RSG International Ltd

Unaudited interim condensed consolidated financial statements

For the six month period ended 30 June 2019

Contents

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
5 Miaouli, Larnaka, 6017
Cyprus

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

Building a better working world

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

Tel: +357 2220 9999
Fax: +357 2220 9998
ey.com

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 2019 and the related interim condensed consolidated statements of profit or loss and other 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 30 June 2019, 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
6 December 2019

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2019

(in thousands of Russian rubles)

		Six months ended	
	Notes	***30 June 2019***	***30 June 2018 Restated****
Revenue	6.1	7,255,451	7,632,077
Cost of sales	6.3	(5,584,651)	(5,759,204)
Gross profit		**1,670,800**	**1,872,873**
General and administrative expenses	6.4	(644,920)	(646,293)
Other operating income	6.6	234,745	132,702
Other operating expenses	6.6	(1,124,815)	(902,512)
Change in fair value of investment property	10	45,605	113,950
Operating profit		**181,415**	**570,720**
Finance income	6.5	259,983	431,978
Finance costs	6.5	(1,279,489)	(1,123,624)
Foreign exchange (losses)/gains, net		(13,046)	31,931
Net loss attributable to non-controlling participants in LLC	16	80,580	–
Share of loss of associate	5	(8,166)	(3,037)
Loss before income tax		**(778,723)**	**(92,032)**
Income tax expense	7	(74,681)	(359,792)
Net loss for the period		**(853,404)**	**(451,824)**
Attributable to:			
Equity holders of the parent		(853,404)	(454,429)
Non-controlling interests		–	2,605
Total comprehensive loss for the period		**(853,404)**	**(451,824)**
Attributable to:			
Equity holders of the parent		(853,404)	(454,429)
Non-controlling interests		–	2,605

* *The amounts shown here do not correspond to the interim condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2018 and reflect adjustments from correction of errors as described in Note 3.*

Interim condensed consolidated statement of financial position

At 30 June 2019

(in thousands of Russian rubles)

	Notes	*30 June 2019*	*31 December 2018 Restated**	*1 January 2018 Restated**
Assets				
Non-current assets				
Property, plant and equipment	8	735,739	682,024	611,542
Intangible assets	9	3,852,384	3,957,770	1,552,597
Right-of-use assets	2.3	545,397	–	–
Investments in associates	5	47,566	59,276	43,675
Investment properties	10	10,416,478	10,293,917	11,075,675
Inventories	12	1,419,980	1,419,980	1,407,542
Trade and other receivables	13	79,608	117,751	154,977
Interest-bearing loans receivable at FVPL	11	489,159	517,225	390,805
Deferred tax assets		722,328	621,514	587,979
		18,308,639	**17,669,457**	**15,824,792**
Current assets				
Inventories	12	24,333,326	24,278,858	18,858,073
Trade and other receivables	13	828,111	957,075	1,326,616
Contract assets	6.1	206,516	355,198	377,520
Prepayments	14	1,609,951	1,166,639	1,360,576
Income tax receivable		170,620	237,787	249,390
Taxes recoverable		869,948	926,766	410,126
Interest-bearing loans receivable at amortised cost	11	917	893	954,487
Interest-bearing loans receivable at FVPL	11	169,505	265,650	1,264,391
Cash and cash equivalents	15	7,051,066	6,628,484	7,793,715
		35,239,960	**34,817,350**	**32,594,894**
Investment properties held for sale	10	30,000	–	50,000
Assets held for sale	4	620,000	–	276,742
		35,889,960	**34,817,350**	**32,921,636**
Total assets		**54,198,599**	**52,486,807**	**48,746,428**
Equity and liabilities				
Equity				
Issued capital	16	211,941	211,941	211,935
Share premium		21,575,263	21,575,263	20,978,269
Capital contribution reserve		(4,487,005)	(4,495,649)	(4,530,335)
Business combination reserve		2,692,177	2,692,177	2,692,177
Accumulated losses		(3,409,965)	(2,556,561)	(3,610,346)
Equity attributable to equity holders of the parent		**16,582,411**	**17,427,171**	**15,741,700**
Total non-controlling interests		-	-	571,340
Total equity		**16,582,411**	**17,427,171**	**16,313,040**
Non-current liabilities				
Interest-bearing loans and borrowings	17	3,392,450	3,377,149	2,994,392
Debt securities issued	18	9,641,325	7,985,291	9,980,226
Contract liabilities	21	1,275,900	1,429,946	1,429,946
Other liabilities	20	2,408,359	2,198,432	656,256
Deferred income tax liabilities		3,098,888	3,505,294	2,891,617
		19,816,922	**18,496,112**	**17,952,437**
Current liabilities				
Interest-bearing loans and borrowings	17	2,607,224	1,258,785	1,451,326
Debt securities issued	18	3,051,874	5,251,653	3,600,917
Trade and other payables	19	2,959,391	2,289,109	1,803,538
Contract liabilities	21	7,416,870	5,851,709	6,489,130
Income taxes payable		254,536	440,737	401,644
Other taxes payable		156,064	159,379	120,155
Provisions	22	30,973	49,822	77,606
Other liabilities	20	778,362	637,778	458,528
Liabilities directly associated with assets held for sale		–	–	78,107
		17,255,294	**15,938,972**	**14,480,951**
Net assets attributable to non-controlling participants in LLC	16	543,972	624,552	–
		17,799,266	**16,563,524**	**14,480,951**
		37,616,188	**35,059,636**	**32,433,388**
Total equity and liabilities, including net assets attributable to non-controlling participants in LLC		**54,198,599**	**52,486,807**	**48,746,428**

* *The amounts shown here do not correspond to the consolidated statement of financial position for the period ended 31 December 2018 and reflect adjustments from correction of errors as described in Note 3.*

On 6 December 2019, the Board of Directors of RSG International Ltd authorized these consolidated financial statements for issue.

RSG INTERNATIONAL LTD.

Georghios Fisentzides ______________ Director

The accompanying notes on pages 6 to 31 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 2019

(in thousands of Russian rubles)

