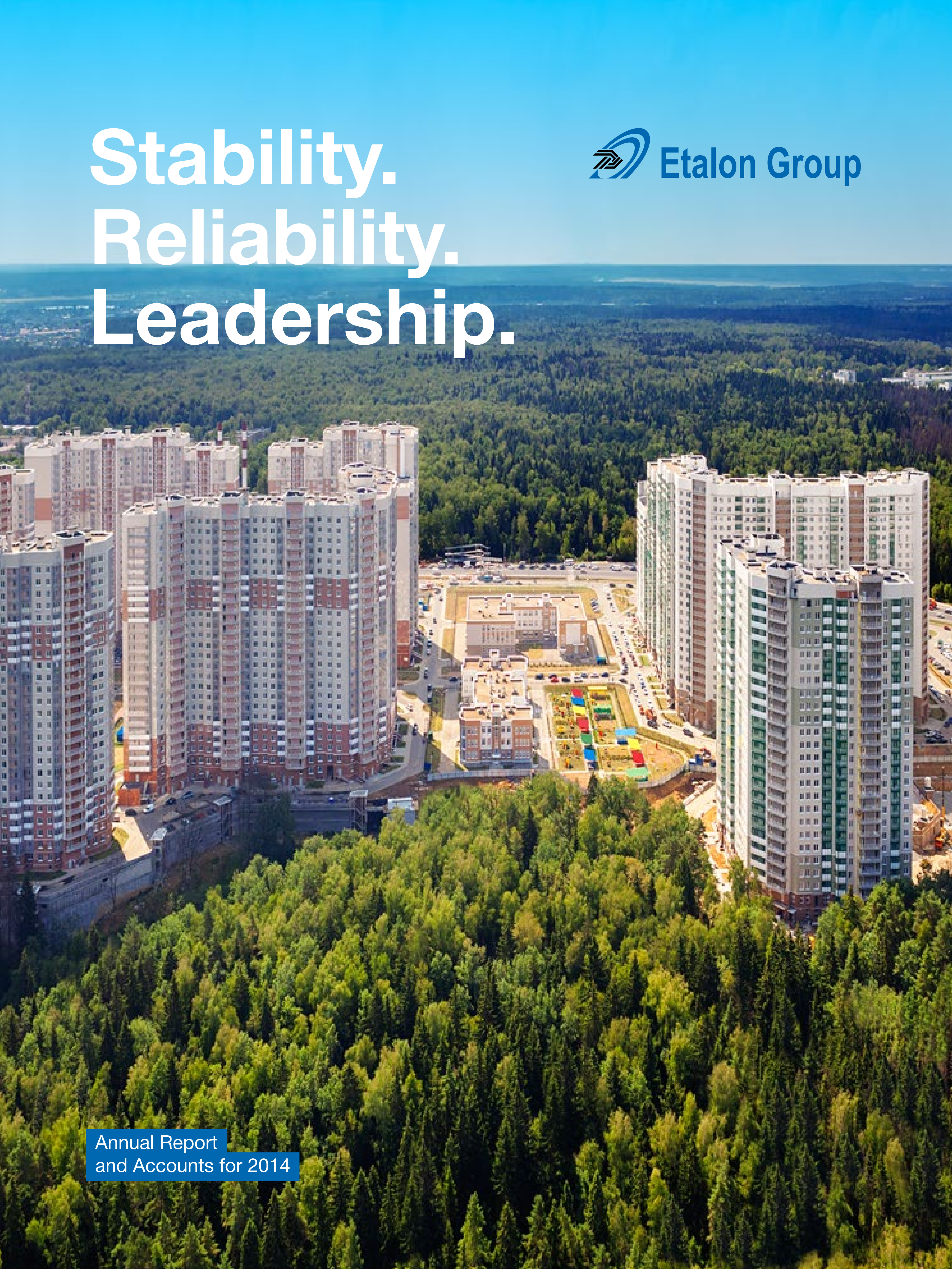

Stability. Reliability. Leadership.

Etalon Group

Annual Report
and Accounts for 2014

Etalon Group

We are a real estate developer with a focus on integrated residential complexes, targeting the comfort-class segment in Russia's most prosperous regions. We have a diverse project portfolio and significant landbank reserves. Etalon Group's strong financial position and successful pre-sales model make us a sustainable business and a reliable partner throughout the economic cycle.

WELL-POSITIONED TO CREATE VALUE IN A COMPLICATED MACRO ENVIRONMENT

AMPLE LAND BANK: 3.11 million sqm of unsold NSA as of 31 December 2014, enough to implement current construction plans through 2018

See Our Portfolio on page 18

SOLID INVENTORY: 432 thousand sqm of completed & available for sale property, of which completed & available for sale apartments account for 220 ths sqm

See Our Portfolio on page 18

SOLID BALANCE SHEET: net debt/EBITDA of just 0.06 as of 31 December 2014

See Financial Performance on page 36

LOW FX COST EXPOSURE: only 15% of construction costs are foreign-currency dependent

See Financial Performance on page 36

GAINING MARKET SHARE IN A VAST MARKET WITH PROMISING LONG-TERM FUNDAMENTALS

The Russian real estate market lags significantly behind all European housing per-capita benchmarks, with significant potential for people looking to upgrade their current living arrangements

See Market Overview on page 4

Reasonable price and volume growth during the last three years suggest there is no risk of a bubble

See Market Overview on page 4

Etalon Group focuses on two of Russia's wealthiest regions by GDP per capita (MMA and SPMA)

See Market Overview on page 4

Our product is designed for the Russian middle class, which has outstanding long-term growth potential

See Customer Case Study on page 8

Well-positioned to benefit from further consolidation of the fragmented Russian real estate market: Etalon Group has nearly tripled its market share over the last four years

See Market Overview on page 4

AN EXCELLENT TRACK RECORD OF DELIVERY

A 27-year history of successful delivery through multiple periods of challenging macroeconomic conditions affecting the market

A reputation as a reliable developer supports our pre-sales business model, with customers willing to make significant down-payments before construction is completed

See Financial Performance on page 36

Outstanding operational results since our IPO in 2011

See inside cover

TRANSPARENCY AND CORPORATE GOVERNANCE

The Board of Directors represents a balance of interests of different shareholder groups: five Non-Executive Directors (out of 10), including three Independent Non-Executive Directors

See Corporate Governance on page 40

Publish quarterly operating results and semi-annual IFRS results

Recognised for best IR practice among Russian companies with a market cap of up to USD 2 billion

See Corporate Governance on page 40

A FLEXIBLE BUSINESS MODEL

Integrated production capacities provide independence from suppliers in key bottleneck areas, while having a limited number of our own construction materials manufacturing sites means we are not under pressure to constantly generate deal flow in a market slowdown

See Our Business Model on page 14

Low reliance on mortgages: in-house financing solutions ensure flexibility in case of declining external mortgage availability

Pre-sales model enables the Company to finance projects from own cash flows, significantly reducing dependence on debt financing

With key materials provided by in-house production facilities, our poured concrete and brick construction technique used for apartment buildings enables faster launch of construction and reduces dependence on external suppliers for materials

See Our Approach to Design and Construction on page 17

Etalon Group

Etalon Group has **one of the longest and most successful track records** in the Russian real estate industry. The company has commissioned more than 4.5 million sqm of real estate since it was founded in 1987 by Viacheslav Zarenkov.

Today Etalon Group is **one of Russia's largest development and construction corporations**, with a focus on middle-class residential real estate in the Moscow and St. Petersburg Metropolitan Areas ("MMA" and "SPMA").

Etalon Group **achieved a 29% CAGR for delivery of total net sellable area** ("NSA") in 2010-2014.

KEY OPERATING HIGHLIGHTS

Deliveries, ths sqm	+178%
2014	580
2013	468
2012	363
2011	328
2010	209

Number of contracts	+146%
2014	9,045
2013	6,932
2012	5,797
2011	4,192
2010	3,670

Cash collections, mln RUB	+201%
2014	35,335
2013	26,073
2012	20,869
2011	15,825
2010	11,757

New contract sales, mln RUB	+183%
2014	39,961
2013	30,227
2012	23,739
2011	18,306
2010	14,106

KEY FINANCIAL HIGHLIGHTS

Revenue, mln RUB	
2014	51,481
2013	39,921
2012	26,894

EBITDA, mln RUB	
2014	10,611
2013	9,430
2012	6,931

Net income, mln RUB	
2014	8,369
2013	6,664
2012	5,000

Gross profit, mln RUB	
2014	15,796
2013	12,368
2012	9,400

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Letter from the Chairman of the Board of Directors

ETALON GROUP HAS AN EXCEPTIONAL TRACK RECORD SINCE OUR IPO IN EARLY 2011

Deliveries

+178%

580 ths sqm in 2014

Number of contracts

+146%

9,045 contracts in 2014

New contract sales

+183%

RUB 40.0 billion in 2014

Cash collections

+201%

RUB 35.3 billion in 2014

A letter from Viacheslav Zarenkov

Founder, Chairman of the Board of Directors and President of Etalon Group

Dear shareholders,

2014 was a year when Etalon Group demonstrated all of its strengths. While the news headlines may have been dominated by Russia's macroeconomic and political situation, we continued to build out our exceptional track record, delivering increases on all key metrics, further diversifying our portfolio and maintaining the strongest balance sheet in the industry.

In 2014 we delivered 580 thousand square metres of net sellable area, an increase of 24% year-on-year and once again in line with the construction plan target that we communicated to investors. Meanwhile, new contract sales outperformed our own guidance, rising 32% to reach RUB 40 billion. Our well-diversified portfolio, comfort-class product offering and strong reputation among consumers contributed to an excellent year in terms of cash collections, which increased 36% to RUB 35.3 billion, while down-payments averaged 78% for the year.

These numbers are impressive in their own right, and underscore the outstanding achievements that Etalon Group has delivered since its London listing in 2011. Annual deliveries since the Group's IPO are up by 178% and contract numbers by 146%; cash collections have more than tripled, while new contract sales are up by 183%.

We continued to diversify our portfolio in 2014, with new projects like Samotsvety and Moscow Gates contributing meaningful volumes to our sales mix by the fourth quarter. But while we have continued to expand – launching two new projects and purchasing a new plot of land – Etalon Group has maintained its traditional focus on fiscal discipline, ending the year with a solid balance sheet: net debt/EBITDA was just 0.06x as of 31 December. We were also pleased to share the benefits of our conservative policy with shareholders by announcing our first dividend payment, in line with the dividend policy introduced in 2013.

Despite the challenging environment, we reported record financial results for 2014, with revenue, EBITDA and net profit at the highest levels ever reported by Etalon Group. Consolidated revenue reached RUB 51.5 billion on the back of very strong operating performance and robust sales throughout the year and we maintained healthy profitability, with net profit increasing 26% to RUB 8.4 billion in 2014.

We have continued to make progress on making our corporate governance even more robust. The Board of Directors was further strengthened by increasing the total number of independent non-executive directors to three to ensure that the interests of all shareholder groups are duly recognised. The work of the Board has been further informed by the commissioning of external research among the investment community to provide feedback on its effectiveness.

We have also continued to improve transparency and our disclosure practices, with monthly visual updates on projects and more detailed information on areas such as development costs, as well as launching a significantly improved website. Our work in this area has led to Etalon Group being recognised by IR Magazine for best investor relations in two categories. The company won the Grand Prix for best overall investor relations among Russian public companies with a market cap of up to USD 2 billion.

All of this means that Etalon heads into 2015 well-positioned to deal with a challenging macroeconomic environment – and potentially to take advantage of changes in the market. This is not the first time we have dealt with challenging situations in our 27-year history as a Russian real estate developer. In addition to our strong financial position, we have a solid inventory of completed property and can generate cash without corresponding levels of investment in construction. Our business is flexible and we do not have any large production facilities that we need to keep operating in the event of a serious slowdown, while our current land bank is sufficient to implement our construction programme through 2018.

While the entire industry faces a challenging year in 2015, we remain optimistic about our ability to deliver value for shareholders in the long term. I believe that we have the right team, with the right experience to do this, and our priorities going forward are clear and easy to understand.

First, we will focus on ensuring Etalon Group's continued operations and meeting our obligations to customers, investors and other stakeholders. Second, we aim to take advantage of opportunities that may arise from the challenging situation facing some developers; we believe that Etalon Group is well-positioned to be one of the consolidators in Russia's fragmented real estate market. The Group has already been gaining market share in recent years through organic growth, yet we also have the financial means to acquire new, attractive projects if we think they fit with our strategic focus.

The Etalon team has achieved excellent results in the relatively prosperous years since our IPO in 2011, but many of us have worked together through more complex times as well. As the founder of this Company I have full confidence that we will turn the current economic situation into opportunities for growth.

Sincerely,
Viacheslav Zarenkov

Overview of Russia's residential real estate market

While the long-term fundamentals that drive Russia's residential real estate market remain intact, the challenging macro situation currently affecting Russia will have a significant effect on our sector in 2015 and possibly 2016. We remain positive on the longer-term outlook, and expect the factors that have contributed to growth to date to remain relevant after the current economic and political challenges subside.

Key advantages of Etalon Group's market position include:

1. **Etalon Group sells comfort-class residential real estate in Russia's two most prosperous regions, the Moscow and St. Petersburg Metropolitan Areas**
2. **Both of these regions are characterised by solid population growth combined with relatively low levels of housing supply per capita, implying great potential demand**
3. **Our comfort-class housing offers higher quality than economy-class, while still being more affordable than elite housing**
4. **We sell our apartments in the MMA and SPMA primarily to middle class Russians from the country's most well-off regions, which account for more than half of Russia's GDP**

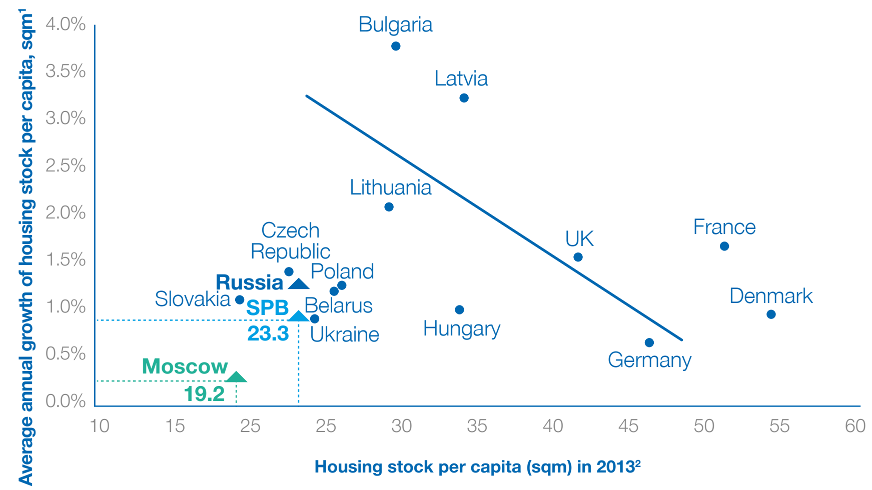
In times of growth, these factors supported Etalon's fast expansion, enabling us to take market share from other players with our high-quality and affordable product. In the current macroeconomic environment, these factors help minimise the potential negative effects that other players with less focused market exposure may experience.

The fundamentals – long-term promise

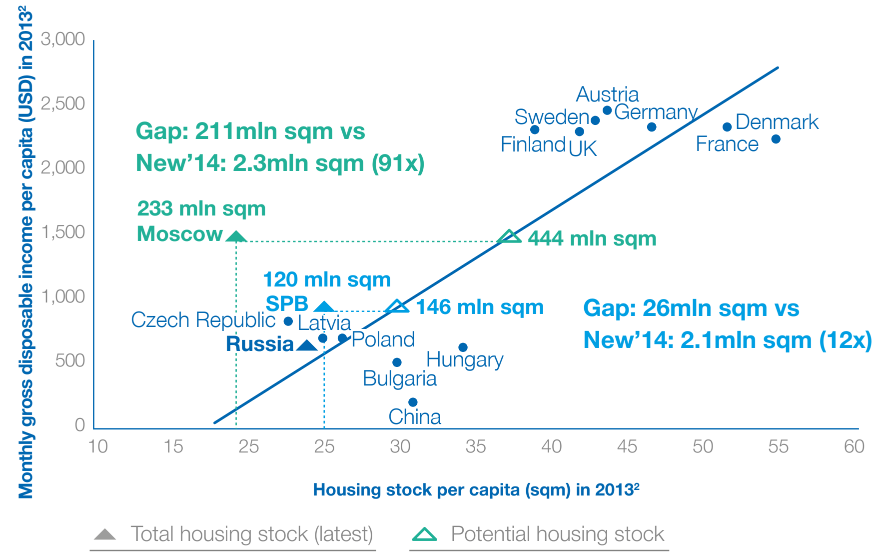
Looking beyond the current economic and geopolitical challenges affecting many areas of the Russian economy, the housing sector holds significant long-term promise for stable demand growth. This is especially true of our two target markets – Moscow and St. Petersburg – where the supply of housing (housing stock per capita) lags well behind many European countries.

