Based on the results of the testing, the impairment loss on inventories as at 31 December 2019 amounted to RUB 2,656 million (as at 31 December 2018: RUB 2,735 million; 1 January 2018: RUB 4,040 million).

Sensitivity analysis

Management determined the discount rate and the estimated selling prices as key assumptions subject to reasonable change.

A reduction in the forecast selling price by 5% would lead to RUB 177 million of additional impairment of construction-in-progress as at 31 December 2019 (31 December 2018: RUB 455 million).

An increase in the discount rate by 1 percentage point would lead to an additional impairment of construction-in-progress as at 31 December 2019 by RUB 69 million (31 December 2018: RUB 81 million).

No significant additional impairment is expected if the construction deadlines are extended.

(c) Intangible assets

The Group applied the discounted cash flow method to measure the fair value of intangible assets mainly consisting of the client base of the utility companies. The fair value measurement was based on the following assumptions:

- The revenue forecast was based on the tariffs of management companies and the cost of services for 2019, taking into account the growth of the consumer price index and the volume of serviced space as at the measurement date;
- The forecast EBITDA did not change significantly since the date of acquisition of the companies (see Note 8(a));
- The disposal rate for Client base was taken to be 1.5% per year;
- A discount rate of 15.3% was applied;

- The income tax rate was taken to be equal to the statutory rate of 20%.

Sensitivity analysis

The sensitivity analysis does not differ significantly from the information disclosed in Note 8 (a) on acquisition of the companies.

(d) Impairment testing results and write-offs

		31 December 2019			31 December 2018			1 January 2018		
mln RUB	Note	Gross carrying value	Impairment / write down	Carrying value after impairment	Gross carrying value	Impairment / write down	Carrying value after impairment	Gross carrying value	Impairment / write down	Carrying value after impairment
Property, plant and equipment	16	33,637	(851)	32,786	27,308	(1,705)	25,603	24,813	(1,706)	23,107
Intangible assets	17	13,324	-	13,324	1,759	-	1,759	653	-	653
Inventories	19	246,574	(2,656)	243,918	193,268	(2,735)	190,533	178,934	(4,040)	174,894
Advances issued	21	27,198	(1,145)	26,053	18,509	(693)	17,816	21,730	(733)	20,997
Total		**320,733**	**(4,652)**	**316,081**	**240,844**	**(5,133)**	**235,711**	**226,130**	**(6,479)**	**219,651**

(e) Impairment losses and reversal of impairment losses

mln RUB	2019	2018
Impairment losses		
Property, plant and equipment	-	(147)
Intangible assets	-	-
Inventories	(47)	-
Advances issued	(799)	(251)
	(846)	**(398)**
Reversal of impairment losses		
Property, plant and equipment	689	-
Advances paid	332	118
Inventory	30	279
	1,051	**397**
	205	**(1)**

In 2019, impairment losses of RUB 165 million on property, plant and equipment and RUB 15 million on advances issued were written off against disposal of the respective assets (2018: RUB 148 million and RUB 173 million, respectively).

25 Equity

As at 1 January of 2018, the charter capital of the Company was RUB 100 thousand fully owned by PJSC Group of Companies PIK. In 2018, the charter capital was increased to RUB 80,000 million paid by way of contribution of interests and shares in certain subsidiaries owned by PJSC Group of Companies PIK. In December 2019, the Company increased its charter capital by RUB 585 million, which was paid by the contribution of 100% stake in a subsidiary of its Parent Company. The subsidiaries contributed to the Company's charter capital in 2019 and 2018 were consolidated by the Group from 1 January 2018 as business acquisitions under common control.

The charter capital of the companies included in the Group is shown as at 1 January 2018 in the amount of its registered value of RUB 68,937 million as a separate item as part of equity since all such companies have been consolidated by the Group since 1 January 2018 in accordance with an adopted accounting policy in relation to the acquisition of subsidiaries under common control, except those acquired by the Parent

Company in 2018 and included in the Group from the date of common control and whose charter capital amounted to RUB 4 million. The acquisition of the latter by the Parent Company was classified as the acquisition of assets due to the fact that they were the owners of land plots intended for the construction projects of the Group.

In 2019, the Group acquired from the Parent Company 100% shares in two companies for RUB 522 million (2018: a 100% share in a company for RUB 1,830 million) which were consolidated under common control from 1 January 2018.

Dividends

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

In 2019, the Group declared dividends of RUB 1,285 million, which were paid to the Parent Company in the amount of RUB 764 million before the end of 2019.

At the end of 2018, the Group's subsidiaries decided to distribute dividends in the amount of RUB 18,146 million prior to their transfer to the Company's ownership. As at 31 December 2018, dividends payable to the Parent Company were included in other accounts payable. The dividends were partially paid during 2019 in the amount of RUB 18,813 million. The remaining outstanding dividends were included in accounts payable.

Other transactions with shareholders

In 2019, a related party settled intercompany debt of a Group's company. Income from this transaction in the amount of RUB 1,577 million net of tax was classified as a transaction with shareholders and was accounted in equity.

In 2019, the Group's Parent Company and the Group disposed of several companies as part of the legal restructuring upon completion of their construction projects. The related party's payables in the amount of RUB 1,133 million were written off by the Parent Company as a result of this disposal. This transaction was accounted for as a transaction with shareholders in equity.

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and currency risks, please refer to note 30.

	31 December 2019	31 December 2018	1 January 2018
mln RUB			
Non-current			
Bonds, net of those purchased by the Group	8,160	-	-
Unsecured bank loans	29,054	2,148	2,060
Project financing	40,133	1,871	-
Secured bank loans	6,996	-	365
Interest payable	1,244	436	239
	85,587	**4,455**	**2,664**
Current			
Bonds, net of those purchased by the Group	340	-	-
Unsecured bank loans	6,092	45,464	31,105
Project financing	13,197	1,215	
Secured bank loans	1,208	-	115
Interest payable	1,471	3,798	572
	22,308	**50,477**	**31,792**
	107,895	**54,932**	**34,456**

As at 31 December 2019 and 31 December 2018, the bank loans and project financing were secured by:

- lease/ownership rights to land plots with a total area of 779.5 ha (31 December 2018: 21.8 ha) and carrying amount of RUB 47,698 million (31 December 2018: RUB 6,593 million);
- shares in subsidiaries.

Raising and repayment of project finance facilities

As at 31 December 2019, the Group raised additional project finance facilities, including for the purchase of land plots, in the amount of RUB 32,212 million, with maturity until 14 May 2025, at interest rates ranging from 9.75% to 12%.

In September 2019, the Group raised project financing from the Bank (information about the Bank is disclosed in Note 34) in the amount of RUB 11,500 million at the CBRF key rate + 2%, maturing on 10 September 2024.

During 2019, the Group actively drew down on its existing credit lines to finance the development of residential complexes and opened new credit lines to finance the construction of residential buildings at a variable interest rate, adjusted depending on the escrow account balances. The total outstanding amount on these credit lines as at 31 December 2019 was RUB 9,793 million with maturity dates up to 2026, of which RUB 7,922 million was raised in 2019 (2018: RUB 1,871 million), including RUB 6,258 million from the Bank.

During 2019, the Group repaid an outstanding amount of RUB 1,215 million on project finance facilities (2018: RUB 820 million). As at 31 December 2019, the outstanding amount on project finance facilities was RUB 53,330 million.

Raising and repayment of loans for general purposes

In May 2019, the Group raised a secured loan from the Bank in the amount of RUB 3,000 million at the CBRF key rate + 1.95%, maturing on 25 May 2026. The funds were used to finance operations.

In July 2019, the Group gained control over companies engaged in maintenance and management of apartment buildings and other real estate properties. As at the date of gaining the control, one of acquired companies had debt to the Bank (see Note 34) on a secured loan in the amount of RUB 2,822 million maturing on 25 December 2022. The interest rate was set at the key rate of the Central Bank of the Russian Federation + 3.25%. As at 31 December 2019, the Group repaid the loan in full.

In Q4 2019, the Group obtained a secured loan from the Bank in the amount of RUB 4,333 million at the CBRF key rate + 2.2%, maturing on 30 September 2024.

In Q4 2019, the Group entered into a revolving credit line agreement with a limit of RUB 5,000 millionat the CBRF key rate + 2.2% and with maturity on 31 December 2023. The amount of RUB 915 million was received in 2019. As at 31 December 2019, the outstanding amount was RUB 906 million.

As at 31 December 2019, the Group paid secured bank loans in the amount of RUB 45 million, including RUB 36 million to the Bank (2018: RUB 480 million).

Loans from related parties

In 2019, the Group entered into loan agreements with a related party for a total amount of RUB 2,013 million, with maturity until 27 September 2022 and bearing the interest rates from 9.30% to 9.60%. In 2018, the Group received loans from a related party in the amount of RUB 23,734 million for a period of one year at a rate of 9.6% per annum and in the amount of RUB 3,600 million at a rate of 13% per annum.

As at 31 December 2019, the outstanding balance on the loans, including the accrued interest, amounted to RUB 37,354 million (2018: RUB 51,838 million).