	Six months ended 30 June 2019 (unaudited)	*Six months ended 30 June 2018 (unaudited) Restated**
Cash flows from operating activities		
Loss before tax	**(778,723)**	**(92,032)**
Adjustments for:		
Depreciation and amortization (Note 6.2)	22,472	20,704
Finance income (Note 6.5)	(259,983)	(431,978)
Finance costs (Note 6.5)	1,279,489	1,123,624
Change in fair value of investment properties (Note 10)	(45,605)	(113,950)
Loss/(gain) on sale of property, plant and equipment	22,616	(453)
Write-down of inventory to net realizable value (Note 12)	241,211	246,820
Allowance for expected credit loss recognized on trade and other receivables, impairment of prepayments (Note 6.6)	(227,535)	58,551
Change in legal provisions (Note 6.6)	13,980	4,253
Write-off of irrecoverable accounts receivable and loan receivable (Note 6.6)	33,899	8,472
Foreign exchange loss/(gain)	13,046	(31,931)
Change in bonuses and unused vacation accruals	134,375	154,803
Losses from write-off of VAT receivable	41,159	9,967
Share of loss of associate (Note 5)	8,166	3,037
Gain on derecognition of accounts payable (Note 6.6)	(5,978)	(26,331)
Net loss attributable to Non-controlling participants in LLC (Note 16)	(80,580)	–
Barter revenue (Note 6.1)	–	(4,682)
Cost of capitalized development rights (Note 6.3)	51,568	91,792
Capitalized significant financing component on contract liability recognized in cost of sales	179,874	26,607
Significant financing component on contract liability recognized in revenue	(331,932)	(135,797)
Other non-cash operations	1,183	(2,919)
Operating cash flow before working capital changes	**312,702**	**908,557**
Increase in inventories	(426,086)	(61,555)
Decrease in trade and other receivables, contract assets	133,593	448,128
(Increase)/decrease in prepayments	(459,974)	18,282
Increase in VAT receivable	(74,800)	(169,197)
Increase in trade and other payables	450,597	19,731
Increase in contract liabilities	1,502,195	215,994
(Decrease)/increase in other taxes payable	(3,993)	9,082
Decrease in provisions	(32,829)	(349)
Decrease in other liabilities	(14,816)	(39,786)
Cash flows from operating activities	**1,386,589**	**1,348,887**
Income tax paid	(713,886)	(260,701)
Interest received	194,507	223,676
Interest paid	(1,030,081)	(1,128,994)
Net cash flows (used in) / from operating activities	**(162,871)**	**182,868**
Cash flows from investing activities		
Purchase of investment properties	(81,168)	(63,652)
Purchase of property, plant and equipment	(77,304)	(33,479)
Proceeds from sale of property, plant and equipment and investment properties	1,452	28,216
Contribution to investment in associate (Note 5)	–	(3,307)
Dividends received from associate (Note 5)	3,544	–
Purchase of intangible assets	(9,165)	–
Issuance of loans receivable	(3,288)	(1,818,498)
Repayment of loans receivable	61,172	1,128,027
Net cash flows used in investing activities	**(104,757)**	**(762,693)**
Cash flows from financing activities		
Proceeds from borrowings and bonds	2,477,502	1,982,729
Repayment of borrowings and bonds	(1,703,634)	(2,044,153)
Payment for acquisition of non-controlling interest (Note 16)	(20,616)	–
Issuance of share capital and share premium (Note 16)	–	597,000
Cash payments for the principal portion of lease liabilities (Note 2.2)	(62,630)	–
Repayment of finance lease obligations	–	(7,433)
Net cash flows from financing activities	**690,622**	**528,143**
Effect of exchange rate changes on cash and cash equivalents	(208)	20,327
Net increase/(decrease) in cash and cash equivalents	**422,786**	**(31,355)**
Cash and cash equivalents at the beginning of the year	6,628,484	7,793,715
Less cash held for sale	(204)	–
Cash and cash equivalents at the period end	**7,051,066**	**7,762,360**

* *The amounts shown here do not correspond to the interim condensed consolidated financial statements for the period ended 30 June 2018 and reflect adjustments from correction of errors as described in Note 3.*

The accompanying notes on pages 6 to 35 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 2019

(in thousands of Russian rubles)

	Attributable to equity holders of the parent							
	Issued capital	***Share premium***	***Capital contribution reserve***	***Business combination reserve***	***Accumulated losses***	***Total***	***Non-controlling interests***	***Total equity***
As at 1 January 2018 (audited)	**211,935**	**20,978,269**	**(4,530,335)**	**2,692,177**	**(3,401,182)**	**15,950,864**	**571,223**	**16,522,087**
Change in accounting policy (Note 3)	–	–	–	–	(209,164)	**(209,164)**	117	**(209,047)**
As at 1 January 2018 (restated*)	**211,935**	**20,978,269**	**(4,530,335)**	**2,692,177**	**(3,610,346)**	**15,741,700**	**571,340**	**16,313,040**
Net (loss)/income for the period	–	–	–	–	(454,429)	**(454,429)**	2,605	**(451,824)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(454,429)**	**(454,429)**	**2,605**	**(451,824)**
Issuance of share capital and share premium (Note 16)	6	596,994	–	–	–	**597,000**	–	**597,000**
Acquisition of non-controlling interests (Note 16)	–	–	–	–	12,612	**12,612**	(12,612)	**–**
Dividends paid to the non-controlling interests holders (Note 16)	–	–	–	–	–	**–**	(5,822)	**(5,822)**
Capital contributions from shareholder (Note 16)	–	–	20,725	–	–	**20,725**	–	**20,725**
Capital distributions to shareholder (Note 16)	–	–	(37,316)	–	–	**(37,316)**	–	**(37,316)**
As at 30 June 2018 (unaudited)	**211,941**	**21,575,263**	**(4,546,926)**	**2,692,177**	**(4,052,163)**	**15,880,292**	**555,511**	**16,435,803**

Interim condensed consolidated statement of changes in equity (continued)

	Attributable to equity holders of the parent					
	Issued capital	***Share premium***	***Capital contribution reserve***	***Business combination reserve***	***Accumulated losses***	***Total equity***
As at 31 December 2018 (audited)	**211,941**	**21,575,263**	**(4,495,649)**	**2,692,177**	**(2,270,325)**	**17,713,407**
Change in accounting policy (Note 3)	–	–	–	–	(286,236)	**(286,236)**
As at 31 December 2018 (restated*)	**211,941**	**21,575,263**	**(4,495,649)**	**2,692,177**	**(2,556,561)**	**17,427,171**
Net loss for the period	–	–	–	–	(853,404)	**(853,404)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(853,404)**	**(853,404)**
Capital contributions from shareholder (Note 16)	–	–	8,644	–	–	**8,644**
As at 30 June 2019	**211,941**	**21,575,263**	**(4,487,005)**	**2,692,177**	**(3,409,965)**	**16,582,411**

(in thousands of Russian rubles)

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 2019 were authorized for issue on 6 December 2019.

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.

The Group did not have the ultimate controlling party as of 30 June 2019.

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 interim condensed consolidated financial statements of RSG International Ltd and its more than forty wholly owned subsidiaries and one subsidiary located in Moscow in which a minority shareholder holds 35% interest (Note 16).

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 2019, the Group reported operating cash outflow of 162,871 and net loss of 853,404. For the six months ended 30 June 2018, the Group reported operating cash inflow of 182,868 and net loss of 451,824.

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 its normal course of business (current assets exceed current liabilities by 18,090,694 as at 30 June 2019 (31 December 2018: 18,878,378). In addition the Group has the possibility to attract additional financing if necessary since the unused borrowing facilities amount to 2,820,048 as at 30 June 2019 (31 December 2018: 4,466,266).

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 interim condensed 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 2019 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 2018.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

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 Russian rubles 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”).

The interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2019.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company’s, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated.

2.2 Net assets attributable to non-controlling participants in LLCs

Consolidated subsidiaries with the Group’s ownership of less than 100% are limited liability companies (LLCs). According to the Russian legislation, a participant in LLC has the right to withdraw from the LLC at any time and to require payment for its share in the cost of net assets of the company determined with regard to the statutory accounts of LLC as at 31 December of the year prior to withdrawal. The LLC is obliged to pay to the participant its share within three months after the participant declared about exit.

Thus, according to IAS 32 *Financial Instruments: Disclosure and Presentation* and IFRIC Interpretation 2 *Members’ Shares in Co-operative Entities and Similar Instruments*, the part of the net results and of the equity of subsidiaries determined in accordance with IFRS attributable to interests which are not owned, directly or indirectly, by the Company are classified as net assets attributable to the non-controlling participants of consolidated subsidiaries and form a separate component of the Group’s current liabilities. The non-controlling participants’ share in profit or loss of those subsidiaries is presented in the consolidated statement of profit or loss and other comprehensive income in separate line as net gain (loss) attributable to non-controlling participants in LLC.