At the same time, the problem of restricted supply is compounded by the pace of new housing stock growth in St. Petersburg and especially Moscow, which is also slower than in most other European markets. We believe this implies significant pent-up demand that will take developers many years to overcome.

The fundamentals of our target markets, in charts:



- The Moscow and St. Petersburg housing markets remain undersupplied
- Housing stock per capita remains significantly below European levels
- At the same time, the supply of new housing stock lags far behind comparable markets



- Disposable income per capita in our target markets is higher than in many Eastern European markets
- Compared to housing stock per capita, this represents a significant gap between current supply and potential demand
- At current delivery levels the potential supply/demand gap of 211 mln sqm for Moscow would take 91 years to satisfy if housing stock were to increase by 91% to 37 sqm per capita
- For St. Petersburg, it would take 12 years to achieve the potential level of 28 sqm per capita at current annual delivery levels, with a total of 26 mln sqm of new residential space to be built

Note: Average USD/RUB FX rates for 2013 – 31.91; for 2014 – 38.36.
[1] Based on 2003-2013 data for Russia, Moscow and SPB; for other countries – CAGR for the last 10 years.
[2] 2011 data applied for UK, Sweden, Slovakia, Latvia and China; data for Germany, France, Austria, Denmark, Hungary and Czech Republic was estimated based on the average size of housing unit for 2013.

Source: Rosstat, AHML, OECD, Eurostat, HelgiLibrary, World Bank, Belstat, ONS, EIU, IHS, CBR, Hypostat, BMI, SSC.

Fragmented market – ready for further consolidation

Russia's residential real estate development market remains highly fragmented, which means that large players with a successful track record of deliveries like Etalon Group have a good opportunity to act as consolidators. In the Moscow and the Moscow region, for example, we currently have two active projects, giving us a market share of 1.3%. But with four more projects to be launched soon in Moscow and the Moscow region where the top five players hold just 28% of the market, we expect to significantly grow our share over the coming years.

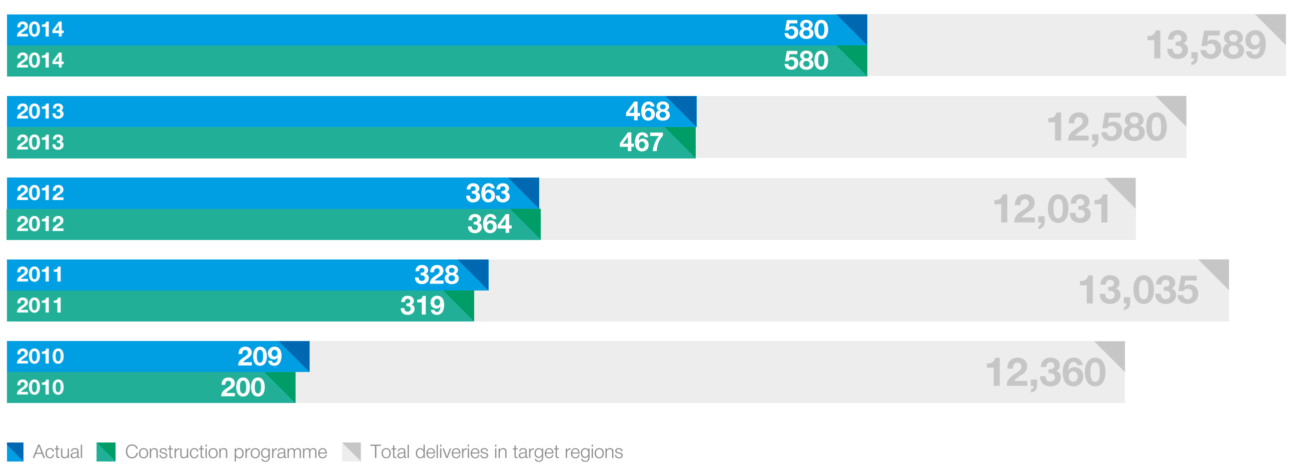
Etalon Group is the leading player in the St. Petersburg market and our combined market share in Moscow, the Moscow region and St. Petersburg in 2014 was 4.3%.

We have significantly outgrown the market over the last five years: Etalon Group's total deliveries in Moscow, the Moscow region and St. Petersburg since 2010 have grown at a steady pace every year, increasing by 178% over the five-year period. At the same time, total residential deliveries in these target regions have remained largely flat, up just 10% between 2010 and 2014.

In the current environment, with weaker players likely to face financing and other challenges, Etalon Group is well positioned to act as a market consolidator, supported by the scale of our operations, established brand, nationwide sales network, strong financial position and robust cash flows.

See
Operations Review
on page **32**

Etalon Group deliveries vs. total deliveries in target regions, ths sqm of NSA



Moscow and St. Petersburg – Russia's most robust regions

Moscow and region together with St. Petersburg and region are among the most affluent in Russia, and are growing population centres. Together, they account for 18% of Russia's population of 146 million people.

As economic and administrative centres, these two cities and their larger metropolitan areas have stronger economies than other regions of Russia. Gross disposable income in Moscow is more than double the Russian average, and in St. Petersburg is also ahead of the national average.

Demand for housing in these two cities has historically come from residents seeking to upgrade their living conditions, people moving from regional centres following a career move or otherwise relocating to Russia's two capitals. Population growth in the Moscow and St. Petersburg metropolitan areas has also continued to put pressure on housing availability: while Russia's population has grown by just 1.3% over the last decade, most of these regions have seen double-digit growth rates.

See
Customer Case Study
on page **8**

The comfort class segment

We focus on building housing for Russia's growing middle class, using higher-quality construction techniques such as poured concrete with ventilated facades, while maintaining affordable pricing levels that attract buyers looking for high-quality, long-term housing for their families.

Etalon Group's developments are often located outside of city centres, but with good transport access for commuters. We often build projects near hypermarkets or shopping malls, with built-in commercial premises for the convenience of local residents.

Our larger developments include social infrastructure such as kindergartens, schools, parks, playgrounds, sports fields and medical clinics.

These characteristics make the housing we build affordable to middle-class buyers from across Russia, with clear advantages over lower-priced economy housing. At the same time, we have little exposure to the higher-priced and more volatile business-class or luxury segments, which target a much narrower section of Russia's population.

Population

City / region	Population at YE 2014, mln	Cumulative population growth 2004-2014, %
Moscow	12.2	15.8%
Moscow region	7.2	8.4%
Moscow and region	19.4	12.9%
SPB	5.2	11.4%
SPB region	1.8	6.1%
SPB and region	7.0	10.0%
Other regions with Etalon sales offices[1]	20.3	(2.7%)
Russia	146.3	1.3%

[1] Murmansk region, Krasnoyarski krai, Tyumen region, Khanty-Mansiysk AD, Yamalo-Nenets AD, Arkhangelsk region, Yakutia, Magadan region, Kamchatski krai, Khabarovski krai, Sakhalin region, Sverdlovsk region, Irkutsk region and Primorskiy krai

Our Customers

Reasons for choosing Etalon Group:

1 A reliable company that delivers projects on time

2 A large, well-known company

3 Flexible financing options

Source: Etalon Group market research among potential buyers

Rechnoy (SPMA)

Total NSA

111 ths sqm

Income from sales[1]

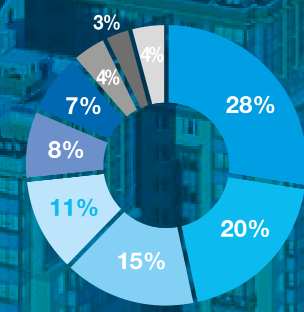
RUB7bn

[1] JLL estimate as of 31.12.2014

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

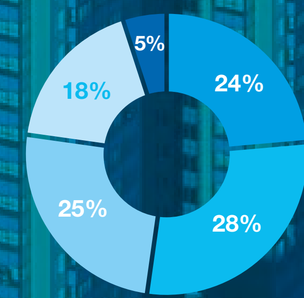
A brief portrait of our customers:

Employment by industries, %



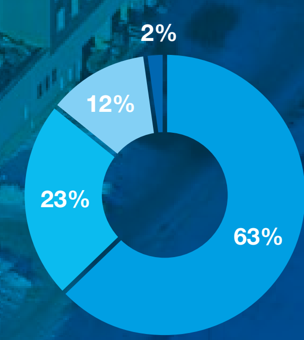
Professional or administrative job	28%
Middle management	20%
Entrepreneur or business owner	15%
Government employee	11%
Senior management	8%
Labourer	7%
Student	4%
Retired	3%
Other	4%

Age groups, %



Under 30 years	24%
30-39 years	28%
40-49 years	25%
50-59 years	18%
60 years and over	5%

Purchase motives, %



Apartment for me and my family	63%
Apartment for my children	23%
Buying real estate is a good investment	12%
Apartment for my parents	2%

Our Strategy

Tsar's Capital (SPMA)

Total NSA
392 ths sqm

Planned deliveries in 2015
158 ths sqm

Income from sales[1]
RUB33bn

[1] JLL estimate as of 31.12.2014

Although Russia's residential real estate market is entering a challenging period, our core strategic principles remain intact. These principles have helped us to grow faster than the market since our IPO in 2011, while at the same time maintaining a strong financial position and strengthening our reputation as a reliable partner and homebuilder.

In the uncertain economic and political environment that Russia faces in 2015, these principles are no less relevant than during the period of strong growth we have achieved post-IPO. By adhering to our strategy through the years of growth, we are now uniquely well positioned to take advantage of opportunities that may arise as the effects of current market conditions play out over the coming year.

In the longer term, the Board of Directors plans to undertake a strategic review that will update Etalon Group's growth plans to reflect the changing market environment and new opportunities. However, at present we believe our existing core principles, and some strategic flexibility, are best suited for the near-term operating environment.

See Market Overview on page 4

See Operations Review on page 32

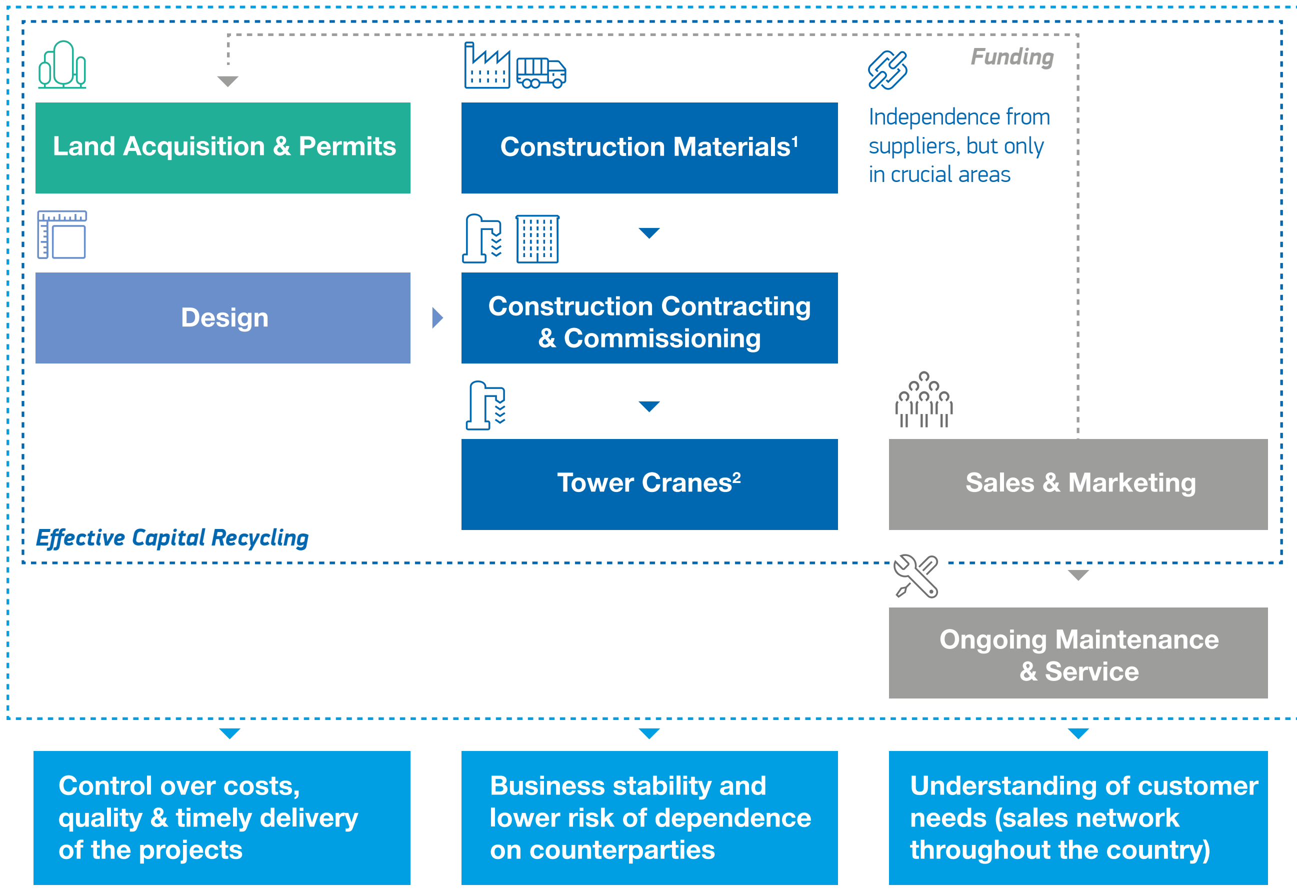
See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Our Strategy

Strategy component	What it means in practice	What we did in 2014
Focus on core strength of homebuilding	We concentrate on developing medium-scale and large-scale residential complexes in the **affordable comfort-class** price segment We **adapt to changes in market demand** by responding to feedback from our extensive sales network and tailoring future projects to match We maintain a vertically integrated business model to **control timing, quality and costs** We have **our own in-house design institute**, which helps us to develop projects tailored specifically to Etalon's market segment and capabilities	We **delivered 580 ths sqm of residential NSA** in 2014, exactly in line with our construction programme We were recognised as a **leader in Building Information Modelling** (BIM) technology in Russia We launched the **Etalon NEXT competition to develop new ideas** for residential complexes that will be implemented in future projects
Target key markets of SPMA and MMA	We intend to remain the **leading property developer in the SPMA** We have firmly **established our presence in the MMA**, where we continue to increase our market share (target 50/50 split between MMA and SPMA) We continue to **grow our national sales network** to expand our customer base across Russia and fuel sustainable growth	**Our market share in St. Petersburg was 13.7% in 2014** **MMA makes up 44% of Etalon Group's portfolio**, according to JLL valuation as of 31 December 2014 We **expanded our regional sales network with new offices in Irkutsk and Arkhangelsk**
Disciplined management of landbank	We plan to **maintain enough land reserves** to fulfil our needs over the medium term We currently have enough landbank capacity through to 2018, and are **acquiring projects to ensure expansion capacity** from 2018 through 2022 We do not hold on to projects for future development, but look to **minimise the time between acquisition and development** We seek to enhance returns by **reinvesting capital efficiently**	**Our landbank volume is 3.11 million sqm** of unsold NSA, sufficient for our current construction plan through 2018 On the backdrop of increasing volatility, **we obtained just one new project** in 2014 in St. Petersburg Our portfolio includes **432 ths sqm of completed & available for sale property**, out of which completed & available for sale apartments account for 220 ths sqm – a considerable reserve that requires no additional costs to generate revenue from sale
Prudent attitude to financing	We focus on **pre-sales as a key source of funding** for the construction process We have a **conservative financial strategy** We aim to maintain a **low level of leverage**, measured by our net debt/EBITDA ratio	We ended the year with **net debt of just RUB 636 million** and our net debt/EBITDA ratio was 0.06 **Foreign currency debt accounted for just 8%** of our debt portfolio, and was fully hedged by FX-denominated deposits **Etalon Group's repayment schedule is comfortable**, with no immediate need to refinance
Maintain strong cash collections for a pre-sales-financed business model	We continue to grow our **brand recognition** by investing in our sales and marketing operations as well as construction We emphasise customer service to **create positive perceptions and enhance our reputation** – a virtuous circle We generate sales in large part thanks to our reputation for consistently **providing products of the highest quality**	**Cash collections in 2014 reached a record RUB 35.3 billion** In situations where banks significantly cut back mortgage lending, we can **introduce our own flexible financing options to help customers buying new apartments**

Our Business Model

We have built a vertically integrated business with two strong construction-management companies, five general contractors, 16 subcontractors, a crane company, a brick factory and a nationwide sales network. In addition to homebuilding, the superior quality of our offering means that we are a trusted industrial construction partner for clients including General Motors, Toyota, Ford, Bosch, Siemens, Nissan, Suzuki and Gazprom.