As at 31 December 2019, the Group repaid an outstanding amount of RUB 14,687 million on loans from related parties (2018: RUB 13,102 million).

Issue and redemption of bonds

In the fourth quarter 2019, the Group placed two bond issues of RUB 1,500 million and RUB 7,000 million maturing on 12 April 2023 and 11 December 2024, respectively. Under the terms of the issues, amortisation of the nominal value of bonds is provided: for the issue of RUB 1,500 million, on a semi-annual basis at the end of the coupon period in the amount of RUB 170 million from the first to the sixth coupon period and RUB 479 million in the seventh coupon period; for the issue of RUB 7,000 million, on a semi-annual basis in the amount of RUB 1,750 million at the end of the fourteenth, sixteenth, eighteenth and twentieth coupon periods. The coupon rate for the issue of RUB 1,500 million is set at the key rate of the Central Bank of the Russian Federation + 1.5%. The coupon rate for the issue of RUB 7,000 million is set at 8.25%. The frequency of coupon payments for the first issue is once every six months, for the second issue once per quarter.

Terms and conditions of loans and borrowings

The terms of outstanding loans and borrowings as at the reporting dates were as follows:

	31 December 2019	31 December 2018	1 January 2018
mln RUB			
Project financing			
RUB - fixed at 9.75%-12.00%	32,037	-	-
RUB - key interest rate + 2%	11,500	-	-
RUB - variable interest rate*	9,793	3,086	-
Secured bank loans			
RUB - key interest rate + 1.95%	2,965	-	-
RUB - key interest rate + 2.20%	5,239	-	-
RUB - fixed at 13.00%-13.50%	-	-	480
Unsecured bank loans			
RUB - fixed at 6.25%-11.30%	17,320	28,942	8,470
RUB - fixed at 12.00%-14.00%	17,826	18,670	24,695
Bonds			
RUB - fixed at 8.25%	7,000	-	-
RUB - key interest rate + 1.50%	1,500	-	-
Interest payable	2,715	4,234	811
	107,895	**54,932**	**34,456**

* variable effective rates with the basic rates in the range from the key rate of the Central Bank of the Russian Federation + 2% with capitalisation up to 9.9%, with no capitalisation or payment of interest until cash from escrow accounts is released (31 December 2018: a variable effective rate calculated based on basic rates: key rate of the Central Bank of the Russian Federation + 2.27% - key rate of CBRF + 3.25%) and adjusted depending on the balances on escrow accounts.

The fair value of loans and borrowings is disclosed in Note 30(e).

mln RUB	Bonds, net of those purchased by the Group	Loans and borrowings	Unsecured bank loans	Lease liabilities	Non-controlling interests	Dividends	Total
As at 31 December 2018	**-**	**3,094**	**51,838**	**3,674**	**1,788**	**19,148**	**79,542**
Proceeds	8,500	59,882	2,013	-	-	1,971	72,366
Payments	-	(4,082)	(14,686)	(2,854)	(22)	(19,577)	(41,221)
Net cash from financing activities	**8,500**	**55,800**	**(12,673)**	**(2,854)**	**(22)**	**(17,606)**	**31,145**
Interest payable	48	1,952	4,489	557	-	-	7,046
Interest paid	-	(1,501)	(6,446)	-	-	-	(7,947)
Effect of transaction costs	-	(174)	146	-	-	-	(28)
New lease contracts or lease modifications	-	-	-	6,052	-	-	6,052
Offsets underlease agreements	-	-	-	(1,550)	-	-	(1,550)
Accrual of dividends	-	-	-	-	-	1,285	1,285
Acquisitions of subsidiaries	-	2,822	-	-	271	-	3,093
Profit for the period	-	-	-	-	208	-	208
Decrease in non-controlling interests due to legal reorganization of subsidiaries	-	-	-	-	(692)	-	(692)
Disposal of subsidiaries	-	-	-	-	(57)	-	(57)
As at 31 December 2019	**8,548**	**61,993**	**37,354**	**5,879**	**1,496**	**2,827**	**118,097**

mln RUB	Bonds, net of those purchased by the Group	Loans and borrowings	Unsecured bank loans	Lease liabilities	Non-controlling interests	Dividends	Total
As at 1 January 2018	**-**	**480**	**33,976**	**4,775**	**607**	**1,229**	**41,067**
Proceeds	-	3,906	25,649	-	-	-	29,555
Payments	-	(1,300)	(13,329)	(1,767)	(162)	(227)	(16,785)
Net cash from financing activities	**-**	**2,606**	**12,320**	**(1,767)**	**(162)**	**(227)**	**12,770**
Interest payable	-	8	5,194	399	-	-	5,601
Interest paid	-	-	(1,906)	-	-	-	(1,906)
Effect of transaction costs	-	-	569	-	-	-	569
New lease contracts or lease modifications	-	-	-	358	-	-	358
Offsets under lease agreements	-	-	-	(91)	-	-	(91)
Accrual of dividends	-	-	-	-	-	18,146	18,146
Acquisitions of subsidiaries	-	-	1,685	-	703	-	2,388
Profit for the period	-	-	-	-	690	-	690
Acquisition and change of non-controlling interests	-	-	-	-	(50)	-	(50)
As at 31 December 2018	**-**	**3,094**	**51,838**	**3,674**	**1,788**	**19,148**	**79,542**

27 Non-controlling interests

	Developer	Internet provider	Manufacturer of elevator equipment	Other	Total
Balance as at 1 January 2019	736	661	136	255	1,788
Share in (loss) / profit of the reporting period	-	(47)	208	47	208
Acquisition and change of non-controlling interests	-	-	-	(22)	(22)
Acquisitions of subsidiaries, net	-	-	-	271	271
Decrease in non-controlling interests due to legal reorganization of subsidiaries	(692)	-	-	-	(692)
Disposal of subsidiaries	(44)	-	-	(13)	(57)
Balance as at 31 December 2019	**-**	**614**	**344**	**538**	**1,496**

	Developer	Internet provider	Manufacturer of elevator equipment	Other	Total
Balance as at 1 January 2018	73	-	365	169	607
Share in profit / (loss) of the reporting period	663	-	(17)	44	690
Acquisition and change of non-controlling interests	-	-	(212)	-	(212)
Acquisitions of subsidiaries, net	-	661	-	42	703
Balance as at 31 December 2018	**736**	**661**	**136**	**255**	**1,788**

28 Provisions

mln RUB	Provision for cost to complete	Profision for onerous contracts	Tax provision	Total
As at 1 January 2019	**21,129**	**884**	**1,053**	**23,066**
Additional provisions	9,556	2,724	1,090	13,370
Releases of provisions	(2,688)	(1,726)	(693)	(5,107)
Utilisation	(8,667)	(1,546)	-	(10,213)
Disposal through disposal of subsidiaries	-	-	(1,241)	(1,241)
As at 31 December 2019	**19,330**	**336**	**209**	**19,875**

mln RUB	Provision for cost to complete	Profision for onerous contracts	Tax provision	Total
As at 1 January 2018	**23,016**	**568**	**1,072**	**24,656**
Additional provisions	12,984	949	-	13,933
Releases of provisions	(120)	(119)	(19)	(258)
Utilisation	(14,751)	(514)	-	(15,265)
As at 31 December 2018	**21,129**	**884**	**1,053**	**23,066**

Calculation of provisions require the Group to make assumptions, which are subject to uncertainty and judgment. The estimated completion costs represent the future costs that the Group is expected to incur in the construction of infrastructure and other social facilities, such as schools, parking spaces, commercial real estate, others, which the Group is obliged to build under projects. The estimate depends on changes in the rules and standards of urban development, which can entail a change in parameters of projects, and a change in the prices of building materials and labour.

The provision for costs to complete includes the amounts to be spent by the Group on the construction of social and cultural facilities and infrastructure that are not transferred to co-ownership and are related to built volumes in the projects where sales are opened, and on the completion of properties, transferred to the Group and not finalised by other developers, as a result of the acquisition of land or right-of-use assets.

As at 31 December 2019, the tax provision related mostly to the deductibility of certain expenses for tax purposes and intra-group transactions included a provision for income tax of RUB 209 million (31 December 2018: RUB 924 million and a provision for other taxes of RUB 129 million; 1 January 2018: RUB 751 million and a provision for other taxes of RUB 321 million), including penalties.

