RSG International Ltd

Unaudited interim condensed consolidated financial statements

For the six month period ended 30 June 2018

Contents

General information

Report on review of interim condensed consolidated financial statements

Interim condensed consolidated financial statements

Notes to the unaudited interim condensed consolidated financial statements

General information

Board of Directors

Georghios Fisentzides (appointed on 21 June 2016)
Savvas Lazarides (appointed on 17 February 2012, resigned on 6 April 2018)
Stelios Trikou (appointed on 13 April 2016, resigned on 6 April 2018)

Company secretary

Georghios Fisentzides (appointed 6 April 2018)
5 Miaouli, Larnaka, 6017
Cyprus

A.J.K. Management Services Limited (resigned on 6 April 2018)
1 Naousis, Karapatakis bldg
Larnaca, 6018

Registration number

C226111

Registered office

16, Spyrou Kyprianou Avenue, H&S Centre, First Floor, Office 104
Larnaca, 6018
Cyprus

Independent auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
6 Stasinou Avenue P.O. Box 21656
1511 Nicosia
Cyprus

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511 Nicosia, Cyprus

Tel: +357 22209999
Fax: +357 22209998
ey.com/cy

Report on review of interim condensed consolidated financial statements

To the shareholders of RSG International Ltd

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of RSG International Ltd and its subsidiaries (the "Group") as of 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and changes in cash flows for the six-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information does not present fairly, in all material respects, the financial position of the entity as at June 30, 2018, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Nicolas Pavlou
Certified Public Accountant and Registered Auditor
For and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
24 September 2018

Interim condensed consolidated statement of profit or loss

For the six months ended 30 June 2018

(in thousands of US dollars)

		Six months ended	
	Notes	***30 June 2018 (unaudited)***	***30 June 2017 (unaudited) Restated****
Continuing operations			
Revenue	7.1	128,586	113,470
Cost of sales	7.3	(98,202)	(93,595)
Gross profit		**30,384**	**19,875**
General and administrative expenses	7.4	(11,395)	(9,767)
Other operating income	7.6	2,274	645
Other operating expenses	7.6	(14,602)	(22,492)
Change in fair value of investment property	11	2,008	(3,979)
Operating profit/(loss)		**8,669**	**(15,718)**
Finance income	7.5	7,278	8,929
Finance costs	7.5	(17,364)	(19,928)
Foreign exchange gain/(losses), net		538	(125)
Share of losses of associates	6	(51)	(7)
Loss before income tax from continuing operations		**(930)**	**(26,849)**
Income tax (expense)/benefit	8	(4,271)	39
Net loss for the year from continuing operations		**(5,201)**	**(26,810)**
Discontinued operations			
Loss after tax for the year from discontinued operations	5	–	(181)
Loss for the year		**(5,201)**	**(26,991)**
Attributable to:			
Equity holders of the parent		(5,306)	(27,034)
Non-controlling interests		105	43

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements for six months ended 30 June 2017 and reflect adjustments from correction of errors and discontinued operations as described in Note 4 and Note 5, accordingly.*

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2018

(in thousands of US dollars)

	Notes	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited) Restated*
Net loss		**(5,201)**	**(26,991)**
Other comprehensive income			
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods			
Effect of translation to presentation currency − attributable to non-controlling interests		(811)	268
Effect of translation to presentation currency − attributable to equity holders of the parent		(23,465)	8,683
Other comprehensive (loss)/income, net of tax		**(24,276)**	**8,951**
Total comprehensive loss, net of tax		**(29,477)**	**(18,040)**
Attributable to:			
Equity holders of the parent		(28,771)	(18,351)
Non-controlling interests		(706)	311

The accompanying notes on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of financial position

At 30 June 2018

(in thousands of US dollars)

	Notes	*30 June 2018 (unaudited)*	*31 December 2017 (audited)* Restated*
Assets			
Non-current assets			
Property, plant and equipment	9	10,409	10,617
Investment properties	11	165,268	192,285
Investments in associates	6	700	758
Intangible assets	10	23,884	26,955
Inventories	13	22,433	24,436
Trade and other receivables	14	2,208	2,678
Interest-bearing loans receivable	12	–	13,989
Interest-bearing loans receivable at FVPL	12	9,455	–
Deferred tax assets		9,514	10,038
		243,871	**281,756**
Current assets			
Inventories	13	323,126	331,962
Trade and other receivables	14	12,750	23,032
Contract assets		7,400	6,554
Prepayments	15	24,192	23,621
Income tax receivable		5,087	4,330
Taxes recoverable		9,052	7,120
Interest-bearing loans receivable	12	–	38,522
Interest-bearing loans receivable at amortised cost	12	20,407	–
Interest-bearing loans receivable at FVPL	12	25,032	–
Cash and cash equivalents	16	123,690	135,307
		550,736	**570,448**
Investment properties held for sale	11	-	868
Assets held for sale	5	-	4,805
		550,736	**576,121**
Total assets		**794,607**	**857,877**
Equity and liabilities			
Equity			
Issued capital	17	6,787	6,787
Share premium		682,222	671,712
Capital contribution reserve	17	(69,011)	(68,731)
Business combination reserve		112,009	112,009
Accumulated losses		(128,585)	(116,304)
Foreign currency translation reserve		(346,049)	(322,584)
Equity attributable to equity holders of the parent		**257,373**	**282,889**
Total non-controlling interests		10,116	11,137
Total equity		**267,489**	**294,026**
Non-current liabilities			
Interest-bearing loans and borrowings	18	37,849	51,986
Debt securities issued	19	171,446	173,267
Contract liabilities		23,270	25,481
Other liabilities	21	9,773	10,738
Deferred income tax liabilities		49,009	50,938
		291,347	**312,410**
Current liabilities			
Interest-bearing loans and borrowings	18	36,947	25,197
Debt securities issued	19	39,391	62,516
Trade and other payables	20	35,497	31,311
Contract liabilities		108,705	113,323
Income taxes payable		5,293	6,973
Other taxes payable		2,077	2,093
Provisions	22	1,149	1,377
Other liabilities	21	6,712	7,295
Liabilities directly associated with the assets held for sale	5	-	1,356
		235,771	**251,441**
Total liabilities		**527,118**	**563,851**
Total equity and liabilities		**794,607**	**857,877**

* *The amounts shown here do not correspond to the consolidated statement of financial position for the period ended 31 December 2017 and reflect adjustments from correction of errors as described in Note 4.*

On 24 September 2018, the Board of Directors of RSG International Ltd authorized these interim condensed consolidated financial statements for issue.

Georghios Fisentzides ____________ Director

The accompanying notes on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

For the six months ended 30 June 2018

(in thousands of US dollars)

	Six months ended 30 June 2018 (unaudited)	*Six months ended 30 June 2017 (unaudited)* Restated*
Cash flows from operating activities		
Loss before tax from continuing operations	(930)	(26,849)
Loss before tax from discontinuing operations	–	(215)
Loss before tax	**(930)**	**(27,064)**
Adjustments for:		
Depreciation and amortization (Note 7.2)	349	366
Finance income (Note 7.5)	(7,278)	(8,929)
Finance costs (Note 7.5)	17,364	19,928
Change in fair value of investment properties (Note 11)	(2,008)	3,979
(Gain)/loss on sale of property, plant and equipment (Note 7.6)	(8)	46
Write-down of inventory to net realizable value (Note 13)	4,023	2,227
Allowance for expected credit loss recognized on trade and other receivables, impairment of prepayments (Note 7.6)	987	213
Change in legal provisions (Note 7.6)	72	475
Foreign exchange (gain)/loss	(538)	125
Change in bonuses and unused vacation accruals	2,608	1,938
Losses from write-off of VAT receivable	168	575
Share of losses of associates (Note 6)	51	7
Gain on derecognition of accounts payable (Note 7.6)	(443)	(258)
Barter revenue (Note 7.1)	(79)	(1,723)
Cost of capitalized development rights (Note 7.3)	1,547	762
Capitalized significant financing component on contract liability	3,211	322
Significant financing component on contract liability	(2,288)	(458)
Other non-cash operations	145	507
Non-cash adjustments for discontinued operations	–	47
Operating cash flow before working capital changes	**16,953**	**(6,915)**
(Increase)/decrease in inventories	(2,681)	5,587
Decrease in trade and other receivables, contract assets	11,302	3,922
Decrease/(increase) in prepayments	308	(1,737)
Increase in VAT receivable	(2,851)	(1,407)
Increase/(decrease) in trade and other payables	332	(10,336)
Increase in contract liabilities	3,639	8,685
Increase/(decrease) in other taxes payable	153	(622)
Decrease in provisions	(6)	(12)
(Decrease)/increase in other liabilities	(670)	955
Cash flows from / (used in) operating activities	**26,479**	**(1,880)**
Income tax paid	(4,392)	(7,228)
Interest paid	(19,021)	(17,156)
Net cash flows from / (used in) operating activities from continuing operations	**3,066**	**(26,073)**
Net cash flows used in operating activities from discontinued operations	**–**	**(1,450)**
Net cash flows from / (used in) operating activities	**3,066**	**(27,523)**
Cash flows from investing activities		
Purchase of investment properties	(1,073)	(394)
Purchase of property, plant and equipment	(563)	(249)
Proceeds from sale of property, plant and equipment and investment properties	475	6
Contribution to investment in associate (Note 6)	(56)	–
Issuance of loans receivable	(30,638)	(5,853)
Repayment of loans receivable	19,005	14,100
Interest received	17	1,052
Net cash flows (used in) / from investing activities from continuing operations	**(12,833)**	**8,662**
Net cash flows from investing activities from discontinued operations	**–**	**–**
Net cash (used in) / from investing activities	**(12,833)**	**8,662**
Cash flows from financing activities		
Proceeds from borrowings and bonds	33,405	117,199
Repayment of borrowings and bonds	(34,440)	(60,899)
Dividends paid to shareholders (Note 17)	–	(6,213)
Issue of share capital (Note 17)	9,404	–
Repayment of finance lease obligations	(125)	(124)
Net cash flows from financing activities from continuing operations	**8,244**	**49,963**
Net cash flows from financing activities from discontinued operations	**–**	**926**
Net cash flows from financing activities	**8,244**	**50,889**
Effect of exchange rate changes on cash and cash equivalents	(10,094)	3,232
Net (decrease)/increase in cash and cash equivalents	**(11,617)**	**35,260**
Excluding the effect of cash and cash equivalents change for discontinued operations	–	471
Cash and cash equivalents at the beginning of the year	135,307	145,938
Cash and cash equivalents at the end of the year	**123,690**	**180,727**