Strategic vertical integration

We have our own acquisition and permitting specialists, as well as in-house architects. This gives us greater control over costs, quality and the timely delivery of projects. Our integrated model also means that we are able to use input from our in-house sales and marketing team to help us design residential complexes that meet our customers' needs.

At the same time, we have selectively integrated only key parts of the construction materials business to address key bottleneck areas. This gives us assurance that we have the right supplies at the right time, but without burdening the Company with significant industrial production sites that are dependent on a constant flow of work.

[1] Brick plant and concrete products plant. Own production only for "bottleneck" construction materials
[2] 62 tower cranes (Liebherr and Wolff) that the Company leases out for internal and external construction activities. Data as of 31.12.2014

Targeted geographic focus

Building in MMA and SPMA

MMA and SPMA continue to be the principal centres of Russia's economic and political activity, and are less susceptible to economic downturns than other regions in the country. These two regions account for 18% of Russia's population, and 32% of the country's GDP.

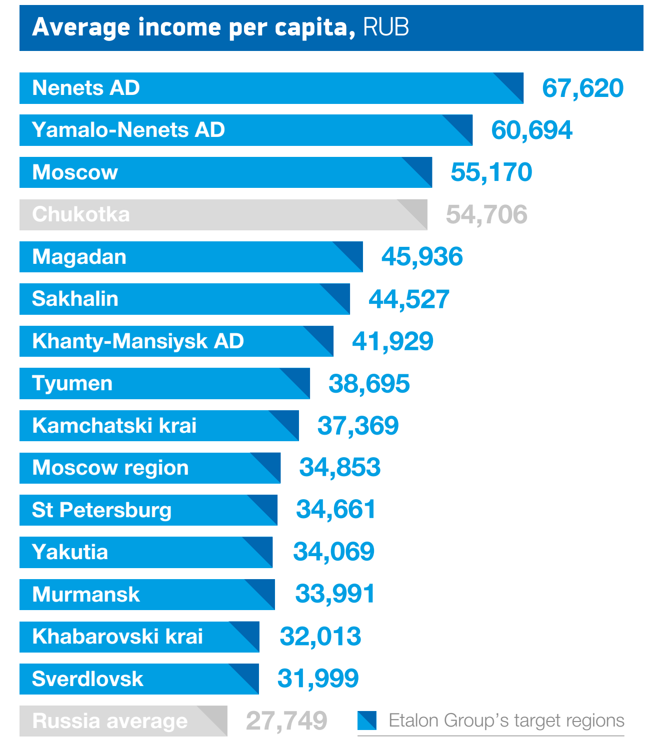
Regional sales network

While we build homes in St. Petersburg and in and around Moscow, our regional sales network is of great importance to us. MMA and SPMA are Russia's two main centres of internal migration, and Etalon Group's regional sales force focuses on the regions with the largest income per capita.

We sell to customers in 36 cities, including directly via 13 sales offices in St. Petersburg and 17 more nationwide. Our reach is further extended with external professional marketing and sales service agents engaged nationwide.

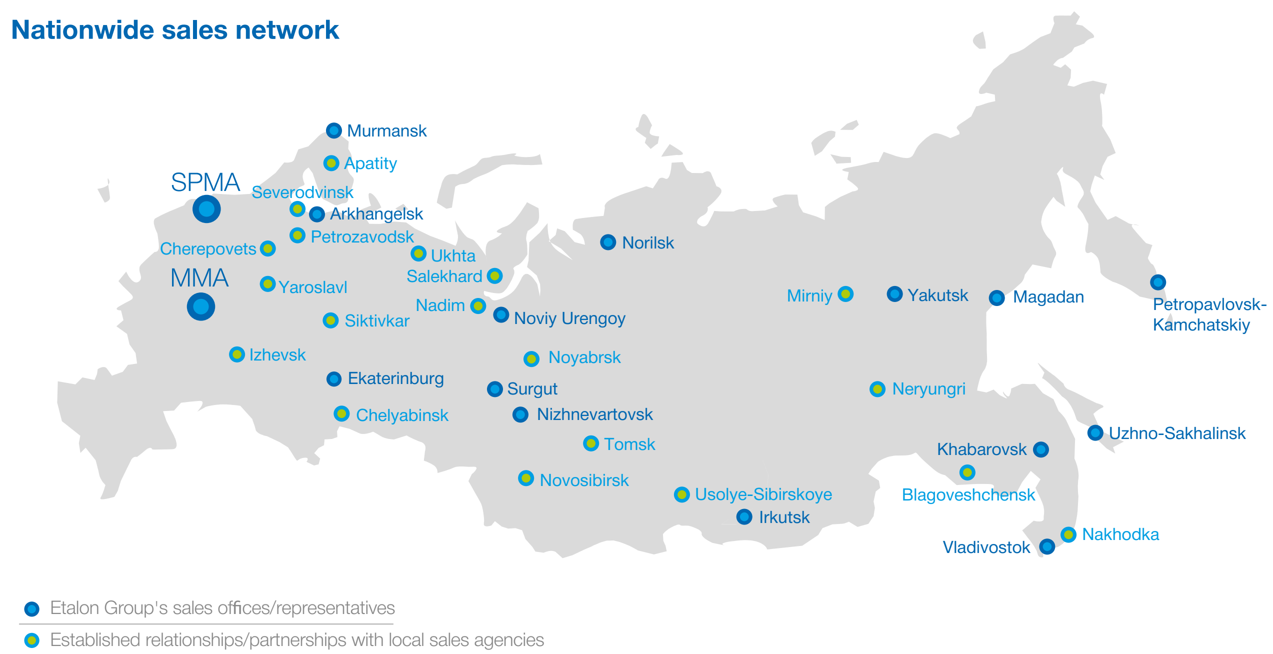
See Our Portfolio on page 18

The Group's flats are sold in 14 of Russia's 15 richest regions



Average monthly cash income per capita, Rosstat's preliminary estimates for 12M 2014

Nationwide sales network



OUR APPROACH TO DESIGN AND CONSTRUCTION

Building Information Modelling

Etalon Group is the only company in Russia that uses Building Information Modelling (BIM) technology throughout a project lifecycle to generate and manage digital versions of buildings and infrastructure at its projects, using detailed three-dimensional models that contain comprehensive, structured information about each object. It enables the Company to produce reports and analyse projects at the pre-design stage, to model construction plans, and to continuously monitor progress, costs, safety and other parameters.

The Company has constructed over 500 ths sqm of residential real estate in St. Petersburg and the MMA using this technology.

All of Etalon Group's recent projects have been developed using BIM and 3D modelling

Emerald Hills

Rechnoy

Molodejny

Awards and recognition

Etalon Group was recognised at the Autodesk University Russia 2014 international conference as a leader in implementation of BIM technology for its construction projects in St. Petersburg and Moscow.

The Company was also awarded a special prize for Best Practice in Implementation of Information Technologies for Urban Planning at an annual urban planning contest organised by the Russian Federation Ministry of Construction and Housing.

Poured concrete technology with brick elements

Our residential developments are constructed primarily using poured concrete technology with brick elements and ventilated facades. The poured concrete technology enables us to offer customers high-quality properties, which benefit from free-pattern planning, architectural design flexibility, greater durability and a high level of thermal and noise insulation.

Typically, in poured concrete construction, walls and slabs are constructed together by pouring fluid cement concrete into a formwork system while using nominal quantities of metallic reinforcement bars for strengthening and stabilisation purposes. Openings for doors and windows and electrical and plumbing elements must also be in place before the concrete is poured.

In addition to the advantages of this technology for our customers, poured concrete benefits Etalon Group in several key ways

1 Cost savings

Poured concrete technology helps to maximise the efficiency of land plot configuration. Compared to construction using prefabricated panels, poured concrete technology is highly mobile and requires relatively limited maintenance capital expenditure. We don't carry costs related to the transportation of pre-fabricated concrete panels from a factory to a construction site.

2 Flexibility and speed

With poured concrete technology, we can start construction as soon as the required machinery and a light formwork system are on site. In contrast, construction using prefabricated panels involves the production of reinforced panels and other building components at a factory, followed by the delivery and installation of such panels and components at the construction site, which subjects a developer to product availability.

In addition, construction materials utilised in poured concrete technology can be easily procured in the market and are shipped directly to our construction sites, instead of being transported to a factory where they are turned into prefabricated panels.

3 Scalability

Etalon Group's rapid expansion since our IPO in 2011 has been helped by the highly scalable nature of poured concrete technology. The investments required to support growing construction volumes are relatively immaterial on a square metre basis.

4 Adaptability

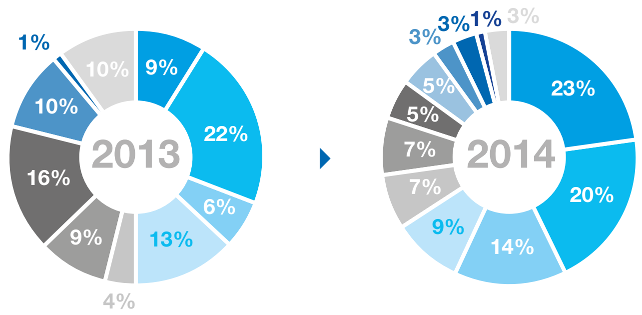
The winter months in the St. Petersburg and Moscow Metropolitan Areas can be very cold, but we are able to continue construction thanks to additives we introduce to the concrete mix that improve concrete freeze resistance.

Portfolio Highlights

Improving portfolio diversity:

New contract sales by project, sqm

2013	
Swallow's Nest	9%
Emerald Hills	22%
Tsar's Capital	6%
Molodejny	13%
Galant	4%
Rechnoy	9%
Jubilee Estate	16%
Letniy	10%
Etalon City	1%
Other projects	10%



2014	
Swallow's Nest	23%
Emerald Hills	20%
Tsar's Capital	14%
Molodejny	9%
Galant	7%
Rechnoy	7%
Jubilee Estate	5%
Samotsvety	5%
Letniy	3%
Etalon City	3%
Moscow Gates	1%
Other projects	3%

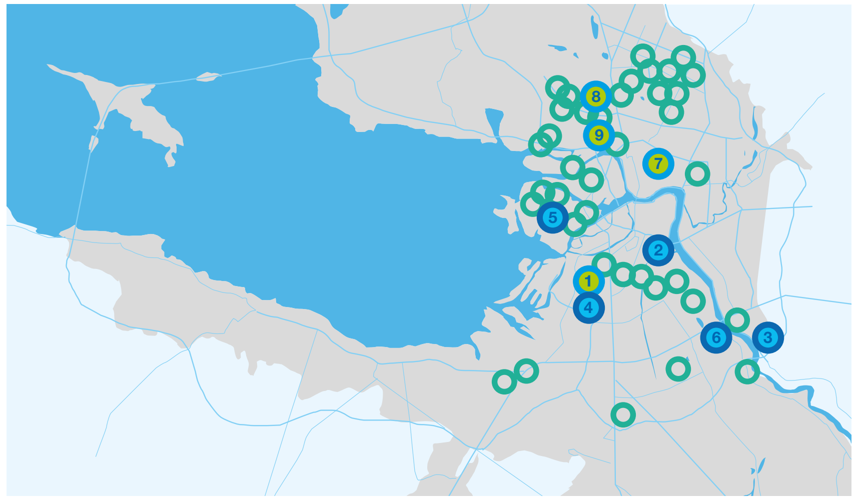
St. Petersburg Metropolitan Area (SPMA)

Under construction

2 Tsar's Capital
3 Swallow's Nest
4 Moscow Gates
5 Samotsvety
6 Molodejny

Design stage

1 Galactica
7 Polyustrovskiy prospect
8 Technopark
9 Beloostrovskaya
Completed



Project	Status	Total NSA ('000 sqm)	Unsold NSA (Etalon's share) ('000 sqm)[1]	Unsold parking (lots), #	OMV (RUB mln)	Income from sales (RUB mln)[2]	Construction budget (RUB mln)[3]	Outstanding budget (RUB mln)[3]
Current Projects								
St. Petersburg Metropolitan Area (SPMA)								
1. Galactica	Design stage	779.4	631.5	4,238	8,182	78,557	38,978	37,520
2. Tsar's Capital	Construction	392.4	216.3	2,089	13,197	33,225	15,374	6,868
3. Swallow's Nest	Construction	333.6	149.0	1,582	8,720	22,932	13,365	1,880
4. Moscow Gates	Construction	234.1	202.0	884	7,104	25,662	10,136	8,122
5. Samotsvety	Construction	205.8	179.6	1,654	8,613	22,614	8,466	5,757
6. Molodejny	Construction	111.8	25.8	491	935	8,545	4,352	1,140
7. Polyustrovskiy prospect	Design stage	91.3	91.3	530	1,098	6,965	3,377	3,377
8. Technopark	Design stage	51.0	51.0	440	572	4,451	3,571	3,089
9. Beloostrovskaya	Design stage	42.9	41.0	277	383	3,588	2,290	2,281
Total SPMA		**2,242.3**	**1,587.6**	**12,185**	**48,804**	**206,540**	**99,909**	**70,033**

Project		Total NSA ('000 sqm)	Unsold NSA (Etalon's share) ('000 sqm)[1]	Unsold parking (lots), #	OMV (RUB mln)	Income from sales (RUB mln)[2]	Construction budget (RUB mln)[3]	Outstanding budget (RUB mln)[3]
Current Projects								
Total Current Projects		**4,191.6**	**2,969.4**	**23,704**	**95,127**	**390,859**	**190,907**	**138,255**
Completed Projects								
Residential property in completed projects			124.5	3,219	8,198			
Completed stand-alone commercial properties			20.4	59	961			
Total Completed Projects			**144.9**	**3,278**	**9,159**			
All Projects								
Total Etalon Group			**3,114.3**	**26,982**	**104,286**			

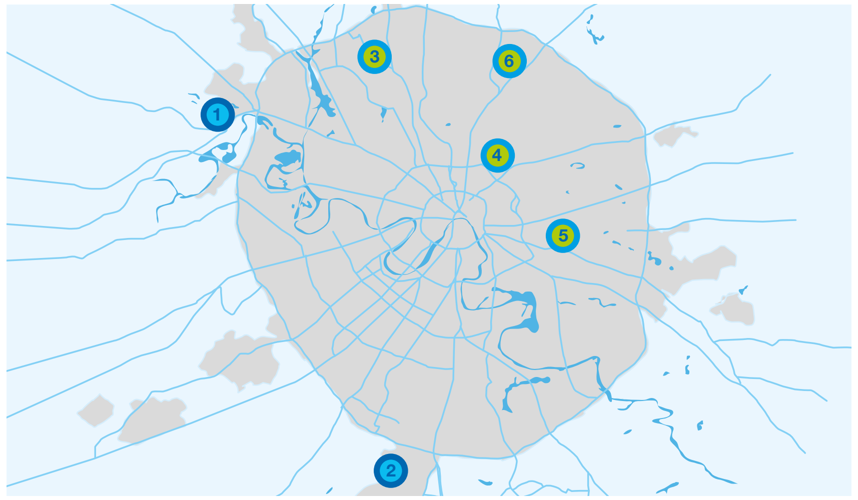
Moscow Metropolitan Area (MMA)

Under construction

1 Emerald Hills
2 Etalon City

Design stage

3 Dmitrovskoe shosse
4 Alekseevskiy District
5 Budennogo street
6 Losinoostrovskiy District



Project	Status	Total NSA ('000 sqm)	Unsold NSA (Etalon's share) ('000 sqm)[1]	Unsold parking (lots), #	OMV (RUB mln)	Income from sales (RUB mln)[2]	Construction budget (RUB mln)[3]	Outstanding budget (RUB mln)[3]
Current Projects								
Moscow Metropolitan Area (MMA)								
1. Emerald Hills	Construction	864.8	479.3	3,174	18,484	66,218	37,548	17,094
2. Etalon-City	Construction	372.2	272.3	2,276	8,871	34,955	17,575	15,531
3. Dmitrovskoe shosse	Design stage	322.3	266.1	2,122	5,276	33,604	16,696	16,579
4. Alekseevskiy District	Design stage	179.5	169.6	2,160	6,835	23,957	8,973	8,903
5. Budennogo street	Design stage	119.0	110.7	936	3,825	13,950	5,836	5,763
6. Losinoostrovskiy District	Design stage	91.5	83.9	851	3,032	11,635	4,372	4,351
Total MMA		**1,949.3**	**1,381.8**	**11,519**	**46,323**	**184,319**	**90,998**	**68,222**

[1] Including parking with average area c. 30 sqm
[2] Income from sales includes potential and received incomes as of 31 December 2014
[3] Excluding land acquisition costs

Source: All numbers based on JLL report as of 31.12.2014

Project Highlights

Completed projects

See
PROJECT GALLERY
ON COMPANY'S
CORPORATE WEBSITE

Rechnoy

Location	St. Petersburg
Construction period:	2012-2014
Delivered in 2014	111 ths sqm
Income from sales[1]	RUB 6,706 million
Pre-sales rate (December 2014):	82%
Total NSA	**111 ths sqm**

