PJSC Group of Companies PIK
Consolidated Financial Statements
for 2017
and Independent Auditors' Report

Contents

Consolidated Statement of Financial Position

In million RUB	Note	31 December 2017	31 December 2016 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	23,524	22,530
Intangible assets	14	779	3,113
Investment property	15	23,690	26,581
Equity accounted investees		496	289
Other investments	17	395	1,913
Trade and other receivables - non-current	19	1,531	-
Deferred tax assets	12	7,397	6,342
Total non-current assets		**57,812**	**60,768**
Current assets			
Inventories	18	243,783	252,816
Other investments	17	361	409
Income tax receivable		1,160	572
Trade and other receivables	19	29,620	16,899
Cash and cash equivalents		45,452	24,812
Total current assets		**320,376**	**295,508**
Total assets		**378,188**	**356,276**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Financial Position

In million RUB	Note	31 December 2017	31 December 2016 (restated)
EQUITY AND LIABILITIES			
Equity	20		
Share capital		41,295	41,295
Additional paid-in capital		(8,470)	(8,470)
Retained earnings		22,788	20,994
Total equity attributable to owners of the Company		**55,613**	**53,819**
Non-controlling interests		535	76
Total equity		**56,148**	**53,895**
Non-current liabilities			
Loans and borrowings	21	44,702	55,111
Financial instruments measured at fair value through profit and loss	20	997	-
Trade and other payables	23	10,160	10,403
Deferred tax liabilities	12	13,365	15,238
Total non-current liabilities		**69,224**	**80,752**
Current liabilities			
Loans and borrowings	21	15,784	10,420
Trade and other payables	23	214,912	196,650
Provisions	22	20,544	13,559
Income tax payable		1,576	1,000
Total current liabilities		**252,816**	**221,629**
Total liabilities		**322,040**	**302,381**
Total equity and liabilities		**378,188**	**356,276**

These consolidated financial statements were approved by Management on 13 April 2018 and were signed on its behalf by:

Sergey E. Gordeev
President

Alexander V. Titov
Vice-President, Economics and Finance

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	Note	2017	2016 (restated)
Continuing operations			
Revenue from sale of real estate objects accounted for at historical cost		94,820	54,013
Revenue from sale of real estate objects acquired through business combinations and recognized at fair value at initial recognition		75,039	-
Other revenue		5,275	3,721
Revenue		**175,134**	**57,734**
Cost of sales of real estate objects accounted for at historical cost		(68,084)	(36,791)
Cost of sales of real estate objects acquired through business combinations and recognized at fair value at initial recognition		(73,888)	-
Cost of other sales		(4,769)	(3,023)
Cost of sales		**(146,741)**	**(39,814)**
Gross profit from sales of real estate objects accounted for at historical cost		26,736	17,222
Gross profit from sales of real estate objects acquired through business combinations and recognized at fair value at initial recognition		1,151	-
Gross profit from other sales		506	698
Gross profit		**28,393**	**17,920**
Gain on disposal of subsidiaries, development rights and investment property, net	7(c)	161	50
Distribution expenses		(5,670)	(2,910)
Administrative expenses		(8,466)	(4,444)
Gain from change in fair value of investment property	15	967	4,629
(Impairment loss)/gain from reversal of impairment loss, net	16	(2,538)	2,874
Gain on bargain purchase of subsidiaries	7(b)	-	5,942
Other expenses, net	9	(3,695)	(552)
Results from operating activities		**9,152**	**23,509**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	Note	2017	2016 (restated)
Finance income	10	5,562	2,463
Finance costs	10	(11,679)	(4,133)
Loss from financial activities		**(6,117)**	**(1,670)**
Share of loss of equity accounted investees, net of income tax		(58)	(18)
Profit before income tax		**2,977**	**21,821**
Income tax expense	12	(423)	(2,703)
Profit and total comprehensive income for the year from continuing operations		**2,554**	**19,118**
Discontinued operation			
Profit/(loss) from discontinued operation	8	**600**	**(57)**
Profit and total comprehensive income for the year		**3,154**	**19,061**
Attributable to:			
Owners of the Company		3,117	18,678
Non-controlling interests		37	383
Profit and total comprehensive income for the year		**3,154**	**19,061**
Basic and diluted earnings per share, RUB	20	**4.82**	**28.28**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
In million RUB	**Share capital**	**Additional paid-in-capital**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2016	41,295	(8,470)	3,030	35,855	808	36,663
Profit for the year (restated, see note 8)	-	-	18,678	18,678	383	19,061
Total comprehensive income	-	-	18,678	18,678	383	19,061
Transactions with owners of the Company						
Acquisition and disposal of subsidiaries with non-controlling interests	-	-	-	-	(36)	(36)
Acquisition of non-controlling interest without a change in control	-	-	(714)	(714)	(1,079)	(1,793)
Total transactions with owners of the Company	-	-	(714)	(714)	(1,115)	(1,829)
Balance at 31 December 2016 (restated)	41,295	(8,470)	20,994	53,819	76	53,895
Balance as at 1 January 2017 (restated)	41,295	(8,470)	20,994	53,819	76	53,895
Profit and total comprehensive income for the year	-	-	3,117	3,117	37	3,154
Total comprehensive income	-	-	3,117	3,117	37	3,154
Transactions with owners of the Company						
Purchase of treasury shares (note 20)	-	-	(15,100)	(15,100)	-	(15,100)
Sale of treasury shares (note 20)	-	-	15,000	15,000	-	15,000
Recognition of cash-settled financial instrument (note 20)	-	-	(1,506)	(1,506)	-	(1,506)
Deffered tax related to cash-settled financial instrument (note 12)	-	-	283	283	-	283
Acquisition and disposal of subsidiaries with non-controlling interests (note 7 (a))	-	-	-	-	431	431
Dividends declared by subsidiaries due to non-controlling interests	-	-	-	-	(9)	(9)
Total transactions with owners of the Company	-	-	(1,323)	(1,323)	422	(901)
Balance at 31 December 2017	41,295	(8,470)	22,788	55,613	535	56,148

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Cash Flows

In million RUB	Note	2017	2016 (restated)
Cash flows from operating activities			
Profit for the year		**3,154**	**19,061**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		1,649	930
Impairment loss/(reversal of impairment loss) of non-financial assets, including amounts recognised in cost of sales, net		2,938	(2,066)
Loss on disposal of property, plant and equipment		263	58
Gain from change in fair value of investment property	15	(967)	(4,629)
Loss/(gain) from disposal of subsidiaries, development rights and investment property, net	7(c)	16	(9)
Share of loss of equity accounted investees, net of income tax		58	18
Loss on sale of discontinued operation, net of income tax	8	321	-
Finance income	10	(5,562)	(2,463)
Finance costs	10	11,679	4,133
Income tax expense from continuing operations	12	423	2,703
Income tax expense/(benefit) fom discontinued operation	8	136	(14)
Gain on bargain purchase of subsidiaries	7(b)	-	(5,942)
		14,108	**11,780**
Changes in:			
Inventories		10,108	(30,658)
Trade and other receivables*		(23,106)	(1,074)
Trade and other payables, including changes in provision for taxes other than income tax**		30,609	43,355
Provision for costs to complete		8,018	(737)
Cash flows from operations before income taxes and interest paid		**39,737**	**22,666**
Income taxes paid		(4,559)	(2,526)
Interest paid		(9,848)	(1,373)
Net cash from operating activities		**25,330**	**18,767**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		407	313
Interest received		3,622	2,143
Acquisition of property, plant and equipment and other intangible assets		(2,501)	(948)
Acquisition of subsidiaries, net of cash acquired***		(1,610)	(15,766)
Pre-acquisition financing provided to subsidiaries		(215)	(23,874)
Acquisition of equity accounted investees		(265)	(138)
Proceeds from disposal of discontinued operation, net of cash disposed		797	-
Acquisition of other investments, net		-	(18)
Other proceeds, net		3	4
Acquisition of investment property		-	(6,644)
Proceeds from disposal of investment property		775	-
Loans issued		(2,560)	(226)
Repayment of loans issued**		2,718	-
Net cash from/(used in) investing activities		**1,171**	**(45,154)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 57.

Consolidated Statement of Cash Flows

In million RUB	2017	2016 (restated)
Cash flows from financing activities		
Proceeds from sale of treasury shares	15,000	-
Purchase of treasury shares	(14,541)	-
Payment made under conversion transaction	(430)	-
Prepayments made under terms of financial instrument	(592)	-
Proceeds from borrowings	16,965	6,044
Repayment of borrowings	(40,711)	(3,010)
Proceeds from issuance of long-term bonds	32,035	34,000
Repurchase of long-term bonds	(13,377)	-
Payments for financial leasing	(167)	
Acquisition of non-controlling interests	-	(1,799)
Dividends paid by subsidiaries to non-controlling interest	(9)	(208)
Net cash (used in)/from financing activities	**(5,827)**	**35,027**
Net increase in cash and cash equivalents	20,674	8,640
Effect of exchange rate fluctuations on cash and cash equivalents	(34)	(850)
Cash and cash equivalents at the beginning of the year	24,812	17,022
Cash and cash equivalents at the end of the year	**45,452**	**24,812**

* Changes in trade and other receivables include advances for investment rights acquisition in amount of RUB 8,575 million in 2017 (2016: the repayment of advances previously granted amounted to RUB 1,158 million).

**Changes in trade and other payables include offsetting of mutual claims in amount of RUB 451 million in 2017 against loans issued (2016: zero).

***The acquisition of subsidiaries, net of cash acquired, includes payments for subsidiaries acquired in the previous reporting period in amount of RUB 591 million.

1 Background

(a) Organisation and operations

PJSC Group of Companies PIK (the "Company") and its subsidiaries (together referred to as the "Group") comprise mostly closed and open joint stock companies and limited liability companies incorporated under the requirements of the Civil Law of the Russian Federation and companies registered in Cyprus. The Company was established as a privately owned enterprise in 1994. Since 1 June 2007 the Company's shares were traded on the London Stock Exchange in the form of global depositary receipts (hereafter referred to as "GDRs") and Moscow Exchange (hereafter referred to as "MOEX") in Russia. In June 2017 the Company delisted from London Stock Exchange and consolidated trading of its shares on MOEX. The Company's registered office is 19 Barrikadnaya Str., Moscow, 123242, Russian Federation.

The primary activities of the Group are investing in development projects for 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. During 2017 and 2016 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2017 the Company is ultimately controlled by Mr. Sergey E. Gordeev, who controls 74.59% of the Group.