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements for six months ended 30 June 2017 and reflect adjustments from correction of errors and discontinued operations described in Note 4 and Note 5, accordingly.*

The accompanying notes on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2018

(in thousands of US dollars)

	Attributable to the equity holders of the parent								
	Issued capital	***Share premium***	***Capital contribution reserve***	***Business combination reserve***	***Accumulated losses***	***Foreign currency translation reserve***	***Total***	***Non-controlling interests***	***Total equity***
As at 31 December 2016 (audited)	**6,787**	**671,712**	**(70,256)**	**112,009**	**(67,289)**	**(338,682)**	**314,281**	**10,483**	**324,764**
Impact of adopting IFRS 15 (Note 3.2)	–	–	–	–	(2,002)	–	**(2,002)**	–	**(2,002)**
Restated opening balance as at 1 January 2017 under IFRS 15	**6,787**	**671,712**	**(70,256)**	**112,009**	**(69,291)**	**(338,682)**	**312,279**	**10,483**	**322,762**
Net (loss)/income for the reporting period (as previously reported)	–	–	–	–	(28,325)	–	**(28,325)**	43	**(28,282)**
Adjustment on correction of errors (Note 4)	–	–	–	–	1,291	–	**1,291**	–	**1,291**
Net (loss)/income for the reporting period (restated*)	**–**	**–**	**–**	**–**	**(27,034)**	**–**	**(27,034)**	**43**	**(26,991)**
Other comprehensive income (as previously reported)	–	–	–	–	–	8,719	**8,719**	268	**8,987**
Adjustment on correction of errors (Note 4)	–	–	–	–	–	(36)	**(36)**	–	**(36)**
Other comprehensive income for the reporting period (restated*)	**–**	**–**	**–**	**–**	**–**	**8,683**	**8,683**	**268**	**8,951**
Total comprehensive (loss)/income (restated*)	**–**	**–**	**–**	**–**	**(27,034)**	**8,683**	**(18,351)**	**311**	**(18,040)**
Dividends paid to the equity holders of the parent (Note 17)	–	–	–	–	(6,017)	–	**(6,017)**	–	**(6,017)**
Capital contributions from shareholders (Note 17)	–	–	1,525	–	–	–	**1,525**	–	**1,525**
As at 30 June 2017 (restated)*	**6,787**	**671,712**	**(68,731)**	**112,009**	**(102,342)**	**(329,999)**	**289,436**	**10,794**	**300,230**

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements for six months ended 30 June 2017 and reflect adjustments from correction of errors and discontinued operations described in Note 4 and Note 5, accordingly.*

The accompanying notes on pages 7 to 38 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity (continued)

	Attributable to the equity holders of the parent								
	Issued capital	***Share premium***	***Capital contribution reserve***	***Business combination reserve***	***Accumulated losses***	***Foreign currency translation reserve***	***Total***	***Non-controlling interests***	***Total equity***
As at 31 December 2017 (audited)	**6,787**	**671,712**	**(68,731)**	**112,009**	**(115,074)**	**(322,572)**	**284,131**	**11,137**	**295,268**
Adjustment on correction of errors (Note 4)	–	–	–	–	(1,230)	(12)	**(1,242)**	–	**(1,242)**
As at 31 December 2017 (restated*)	**6,787**	**671,712**	**(68,731)**	**112,009**	**(116,304)**	**(322,584)**	**282,889**	**11,137**	**294,026**
Impact of adopting IFRS 9 (Note 3.2)	–	–	–	–	(7,192)	–	**(7,192)**	–	**(7,192)**
Restated opening balance as at 1 January 2017 under IFRS 9	**6,787**	**671,712**	**(68,731)**	**112,009**	**(123,496)**	**(322,584)**	**275,697**	**11,137**	**286,834**
Net (loss)/income for the reporting period	–	–	–	–	(5,306)	–	**(5,306)**	105	**(5,201)**
Other comprehensive loss	–	–	–	–	–	(23,465)	**(23,465)**	(811)	**(24,276)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(5,306)**	**(23,465)**	**(28,771)**	**(706)**	**(29,477)**
Share capital increase	–	10,510	–	–	–	–	**10,510**	–	**10,510**
Acquisition of non-controlling interests (Note 17)	–	–	–	–	217	–	**217**	(217)	**–**
Dividends paid to the non-controlling interests holders (Note 17)	–	–	–	–	–	–	**–**	(98)	**(98)**
Capital contributions from shareholder (Note 17)	–	–	349	–	–	–	**349**	–	**349**
Capital distributions to shareholder (Note 17)	–	–	(629)	–	–	–	**(629)**	–	**(629)**
As at 30 June 2018 (unaudited)	**6,787**	**682,222**	**(69,011)**	**112,009**	**(128,585)**	**(346,049)**	**257,373**	**10,116**	**267,489**

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements for six months ended 30 June 2017 and reflect adjustments from correction of errors and discontinued operations described in Note 4 and Note 5, accordingly.*

(in thousands of US dollars)

1. Corporate information

The interim condensed consolidated financial statements of RSG International Ltd (hereinafter "the Company") and its subsidiaries (hereinafter, "RSG International" or "the Group") for the six months ended 30 June 2018 were authorized for issue on 24 September 2018.

RSG International Ltd was incorporated in the Republic of Cyprus on 24 March 2008 as a limited liability company under the Republic of Cyprus Companies Law, Cap.113. The Company's registered office is located at 16, Spyrou Kyprianou Avenue, H&S Centre, First Floor, Office 104, 6018, Larnaca, Republic of Cyprus. The parent company of the Group is Kortros LLC.

Mr. Victor Vekselberg is the ultimate controlling party of the Group.

Principal activities

Principal activities of the Group include investments in and construction of real estate properties for their further sale, rent or holding for capital appreciation purposes and construction of business and residential property in Moscow and Moscow region, Ural Federal District, Northwestern Federal District and other regions of the Russian Federation. The Group specializes on projects of Complex Territories Development (CTD), which envisage the creation of balanced city-building solution (residential properties, infrastructure, work, social sphere, leisure) and its implementation on the specific land plot.

The interim condensed consolidated financial statements include the financial statements of RSG International Ltd and its more than forty wholly owned subsidiaries and one subsidiary representing the Group's Federal District in which a minority shareholder holds 3% interest.

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. For the six months ended 30 June 2018, the Group reported operating cash inflow from continuing operations of $3,066 and net loss from continuing operations of $5,201. For the six months ended 30 June 2017, the Group reported operating cash outflow from continuing operations of $26,073 and net loss from continuing operations of $26,810.

Abovementioned factors do not create going concern risks as the Group still has the ability to settle its current financial and non-financial obligations in a normal course of business (current assets exceed current liabilities by $314,965 as at 30 June 2018 (31 December 2017: $324,680)). In addition the Group has the possibility to attract additional financing if necessary since the unused borrowing facilities amount to $30,533 as at 30 June 2018 (31 December 2017: $73,380).

In the next twelve months, the Group expects to finance its operating and investing activities primarily with cash generated from operations, through attraction of additional borrowings from banks and renegotiating of its short-term loans. Management believes that necessary financing will be available to the Group and it will be able to pay debts as they become due.

Based on the current market conditions the Board and the management have reasonable expectations that the Group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparation of these consolidated financial statements.

2. Significant accounting policies

2.1 Basis of preparation

Statement of compliance

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

(in thousands of US dollars)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Basis of preparation

These interim condensed consolidated financial statements have been prepared on a historical cost basis except when otherwise stated further.

The interim condensed consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated. The functional currency of the Company and its subsidiaries is the national currency of the Russian Federation, Russian ruble ("RUR"). At 30 June 2018, the principal rate of exchange used for translating the balances on the Group's interim condensed consolidated statement of financial position from functional currency to presentation currency was 62.7565 RUR/US dollars (USD) (30 June 2017: 59.0855 RUR/USD). The average rate used for translation of the Group's interim condensed consolidated statement of profit or loss from functional currency to presentation currency for the first half-year of 2018 was 59.3536 RUR/USD (2017: 57.9862 RUR/USD). Whenever a significant individual transaction can be attributed to a specific date, it was translated into the US dollars using the rate of the date of the transaction.