Galant

Location	St. Petersburg
Construction period:	2013-2014
Delivered in 2014	39 ths sqm
Income from sales[1]	RUB 5,067 million
Pre-sales rate (June 2014):	67%
Total NSA	**50 ths sqm**

See
PROJECT GALLERY
ON COMPANY'S
CORPORATE WEBSITE

Ongoing projects

Emerald Hills

Location	MMA
Delivered in 2014	133 ths sqm
Income from sales[1]	RUB 66,218 million
Total NSA	**865 ths sqm**

See
PROJECT
GALLERY
ON COMPANY'S
CORPORATE
WEBSITE

Molodejny

Location	St. Petersburg
Delivered in 2014	107 ths sqm
Income from sales[1]	RUB 8,545 million
Total NSA	**112 ths sqm**

See
PROJECT
GALLERY
ON COMPANY'S
CORPORATE
WEBSITE

Tsar's Capital

Location	St. Petersburg
Delivered in 2014	107 ths sqm
Income from sales[1]	RUB 33,225 million
Total NSA	**392 ths sqm**

See
PROJECT
GALLERY
ON COMPANY'S
CORPORATE
WEBSITE

Swallow's Nest

Location	St. Petersburg
Delivered in 2014	83 ths sqm
Income from sales[1]	RUB 22,932 million
Total NSA	**334 ths sqm**

See
PROJECT
GALLERY
ON COMPANY'S
CORPORATE
WEBSITE

[1] Income from sales includes potential and received incomes as of 31 December 2014

Source: All numbers based on JLL report as of 31.12.2014

Ongoing projects

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

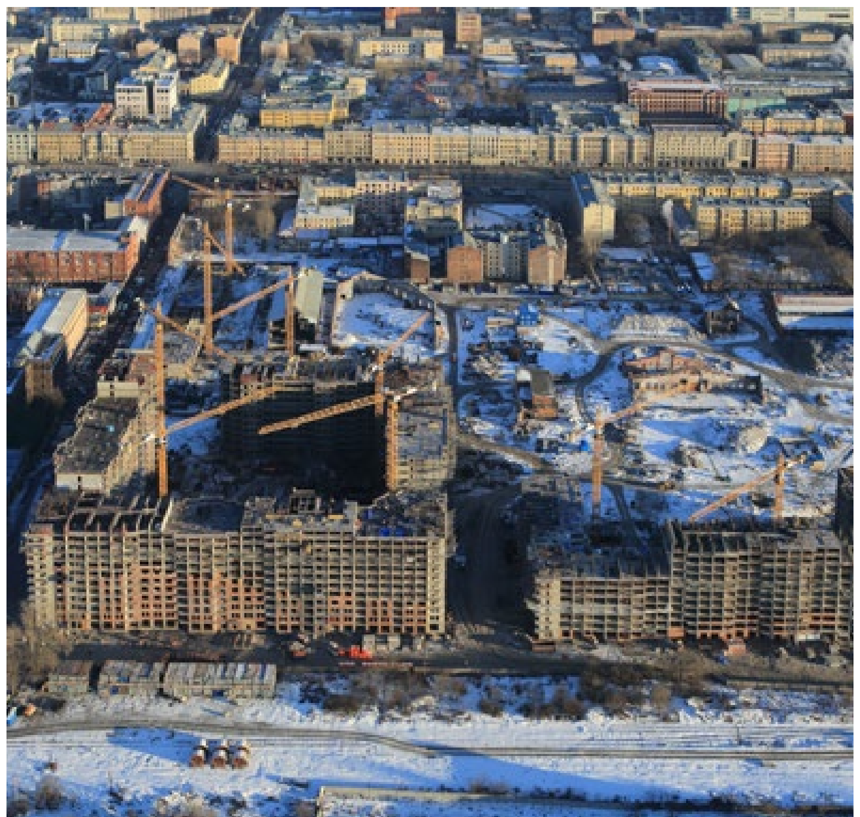
Samotsvety

Location	St. Petersburg
Income from sales[1]	RUB 22,614 million
Total NSA	**206 ths sqm**

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Etalon City

Location	Moscow
Income from sales[1]	RUB 34,955 million
Total NSA	**372 ths sqm**



See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Moscow Gates

Location	St. Petersburg
Income from sales[1]	RUB 25,662 million
Total NSA	**234 ths sqm**

Selected future projects

Budennogo street

Location	Moscow
Current status	Design stage
Total NSA	119
Income from sales[1]	RUB 13,950 million

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Dmitrovskoye Shosse

Location	Moscow
Current status	Design stage
Total NSA	322
Income from sales[1]	RUB 33,604 million

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Galactica

Location	St. Petersburg
Current status	Design stage
Total NSA	779
Income from sales[1]	RUB 78,557 million

See PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

[1] Income from sales includes potential and received incomes as of 31 December 2014

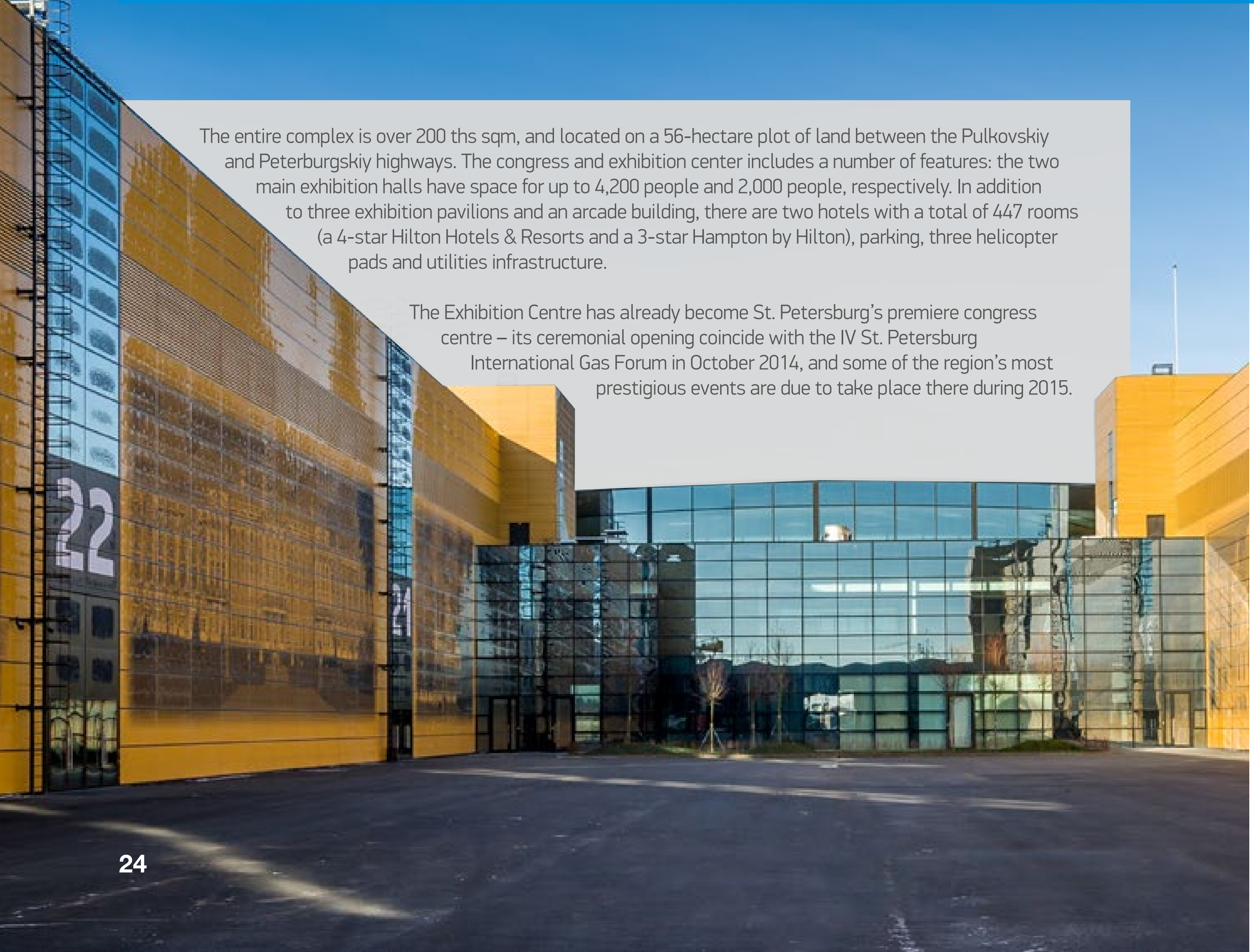
Source: All numbers based on JLL report as of 31.12.2014

Industrial Construction

We delivered ExpoForum in 2014, completing the congress centre, three exhibition pavilions, the arcade building, two hotels, a customs and logistics complex and two security checkpoints. The total area of the indoor exhibition premises delivered last year was 50 ths sqm.

The entire complex is over 200 ths sqm, and located on a 56-hectare plot of land between the Pulkovskiy and Peterburgskiy highways. The congress and exhibition center includes a number of features: the two main exhibition halls have space for up to 4,200 people and 2,000 people, respectively. In addition to three exhibition pavilions and an arcade building, there are two hotels with a total of 447 rooms (a 4-star Hilton Hotels & Resorts and a 3-star Hampton by Hilton), parking, three helicopter pads and utilities infrastructure.

The Exhibition Centre has already become St. Petersburg's premiere congress centre – its ceremonial opening coincide with the IV St. Petersburg International Gas Forum in October 2014, and some of the region's most prestigious events are due to take place there during 2015.



ExpoForum was the largest commercial construction project completed in St. Petersburg in recent years:

The overall size of the complex over
200ths sqm

Site area
56ha

Capacity up to
8ths delegates
(10 ths for concerts)

UniPres

In July 2014 Etalon Group signed a general contractor agreement with UniPres for the construction of a new car parts factory near St. Petersburg. The cornerstone laying ceremony took place in September 2014. The project will consist of a 12,313 sqm manufacturing facility and a 3,588 sqm administrative building on a 4 hectare plot of land at the Nissan suppliers park in Kamenka. This is a turnkey project involving the full construction cycle, from engineering and geological surveying to design, preparation of the territory, construction, utility connections, as well as the installation and commissioning of manufacturing equipment.

Nissan plant

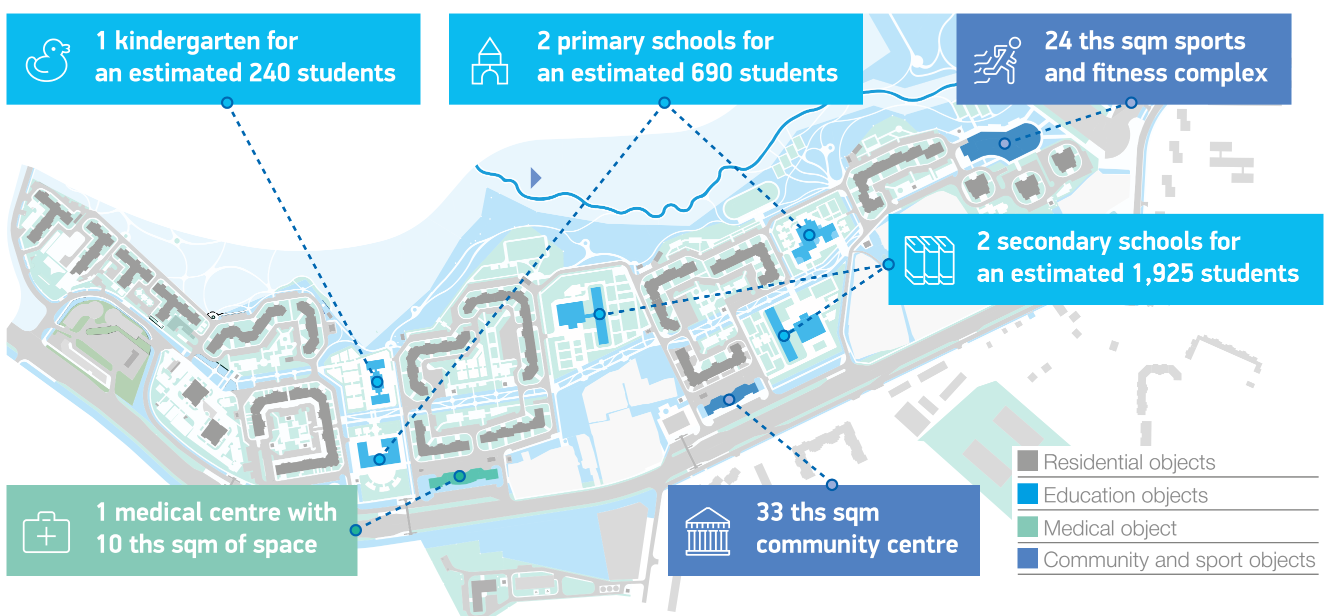
Etalon Group is a long-time partner of Nissan in Russia, having acted as the general contractor for design and construction of the car manufacturer's test track and new car storage areas in 2008. In 2014 the Company delivered 66 ths sqm of new factory space, including expansion of existing assembly lines, warehouse and office facilities.

Emerald Hills

Emerald Hills is our flagship project in the MMA, and is a good example of "comfort class" housing. The history of the project also demonstrates Etalon Group's ability to deliver large projects in a complex macro environment.

With financing from Baring Vostok, construction of Emerald Hills was launched in 2008, on the eve of a global economic crisis that caused significant difficulties not only for developers but for nearly every sector of the economy. Nonetheless, Etalon Group successfully overcome those challenges, and delivered the first building in 2011. Since then Emerald Hills has become Etalon Group's largest project, with total NSA of 865 thousand sqm. In 2014 Emerald Hills accounted for 20% of our new contract sales.

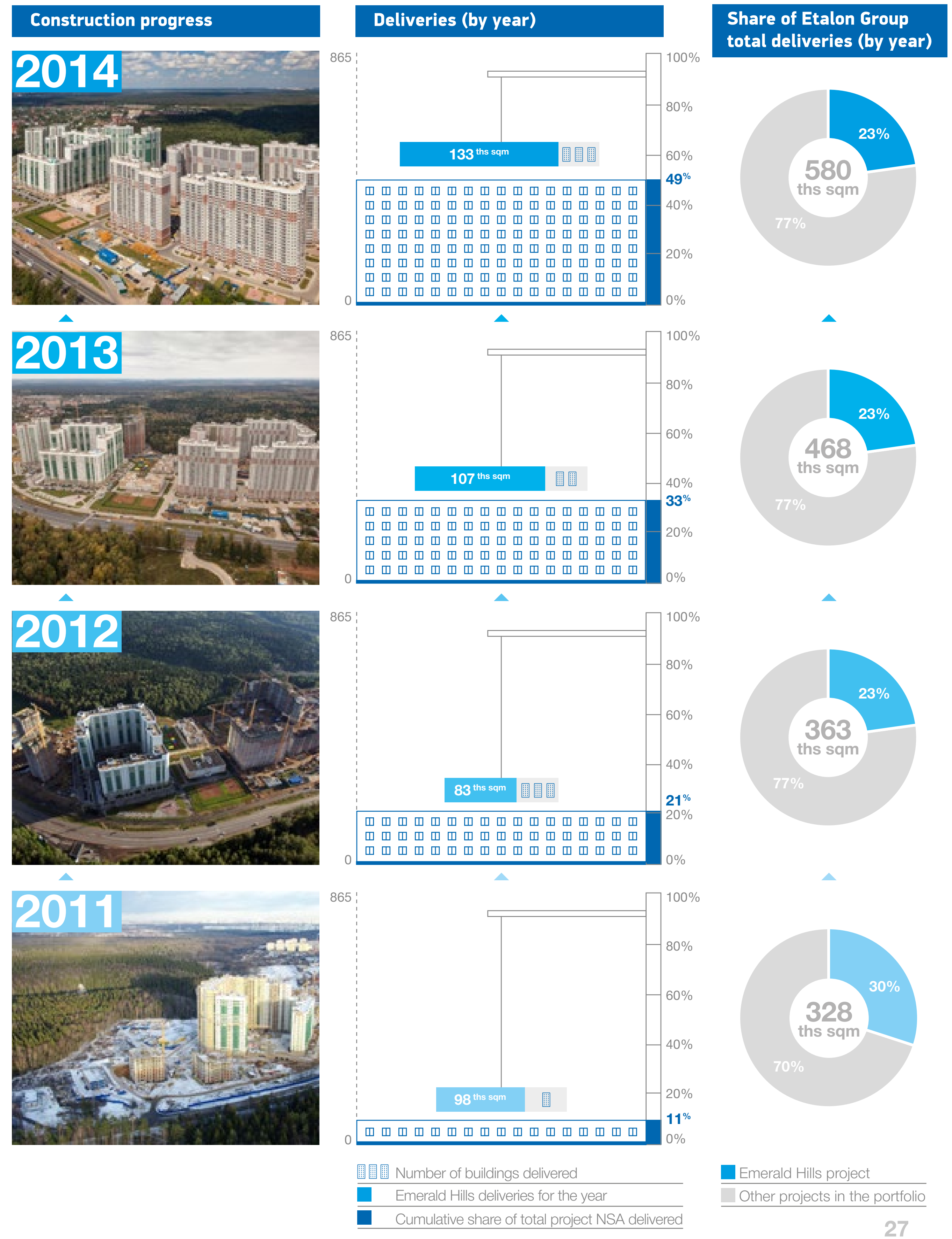
Social infrastructure highlights:



Other infrastructure:

The residential complex includes commercial buildings (business centres, supermarkets, recreation, community and fitness centres, multipurpose shopping and leisure centre and sport park).

