

Significant accounting policies

a) Basis of consolidation

(i) *Business combinations*

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

(ii) *Subsidiaries*

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

(iii) *Transactions eliminated on consolidation*

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

b) Foreign currency

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

c) Financial instruments

(i) *Financial assets*

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

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

Loans and receivables

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

Cash and cash equivalents

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

(ii) Financial liabilities

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

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

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

d) Advances received and paid

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

e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- Buildings and constructions 7-30 years;

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

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

f) Inventories

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

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

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

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

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

The cost of inventories, other than construction work in progress intended for sale, is based on the weighted average cost formula and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity. Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

g) Share-based payment arrangements

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

h) Revenue

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

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

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

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

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

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

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

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

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

When adjusting the promised amount of consideration (monetary or non-monetary) for a significant

financing component, the Group applies discount rates that would be reflected in a separate financing transaction between the entity and its customer at contract inception that is typically the average mortgage rate for contract assets and the Group's incremental borrowing rate for contract liabilities.

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

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

(ii) Revenue from construction services

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

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

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

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

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

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

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

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

(iii) Revenue from sale of construction materials

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

i) Income tax

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

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

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

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

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

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

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

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

j) New Standards and Interpretations

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

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

IFRS 16 Leases

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

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

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

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

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019

may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

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

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

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

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

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

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

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

Other standards and interpretations

Various *Improvements to IFRSs* and other amendments have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2019. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

2 Determination of fair values

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

a) Non-derivative financial assets

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

b) Non-derivative financial liabilities

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

3 Operating segments

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

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

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

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