3. Changes in accounting policies and disclosures

3.1 New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards adopted by the EU and effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15 *Revenue from Contracts with Customers* became effective as of 1 January 2018 as adopted by EU, however this standard was already applied by the Group for the first time in the consolidated financial statements of the Group for 2017 year using the modified retrospective method starting from 1 January 2017. The nature and effect of these changes for 6 months 2017 and 2017 financial statement amounts were disclosed in the annual consolidated financial statements for 2017.

The following new standards and amendments which became effective as of 1 January 2018 as adopted by the EU were applied by the Group for the first time:

- IFRS 9 *Financial Instruments*;
- IFRIC Interpretation *22 Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures − clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards − deletion of short-term exemptions for first-time adopters*.

The nature and the impact of each new standard or amendment adopted by the Group that could have any potential effect on the Group's financial statements are described below:

Amendments to IAS 40 Transfers of Investment Property clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have significant impact on the Group's interim condensed consolidated financial statements.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.2 Application of new and revised International Financial Reporting Standards (IFRSs)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it), on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation does not have a significant impact on the Group's interim condensed consolidated financial statements.

Other new standards and amendments applied for the first time in 2018, did not have any impact on the interim condensed consolidated financial statements of the Group.

The application of IFRS 9 has had a significant impact on the financial position and financial performance of the Group and is described in Note 3.2 below.

IFRS 9 Financial Instruments

The Group applies, for the first time, IFRS 9 *Financial instruments*, which replaces IAS 39 *Financial instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Group has not applied IFRS 9 retrospectively and has not adjusted the comparative information for the period beginning 1 January 2017. Therefore, comparative information for the year 2017 is presented in compliance with IAS 39 and is not consistent with the information for the six months ended 30 June 2018. Adjustments arising from IFRS 9 implementation have been recognized directly in Equity as at 1 January 2018 and are disclosed further.

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- *Debt instruments at amortised cost* for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Interest-bearing loans receivable to individuals.
- *Financial assets at FVPL* comprise debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. As of 1 January 2018, the Group's analysis highlighted that certain loans receivable did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by the Group as financial assets at FVPL. As a result of the reclassification, no significant impact was recognised by the Group as of 1 January 2018.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For *contract assets* and *trade and other receivables*, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(c) Effect of IFRS 9 implementation

A reconciliation as at 1 January 2018 between the carrying amounts of financial and non-financial assets measured in accordance with IAS 39 and IFRS 9 is presented below.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

		IAS 39 measurement			***IFRS 9 measurement***		
	Note	***Category***	***Amount***	***Reclassi-fication***	***Provisions remeasure-ment***	***Amount***	***Category***
Financial assets							
Cash and cash equivalents	16	L&R*	135,307	–	–	135,307	Amortised cost
Trade and other receivables	14	L&R*	23,032	–	–	23,032	Amortised cost
Interest-bearing loans receivable	12	L&R*	52,511	(52,511)	–	–	–
Loans receivable at FVPL	12	–	–	28,735	–	28,735	FVPL
Loans receivable at amortised cost	12	–	–	23,776	(7,192)	16,584	Amortised cost
Non-financial assets							
Deferred tax assets			10,038	–	–	10,038	
Total assets			**220,888**	**–**	**(7,192)**	**213,696**	

* *Loans and receivables.*

(in thousands of US dollars)

3. Changes in accounting policies and disclosures (continued)

3.2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Impact of IFRS 9 implementation to Accumulated losses is reflected below:

	Accumulated losses
Balance as at 31 December 2017 (in compliance with IAS 39)	**116,304**
Allowance for expected credit losses	(7,192)
Restated opening balance as at 1 January 2018 under IFRS 9	**123,496**

A reconciliation of the impairment provision under IAS 39 and IFRS 9 is presented below:

	Impairment provision under IAS 39 as at 31 December 2017	***Remeasurement***	***Impairment provision under IFRS 9 as at 1 January 2018***
Loans receivable at amortised cost	–	(7,192)	(7,192)

4. Restatement of comparative information

In the process of preparation of these condensed consolidated financial statements for six months ended 30 June 2018, the Group identified and corrected the following errors through restatement of the comparative information:

(a) The Group identified error in calculation of total revenue and relevant cost of sales recognised during six months ended 30 June 2017. As a result, revenue for the six months ended 30 June 2017 and cost of sales were overstated by $717 and $411, respectively, and contract liabilities and inventories as at 30 June 2017 were understated by $704 and $403, respectively.

(b) During the six months ended 30 June 2017 the Group has incorrectly determined amount of interest expenses eligible for capitalisation into cost of inventories. As a result, carrying value of inventories as at 30 June 2017 was understated by $2,941 and finance expenses and cost of sales for the six months ended 30 June 2017 were overstated by $2,862 and by $135; respectively.

(c) The Group identified error in the calculation of net realizable value of inventories and provision for onerous contracts. As a result, carrying value of inventories as at 30 June 2017 and cost of sales for the six months ended 30 June 2017 were overstated by $1,057 and by $206; respectively, and other operating expenses for the six months ended 30 June 2017 were understated by $1,283. Further, as a result of this error, carrying value of inventories as at 31 December 2017 was overstated by $1,553 and other operating expenses for 2017 year was understated by $1,537.

(d) The Group incorrectly presented contract liabilities and contract assets for different contracts with different customers on a net basis. As a result, contract assets and contract liabilities as at 30 June 2017 were understated by $3,397.

(e) Deferred income effects related to all the above adjustments were recognised accordingly.

(f) Effects of translation to presentation currency related to adjustments (a)-(c), (e) were recognised accordingly.

(in thousands of US dollars)

4. Restatement of comparative information (continued)

Impact of the above errors on the statement of financial position as at 31 December 2017 and statement of profit and loss for the year ended 31 December 2017 is as follows:

		For the year ended 31 December 2017		
		As reported	*Correction of errors*	*As restated*
Consolidated statement of profit or loss				
Continuing operations				
Other operating expenses	(c)	(42,993)	(1,537)	(44,530)
Operating profit/(loss)		**4,455**	**(1,537)**	**2,918**
Loss before income tax		**(17,489)**	**(1,537)**	**(19,026)**
Income tax expense	(e)	(5,318)	307	(5,011)
Loss for the year from continuing operations		**(22,807)**	**(1,230)**	**(24,037)**
Loss for the year from discontinued operations		**(6,458)**	**–**	**(6,458)**
Loss for the year		**(29,265)**	**(1,230)**	**(30,495)**
Attributable to:				
Equity holders of the parent		(29,424)	(1,230)	(30,654)
Non-controlling interests		159	–	159

		As of 31 December 2017		
		As reported	*Correction of errors*	*As restated*
Consolidated statement of financial position				
Non-current assets				
Deferred tax assets	(e)	9,727	311	10,038
Total non-current assets		**281,445**	**311**	**281,756**
Current assets				
Inventories	(c)	333,515	(1,553)	331,962
Total current assets		**577,674**	**(1,553)**	**576,121**
Total assets		**859,119**	**(1,242)**	**857,877**
Equity				
Foreign currency translation reserve	(f)	(322,572)	(12)	(322,584)
Accumulated losses	(c)	(115,074)	(1,230)	(116,304)
Equity attributable to equity holders of the Parent		**284,131**	**(1,242)**	**282,889**
Total non-controlling interests		**11,137**	**–**	**11,137**
Total equity		**295,268**	**(1,242)**	**294,026**

(in thousands of US dollars)

4. Restatement of comparative information (continued)

		For the year ended 31 December 2017		
		As reported	***Correction of errors***	***As restated***
Consolidated statement of cash flows				
Loss before tax from continuing operations		(17,489)	(1,537)	(19,026)
Loss before tax from discontinued operations		(6,580)	–	(6,580)
Loss before tax for the year		**(24,069)**	**(1,537)**	**(25,606)**
Other operating expenses	(c)	6,671	1,537	8,208

Impact of the above errors on the interim financial statements for the six month period ended 30 June 2017 is as follows:

		As of 30 June 2017		
		As reported (unaudited)*	***Correction of errors***	***As restated (unaudited)***
Consolidated statement of financial position				
Non-current assets				
Deferred tax assets	(e)	10,573	(266)	10,307
Total non-current assets		**262,311**	**(266)**	**262,045**
Current assets				
Inventories	(a), (b), (c)	357,046	2,287	359,333
Contract assets	(d)	–	3,397	3,397
Total current assets		**604,176**	**5,684**	**609,860**
Total assets		**866,487**	**5,418**	**871,905**
Liabilities				
Long-term liabilities				
Deferred income tax liabilities	(e)	48,401	62	48,463
Total long-term liabilities		**247,974**	**62**	**248,036**
Current liabilities				
Contract liabilities	(a), (d)	132,364	4,101	136,465
Total current liabilities		**319,543**	**4,101**	**323,644**
Equity				
Foreign currency translation reserve	(f)	(329,963)	(36)	(329,999)
Retained earnings	(a), (b), (c)	(103,633)	1,291	(102,342)
Equity attributable to equity holders of the parent		**288,181**	**1,255**	**289,436**
Total non-controlling interests		**10,794**	**–**	**10,794**
Total equity		**298,975**	**1,255**	**300,230**