In case of negative net assets of subsidiaries having the legal form of LLC, non-controlling participants are recorded within equity.

2.3 New standards, interpretations and amendments adopted by the Group

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 2018, except for the adoption of new standards adopted by the EU and effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

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

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

The Group adopted IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, comparative information presented for 2018 has not been restated and presented under IAS 17 and related interpretations. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

a) Definition of a lease

Previously, the Group determined a contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease.* The Group now assesses whether a contract is or contains a lease based on new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

At inception or reassessment of a contract that contains a lease component, the Group allocates the consideration to the lease and not-lease components on the basis of their relative stand-alone values.

b) As a lessee

The Group's lease portfolio mainly consists of land lease agreements for construction of residential real estate for sale.

As a lessee the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and reward of ownership. Under IFRS 16 the Group recognizes right-of-use assets and lease liabilities for most of leases – i.e. these leases are on-balance sheet. However, the Group has elected not recognize right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognizes lease payments associated with these leases as an expenses on a straight-line basis over the lease time.

The Group presents right-of-use assets separately in statement of financial position if that do not meet definition of "Property, plant and equipment", and lease liabilities – within "Other liabilities" (Note 20).

On transition to IFRS 16 the Group recognized additional right-of use assets and additional lease liabilities. The impact on transition is summarized below:

	As at 1 January 2019
Right-of-use assets	668,561
Other non-current liabilities	486,979
Other current liabilities	181,582

The carrying amount of right-of-use assets and lease liabilities are presented below:

	As at 30 June 2019	***As at 1 January 2019***
Non-current assets		
Property, plant and equipment	13,050	15,080
Right-of-use assets	545,397	668,561
Total assets	**558,447**	**683,641**
Equity and liabilities		
Other non-current liabilities	407,110	488,211
Other current liabilities	211,050	188,984
Total equity and liabilities, including net assets attributable to non-controlling participants in LLC	**618,160**	**677,195**

The Group discounted lease payments using its incremental borrowing rate at 1 January 2019 for measuring lease liabilities for leases that were classified before as operating leases. The weighted average incremental borrowing rate (range) for different leases was 11.38-13.54%.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

c) Summary of new accounting policies

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term and amounted to 139,610 for the six months ended 30 June 2019 (Note 6.4, Note 6.6).

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

d) Amounts recognized in the statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are presented below:

	Right-of-use assets	***Long-term lease liabilities***	***Short-term lease liabilities***
As at 1 January 2019	**668,561**	**(488,211)**	**(188,984)**
Additions	−	(3,595)	−
Depreciation expense	(123,164)	−	−
Interest expense	−	−	(29,132)
Lease payments	−	−	91,762
Reclassification	−	84,696	(84,696)
As at 30 June 2019	**545,397**	**(407,110)**	**(211,050)**

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

e) As a lessor

The accounting policies applicable to the Group as a lessor under IFRS 16 are not different from those under IAS 17.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The interpretation did not have an impact on the consolidated financial statements of the Group.

IFRS 9: Prepayment Features with Negative Compensation (Amendment)

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plans to amendments, curtailments, or settlements during the period.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no material impact on the consolidated financial statements as the amount of investment to associate is insignificant for the Group's financial statements.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

2.3 New standards, interpretations and amendments adopted by the Group (continued)

Annual Improvements to IFRSs 2015-2017 Cycle

The IASB has issued the Annual Improvements to IFRSs 2015-2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019.

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. These amendments had no impact on the interim condensed consolidated financial statements of the Group as there is no transaction where a joint control is obtained.
- IAS 12 *Income Taxes*: The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.
- An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of the Group.
- IAS 23 *Borrowing Costs*: The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. The adoption of the Amendment resulted in the recalculation of borrowing costs capitalized as part of property being constructed by the Group, the effect of the amendments on the Group's financial statements is presented in Note 3 below.

3. Restatement of comparative information

In March 2019 the IFRS Interpretations Committee issued a clarification regarding over time transfer of constructed goods in connection with IAS 23 *Borrowing Costs*. The Committee concluded that inventory (work-in-progress) for unsold units under construction that the entity recognises is not a qualifying asset. In previous periods the Group capitalized borrowing costs related to land plots (and similar assets) acquired during the construction process. The clarification stated the entity is not allowed to capitalise borrowing costs as they are not directly attributable to the acquisition, construction or production of a qualifying asset.

The Group has made retrospective restatements during the current interim period as a result of adoption of this clarification as follows:

- Carrying value of inventories as at 31 December 2018 was overstated by 424,463, deferred tax assets were understated by 38,180, deferred tax liabilities were overstated by 46,713, accumulated losses were understated by 286,236, and net assets attributable to non-controlling participants in LLC were overstated by 53,334 in the statement of financial position as at 31 December 2018;
- Cost of sales were overstated by 69,437, general and administrative expenses were overstated by 30,043, other operating income were overstated by 2,303, other operating expenses were understated by 35,814, income from change in fair value of investment property were overstated by 5,223, finance costs were understated by 93,035, income tax expenses were overstated by 8,688 in the statement of profit or loss for the six months ended 30 June 2018.

(in thousands of Russian rubles)

3. Restatement of comparative information (continued)

Impact of the above mentioned changes on the statement of profit and loss for the six months ended 30 June 2018 and statement of financial position as of 31 December 2018 is as follows:

	For the six months ended 30 June 2018		
	As reported	*Change in accounting policy*	*As restated*
Cost of sales	(5,828,641)	69,437	(5,759,204)
Gross profit	**1,803,436**	**69,437**	**1,872,873**
General and administrative expenses	(676,336)	30,043	(646,293)
Other operating income	135,005	(2,303)	132,702
Other operating expenses	(866,698)	(35,814)	(902,512)
Change in fair value of investment property	119,173	(5,223)	113,950
Operating profit	**514,580**	**56,140**	**570,720**
Finance costs	(1,030,589)	(93,035)	(1,123,624)
Loss before income tax	**(55,137)**	**(36,895)**	**(92,032)**
Income tax expense	(368,480)	8,688	(359,792)
Loss for the year	**(423,617)**	**(28,207)**	**(451,824)**
Attributable to:			
Equity holders of the parent	(429,866)	(24,563)	(454,429)
Non-controlling interests	6,249	(3,644)	2,605

	As of 31 December 2018		
	As reported	*Change in accounting policy*	*As restated*
Non-current assets			
Inventories	1,419,980	–	1,419,980
Deferred tax assets	583,334	38,180	621,514
Total non-current assets	**17,631,277**	**38,180**	**17,669,457**
Current assets			
Inventories	24,703,321	(424,463)	24,278,858
Total current assets	**35,241,813**	**(424,463)**	**34,817,350**
Total assets	**52,873,090**	**(386,283)**	**52,486,807**
Equity			
Accumulated losses	(2,270,325)	(286,236)	(2,556,561)
Equity attributable to equity holders of the Parent	**17,713,407**	**(286,236)**	**17,427,171**
Non-current liabilities			
Deferred tax liabilities	3,552,007	(46,713)	3,505,294
Total non-current liabilities	**18,542,825**	**(46,713)**	**18,496,112**
Net assets attributable to non-controlling participants in LLC	**677,886**	**(53,334)**	**624,552**
Total equity and liabilities, including net assets attributable to non-controlling participants in LLC	**52,873,090**	**(386,283)**	**52,486,807**