Emerald Hills construction timeline



Emerald Hills (MMA)

Total NSA
865 ths sqm

Planned deliveries in 2015
65 ths sqm

Income from sales[1]
RUB **66** bn

[1] JLL estimate as of 31.12.2014

Social infrastructure

Secondary school
for an estimated **825 students**

Construction technology

Poured concrete and brick with ventilated facades

Social infrastructure

Secondary school delivered in 2014
for an estimated **1,100 students**

See
PROJECT GALLERY ON OUR CORPORATE WEBSITE

Molodejny

Total NSA of project
112 ths sqm

Income from sales[1]
RUB 9 bn

[1] JLL estimate as of 31.12.2014

Panoramic river view

Residents enjoy views of the Neva River from nearly any apartment in the complex

Overview

Project Molodejny is situated in the Nevsky district of St. Petersburg on a 3.6 hectare land plot bordering the Neva River and Prospect Obukhovskoy Oborony. This comfort class residential project is located close to the KAD ring road, and has good transport accessibility. The 23-storey building contains a total of 1,412 apartments.

Infrastructure and convenience

In addition to a new kindergarten with a capacity of 95 children built as part of the complex, Molodejny has five schools and 11 kindergartens conveniently located nearby. The first floor of the building houses built-in commercial premises, which will include banks, cafes, beauty salons and pharmacies. A short car ride will bring residents to the MEGA shopping centre or the Kurakina Dacha park.

Comfort and security

Molodejny residents will enjoy a modern, comfortable residential complex constructed using poured concrete technology with brick elements and ventilated facades. Each entrance has quiet, high-speed lifts as well as concierge services and CCTV security. Customers may also purchase secure parking spots in on-site parking garages.

Transport infrastructure

Car: 15 minute drive to central St. Petersburg
Metro: 5 minutes walk to Proletarskaya station
Bus: numerous stations in walking distance

See
PROJECT GALLERY ON COMPANY'S CORPORATE WEBSITE

Operations Review

Exactly in line with construction plan

580 ths sqm

+24% year-on-year

New contract sales up to

RUB 40 bn

+32% year-on-year

New contracts

9,045

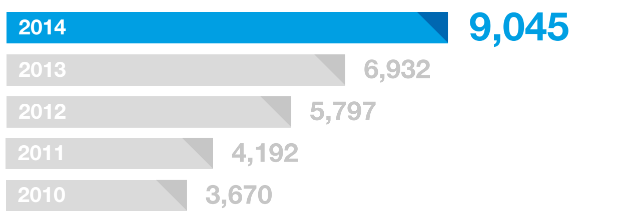
+30% year-on-year

Cash collections

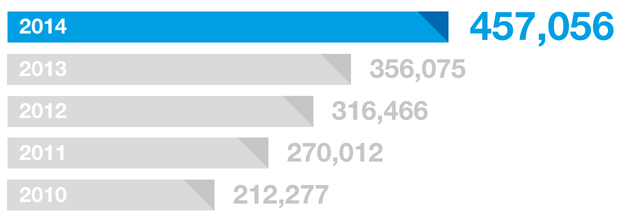
RUB 35 bn

+36% year-on-year

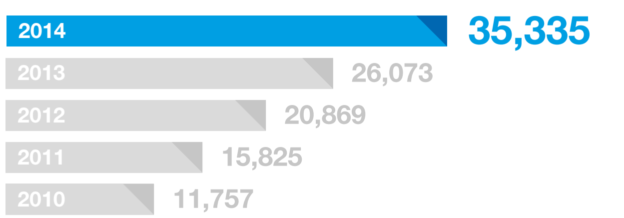
Number of contracts +146%



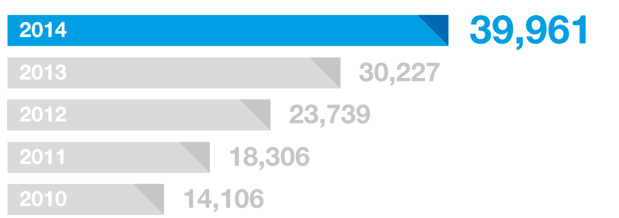
New contract sales, sqm +115%



Cash collections, mln RUB +201%



New contract sales, mln RUB +183%



Etalon Group set a new record for deliveries in 2014, completing 580 thousand sqm of NSA for the year, an increase of 24% on 2013. We delivered 16 buildings containing 8,055 flats at ongoing projects including Molodejny, Tsar's Capital, Swallow's Nest, Galant and Emerald Hills, as well as of Rechnoy and Galant, where we completed construction work.

Project	NSA delivered in 2014, ths sqm
Emerald Hills	133
Rechnoy	111
Molodejny	107
Tsar's Capital	107
Swallow's Nest	83
Galant	39
Total	**580**

Project portfolio and landbank

We also launched sales at Samotsvety and Moscow Gates, both of which are located in St. Petersburg. Samotsvety, launched in 3Q 2014, accounted for 5% of new sales in 2014. Moscow Gates, launched at the very end of November 2014, contributed about 1% to total 2014 sales.

Samotsvety (launched in 2014)

This development is located in the Vasileostrovsky District of St. Petersburg. The proximity of the Vasileostrovsky District to the centre of the city makes it a prestigious location both for living and business.

The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the property. Buses to the city centre can be taken from a number of bus stops within walking distance of the site.

See more information and visuals in Portfolio Highlights on page **18**

Moscow Gates (launched in 2014)

This property is located in the Moskovskiy District of St. Petersburg. It has easy access to both the centre of St. Petersburg (approximately 10 minutes during off-peak hours) and Pulkovo Airport (20 minutes by car).

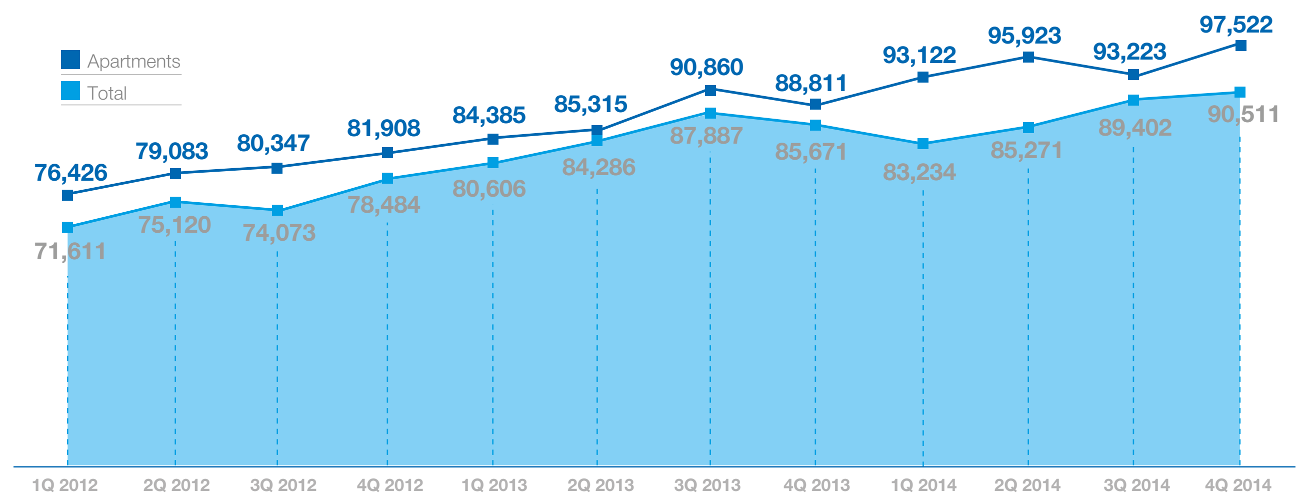
There are a number of bus stops situated within walking distance, as well as the Moskovskiye Vorota metro station.

See more information and visuals in Portfolio Highlights on page **18**

These new projects have helped to further diversify our portfolio, reflected in robust growth in new contract sales and price per sqm.

Our high-quality portfolio of projects offers customers a variety of housing options in St. Petersburg and the Moscow Metropolitan Area. We have significantly diversified our product offering in the last two years, with an increasing share of prime-location projects that have supported average prices per sqm for the flats we sell.

Average price, RUB/sqm



We acquired one new project in St. Petersburg in 2014 with a total NSA of 91 ths sqm, which helped our landbank to remain largely stable at 3.11 mln sqm of NSA as of the end of 2014. At present, Etalon Group has no pressing need to replenish its landbank, which is sufficient for the current construction programme through 2018.

New project with a total NSA

91 ths sqm

New project in St. Petersburg: Landishy

In October 2014 Etalon Group won an auction to acquire the rights to a three-hectare land plot on Polyustrovskiy Prospect in the Kalininskiy district of St. Petersburg. Land planning documentation for the plot has already been obtained, allowing the rights holder to begin construction in the near future.

Landishy is located within walking distance of Lesnaya metro station and four kilometres from central St. Petersburg. The total planned NSA of the project is 91 ths sqm.

Typical project lifecycle

Our construction lasts

30 months

Task	Share of project cost,%	Start, month	Duration, month
Predevelopment	3%	0	8
Zero cycle works	7%	2	10
Construction works	43%	5	20
Facade works	11%	16	10
Fit out works	5%	18	10
MEP systems	14%	7	21
Engineering facilities	15%	5	23
Urban landscaping	2%	24	6

New contract sales

New contract sales for 2014 amounted to 457 thousand sqm and RUB 40.0 billion, year-on-year increases of 28% and 32%, respectively. The total number of contracts increased by 30% year-on-year to 9,045. The share of MMA in new contract sales was 23% in 2014, with 2,052 new contracts signed.

Cash collections were exceptionally strong, especially in 4Q 2014, when many Russians accelerated their decisions to buy property as the rouble declined against foreign currencies. In 2014 total cash collections were RUB 35,335 million, up 36% from RUB 26,073 million in 2013.

Strong cash collections were reflected in a higher average down-payment, which reached 83% in 4Q 2014. For the full year, the average down-payment was 78%.

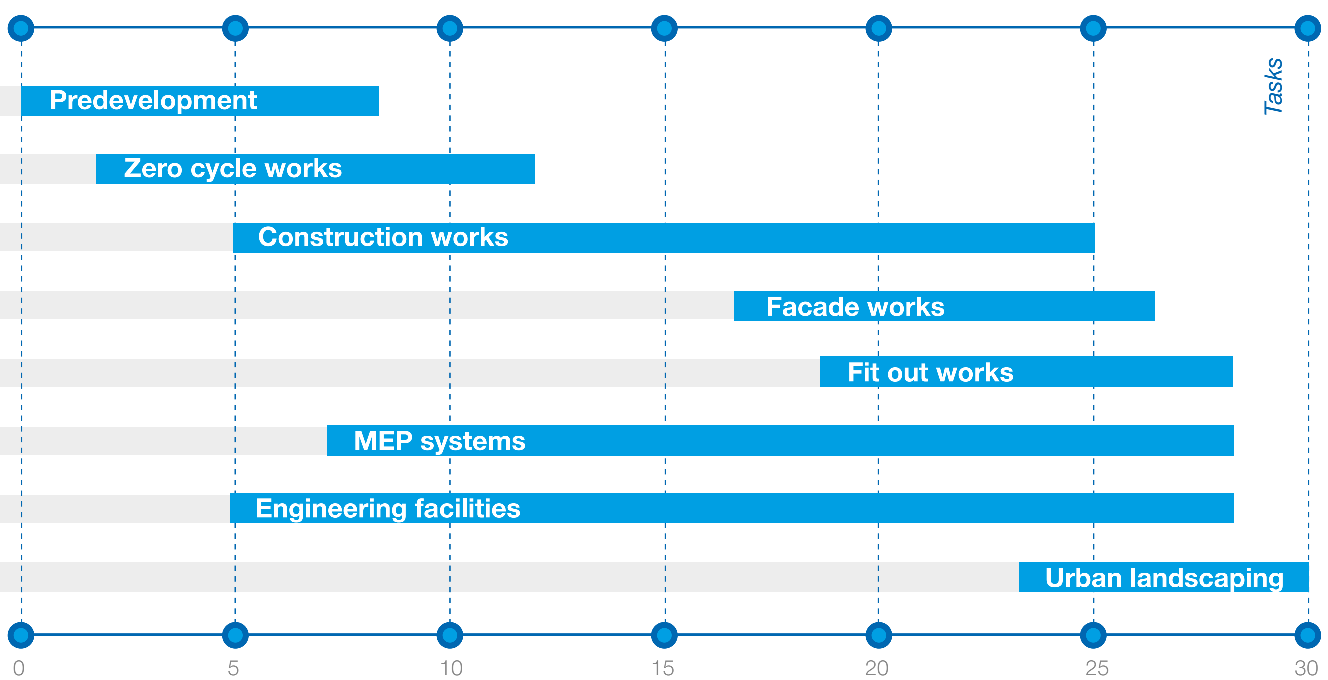
Mortgage sales accounted for 22% of total sales for 2014, which is well below the level of peers in Russia, reflecting a moderate dependence on this instrument in overall sales.

Deliveries in 2014 increased 24% year-on-year to 580 ths sqm, exactly in line with management guidance for the year and the Etalon Group construction programme. Transfers to customers rose by 15% y-o-y to 403 thousand sqm of NSA.

FY 2014 Operating results

	FY 2014	FY 2013	Change %
Number of contracts	**9,045**	6,932	30%
New sales, sqm	**457,056**	356,075	28%
New sales, mln RUB	**39,961**	30,227	32%
Cash collections, mln RUB	**35,335**	26,073	36%
Average price (total), RUB/sqm	**87,431**	84,889	3%
Share of mortgages, %	**22**	21	1 p.p.

Construction timeline, month



Financial Review

THE BEST RESULTS IN OUR 27-YEAR HISTORY:

Revenue
RUB 51.5bn
+29%

Net income
RUB 8.4bn
+26%

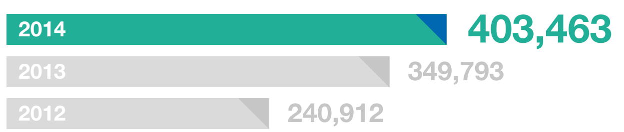
Income statement

Backed by strong operating results, our 2014 financial results set new Company records, with revenue increasing 29% to RUB 51,481 million from RUB 39,921 million a year earlier.

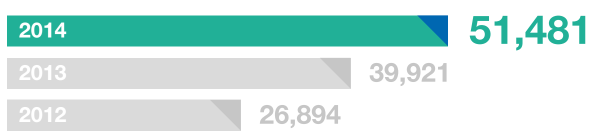
As the Rouble declined in value to the USD, especially in the fourth quarter of 2014, our costs did not increase significantly as we have relatively low exposure to FX-linked construction costs. By our estimates, only around 15% of Etalon Group's total construction costs are linked to USD prices. These are are primarily related to materials like steel armature, as domestic steel producers use global market prices for domestic sales.

Net income for 2014 amounted to RUB 8,369 million up 26% from RUB 6,664 million for FY 2013. Net income growth was supported by the 15% year-on-year increase in transfers to customers and better prices per sqm.