(b) Business environment

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

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

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

2 Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

4 Use of estimates and judgments

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

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

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

- Note 7 «Acquisitions and disposals of subsidiary»;
- Note 15 «Investment property»;
- Note 16 «Impairment loss on non-financial assets»;
- Note 12 «Income tax expense»;
- Note 19 «Trade and other receivables»;
- Note 22 «Provisions»;
- Note 26 « Contingencies».

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 7 «Acquisitions and disposals of subsidiaries»;
- Note 15 «Investment property»;
- Note 16 «Impairment loss on non-financial assets»;
- Note 22 «Provisions»;
- Note 26 «Contingencies».

5 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 have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination was based on market values. The market value of property was the estimated amount for which a 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 and replacement cost when appropriate.

When no quoted market prices were available, the fair value of property, plant and equipment were primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation (via application of discounted cash flow method), and obsolescence.

Investment property

The fair value of investment property was based on valuations, performed by external independent apprisers, who hold recognised, resent and relevant professional qualifications. The fair value of investment property was determined by using income or market equivalent approaches selected individually for each specific investment property being valued.

Intangible assets

The fair value of customer relationships acquired through business combinations was determined using the multi-period excess earnings method, whereby the subject asset was valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets was based on the discounted cash flows expected to be derived from the use and eventual sale of these assets.

Inventories

The fair value of inventories acquired in a business combination was based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables and loans issued

The fair value of loans issued and trade and other receivables, was estimated as the present value of future cash flows of principal and interest, discounted at the market rate of interest at the date of initial recognition. Also the fair values of these financial assets were determined for disclosure purposes by using the similar approach.

Non-derivative financial liabilities

Fair value, which was determined for disclosure purposes, 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. For finance leases the market rate of interest was determined by reference to similar lease agreements.

6 Operating segments

Before 31 December 2016 the management of the Group analysed its operations on the basis of four reportable segments: real estate development, construction, industrial and other.

In the first half of 2017 the revenues from provision of maintenance services to habitants of completed residential properties increased significantly and management decided to separate the companies delivering such services into a reportable segment and began to analyse the results of their operations on a regular basis.

From 1 January 2017 the Group distinguished five reporting segments which are its strategic business units:

• *Real estate development*: the implementation of development projects planned and undertaken by the Group, including identification of investment opportunities, performance of technical and economical feasibility studies, obtaining the necessary construction permits, carrying out construction works and performing project management activities, and marketing real estate projects to potential buyers.

• *Construction segment*: contracting activities, production and assembly of prefabricated panel buildings and other related activities.

• *Industrial segment:* production of concrete panels, window frames and other construction materials.

• *Maintenance segment:* technical maintenanee of completed properties.

• *Other:* rental services and other activities.

In December 2017 the Group sold the "Maintenance segment" (note 8). Comparative information for previous periods has been restated accordingly.

(i) Information about reportable segments

mln RUB	Real estate development**		Construction segment		Industrial segment		Maintance segment*		Other		Total	
	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)
External revenues	169,859	54,013	112	1,503	814	682	10,402	2,387	2,885	1,505	184,072	60,090
Inter-segment revenue	8,101	1,570	13,399	11,369	4,819	865	188	157	2,790	1,050	29,297	15,011
Total reveuue for reportable segments	**177,960**	**55,583**	**13,511**	**12,872**	**5,633**	**1,547**	**10,590**	**2,544**	**5,675**	**2,555**	**213,369**	**75,101**
Reportable segment adjusted gross profit	**27,887**	**17,205**	**(2)**	**178**	**27**	**83**	**1,242**	**253**	**481**	**454**	**29,635**	**18,173**
Adjusted gross profit margin	**16%**	**32%**	(2)%	**12%**	**3%**	**12%**	**12%**	**11%**	**17%**	**30%**	**16%**	**30%**

* The adjusted gross profit of discontinued reportable segment "Maintenance segment" includes payroll expenses of administrative and management personnel of the Group's companies carrying out this type of activity, which the Group's management consideres an integral part of the performance measurement of the segment.

** The gross profit of real estate segment for 2007 includes a negative effect of change in estimates in respect of construction budgets of certain development projects in the total amount of BUB 921 million (2016: positive effect of RUB 315 million).

(ii) Geographical information

Management of real estate development, construction, industrial, maintenance and other reportable segments is performed on a unified basis and the activities of the named segments is conducted mainly in three geographical areas, which are named "Moscow", the "Moscow Region" and the "Other Regions" for the purposes of these consolidated financial statements.

Segment revenues are presented based on geographical location of the respective segment's assets.

mln RUB	2017	2016 (restated)
Moscow	76,940	19,159
Moscow Region	91,196	31,654
Other regions of Russia	6,998	6,921
	175,134	**57,734**

(iii) Reconciliations of reportable segment's revenues and profit or loss

mln RUB	2017	2016 (restated)
Reconciliation of Revenue		
Total revenue of reportable segments	213,369	75,101
Elimination of revenue of discontinued operation	(10,590)	(2,544)
Revenues of companies that sold services to discontinued operation	1,464	31
Elimination of reportable inter-segment's revenue	(29,109)	(14,854)
Consolidated revenue	**175,134**	**57,734**
Reconciliation of gross profit to profit before tax		
Adjusted reportable segment's profit	29,635	18,173
Adjusted profit from discontinued operation	(1,242)	(253)
Consolidated gross profit	**28,393**	**17,920**
Unallocated amounts		
Gain from disposal of subsidiaries, development rights and investment property, net	161	50
Distribution expenses	(5,670)	(2,910)
Administrative expenses (with adjustments attributable to gross profit of reportable segments)	(8,466)	(4,444)
Gain from change in fair value of investment property	967	4,629
(Impairment loss)/ reversal of impairment loss, net	(2,538)	2,874
Gain on bargain purchase of subsidiaries	-	5,942
Other expenses, net	(3,695)	(552)
Finance income	5,562	2,463
Finance costs	(11,679)	(4,133)
Share of loss of equity accounted investees, net of income tax	(58)	(18)
Consolidated profit before income tax	**2,977**	**21,821**

In 2017 and 2016 no individual customer represented more than 10% of the Group's total revenue. The management of the Group does not perform analysis of Group's assets and liabilities in terms of operating segments.

7 Acquisitions and disposals of subsidiaries

(a) Acquisition of subsidiaries in 2017

In July 2017 the Group acquired 53.5% share in the leading developer of "Smart Home" systems for consideration of RUB 178 million. In September and October 2017 the Group increased its share to 59.6%, as a result of subscription to additional issue of shares which was paid for in cash in amount of RUB 80 million.

In December 2017 the Group acquired 60.45% interest in the largest manufacturer of elevator and electronic equipment for RUB 645 million consideration paid in cash.

mln RUB	2017	The developer of "Smart Home" systems	Manufacturer of elevator equipment	Other
Property, plant and equipment	1,163	1	1,050	112
Intangible assets	1,169	200	7	962
Deferred tax assets	39	1	3	35
Inventories	223	26	50	147
Other investments	138	-	1	137
Trade and other receivables	3,195	29	50	3,116
Cash and cash equivalents	693	15	12	666
Deferred tax liabilities	(221)	(33)	(188)	-
Trade and other payables	(4,414)	(46)	(121)	(4,247)
Net identifiable assets, liabilities and contingent liabilities	**1,985**	**193**	**864**	**928**
Non-controlling interests	(431)	(89)	(342)	-
Goodwill	197	74	123	-
Total amount of consideration	**1,751**	**178**	**645**	**928**
Consideration paid	1,712	178	645	889
Unpaid consideration included in accounts payable	39	-	-	39
Cash acquired	(693)	(15)	(12)	(666)
Acquisition of subsidiaries, net	**1,019**	**163**	**633**	**223**

As part of the business combinations the Group recognised "Smart Home" technology as an identifiable asset and property, plant and equipment of the elevator manufacturer at their fair values, which were determined with assistance of an independent appraiser.

Measurement of fair values and its allocation to identifiable net assets is based on the following assumptions and valuation techniques:

- It was assumed that all acquired companies are operating enterprises and will continue their activities in the future.
- To determine fair value of the technology, the Multi-Period Excess Earnings (MPEEM) was used as part of income approach:
    - The useful life of the technology was assumed to be 3,5 years.
    - The discount rate of cash flows attributable to the technology was set at the level of required return on venture investments at expansion stage, i.e. 35%.

Fair value of property, plant and equipment of the elevator equipment manufacturer was determined as a weighted average of valuation amounts estimated using income and comparative methods. Both methods were assigned with the same weights. Income approach considered the sales comparative method, and a number of the following adjusting ratios and assumptions were used:

- Property tax expenses were set at 2,2% of the net book value of the buildings and facilities.
- The capital expenditures were set at 2% of potential gross profit.
- The capitalization rate was set at 14%.

The cost of machinery and equipment, transport and accessories was determined on the basis of their liquidation value. Fair value of other objects of property, plant and equipment was set equal to their book value as they were purchased recently and potential adjustments were assessed as non-material.

In 2017 the Group accounted for the acquisitions of the developer of "Smart Home" systems and the elevator equipment manufacturer and related businesses using the preliminary information provided in their financial reporting statements. During 12 months from the acquisition date the Group can remeasure fair values of assets, liabilities and goodwill and recognise all necessary adjustments to the preliminary purchase price allocation.

Sensitivity analysis

The management has determined the revenue growth rate and the discount rate as the main key assumptions in calculating the fair value of "Smart Home" technology the change of which is reasonably possible. A decrease in revenue growth rate by 1 percentage point would result in a decrease in the fair value of the technology by RUB 2,5 million. An increase in revenue growth rate by 1 percentage point would have an opposite effect on the fair value of the technology in the same amount. An increase of the discount rate by 1 percentage point would result in a decrease of the fair value of the intangible asset by RUB 5,6 million. A decrease of the discount rate by 1 percentage point would increase the fair value of the intangible asset by RUB 6,5 million.

The management has determined the capitalization rate as the main key assumption in calculating the fair value of property, plant and equipment of the elevator equipment manufacturer, the change in which is reasonably possible. An increase of the rate of capitalization by 1 percentage point would result in a decrease of the fair value of property, plant and equipment by RUB 57 million. A decrease of the capitalization rate by 1 percentage point would have an opposite effect in the amount of RUB 66 million.

(b) Adjustment of the result of fair value allocation and measurement related to acquisition of businesses in 2016

In December 2016 the Group purchased 100% share in the group of companies being one of the leading developers of large-scale residential projects in Russia.

In 2016 management of the Group contracted an independent appraiser to perform a purchase price allocation and accounted for the purchase price based on the preliminary results of allocation. During the 12 months from the date of acquisition the Group has recognised all adjustments to provisional valuation due to final purchase price allocation, and adjusted the bargain purchase gain accordingly.