(in thousands of Russian rubles)

3. Restatement of comparative information (continued)

Impact of the above mentioned changes on the statement of financial position as at 1 January 2018 is as follows:

	As of 1 January 2018		
	As reported	***Change in accounting policy***	***As restated***
Non-current assets			
Non-current inventories	1,407,542	–	1,407,542
Deferred tax assets	578,160	9,819	587,979
Total non-current assets	**15,814,973**	**9,819**	**15,824,792**
Current assets			
Inventories	19,121,066	(262,993)	18,858,073
Total current assets	**32,857,887**	**(262,993)**	**32,594,894**
Total assets	**48,999,602**	**(253,174)**	**48,746,428**
Equity			
Accumulated losses	(3,401,182)	(209,164)	(3,610,346)
Equity attributable to equity holders of the Parent	**15,950,864**	**(209,164)**	**15,741,700**
Non-controlling interest	571,223	117	571,340
Total equity	**16,522,087**	**(209,047)**	**16,313,040**
Non-current liabilities			
Deferred tax liabilities	2,934,060	(42,443)	**2,891,617**
Total non-current liabilities	**17,994,880**	**(42,443)**	**17,952,437**
Current liabilities			
Provisions	79,290	(1,684)	77,606
Total current liabilities	**14,482,635**	**(1,684)**	**14,480,951**
Total equity and liabilities, including net assets attributable to non-controlling participants in LLC	**48,999,602**	**(253,174)**	**48,746,428**

4. Assets held for sale

In 2015 the Group sold a real estate project to a third party but the respective receivables were not settled. In the first half of 2019 the Group received from the buyer development rights for land plots in Moscow area in the amount of 512,565 (Note 9) as the settlement of those receivables. Assets and liabilities of the subsidiary that held those rights were classified as held for sale as at 30 June 2019 as the decision to sell the subsidiary and the respective plan of selling were approved and implemented by Board of Directors and management, respectively. In July 2019 the Group sold 100% share of its subsidiary to a third party.

The major classes of assets and liabilities classified as held for sale as at 30 June 2019 are, as follows:

	30 June 2019
Assets	
Development rights (Note 9)	512,565
Deferred tax assets	3,899
Taxes recoverable	103,332
Cash and cash equivalents	204
Assets held for sale	**620,000**

5. 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.

(in thousands of Russian rubles)

5. Investment in associates (continued)

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

	For the six months ended 30 June	
	2019	***2018***
Opening balance as at 1 January (audited)	**59,276**	**43,675**
Dividends received	(3,544)	–
Cash contribution	–	3,307
Share of loss for the period	(8,166)	(3,037)
Closing balance at 30 June (unaudited)	**47,566**	**43,945**

6. Income and expenses

6.1 Revenue

Revenue include the following:

	For the six months ended 30 June	
	2019	***2018***
Revenue from contracts with customers		
Sales of residential property	6,968,160	7,434,850
Barter revenue	–	4,682
Technical supervision services	67,200	42,453
Sale of heating, electricity and energy supply services	69,506	47,206
Other revenue	129,341	62,217
Total revenue from contracts with customers	**7,234,207**	**7,591,408**
Rental income	21,244	40,669
Total	**7,255,451**	**7,632,077**

Revenues from contracts with customers include the following:

	For the six months ended 30 June	
	2019	***2018***
Revenue recognized over time		
Sales of residential property	3,496,810	4,445,205
Technical supervision services	67,200	42,453
Sale of heating, electricity and energy supply services	69,506	47,206
Total revenue recognized over time	**3,633,516**	**4,534,864**
Revenue recognized at point in time		
Sales of residential property	3,471,350	2,989,645
Barter revenue	–	4,682
Other revenue	129,341	62,217
Revenue recognized at point in time	**3,600,691**	**3,056,544**
Total revenue from contracts with customers	**7,234,207**	**7,591,408**

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.

Sale of heating, electricity and energy supply services represents the revenue from transfer of electricity and heating energy from the provider of public facilities to third and related parties and revenue from connection of customers to public facilities networks.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers, excluding all the contracts with local authorities:

	For the period ended	
	30 June 2019	***31 December 2018***
Receivables, which are included in “Trade and other receivables”	507,994	300,643
Contract assets	206,516	355,198
Contract liabilities (Note 21)	7,226,643	5,815,529

(in thousands of Russian rubles)

6. Income and expenses (continued)

6.1 Revenue (continued)

The contract assets primarily relate to the Group enforceable right to payment for work performed as at reporting date. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advances consideration received from customers. Significant changes in the contract assets and the contract liabilities are described in Note 21.

The net aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of 30 June 2019 (excluding all the contracts with local authorities) was 7,020,127 (31 December 2018: 5,460,331) and it is going to be recognized within subsequent one or two years.

6.2 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	
	2019	***2018***
Staff costs, including social security taxes	575,797	511,818
- Payroll costs and other staff costs	*488,224*	*446,284*
- Social security taxes	*87,573*	*65,534*
Depreciation and amortisation	22,472	20,704

Staff costs capitalized as a part of additions to inventories amounted to 466,954 for the six months ended 30 June 2019 (six months ended 30 June 2018: 796,168).

6.3 Cost of sales

Cost of sales includes the following:

	For the six months ended 30 June	
	2019	***2018***
Cost of sales of residential property	5,419,985	5,647,649
Cost of sales for rent	2,432	3,766
Other costs	162,234	107,789
Total	**5,584,651**	**5,759,204**

For the six months ended 30 June 2019 and 2018, cost of sales of residential property contain non-cash cost related to capitalized development rights in the amount of 51,568 and 91,792 respectively.

(in thousands of Russian rubles)

6. Income and expenses (continued)

6.4 General and administrative expenses

The structure of general and administrative expenses was the following:

	For the six months ended 30 June	
	2019	***2018***
Staff costs, including social security taxes	321,493	324,426
Consulting	133,332	119,326
Short-term leases and leases of low-value assets	43,613	39,022
Security	34,759	32,063
Other assurance services	14,584	14,584
Depreciation of property, plant and equipment	13,743	13,058
Representation expenses	10,908	8,618
Telecommunications	10,531	11,022
Repair and maintenance	10,269	10,813
Other professional services	7,798	7,743
Materials	7,406	17,182
Amortization of intangible assets	2,618	930
Utilities services	1,739	2,260
Tax services	–	1,650
Other	32,127	43,596
Total	**644,920**	**646,293**

In 2019 year the Group changed presentation of tax expenses (other than income tax) from General and administrative expenses to Other opetating expenses.