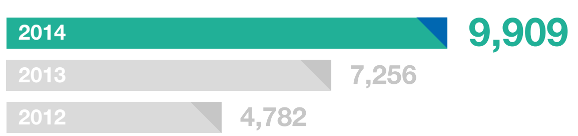
Transfers to customers, sqm +67%



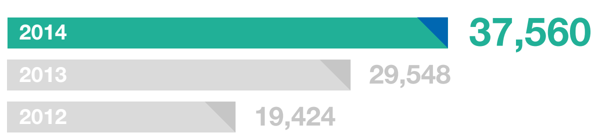
Revenue, mln RUB +91%



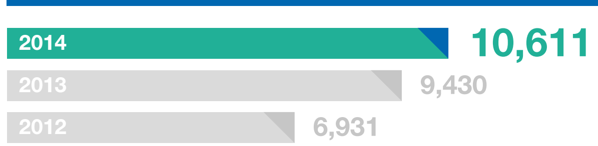
Construction services revenue from third parties/external, mln RUB +107%



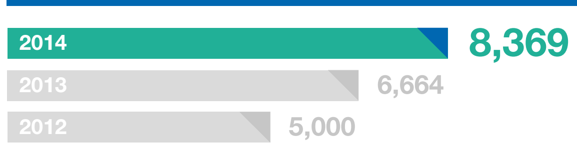
Residential real estate development revenue, mln RUB +93%



EBITDA, mln RUB +53%

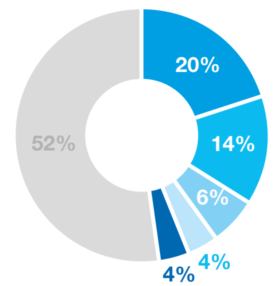


Net income, mln RUB +67%



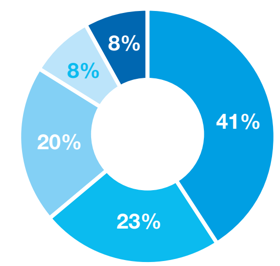
Typical construction cost structure:

Materials cost structure, RUB12,000-18,000 per sqm of NSA



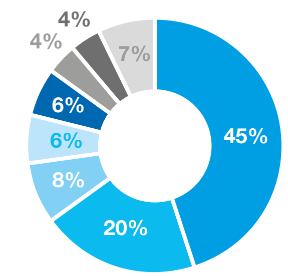
Metal products	20%
Cement	14%
Bricks	6%
Crushed granite	4%
Sand	4%
Other	52%

Construction cost structure, RUB 29,000-39,000 per sqm of NSA



Materials	41%
Taxes	23%
Wages	20%
Machinery	8%
Overhead expenses	8%

Total cost structure, RUB 59,000-72,000 per sqm of NSA



Construction	45%
Land acquisition	20%
Infrastructure	8%
Sales costs	6%
Interest expense	6%
Project management	4%
Design	4%
Other	7%

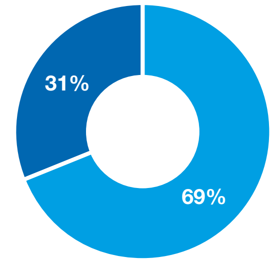
Balance sheet position

We maintained a conservative financial policy throughout 2014 in light of the complex macro environment.
While we did use cash for one new project acquisition, Etalon Group ended the year with a net debt position of just RUB 636 million.

All of our debt comes from loans from Russia-based banks (69% of total) or locally-issued Rouble-denominated bonds (31% of total), and just 8% of the total portfolio is denominated in Euros, while the rest is in Roubles. With significant cash reserves held in foreign currencies, our FX-denominated cash to debt ratio was 3.5 as of 31 December 2014.

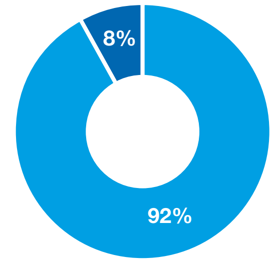
Gross debt composition as of 31/12/2014, %

By type of facility



Bank loans	69%
Local bonds	31%

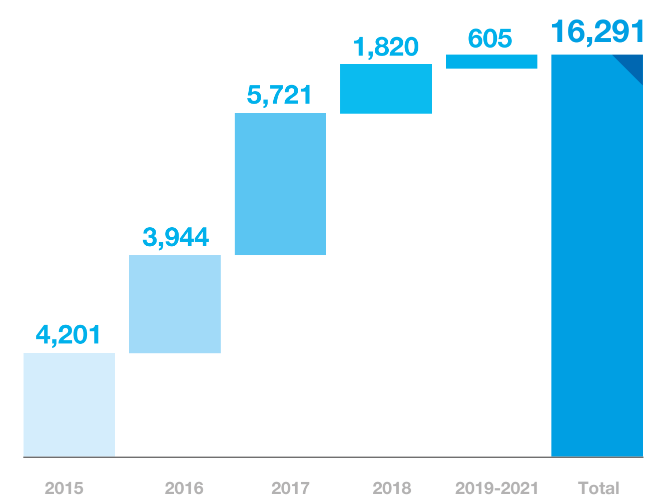
By currency



RUB	92%
EUR	8%

Overall, our balanced debt maturity profile, solid track record and significant cash reserves, combined with a strong cash-collections business model will enable us to move quickly to acquire interesting, high quality projects as such opportunities arise in coming years.

Debt maturity profile as of 31/12/2014, mln RUB[1]



[1] Includes accrued interest payable in 2015, based on management accounts.

Sustainability

Health and safety

We consider the health and safety of our employees to be our most significant operational responsibility, and we adhere strictly to Russian safety regulations in this area. We strive to create a healthy and safe working environment at each of our facilities and sites. We also educate our staff on safety issues through regular occupational safety workshops, and ensure that they have sufficient knowledge of workplace safety procedures before they are permitted to work on a site or in a facility. All our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections when installing any equipment to ensure proper installation and safety.

Environment

We are committed to using best environmental management practices, which at Etalon Group are designed to ensure compliance with Russia's strict rules and regulations for environmental protection and waste management at construction sites. Our control systems include environmental protection procedures such as controls for observance of standards for waste at each production unit, and controls for water contamination, noise pollution and air pollution in regulated sanitary zones.

Society

When we plan a major development project, we seek to make sure that its future residents will be able to receive all the benefits they would expect if they moved into a developed community. This means that, in addition to housing, we often build infrastructure for stores, entertainment and fitness centres. We also want to make sure that new residents will have sufficient access to educational facilities for children to support the long-term sustainability of the communities created by our larger projects.

The decision to build such infrastructure is taken together with municipal governments. Under investment contracts with municipal and regional government authorities (most commonly in Moscow), Etalon Group is sometimes required to build social infrastructure at its own expense. If a land plot is acquired from a private landlord, the government may require us to include social infrastructure as part of the project when we seek approval for land-planning documentation. In such cases the construction costs are usually compensated from the municipal budget.

During 2014 work was underway on the following educational facilities:

- MMA (Emerald Hills): primary school with an estimated capacity of 1,100 pupils (completed)
- SPMA: kindergarten with an estimated capacity of 220 children (completed)
- SPMA (Molodejny): kindergarten with an estimated capacity of 95 children (completed)
- SPMA (Rechnoy): kindergarten with an estimated capacity of 50 children (completed)
- SPMA (Samotsvety): kindergarten with an estimated capacity of 190 children (construction due to start in 2015)

In 2014 we also dedicated space or undertook work not directly related to construction of residential housing at several projects in order to support cultural and historical awareness, or to meet municipal needs, including:

Clinics and medical facilities

- Swallow's Nest: 860 sqm medical clinic
- Orbit: 365 sqm office for general practitioners

Historical and cultural sites

- Emerald Hills: construction of Cosmonaut's Alley open-air museum dedicated to history of space travel
- Rechnoy: restoration of an academy built in 1909 and designed by architect Lev Shishko
- Galactica: Construction of a museum dedicated to the history of Russian Railways at the site of the former Baltiiskiy Vokzal train station
- Jubilee Estate: sculpture installations

Municipal needs

- Swallow's Nest: renovation of road leading to the residential complex from the Oktyabrskaya Embankment

Other activities

We seek to support local communities in the areas where we operate and throughout Russia. For example, we place great importance on remembering the veterans who fought fascism in World War II and residents of Leningrad that survived the Nazi blockade. In honour of Victory Day on 9 May 2014 we organised events from Magadan in the far northeast corner of Russia to St. Petersburg and Moscow.

Other highlights of our 2014 activities include renovation of the Dmitry Solunskiy Church, built in 1906 in Kolomyagi, and support for cultural events like an opera festival in Norilsk and a "Wall of Love" in Surgut (on St. Valentine's Day).

Employees

We are proud of all of the nearly 5,200 employees working for Etalon Group, and we provide employee development through a number of training programmes.

Type of programme	Number of employees
Internal training	203
Personal development	147
Construction-related training	93
Management of investment projects	64
Finance	27
Accounting	12
IT training	9
Legal	6
Other topics	7
Total:	**722**

We also seek to ensure that our employees have sufficient social protection to support their long-term wellbeing.

This includes private medical insurance for employees, including accident insurance for all construction site workers.

Type of insurance	Number of employees
Private medical insurance	1,200
Accident insurance for construction workers	1,383

Etalon Group provides financial assistance to its employees for important life events such as the birth of a child, an illness or accident resulting in temporary disability, after the death of a relative or loss or damage to property caused by flood, fire, theft or natural disaster. We also provide loyalty premiums to employees for long-term employment with our Company, to honour significant contributions to the Company's development, and upon retirement to recognise loyal and dedicated service to Etalon Group.

Supporting our employees

Reason for support	Number of individuals
Financial assistance after birth of a child	83
Financial assistance after death in family	31
Monthly pension for former employees	24
Other material support	2,949

Academy restored as part of Rechnoy project

Corporate Governance Report

Etalon Group Limited is a public limited company incorporated under Guernsey law with Global Depositary Receipts (***GDRs***) admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange under the ticker ETLN.

The Board of Directors continues to be committed to maintaining the highest standards of corporate governance and to conducting Board business with openness and transparency. Management of Etalon's business is delegated to the Board, who act in accordance with the Company's Articles of Incorporation, applicable Guernsey law and any resolutions passed by shareholders in general meeting. The Company also complies with the relevant sections of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules.

Board of Directors

The Board is collectively responsible to shareholders for the success of the Company and sets an ethical tone for the rest of the Etalon organisation to follow. The Board provides leadership to the business and brings independent judgement to all matters of strategy, performance, conduct and accountability. To assist with this process, the Board has delegated specific responsibilities to the Audit Committee, Nomination and Remuneration Committee and Strategy Committee and to the Company's executive management team.

All members of the Board, including the non-executive directors, attend regular meetings of the Group's senior management. These meetings consider the Group's upcoming projects, pipeline, buildings under construction, sales and cash flows, and where appropriate and necessary provide recommendations to the Board for approval.

As of 31 December 2014, the Board and its Committees were structured as follows:

Shareholders

The Board of Directors
Leadership, strategy, risk, governance, values and standards

Audit Committee
Chairman
Martin Cocker
Members
Anton Poryadin, Anton Evdokimov, Boris Svetlichny

Remuneration and Nomination Committee
Chairman
Viacheslav Zarenkov
Members
Dmitry Zarenkov, Martin Cocker, Michael Calvey, Alexei Kalinin

Strategy Committee
Chairman
Anton Poryadin
Members
Viacheslav Zarenkov, Anton Evdokimov, Alexei Kalinin, Kirill Bagachenko (appointed on 24 April 2015)

Executive Board

The Company holds regular Board meetings. Formal minutes are prepared and circulated to all Board members for review prior to approval. Papers are circulated in advance of meetings, allowing the Directors to focus on matters of strategic and financial importance. Any matters requiring consideration or approval in the interim are, where thought fit, approved by written resolution.

During 2014, the Directors have continued to review and refine the Management Policy initially adopted in 2013. The Management Policy sets out the roles and responsibilities of the Directors, together with a schedule of matters reserved for Board approval. Matters specifically reserved for the Board include:

- approval of Etalon Group's long-term objectives and corporate strategy;
- approval of material acquisitions, disposal, investment, contract, expenditure or other transaction;
- approval, following recommendation by the Audit Committee, of interim and final results, the annual report and accounts, including the corporate governance statement, the dividend policy and any declaration of interim and recommendation of final dividends;

- approval, following recommendation by the Remuneration and Nomination Committee, of any appointments to the Board and other key senior management, committee membership and remuneration for Directors and senior executives;
- review, following recommendation by the Audit Committee, of the effectiveness of internal control and risk management systems; and
- approval of the Company's corporate governance policies and procedures.

Roles and Responsibilities

As previously announced, with effect from 1 March 2014, the roles and responsibilities of the Executive Directors changed following Viacheslav Zarenkov's notification to the Board that he wished to focus on the Company's strategic development. Mr Zarenkov therefore stood down from his position as Chief Executive Officer of the Company with effect from 1 March 2014, although he remains as President and as Chairman of the Company.

On the recommendation of the Remuneration and Nomination Committee, the Board appointed Anton Evdokimov as Chief Executive Officer with effect from 1 March 2014. As a result, Mr Evdokimov relinquished his role as Chief Financial Officer and Boris Svetlichny, an independent non-executive director, was appointed to that role and became an executive director.

With effect from 1 March 2014 therefore, the roles and responsibilities of the Executive Directors are as follows:

Mr Zarenkov is the founder of Etalon Group. As Chairman, he is responsible for the effective running of the Board and for ensuring that it plays a full and constructive role in the development and determination of our ongoing strategy, setting the agenda for Board meetings, ensuring that accurate, timely and clear information is provided by Etalon's officers and external advisers, and that sufficient time is allowed for the discussion of complex and contentious issues. The Chairman is also responsible for ensuring that new Directors are provided with a proper induction programme and for identifying the development needs of individual Directors and of the Board as a whole.

Mr Zarenkov is also responsible, along with the executive management team, for implementing the strategic and commercial decisions of the Board and for identifying and executing new business opportunities outside the current core activities, in line with strategic plans, and for leading the communication programme with shareholders.

Mr Evdokimov is First Vice-President and Chief Executive Officer of Etalon Group. As such, he is responsible for all executive management matters affecting the Group, with all members of executive management reporting either directly or indirectly to him. He is also responsible for development of the Company's projects, real estate, economics and efficiency and legal support.

Mr Svetlichny is an executive director and Chief Financial Officer of Etalon Group. In this role, Mr Svetlichny is responsible for managing all Group's financial and treasury activities including capital transactions, debt financing, treasury transactions, tax planning, IT and any other related functions.

Dmitry Zarenkov is an executive director and Vice-President of Etalon Group and is responsible for the corporate governance of the Group's subsidiaries.

Kirill Bagachenko is an executive director and Head of Corporate Investments and Investor Relations of Etalon Group. Mr Bagachenko is responsible for strategic analysis of the capital markets environment, monitoring opportunities for the Company's business development, developing and implementing the Company's investor relations strategy and ensuring that there is effective communication with the Company's shareholders, investors and analysts.

The Board recognises the importance of maintaining a high-quality relationship with its shareholders and the wider investment community. The Head of Corporate Investments and Investor Relations, together with the Chairman, Chief Executive Officer and Chief Financial Officer, therefore meet regularly with the Group's investors and analysts to communicate strategies and objectives and to showcase current projects.

In addition, five non-executive directors have been appointed to the Board who together bring a wealth of knowledge and business experience to the Group. Through their contributions, the non-executive directors provide Etalon with impartial views on matter of strategy, performance, risk and conduct.

As of 31 December 2014, the five non-executive directors were Martin Cocker, Anton Poryadin, Michael Calvey, Alexei Kalinin and Robert King. Subsequent to the year end, on 28 February 2015, Robert King resigned as a non-executive director and was replaced on 1 March 2015 by Andrew Howat. Therefore, with effect from 1 March 2015, and as of the date of this report, the non-executive directors are Martin Cocker, Anton Poryadin, Michael Calvey, Alexei Kalinin and Andrew Howat, of whom three, namely Martin Cocker, Anton Poryadin and Andrew Howat, are considered to be independent.

Board Committees

The Board of Directors has delegated some of its responsibilities to three Board Committees: the Audit Committee, the Remuneration and Nomination Committee and the Strategy Committee. The three Committees report back to the Board after each meeting and make recommendations to the Board for approval in accordance with their respective terms of reference.

Audit Committee

Membership

The members of the Audit Committee during 2014 and to the date of this Report are as follows:

Martin Cocker	Committee Chairman and Independent Non-executive Director
Anton Poryadin	Independent Non-executive Director
Anton Evdokimov	Executive Director and Chief Executive Officer
Boris Svetlichny	Executive Director and Chief Financial Officer (appointed on 1 March 2014)

While only members of the Audit Committee are entitled to attend meetings, the lead partner of the external auditor, head of Internal Audit and other members of senior management are invited to attend meetings as necessary and appropriate.

Responsibilities

The Audit Committee is responsible for monitoring the financial reporting process and integrity of Etalon Group's financial statements together with any other regulatory announcements relating to financial performance. It is also responsible for reviewing internal controls, overseeing how management monitors compliance with risk management policies and procedures, the effectiveness of the Internal Audit function and the independence, objectivity and the effectiveness of the external audit process. The Audit Committee is also responsible for considering the terms of appointment and remuneration of the external auditor.

The Audit Committee held a number of meetings during 2014 where the key matters for consideration were:

- The financial results for the year ended 31 December 2013, together with the report of the external auditor.
- The interim results for the half-year to 30 June 2014, together with a report from the external auditor;
- Matters raised by the external auditor as part of the audit process requiring the attention of management and actions taken by management to address those matters;
- Reviewing the performance and independence of the external auditor, including a review of any non-audit services undertaken by the external auditor during the year;
- Recommending to the Board the reappointment of the external auditor and the level of fees for audit services;
- Reviewing the terms of reference of the Audit Committee and its responsibilities, and recommending amendments to the Board;
- Receiving reports from Internal Audit on the results of their engagements and considering remedial actions taken by management in respect of any matters arising;
- Reviewing the accounting policies adopted by the Group and approving any changes to those policies on the recommendation of management or the external auditor.