Due to a more detailed analysis of this business acquisition, additional assets and liabilities have been identified and also some assumptions related to measurement of fair values of identifiable net assets have been adjusted. The adjustments related to business acquisition are presented below.

mln RUB	2016	Adjustment	2016 (restated)
Property, plant and equipment	15,021	(646)	14,375
Intangible assets	2,939	-	2,939
Investment property	7,038	-	7,038
Deferred tax assets	5,038	(737)	4,301
Inventories	155,651	(828)	154,823
Other investments	2,006	-	2,006
Trade and other receivables	5,421	1,003	6,424
Cash and cash equivalents	2,441	-	2,441
Deferred tax liabilities	(14,399)	1,175	(13,224)
Loans and borrowings	(29,872)	-	(29,872)
Trade and other payables	(119,449)	(1,371)	(120,820)
Provisions	(5,690)	-	(5,690)
Net identifiable assets, liabilities and contingent liabilities	**26,145**	**(1,404)**	**24,741**
Gain on bargain purchase of subsidiaries	(7,346)	1,404	(5,942)
The fair value of consideration for the acquisition of subsidiaries	18,799	-	18,799
Consideration paid	18,207	-	18,207
Unpaid consideration included in accounts payable	592	-	592
Cash acquired	(2,441)	-	(2,441)
Net cash used in the acquisition of subsidiaries, net	**15,766**	**-**	**15,766**

Due to the adjustments to the consolidated statement of financial position indicated above non-current assets decreased by RUB 1,383 million, current assets increased by RUB 175 million, non-current liabilities decreased by RUB 1,175 million, current liabilities increased by RUB 1,371 million, equity decreased by RUB 1,404 million; and in the consolidated statement of profit or loss and other comprehensive income results from operating activities, profit before income tax and profit and other comprehensive income for 2016 decreased by RUB 1,404 million due to decrease of gain on bargain purchase of subsidiaries.

(e) Disposal of subsidiaries, development rights and investment property

mln RUB	2017	2016
Property, plant and equipment	(58)	-
Investment property	(767)	-
Inventories	(116)	(866)
Trade and other receivables	(6,467)	(72)
Deferred tax assets	(310)	(54)
Deffered tax liabilities	154	22
Trade and other payables	6,386	982
Provisions	375	-
Net assets/(liabilities)	**(803)**	**12**
Consideration received/receivable	789	15
Cash and cash equivalents of disposed subsidiaries	(2)	(18)
(Loss)/ gain on disposal of subsidiaries, net	**(16)**	**9**
Gains on disposal of development rights, net	177	41
Gain on disposal of subsidiaries, development rights and investment property, net	**161**	**50**

Development rights are represented mainly by land plots and land lease rights.

8 Discontinued operation

In December 2017 the Group sold subsidiaries included in the "Maintenance segment" due to the strategic decision to focus on development and construction as key competencies.

The consideration received amounted to RUB 3,230 million, of which RUB 1,699 million were paid in cash. The outstanding balance as at 31 December 2017 was RUB 1,531 million, which will be paid within three years from the reporting date and subject to interest of 10% per annum.

The "Maintenance segment" was not previously classified as held-for-sale or as a discontinued operation. The comparative information in consolidated statement of profit or loss and and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

mln RUB	Note	2017	2016
Results of discontinued operation			
Revenue		10,590	2,387
Cost of sales		(8,105)	(1,758)
Distribution expenses		(1)	(9)
Administrative expenses		(1,243)	(376)
Other expenses, net		(32)	(41)
Finance income		30	56
Finance costs		(182)	(330)
Results from operating activities		**1,057**	**(71)**
Income tax	12	(136)	14
Results from operating activities, net of tax		**921**	**(57)**
Gain on sale of discontinued operation		318	-
Income tax on gain on sale of discontinued operation	12	(639)	-
Profit/(loss) for the year		**600**	**(57)**
Basic earning per share (RUB)		0.93	-

The profit from discontinued operation of RUB 600 million (2016: loss RUB 57 million) is attributable entirely to the owners of the Company.

mln RUB	2017	2016
Cash flows from discontinued operation		
Net cash from operating activities	644	317
Net cash from/ (used in) investing activities	69	(891)
Net cash from financing activities	522	750
Net cash flows for the year	**1,235**	**176**

Disposal result is provided in the table bellow:

mln RUB	Прим.	2017
Client base		(3,769)
Property, plant and equipment		(243)
Inventories		(33)
Trade and other receivables		(9.250)
Loans receivable		(432)
Deferred tax assets		(173)
Deferred tax liabilities		555
Trade and other payables		11,335
Net assets and liabilities, net of cash and cash equivalents		**(2,010)**
Long-term receivables for the sale of subsidiaries	19	1,531
Consideration received, satisfied in cash		1,699
Cash and cash equivalents, disposed		(902)
Profit from the sale of discontinued operations		**318**

9 Other income and expenses

mln RUB	2017	2016 (restated)
Penalties and fines, including provision for litigation and claims	(1,755)	(54)
Disposal of property, plant and equipment	(263)	(58)
Charity	(416)	(344)
Other taxes	(827)	(150)
Income from reversal of provision for costs to complete	292	-
Disposal of other assets	(59)	19
Other (expenses)/income	(667)	35
	(3,695)	**(552)**

10 Net finance costs

mln RUB	2017	2016 (restated)
Interest income	3,729	2,305
Gain from change in terms of a long-term financial liability*	1,050	-
Foreign exchange gains, net	556	-
Write-off of accounts payable	51	156
Other financial income	176	2
Finance income	**5,562**	**2,463**
Interest expense**	(11,333)	(3,128)
Foreign exchange losses, net	-	(893)
Loss on impairment of financial assets	(329)	(95)
Change in non-controlling interest in limited liability companies	(17)	(17)
Finance expenses	**(11,679)**	**(4,133)**
Net finance costs recognised in profit or loss	**(6,117)**	**(1,670)**

* In April 2017 the Group re-negotiated terms under agreement to purchase development rights and extended its payment period, which resulted in derecognition of prior financial liability and recognition of a new financial liability.

** Interest expense includes RUB 9,465 million of interest accrued on bank loans and bonds.

11 Personnel costs

mln RUB	2017 Continuing operations	2017 Discontinued operation	2016 (restated) Continuing operations	2016 (restated) Discontinued operation
Salaries and wages				
Cost of sales	6,913	316	4,138	345
Administrative expenses	4,954	732	2,716	250
Distribution expenses	1,017	-	398	-
	12,884	**1,048**	**7,252**	**595**
Social charges				
Cost of sales	1,546	83	1,080	81
Administrative expenses	1,224	183	479	55
Distribution expenses	240	-	93	-
	3,010	**266**	**1,652**	**136**
Total	**15,894**	**1,314**	**8,904**	**731**

12 Income taxes

(a) Amounts recognised in profit or loss

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2016: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate of 12.5%.

The income tax expense consists of the following:

mln RUB	2017	2016 (restated)
Current tax expense		
Current income tax	(3,710)	(2,351)
Underprovided in prior years	(63)	(60)
Tax provision reversed/(recognised)	749	(805)
	(3,024)	**(3,216)**
Deferred income tax		
Origination and reversal of temporary differences	2,601	513
	2,601	**513**
Total income tax expense from continuing operations	**(423)**	**(2,703)**

(b) Reconciliation of effective tax rate:

mln RUB	2017	%	2016 (restated)	%
Profit before income tax from continuing operations	2,977	100	21,821	100
Income tax expense at applicable tax rate	(595)	(20)	(4,364)	(20)
Utilization of tax losses for which a deferred tax asset was not previously recognized	301	10	693	3
Underprovided in prior years	(63)	(2)	(60)	-
(Non-deductible expenses)/non-taxable income, net	(911)	(31)	1,816	8
Effect of tax rates in foreign jurisdictions	96	3	17	-
Tax provision reversed/(recognised)	749	25	(805)	(4)
	(423)	**14**	**(2,703)**	**12**

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following captious:

mln RUB	Assets		Liabilities		Net	
	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)
Property, plant and equipment	1,428	793	(1,105)	(1,039)	323	(246)
Investment property	324	342	(3,078)	(3,732)	(2,754)	(3,390)
Investments	265	267	(63)	-	202	267
Intangible assets	86	5	(27)	(594)	59	(589)
Inventories	3,957	8,183	(14,330)	(21,080)	(10,373)	(12,897)
Trade and other receivables	2,239	4,923	(119)	(71)	2,120	4,852
Trade and other payables	1,168	585	-	(3)	1,168	582
Loans and borrowings	-	1	(92)	(68)	(92)	(67)
Tax loss carry-forwards	3,379	2,592	-	-	3,379	2,592
Tax assets/(liabilities)	12,846	17,691	(18,814)	(26,587)	(5,968)	(8,896)
Set-off of tax	(5,449)	(11,349)	5,449	11,349	-	-
Net tax assets/(liabilities)	**7,397**	**6,342**	**(13,365)**	**(15,238)**	**(5,968)**	**(8,896)**

(d) Movement in deferred tax balances

mln RUB	1 January 2017 (restated)	Recognised in profit and loss	Recognised in equity	Disposed	Acquired	31 December 2017
Property, plant and equipment	(246)	805	-	(8)	(228)	323
Investment property	(3,390)	636	-	-	-	(2,754)
Investments	267	(65)	-	-	-	202
Intangible assets	(589)	116	-	532	-	59
Inventories	(12,897)	2,499	-	23	2	(10,373)
Trade and other receivables	4,852	(2,693)	-	(83)	44	2,120
Trade and other payables	582	337	283	(34)	-	1,168
Loans and borrowings	(67)	(25)	-	-	-	(92)
Tax loss carry-forwards	2,592	991	-	(204)	-	3,379
	(8,896)	**2,601**	**283**	**226**	**(182)**	**(5,968)**

mln RUB	1 January 2016	Recognised in profit and loss	Disposed	Acquired	31 December 2016 (restated)
Property, plant and equipment	(138)	26	-	(134)	(246)
Investment property	(979)	(918)	-	(1,493)	(3,390)
Investments	15	75	-	177	267
Intangible assets	-	(117)	-	(472)	(589)
Inventories	(445)	184	15	(12,651)	(12,897)
Trade and other receivables	265	398	-	4,189	4,852
Trade and other payables	167	(90)	-	505	582
Loans and borrowings	-	(68)	-	1	(67)
Tax loss carry-forwards	269	1,023	(47)	1,347	2,592
	(846)	**513**	**(32)**	**(8,531)**	**(8,896)**

(e) Unrecognised deferred tax assets

Deferred tax assets of RUB 6,897 million (2016: RUB 6,532 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

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

At 31 December 2017 the Group did not recognize a deferred tax liability relating to temporary differences in amount of RUB 67,436 million (2016: RUB 68,687 million) because the Group has the ability to control the dividend policy of subsidiaries and the timing of reversal of temporary differences, or due to the zero rate of the applicable dividend tax.