6.5 Finance income and costs

The components of finance income were as follows:

	For the six months ended 30 June	
	2019	***2018***
Interest on bank accounts and deposits	194,507	223,196
Interest on loans receivable	40,509	186,766
Income on unwinding of discount on receivables	24,967	18,528
Other financial income	–	3,488
Total	**259,983**	**431,978**

The components of finance costs were as follows:

	For the six months ended 30 June	
	2019	***2018***
Interest expense	1,276,386	1,119,112
Other financial expenses	3,103	4,512
Total	**1,279,489**	**1,123,624**

6.6 Other operating income and expenses

The components of other operating income were as follows:

	For the six months ended 30 June	
	2019	***2018***
Gain on change of allowance for expected credit loss recognized on trade and other receivable	227,535	–
Gain on derecognition of accounts payable	5,978	26,331
Gain on sale of inventory (kindergarden)	–	51,592
Penalty fees income	–	45,361
Gain on sale of property plant and equipment	–	453
Other income	1,232	8,965
Total	**234,745**	**132,702**

(in thousands of Russian rubles)

6. Income and expenses (continued)

6.6 Other operating income and expenses (continued)

The components of other operating expenses were as follows:

	For the six months ended 30 June	
	2019	***2018***
Commercial expenses	481,801	437,073
Write-down of inventories to net realizable value (Note 12)	241,211	246,820
Short-term leases	95,997	13
Other taxes (excluding income tax)	85,743	49,211
Write-off of irrecoverable accounts receivable and loan receivable	33,899	8,472
Maintenance of completed real estate property	71,523	47,773
Penalties fees	22,939	–
Loss on sale and write-off of property plant and equipment and inventory	14,205	–
Increase in legal provisions	13,980	4,253
Charity	11,089	21,691
Bank services	9,272	3,080
Allowance for expected credit loss recognized on trade and other receivables, impairment of prepayments (Notes 13, 14)	–	58,551
Other expenses	43,156	25,575
Total	**1,124,815**	**902,512**

7. Income tax

Corporate tax

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

	2019	***2018***
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 six months ended 30 June 2019, were as follows:

	For the six months ended 30 June	
	2019	***2018***
Income tax expense − current	(588,269)	(109,678)
Accrual of tax risks provision	(6,942)	(2,820)
Income tax for previous years	–	(8,929)
Dividend tax	9,412	(9,412)
Deferred tax benefit/(expense) − origination and reversal of temporary differences, net	511,118	(228,953)
Income tax expense reported in interim condensed consolidated statement of profit or loss	**(74,681)**	**(359,792)**

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

8. 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 six months ended 30 June 2019 in the total amount of 94,493 (six months ended 30 June 2018: 64,863) were mainly represented by construction costs incurred on continued construction of utilities networks in the amount of 87,990.

Additions to leasehold improvements and other equipment for the six months ended 30 June 2019 in the total amount of 11,909 (six months ended 30 June 2018: 9,147) were mainly represented by cars and office equipments.

Disposal of buildings for the six months ended 30 June 2019 in the total amount of 19,595 were mainly represented by write-off expenses on modernization offices in Moscow due to moving to a new office.

(in thousands of Russian rubles)

8. Property, plant and equipment (continued)

Interest (net of the interest reimbursed by the governmental bodies), capitalized as part of additions to property, plant and equipment, amounted to 10,596 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 8,841). 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 2019 equals 11.98% (for the six months ended 30 June 2018: 13.02%).

For the six months ended 30 June 2019 the Group recognized depreciation charge of 22,783 (for the six months ended 30 June 2019: 23,248).

9. Intangible assets other than goodwill

Intangible assets other than goodwill consisted of the following:

	Development rights	***Other***	***Total***
Cost			
Balance as at 31 December 2017 (audited)	**1,714,298**	**11,604**	**1,725,902**
Balance as at 30 June 2018 (unaudited)	**1,714,298**	**11,604**	**1,725,902**
Balance as at 31 December 2018 (audited)	**4,149,033**	**36,314**	**4,185,347**
Additions	512,565	2,295	**514,860**
Reclass to assets held to sale (Note 4)	(512,565)	−	**(512,565)**
Disposals	−	(2,551)	**(2,551)**
Balance as at 30 June 2019 (unaudited)	**4,149,033**	**36,058**	**4,185,091**
Accumulated amortization and impairment			
Balance as at 31 December 2017 (audited)	**(165,711)**	**(7,594)**	**(173,305)**
Amortization charge	(52,768)	(930)	**(53,698)**
Balance as at 30 June 2018 (unaudited)	**(218,479)**	**(8,524)**	**(227,003)**
Balance as at 31 December 2018 (audited)	**(216,594)**	**(10,983)**	**(227,577)**
Amortization charge	(102,585)	(2,863)	**(105,448)**
Disposals	−	318	**318**
Balance as at 30 June 2019 (unaudited)	**(319,179)**	**(13,528)**	**(332,707)**
Net book value as at 31 December 2018 (audited)	**3,932,439**	**25,331**	**3,957,770**
Net book value as at 30 June 2019 (unaudited)	**3,829,854**	**22,530**	**3,852,384**

Development rights are represented by permissions to use land for construction purposes received from certain number of individuals or local authorities free of charge in exchange for obligation to transfer them residential premises or constructed social objects, repsectively. Carrying value of recognized development rights was determined as market value of residential premises / social objects to be transferred. Additions in the amount of 512,565 in 2019 represents the land lease rights transferred back to the Group as a result of settlement agreement (Note 4).

Amortization of development and leasehold rights in amount of 102,585 was included in the carrying amount of constructed property as at 30 June 2019 (30 June 2018: 52,768).

10. Investment properties

Investment property consisted of the following:

	30 June 2019 (unaudited)	***30 June 2018 (unaudited)***
Opening balance as at 1 January − investment property	**10,293,917**	**11,075,675**
Opening balance as at 1 January − investment property held for sale	**−**	**50,000**
Additions (subsequent expenditure)	131,070	101,755
Transfer to inventory (Note 12)	(24,114)	(942,778)
Disposal	−	(26,936)
Increase in fair value of investment property	45,605	113,950
Closing balance at 30 June − investment property	**10,416,478**	**10,371,666**
Closing balance at 30 June − investment property − held for sale	**30,000**	**−**

(in thousands of Russian rubles)

10. Investment properties (continued)

Interest capitalized as part of subsequent expenditure to investment properties amounted to 49,902 and 38,095 for the six months ended 30 June 2019 and 2018, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization in six months ended 30 June 2019 was 11.32% (for the six months ended 30 June 2018: 8.60%). The Group had income from rent of investment property of 3,301 and direct operating expenses arising from investment property that generated rental income of 967 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 3,485 and 629 respectively).

During the for the six months ended 30 June 2019 and 2018, 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 2019, 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 30,000, respectively.

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.

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 2019 and 31 December 2018. 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 9,970,099 and 95.44% share in total consolidated value of investment property as of 30 June 2019 (31 December 2018: 9,844,822 and 95.64% 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 535,000, 1,047,000 and 1,540,000
		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 245,000, 475,000 and 691,000
		Annual change of sales price for residential areas	5%, 4%, 4%, 4%	Annual change of sales price for residential areas by 3%, 3%, 4%, 4% would decrease fair value by 1,356,000
		Sales volume of land plot	0.38-1 and 0.48-0.50	Decrease of sales volume of land plot from 0.38-1 down to 0.25-0.35-0.45 (uneven sales during first year) land plot per annum would decrease fair value by 2,217,000-1,661,000-1,041,000 respectively. Change of sales volume of land plot from 0.38-1 down to 0.5 land plot per annum would decrease fair value by 2,040,000 due to even sales of 0.5 land plot per annum. Decrease of sales volume of land plot from 0.48-0.50 down to 0.35-0.40-0.50 land plot per annum would decrease fair value by 456,000-289,000-12,000

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.