(in thousands of US dollars)

4. Restatement of comparative information (continued)

		For the period ended 30 June 2017			
		*As reported (unaudited)**	*Correction of errors*	*Discontinued operations (see Note 5)*	*As restated (unaudited)*
Consolidated statement of profit or loss					
Continuing operations					
Revenue	(a)	115,663	(717)	(1,476)	113,470
Cost of sales	(a), (b), (c)	(95,786)	752	1,439	(93,595)
Gross profit		**19,877**	**35**	**(37)**	**19,875**
General and administrative expenses		(9,797)	–	30	(9,767)
Other operating income		721	–	(76)	645
Other operating expenses	(c)	(21,557)	(1,283)	348	(22,492)
Operating loss		**(14,735)**	**(1,248)**	**265**	**(15,718)**
Finance income		8,982	–	(53)	8,929
Foreign exchange losses, net		(115)	–	(10)	(125)
Finance costs	(b)	(22,803)	2,862	13	(19,928)
Loss before income tax from continuing operations		**(28,678)**	**1,614**	**215**	**(26,849)**
Income tax expense	(e)	396	(323)	(34)	39
Net loss for the year from continuing operations		**(28,282)**	**1,291**	**181**	**(26,810)**
Discontinued operations					
Loss after tax for the year from discontinued operations		–	–	(181)	(181)
Loss for the period		**(28,282)**	**1,291**	**–**	**(26,991)**
Attributable to:					
Equity holders of the parent		(28,325)	1,291	–	(27,034)
Non-controlling interests		43	–	–	43

(in thousands of US dollars)

4. Restatement of comparative information (continued)

		For the period ended 30 June 2017			
		As reported (unaudited)*	***Correction of errors***	***Discontinued operations***	***As restated (unaudited)***
Consolidated statement of cash flows					
Loss before tax from continuing operations	(a), (b), (c)	(28,678)	1,614	215	(26,849)
Loss before tax from discontinued operations	Note 5	–	–	(215)	(215)
Adjustments for:					
Depreciation and amortization	Note 5	371	–	(5)	366
Finance income	Note 5	(8,982)	–	53	(8,929)
Finance costs	(b)	22,803	(2,862)	(13)	19,928
(Gain)/loss on sale of property, plant and equipment	Note 5	94	–	(48)	46
Write-down of inventory to net realizable value	(c), Note 5	944	1,283	–	2,227
Impairment loss recognized on trade and other receivables, prepayments	Note 5	226	–	(13)	213
Foreign exchange (gain)/loss	Note 5	115	–	10	125
Change in bonuses and unused vacation accruals	Note 5	1,942	–	(4)	1,938
Losses from write-off of VAT receivable	Note 5	615	–	(40)	575
Barter revenue**		–	(1,723)	–	(1,723)
Cost of capitalized development rights**		–	762	–	762
Other non-cash operations**		(440)	947	–	507
Non-cash adjustments for discontinued operations**		–	(13)	60	47
Operating cash flow before working capital changes		**(6,923)**	**8**	**–**	**(6,915)**
Change in inventories	(a), (b), (c)	4,713	(692)	1,566	5,587
Changes in trade and other receivables, contract assets	(d)	7,558	(3,397)	(239)	3,922
Decrease/(increase) in prepayments	Note 5	(1,739)	–	2	(1,737)
Increase in VAT receivable	Note 5	(1,460)	–	53	(1,407)
Increase/(decrease) in trade and other payables	Note 5	(10,394)	–	58	(10,336)
Increase in contract liabilities	(a), (d)	4,788	4,101	(204)	8,685
Increase/(decrease) in other taxes payable	Note 5	(615)	–	(7)	(622)
Interest paid	Note 5	(17,186)	–	30	(17,156)
Net cash flows (used in) operating activities from continuing operations		**(27,542)**	**19**	**1,450**	**(26,073)**
Net cash flows used in operating activities from discontinued operations		**–**	**–**	**(1,450)**	**(1,450)**
Effect of exchange rate changes on cash and cash equivalents	Note 5	**3,251**	**(19)**	**–**	**3,232**

* *The amounts shown here do not correspond to the interim financial statements for the six month period ended 30 June 2017 as the Group applied IFRS 15 after it had issued respective interim financial statements. Consequently, the effect of application of IFRS 15 was disclosed in the Note 3.3 of the annual consolidated financial statements for the year ended 31 December 2017.*

** *Represent reclassifications made for presentation purposes only (segregation of barter revenue and cost of capitalized development rights from other non-cash operations).*

(in thousands of US dollars)

5. Discontinued operations

In the second half of 2017, the Group decided to close its operating segment in the Central Federal District of the Russian Federation, which is represented by the one subsidiary of the Group. At 31 December 2017, assets and liabilities of the company were classified as a disposal group held for sale and as a discontinued operations. The business of the company represented the entirety of the Group's Central region operating segment until 1 July 2017. With subsidiary being classified as discontinued operations, the Central region segment is no longer presented in the segment note (Note 26).

The results of the disposal segment are presented below:

	For the six months ended 30 June	
	2018	***2017***
Revenue	–	1,476
Cost of sales	–	(1,439)
Gross profit	**–**	**37**
General and administrative expenses	–	(30)
Other operating income	–	76
Other operating expenses	–	(348)
Operating loss	**–**	**(265)**
Finance income	–	53
Finance cost	–	(13)
Foreign exchange gain/(losses), net	–	10
Loss for the period before income tax from discontinued operations	**–**	**(215)**
Tax benefit		
Related to pre-tax loss from the ordinary activities for the period	–	34
Post-tax loss of discontinued operations	**–**	**(181)**
Loss on the sale of the discontinued operations	–	–
Attributable tax expense	–	–
Post tax loss on the sale of discontinued operations	**–**	**–**
Loss after tax for the period from discontinued operations	**–**	**(181)**

The major classes of assets and liabilities classified as held for disposal as at disposal date are, as follows:

	2017
Assets	
Property, plant and equipment	6
Deferred tax assets	115
Inventories	3,318
Trade and other receivables	75
Prepayments	837
Taxes recoverable	59
Cash and cash equivalents	395
Assets held for sale	**4,805**
Liabilities	
Trade and other payables	(101)
Contract liabilities	(1,255)
Liabilities directly associated with assets held for sale	**(1,356)**
Net assets directly associated with disposal group	**3,449**

(in thousands of US dollars)

5. Discontinued operations (continued)

On 12 February 2018 the Group has lost control over respective subsidiary. No cash consideration was received before 30 June 2018. Results on the sale of discontinued operations are presented below:

Consideration	3,499
Net assets of the disposal group	(3,499)
Loss on the sale of discontinued operations	**–**
Income tax effects	–
Post tax loss on the sale of discontinued operations	**–**

The net cash flows generated from the sale of subsidiary are, as follows (net cash outflow was disclosed in financial statements as of 31 December 2017 at the classification of assets as relate to discontinued operations)

Consideration	3,499
Offset with the liabilities	(3,499)
Cash sold as part of discontinued operations	(395)
Net cash flow	**(395)**

6. Investment in associates

The Group accounts for investments in associates under the equity method.

The Group has 25% + 1 share in the entity that provides services to citizens of Ural Region of the Russian Federation. In June 2018, the Group recognized additions to its investments in associates due to cash contribution in the associate entity, the Group's share remained unchanged.

The effect on financial statements of movement of investment in the associate was as follows:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Opening balance as at 1 January	**758**	**487**
Cash contribution	56	–
Share of loss for the period	(51)	(7)
Translation difference	(63)	14
Closing balance at 30 June	**700**	**494**

(in thousands of US dollars)

7. Income and expenses

7.1 Revenues

Revenues include the following:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Revenue from contracts with customers		
Sales of residential property	125,264	106,452
Barter revenue	79	1,723
Agency services	715	1,686
Sales of heating energy and electricity	795	1,968
Other revenue	1,048	958
Total revenue from contracts with customers	**127,901**	**112,787**
Rental income	685	683
Total	**128,586**	**113,470**

Revenues from contracts with customers include the following:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Revenue recognized over time		
Sales of residential property	74,894	25,806
Total revenue recognized over time	**74,894**	**25,806**
Revenue recognized at point in time		
Sales of residential property	50,370	80,646
Barter revenue	79	1,723
Agency services	715	1,686
Sales of heating energy and electricity	795	1,968
Other revenue	1,048	958
Revenue recognized at point in time	**53,007**	**86,981**
Total revenue from contracts with customers	**127,901**	**112,787**

Revenue of each reportable segment, presented in the Note 26, mainly comprise of revenue from sales of residential property, except for the segment "Management Company" which revenue mainly comprise of rental income.

7.2 Employee benefits, depreciation and amortization

Staff costs, depreciation of property, plant and equipment and amortization of intangible assets included in cost of sales, general and administrative expenses and other expenses amounted to the following:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Staff costs, including social security taxes	8,623	7,605
- Payroll costs and other staff costs	*7,519*	*6,424*
- Social security taxes	*1,104*	*1,181*
Depreciation and amortisation	349	366

Staff costs capitalized as a part of additions to inventories amounted to $13,414 for six months ended 30 June 2018 (six months ended 30 June 2017: $9,285).