29 Accounts payable, including contract liabilities

mln RLB	31 December 2019	31 December 2018	1 January 2018
Non-current			
Accounts payable for acquisition of land plots	7,839	5,674	6,369
Accounts payable under construction contracts	348	-	-
Other liabilities	540	123	57
	8,727	**5,797**	**6,426**
Current			
Advances received from customers	93,236	91,512	90,052
Advances received in the development segment for own projects	784	7,377	1,541
Advances received in the development segment for the Parent Company's projects	12,197	13,387	-
Advances received for construction works and other services	9,353	5,573	4,821
Liabilities under contracts with customers of real estate properties in acquisition of land plots	8,638	10,309	6,677
Trade payables of the development segment for own projects	17,482	24,156	25,971
Trade payables of the development segment for the Parent Company's projects	882	47	68
Accounts payable for construction works and other trade payables	7,013	2,087	2,552
Trade payables of maintenance segment	10,044	766	-
Accounts payable for acquisition of land plots	4,880	5,205	-
Payables to employees	4,533	1,942	1,160
Other taxes payable	8,278	5,366	2,573
Dividend payables	856	19,148	1,229
Other accounts payable	8,073	8,620	21,983
	186,249	**195,495**	**158,627**

Other liabilities as part of non-current accounts payable included non-controlling interest in limited liability companies incorporated in the Russian Federation in the amount of RUB 453 million (31 December 2018: RUB 123 million; 1 January 2018: RUB 51 million).

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

30 Financial instruments

(a) Overview

When using financial instruments, the Group is exposed to certain risks, which include the following:

- 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 procedures for risk assessment and management, as well as its capital management system. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management system

The Group management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to conduct ongoing monitoring of risks and compliance with the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through staff training and work management standards and procedures, aims to develop an effective control environment where all employees exercise discipline and understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group in the event of its counterparties' default on their contractual obligations with respect to financial instruments. Generally, credit risk relates to financial assets of the Group measured at amortised cost, which include cash and cash equivalents, receivables and other investments. During the reporting period, there were no significant changes in the structure of financial assets and their credit quality, or their valuation methods.

(i) Sale of apartments to individuals

The Group is not exposed to significant credit risk in connection with sales of apartments to individuals, as such transactions are mainly carried out on a prepayment basis or using escrow accounts.

(ii) Accounts receivable from legal entities

The Group's exposure to credit risk depends mainly on the individual characteristics of each customer.

Accounts receivable are reviewed by the management of the Group depending on a category of customers.

For ongoing control over credit risk levels, customers are grouped according to their credit characteristics, including a type of contract, a transaction type, debt incurrence and repayment profile, credit history. The analysed receivables include:

- receivables under contracts for construction services and sale of real estate properties, including contract assets;
- receivables from customers of services provided by the Maintenance segment;
- other receivables.

Management has established a credit policy whereby each new buyer (customer) undergoes a solvency check before being offered standard payment terms applied by the Group. These terms provide, in particular, for penalties in case of late payment.

In the event of construction services, the Group generally performs works subject to a surety or a bank guarantee.

(iii) Guarantees

According to its policy, the Group issues guarantees to secure the obligations of subsidiaries and the Parent Company.

Credit risk exposure

The maximum exposure to credit risk equals the carrying amount of financial assets.

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

mln RUB	31 December 2019	31 December 2018	1 January 2018
Bonds, loans issued and bank deposits recorded in other investments	15,514	21,447	18,698
Accounts receivable, including contract assets	45,738	39,025	7,508
Cash and cash equivalents	64,851	54,773	33,701
	126,103	**115,245**	**59,907**

Impairment losses

During the reporting period, changes in the impairment loss provision (for expected credit losses) in respect of financial assets of the Group measured at amortised cost and a contract asset were as follows:

	Other investments	Accounts receivable, including contract assets	Total
Impairment loss provision as at 1 January 2019	**774**	**1,451**	**2,225**
Increase of expected credit losses for the period, net	(401)	612	211
Impairment loss provision as at 31 December 2019	**373**	**2,063**	**2,436**

	Other investments	Accounts receivable, including contract assets	Total
Impairment loss provision as at 1 January 2018	**692**	**717**	**1,409**
Increase of expected credit losses for the period, net	82	734	816
Impairment loss provision as at 31 December 2018	**774**	**1,451**	**2,225**

There were no credit rating downgrades during 2019 and 2018.

Provided below are amounts receivable and other investments recognised at amortised cost that are grouped by asset in terms of credit rating.

(i) Accounts receivable, including contract assets

mln RUB

Internal credit rating of the Group	Gross carrying amount as at 31 December 2019	Impairment loss as at 31 December 2019	Gross carrying amount as at 31 December 2018	Impairment loss as at 31 December 2018	Gross carrying amount as at 1 January 2018	Impairment loss as at 1 January 2018
A- to A++	10,393	(1)	3,948	(1)	3,557	(15)
B- to B++	23,646	(232)	4,484	(23)	4,088	(240)
C- to C++	5,232	(314)	1,464	(66)	-	-
D- to D++	7	(1)	3	-	79	(60)
E- to E++	164	(115)	15	(8)	15	(10)
Default	968	(845)	1,475	(1,353)	489	(392)
Total	**40,410**	**(1,508)**	**11,389**	**(1,451)**	**8,228**	**(717)**

The probability of credit losses on receivables from individuals or assets under contracts for acquired real estate in the total amount of RUB 8,748 million as at 31 December 2019 (as at 31 December 2018: RUB 1,376 million) is estimated as low due to the fact that the collection rate is high, and the debt is secured by assets and funds accumulated in escrow accounts.

(ii) Accounts receivable from customers of utility services

31 Decemder 2019	Weighted average loss rate	Gross carrying amount	Impairment loss as at 31 December 2019
mln RUB			
0-30 days	2.86%	3,779	(108)
31-90 days	2.88%	2,017	(58)
91-180 days	2.91%	721	(21)
180-360 days	2.87%	767	(22)
More than 360 days	18.39%	1,881	(346)
Total		**9,165**	**(555)**

(iii) Other investments

mln RUB

Internal credit rating of the Group	Gross carrying amount as at 31 December 2019	Impairment loss as at 31 December 2019	Gross carrying amount as at 31 December 2018	Impairment loss as at 31 December 2018	Gross carrying amount as at 1 January 2018	Impairment loss as at 1 January 2018
A- to A++	104	-	155	(17)	38	(2)
B- to B++	15,119	(83)	21,458	(482)	18,873	(455)
C- to C++	404	(118)	46	(19)	30	(3)
D- to D++	91	(13)	401	(99)	322	(105)
E- to E++	51	(41)	-	-	-	-
Default	118	(118)	161	(157)	127	(127)
Total	**15,887**	**(373)**	**22,221**	**(774)**	**19,390**	**(692)**

(iv) Cash

Cash and cash equivalents are placed with banks rated at least B+ based on the classification of international rating agencies S&P Global Ratings, Fitch or Moody’s. The Group considers expected credit losses to be insignificant.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group’s financial department exercise liquidity risk management (including risks which the Group would face in the long-, medium- and short-term periods) in accordance with internal regulations reviewed regularly to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group to constantly control the cash balances available.

Covenant compliance risk

The Group proactively monitors compliance with all debt covenants and, in case of the risk of default, initiates negotiations with the lenders to amend the respective agreements, before any event of default occurs.

The contractual maturity dates of the financial liabilities are shown below, taking into account the expected interest payments, excluding the obligations to make quarterly interim payments to the bank, information on which is provided in Note 30(e).

31 December 2019

mln RUB	Carrying value	Contractual cash flows 0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-5 yrs	5-10 yrs	Total
Loans and borrowings	96,680	12,323	8,259	9,288	42,586	16,911	7,475	96,842
Bonds	8,500	170	170	340	340	7,480	-	8,500
Interest payable	2,715	3,625	2,630	3,146	3,753	2,355	3,944	19,453
Trade and other accounts payable	70,767	62,257	2,816	3,533	2,005	2,501	3,218	76,330
Lease liabilities	5,879	902	1,350	1,939	1,131	1,279	511	7,112
	184,541	**79,277**	**15,225**	**18,246**	**49,815**	**30,526**	**15,148**	**208,237**

31 December 2018

mln RUB	Carrying value	Contractual cash flows 0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-5 yrs	5-10 yrs	Total
Loans and borrowings	50,698	45,635	1,220	1,981	357	1,681	-	50,874
Interest payable	4,234	6,195	1,734	769	52	134	8	8,892
Trade and other accounts payable	73,134	67,030	687	1,245	1,157	2,256	4,245	76,620
Lease liabilities	3,674	1,918	420	689	555	368	105	4,055
	131,740	**120,778**	**4,061**	**4,684**	**2,121**	**4,439**	**4,358**	**140,441**

1 January 2018

mln RUB	Carrying value	Contractual cash flows 0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-5 yrs	5-10 yrs	Total
Loans and borrowings	33,645	1,903	10,499	21,021	174	49	-	33,645
Interest payable	811	292	497	22	-	-	-	811
Trade and other accounts payable	61,962	55,595	740	1,443	1,253	2,365	5,293	66,689
Lease liabilities	4,775	598	1,024	2,115	536	891	196	5,360
	101,193	**58,388**	**12,760**	**24,601**	**1,963**	**3,305**	**5,489**	**106,505**

(d) Market risk

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

The Group does not enter into commodity contracts other than those required to meet its production needs and delivery obligations; mutual liabilities are not netted in contract settlements.

(i) Currency risk

The Group is exposed to currency risk related to purchases and cash balances that are denominated in a currency other than the Russian rouble (RUB).