(in thousands of Russian rubles)

11. Interest-bearing loans receivable

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

	Effective interest rate 2019	*30 June 2019*	*Effective interest rate 2018*	*31 December 2018*
Non-current loans receivable				
Loans receivable from third parties at FVPL	9.00%	7,201	9.00%	6,894
Loans receivable from related parties (Note 23) at FVPL	12.50-13.02%	481,958	12.50-13.02%	510,331
Total non-current loans receivable		**489,159**		**517,225**
Current loans receivable				
Loans receivable from third parties at amortised cost	5.5%	917	5.5%	893
Loans receivable from related parties (Note 23) at FVPL	8.20%	106,627	8.20%	102,561
Loans receivable from third parties at FVPL	19.00-24.00%	62,878	19.00-24.00%	163,089
Total current loans receivable		**170,422**		**266,543**

12. Inventories

Inventories consisted of the following as of:

	30 June 2019 (unaudited)	*31 December 2018 Restated*
Inventory properties under construction		
- at cost	16,593,582	14,826,748
- at net realizable value	202,406	287,697
Constructed inventory properties		
- at cost	7,305,192	8,711,095
- at net realizable value	1,627,146	1,856,906
Other inventory, at cost	24,980	16,392
Total	**25,753,306**	**25,698,838**
Including:		
- current	24,333,326	24,278,858
- non-current	1,419,980	1,419,980

As of 30 June 2019 and 31 December 2018, 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 2019 and 31 December 2018, the cumulative write-down to net realizable value in respect of inventories amounted to 1,915,885 and 1,872,424, respectively.

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

	30 June 2019 (unaudited)	*30 June 2018 (unaudited)*
Opening balance at 1 January (audited)	**26,123,301**	**20,528,608**
Opening balance adjustment	(424,463)	(262,993)
Opening balance at 1 January (restated)	**25,698,838**	**20,265,615**
Construction costs incurred	5,620,942	5,880,108
Other costs incurred	34,718	25,274
Interest capitalized	66,472	195,579
Transfer from investment property (Note 10)	24,114	942,778
Write-down to net realizable value (Note 6.6)	(241,211)	(246,820)
Disposals (recognized in cost of sales of residential property) (Note 6.3)	(5,419,985)	(5,654,085)
Disposals (recognized in cost of other sales and other expenses)	(30,582)	(25,274)
Closing balance at 30 June (unaudited)	**25,753,306**	**21,383,175**

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization for the six months ended 30 June 2019 was 11.98% (six months ended 30 June 2018: 13.02%).

(in thousands of Russian rubles)

13. Trade and other receivables

Trade and other receivables in current assets consisted of the following as at:

	30 June 2019 (unaudited)	*31 December 2018 (audited)*
Trade accounts receivable due from third parties	451,378	271,667
Trade accounts receivable due from related parties (Note 23)	56,616	28,976
Other accounts receivable due from third parties	408,442	1,014,669
Other accounts receivable due from related parties (Note 23)	308,854	351,890
Allowance for expected credit losses	(397,179)	(710,127)
	828,111	**957,075**

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

	30 June 2019	*30 June 2018*
Opening balance at 1 January (audited)	**710,127**	**632,977**
(Reversal)/accrual of provision for expected credit loss for the reporting period	(244,197)	35,835
Amounts written off	(54,592)	(221)
Exchange differences	(14,159)	–
Closing balance at 30 June (unaudited)	**397,179**	**668,591**

The significant changes in the balances of trade receivables and contract assets are disclosed in Note 6.1. Trade and other receivables in non-current assets represent mainly the trade receivables from third parties for the sale of residential property.

14. Prepayments

Prepayments consisted of the following as at:

	30 June 2019 (unaudited)	*31 December 2018 (audited)*
Prepayments made to third parties	1,669,666	1,049,652
Prepayments made to related parties (Note 23)	61,487	221,527
Impairment loss	(121,202)	(104,540)
	1,609,951	**1,166,639**

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

	30 June 2019	*30 June 2018*
Opening balance at 1 January (audited)	**104,540**	**84,758**
Charge for the period (Note 6.6)	16,662	22,716
Utilised	–	(3)
Closing balance at 30 June (unaudited)	**121,202**	**107,471**

15. Cash and cash equivalents

Cash and cash equivalents consisted of the following as of:

	30 June 2019 (unaudited)	*31 December 2018 (audited)*
Cash	6,842,312	5,788,601
Short-term deposits	208,754	839,883
	7,051,066	**6,628,484**

(in thousands of Russian rubles)

16. Equity

Total number of outstanding shares is comprised of the following:

Authorized, issued and fully paid	***Number of shares***	***Share capital***
At 30 June 2019	6,786,305	211,941
At 31 December 2018	6,786,305	211,941

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 amount of 37,316. During the six months ended 30 June 2019 due to partial repayment of the loan the Group recognised capital contributions from shareholder in the amount of 8,644.

The loan receivable outstanding amounted to 6,214 as at 30 June 2019 (31 December 2018: 58,680).

In previous period, the Group borrowed funds from an entity under common control maturing in December 2022. These 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 20,725 for the six months ended 30 June 2018. The loans payable outstanding amounted to 99,201 as at 30 June 2019 (31 December 2018: 99,201).

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 5,822.

In March 2018, the Group declared issue of share capital by creation of one hundred ordinary shares of $1 each (equivalent 6 thousands of rubles) with a premium of $105,102.6 per share and price of $10,510.26 (equivalent 596,994 thousands of rubles). The share capital increase was fully paid on 19 June 2018 in Russian rubles.

In February 2018, the Group acquired 25% stake in the Group's subsidiary for cash consideration of 3 and thus the company became a wholly-owned subsidiary of the Group. That fact has been reflected in the interim condensed consolidated statement of changes in equity of the Group in the amount of 12,612.

In August 2018, the Group purchased a 3% share in its subsidiary for the consideration of 41,232 (20,616 were paid as at 31 December 2018) and became a wholly-owned subsidiary of the Group. The remaining part of the consideration was paid during the six months of 2019.

In September 2018, the Group acquired 65% stake in a company located in in Moscow. The acquisition of the new company constituted a group of assets and liabilities associated with new construction project, rather than business.

The Group recognized net assets attributable to non-controlling participants in LLC in the amount of 624,552 as of 31 December 2018. In current period decrease of NCI amounted to 80,580 that is fully attributable to 35% shares of loss accounted for during the six months ended 30 June 2019 in subsidiary acquired during 2018.

(in thousands of Russian rubles)

17. Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings as at 30 June 2019 and 31 December 2018:

	Effective interest rate 2019	*30 June 2019 (unaudited)*	*Unused borrowing facilities*	*Effective interest rate 2018*	*31 December 2018 (audited)*	*Unused borrowing facilities*
Non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	9.20-14.38%	3,392,450	2,820,048	10.68-13.25%	3,233,225	4,466,266
Loans and borrowings from related parties (Note 23)	–	–	–	14.38%	143,924	–
Total non-current interest-bearing loans and borrowings		**3,392,450**	**2,820,048**		**3,377,149**	**4,466,266**
Current portion of non-current interest-bearing loans and borrowings						
Loans and borrowings from third parties	9.20-11.54%	1,205,928	–	11.63-12.08%	1,240,499	–
Total current portion of non-current interest-bearing loans and borrowings		**1,205,928**	**–**		**1,240,499**	**–**
Current interest-bearing loans and borrowings						
Loans and borrowings from third parties	11.54-13.25%	1,401,296	–	10.68-12.08%	18,286	–
Total current interest-bearing loans and borrowings		**1,401,296**	**–**		**18,286**	**–**
Total interest-bearing loans and borrowings		**5,999,674**	**2,820,048**		**4,635,934**	**4,466,266**

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 2019 and 31 December 2018.