External Audit

The Audit Committee continues to be satisfied with the performance of KPMG and has recommended to the Board that KPMG be reappointed as auditor. As part of the review of the external auditor's performance, the Audit Committee considered in detail the nature of any non-audit services performed by the external auditor.

The Audit Committee regularly meets the external auditor without management being present.

Internal Audit

The Group's Internal Audit function provides independent objective assurance and advisory oversight of the business's operations and systems of internal control and helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Audit Committee commissioned a review on the Internal Audit function by the external auditor. Following consideration of the report, the Audit Committee accepted the recommendations made by the external auditor and continues to enhance the role and responsibility of the Internal Audit function.

During 2014, the engagements undertaken by Internal Audit have focused on Etalon's management systems. The Audit Committee regularly meets the head of Internal Audit without management presence.

Internal Controls and Risk Management Systems

The Audit Committee, and the Board as a whole, continues to ensure that effective risk management systems are adopted to ensure that key risks faced by Etalon Group are identified and evaluated. Appropriate limits and controls are set, maintained and monitored to ensure compliance. In particular, the risk management framework identifies risks that might, if not appropriately managed, materially affect the ability of the Group to achieve its objectives or lead to material misstatement in the Group's financial results.

Risk management policies and systems are reviewed periodically by the Audit Committee to ensure that they remain appropriate, relevant and comprehensive, taking into account any variations in market conditions and the Group's activities. The review also considers whether the identified risks are being managed effectively.

The Audit Committee is responsible for overseeing how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework. In this, the Audit Committee is assisted by the Internal Audit function.

While progress continues to be made in this area, the Audit Committee continues to monitor the Group's risk management processes and to provide support and oversight to the amendments undertaken.

Remuneration and Nomination Committee

Membership

The members of the Remuneration Committee during 2014 and to the date of this Report are as follows:

Viacheslav Zarenkov	Committee Chairman and Chairman of the Board
Dmitry Zarenkov	Vice President and Executive Director
Martin Cocker	Independent Non-executive Director
Michael Calvey	Non-executive Director
Alexei Kalinin	Non-executive Director

Responsibilities

The Remuneration and Nomination Committee advises the Board of Directors on the remuneration of executive management and other senior employees and reviews the terms and conditions of employment agreements for all senior appointments.

The Committee is also responsible for drafting the selection criteria and appointment of members of the Board of Directors and to review its structure, size and composition on a regular basis. In undertaking this role, the Committee considers the skills, knowledge and experience required at Etalon Group's stage of development and makes recommendations to the Board as to any changes.

The Committee also considers and makes recommendations regarding the membership of the Audit and Strategy Committees.

At its meetings held during 2014 the Committee considered amendments to the Group's incentive plans as well as changes to the membership of the Board and its Committees.

Strategy Committee

Membership

The members of the Strategy Committee during 2014 and to the date of this Report are as follows:

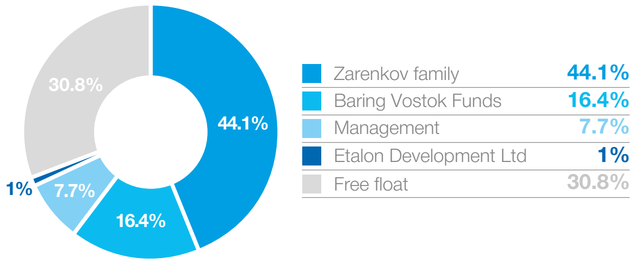
Anton Poryadin	Committee Chairman and Independent Non-executive Director
Viacheslav Zarenkov	President and Chairman of the Board
Anton Evdokimov	Executive Director and Chief Executive Officer
Alexei Kalinin	Non-executive Director
Kirill Bagachenko	Executive Director (appointed on 24 April 2015)

Responsibilities

The Strategy Committee's role is to assist the Board in fulfilling its oversight responsibilities relating to the medium and long-term strategic direction and development of Etalon Group. The Strategy Committee provides advice and expertise so that strategic options are explored fully before being tabled at Board meetings for deliberation and approval.

Etalon Group's development priorities and strategic guidelines for 2018 to 2023 continued to be the key matter for consideration at the meetings of the Strategy Committee in 2014.
During the first half of 2014, the Strategy Committee adopted a roadmap to enable the Group to develop a comprehensive growth strategy for 2018 to 2023. Implementation of this roadmap coincided with an environment of uncertainty within the residential real estate sector, and Russia in general, and the Strategy Committee therefore focused on developing scenarios to help the Group achieve its key strategic objective to become one of the leaders in residential development in Russia.

Shareholding structure as of 31 December 2014, %



Board of Directors

Viacheslav Zarenkov
Chairman of the Board of Directors and President of Etalon Group

Viacheslav Zarenkov has 45 years of experience in the construction industry and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St. Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture and also holds the rank of professor.

Dmitry Zarenkov
Vice-President of Etalon Group

Dmitry Zarenkov has 18 years of experience in the construction industry and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering and graduated from the Institute of Aeronautical Instrumentation, St. Petersburg University of Architecture & Civil Engineering and St. Petersburg University of Internal Affairs.

Anton Evdokimov
CEO of Etalon Group

Anton Evdokimov has 28 years of experience in the construction industry and holds the Ministry for Regional Development's Certificate of Honour. He studied at Leningrad Engineering Construction Institute, St. Petersburg State University and International Banking Institute. He also received an MBA in business strategy from Open University Business School.

Kirill Bagachenko
Head of Corporate Investments & IR at Etalon Group

Kirill Bagachenko has over 10 years' experience in corporate finance and asset management. Prior to joining Etalon Group he held the position of senior equity portfolio manager at TKB BNP Paribas Investment Partners. In 2013, he was voted one of the top three portfolio managers in Russia by Thomson Reuters Extel Survey. Kirill graduated from St. Petersburg State University of Economics and Finance.

Boris Svetlichny
CFO of Etalon Group

Boris Svetlichny brings to the Company 26 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services, VimpelCom and GoldenTelecom. Mr Svetlichny has a BBA in Accounting from the University of Massachusetts, and received an MBA from Carnegie-Mellon University.

Michael Calvey
Non-Executive Director

Michael Calvey has been a Senior Partner at Baring Vostok Capital Partners since 1999. He is a board member at Europlan, Volga Gas and Gallery Media Group, among others. He previously worked at EBRD, Salomon Brothers and Sovlink Corporation, and was a board member at CTC Media, Golden Telecom and Burren Energy. He graduated from the University of Oklahoma and the London School of Economics.

Alexei Kalinin
Non-Executive Director

Alexei Kalinin is a Senior Partner at Baring Vostok Capital Partners, where he has been since 1999. Previously he worked at Alfa Bank and Alfa Capital. He is Chairman of the Board of Directors at Volga Gas and a board member at Samarenergo and two Russian glass companies. He graduated from Moscow Power Engineering University and holds a PhD in Engineering.

Martin Cocker
Independent Non-Executive Director

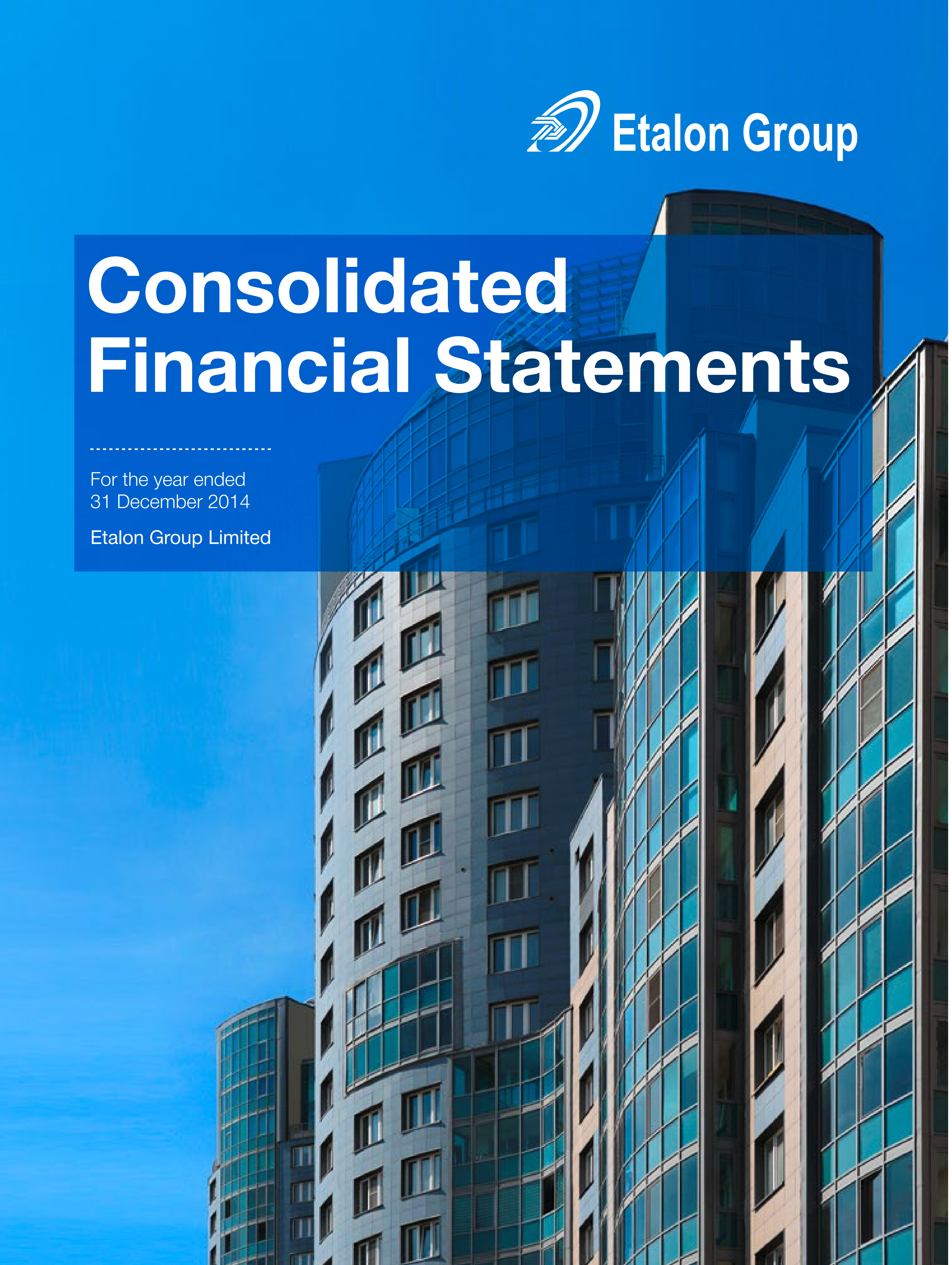
Martin Cocker has 20 years of experience in audit, and five years' experience in the construction industry. He runs his own development business in Portugal and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the UK. He graduated from the University of Keele.

Anton Poryadin
Independent Non-Executive Director

Anton Poryadin has 13 years of experience in strategy consulting at A.T. Kearney, where he is Partner and Vice President. Previously he was Project manager at Barents International Markets B.V., Corporate Development and Project Finance Director at Tomo Internazionale S.p.A., and deputy General Manager of St. Petersburg Foundation for Enterprise Development. He is a graduate of St. Petersburg Technical University and Business School at the University of Rochester.

Andrew Howat
Independent Non-Executive Director

Andrew Howat has 30 years of experience in international finance, banking and investment businesses. He worked as a senior Director at ING Bank in the Corporate Banking and Financial Markets divisions from 1997 to 2004. More recently he was Managing Director of Butterfield Fulcrum in Guernsey until 2012. Mr Howat has served as a Non-Executive Director on the boards of a number of property companies investing in UK, Russian and European-wide commercial and residential property since 2005.



Etalon Group

Consolidated Financial Statements

For the year ended
31 December 2014

Etalon Group Limited

Directors' report

Principal activity

The principle activity of Etalon Group Limited and its subsidiaries (together referred to as the "Group") is residential development in Saint-Petersburg metropolitan area and Moscow metropolitan area.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the consolidated financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to Auditors

The Directors confirm that so far as they are aware, there is no information relevant to the audit of which the Company's auditors are unaware. The Directors also confirm that they have taken all steps they ought to have taken as Directors to make themselves aware of any information relevant to the audit and to establish that the Company's auditors are aware of that information.

Directors' Responsibility Statement

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of our knowledge and belief:

(a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and

(b) The financial statements, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

Andrew Howat
Director

JSC KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent auditor's report to the members of Etalon Group Limited

We have audited the accompanying consolidated financial statements of Etalon Group Limited (the "Company", and together with its subsidiaries, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Directors' Responsibility for the Consolidated Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and applicable law, and for such internal control the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for being satisfied that the consolidated financial statements give a true and fair view.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report to the members of Etalon Group Limited (continued)

Opinion

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2014 and of its consolidated financial performance and its consolidated cash flows for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Andrei Shvetsov
Director
For and on behalf of JSC "KPMG"
Recognized Auditor

23 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2014

mln RUB	Note	2014	2013
Revenue	6	**51 481**	39 921
Cost of sales		**(35 685)**	(27 553)
Gross profit		**15 796**	**12 368**
General and administrative expenses	**8**	(4 178)	(3 157)
Selling expenses		(1 474)	(1 023)
Other expenses, net	**9**	(913)	(40)
Results from operating activities		**9 231**	**8 148**
Finance income	**11**	1 717	691
Finance costs	**11**	(553)	(342)
Net finance income		**1 164**	**349**
Profit before income tax		**10 395**	**8 497**
Income tax expense	**12**	(2 026)	(1 833)
Profit for the year		**8 369**	**6 664**
Total comprehensive income for the year		**8 369**	**6 664**
Profit attributable to:			
Owners of the Company		8 345	6 629
Non-controlling interest		24	35
Profit for the year		**8 369**	**6 664**
Total comprehensive income attributable to:			
Owners of the Company		8 345	6 629
Non-controlling interest		24	35
Total comprehensive income for the year		**8 369**	**6 664**
Earnings per share			
Basic and diluted earnings per share (RUB)	**22**	28,57	22,70

These consolidated financial statements were approved by the Board of Directors on 23 March 2015 and were signed on its behalf by:

Andrew Howat
Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 54 to 87.

Consolidated Statement of Financial Position

as at 31 December 2014

mln RUB	Note	2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	**13**	**2 503**	1 962
Investment property	**14**	**808**	1 142
Other long-term investments	**15**	**1 036**	275
Trade and other receivables	**18**	**2 521**	1 332
Deferred tax assets	**16**	**885**	560
Other non-current assets		**10**	10
Total non-current assets		**7 763**	**5 281**
Current assets			
Inventories	**17**	**57 525**	50 057
Trade and other receivables	**18**	**15 074**	15 078
Short-term investments	**19**	**1 221**	5 008
Cash and cash equivalents	**20**	**14 631**	8 139
Other current assets		**66**	7
Total current assets		**88 517**	**78 289**
Total assets		**96 280**	**83 570**
EQUITY AND LIABILITIES			
Equity			
Share capital	**21**	**14 983**	14 967
Retained earnings		**36 537**	29 332
Total equity attributable to equity holders of the Company		**51 520**	**44 299**
Non-controlling interest		**351**	387
Total equity		**51 871**	**44 686**
Non-current liabilities			
Loans and borrowings	**23**	**12 411**	10 176
Trade and other payables	**25**	**2 854**	785
Provisions	**24**	**114**	89
Deferred tax liabilities	**16**	**1 456**	826
Total non-current liabilities		**16 835**	**11 876**
Current liabilities			
Loans and borrowings	**23**	**3 880**	3 043
Trade and other payables	**25**	**21 460**	22 300
Provisions	**24**	**2 234**	1 665
Total current liabilities		**27 574**	**27 008**
Total equity and liabilities		**96 280**	**83 570**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 54 to 87.

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2014

mln RUB	Attributable to equity holders of the Company: Share capital	Retained earnings	Total	Non—controlling interest	Total equity
Balance at 1 January 2013	**14 967**	**22 688**	**37 655**	**408**	**38 063**
Total comprehensive income for the year					
Profit for the year	—	6 629	6 629	35	6 664
Total comprehensive income for the year	—	6 629	6 629	35	6 664
Transactions with owners, recorded directly in equity					
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	—	15	15	(56)	(41)
Total transactions with owners	**—**	**15**	**15**	**(56)**	**(41)**
Balance at 31 December 2013	**14 967**	**29 332**	**44 299**	**387**	**44 686**

mln RUB	Attributable to equity holders of the Company: Share capital	Retained earnings	Total	Non—controlling interest	Total equity
Balance at 1 January 2014	**14 967**	**29 332**	**44 299**	**387**	**44 686**
Total comprehensive income for the year					
Profit for the year	—	8 345	8 345	24	8 369
Total comprehensive income for the year	—	8 345	8 345	24	8 369
Transactions with owners, recorded directly in equity					
Dividends to equity holders	—	(1 124)	(1 124)	—	(1 124)
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Transactions with own shares	16	—	16	—	16
Changes in ownership interest in subsidiaries	—	(16)	(16)	(60)	(76)
Total transactions with owners	**16**	**(1 140)**	**(1 124)**	**(60)**	**(1 184)**
Balance at 31 December 2014	**14 983**	**36 537**	**51 520**	**351**	**51 871**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 54 to 87.