13 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2016	**10,041**	**3,893**	**675**	**866**	**15,475**
Acquisitions through business combinations (note 7)	9,269	3,838	1,181	87	14,375
Additions	-	-	-	1,511	1,511
Disposals	(454)	(1,234)	(86)	(120)	(1,894)
Reclassification to inventories	(61)	-	-	-	(61)
Transfers	861	250	129	(1,240)	-
At 31 December 2016 (restated)	**19,656**	**6747**	**1899**	**1,104**	**29,406**
Acquisitions through business combinations (note 7)	1,011	141	5	6	1,163
Additions	-	-	-	2,947	2,947
Disposals	3	(1,449)	(229)	(61)	(1,736)
Disposal of subsidiaries	(277)	(64)	(51)	(10)	(402)
Reclassification to inventories	(830)	-	-	-	(830)
Reclassification between groups	122	655	(877)	100	-
Transfers	1,253	262	242	(1,757)	-
At 31 December 2017	**20,938**	**6,292**	**989**	**2,329**	**30,548**
Accumulated depreciation and impairment losses					
At 1 January 2016	**(4,385)**	**(2,746)**	**(469)**	**(123)**	**(7,723)**
Impairment losses (note 16)	(20)	(54)	-	(77)	(151)
Reversal of impairment losses	403	9	1	-	413
Impairment provision related to disposed assets	18	4	-	126	148
Depreciation charge	(251)	(486)	(86)	-	(823)
Disposals	79	1,095	63	-	1,237
Reclassification to inventories	23	-	-	-	23
At 31 December 2016 (restated)	**(4,133)**	**(2,178)**	**(491)**	**(74)**	**(6,876)**
Impairment losses (note 16)	(48)	-	-	-	(48)
Reversal of impairment losses	48	-	-	-	48
Impairment provision related to disposed assets	62	5	1	-	68
Depreciation charge	(754)	(522)	(168)	-	(1,444)
Disposals	157	712	68	-	937
Disposal of subsidiaries	37	45	19	-	101
Reclassification to inventories	190	-	-	-	190
Reclassification between groups	(21)	(32)	53	-	-
At 31 December 2017	**(4,462)**	**(1,970)**	**(518)**	**(74)**	**(7,024)**
Net book value					
At 1 January 2016	**5,656**	**1,147**	**206**	**743**	**7,752**
At 31 December 2016 (restated)	**15,523**	**4,569**	**1,408**	**1,030**	**22,530**
At 31 December 2017	**16,476**	**4,322**	**471**	**2,255**	**23,524**

(a) Depreciation expense

Depreciation expense of RUB 1,027 million was charged to cost of sales, RUB 98 million to distribution expenses, RUB 319 million to administrative expense (2016: RUB 376 million, RUB 32 million, RUB 153 million accordingly, RUB 262 million has been included to inventories).

(b) Leased plant and machinery

As part of business combination, the Group acquired the equipment under a number of finance lease agreements. As at 31 December 2017 the net book value of leased plant and machinery was RUB 388 million (31 December 2016: RUB 822 million).

14 Intangible assets

mln RUB	Client base	Goodwill	Other	Total
Balance at 1 January 2016	-	-	144	144
Acquisitions through business combinations (note 7)	2,807	-	132	2,939
Additions	-	-	140	140
Amortisation charge	-	-	(107)	(107)
Disposals	-	-	(3)	(3)
Balance at 31 December 2016	**2,807**	**-**	**306**	**3,113**
Balance at 1 January 2017	2,807	-	306	3,113
Acquisitions through business combinations (note 7)	962	197	207	1,366
Additions	-	-	274	274
Amortisation charge	-	-	(205)	(205)
Disposal of subsidiaries (note 8)	(3,769)	-	-	(3,769)
Balance at 31 December 2017	**-**	**197**	**582**	**779**

The client base was acquired as part of business combinations and is related to the subsidiaries that provide maintenance services to customers in completed residential properties. The Client base is mostly represented by contracts with tenants of residential buildings and was recognised as an intangible asset with an indefinite useful life, therefore amortisation was not charged.

In December 2017 the client base was sold within the disposal of the "Maintenance segment".

15 Investment property

(a) Reconciliation of carrying amount

mln RUB	2017	2016
As at 1 January	26,581	8,270
Additions	-	6,644
Reclass to inventories	(3,091)	-
Acquisitions through business combinations	-	7,038
Change in fair value	967	4,629
Disposal	(767)	-
As at 31 December	**23,690**	**26,581**

Investment property consists of land plots with undetermined use. Positive change in fair value of individual land plots during 2017 amounted to RUB 967 million, including a reduction in fair value of one of the land plots by RUB 769 million as a result of the revision of the construction project's concept used in determining the fair value of this land plot as at 31 December 2016.

(b) Measurement of fair value

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

The Group applied the discounted cash flows method with regards to the land plots that essentially are ready for real estate development. The fair value of the plots assessed using this method as at 31 December 2017 amounted to RUB 16,871 million (2016: RUB 19,542 million). When using this method, the Group applied the following assumptions:

- Prices for residential real estate were forecasted based on market prices for similar properties in December 2017;
- In determining the value in use of the projects, Ruble based cash flows were discounted at an actual pre-tax rate of 20-25%;
- The growth rates for prices and investment costs were determined in accordance with the forecasted level of inflation;
- The volume of sales corresponds to sales volumes achieved by the Group on similar projects;
- The forecasted density of land plot development corresponds to the average index for similar projects of the Group.

For other investment properties the fair value was determined using the comparative method, which is based on an analysis of all available information on sales of similar properties, with adjustments applied to reflect the differences between compared analogues and valuated items. Within this approach, the current bids on sites similar to the items were analyzed. The sales prices were adjusted in accordance with the differences in characteristics between the items and the compared land plots. The fair value of the plots valued using the comparative method as at 31 December 2017 amounted to RUB 6,819 million (2016: RUB 7,039 million).

The fair value measurement was assigned to Level 3 of the fair value hierarchy based on the input data for the valuation methods used.

Sensitivity analysis

The management has determined the discount rate and the basic sale price as key assumptions subject to reasonable changes.

An increase in the discount rate by 1 percentage point would result in a decrease in the fair value of investment property, measured using the discounted cash flow method, by RUB 811 million. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on the fair value of the investment property.

A decrease in the rate of price growth by 5 percentage point would lead to a decrease in the fair value of investment property, measured using the comparative method, by RUB 2,953 million. An increase in the basic sale price by 5 percentage point would have equal but opposite effect on the fair value of investment property.

16 Impairment loss 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 paid for construction work and other advances.

(a) Property, plant and equipment

The Group analysed the carrying amounts of its property, plant and equipment and tested it for impairment as at 31 December 2017. For this purpose, the Group estimated the recoverable amounts of the respective cash generating units.

The values assigned to the key assumptions represent management's assessment of future trends in the construction industry and are based on both external and internal sources (historical data).

Prefabricated panel manufacturing

This group includes the assets of JSC "PIK-Industry", LLC "DSK-Grad", LLC "480KZHI", LLC "NSS". The impairment testing was conducted with the assistance of an independent appraiser. The following key assumptions were used to determine the recoverable amounts:

- The recoverable amount was determined as a value in use, determined by discounting the future cash flows to be generated from the continuing use of the assets, also taking inflation risks into account;
- The period of forecasted cash flows from 1 January 2018 to 31 December 2036 was determined based on the weighted average remaining useful life of buildings and structures;
- Full capacity of production utilization was assumed;
- A discount rate equal to 16%, calculated on the basis of the weighted average cost of capital after taxation was applied in determining the recoverable amount of the plants.

As a result of testing no additional impairment was recognised in 2017.

(b) Inventories

In most cases the Group used discounted cash-flows to determine the recoverable amounts of inventories. Net realizable value was used to determine the recoverable amounts for finished goods. The Group has also engaged an independent appraiser to estimate the net realizable value of the Group's work in progress.

The following key assumptions were used in determining net realizable value, using the discounted cash-flow method:

- Cash flows were projected for each individually significant project;
- Sales prices for the apartments were based on market prices effective in December 2017 for similar real estate;
- A real pre-tax discount rate of 23% for RUB based cash flows was applied.

Based on testing results in 2017, the impairment of inventories as at 31 December 2017 amounted to RUB 3,239 million (as at 31 December 2016: RUB 1,723 million).

Sensitivity analysis

The management has determined the discount rate and the sale prices as key assumptions subject to reasonable change.

A reduction in the sale price by 5 % would lead to a decrease in the fair value of inventory by RUB 4,156 million. An increase in the sale price by 5 percentage point would have equal but opposite effect on the fair value of inventories.

An increase in the discount rate by 1 percentage point would result in a decrease in the fair value of investment property by RUB 225 million. A decrease in the discount rate by 1 percentage point would have equal but opposite effect on the fair value of inventories.

(c) Impairment testing results:

		31 December 2017			31 December 2016 (restated)		
mln RUB	Note	Gross carrying value	Impairment / write down	Carrying value after impairment	Gross carrying value	Impairment / write down	Carrying value after impairment
Property, plant and equipment	13	25,231	(1,707)	23,524	24,305	(1,775)	22,530
Intangible assets	14	779	-	779	3,113	-	3,113
Inventory	18	247,022	(3,239)	243,783	254,539	(1,723)	252,816
Advances paid	19	21,515	(1,172)	20,343	8,021	(1,263)	6,758
Total		**294,547**	**(6,118)**	**288,429**	**289,978**	**(4,761)**	**285,217**

(d) Impairment losses and reversals of impairment losses

mln RUB	31 December 2017	31 December 2016 (restated)
Impairment losses and write downs		
Property, plant and equipment	(48)	(151)
Inventory	(3,068)	-
Advances paid	(323)	(27)
	(3,439)	**(178)**
Reversal of impairment losses		
Property, plant and equipment	48	413
Inventory	148	2,571
Advances paid	705	68
	901	**3,052**
	(2,538)	**2,874**

In 2017 impairment losses relating to construction work in progress, finished goods and construction materials in the amount of RUB 400 million were recognized in cost of sales (2016: RUB 808 million).

In 2017 impairment losses relating to property, plant and equipment in the amount of RUB 68 million, inventories in the amount of RUB 1,804 million were written off against the disposal of related assets, and impairment loss of advances issued in the amount of RUB 291 million was disposed of with discontinued operations and disposed subsidiaries (2016: RUB 148 million, RUB1,337 million and RUB 15 million, accordingly).