Interest on loans and borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, i.e. in RUB. This ensures economic hedging of currency risk without the use of derivative financial instruments.

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

Currency risk exposure

Exposure to currency risk of the Group determined based on the nominal value of financial instruments was immaterial in 2019 and 2018.

(ii) Interest rate risk

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

Risk profile

As at the reporting date, the Group's interest-bearing financial instruments included:

mln RUB	Note	31 December 2019	31 December 2018	1 January 2018
Fixed rate financial assets		**42,130**	**43,737**	**40,280**
Bank deposits recorded in cash and cash equivalents		24,844	22,381	21,611
Long-term receivables	21	1,774	-	
Loans issued and bank deposits recorded in other investments	20	15,512	21,356	18,669
Variable rate financial liabilities		**(33,712)**	**(7,320)**	**(811)**
Loans and borrowings	26	(33,712)	(7,320)	(811)
Fixed rate financial liabilities		**(91,914)**	**(60,436)**	**(44,854)**
Accounts payable for the acquisition of land plots	29	(11,852)	(9,150)	(6,369)
Loans and borrowings	26	(74,183)	(47,612)	(33,645)
Long -term lease liabilities	22	(5,879)	(3,674)	(4,840)
		(83,496)	**(24,019)**	**(5,385)**

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for fixed-rate financial assets and liabilities as instruments measured at fair value through profit or loss. The Group also does not define derivative financial instruments (interest rate swaps) as hedging instruments according to the fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not have an effect on profit or loss.

Cash flow sensitivity analysis for variable-rate financial liabilities

Changing interest rates by 1 percentage point as at 31 December 2019 would increase (reduce) the amount of interest expenses before capitalisation in inventory by RUB 60 million (31 December 2018: RUB 15 million).

(e) Fair value and carrying amount

As at 31 December 2019, 31 December 2018 and 1 January 2018, the carrying amounts of the Group's financial assets and liabilities did not differ significantly from their fair values.

(f) Capital management

The Group's policy is to keep a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's management monitors the capital structure, in particular the net debt to adjusted EBITDA ratio. The calculation of net debt and adjusted EBITDA is disclosed in Note 38.

31 Contingencies

(a) Insurance

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

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

The Group does not have insurance in respect of any force majeure circumstances which may arise in respect of constructed buildings in the period from the recognition of revenues to the time when ownership rights are registered by a customer or an acceptance certificate is signed under share participation agreements. The risk of losses in case of force majeure circumstances in these periods is borne by the Group.

The Group makes mandatory insurance contributions to the fund of protection of legitimate rights of citizens, who are parties to share participation agreements. Insured events under the above agreements include enforcement of pledge, as well as bankruptcy of developers, failure to transfer properties within the period stipulated by an agreement. The minimum established insurance amount under these insurance contracts equals the amount of share participation agreements (SPA) concluded.

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

(b) Litigations

The Group acts as a defendant in a number of litigations related to the fulfilment of share participation agreements and sale of real estate properties, construction materials supply contracts, and contracts for the provision of construction services. As at 31 December 2019, the Group has estimated that there is a high probability of an outflow of economic benefits of RUB 2,061 million and included these liabilities in accounts payable (31 December 2018: RUB 1,193 million; 1 January 2018: RUB 665 million). Furthermore, Management believes that an additional outflow of economic benefits of RUB 411 million is possible, however, is unlikely (31 December 2018: RUB 409 million; 1 January 2018: RUB 145 million). The litigations are expected to be settled during the next reporting period.

(c) Taxation contingencies

The taxation system

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which may impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation have demonstrated that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Also, effective from 1 January 2015, some changes were introduced to regulate tax consequences of transactions with foreign companies and their activities such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group's tax position and create additional tax risks in future. This legislation and practice of its application is still evolving, and the impact of legislative changes should be considered based on the actual circumstances.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. The Group's management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In addition, the Group acquires works, services, raw materials and supplies from various suppliers who are responsible for tax and financial reporting compliance. At the same time, taking into account the current practice of the tax authorities, if they file claims against suppliers in connection with non-compliance with tax laws, this may lead to additional tax risks for the Group. If the tax authorities prove their claims against suppliers, the Group may be subject to additional taxes payable, despite the fact that management of these suppliers is primarily responsible for the completeness and timeliness of tax payments. Management has not provided for any amounts in respect of these tax liabilities in the consolidated financial statements because it believes that the risk of cash outflow to settle them exists but is not high. According to the Group's management, it is impracticable to evaluate the financial implications of tax liabilities, though potentially material, that may arise as the result of transacting with such suppliers due to varying approaches to assessing the extent of a tax legislation violation.

(d) Warranties for the works performed

Pursuant to the applicable Russian laws, the Group shall be responsible for the quality of construction works performed under contracts for up to three years after the date the respective property is sold. Based on prior experience with warranty claims, which have not been significant, no contingencies have been recognised in these consolidated financial statements in relation to warranties for the work performed.

32 Significant subsidiaries

As at 31 December 2019, the Group controlled 307 legal entities (31 December 2018: 189 legal entities). Their assets, liabilities, revenues and expenses are included in these consolidated financial statements.

The most significant subsidiaries of the Group are listed in the table below:

		Effective ownership			Voting rights		
	Country of incorporation	31 December 2019	31 December 2018	1 January 2018	31 December 2019	31 December 2018	1 January 2018
JSC "Pervaya Ipotechnaya Kompanya-Region" ("PIK-Region")	Russia	100%	100%	100%	100%	100%	100%
JSC "PIK-Industry"	Russia	99%	99%	99%	99%	99%	99%
LLC "GP-MFS"	Russia	100%	100%	-	100%	100%	-
LLC "Tyrone"	Russia	100%	100%	100%	100%	100%	100%
LLC "Lotan"	Russia	100%	100%	100%	100%	100%	100%
JSC " Spetsialyzirovany Zastroyschik Monetchik"	Russia	99%	99%	99%	99%	99%	99%
LLC "Zagorodnaya usadba"	Russia	100%	100%	100%	100%	100%	100%
LLC "RegionInvest"	Russia	100%	100%	100%	100%	100%	100%
LLC "RusStroyGarant" (note 8(a))	Russia	100%	100%	100%	100%	100%	100%
LLC "PIK-Comfort" (note 8(a))	Russia	100%	-	-	100%	-	-

33 Related party transactions

(a) Control relationships

As at 31 December 2019 and 31 December 2018 the immediate Parent Company of the Group was PJSC Group of Companies PIK. As at 31 December 2019, the Company was ultimately controlled by Sergey E. Gordeev.

(b) Management remuneration

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

mln RUB	2019	2018
Salaries and bonuses	5	8
Contributions to State Pension Fund	1	2
Total	**6**	**10**

(c) Related party transactions

(i) Balances with the Parent Company and its subsidiaries

mln RUB	31 December 2019	31 December 2018	1 January 2018
Right-of-use assets	200	-	-
Non-current bonds	14,536	12,802	12,293
Current bonds	499	7,950	2,828
Short-term loans issued	-	7	2,934
Trade receivables	614	1,546	1,492
Accounts receivable on the external projects of the Group under technical supervisor agreements, where the Group acts as technical supervisor	2,672	8	-
Advances issued under technical supervisor agreements for projects where the Group acts as a developer	-	4,485	7,256
Advances issued to other suppliers and contractors	716	351	637
Other receivables	14,018	29,700	490
Non-current unsecured loans received	(29,037)	(2,137)	(1,973)
Non-current interest payable	(1,099)	(436)	(239)
Long-term lease liabilities	(169)	-	-
Current unsecured loans received	(6,057)	(46,005)	(31,025)
Current interest payable	(1,110)	(3,249)	(523)
Account payable on technical supervisor agreements where the Group acts as a developer	(7,298)	(10,343)	(16,644)
Trade payables	(7,430)	(4,217)	(2,970)
Advances received from customers	(6,729)	(7,728)	(390)
Advances received under the external projects ofthe Group under technical supervisor agreements, where the Group acts as a technical supervisor	(12,095)	(13,288)	-
Other advances received	(973)	(1,527)	(3,411)
Other accounts payable	(2,640)	(5,287)	(20,139)
Short-term lease liabilities	(54)	-	-
Dividend payables	(845)	(19,138)	(1,216)

(ii) Other related-parties' balances

mln RUB	31 December 2019	31 December 2018	1 January 2018
Short-term loans issued	13	-	-
Trade receivables	4	336	22
Advances issued for construction services and under contracts for the acquisition of land plots and subsidiaries	62	42	-
Other advances issued	866	-	-
Other advances received	(2)	(14)	-
Construction payables and other trade payables	(13)	(372)	(252)

(iii) Transactions with the Parent Company, its subsidiaries, and other related parties

mln RUB	2019	2018
Segments' revenue		
Development	140	1,266
Commercial construction	3,912	1,694
Industrial segment	99	366
Maintenance	548	142
Other	748	507
Segments' cost		
Development	(55)	(1,384)
Other	(101)	(140)
Agent's commission	(7,459)	(3,918)
Other administrative expenses	(27)	(42)
(Loss)/profit on disposal of property, plant and equipment	(13)	238
Fines, penalties and forfeits, including provision for litigation	-	(552)
Other income/(expenses), net	(198)	66
Interest income	1,896	1,511
Interest expense	(4,648)	(4,381)
Significant financing component under contracts with customers	(528)	-
Reversal of impairment losses/ (impairment losses) on impairment of financial assets	285	(130)

As at 31 December 2019, the Group provided a guarantee to the Bank with respect to two loans in the amount of RUB 21,867 million extended to the Parent Company with maturities in 2024 and 2025. The interest rate on the loans was variable, based on the effective base rates of the CBR key rate+2% with capitalisation.