An average annual number of employees for the six months period ended 30 June 2018 was 535 (for the six months period ended 30 June 2017: $526).

(in thousands of US dollars)

7. Income and expenses (continued)

7.3 Cost of sales

Cost of sales includes the following:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Cost of sales of residential property (Note 13)	96,323	89,651
Cost of sales for rent	63	92
Other costs	1,816	3,852
Total	**98,202**	**93,595**

For the six months periods ended 30 June 2018 and 30 June 2017, cost of sales of residential property contain non-cash cost related to capitalized development rights in the amount of $1,547 and $762 respectively.

7.4 General and administrative expenses

The structure of general and administrative expenses was the following:

	For the six months ended 30 June	
	2018 (unaudited)	***2017 (unaudited)***
Staff costs, including social security taxes	5,466	4,300
Consulting	2,010	1,977
Rent	657	867
Security	540	536
Taxes other than income tax	506	496
Materials	289	122
Other assurance services	247	275
Depreciation of property, plant and equipment	220	242
Telecommunications	186	167
Repair and maintenance	182	179
Representation expenses	145	130
Other professional services	130	77
Utilities services	38	47
Tax services	28	41
Amortization of intangible assets	16	16
Other	735	295
Total	**11,395**	**9,767**

(in thousands of US dollars)

7. Income and expenses (continued)

7.5 Finance income and costs

The components of finance income were as follows:

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Interest on bank accounts and deposits	3,760	7,490
Interest on loans receivable	3,147	910
Income on unwinding of discount on receivables	312	529
Other financial Income	59	–
Total	**7,278**	**8,929**

The components of finance costs were as follows:

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Interest expense	17,288	16,883
Other financial expenses	76	3,045
Total	**17,364**	**19,928**

7.6 Other operating income and expenses

The components of other operating income were as follows:

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Gain on sale of inventory (kindergarten)	869	–
Penalty fees income	803	17
Gain on sale of property plant and equipment	8	–
Gain on derecognition of accounts payable	443	258
Other income	151	370
Total	**2,274**	**645**

The components of other operating expenses were as follows:

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Commercial expenses	7,364	15,094
Write-down of inventories to net realizable value (Note 13)	4,023	2,227
Allowance for expected credit loss recognized on trade and other receivables, impairment of prepayments (Notes 14, 15)	987	213
Rent and maintenance of completed real estate property	805	1,839
Charity	365	556
Other taxes (excluding income tax)	323	607
Write-off of irrecoverable accounts receivable	143	–
Increase in legal provisions	72	475
Bank services	52	243
Penalties fees	39	546
Loss on disposal of property plant and equipment	–	46
Other expenses	429	646
Total	**14,602**	**22,492**

(in thousands of US dollars)

8. Income tax

Corporate tax

The Group's income was subject to tax at the following tax rates:

	2018	*2017*
The Russian Federation (ordinary rate)	20.00%	20.00%
The Republic of Cyprus	12.50%	12.50%

Major components of income tax expense for the periods ended 30 June 2018 and 30 June 2017, were as follows:

	For the six months ended 30 June	
	2018 (unaudited)	*2017 (unaudited)*
Income tax expense − current	(2,157)	(2,229)
Reversal of tax risks provision	(48)	(259)
Deferred tax benefit − origination and reversal of temporary differences, net	(2,066)	2,527
Income tax (expense)/benefit reported in interim condensed consolidated statement of profit or loss	**(4,271)**	**39**
Income tax benefit attributable to discontinued operations	**−**	**34**

The major part of income taxes is paid in the Russian Federation.

9. Property, plant and equipment

Fittings and fixtures represent electricity networks used by the Group to provide public facility services, buildings represent offices for employees.

Additions to construction in progress for the period ended 30 June 2018 in the total amount of $1,093 (for the six months ended 30 June 2017: $374) were mainly represented by construction costs incurred on continued construction of utilities networks in the amount of $860 and expenditures on modernization of new offices in the amount of $170.

Additions to leasehold improvements and other equipment for the six months ended 30 June 2018 in the total amount of $18 (for the six months ended 30 June 2017: $183) were mainly represented by office equipment (for the six months ended 30 June 2017: $142).

Interest (net of the interest reimbursed by the governmental bodies), capitalized as part of additions to property, plant and equipment, amounted to $149 during six months ended 30 June 2018 (during six months ended 30 June 2017: $92). The weighted average rate for the borrowings which were obtained for construction purposes (either in part, or in full) for the six months ended 30 June 2018 equals 13.02% (for the six months ended 30 June 2017: 14.40%).

For the six months ended 30 June 2018 the Group recognized depreciation charge of $392 (for the six months ended 30 June 2017: $452).

During six months ended 30 June 2018, the Group put into operation networks at cost of $522 and also office improvements and other equipment in the new office in Moscow for $532.

(in thousands of US dollars)

10. Intangible assets other than goodwill

Intangible assets other than goodwill consisted of the following:

	Leasehold rights (land)	***Development rights***	***Other***	***Total***
Cost				
Balance as at 31 December 2016 (audited)	**643**	**26,166**	**192**	**27,001**
Disposals	(673)	(2,293)	–	**(2,966)**
Translation difference	30	739	4	**773**
Balance as at 30 June 2017 (unaudited)	**–**	**24,612**	**196**	**24,808**
Balance as at 31 December 2017 (audited)	**–**	**29,762**	**202**	**29,964**
Translation difference	–	(2,445)	(18)	**(2,463)**
Balance as at 30 June 2018 (unaudited)	**–**	**27,317**	**184**	**27,501**
Accumulated amortization and impairment				
Balance as at 31 December 2016 (audited)	**(643)**	**(2,172)**	**(95)**	**(2,910)**
Amortization charge	–	(315)	(16)	**(331)**
Disposals	673	2,293	–	**2,966**
Translation difference	(30)	(95)	(2)	**(127)**
Balance as at 30 June 2017 (unaudited)	**–**	**(289)**	**(113)**	**(402)**
Balance as at 31 December 2017 (audited)	**–**	**(2,877)**	**(132)**	**(3,009)**
Amortization charge	–	(889)	(16)	**(905)**
Translation difference	–	285	12	**297**
Balance as at 30 June 2018 (unaudited)	**–**	**(3,481)**	**(136)**	**(3,617)**
Net book value as at 31 December 2017	**–**	**26,885**	**70**	**26,955**
Net book value as at 30 June 2018	**–**	**23,836**	**48**	**23,884**

Leasehold rights (land) were mainly represented by contractual rights for rent of land plots. During 2016 contractual rights for rent of several land plots were written-off due to decision not to develop project in South Russia. During 2017 contractual rights for rent of land were also written-off due to completion of construction works in the several projects.

In prior periods, the Group concluded investment contracts with local authorities for construction of residential districts. As a result, the Group obtained development rights of $22,776 in 2016 (mostly related to Moscow region projects) and recognized them as intangible assets in exchange for obligation to transfer residential premises to certain number of individuals or constructed social objects to administration free of charge. Carrying value of recognized development rights was determined as market value of residential premises / social objects to be transferred. Disposal of development rights in 2017 relates to settlement of the obligations to transfer residential premises to individuals.

In the second half of 2017, the Group concluded a contract with local authorities to construct some social objects such as park, kindergarten, sports ground and a monument as a part of project in Ural Region of the Russian Federation. These obligations were accounted for as development rights in the amount of $4,430 in 2017, depreciation charge amounted to $356 for the six months period ended 30 June 2018.

Amortization of development and leasehold rights in amount of $889 was included in the carrying amount of constructed property as at 30 June 2018 (as at 30 June 2017: $315).

(in thousands of US dollars)

11. Investment properties

Investment property consisted of the following:

	30 June 2018 (unaudited)	***30 June 2017 (unaudited)***
Opening balance as at 1 January − investment property	**192,285**	**184,448**
Opening balance as at 1 January − investment property held for sale	**868**	**4,190**
Additions (subsequent expenditure)	1,627	886
Transfer to inventory (Note 13)	(15,884)	−
Disposal	(454)	−
Translation difference	(15,182)	5,074
Increase/(decrease) in fair value of investment property	2,008	(3,979)
Closing balance at 30 June − investment property	**165,268**	**185,971**
Closing balance at 30 June − investment property − held for sale	**−**	**4,648**

Interest capitalized as part of subsequent expenditure to investment properties amounted to $554 and $492 for the six months ended 30 June 2018 and 2017, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization for the six months ended 30 June 2018 was 7.72% (for the six months ended 30 June 2017: 6.47%).

During the six month period ended 30 June 2018, the Group had income from rent of investment property of $59 and direct operating expenses arising from investment property that generated rental income of $11 (during the six month period ended 30 June 2017: $105 and $36 respectively).

During the six month period ended 30 June 2018 and 2017, the fair value of investment property was primary determined based on valuation performed by an accredited independent appraiser, who holds recognised and relevant professional qualification and who has had recent experience in the locations and category of the investment property being valued.