17 Other investments

mln RUB	31 December 2017	31 December 2016
Non-current		
Loans issued to third parties in RUB at fixed rates of 9.0%-17.5%	89	1,045
Promissory notes recievable from associates at fixed rate of 16%	-	608
Other investments	28	-
Bank deposits	278	260
	395	**1,913**
Impairment losses	(89)	(224)
Current		
Loans issued to third parties in RUB at fixed rates of 9.0%-17.0%	361	404
Promissory notes	-	4
Other investments available for sale	-	1
	361	**409**
Impairment losses	(93)	(28)

18 Inventories

mln RUB	31 December 2017	31 December 2016 (restated)
Construction work in progress, intended for sale, acquired through business combinations and recognized initially at fair value	117,188	149,885
Construction work in progress, intended for sale, accounted at historical cost	107,112	91,137
Finished goods and goods for resale	16,667	9,146
Raw materials and consumables	2,789	2,630
Other	27	18
	243,783	**252,816**
Write down	(3,239)	(1,723)

Construction work in progress intended for sale and finished goods mostly consist of apartments, non-residential properties and car parking slots. Standard operational cycle of construction projects exceeds 12 months. Inventories are classified as current assets even if they are not intended to be sold within the next 12 months after the reporting date. As at 31 December 2017 inventories amounting to RUB 101,729 million are expected to be sold within the next 12 months following the requirements of IAS 18 "Revenue". The real estate objects recognised as part of the cost of sales in 2017 amounted to RUB 141,972 million (2016: RUB 36,791 million).

In 2017 the Group paid for the acquisition of investment rights for land plots in the amount of RUB 7,258 million (2016: RUB 17,557 million) and granted advances to purchase investment rights in the amount of RUB 8,575 million (2016: repayment of advances previously granted for the purchase of investment rights amounted to RUB 1,158 million). Revenue from the sale of investment rights in 2017 amounted to RUB 1,101 million (2016: RUB 178 million), the profit on such transactions in 2017 amounted to RUB 177 million (2016: RUB 41 million).

19 Trade and other receivables

mln RUB	31 December 2017	31 December 2016 (restated)
Non-current		
Considiration receivable for sale of subsidiaries (note 8)	1,531	-
	1,531	-
Current		
Trade accounts receivable	3,494	6,397
Advances issued under agreements for acquisition of subsidiaries and development rights	18,727	4,865
Advances issued- other	1,616	1,893
Taxes receivable	3,579	2,797
Others	2,204	947
	29,620	**16,899**
Impairment losses	(2,006)	(2,432)

20 Equity and reserves

(a) Sale of own shares

On 30 June 2017 the Group entered into transaction to sell 49 990 198 of its own global depositary receipts (GDRs) to one of the largest banks of the Russian Federation for consideration of RUB 15,000 million. GDRs were previously re-purchased on an open market in March 2017 for consideration of USD 255 million (RUB 15,100 million at transaction date).

Simultaneously, the Group entered into a 3-year cash-settled financial instrument contract under which the Group will be paid by the bank or pay to the bank the difference between the market price of GDRs as at the date the contract terminates in three years and the initial delivery price of the GDRs. Under the agreed terms, the Group will make quarterly payments to the bank, calculated at the annual rate of 11.35% from the delivery price of the GDRs. At initial recognition the Group designated the cash-settled financial instrument in amount of RUB 1,418 million as a financial instrument measured at fair value through profit and loss. The Group assigned the cash-settled financial instrument to Level 3 of the fair value hierarchy of financial instruments.

The fair value estimate of a non-deliverable financial instrument as at 31 December 2017 amounted to RUB 997 million and was estimated on the basis of the following key assumptions:

- forecasted annual growth of GDRs' price was 8.80%;
- annual discount rate was 12.00%.

(b) Share capital

The total number of ordinary shares issued and outstanding as at 31 December 2017 is 660,497 thousand with the nominal value of RUB 62.50 per share (31 December 2016: 660,497 thousand).

(c) Weighted average number of shares, thousand shares:

	2017	2016
Issued shares at the beginning of the reporting period	660,497	660,497
Effect of purchasing and selling own shares in 2017	(13,422)	-
Weighted average number of shares	647,075	660,497

(d) Earnings per share

The calculation of earnings per share is based on the profit for the year attributable to the ordinary shareholders of the Company and the weighted average number of ordinary shares that were in circulation during the year. The Company has no ordinary shares with potentially dilutive effect.

	2017	2016 (restated)
Profit and total comprehensive income for the period attributable to the owners of the Company, mln RUB	3,117	18,678
Weighted average number of shares for the year ended 31 December, thousand shares	647,075	660,497
Basic and diluted earnings per share, RUB	**4.82**	**28.28**

(e) Dividends

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

21 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 foreign currency risk refer to note 24.

mln RUB	31 December 2017	31 December 2016
Non-current		
Bonds, net of those purchased by the Group	44,250	39,058
Unsecured bank loans	-	3,019
Secured bank loans	365	12,833
Finance lease liabilities	87	201
	44,702	**55,111**
Current		
Bonds, net of those purchased by the Group	13,434	-
Secured bank loans	115	8,348
Interest payable	2,105	1,932
Finance lease liabilities	130	140
	15,784	**10,420**
	60,486	**65,531**

As at 31 December 2017 and 2016 the bank loans were secured with:

- property, plant and equipment as at the end of the reporting period were not pledged to secure the bank loans (as at 31 December 2016: bank loans were secured with property, plant and equipment with a carrying value of RUB 4,978 million);
- rights of lease over land plots with a total area of 52,5 thousand square meters (as at 31 December 2016: 197 thousand square meters);
- investment property as at the end of the reporting period was not pledged to secure the bank loans (as at 31 December 2016: RUB 2,403 million);
- shares of certain subsidiaries of the Group.

In January 2017 the Group obtained new credit facilities in amount of RUB 6,965 million under the credit line opened in December 2016 for the purpose of restructuring its loan portfolio obtained through business combinations in 2016. In May 2017 the annual interest rate on the credit line was reduced to 11.00%. In December 2017 the debt under this credit line was fully repaid.

From March to August of 2017 the Group received three bank loans in amounts of RUB 3,000 million, RUB 5,000 million and RUB 2,000 million with interest rates of 12,15%, 12,75% and 10,60%, respectively. The funds were used for the restructuring of credit portfolio due to business combination. From October to December 2017 bank loans were repaid.

In March 2017 the Group issued bonds in amount of RUB 13,000 million maturing in 5 years with a right of early redemption after a three year period. The coupon rate comprises 13% p.a. payable semiannually.

In April 2017 the Group issued bonds in amount of RUB 10,000 million maturing in 5 years and quarterly amortization starting from July 2019. The coupon rate comprises 11,25% p.a. payable quarterly.

In August 2017 the Group issued bonds in amount of RUB 10,000 million maturing in 5 years. The coupon rate comprises 10,75% p.a. payable quarterly.

During the 2017 year the Group re-purchased its own bonds (from issued above) with a net result in amount of RUB 965 million.

Terms and conditions of outstanding loans and borrowings

Terms and conditions of outstanding loans and borrowings were as follows:

mln RUB	31 December 2017	31 December 2016
Secured bank loans		
RUB - fixed at 12,00%-12,50%	-	12,856
RUB - fixed at 13,00%-13,50%	480	5,764
RUB - fixed at 15,00%-15,54%	-	2,386
RUB - fixed at 16,00%-19,00%	-	175
Unsecured bank loans		
RUB - fixed at 13,00%	-	3,019
Bonds		
RUB - fixed at 10,75%-11,25%	19,303	-
RUB - fixed at 13,00%-14,25%	38,381	39,058
Interest payable	2,105	1,932
Finance lease liabilities		
RUB - fixed at 23,00%	217	341
	60,486	**65,531**

Finance lease liabilities are payable as follows:

mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	130	29	101
Between one and five years	87	7	80
	217	**36**	**181**

Reconciliation of changes of liabilities to cash flows arising from financing activities

mln RUB	Balance as at 31 December 2016	Received	Repaid	Interest expense	Effect of transaction costs	Reclassification of loans and bonds	Balance as at 31 December 2017
Non-current	**55,111**	**42,000**	**(26,963)**	-	(32)	**(25,414)**	**44,702**
Bonds, net of those purchased by the Group	39,058	32,035	(11,610)	-	(32)	(15,201)	44,250
Unsecured bank loans	3,019	9,965	(3,000)	-	-	(9,984)	-
Secured bank loans	12,833	-	(12,353)	-	-	(115)	365
Finance lease liabilities	201	-	-	-	-	(114)	87
Current	**10,420**	**7,000**	**(36,574)**	**9,508**	**16**	**25,414**	**15,784**
Bonds, net of those purchased by the Group	-	-	(1,767)	-	-	15,201	13,434
Secured bank loans	8,348	5,000	(13,358)	-	-	125	115
Unsecured bank loans	-	2,000	(12,000)	-	16	9,984	-
Interest payable	1,932	-	(9,282)	9,465	-	(11)	2,105
Finance lease liabilities	140	-	(167)	43	-	114	130
Total	**65,531**	**49,000**	**(63,537)**	**9,508**	**(16)**	-	**60,486**

22 Provisions

mln RUB	Provision for costs to complete	Provision for taxes	Total
As at 1 January 2017 (restated)	**10,451**	**3,108**	**13,559**
Additional provisions	14,932	882	15,814
Releases of provisions	(2,616)	(1,539)	(4,155)
Provisions used	(4,298)	-	(4,298)
Disposal	(325)	(51)	(376)
As at 31 December 2017	**18,144**	**2,400**	**20,544**
As at 1 January 2016	**7,259**	**542**	**7,801**
Additional provisions	3,642	969	4,611
Releases of provisions	(1,061)	(164)	(1,225)
Provisions used	(3,318)	-	(3,318)
Acquisitions through business combinations	3,929	1,761	5,690
As at 31 December 2016 (restated)	**10,451**	**3,108**	**13,559**

Estimated costs to complete represent the Group's estimate of future costs which are expected to be incurred by the Group in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its agreements with the municipal authorities. The provision is recognised upon completion of the construction of each individual housing of the microdistrict, directly related to the infrastructure objects described above. The provision for costs to complete is recognised in proportion of the areas of completed properties to the total expected area for microdistrict developed. These estimates are particularly dependent on the changes in the city development regulations, which may trigger changes in the investment contracts with the Group, changes in prices for construction materials and labor.

The tax provisions relating mostly to deductibility for tax purposes of certain expenses, includes provision for income tax of RUB 2,079 million (2016: RUB 2,876 million) and other taxes of RUB 321 million (2016: RUB 232 million) and includes related penalties. In 2017 the Group reversed tax provision of RUB 1,539 million recognised in prior periods because the respective period open for tax audit expired (2016: RUB 164 million).