In 2019, the Group accrued in distribution expenses an agency fee for the sale of real estate properties by a related party in the amount of RUB 7,459 million (in 2018, distribution expenses from related parties amounted to RUB 3,918 million). As at the reporting date, the balance of the agency fee that was not charged to the distribution expenses was RUB 3,929 million.

In 2019, the Group acquired technical supervisor services for the Group's projects and other similar services under contracts with the Parent Company and its subsidiaries in the amount of RUB 358 million (2018: RUB 1,131 million).

Additional information on related party transactions is disclosed in Notes 25 and 26.

34 Transactions with the government

(a) Control relationships

In July 2019, a major Russian bank (hereinafter, the “Bank“) controlled by the state purchased a number of ordinary shares in the Parent Company of the Group. As a result, the Bank holds 23.05% in its share capital. In doing so, the Bank did not participate in the decision-making process by having representatives in the Board of Directors of the Parent Company. Significant transactions of the Group with the Bank are outlined below.

Balances with the Bank

mln RUB	**31 December 2019**
Accounts receivable	26
Loans and borrowings	(28,428)
Interest payable	(367)
	(28,769)

Transactions with the Bank

mln RUB	**2019**
Acquisition of land	(3,330)
Aquisition of Parent Company's bonds	(8,107)
Interest expense	(685)
Interest income	289
Other finance costs	(12)
	(11,845)

Basic conditions of financial instruments are disclosed in Note 26.

(b) Transactions with the government

In addition, the Group transacts with several entities under control of or joint control with the Government of Russian Federation. The Group applies the exemption provided by IAS 24 *Related party disclosures*, which allows the disclosure of transactions with entities related to the government in a simplified manner.

The Group conducts operations with enterprises related to the government, which are part of ordinary activities and are carried out on conditions comparable to the terms of activities with enterprises not related to the government. Such operations include, but are not limited to, providing construction, design and technical supervision services, the lease of land for development projects, purchasing the construction services, and contributions to the fund of protection of the rights of citizens participating in shared construction. Those transactions that exceeded RUB 1,000 million in 2019, according to management’s estimates, in the second half of 2019, accounted for at least 54.75% of the revenues from the sale of construction services and about 6.26% of the costs for the construction of real estate properties. As at 31 December 2019, outstanding balances with government-related entities did not exceed RUB 2,226 million of assets and RUB 11,583 million of liabilities of the Group.

35 Subsequent events

The global market experienced significant changes in the first quarter of 2020 caused by an outbreak of coronavirus and a sharp decline in oil prices, which, in turn, affected stock indices, led to a drop in quotations of most stocks and financial instruments, as well as to a decline in the value of the Russian rouble against other currencies. These events increased the level of uncertainty inherent in the Russian business environment. In 2020, the Group expects significant changes in the assumptions underlying accounting estimates used in these consolidated financial statements. The sensitivity of significant estimates is disclosed in Notes 18, 24, and 30.

The Group analyses the impact on business of consequences of the spreading COVID-19 pandemic, the respective restrictive measures introduced by regional authorities, and the downturn in economy. It also develops and takes a number of measures to ensure optimal work in the critical situation, including cost cutting, rescheduling current and launching new construction.

The Group believes that the situation with temporary contracting reduction will improve and will not have significant adverse impact on performance in 2020. At the same time, the Group admits that a number of indicators assumed in prior project and business models may not be achieved, which may affect the estimates as indicated above. Furthermore, the Group keeps in contact with creditors, and if there arises a risk of non-compliance with any restrictions with respect to the borrowings, the Group will make every effort to negotiate new conditions.

As at the date hereof, current analysis confirms the ability of the Group to continue as a going concern in current conditions.

36 Significant accounting policies

(a) Basis of consolidation

(i) Business acquisitions from entities under common control

Business combinations arising from transfers of interests or shares in entities that are under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date when the common control was established. The assets and liabilities acquired are recognised at their carrying amounts recognised previously in the consolidated financial statements of the Group's Parent Company or other controlling entity. The equity of the acquired entities is included in the accrued retained profit of the Group. Any cash paid for the acquisition, or contributions in the Company's charter capital made in shares / interests in the acquired companies is recognised directly in equity at the time of the transaction.

(ii) Business combinations

The Group accounts for business combinations using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see note 8).

The Group measures goodwill at the acquisition date as follows:

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

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

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

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

Any contingent consideration is measured at fair value at the date of acquisition. If the contingent consideration is classified as equity, then it is not remeasured, and the settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(iii) Non-controlling interests

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

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

The non-controlling interest in subsidiaries registered as limited liability companies whose charters allow any participant to withdraw on request and receive the value of its share is recognised in other accounts payable. If the amount of net assets of subsidiaries registered as limited liability companies is negative, the assets related to the non-controlling interest are not recognised.

(iv) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls a company when it is exposed to, or has the right to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated in full to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(v) Loss of control

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

(vi) Interests in equity-accounted investees

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

Associates are those companies in which the Group has significant influence over the financial and operating policies. However, the Group does not exercise control or joint control over the financial and operating policies of such of companies. Significant influence is presumed to exist when the Group holds 20% to 50% of votes in a company. A joint venture is an arrangement in which the Group has joint control, whereby the Group has the right to the net assets of the arrangement, rather than the right to its assets or responsibility for its liabilities.

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

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

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

(vii) Transactions eliminated on consolidation

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

(i) Revenue from sale of real estate properties

The value of a transaction of sale of real estate properties is based on the amount of the consideration received or receivable, less all sales discounts provided (if any), and includes a significant financing component which represents the price the customer would pay for the properties if paid in cash when or as the contractual obligation becomes due and payable. Non-cash consideration is measured at a fair value of received assets or services.

The revenue is recognised when or as control is transferred to the customer.

The time of transfer of control, i.e. performance of the obligation under the agreement, is based on specific provisions of the agreement with the customer. Most of the Group's revenue is the revenue under share participation agreements (SPA).

When the real estate properties in multi-unit residential complexes are sold in accordance with provisions of Federal Law No.214-FZ, in accordance with which the developer is entitled to a full consideration promised in the contract, and if the construction is completed without breach of SPA terms and the party to the SPA has no right to waive the contract unilaterally out of court, the revenue is recognised over time based on the degree of fulfillment of the contract.

The Group applies the resource method to assess progress towards complete satisfaction of the performance obligation based on a proportion of actual costs incurred to the total expected costs.

The progress towards completion of the works under the agreement is assessed on a monthly basis based on a proportion of actual costs incurred to the total budgeted costs. The cost of acquisition of land and construction of social and cultural facilities and infrastructure is not included in the actual or total expected costs and is recognised in the cost of sales for the period as control over real estate property is transferred to customers.

The Group estimates the significant financing component at the time of contract inception using the discount rate based on the loan portfolio of the Group and considering the construction term. For payments by installments, the Group uses the borrowing interest rate available to individuals for purchase of real estate. The significant financing component is included in the total transaction price and accounted for in the revenue recognised in the period based on the progress towards completion.

The approach to determining the revenue under real estate sale contracts is similar to the approach defined for SPAs.

The transaction price for the purposes of calculating the revenue from sale of real estate properties using escrow accounts is determined with regard to interest expense savings when the interest rate for the project financing is reduced compared to the base (market) rate. The change in the initial assessment of such savings is recognised in the period in which this change occurred.

(ii) Construction and design agreements

Revenues and expenses under construction contracts are recognised in the statement of profit or loss and other comprehensive income during the period, using the resource method to assess the progress towards complete satisfaction of the performance obligations.

Contractual expenses are recognised as incurred. The expected loss under the contract is immediately recognised in the consolidated statement of profit or loss and other comprehensive income.

The revenue of subsidiaries from construction services to third-party technical supervisors who render services of technical supervision to other entities of the Group is accounted for as intragroup sales revenue and eliminated by reducing the total amount of revenue and the corresponding amount of the cost of sales.

(iii) Revenue from Maintenance services

Revenue from maintenance services mainly includes provision of maintenance and management services for residential buildings and other real estate properties and heating, water and energy supply, which are recognised in the consolidated statement of profit or loss and other comprehensive income while the services are provided. Contractual expenses are recognised as incurred.

(iv) Other revenue

Other revenue generally consists of revenue from the sale of construction materials and is recognised in the consolidated statement of profit or loss and other comprehensive income at the time of transfer of control to the customer.