Pledged assets

As at 30 June 2019 inventory with the carrying value of 7,520,393 (31 December 2018: 7,870,630) and property, plant and equipment with the carrying value of 19,187 (31 December 2018: 6,322) are pledged as a collateral for loans and borrowings.

As at 30 June and 31 December 2018, the Group had pledged 100% shares in some of its subsidiaries:

As at	*Share of subsidiaries which shares were pledged in the total consolidated assets of the Group*	*Share of subsidiaries which shares were pledged in the total consolidated revenue of the Group*	*Carrying value of net assets of subsidiaries which shares were pledged (including intra-group balances)*
31 December 2018	43.59%	45.62%	20,817,402
30 June 2019	42.55%	48.99%	20,806,780

18. Debt securities issued

In 2017, the Group issued the seventh, eighth and ninth tranches of 10 billion rubles denominated bonds with a par value of 1,000 rubles 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 69,119 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 thousands of Russian rubles)

18. Debt securities issued (continued)

In April 2019 debt securities of the seventh issue in the total number 511,944 were partially repurchased from the market at their par value of 1,000 ruble each for 511,944. The Group announced the interest rate amounting to 12.0% p.a. for unpurchased bonds and period of bonds circulation was extended till 1 April 2022.

As of 30 June 2019, debt securities of the third, fourth, sixth, seventh and eight issue in the total number 3,098,961 amounting to 3,098,961 at amortized cost (31 December 2018: 3,084,561) were repurchased by the Group's subsidiary.

19. Trade and other payables

Trade and other payables consisted of the following as of:

	30 June 2019 (unaudited)	*31 December 2018 (audited)*
Trade accounts payable due to third parties	1,729,399	1,437,219
Trade accounts payable due to related parties (Note 23)	21,259	84,817
Other accounts payable due to third parties	822,897	536,223
Other accounts payable due to related parties (Note 23)	178	29,417
Bonus accrual	244,819	71,463
Unused vacation accrual	140,839	129,970
Total	**2,959,391**	**2,289,109**

20. Other liabilities

Other liabilities consisted of the following as of:

	30 June 2019 (unaudited)	*31 December 2018 (audited)*
Non-current financial liabilities		
Liabilities for permitted use of land alteration (b)	1,393,783	1,589,735
Liabilities for purchasing of development rights and assets (a)	607,466	607,466
Lease liabilities	407,110	–
Lease obligations under IAS 17	–	1,231
	2,408,359	**2,198,432**
Current financial liabilities		
Liabilities for permitted use of land alteration (b)	561,660	600,495
Lease liabilities − current portion	211,050	–
Lease obligations under IAS 17 – current portion	–	7,402
Other current liabilities	5,652	29,881
	778,362	**637,778**

(a) As of 30 June 2019 and 31 December 2018, the Group had outstanding non-current financial liabilities in respect of the purchase of new CTD project (purchase of asset performed in 2015 in amount of 607,466).

(b) In 2016 and 2018, the Group purchased subsidiary with permitted use of land for residential construction for the one of its project resulted in payables for that change in permission to local authorities. The Group had non-current financial liability for 1,393,783 and current financial liability of 561,660 (31 December 2018: 1,589,735 and 600,495).

(in thousands of Russian rubles)

21. Contract liabilities

At 30 June 2019 and 31 December 2018, contract liabilities in the amount of 7,226,643 and 5,815,529 respectively, mainly related to advance payments received from individuals and legal entities for residential properties.

Contract liabilities consisted of the following as of:

	30 June 2019 (unaudited)	***31 December 2018 (audited)***
Non-current non-financial contract liabilities		
Liabilities for investment contracts with local authorities (a)	1,234,285	1,234,285
Liabilities for construction of social objects (b)	41,615	195,661
	1,275,900	**1,429,946**
Current non-financial contract liabilities		
Advances from Customers − third parties	7,226,634	5,808,393
Advances from Customers − related parties	9	7,136
Liabilities for investment contracts with local authorities (a)	36,180	36,180
Liabilities for construction of social objects (b)	154,047	−
	7,416,870	**5,851,709**

(a) The Group concluded a number of investment contracts with local authorities for development and constructions of residential districts. According to these investment contracts, the Group is required to provide apartments to individuals or construct social objects and transfer them to local authorities. Current non-financial liabilities represent liabilities of the Group for provision of apartments and social objects under these investment contracts in amount of 36,180 as of 30 June 2019 and 31 December 2018, respectively. Non-curent non-financial liability represents provision for construction of social objects under investment contract of new CTD project in the amount of 1,234,285 as of 30 June 2019 and 31 December 2018, respectively.

(b) In 2017, the Group concluded a contract with local authorities for construction of social objects such as park, kindergarten, sports ground and a monument as a part of the further project in Ural Region development. As of 30 June 2019, the Group had outstanding non-current contract liability of 41,615 and current non-financial liability of 154,047 (31 December 2018: 195,661 and nil) according to this contract.

22. Provisions

Provisions consisted of the following:

	Onerous contracts	***Legal claims***	***Construction of social objects***	***Provision for completion of construction works***	***Total***
At 31 December 2017 (audited)	**15,027**	**12,443**	**50,137**	**−**	**77,607**
Accrued	7,265	5,865	−	−	**13,130**
Used amounts	(4,750)	(349)	(16,227)	−	**(21,326)**
Unused amounts reversed	(412)	(1,612)	−	−	**(2,024)**
At 30 June 2018 (unaudited)	**17,130**	**16,347**	**33,910**	**−**	**67,387**
At 31 December 2018 (audited)	**−**	**4,171**	**−**	**45,651**	**49,822**
Accrued	−	15,065	−	−	**15,065**
Used amounts	−	(285)	−	(32,544)	**(32,829)**
Unused amounts reversed	−	(1,085)	−	−	**(1,085)**
At 30 June 2019 (unaudited)	**−**	**17,866**	**−**	**13,107**	**30,973**

In 2018, in projects that were put into operation the Group concluded contracts for works to be implemented in 2019 and the respective provision was accrued in the amount of 13,107 as of 30 June 2019 (31 December 2018: 45,651).

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 2019 amounted to nil (30 June 2018: 17,130).

Provision for construction of social objects in the amount of 33,910 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. Provision was utilised by the end of 2018.

(in thousands of Russian rubles)

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 as at 30 June 2019 and 31 December 2018 are detailed below:

30 June 2019	*Loans receivable*	*Trade and other receivables*	*Prepay-ments*	*Interest-bearing loans and borrowings*	*Trade and other payables, other liabilities*	*Advances received*
Shareholder	–	180	–	–	–	–
Associates	–	1,512	61,481	–	21,114	–
Other related parties	588,585	363,778	6	–	323	9
Total	**588,585**	**365,470**	**61,487**	**–**	**21,437**	**9**

31 December 2018	*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*
Shareholder	–	1,005	–	–	–	–
Associates	–	618	61,482	–	20,267	1,932
Entities under common control	612,892	379,243	160,045	143,924	93,967	5,204
Total	**612,892**	**380,866**	**221,527**	**143,924**	**114,234**	**7,136**

For the six months ended 30 June 2019	*Revenue*	*Finance income*	*Costs*	*Finance costs*	*Other expenses*	*Purchases*
Shareholder	112	–	–	–	–	–
Associates	21,312	–	7,811	–	826	–
Other related parties	106,100	27,338	2,220	2,182	(65)	23
Total	**127,524**	**27,338**	**10,031**	**2,182**	**761**	**23**

For the six months ended 30 June 2018	*Revenue*	*Finance income*	*Costs*	*Finance costs*	*Other expenses*	*Purchases*
Shareholder	–	–	–	–	–	–
Associates	–	–	10,328	–	(20,774)	–
Entities under common control	88,140	29,321	1,781	8,784	(831)	68,613
Total	**88,140**	**29,321**	**12,109**	**8,784**	**(21,605)**	**68,613**

Entities under common control were the companies which were under direct or indirect control of the ultimate controlling party in 2018. As in 2019 the Group did not have the ultimate controlling party all those entities are referred as other related parties which are the entities under control or significant influence of the former ultimate controlling party of the Group who still has significant influence over the Group as well. The balances with related parties as at 30 June 2019 and 31 December 2018, 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.