23 Trade and other payables

mln RUB	31 December 2017	31 December 2016 (restated)
Non-current		
Accounts payable for acquisition of development rights	9,460	9,616
Other advances	634	772
Other liabilities	66	15
	10,160	**10,403**
Current		
Advances from customers	178,258	159,733
Liabilities to transfer real estate in the framework of transactions for the acquisition of land plots and development rights	6,982	4,188
Other advances	4,927	2,410
Accounts payable for construction works and other trade payables	14,805	19,827
Accounts payable for acquisition of development rights	634	831
Amounts due to customers under construction contracts	-	966
Payables to employees	4,371	912
Other taxes payable	2,922	2,308
Other payables	2,013	5,475
	214,912	**196,650**

Other non-current liabilities include non-controlling interests in Russian limited liability companies.

As at 31 December 2017 advances received from customers with a carrying value of RUB 134,047 million are expected to be settled within the next 12 months (2016: RUB 124,590 million).

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 24.

24 Financial instruments

(a) Overview

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

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

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

Risk management framework

The Board of Directors 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 monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and and other investments, including loans issued.

(i) Sale of apartments to individuals

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are mostly arranged on a prepayment basis.

(ii) Trade receivables from organisations

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The management has established a credit policy under which each new contractor is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These terms also specify certain penalties in the event of late payment or late delivery.

In monitoring customer credit risk, contractors are grouped according to their credit characteristics, including type of contract, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to the Group's subsidiaries and associates.

Exposure to credit risk

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

mln RUB	31 December 2017	31 December 2016 (restated)
Loans issued, promissory notes receivable and bank deposits recorded in other investments	728	2,321
Receivables	7,229	7,344
Cash and cash equivalents	45,452	24,812
	53,409	**34,477**

Cash and cash equivalents are placed with banks and financial institutions with a credit rating not lower than B+ according to the classification of international rating agencies S&P Global Ratings, Fitch and Moody's.

Impairment losses

The aging of trade receivables and loans receivable at the reporting date was:

mln RUB Impairment losses	Gross amount 2017	Impairment 2017	Gross amount 2016	Impairment 2016
Not past due	6,190	-	9,446	-
Past due 1 year	2,157	(390)	1,058	(872)
More than 1 year	626	(626)	583	(550)
	8,973	**(1,016)**	**11,087**	**(1,422)**

The balance of accounts receivable past due 1 year includes receivables due from subsidiaries of the disposed "Maintenance segment"(see note 8). These receivables were previously accounted as intra-group and are expected to be repaid within 12 months after the reporting date.

The change in the allowance for impairment in respect of trade receivables and loans receivable during the year was as follows:

mln RUB	2017	2016
Balance at beginning of the year	1,422	746
Increase during the year	477	95
Bussines acquisition	-	631
Amounts written off against financial assets	(883)	(50)
Balance at end of the year	**1,016**	**1,422**

The Group recognises an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans issued. The main components of this allowance consists of specific loss components that relate to individually significant exposures.

Allowance for impairment is used to record impairment losses, except for the cases when the Group is certain that specific amounts are non-recoverable and records such losses directly as a write-off against financial assets.

(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.

Group's financial department carries out liquidity risk management (including risks which the Group would face in the long-, medium- and short-term periods) under governance approved and provided by the Board of Directors that is reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balances available at any time.

Covenant compliance risk

The Group actively monitors compliance with all debt covenants and, in case of the risk of default, approaches the lenders to amend the respective facility agreement, before any event of default occurs.

The following are the contractual maturities of the financial liabilities, taking into account the expected interest payments, with the exception to provide interim payments to the bank each quarter, the information of which is provided in note 20 (a).

31 December 2017	Average interest rate									
mln RUB	Contra-ctual	Effective	Carrying value	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-5 yrs	5-10 yrs	Total
Bank loans	13.50%	13.51%	480	56	59	142	174	49	-	480
Bonds	10.75% -14.25%	12.33%	57,684	-	13,233	25,522	4,364	14,540	-	57,658
Interest payable	-	-	2,105	3.546	2,935	3.941	1,910	2,193	-	14.525
Trade and other payables	-	-	34,271	24,309	1,309	2.582	2.048	3.798	5.337	39.383
Finance lease lialilities	23.00%	23.00%	217	66	64	86	1	-	-	217
			94,757	**27,977**	**17,600**	**32,273**	**8,497**	**20,580**	**5,337**	**112,263**

31 December 2016 (restated)	Average interest rate									
mln RUB	Contra-ctual	Effective	Carrying value	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-5 yrs	5-10 yrs	Total
Bank loans	12.00%-19.00%	12.98%	24,200	8,195	162	4,423	7,318	4,128	-	24,226
Bonds	13%-14.25%	13.00%	39,058	-	-	15.000	24,000	-	-	39,000
Interest payable	-	-	1.932	6.447	4,181	6.905	3,144	268	-	20,945
Trade and other payables	-	-	38.984	26.189	3,496	3.363	2.982	4.967	1.039	42.036
Finance lease lialilities	23.00%	23.00%	341	61	63	130	86	1	-	341
Guarantees issued *			1,014	1,014	-	-	-	-	-	1,014
			105,529	**41,906**	**7,902**	**29,821**	**37,530**	**9,364**	**1,039**	**127,562**

* the maximum amount of financial guarantee liabilities issued in favour of related parties (see note 26 (e)).

(d) Market risk

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

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled on a net basis.

(i) Currency risk

The Group is exposed to currency risk on purchases and cash balances that are denominated in a currency other than the Russian Rouble (RUB). These transactions, which could be exposed to foreign currency risks are typically denominated in U.S. Dollars (USD).

Borrowings and arising interest payments are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in RUB. This provides a natural economic hedge and no currency derivatives are used by the Group.

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.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

mln RUB	USD denominated 31 December 2017	USD denominated 31 December 2016 (restated)
Cash	2,601	172
Investments	163	-
Receivables	-	147
Trade payables	(563)	(7,684)
Other payables	-	(1)
Total	**2,201**	**(7,366)**

The RUB/USD exchange rates at 31 December 2017 and 31 December 2016 were 57.60 and 60.66 respectively. The average RUB/USD rates for the years were 58.35 and 67.03, respectively.

Sensitivity analysis

A 20% strengthening of the RUB against the USD at 31 December 2017 would have decreased equity and profit by RUB 440 million. The same strengthening effect of the RUB against USD at 31 December 2016 would have increased equity and profit by RUB 1,473 million. This analysis assumes that all other variables, including interest rates, remain constant.

A 20% weakening of the RUB against the USD at 31 December 2017, and 31 December 2016 would have had equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

(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 (variable rate debt). 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 whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

mln RUB	31 December 2017	31 December 2016 (restated)
Financial assets	**28,825**	**23,921**
Bank deposits recorded in cash and cash equivalents	26,566	21,601
Long-term receivables	1,531	-
Loans receivable, promissory notes receivable and bank deposits recorded in other investments	728	2,320
Financial liabilities	**(70,580)**	**(75,978)**
Accounts payable for acquisition of development rights	(10,094)	(10,447)
Loans and borrowings	(60,486)	(65,531)
	(41,755)	**(52,057)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values and carrying amounts

As at 31 December 2017 and 31 December 2016 the carrying values of the Group's financial assets and liabilities did not differ significantly from their fair values, with the exception of bonds. As at 31 December 2017 the fair value of bonds, net of purchased by the Group, exceeded their carrying amount by RUB 1,333 million (as at 31 December 2016 there were no significant differences).

(f) Capital management

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

The Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 31.

25 Significant subsidiaries

During 2017 the Group controlled 308 legal companies (2016: 244). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements.

The following is a list of the most significant subsidiaries:

		Effective ownership		Voting rights	
	Country of incorporation	2017	2016	2017	2016
JSC "Pervaya Ipotechnaya Kompanya-Region" ("PIK-Region")	Russia	100%	100%	100%	100%
JSC "PIK-Industry"	Russia	99%	96%	99%	96%
LLC "DSK-Grad"	Russia	100%	100%	100%	100%

26 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage 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 and financial risks in relation to 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 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 relation to constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer or acceptance act is signed in respect of shared participant construction contracts. The risk of damage in case of "force majeure" circumstances in these periods of time is beared by the Group.

In cases stipulated by the Federal Law №214-FZ, Group, in its capacity as developer, participates in the Society of mutual liability insurance for developers. Under shared participant construction contracts the Group has insured its civil liability for any failure to transfer completed properties to customers.

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

(b) Litigation

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUB 882 million related to accounts payable was disputed in courts as at 31 December 2017 (as at 31 December 2016: RUB 470 million). The amount of RUB 736 million of charges were accrued in accounts payable as at 31 December 2017 (as at 31 December 2016: RUB 434 million). Management believes, based on legal advice, that the actions can be successfully defended and therefore no losses will be incurred, above the amounts provided for in accounts payable. The legal claims are expected to be settled in the course of the next reporting period.

(c) Taxation contingencies

The taxation system

The taxation system in the Russian Federation continues to evolve and is characterised 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 have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, 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 going forward. 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. 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, these interpretations by the tax authorities and courts could be different, especially considering the recent reform of the higher courts, responsible for arbitration of tax disputes, and the effect on these consolidated financial statements, if the tax authorities will be successful in enforcing their interpretations, could be significant.

In addition, the Group acquires works, services, raw materials and materials from various suppliers that are fully responsible for tax and financial reporting compliance. Meanwhile, the current practice of the tax authorities indicates that claims of the tax authorities to the suppliers related to non-compliance with tax legislation can lead to additional tax risks for the Group. If tax authorities substantiate the legitimacy of such claims the Group can be filed with additional tax claims despite the fact that the management of such suppliers are fully responsible for completeness and timelessness of tax payments. Management has not made any provisions for such liabilities in these consolidated financial statements on the grounds that the risk estimate of cash outflow related to settlement of these liabilities is possible but not probable. According to the Group's management it is impossible to determine the financial consequences of potential tax liabilities which can arise as the result of transactions held with such suppliers due to diversity of approaches to assess the degree of violation of the tax legislation.

(d) Warranties for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based on prior experience with warranty claims, which have not been significant, no contingent liabilities have been recognised in these consolidated financial statements in relation to warranties for work performed.

(e) Other guarantees

As at 31 December 2016 the Group provided a guarantee to a bank in relation to the loan of RUR 1,014 million provided to its associate acting as a developer of a large residential project. In 2017, due to the sale of the associate, the Group signed a termination agreement in respect to this guarantee.