(c) Other expenses

(i) Social expenditures

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

(d) Finance income and costs

Finance income comprises interest income on funds invested, gains on disposal of financial assets, foreign exchange gains, unwinding of discount accounted for on initial recognition of financial instruments, and significant financing component related to customers' payments by installments. Interest income is recognised in profit or loss for the period as accrued using the effective interest method.

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

Foreign exchange gain or loss and significant financing component is recognised on a net basis.

Interest expenses attributable to inventories, namely land for the construction of facilities and related infrastructure that is not transferred into common ownership, or any other qualifying assets which require substantial time to be prepared for their intended use or sale, are included in the cost of such assets until they are recognised in the cost of sale.

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

Foreign exchange gain or loss is recognised on a net basis as financial income or financial expense, depending on whether they reflect the net profit or net loss.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost denominated in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost denominated in a foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in the translation are recognised in profit or loss, except for the differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(f) Employee benefits

(i) Contributions to state pension fund of the Russian Federation

A defined contributions plan is a post-employment benefit plan under which a company pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay any additional amounts. The obligations for contributions to such pension plans, including the State Pension Fund of Russia, are recognised as an employee benefit expenses in profit or loss in the periods during which services were rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Those amounts which must be included in the account of defined contributions plan in more than 12 months after the end of the reporting period in which employees rendered services under labour agreements are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided in accordance with labour agreements. A liability is recognised in the amount expected to be paid under short-term cash bonus 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 this liability can be estimated reliably.

(g) Provisions

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

(i) Provision for costs to complete

According to the development projects' terms, the Group commits to constructing social and cultural facilities and infrastructure to be transferred to authorities and governing agencies. During the construction of every building, the Group includes in its cost of construction the amount of construction costs related to such social and cultural facilities and infrastructure even if they are not incurred and recognises a provision for costs to complete. The estimated future costs are apportioned to properties being built and sold proportionally to the square meters and is recognised depending on the stage of completion of each house. In case of obligations arising from entering a project, the provision is created in full.

(ii) Tax provision

The Group accrues provisions for the payment of taxes for tax exposures, including fines and penalties, when the tax becomes due based on the requirements of current legislation. Such provisions are created and updated if necessary for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Provisions for the payment of taxes are recognised in the income tax expense or cost of sales.

(iii) Provision for litigations

A provision is recognised if it is probable that the Group will lose a litigation in which the Group is the defendant and the obligation will have to be settled.

(iv) Provision for onerous contracts

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

(h) Property, plant and equipment

(i) Recognition and measurement

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

The cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Subsequent expenditure

Subsequent expenditures increase the cost of items of property, plant and equipment only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of the asset less its estimated residual value.

Depreciation is generally recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

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

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

(i) Intangible assets

(i) Goodwill

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

(ii) Client base

Customer bases are recognised as a result of business combinations and are carried at fair value at the acquisition date. In cases where the term cannot be determined, intangible assets are not depreciated. The customer base is tested for impairment at each reporting date.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

Amortisation is calculated based on the actual cost of an asset or another amount substituted for cost, less the residual value of the asset.

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

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

(j) Investment property

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

Investment property comprises land plots with undetermined future use.

Investment property is initially measured at cost and subsequently measured at fair value through profit or loss.

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

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

(k) Financial instruments

(i) Recognition and initial measurement

Trade accounts receivable and issued debt securities are initially recognised at the time of their origination. All other financial assets and liabilities are initially recognised when the Group enters into contractual relations regarding the instruments in question.

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

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

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for financial asset management, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified at the discretion of the Group as measured at FVTPL:

- it is held as part of a business model whose objective is to hold the assets in order to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not classified at the discretion of the Group as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

- ***Financial assets at amortised cost are measured at amortised cost*** using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- ***Debt investments at fair value through other comprehensive income*** are measured at fair value. Interest income calculated using effective interest method, foreign exchange gains and losses, and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- ***Equity investments at fair value through other comprehensive income*** are measured at fair value. Dividends are recognised as income in profit or loss unless the dividend represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Non-derivative financial liabilities

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

No cash credited to escrow accounts under share participation agreements are recognised in the Group’s accounting until the obligations that must be fulfilled to disclose the escrow accounts are duly met. The project finance obtained by the Group at a preferential rate as a result of using the escrow accounts is initially recognised at fair value.

(iv) Derecognition - financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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

If the modification (or replacement) does not result in the derecognition of the financial liability, the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of the financial asset when the modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortized cost of the financial liability arising from such a modification (or replacement) in profit or loss at the date of the modification (or replacement).

Changes in cash flows on existing financial liabilities are not considered as a modification if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group has an option to redeem the loan early at par without a material penalty. A change in the interest rate to the market level caused by a change in the market conditions is accounted for by the Group using the same procedure as for accounting for floating rate financial instruments, i.e. the interest rate is revised prospectively.

(v) Derecognition - financial assets

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

(vi) Offsetting

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

(vii) Financial guarantee contracts

Guarantees issued for liabilities of third and related parties are accounted for in accordance with IFRS 4 *Insurance contracts*.

(l) Share capital

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

(m) Lease assets and liabilities

The lease contract portfolio of the Group consists mainly of leases of land plots for construction of residential property for sale, buildings and spaces, equipment, and vehicles.

When accounting for leases of land plots, the Group applies the following principles:

- Contracts for which the related lease payments are increased annually in line with the basic rates and ratios and/or depend on the cadastral value, i.e. may unilaterally be changed by the lessor, shall be treated as amount unpredictable and therefore, variable, and shall be recognised as accrued.
- Payments for change of the authorised type of usage of land under the lease agreement are accounted for as lease-related costs and included in the calculation of lease assets and liabilities.
- When there is sufficient certainty that the Group will exercise the option to purchase the land provided in the lease agreement, the redemption amount is included in the lease payment schedule. At the same time, many agreements contain the obligation to buy the land plot, but the Group can default it without a significant impact on its financial results and without incurring material expenses. Under such agreements the Group considers that sufficient certainty arises only if the decision to construct the residential property on the land plot has been made.
- The lease term used in calculations is the same as that during which the contract may not be terminated unilaterally.
- Also, the Group takes into account its right to renew and early terminate the contract, and it is reasonably certain this right will be exercised. In this case, it also considers the period of construction on the respective land plots under lease and the investment strategy of the Group.

The lease liability is measured at the present value of lease payments not yet made as of the date of the contract. Lease payments are discounted using the Group’s incremental borrowing rate. The asset in the form of the right-of-use of the land plots on which the construction is in progress is included in the cost of construction depending on the stage of completion of each building. Other lease assets are depreciated on a straight-line basis during the period the asset is used and recognised in administrative expenses if leased for administrative purposes and in cost if leased for production purposes. The depreciation of the lease rights to those land plots on which active construction work has not yet been commenced is included in other expenses, while the depreciation of the office lease rights is included in administrative expenses.

(n) Inventories

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

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

The cost of real estate properties under construction is determined based on direct costs of each building, general site costs and costs to acquire land, lease rights, leased assets and infrastructure facilities, allocated to real estate properties in proportion to their size. The cost of real estate properties includes construction expenses and other expenses directly attributable to the specific development project.

When constructing residential real estate, the Group may assume additional obligations, including:

- Delivery of certain properties to local authorities upon completion of construction, e.g., schools, kindergartens, etc.
- Construction of certain infrastructure facilities, e.g. electricity, sewage, water supply and sanitation systems, roads.
- Construction of certain objects for public use, where the expected compensation from customers will not completely reimburse the Group's construction costs.
- Entering into agreements with local authorities to complete construction of certain residential properties where most apartments had already been pre-sold by a predecessor developer, however, their construction was subsequently suspended due to insolvency of the predecessor or other similar reasons.

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

The total cost of construction includes direct and indirect construction and installation works, expenses to acquire land, the right-of-use assets, landscaping expenses, expenses to build social and cultural facilities, infrastructure, and other encumbrances, as well as interest expenses pertaining to qualified assets. However, when assessing the stage of completion, the Group considers only the building costs of those facilities which, upon completion of the project, will be transferred to the customers or into their common ownership. Actual costs of acquiring land plots, leased assets, social and cultural facilities, and infrastructure facilities, made from the date of the commencement of active development up to the date of obtaining the construction permit, are recognised as a qualifying asset for the purposes of capitalisation of interest.

All general, indirect and other similar costs directly attributable to the development project are allocated in proportion to the size of the properties sold.

The cost of inventories, except for construction-in-progress intended for sale and resources invested in the construction of real estate properties intended for sale, is calculated using the weighted average costs formula and includes inventory purchase costs, manufacturing and conversion expenditures, and other costs of transporting inventories to their current location and bringing them to the current condition. The cost of manufactured inventories and work-in-progress includes the respective portion of overheads determined based on normal operating capacity.

The Group's normal operating cycle for a construction project may exceed 12 months. Inventories are classified as current assets even when they are not expected to be sold within 12 months after the reporting date.