As at 30 June 2017, and also at 31 December 2017 and 2016, the Group had an intention to sell land plots in Ural Region of the Russian Federation. Therefore, the Group transferred following land plots to the Investment property held for sale, the fair value of the assets was measured based on the expected sale price of $4,648, $868 and $4,190, respectively. However, in 2018 the agreement for land plots disposal was terminated.

The fair value of investment property was determined using the income approach and/or the sales comparison approach. The income approach is based on the assumption that the value of the property is conditional on the future benefits that the property will bring the owner within a certain period of time, and the risks associated with receiving the benefits. The sales comparison approach is based on comparative analysis of actual sales and/or asking prices for comparable properties.

Investment property fair values relate to the Level 3 of fair value hierarchy. Fair value hierarchy disclosures for investment properties have been provided in Note 25.

(in thousands of US dollars)

11. Investment properties (continued)

Description of valuation techniques used and key inputs to valuation on investment properties

The Group used income and comparable approaches for valuation of investment property.

Below are the major projects of the Group and description of valuation techniques for each as at 30 June 2018 and 31 December 2017. The investment properties are represented by the land plots for project of Complex Territories Development (CTD) in Ural Region of the Russian Federation.

Project of CTD in Ural Region of the Russian Federation had the fair value of investment property of $158,117 and 95.67% share in total consolidated value of investment property as of 30 June 2018 (31 December 2017: $184,312 and 95.42% respectively).

Unobservable inputs for project were as follows:

Description	*Methods of assessment*	*Unobservable inputs for project*	*Range (weighted average)*	*Sensitivity of the fair value to the inputs*
Land plots	Income approach, discounted cash flow method	Discount rate for investor's cash flows	19.00%	Increase of investor's cash flows discount rate to 1%, 2% and 3% would decrease fair value by $4,239, $8,334 and $12,302
		Discount rate for developer's cash flows	25.00%	Increase of developer's discount rate to 1%, 2% and 3% would decrease fair value by $5,466, $10,565 and $15,345
		Annual change of sales price for residential areas	5.5%, 7.6%, 3.7%, 1.0%	Annual change of sales price for residential areas by 5.5%, 3.6%, 3%, 1.5% would decrease fair value by $11,823
		Sales volume of land plot	0.40-0.71	Decrease of sales volume of land plot to 0.15-0.11 and 0.05-0.01 land plot per annum would decrease fair value by $1,307-$8,222 and $494-$382 respectively. Increase of sales volume of land plot to 0.05 land plot per annum would increase fair value by $1,147

Significant increases/(decreases) in price adjustments to the comparable plots and discount rate in isolation would result in a significantly higher/(lower) fair value of the properties.

12. Interest-bearing loans receivable

Current and non-current interest-bearing loans receivable were as follows as of:

	Effective interest rate 2018	*30 June 2018 (unaudited)*	*Effective interest rate 2017*	*31 December 2017 (audited)*
Non-current loans receivable				
Loans receivable from third parties	–	–	12.00-17.00%	7,205
Loans receivable from related parties (Note 23)	–	–	12.50%	6,784
Loans receivable from related parties (Note 23) at FVPL	12.05-13.02%	9,455	–	–
Total non-current loans receivable		**9,455**		**13,989**
Current loans receivable				
Loans receivable from third parties	–	–	12.35-24.00%	38,522
Loans receivable from third parties at amortised cost	13.25%	20,407	–	–
Loans receivable from third parties at FVPL	13.25-24.00%	25,032	–	–
Total current loans receivable		**45,439**		**38,522**

(in thousands of US dollars)

13. Inventories

Inventories consisted of the following as of:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Inventory properties under construction		
- at cost	279,596	277,192
- at net realizable value	8,410	12,697
Constructed inventory properties		
- at cost	41,321	46,604
- at net realizable value	16,057	18,066
Other inventory, at cost	175	1,839
Total	**345,559**	**356,398**
Including:		
- current	323,126	331,962
- non-current	22,433	24,436

Inventories are classified as current when the following conditions are met: i) construction is ongoing; ii) the completion and the sale of the asset is anticipated to occur in near future and as part of the normal construction period, which is longer than one calendar year, and no significant delays in construction are expected. Otherwise, the inventory is classified as non-current.

As of 30 June 2018 and 31 December 2017, non-current inventory mainly represents one of the Group's construction projects, which is currently suspended due to the change of construction plans.

As of 30 June 2018 and 31 December 2017, the cumulative write-down to net realizable value in respect of inventories amounted to $30,309 and $32,162, respectively.

A summary of movement in inventories is set out in the table below:

	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Opening balance at 1 January (restated)	**356,398**	**368,767**
Construction costs incurred	99,069	88,052
Other costs incurred	426	1,035
Interest capitalized	4,951	8,560
Transfer to property, plant and equipment	–	(98)
Transfer from investment property (Note 11)	15,884	–
Write-down to net realizable value (Note 7.6)	(4,023)	(2,227)
Disposals (recognized in cost of sales of residential property) (Note 7.3)	(96,380)	(91,124)
Disposals (recognized in cost of other sales and other expenses)	(426)	(993)
Translation difference	(30,340)	9,747
Closing balance at 30 June	**345,559**	**381,719**

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization for the six months ended 30 June 2018 was 13.02% (for the six months ended 30 June 2017: 14.40%).

(in thousands of US dollars)

14. Trade and other receivables

Trade and other receivables consisted of the following as at:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Trade accounts receivable due from third parties	3,887	4,548
Trade accounts receivable due from related parties (Note 23)	881	748
Other accounts receivable due from third parties	17,060	21,723
Other accounts receivable due from related parties (Note 23)	1,576	7,002
Allowance for expected credit losses	(10,654)	(10,989)
	12,750	**23,032**

See table below for the allowance for expected credit losses on trade and other receivables:

	30 June 2018 (unaudited)
At 1 January	**10,989**
Expected credit loss for the reporting period (Note 7.6)	604
Utilised	(3)
Translation differences	(936)
At 30 June	**10,654**

See below for the movements in the provision for impairment of trade and other receivables:

	30 June 2017 (unaudited)
At 1 January	**11,752**
Charge for the reporting period (Note 7.6)	234
Utilised	4
Translation differences	308
At 30 June	**12,298**

15. Prepayments

Prepayments consisted of the following as at:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Prepayments made to third parties	23,343	23,020
Prepayments made to related parties (Note 23)	2,561	2,073
Impairment loss	(1,712)	(1,472)
	24,192	**23,621**

(in thousands of US dollars)

15. Prepayments (continued)

See below for the movements in the provision for impairment of prepayments:

	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
At 1 January	**1,472**	**1,093**
Charge for the year (Note 7.6)	383	(21)
Translation differences	(143)	29
At 30 June	**1,712**	**1,101**

16. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Cash	114,896	129,285
Short-term deposits	8,794	6,022
	123,690	**135,307**

17. Equity

Total number of outstanding shares is comprised of the following:

Authorized, issued and fully paid	*Number of shares*	*Share capital*
At 31 December 2017	6,786,205	6,787
At 30 June 2018	6,786,305	6,787

In April 2016, the Group provided a loan to an entity under common control maturing in April 2019. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue. The loan receivable was fully repaid in first half of 2017. Net effect of this repayment was reflected as contribution from shareholders in the interim condensed consolidated statement of changes in equity of the Group and amounted to $1,525 for the six months ended 30 June 2017.

In January 2017, the Group declared dividends for the year 2016 in total amount $6,017. Dividends were paid in Russian rubles on 9 March 2017.

In 2018, the Group acquired 25% stake in the Group's subsidiary for cash consideration of $0.05 and thus the company became a wholly-owned subsidiary of the Group. The carrying value of non-controlling interest acquired amounted to $217.

In March 2018, the Group provided a loan to an entity under common control maturing in February 2023. This loan was recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue, the difference between the fair value and the nominal value of the loan was recorded as distribution to shareholders in the interim condensed consolidated statement of changes in equity of the Group and amounted to $629. The loan receivable outstanding amounted to $2,764 as at 30 June 2018.

(in thousands of US dollars)

17. Equity (continued)

In previous period, the Group borrowed funds from an entity under common control maturing in December 2022. This borrowings were recognized at fair value on initial recognition based on the market rate of interest for similar loans at the date of issue, the difference between the fair value and the nominal value of the loan was recorded as contribution from shareholders in the interim condensed consolidated statement of changes in equity of the Group and amounted to $349. The loans payable outstanding amounted to $2,060 as at 30 June 2018.

In March 2018, the Group declared increase in its share capital by creation of one hundred ordinary shares of $1 each with a premium of $105,102.6 per share. The share capital increase was fully paid on 19 June 2018 in Russian rubles.

In June 2018, one of the Group subsidiaries declared dividends for the year 2017. The amount of dividends attributable to a non-controlling party equalled $98. As of the date of these financial statements the dividends remained unpaid.

18. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings as at 30 June 2018 and 31 December 2017:

	Effective interest rate 2018	*30 June 2018 (unaudited)*	*Unused borrowing facilities*	*Effective interest rate 2017*	*31 December 2017 (audited)*	*Unused borrowing facilities*
Non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	8.50-13.40%	35,219	30,533	10.67-13.94%	48,853	73,380
Loans and borrowings from related parties	14.38%	2,630	–	13.94%	3,133	–
Total non-current interest-bearing loans and borrowings		**37,849**	**30,533**		**51,986**	**73,380**
Current portion of non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	11.50-13.40%	36,552	–	13.22-13.34%	24,825	–
Total current portion of non-current interest-bearing loans and borrowings		**36,552**	**–**		**24,825**	**–**
Current interest-bearing loans and borrowings						
Loans and borrowings from third parties	11.00-13.40%	395	–	10.67-13.34%	372	–
Total current interest-bearing loans and borrowings		**395**	**–**		**372**	**–**
Total interest-bearing loans and borrowings		**74,796**	**30,533**		**77,183**	**73,380**

Compliance with covenants

According to loan agreements terms, the companies of the Group are required to comply with debt covenants. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness. The Group complied with all covenants as at 30 June 2018 and 31 December 2017.

(in thousands of US dollars)

18. Interest-bearing loans and borrowings (continued)

Pledged assets

As at 30 June 2018, investment property with the carrying value of $88,314 (31 December 2017: $89,567), inventory with the carrying value of $152,574 (31 December 2017: $164,068) and property plant and equipment with the carrying value of $384 (31 December 2017: $420) are pledged as a collateral for loans and borrowings.

As at 30 June 2018 and 31 December 2017, the Group had pledged shares in its subsidiaries:

As at	*Share of pledged subsidiaries in the total consolidated assets of the Group*	*Share of pledged subsidiaries in the total consolidated revenue of the Group*	*Net assets of pledged subsidiaries (including intra-group balances)*
30 June 2018	50.49%	54.18%	315,298
31 December 2017	52.03%	40.82%	352,829

19. Debt securities issued

In 2017, the Group announced the interest rate for the fourth, fifth and sixth coupon periods for the fourth tranche of bonds amounting to 15.0% p.a. No bonds of the fourth tranche were presented for redemption in March 2017, the date of buy-back option, so the period of bonds circulation was extended till September 2018.

In 2017, the Group issued the seventh, eighth and ninth tranches of 10 billion ruble denominated bonds with a par value of 1,000 ruble each. These securities were issued at par value, mature in 2020-2022, bear interest rate of 11.00-13.50% per annum, payable semi-annually, and were guaranteed by the Company. Debt issuance costs paid by the Group in relation to the arrangement of sevenths, eighths and ninths issues of bonds in the amount of $1,187 represented agent commission and arrangement costs.

In February 2018, the Group announced the interest rate for the fourth, fifth and sixth coupon periods for the sixth tranche of bonds amounting to 9.0% p.a. No bonds of the sixth tranche were presented for redemption on 22 February 2018, the date of buy-back option, so the period of bonds circulation was extended till 22 August 2019.

In May 2018, the Group announced the interest rate for the tenth, eleventh and twelfth coupon periods for the third tranche of bonds amounting to 10.45% p.a. No bonds of the third tranche were presented for redemption on 22 May 2018, the date of buy-back option, so the period of bonds circulation was extended till 19 November 2019.

In February 2018, debt securities of the sixth tranche in the total number of 432,481 were partially repurchased from the market at their par value of 1,000 ruble each for $6,891 (at the exchange rate as of 30 June 2018).

In May 2018, debt securities of the third tranche in the total number of 537,220 were partially repurchased from the market at their par value of 1,000 ruble each for $8,560 (at the exchange rate as of 30 June 2018).

As of 30 June 2018, debt securities of the third, fourth, sixth, seventh and eight issue in the total number 6,065,826 amounting to $96,657 at amortized cost (31 December 2017: 6,704,799 and $116,402) were repurchased by the Group's subsidiary.

(in thousands of US dollars)

20. Trade and other payables

Trade and other payables consisted of the following as of:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Trade accounts payable due to third parties	21,516	20,019
Trade accounts payable due to related parties (Note 23)	406	786
Other accounts payable due to third parties	6,924	8,934
Other accounts payable due to related parties (Note 23)	61	9
Bonus accrual	5,081	433
Unused vacation accrual	1,509	1,130
Total	**35,497**	**31,311**

21. Other liabilities

Other liabilities consisted of the following as of:

	30 June 2018 (unaudited)	*31 December 2017 (audited)*
Non-current non-financial liabilities		
Liabilities for purchasing of land lease rights and assets (a)	9,680	10,546
Non-current financial liabilities		
Lease obligations	93	192
	9,773	**10,738**
Current financial liabilities		
Liabilities associated with sale of subsidiary (c)	4,302	4,687
Liabilities for purchasing of land lease rights, related parties (Note 23) (b)	1,500	1,502
Liabilities for purchase of land lease rights and assets − current portion (a)	279	336
Liabilities to finance social object construction (d)	−	173
Lease obligations − current portion	149	171
Other current liabilities	482	426
	6,712	**7,295**

(a) As of 30 June 2018, the Group had outstanding non-current liabilities in respect of the purchase of new CTD project (purchase of asset performed in 2015) represented by an obligation to transfer 16% of constructed real estate property after completion of the construction in amount of $9,680 (31 December 2017: $10,546) and short term payable represents the payable to the seller in the amount of $250 (31 December 2017: $250).

(b) As of 30 June 2018, the Group had outstanding accounts payable in respect of the purchase of the project (purchase of land lease right in 2012 and subsequent sale in 2015) in the amount of $1,500 payable until the end of 2018 (31 December 2017: $1,502).

(c) In second half of 2016, the Group sold its subsidiary to a third party. In connection with this deal, the Group is obliged to contribute to Charity Fund on behalf of the buyer. The Group accrued a financial liability for $4,302 as of 30 June 2018 (31 December 2017: $4,687).

(d) In 2017, the Group was obliged to pay $1,066 to Educational and sports complex for possibility to connect to transit engineering communications of the new project. As of 30 June 2018, the Group had outstanding liability of $nil (31 December 2017: $173) as the liability has been fulfilled in 2018.

As of 31 December 2017 the Group reclassified Other liabilities that represent liabilities under contract with customers where the Group is required to provide apartments to a number of individuals or construct social objects and transfer them to local authorities in exchange of the development rights, in the amount of 28,013 to Contract liabilities.

(in thousands of US dollars)

22. Provisions

Provisions consisted of the following:

	Onerous contracts	*Legal claims*	*Construction of social objects*	*Total*
At 31 December 2017	**290**	**216**	**871**	**1,377**
Accrued	183	99	–	**282**
Used amounts	(88)	(6)	(272)	**(366)**
Unused amounts reversed	(9)	(27)	–	**(36)**
Translation differences	(28)	(22)	(58)	**(108)**
At 30 June 2018	**348**	**260**	**541**	**1,149**

In 2017, the Group concluded onerous contracts for sale of commercial property and parking places in several projects. The respective provision as at 30 June 2018 amounted to $348 (31 December 2017: $290).

Provision for construction of social objects in the amount of $541 as of 30 June 2018 related to constructive obligation for construction of kindergarten and represent costs to be incurred in the future periods to finish the construction works.

23. Balances and transactions with related parties

Related parties may enter into transactions which unrelated parties might not enter into, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding on 30 June 2018 and 31 December 2017 are detailed below:

30 June 2018 (unaudited)	***Interest-bearing loans receivable at FVPL***	***Trade and other receivables***	***Prepay-ments***	***Interest-bearing loans and borrowings***	***Trade and other payables, other liabilities***	***Advances received***
Associates	–	11	980	–	243	107
Entities under common control	9,455	2,446	1,581	2,630	1,724	–
Total	**9,455**	**2,457**	**2,561**	**2,630**	**1,967**	**107**

31 December 2017 (audited)	***Loans receivable***	***Trade and other receivables***	***Prepay-ments***	***Interest-bearing loans and borrowings***	***Trade and other payables, other liabilities***	***Advances received***
Associates	–	17	1,068	–	271	38
Entities under common control	6,784	7,733	1,005	3,133	2,026	88
Total	**6,784**	**7,750**	**2,073**	**3,133**	**2,297**	**126**

(in thousands of US dollars)

23. Balances and transactions with related parties (continued)

Six months ended 30 June 2018 (unaudited)	***Revenue***	***Finance income***	***Costs***	***Finance costs***	***Other expenses***	***Purchases***
Associates	–	–	174	–	(350)	–
Entities under common control	1,485	494	30	148	(14)	1,156
Total	**1,485**	**494**	**204**	**148**	**(364)**	**1,156**

Six months ended 30 June 2017 (unaudited)	***Revenue***	***Finance income***	***Costs***	***Finance costs***	***Other expenses***	***Purchases***
Shareholder of the parent company	2	–	–	–	–	–
Associates	–	–	18	–	(543)	–
Entities under common control	2,979	646	177	314	(11)	2,330
Total	**2,981**	**646**	**195**	**314**	**(554)**	**2,330**

The balances with related parties as at 30 June 2018 and 31 December 2017, are unsecured and settlement occurs in cash. Loans and borrowings are interest bearing, while trade receivables, cash and advances granted are not interest bearing. The terms of the transactions are disclosed in other corresponding Notes. There have been no guarantees provided or received for any related party receivables or payables.

Compensation to key management personnel

Key management personnel include top managers of the Group and major subsidiaries.