27 Related parties

(a) Parent and ultimate controlling party

As at 31 December 2017 there were no immediate or ultimate parent companies and ultimate controlling party of the Group.

As at 31 December 2017 the Company is ultimately controlled by Mr. Sergey E. Gordeev, who controls 74.59% of the Group.

(b) Management remuneration

Salaries and bonuses

Key management remuneration recognised during the year:

mln RUB	2017	2016
Salaries and bonuses	1,572	840
Contributions to State Pension Fund	258	134
	1,830	**974**

(c) Transactions with associates

Investments in equity accounted investees balances

mln RUB	31 December 2017	31 December 2016 (restated)
Loans receivable	155	171
Advances issued	26	2
Trade and other receivables	3	25
Promissory notes receivable	-	608
Advances received	(61)	(943)
Trade and other payables	(339)	(181)
Total	**(216)**	**(318)**

The Group issued a guarantee in favor of its associate over a bank loan received. In 2017 the Group sold its share in this associate.

(d) Transactions with other related parties

In 2017 loans issued in amount of RUB 171 million, promissory notes received in amount of RUB 608 million and advances received in amount of RUB 779 million from associates were offset. In 2017 the Group issued loans and received their repayment back in amount of RUB 1,672 million.

In December 2016 the Group purchased from Horus Real Estate Fund B.V. 100% interest in the group of companies which was a leading developer of large-scale residential projects and interest in other companies in order to obtain control over significant assets for consideration equal to the initial acquisition price of RUB 11,664 million, settled in cash (refer to note 7). In 2017 there were no acquisitions from related parties.

During 2017 executive directors and board members purchased from the Group residential properties and parking lots in projects under development in the total amount of RUB 92 million (2016: RUB 54 million). The amounts related to projects under development are included in advances from customers as at 31 December 2017.

28 Subsequent events

In April 2018 the Group issued bonds in the amount of RUB 7,000 million maturing in 10 years, with a possibility of early redemption at the discretion of the issuer. The coupon rate for the first coupon period is set at 7.75%. The interest rate on coupons, starting from the second through the twentieth inclusive, is the key rate of the CBRF + 0.5%, payable semiannually.

29 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group companies. Since 2017 the Group has disclosed information about changes in liabilities arising from financial activities in accordance with the requirements of the amendments to IFRS 7.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (note 7).

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus

- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; 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, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net 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.

(iii) Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to, or has rights 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 interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the 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.

(v) 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, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another company. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations 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 of 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.

(b) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(i) Transactions eliminated on consolidation

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

(c) Revenue

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

Revenue from the sale of real estate property is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings ("State commission"). The revenue received in connection with sales of apartments to individuals is recognised when a prepayment is more than 95% of the sale price.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(ii) Revenue from construction services

Revenues from construction comprise construction services which are rendered to a specific customer's request.

Revenue from construction services rendered is recognised in the profit or loss on a monthly basis according to the following principles:

- If the outcome of a construction contract can be estimated reliably the contract revenue is recognised in proportion to the stage of completion of the contract. The Management believes that, the outcome of a construction contract is deemed reliable when the actual costs to budgeted costs exceed certain threshold.

- If the ratio of actual costs to budgeted costs is below the threshold the revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable.

The stage of completion is assessed monthly as a ratio of actual costs to budgeted costs and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group company participates as an investor/co-investor while a third party acts as a developer. At the same time other Group companies may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs.

(iii) Other sales

Revenue from the sale of construction materials and other sales are recognised in the consolidated statement of profit or loss and other comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.

(d) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Other expenses

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the profit or loss as incurred.

(e) Finance income and costs

Finance income comprises interest income on funds invested, gains on disposal of financial assets, foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, losses on disposal of financial assets, foreign exchange losses, and impairment losses recognised on financial assets.

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.

The Group uses exemption for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis, therefore borrowing costs related to construction of mass residential premises are not capitalised.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(f) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of 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 amortised cost denominated in functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost denominated in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are 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 translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(g) Employee benefits

(i) Contributions to state pension fund

A defined contribution 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. Obligations for contributions to defined contribution pension plans, including Russia's State Pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are 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. Contributions to a defined contribution plan, which are due more than 12 months after the end of the reporting period in which the employees render services under labor agreements, are discounted to their present value.

(i) 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 labor agreements. A liability is recognised in the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the this liability can be estimated reliably

(h) 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. The unwinding of the discount is recognised as finance cost.

(i) Tax provisions

The Group provides for tax exposures, including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, 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. Tax provisions are recognised as part of income tax expense or cost of sales.

(ii) Legal costs

A provision is recognised if it is probable that the Group will lose the litigation in which the Group is the respondent and the need arises to settle the obligation.

(iii) 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 cost 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.

(i) Property, plant and equipment

(i) Recognition and measurement

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

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 expenditure is capitalised 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.

(i) Depreciation

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

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

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.

(j) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

(iii) 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 the profit or loss as incurred.

(iv) *Amortisation*

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss 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 since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives 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.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for 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 measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such 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.

(l) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables.

(i) *Non-derivative financial assets and financial liabilities – recognition and derecognition*

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

(ii) *Non-derivative financial assets-measurement*

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables (see note 24) and loans issued.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

The consolidated statement of cash flows, cash and cash equivalents discloses information related to interest-bearing financial instruments with turnover period exceeding three months.

(iii) ***Non-derivative financial liabilities - measurement***

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iv) ***Financial guarantee agreements***

The financial guarantee contracts entered into to guarantee the indebtedness of third and related parties are accounted for in accordance with IFRS 4 Insurance contracts.

(m) Share capital

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

(n) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

(o) Inventories

Inventories include construction in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments intended for sale, raw materials, other work in progress, finished goods and development rights.

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 of completion and selling expenses.

The cost of real estate properties under construction is determined on the basis of their specifically identified individual costs. These costs are allocated to completed individual apartments on a pro rata basis relative to their size. The costs of real estate property comprise costs of construction and other expenditure directly attributable to a particular development project.

When performing a construction of residential real estate, the Group may assume additional obligations, including:

- delivery of certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc, free of consideration receivable;
- construction of certain infrastructure facilities in exchange for the ability to develop the properties, e.g., electricity, sewage systems, roads;
- construction of certain objects for public use, where the expected compensation from the buyers will not completely reimburse the Group's the costs incurred, e.,g., certain parking spaces;

- entering into agreements with local authorities to complete construction of certain residential properties where apartments were pre-sold by a predecessor developer to the general public, however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

If the fulfilment of the terms of such obligations is directly related to the construction of the residential real estate by the Group, the costs to complete the construction are included in the total costs of construction of properties which these obligations relate to.

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

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

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

(p) Impairment

Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

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 year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, 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 is 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 assessments 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 cash-generating unit (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 amortisation, if no impairment loss had been recognised.

(q) Income tax

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

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

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

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets 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 is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be 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 taxable company, or on different tax companies, but 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 activities 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 a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(s) 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. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

30 New standards

A number of new Standards, amendments to Standards are not effective for the annual reporting periods ended 31 December 2017 and have not been applied in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's consolidated financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces existing IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date is 1 January 2018, with earlier application allowed. The standard provides the amended guidance on the classification, recognition and measurement of financial assets and liabilities and hedge accounting. A new expected credit loss model is also introduced, which is more forward looking than the current incurred loss model. The use of the model may lead to earlier recognition of credit losses.

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

The Group's financial assets mainly consist of loans issued and receivables that are measured at amortised cost. The company plans to use a simplified approach and, thus, the expected credit losses from loans and receivables will be recognised on the basis of historical information, adjusted for future expectations.

According to preliminary estimates, as a result of application of IFRS 9 for impairment requirements, additional losses as at 1 January 2018 may range from 2% to 5% of the carrying value of receivables and loans issued. At the same time, the Group continues to develop models of impairment and classification of financial assets.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is first applied to all periods starting from 1 January 2018 onwards, but earlier application is permitted. It is expected that the new standard will replace existing IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes how and when to recognise revenue from contracts with customers. The core principle of the standard is the five-step model framework to be applied to customer contracts. The key factor for revenue recognition is the moment when control is transferred to a customer, depending on which revenue is recognised either over time or at a certain point in time.

The standard also requires a consideration of whether the contract includes a significant financing arrangement, caused by a change in the time value of money. Evaluation of the financing arrangement in the contract is considered impractical if the period between transfer of the goods or services and payment by the customer is less than one year.

Starting from 1 January 2017, sale of real estate in multi-apartment housing complexes is performed in accordance with the new requirements of the Federal Law No. 214-FZ, according to what the developer is entitled to the full amount of consideration under the contract in case the construction of the object is completed without violation of the terms of the co-investment agreement, and the customer has no right to waive the contract obligations unilaterally on the pre-trial basis except the cases when the customer has a contractual right to terminate the agreement. These revisions in the Federal Law No. 214-FZ indicate that the developer will recognise revenue "over time".

Most co-investment agreements concluded by the Group in accordance with the revised 214-FZ allow the customer to terminate the contract by paying a certain penalty. However, a certain number of contracts were concluded without these provisions, and in full accordance with 214-FZ. According to IFRS 15 revenue under such contracts will be recognised in accordance with the "over time" method.

The Group plans to implement IFRS 15 using a retrospective approach. The Group has calculated the effect of applying the standard at the date of transition for comparative information. As a result of retrospective application of the standard, the decrease in net assets as at 31 December 2017 was preliminary estimated to be RUB 9,149 million, including the effect of accrued deferred tax assets in amount of RUB 2,333 million (as at 31 December 2016: a decrease in amount of RUB 4,143 million, including the effect of accrued deferred tax assets in amount of RUB 1,035 million).This preliminary estimate was prepared on the basis of the Group's current accounting policy with exemption of interest capitalization provided by IAS 23 "Borrowing Costs".

The Group continues to consider the impact of the adoption of the standard on its consolidated financial statements and does not expect that the effect of application of the new standard on net assets will differ from that provided above by more than 20%.