(o) Other current assets

The Group treats the expenses incurred by the developers to make contributions in the Fund of Protection of Legitimate Rights of Citizens who are parties to share participation agreements, pay agency fees for sales of the Group's real estate properties, and some other expenses related to entering into contracts with customers, as contract assets. Therefore, the Group capitalises these expenses within other current assets in the consolidated statement of financial position and recognises them in distribution expenses and cost of sales as the contractual obligations are nearing complete satisfaction.

(p) Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group recognises loss provisions for expected credit losses (ECL) on:

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

The Group measures loss provisions at an amount equal to lifetime ECLs, except for debt securities and bank account balances, which are measured at 12-month ECLs if it has been determined that as at the reporting date they have low credit risk, or the credit risk (i.e., the risk of a default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group allocates investments, material receivables measured at amortised cost, and contract assets to credit risk exposure categories using data projecting the risk of losses including, but not limited to, external ratings, financial statements, available public information, credit history and collateral. The Group calculates the expected credit losses based on a developed schedule where each category relates to risk magnitude and loss probability scales published by international and Russian rating agencies depending on the correlation of categories developed by the Group with the scale of credit ratings of such agencies.

ECLs on receivables from consumers of the services provided by Maintenance are estimated based on the days in arrears and actual credit loss experience for the last two years.

Provision for impairment of receivables is used to account for impairment losses, unless the Group is sure that a certain amount cannot be reimbursed and presents it directly as an impairment of the respective financial asset.

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

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

The Group considers a financial asset to be default when:

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising the security (if any), and
- the financial asset is more than 180 days past due.

A default on financial assets relating to maintenance and utility service contracts occurs when both of the following conditions are met:

- the asset was recognised more than 12 months before the reporting date;

- no payments from customers have been received for 12 months before the reporting date.

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

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

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

Measurement of ECLs

The ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulties of the borrower or the issuer;
- a breach of a contract such as a default or being more than 180 days past due and for financial asset relating to maintenance and utility service contracts, more than 365 days past due;
- restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- the probability of the borrower's bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

Loss provisions for financial assets measured at amortized cost are deducted from the gross carrying amount of these assets.

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

Write-offs

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. For enterprises, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group does not expect significant recoveries of amounts written off. However, financial assets that were written off could still be subject to enforcement activities to comply with the Group's procedures for recovery of amounts due.

Non-financial assets

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

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

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

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

(q) Income tax

Income tax expense for the reporting period 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.

The amount of current tax payable or receivable is calculated on the basis of the estimated taxable annual income or loss using the tax rates in effect or substantively enacted at the reporting date, including adjustments to income tax for previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

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

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

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

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

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

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

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

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Separate financial information is available for a segment, and the operating performance of such a component is regularly reviewed by President of the Group for the purposes of resource allocation and performance evaluation.

37 New standards

Two new standards are effective for annual periods beginning after 1 January 2019 and may be early adopted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to references to Conceptual Framework in IFRS
- Definition of Business (Amendments to IFRS 3 Business Combinations)
- Definition of Material (Amendments to IAS 1 *Presentation of financial statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors*)
- IFRS 17 *Insurance contracts*
- Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*).

38 Non-IFRS measures

Net debt

mln RUB	Note	31 December 2019	31 December 2018	1 January 2018 года
Loans and borrowings, excluding project financing	26	54,565	51,846	34,456
Project financing	26	53,330	3,086	-
Less: Cash and cash equivalents	23	(64,851)	(54,773)	(33,701)
Net debt		**43,044**	**159**	**755**

Net debt except for escrow account balances

mln RUB	Note	31 December 2019	31 December 2018 года	1 January 2018 года
Loans and borrowings, excluding project financing	26	54,565	51,846	34,456
Project financing	26	53,330	3,086	-
Less: Cash and cash equivalents	23	(64,851)	(54,773)	(33,701)
Less: Escrow accounts balances	23	(12,473)	(1,145)	-
Net debt		**30,571**	**(986)**	**755**

Development capital expenditures (cash flows), except for cash paid for the acquisition of land plots / right- of-use asset

mln RUB	Note	2019	2018
Change in:			
Construction-in-progress intended for sale	19	47,708	11,030
Finished goods and goods for resale	19	2,171	3,031
Right-of-use asset	19, 22	1,936	(1,454)
Advances to suppliers and contractors	21	2,129	1,166
Advances issued for land plot acquisition	21	2,534	(4,566)
Construction payables and other trade payables	29	914	2,301
Accounts payable for the acquisition of land plots and obligations under long-term lease agreements	22, 29	(2,366)	(3,459)
Provisions for costs to complete and provision for onerous contracts	28	2,347	1,571
Elimination of effect capitalisation of interest expense on construction-in-progress	5	(4,505)	(5,167)
Reclassification of investment property	18	(6,009)	(5,407)
Reclassification from inventories to property, plant and equipment	16	3,530	3
		50,389	**(951)**
Cost of sales of real estate objects		142,121	157,612
Elimination of capitalised interest expense recognised in the cost of sales	5	(3,805)	(427)
Acquisition of land plots/right-of-use assets, including acquisition of subsidiaries	19	(37,390)	(19,637)
Accounts payable for the acquisition of land plots/ right-of-use assets		4,645	2,474
Change in advances issued under land plots/right-of-use asset aqcuisition		(6,044)	(1,005)
Development capital expenditures, except for cash paid for the acquisition of land plots/right-of-use assets		**149,916**	**138,066**

Proceeds from sale of real estate

mln RUB	Note	2019	2018
Revenue from sales of real estate objects	10	195,290	194,577
Proceeds from the sales of real estate using escrow accounts	23	11,328	1,145
Less: Significant financial component included in revenue	10	(6,045)	(8,184)
Change in accounts receivable including contract assets	10	(7,373)	(35)
Change in advances received from customers	10	2,024	1,460
Cash proceeds from sales of real estate objects		**195,224**	**188,963**

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

mln RUB	Note	2019	2018
Profit and total comprehensive income for the period		39,533	21,728
Plus: Depreciation of property, plant and equipment and amortisation of intangible assets	16, 17	2,649	1,863
Plus: Interest expense after capitalisation	11	2,093	1,422
Plus: Significant financial component on contracts with customers		4,896	3,363
Less: Interest income	11	(4,787)	(3,562)
Plus: Income tax expense	15	11,189	7,553
EBITDA		**55,573**	**32,367**

Adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA)

	Note	2019	2018
EBITDA		**55,573**	**32,367**
Less: significant financing component on contracts with customers, included in revenue	10	(6,045)	(8,184)
(Gain)/loss on reversal of impairment losses on non-financial assets, net	24	(205)	1
Gain on reversal of impairment losses included in cost of sales, net	19	(96)	(1,026)
Change in fair value of investment property	18	20	84
Negative goodwill	12	(4,330)	(1,298)
Impairment (gain)/ loss on financial assets, net	11	(704)	698
Reversal of write-off of accounts payable	11	(518)	(96)
Foreign exchange loss/(gain), net	11	61	(428)
Loss on disposal of property, plant and equipment	12	93	185
Profit on disposal of subsidiaries and investment property, net	9	(874)	(508)
Penalties and fines, including provisions for litigations	12	1,832	2,163
Write-off of other materials	12	194	75
Other financial income	11	(903)	(252)
Interest expense charged to cost of sales	11	3,501	1,608
Adjusted EBITDA		**47,599**	**25,389**

Information on calculating the Group's adjusted net assets

(a) Balances for the Group's projects

mln RUB	Note	31 December 2019	31 December 2018
Inventories	19	243,918	190,533
Less:raw materials and consumables	19	(7,729)	(5,768)
Less: construction-in-progress on the Parent Company's projects, where the Group acts as a technical supervisor	19	(523)	(343)
Other current assets		4,888	2,619
Trade receivables and contract assets from the Development segment for own projects	21	9,087	2,244
Advances issued to suppliers and contractors ofthe Development segment for own projects	21	9,470	10,802
Tax receivables	21	6,108	4,394
Advances received from customers	29	(93,236)	(91,512)
Trade payables and contract assets from the Development segment for own projects	29	(17,482)	(24,156)
Advances received in the Development segment for own projects	29	(784)	(7,377)
Liabilities for the transfer of real estate objects within the framework of transactions for the acquisition of land plots	29	(8,638)	(10,309)
Other taxes payable	29	(8,278)	(5,366)
Provisions	28	(19,666)	(22,013)
Total Balances for the Group's projects		**117,135**	**43,747**

(b) Other information on calculating "Adjusted net assets"

mln RUB	31 December 2019	31 December 2018
Equity (net assets)	116,990	76,362
Contingent liabilities of a credit nature	(21,867)	-
Carrying value of the project portfolio	(117,135)	(43,747)
Cash on escrow accounts	12,473	1,145

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Supplementary information not required by IFRS

Adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) net of the share of acquired land plots, which was included in the cost of sales

mln RUB	**2019**	**2018**
Adjusted EBITDA	47,599	25,389
Cost of land plots included in the cost of sales	5,759	6,071
Cost of acquisition of projects recorded at fair value included in the cost of sales	8,515	12,231
Adjusted EBITDA excluding cost of land	**61,873**	**43,691**