(in thousands of Russian rubles)

23. Balances and transactions with related parties (continued)

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 interim condensed consolidated statement of profit or loss and consisted of short-term employee benefits:

	30 June 2019 (unaudited)	***30 June 2018 (unaudited)***
Salary	147,502	118,072
Performance bonuses	94,725	306,443
Other compensations	1,763	1,405
Social security taxes	41,157	14,645
Total	**285,147**	**440,565**

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 2019, 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.

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 preceding 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 2019 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.

(in thousands of Russian rubles)

24. Contingencies, commitments and operating risks (continued)

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 2019. The Group had firm contractual commitments for the construction works for an approximate amount of 8,290,544 (including VAT) as at 30 June 2019 (31 December 2018: 6,216,770).

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 2,327 as at 30 June 2019 (31 December 2018: 21,039).

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 2019		*31 December 2018*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Assets				
Interest-bearing loans receivable at amortised cost	917	917	893	873
Total assets	**917**	**917**	**893**	**873**
Liabilities				
Interest-bearing loans and borrowings	5,999,674	5,820,152	4,635,934	4,529,598
Debts securities issued	12,693,199	12,824,000	13,236,944	13,536,217
Total liabilities	**18,692,873**	**18,644,152**	**17,872,878**	**18,065,815**

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 Russian rubles)

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 measurement hierarchy for assets and liabilities as at 30 June 2019:

	Total	*Level 1*	*Level 2*	*Level 3*
Non-financial assets measured at fair value				
Investment property	**10,416,478**	−	−	10,416,478
Financial assets measured at fair value				
Interest-bearing loans receivable at FVPL	**658,664**	−	−	658,664
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**5,820,152**	−	−	5,820,152
Debts securities issued	**12,824,000**	−	12,824,000	−

Fair value measurement hierarchy for assets and liabilities as at 31 December 2018:

	Total	*Level 1*	*Level 2*	*Level 3*
Non-financial assets measured at fair value				
Investment property	**10,293,917**	−	−	10,293,917
Financial assets measured at fair value				
Interest-bearing loans receivable at FVPL	**782,875**	−	−	782,875
Financial liabilities for which fair value is disclosed				
Interest-bearing loans and borrowings	**4,529,598**	−	−	4,529,598
Debts securities issued	**13,536,217**	−	13,536,217	−

(in thousands of Russian rubles)

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 ended 30 June 2019

	Ural region	*Moscow*	*Northwest region*	*Moscow region*	*Management company*	*Total*
External segment revenue	**4,102,755**	**1,372,972**	**631,785**	**392,201**	**14,697**	**6,514,410**
Intersegment revenue	24,533	–	619	–	587,075	**612,227**
Total segment revenue	**4,127,288**	**1,372,972**	**632,404**	**392,201**	**601,772**	**7,126,637**

	Ural region	*Moscow*	*Northwest region*	*Moscow region*	*Management company*	*Total*
External segment operating profit/(loss)	**162,524**	**155,084**	**(24,457)**	**(4,527)**	**(463,596)**	**(174,972)**
Intersegment operations	9,736	–	619	–	280,333	**290,688**
Total segment operating profit/(loss)	**172,260**	**155,084**	**(23,838)**	**(4,527)**	**(183,263)**	**115,716**

Six months ended 30 June 2018

	Ural region	*Moscow*	*Northwest region*	*Moscow region*	*Management company*	*Total*
External segment revenue	**4,589,025**	**2,216,654**	**460,633**	**160,374**	**78,941**	**7,505,627**
Intersegment revenue	109,489	–	567	13	786,251	**896,320**
Total segment revenue	**4,698,514**	**2,216,654**	**461,200**	**160,387**	**865,192**	**8,401,947**

	Ural region	*Moscow*	*Northwest region*	*Moscow region*	*Management company*	*Total*
External segment operating profit/(loss)	**488,173**	**499,906**	**68,472**	**(73,243)**	**(588,363)**	**394,945**
Intersegment operations	(233,034)	(181,473)	(21,879)	(67,371)	702,969	**199,212**
Total segment operating profit/(loss)	**255,139**	**318,433**	**46,593**	**(140,614)**	**114,606**	**594,157**

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.

(in thousands of Russian rubles)

26. Segment information (continued)

Reconciliation of segments' results to net loss

	For the six months ended 30 June	
	2019	***2018***
Revenue reconciliation		
Total revenue from reportable segments	7,126,637	8,401,947
Elimination of intersegment revenue	(612,227)	(896,320)
Revenue from non-reportable segments	331,933	187,273
Adjustments of revenue	387,864	(101,492)
Total Group revenue from contracts with customers	**7,234,207**	**7,591,408**
Operating profit reconciliation		
Total operating profit from reportable segments	115,716	594,157
Elimination of intersegment operations	(290,688)	(199,212)
Operating profit from non-reportable segments	4,608	16,279
Adjustments of operating profit	306,174	45,545
Change in fair value of investment property	45,605	113,951
Total Group operating profit	**181,415**	**570,720**
Finance income	259,983	431,978
Finance costs	(1,279,489)	(1,123,624)
Foreign exchange (losses)/gains, net	(13,046)	31,931
Net loss attributable to Non-controlling participants in LLC	80,580	–
Share of loss of associate	(8,166)	(3,037)
Loss before income tax	**(778,723)**	**(92,032)**
Income tax expense	(74,681)	(359,792)
Net loss for the period	**(853,404)**	**(451,824)**

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 (Notes 6.6, 12), recognised significant financing component and other provisions, accrued under IFRS.

27. Subsequent events

In July 2019 the Group sold one of its subsidiaries. The transaction price amounted to 620,000. Assets and liabilities associated with the subsidiary were classified as Assets held for sale in the statement of financial position (Note 4).

In August 2019 the Group fully redeemed its obligations under sixth tranche of its bonds in amount of 2,683 mln rubles.

In August 2019 the Group issued the tranches of ruble-denominated bonds in total amount of 3,5 billion with a par value of 1,000 rubles, maturity in 2022-2025, coupon rate of 12.00% per annum, payable semi-annually and secured by the Company's guarantee. Debt issuance costs paid by the Group in relation to the arrangement of bonds issue amounted to 438.

In July- November 2019 the Group made a coupon yield payments for the third, seventh and eighth tranche of its bonds issued in total amount of 607,570.

In July-November 2019 the Group partially repaid its obligations under existing credit facilities in the total amount of 2,250,749.

In July-November 2019 the Group received loan in the total amount of 1,840,724.

In July-November 2019 the Group provided loan facilities in the total amount of 1,062,590.