(c) IFRS 16 Leases

IFRS 16 "Leases" is applied to all periods starting from 1 January 2019 replaces the existing lease accounting guidance provided in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The Group has started an initial assessment of the potential impact on its consolidated financial statements, however, has not yet determined the likely impact.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land plots for development purposes. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

(d) **Other developments**

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

31 Information on non-IFRS measures

Net debt:

mln RUB	Note	2017	2016
Loans and borrowings, current	21	15,784	10,420
Plus: Loans and borrowings, non-current	21	44,702	55,111
Less: Cash and cash equivalents		(45,452)	(24,812)
Net debt		**15,034**	**40,719**

Development capital expenditure except for cash paid for the acquisition of development rights

mln RUB	Note	2017
Change in:		
Construction work in progress, intended for sale, accounted at historical cost	18	(16,722)
Finished goods and goods for resale	18	7,521
Advances issued under agreements for the acquisition of subsidiaries and development rights	19	13,862
Accounts payable for construction works and other trade payables	23	5,022
Accounts payable for acquisition of development rights	23	197
Provision for cost to complete	22	(7,693)
		2,187
Cost of sales real estate objects		141,972
Acquisition of investment rights for land plots	18	(7,258)
Advances granted for purchasing investment rights	18	(8,575)
Development capital expenditure except for cash paid for the acquisition of development rights		**128,326**

Proceeds from sales of real estate

mln RUB	Note	2017
Change in advances from customers	23	18,525
Revenue from sale of real estate objects	6	169,859
VAT payable*		1,236
Cash Collections from Development		**189,620**

*VAT payable is excluded from revenue from sale of apartments

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

mln RUB	Note	2017	2016 (restated)
Profit and other comprehensive invome for the year		3,154	19,061
Plus: Depreciation of property, plant and equipment and amortisation of intangible assets	13, 14	1,649	930
Plus: Interest expense	10	11,333	3,128
Less: Interest income	10	(3,729)	(2,305)
Plus: Income tax expense, including income tax on discontinued operations	12, 8	1,198	2,703
EBITDA		**13,605**	**23,517**
Impairment loss/(reversal of impairment loss), net	16	2,538	(2,874)
Gain from change in fair value of investment property	15	(967)	(4,629)
Gain on bargain purchase of subsidiaries	7(b)	-	(5,942)
Impairment loss on financial assets, net	10	329	95
Write-off of accounts payable	10	(51)	(156)
Foreign exchange (gain)/loss, net	10	(556)	893
Loss on disposal of property, plant and equipment	9	263	58
Gain from disposal of subsidiaries, development rights and subsidiaries	7	(161)	(50)
Penalties and fines, including provision for litigation and claims	9	1,755	54
Write-off of other materials		119	138
Other financial income	10	(176)	(2)
Gain from change in terms of a long-term financial liability	10	(1,050)	-
Adjusted EBITDA		**15,648**	**11,102**

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Supplementary information not required by IFRS

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) and excluding the cost of land included in the cost of sales

mln RUB	Note	2017	2016 (restated)
Adjusted EBITDA	31	15,648	11,102
Cost of land plots included in the cost of sales		5,047	1,484
Cost of acquisition of projects recorded at fair value included in cost of sales		6,673	-
Adjusted EBITDA excluding cost of land		**27,368**	**12,586**

Net cash from operating activities before acquisition and sale of development rights and land plots and prepayments for development rights

mln RUB	2017	2016 (restated)
Net cash from operating activities before inventories, trade and other receivables and paybles and provision for cost to complete	**14,108**	**11,780**
Changes in:		
Inventories before acqusitions and sale of development rights and land plots	16,265	(13,279)
Trade and other receivables excluding prepayments for development rights and land plots	(14,531)	(2,232)
Trade and other payables	30,609	43,355
Provision for cost to complete	8,018	(737)
Cash flows from operations before income taxes and interest paid and before acqusitions and sale of development rights and land plots and prepayments for development rights	**54,469**	**38,887**
Income taxes paid	(4,559)	(2,526)
Interest paid	(9,848)	(1,373)
Net cash flows from operations before acquisitions and sale of development rights and land plots and prepayments for development rights	**40,062**	**34,988**
Acquisition of development rights and land plots	(7,258)	(17,557)
Sale of development rights and land plots	1,101	178
Prepayments for development rights	(8,575)	1,158
Net cash from operating activities	**25,330**	**18,767**

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of PJSC Group of Companies PIK

Opinion

We have audited the consolidated financial statements of PJSC Group of Companies PIK (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. 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.

Adjustment of the business acquisition results	
Refer to the Note 7 of the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In December 2016 as result of several transactions the Group acquired control over business of a group of companies, comprising a developer of large-scale residential real estate projects, for total consideration of RUB 18,799 million. Management preliminary assessed the fair value of the net identifiable assets acquired in amount of RUB 26,145 million. During the twelve months after the acquisition date management of the Group reconsidered the fair value of the net identifiable assets acquired and adjusted the comparative amounts presented in the consolidated statement of financial position as at 31 December 2016. As a result the on bargain purchase of subsidiaries as previously reported in the consolidated financial statements for 2016, decreased by RUB 1,404 million. The adjustments were determined by management as result of a detailed analysis of the acquired business and identification of additional assets and liabilities which should have been recognized during the purchase price allocation. Fair values of these assets and liabilities were determined by management using professional judgment and assumptions.	We examined the procedures applied by management to determine the adjustments to the fair value of the net identifiable assets acquired. We analyzed the main reasons which entailed the adjustments of the fair value of the net identifiable assets acquired. With assistance of our own valuation specialists we compared the updated valuation models prepared by management for significant components of the acquisition, where additional assets or liabilities were identified and/or where the underlying assumptions were adjusted, with valuation models, tested during the audit of the consolidated financial statements for 2016, and identified the changes in the key inputs. We critically assessed the adjusted key inputs, including forecasted sales volumes and prices as well as components of costs to complete the construction of the projects, including their comparison with technical documentation, and tested the accuracy of the adjusted purchase price allocation. We tested the accuracy of the calculation of the adjusted amount of gain on bargain purchase of subsidiaries. We performed audit procedures with relation to accuracy and completeness of disclosures in Note 7 to the consolidated financial statements.

Accuracy and completes of provision for costs to complete

Refer to the Note 22 of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Due to projects' long operating cycle a significant share of allocated costs may be incurred in the course of the development project subsequent to completion of construction of individual real estate properties and corresponding revenues being recognized. When revenue from sales of real estate properties are recognized, the Group allocates to cost of sales of the properties a share of costs, which will be incurred to construct engineering networks, roads, social infrastructure and neighborhood improvements, as a proportion of sold properties' area to the total project area expected to be sold and recognizes the appropriate provision for costs to complete. As at 31 December 2017 the provision for costs to complete amounts to RUB 18,144 million. Such provision is assessed at each reporting date based on actualized budgets and depends on the individual characteristics of the properties to be constructed and estimation of their costs and construction timeline, which are subject to significant uncertainty. Accordingly, any change in the assumptions may significantly impact the provision's carrying value in the consolidated financial statements of the Group.	We analyzed the Group's budgeting procedures to forecast the costs to complete. On a sample basis, we compared the components of the budgets with the characteristics of the projects as set out in the relevant permission documents as well as with the corresponding decisions made at the Group's investment committees. On a sample basis, we compared the updated budgets with their previous versions, which were used to calculate the provisions for costs to complete at previous reporting dates and critically assessed management's explanations for significant changes. We compared the cost of construction of a square meter in projects where the provision for costs to complete is recognized as at 31 December 2017, with 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 profitability in the construction budgets and in other projects having similar characteristics and challenged inconsistencies identified.

Accuracy and completes of impairment of construction work in progress

Refer to the Note 16 of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group`s inventories, which amount to RUB 243,783 million as at 31 December 2017, mostly comprise properties in uncompleted real estate construction projects.	We analyzed the Group's budgeting procedures to identify epy projects where properties may be sold with low or negative margin. We compared budgeted profitability in such projects and in other projects with

In the course of the preparation of the consolidated financial statements, the Group analyzed construction work in progress in order to identify items with carrying amounts higher than their net realizable value. As a result of the analysis low-profit projects were identified, for which models to calculate the net realizable value were prepared with assistance of an independent appraiser. Inventory impairment amounts to RUB 3,239 million as at 31 December 2017. Construction work in progress, acquired through business combination in December 2016, was recognized at fair value on initial recognition and significantly increased the scale of activities of the Group. As at 31 December 2017 such construction work in progress comprises a significant part of 48% of the total inventories of the Group. Changes were made to architectural, engineering and design solutions in such projects, and they are especially sensitive to changes in market conditions. As a result analysis and determination of impairment requires significant effort and professional judgment, especially with respect to the on-going projects which are new for the Group.	similar characteristics and critically assessed significant inconsistencies identified. We involved our own valuation specialists in the audit process and tested, on a sample basis, the models used to determine the net realizable value, prepared by the independent appraiser, and also critically assessed the key inputs, including the following: — on a sample basis, we compared costs to complete the construction projects used in the models with the characteristics of the projects as set out in the relevant permission documents and updated budgets; — we compared on a sample basis updated budgets with their previous versions at prior reporting dates and critically assessed explanations of significant changes obtained from management; — we compared on a sample basis, forecasted sales prices in on-going projects with actual prices, available in open sources, offered by the Group and its competitors in comparable projects. Also we used our own models to test the accuracy of the models prepared by the independent appraiser, and assessed its competence, experience and professionalism.

Classification and valuation of investment property

Refer to the Note 15 of the consolidated financial statements.

The key audit matter	**How the matter was addressed in our audit**
Investment property of the Group primarily comprises land plots with undetermined use. Such land plots are accounted at fair value, which amounts to RUB 23,690 million as at 31 December 2017. The fair value of land plots, which in substance were ready for development, was determined using the discounted cash flow models. Such approach requires assumptions being made with respect to	We assessed the criteria used by management to initially classify or subsequently reclassify certain land plots into investment property category. We also inspected the internal documentation provided by management to support the absence of any plans to start the development on such land plots and, therefore, existence of uncertainty of future use of these land plots.

future selling prices of the properties, cost and timeline of construction, and discount rates. The fair value of other land plots was determined using the comparative approach, based on the selling prices of similar properties. Fair value estimation requires application of professional judgment, and is subject to significant uncertainties due to: — distant period of possible construction for land plots valued using the discounted cash flow approach; — difficulties in identifying analogs for land plots valued using the comparative approach; — significant volatility of the economical environment. Changes in the above assumptions and estimates may result in significant change in the fair value.	We analyzed the process applied by Group's management to determine the fair value of the investment property, including the involvement of an independent appraiser. We assessed the independent appraiser's competence, experience and professionalism. We involved our own valuation specialists to test the fair value models for significant investment properties, prepared by the independent appraiser, and critically assessed the key inputs used, including timeline of construction, forecasted volume and selling prices, as well as other assumptions and judgments applied on the basis of the available market information. In addition we used our own valuation models to test the accuracy of calculations prepared by the independent appraiser. We compared the fair values determined by the independent appraiser with the cost of acquisition and critically assessed the reasons for significant changes.

Other matter relating to supplementary information

The supplementary information in the accompanying consolidated financial statements, which is presented solely for the convenience of users as described on page 58, does not form part of these 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.

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

Fonareva Svetlana

JSC "KPMG"

Moscow, Russia

13 April 2018