Cash from operating activities before acquisition expenses and proceeds from the sale of land plots and right-of-use asset and advances issued for the acquisition of land plots and right-of-use asset

mln RUB	**2019**	**2018**
Cash flows from operating activities before changes in inventories, trade and other receivables and paybles and provision for cost to complete	**43,792**	**26,466**
Changes in:		
Inventories before acqusitions and sale of land plots/rights-of-use assets	(12,149)	25,818
Trade and other receivables, including contract assets and excluding prepayments for land plots/rights-of-use assets	(6,766)	(31,453)
Trade and other payables, including contract liabilities, and changes in the provision for taxes, except for income tax	5,627	20,798
Provisions	(2,347)	(1,571)
Cash flows from operations before income taxes and interest paid and before acqusitions and sale of land plots/rights-of-use assets and prepayments for land plots/rights-of-use assets	**28,157**	**40,058**
Income taxes paid	(7,477)	(5,387)
Interest paid	(7,947)	(1,788)
Net cash flows from operations before acquisitions and sale of land plots/rights-of-use assets and prepayments for land plots/rights-of-use assets	**12,733**	**32,883**
Acquisition of land plots for new projects in ownership and lease, including the acquisition of subsidiaries	(37,390)	(19,637)
Gain on sales of land plots/right-of-use asset	283	(113)
Accounts payable for the acquisition of land/right-of-use asset	4,645	2,474
Advances issued for the acquisition of land/right-of-use asset	(6,044)	(1,005)
Net cash flow used in operating activities	**(25,773)**	**14,602**

Independent Auditors' Report

To the Shareholder of LLC "PIK-Corporation"

Opinion

We have audited the consolidated financial statements of limited liability company "PIK-Corporation" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2019, 31 December 2018 and 1 January 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years ended 31 December 2019 and 31 December 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 31 December 2018 and 1 January 2018, and its consolidated financial performance and its consolidated cash flows for the years ended 31 December 2019 and 31 December 2018 in accordance with International Financial Reporting Standards (IFRS).

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 independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Acquisition of subsidiaries	
Please refer Note 8(a) to the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In July 2019, the Group acquired control over companies engaged in provision of services to and management of residential buildings and other real estate properties. As a result of this business combination, the Group recognised income in the amount of RUB 4,330 million. For the purposes of the purchase price allocation to identifiable assets and liabilities, the Group determined their fair values as at the acquisition date. Intangible assets, in particular the client bases, represent significant part of the acquired identifiable assets. Fair values of the client bases were determined using the discounted cash flow models. This approach involves usage of assumptions regarding future tariffs, service periods, margins earned and discount rates. Fair value measurement requires professional judgment and is subjected to significant uncertainty due to material volatility of the economic environment.	We analyzed documents provided by the management to confirm the timing when control was transferred over the acquired companies to the Group. We assessed whether management judgments related to the identification of assets and liabilities acquired by the Group as a result of business combination were reasonable. We involved our own valuation specialists to analyze the selected fair value models of acquired intangible assets, prepared by the independent appraiser, including the methodology used in the calculations, projected changes in tariffs and discount rates. We compared expectations applied in the models to historical information and critically assessed comments, obtained from management, on deviations identified, and compared, on a sample basis, square meters of serviced areas by the companies to the publicly available information.
Accuracy and completeness of revenue recognition	
Please refer Note 10 to the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Revenue from contracts with customers in most cases is recognised over time taking into account the significant financing component. Revenue is recognised over time based on the progress towards complete satisfaction	We analyzed the Group's accounting policy on revenue recognition and the methodology applied by management to calculate revenue, cost of sales and significant financing component.

of the performance obligation using the input method. Budgeting the construction costs necessary to assess the stage of completion, involves significant professional judgment and assumptions and is also subject to uncertainty due to economic environment's volatility, changes in legislation and duration of operating cycle. Moreover, calculations of revenue and significant financing component, as well as allocation of general costs to the cost of real estate properties are complex and have material impact on the consolidated financial statements.	On a sample basis, we compared components of the budgets used to determine progress towards complete satisfaction of the performance obligation with the parameters of construction projects specified in respective construction permit documentation. We compared the cost of construction per square meter in the budgets of the selected projects to the cost of construction per square meter in completed projects and critically assessed comments obtained on significant deviations identified. We tested controls over recognition of actual construction costs incurred. Among other procedures, we agreed on a sample basis costs incurred to the supporting documentation. We recalculated progress towards complete satisfaction of the performance obligation for selected groups of contracts in buildings of different projects. We agreed, on a sample basis, input data used for revenue calculation to contracts with customers. We inspected that discount rates applied reconcile in general to interest rates available to the parties obtaining financing, tested on a sample basis, the mathematical accuracy of calculations of significant financing component and interest expenses' included in the cost of construction. We assessed the formation of transaction price and the amount recognised in revenue from sale of real estate properties in the reporting period for selected groups of contracts in buildings of different projects.

Accuracy and completeness of inventory impairment recognition

Please refer Note 19 to the consolidated financial statements.

The key audit matter	**How the matter was addressed in our audit**
The Group's inventories are material and amount to RUB 243,918 million, RUB 190,533 million and RUB 174,894 million as at 31 December 2019,	We analyzed financial models of development projects used to identify projects wherein properties may be sold with a negative or low

31 December 2018 and 1 January 2018, respectively, and mostly comprise unsold properties in real estate development projects, as well as land plots, right-of-use assets and infrastructure construction costs attributable to sold properties not recognised in cost of sales. While preparing the consolidated financial statements, the Group analyzed construction in progress in order to identify properties with carrying amounts in excess of their net realizable value as at the reporting date. For the purpose of this analysis, financial models for development project were prepared with assistance of the independent appraiser. As a result of this analysis, impairment of inventories amounted to RUB 2,656 million, RUB 2,735 million and RUB 4,040 million as at 31 December 2019, 31 December 2018 and 1 January 2018, respectively. The identification of impairment and its assessment require significant efforts and professional judgment. The analysis is based on forecasts and assumptions, which are subject to significant uncertainty.	margin and for the assessment of net realizable value. We compared costs of construction per financial models to the costs in other projects with similar characteristics and critically assessed significant inconsistencies identified. We involved our own valuation specialists and tested, on a sample basis, the financial models of development project prepared by the independent appraiser and critically assessed the key inputs, including the following: - on a sample basis, we compared components of costs to complete the development projects in the models to the characteristics of the projects in the respective construction permit documentation and actualized budgets; - we compared on a sample basis actualized budgets to their previous versions and critically assessed explanations of significant changes obtained from management; - we compared on a sample basis forecasted selling prices in on-going projects to actual prices, available in open sources, offered by the Group and its competitors in similar projects. We used our own models to test the accuracy of the models prepared by the independent appraiser.

Accuracy and completeness of provision for costs to complete

Please refer Note 28 to the consolidated financial statements.

The key audit matter	**How the matter was addressed in our audit**
Due to a long operating cycle of the development project, a significant share of general project costs forming the full cost of construction may be incurred subsequent to the satisfaction of a performance obligation under contracts with customers and corresponding revenue recognition.	We analyzed the Group's budgeting procedures to forecast costs to complete and the approach used to allocate general costs to real estate properties constructed for sale by the Group. On a sample basis, we compared the components of the budgets with characteristics of the projects as set out in the relevant construction permit documentation, as well as to

As construction of real estate properties progresses, the Group includes in construction costs expenditures to construct engineering networks, roads, social and other infrastructure not to be transferred to joint ownership of customers, based on the stage of completion, and recognises respective provision for costs to complete, if such costs are incurred later. As at 31 December 2019, 31 December 2018 and 1 January 2018 the provision for costs to complete amounts to RUB 19,330 million, RUB 21,129 million and RUB 23,016 million, respectively. Such provision is assessed at each reporting date using actualized budgets and depends on the individual characteristics of the properties to be constructed and estimation of their costs and construction timeline, which are exposed to significant uncertainty.	the relevant decisions made at the Group’s investment committees. On a sample basis, we compared the actualized budgets with their previous versions, obtained and critically assessed management’s explanations for significant changes. On a sample basis, we compared the cost of construction of a square meter in projects where the provision for costs to complete was recognised as at all reporting dates, with the cost of construction of a square meter in comparable other projects, which were completed in the current and prior reporting periods, and critically assessed explanations obtained for significant deviations identified. We compared the budgeted cost to construct the significant social and other infrastructure objects with the actual cost of construction of similar objects in other projects of the Group.

Other matter relating to supplementary information

The supplementary information accompanying the consolidated financial statements on page 81 is presented solely for the convenience of users, does not form part of the consolidated financial statements and is unaudited.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors’ report thereon. The Annual Report is expected to be made available to us after the date of this auditors’ report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— conclude on the appropriateness of management's 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 fair presentation.

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Svetlana Fonareva

Joint-stock company "KPMG"

Moscow, Russia

16 April 2020