Total compensation to key management personnel was included in general and administrative expenses in the consolidated statement of profit or loss and consisted of short-term employee benefits:

	30 June 2018 (unaudited)	***30 June 2017 (unaudited)***
Salary	1,989	2,105
Performance bonuses	5,163	1,345
Other compensations	24	1,193
Social security taxes	247	160
Total	**7,423**	**4,803**

24. Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2018, the Russian economy continued to be negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(in thousands of US dollars)

24. Contingencies, commitments and operating risks (continued)

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods in the Russian Federation remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

Separately, new deoffshorization rules, which came into force starting 1 January 2015, may have significant influence on tax consequences of the Group and should be mentioned. In accordance with these rules the Russian tax authorities have right to challenge application of the double tax treaty benefits (beneficial ownership concept) and define foreign companies as the Russian tax residents if these companies are effectively managed from Russia. These amendments as well as the introduction of taxation of controlled foreign companies and the concept of taxation of capital gains from indirect sale of property-rich companies may have significant negative impact on interpretation of different transactions performed by the Group.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

The Group estimated that as of 30 June 2018 it had possible obligations from exposures to various tax risks primarily related to new deoffshorization rules, financing and investment arrangements of the Group's companies. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and its practical application in the Russian Federation. In some instances, court practice, which was previously positive for the taxpayers, has changed to negative.

Uncertainties in interpretation of applicable legislation and its practical application in Russian Federation may also lead to possible non-recoverability of certain tax assets. Russian members of our Group may be affected by this development of tax practice, which could have a significant effect on the Group's financial condition and results of operations.

Insurance policies

The Group holds insurance policies in relation to its assets, covering a number of cases such as accidents, fire, wrongful actions, force majeure, etc., as well as insurance policies covering vehicles and voluntary medical insurance of employees of the Group's entities.

Contractual commitments

The Group has signed a number of contracts for the construction works as of 30 June 2018. The Group had firm contractual commitments for the construction works for an approximate amount of $60,617 (including VAT) as at 30 June 2018 (31 December 2017: $121,563).

However, many of the contracts provide for payments stage-wise based on specifically agreed cost per stage. It is not practicable to measure the amount of these purchase commitments, though they constitute significant amount and concern most of the construction and investment projects of the Group.

Legal proceedings

The Group is involved in a number of legal proceedings. All legal proceedings which, individually or in aggregate, may have a significant effect on the Group's financial operations or financial position, have been accrued in these interim condensed consolidated financial statements (Note 22).

The Group is also involved in legal proceedings with the total maximum possible risk estimated at $737 as at 30 June 2018 (31 December 2017: $928).

(in thousands of US dollars)

25. Fair value measurement

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values: long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.

Fair value of the debt securities is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The following table shows financial instruments which carrying amounts differ from fair values as at:

	30 June 2018 (unaudited)	
	Carrying amount	***Fair value***
Assets		
Interest-bearing loans receivable at amortised cost	20,407	20,379
Interest-bearing loans receivable at FVPL	34,487	34,166
Total assets	**54,894**	**54,545**
Liabilities		
Interest-bearing loans and borrowings	74,796	79,827
Debts securities issued	210,837	244,444
Total liabilities	**285,633**	**324,271**

	31 December 2017 (audited)	
	Carrying amount	***Fair value***
Assets		
Interest-bearing loans receivable	52,511	50,304
Total assets	**52,511**	**50,304**
Liabilities		
Interest-bearing loans and borrowings	77,183	70,993
Debts securities issued	235,783	232,930
Total liabilities	**312,966**	**303,923**

The fair value of long-term loans was calculated based on the present value of future principal and interest cash flows, discounted at the market rates of interest at the reporting dates.

(in thousands of US dollars)

25. Fair value measurement (continued)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

Fair value hierarchy for financial instruments measured at fair value as at 30 June 2018:

	Total	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at fair value				
Investment property	**165,268**	−	−	165,268
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable at amortised cost	**20,379**	−	−	20,379
Interest-bearing loans receivable at FVPL	**34,166**	−	−	34,166
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**79,827**	−	−	79,827
Debts securities issued	**244,444**	−	244,444	−

(in thousands of US dollars)

25. Fair value measurement (continued)

Fair value hierarchy (continued)

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2017:

	Total	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at fair value				
Investment property	**192,285**	–	–	192,285
Financial assets for which fair value is disclosed				
Interest-bearing loans receivable	**50,304**	–	–	50,304
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**70,993**	–	–	70,993
Debts securities issued	**232,930**	–	232,930	–

26. Segment information

For management purposes, the Group is organized into business units based on geographical stratification correlating to the regional division of the Russian Federation. All business units are located in Russian Federation. Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment revenue is income from main activity reported in the Group's management accounts that are directly attributable to a segment being consideration received from customers for sale of residential or investment property being under construction, or for operating rent of premises and rendering of services.

Segment expense is expenses reported in the Group's management accounts that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment.

Segment result is segment revenue less segment expense for the reporting period.

The following tables present measures of segment revenues and segment results on management accounts in accordance with IFRS 8 and a reconciliation of revenue and segment result used by management for decision making and revenue and net result per the interim condensed consolidated financial statements prepared under IFRS:

Six months period ended 30 June 2018

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment revenue	**77,316**	**7,760**	**37,347**	**2,702**	**1,330**	**126,455**
Intersegment revenue	1,845	10	–	–	13,247	**15,102**
Total segment revenue	**79,161**	**7,770**	**37,347**	**2,702**	**14,577**	**141,557**

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment operating profit/(loss)	**8,226**	**1,154**	**8,422**	**(1,234)**	**(9,913)**	**6,655**
Intersegment operations	(3,927)	(369)	(3,057)	(1,135)	11,844	**3,356**
Total segment operating profit/(loss)	**4,299**	**785**	**5,365**	**(2,369)**	**1,931**	**10,011**

(in thousands of US dollars)

26. Segment information (continued)

Six months period ended 30 June 2017*

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment revenue	**55,745**	2,884	**14,786**	**37,642**	**1,586**	**112,643**
Intersegment revenue	629	5	–	–	–	**634**
Total segment revenue	**56,374**	**2,889**	**14,786**	**37,642**	**1,586**	**113,277**

	Ural region	*Northwest region*	*Moscow*	*Moscow region*	*Manage-ment company*	*Total*
External segment operating profit/(loss)	**3,658**	**(681)**	**(3,736)**	**944**	**(10,993)**	**(10,808)**
Intersegment operations	(687)	4	1,101	(418)	(121)	**(121)**
Total segment operating profit/(loss)	**2,971**	**(677)**	**(2,635)**	**526**	**(11,114)**	**(10,929)**

* *The amounts shown here do not correspond to the segment information in the consolidated financial statements for the period ended 30 June 2017 and do not include operating segment in the Central Federal District of the Russian Federation, which was classified as discontinued operations (Note 5).*

Finance income and expenses, fair value gains and losses on financial assets, forex exchange gains/(losses) are not allocated to individual segments as the underlying instruments are managed on a group basis.

Reconciliation of segments' results to net loss

	For the six months ended 30 June	
	2018 (unaudited)	*2017 (unaudited)**
Revenue reconciliation		
Total revenue from reportable segments	141,557	113,277
Elimination of intersegment revenue	(15,102)	(634)
Revenue from non-reportable segments	2,131	827
Total Group revenue	**128,586**	**113,470**
Operating profit reconciliation		
Total operating profit/(loss) from reportable segments	10,011	(10,929)
Elimination of intersegment operations	(3,356)	121
Operating profit/(loss) from non-reportable segments	6	(931)
Change in fair value of investment property	2,008	(3,979)
Total Group operating profit/(loss)	**8,669**	**(15,718)**
Finance income	7,278	8,929
Finance costs	(17,364)	(19,928)
Foreign exchange gain/(losses), net	538	(125)
Share of losses of associates	(51)	(7)
Loss before income tax	**(930)**	**(26,849)**
Income tax (expense)/benefit	(4,271)	39
Net loss for the year from continuing operations	**(5,201)**	**(26,810)**
Loss after tax for the year from discontinued operations	**–**	**(181)**

* *The amounts shown here do not correspond to the consolidated statement of profit or loss for the year ended 30 June 2017 and reflect adjustments from discontinued operations described in Note 5.*

The main differences between revenue and operating profit under IFRS and management accounts are represented by different amount of inventories write-down to net realizable value (Note 7.6, 13) and other provisions, accrued under IFRS.

(in thousands of US dollars)

27. Subsequent events

In August 2018 and September 2018 the Group made a coupon yield payments for the sixth and eighth tranche of its bonds issued in total amount of $7,100 (at the exchange rate at 30 June 2018).

In September 2018 the Group fully repaid its obligations under fourth tranche of its bonds in amount $51,379 (at the exchange rate at 30 June 2018).

In July-September 2018, the Group partially repaid its short-term credit facilities in the total amount of $9,999 (at the exchange rate at 30 June 2018).

In July-September 2018 the Group received loan facilities under existing contracts in the total amount of $7,650 (at the exchange rate at 30 June 2018).

In July-September 2018 the Group refunded loans receivable in the total amount of $677 (at the exchange rate at 30 June 2018).

In July-September 2018 the Group provided loan facilities in the total amount of $2,462 (at the exchange rate at 30 June 2018).

In September 2018, the Group concluded a share-purchase agreement for acquisition of 65% share in the construction project located in Moscow for $36,976 (at the exchange rate at 30 June 2018).