Consolidated Statement of Cash Flows

For the Year ended 31 December 2014

mln RUB	Note	2014	2013
OPERATING ACTIVITIES:			
Profit for the year		**8 369**	6 664
Adjustments for:			
Depreciation	13, 14	**417**	343
Gain on disposal of property, plant and equipment	9	**(52)**	(15)
Impairment loss on investment property	9	**280**	—
Impairment loss on inventories	9	**466**	
Finance income, net		**(1 164)**	(337)
Income tax expense		**2 026**	1 833
Cash from operating activities before changes in working capital and provisions		**10 342**	**8 488**
Change in inventories		**(6 890)**	(7 837)
Change in accounts receivable		**(1 427)**	(5 080)
Change in accounts payable		**1 184**	4 880
Change in provisions	24	**594**	1 109
Change in other current assets		**(59)**	25
Income tax paid		**(1 645)**	(907)
Interest paid		**(1 588)**	(1 724)
Net cash from/(used in) operating activities		**511**	**(1 046)**
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		**66**	15
Interest received		**823**	611
Acquisition of property, plant and equipment		**(653)**	(431)
Loans given		**(178)**	(55)
Loans repaid		**174**	85
Acquisition of subsidiaries, net of cash acquired		**—**	10
Disposal of subsidiaries, net of cash disposed of		**7**	(20)
(Acquisition)/disposal of other investments		**3 038**	1 606
Net cash from investing activities		**3 277**	**1 821**
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		**(83)**	(10)
Proceeds from borrowings		**10 763**	5 937
Repayments of borrowings		**(8 498)**	(9 668)
Acquisition of own shares		**16**	—
Dividends paid		**(1 124)**	—
Net cash from/(used in) financing activities		**1 074**	**(3 741)**
Net increase/(decrease) in cash and cash equivalents		**4 862**	**(2 966)**
Cash and cash equivalents at the beginning of the year		**8 139**	10 716
Effect of exchange rate fluctuations on cash and cash equivalents		**1 630**	389
Cash and cash equivalents at the end of the year	20	**14 631**	**8 139**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 54 to 87.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1 Background

(a) Organisation and operations

Etalon Group Limited (or the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open and closed joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad. The Company was incorporated on 8 November 2007 in the Bailiwick of Guernsey.

The Company's registered office is located at:
Redwood House,
St. Julian Avenue
St. Peter Port
Guernsey
GY1 1WA

The Group's principal activity is residential development in Saint-Petersburg metropolitan area and Moscow metropolitan area, the Russian Federation.

In April 2011, the Company completed initial public offering and placed its ordinary shares in the form of global depository receipts ("GDR") on the London Stock Exchange's Main Market.

Related party transactions are disclosed in note 30.

(b) Business environment

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

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

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). They show a true and fair view of the assets, liabilities, financial position and profit of the Group and are in compliance with the Companies (Guernsey) Law, 2008.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of the Group's subsidiaries, including foreign operations, is RUB, as the activities of foreign operations are carried out as an extension of the activities of the Group in the Russian Federation

All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, as well as information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 6 – revenue recognition;
- Note 17 – inventory obsolescence provisions;
- Note 24 – provisions;
- Note 29 – contingencies;
- Note 31 - structured entities.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

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

Business combinations arising from transfers of interests in entities that are under the control of the shareholders that control the Group are accounted for at the date of transfer of shares to the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in acquired entity's financial statements. Any difference between the book value of net assets acquired and consideration paid is recognised as a contribution from, or distribution to, shareholders.

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

(c) Financial instruments

(i) Financial assets

The Group's financial assets comprise investments in equity and debt securities, loans given, trade and other receivables, and cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated.

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

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

Loans and receivables

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

Cash and cash equivalents

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

(ii) Financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Impairment of financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for loans given and receivables at a specific asset level. All receivables and loans are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Advances received and paid

Due to the nature of its activities the Group receives significant advances from customers, and makes significant prepayments to sub-contractors and other suppliers. Advances received and paid are recognised on an undiscounted basis in other payables and other receivables.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment loss, except for certain items of property plant and equipment purchased before 1 January 2003. Historical cost for such items was determined in accordance with IAS 29 "Financial reporting in hyperinflationary economies" by applying a purchase price index determined by the state statistics committee.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

• Buildings and constructions	7-30 years
• Machinery and equipment	5-15 years
• Vehicles	5-10 years
• Other assets	3-7 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No estimates in respect of plant and equipment were revised in 2014.

(f) Inventories

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

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

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

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

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

Transfer from real estate properties under construction to the stock of finished goods occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings.

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

(g) Revenue

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

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

The Group generally considers that risks and rewards have been transferred on the date when a buyer signs the act of acceptance of the property. However, transfer of risks and rewards may vary depending on the individual terms of the sales contracts.

When sales are contracted under share participation agreements the significant risks and rewards of ownership are considered to have been transferred to individual buyers when the construction is completed and the building has been approved by the State commission for acceptance of finished buildings.

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

(ii) Revenue from construction services

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

1. Contracts for provision of construction services;
2. Contracts for construction of an asset falling within the scope of IAS 11 Construction Contracts.

For the first type of contracts revenue from construction services rendered is recognised in the consolidated statement of comprehensive income when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. These contracts are normally short-term, therefore revenue is recognised when the customer signs the act of acceptance of the construction service.

For the second type of contracts revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group recognises the following assets and liabilities related to construction contracts:

- unbilled receivables represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Unbilled receivables are presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings;
- billings in excess of work completed are recognised as a part of trade and other payables if progress billings exceed costs incurred plus recognised profits.

(iii) Revenue from sale of construction materials

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

(iv) Rental income

Rental income from stand-alone and built-in commercial properties (see note 3(f)) is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

(h) Income tax

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

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

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

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

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

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

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

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

(i) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December, 2014, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018. The new standard replaces International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The Group recognises that the new standard introduces many changes to the accounting for financial instruments, but has yet to analyse the impact of these changes. The Group does not intend to adopt this standard early.

- IFRS 15 Revenue from Contracts with Customers will be effective for annual periods beginning on or after 1 January 2017. The new standard replaces International Financial Reporting Standard IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue - Barter Transactions Involving Advertising Services. The Group has not yet analysed the likely impact of the standards on its financial position or performance.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, came into effect after 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Non-derivative financial assets

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

(b) Derivatives

The Group denominates its trade receivables from sales of commercial and residential properties in conditional units that are linked to RUB/USD exchange rate. The upper and lower ranges of possible fluctuations of exchange rate are fixed in the sales contracts.

Due to current market conditions the Group suspends applying upper and lower ranges of exchange rate (corridor 32 RUB – 36 RUB per a conditional unit, prescribed by sales contracts) for its settlements and uses conversion rate equal to 32 RUB per a conditional unit in the year ended as at 31 December 2014. Subsequently, starting from February 2015 the Group revised the conversion rate to 33 RUB per a conditional unit.

(c) Non-derivative financial liabilities

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

5 Operating segments

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

- Residential Development. Includes construction of residential real estate including flats, built-in premises and parking places.
- Construction services. Includes construction services for third parties and for internal purpose.
- Other operations. Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments during the year ended 31 December 2014 or 2013.

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	2014	2013	2014	2013	2014	2013	2014	2013
External revenues	**37 560**	29 548	**9 909**	7 256	**4 012**	3 117	**51 481**	39 921
Inter-segment revenue	**-**	-	**12 823**	13 173	**1 119**	1 629	**13 942**	14 802
Total segment revenue	**37 560**	29 548	**22 732**	20 429	**5 131**	4 746	**65 423**	54 723
Gross profit	**14 056**	11 185	**1 369**	743	**1 017**	363	**16 442**	12 291
Interest in cost of sales (note 11)	**1 024**	779	**-**	-	**-**	-	**1 024**	779
Gross profit adjusted for interest in cost of sales	**15 080**	11 964	**1 369**	743	**1 017**	363	**17 466**	13 070
Gross profit adjusted, %	**40%**	40%						
	2014	2013	2014	2013	2014	2013	2014	2013
Reportable segment assets: inventory	**60 044**	52 043	**572**	516	**659**	65	**61 275**	52 624
Reportable segment liabilities: advances from customers	**10 398**	9 058	**2 397**	6 015	**358**	246	**13 153**	15 319

(b) Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of properties.

	Revenues		Non-current assets	
mln RUB	2014	2013	2014	2013
St. Petersburg metropolitan area	**42 672**	32 613	**5 611**	4 351
Moscow metropolitan area	**8 809**	7 308	**2 152**	930
	51 481	39 921	**7 763**	5 281

(c) Major customer

Revenue from one customer of the Group, recognised within the segment "Construction services", amounted to RUB 7 539 million or 15% of the Group's total revenue for the year ended 31 December 2014 (revenue from this customer for the year ended 31 December 2013: RUB 4 256 million or 11% of the Group's total revenue).

(d) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

mln RUB	2014	2013
Revenues		
Total revenue for reportable segments	**65 423**	54 723
Elimination of inter-segment revenue	**(13 942)**	(14 802)
Consolidated revenue	**51 481**	**39 921**
Profit or loss		
Gross profit for reportable segments	**16 442**	12 291
General and administrative expenses	**(4 178)**	(3 157)
Selling expenses	**(1 474)**	(1 023)
Other expenses, net	**(913)**	(40)
Finance income	**1 717**	691
Finance costs	**(553)**	(342)
Elimination of inter-segment (profit)/loss	**(646)**	77
Consolidated profit before income tax	**10 395**	**8 497**

	2014	2013
Assets		
Total assets for reportable segments: inventories	**61 275**	52 624
Elimination of unrealised gain	**(3 750)**	(2 567)
Total inventories	**57 525**	**50 057**
Liabilities		
Total liabilities for reportable segments: advances from customers	**13 153**	15 319
Elimination of intersegment advances	**(1 084)**	(962)
Total advances from customers	**12 069**	**14 357**

Performance of the reporting segments is measured by the management based on gross profits as the most relevant in evaluating the results of certain segments. General and administrative expenses, selling expenses, finance income and finance costs are treated as equally attributable to all reporting segments and are not analysed by the Group and therefore not reported for each individual segment.

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

6 Revenue

mln RUB	2014	2013
Sale of flats	**35 270**	26 582
Sale of built-in commercial premises	**1 772**	2 400
Sale of parking places	**518**	566
Total revenue of segment Residential development (note 5 (a))	**37 560**	**29 548**
Construction contracts (note 7)	**9 145**	6 643
Other contstruction services	**764**	613
Total revenue of segment Construction services (note 5 (a))	**9 909**	7 256
Sale of construction materials	**1 011**	1 091
Sale of stand-alone commercial premises	**25**	52
Rental revenue	**683**	497
Other revenue	**2 293**	1 477
Total other revenue (note 5 (a))	**4 012**	**3 117**
Total revenues	**51 481**	**39 921**

7 Construction contracts

mln RUB	2014	2013
Revenue recognised during the year	9 145	6 643
Costs incurred	(8 316)	(6 306)
Recognised profits during the year	829	337

	2014	2013
For contracts in progress - aggregate amount of costs incurred and recognised profits to date	3 450	9 907
Unbilled receivables	507	2 202
Billings in excess of work completed	79	7
Retentions relating to construction contracts	201	6

Revenue recognised during the year is included into the line "Construction services" in note 6.

Unbilled receivables under construction contracts and retentions relating to construction contracts in progress are included into accounts receivable (see note 18).

Advances for which the related work has not started, and billings in excess of costs incurred and recognised profits, are presented as accounts payable (see note 25).

8 General and administrative expenses

mln RUB	2014	2013
Payroll and related taxes	**2 913**	2 199
Services	**213**	268
Audit and consulting services	**275**	131
Bank fees and commissions	**117**	80
Materials	**90**	71
Repair and maintenance	**99**	69
Depreciation	**94**	39
Other taxes	**111**	81
Other	**266**	219
Total	**4 178**	**3 157**

9 Other expenses, net

mln RUB	2014	2013
Other income		
Gain on disposal of property, plant and equipment	**52**	15
Gain on disposal of inventory	**76**	44
Fees and penalties received	**25**	—
	153	**59**
Other expenses		
Other expenses	**(320)**	(99)
Impairment of investment property (Note 14)	**(280)**	—
Impairment loss on inventories	**(466)**	—
	(1 066)	**(99)**
Other expenses, net	**(913)**	**(40)**

10 Personnel costs

mln RUB	2014	2013
Wages and salaries	**5 392**	4 533
Contributions to State pension fund	**1 028**	864
	6 420	**5 397**

Remuneration to employees in respect of services rendered during the period is recognised on an undiscounted basis as an expense in the consolidated statement of profit or loss and other comprehensive income as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or other profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Group pays fixed contributions to Russia's State pension fund and has no legal or constructive obligation to pay further amounts.

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Notes to the Consolidated Financial Statements

During the year ended 31 December 2014 personnel costs and related taxes included in cost of production amounted to RUB 3 048 million (year ended 31 December 2013: RUB 2 809 million). The remaining part of personnel expenses was subsumed within general and administrative expenses (see note 8) and selling expenses in the amount of RUB 459 million (year ended 31 December 2013: RUB 389 million).

11 Finance income and finance costs

mln RUB	2014	2013
Recognised in profit or loss		
Finance income		
Interest income on bank deposits	**729**	583
Net foreign exchange gain	**814**	—
Unwinding of discount on trade receivables	**72**	68
Interest income on loans and receivables	**94**	28
Decrease in allowance for doubtful accounts receivable	—	8
Gain on write-off of accounts payable	**8**	4
Finance income	**1 717**	**691**
Finance costs		
Interest expense on loans	**(272)**	(209)
Increase in allowance for doubtful accounts receivable	**(226)**	—
Net foreign exchange loss	—	(109)
Interest expense on finance leases	**(23)**	(24)
Loss on write-off of accounts receivable	**(32)**	—
Finance costs	**(553)**	**(342)**
Net finance income recognised in profit or loss	**1 164**	**349**

In addition to interest expense recognised in the consolidated statement of profit or loss and other comprehensive income, the following amounts of borrowing costs have been capitalised into the cost of real estate properties under construction:

mln RUB	2014	2013
Borrowing costs capitalised during the year	**1 324**	1 367
Weighted average capitalisation rate	**11,7%**	11,1%

During the year ended 31 December 2014, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 1 024 million (year ended 31 December 2013: RUB 779 million), were included into the cost of sales upon completion of construction and sale of those properties.

12 Income tax expense

The Company's applicable tax rate under the Income Tax (Zero/Ten) (Guernsey) Law, 2007 is 0%.

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2013: 20%).

mln RUB	2014	2013
Current tax expense		
Current year	**1 707**	1 387
Under-provided/(over-provided) in prior year	**14**	(32)
	1 721	**1 355**
Deferred tax expense		
Origination and reversal of temporary differences	305	478
Income tax expense	**2 026**	**1 833**

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2013: 20%):

mln RUB	2014	2013
Profit before tax	**10 395**	8 497
Theoretical income tax at statutory rate of 20%	**2 079**	1 699
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes, net	**(53)**	134
Income tax expense	**2 026**	**1 833**

13 Property, plant and equipment

During the year ended 31 December 2014, depreciation expense of RUB 271 million (year ended 31 December 2013: RUB 292 million) has been charged to cost of sales, RUB 21 million (year ended 31 December 2013: RUB 35 million) to cost of real estate properties under construction, RUB 4 million (year ended 31 December 2013: RUB 1 million) to selling expenses and RUB 94 million (year ended 31 December 2013: RUB 39 million) to general and administrative expenses.

(a) Security

At 31 December 2014 properties with a carrying amount of RUB 74 million (31 December 2013: RUB 197 million) are subject to a registered debenture to secure bank loans (see note 23).

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2014 the net book value of leased plant and machinery was RUB 243 million (31 December 2013: RUB 262 million). The leased equipment secures lease obligations.

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2013	1 188	2 143	108	112	24	83	**3 658**
Additions	98	231	25	21	2	54	**431**
Reclassification from inventories	110	—	—	—	—	—	**110**
Disposals	(49)	(32)	(14)	(14)	—	(15)	**(124)**
Transfer to inventory	(244)	—	—	—	—	—	**(244)**
Transfer to investment property	(344)	—	—	—	—	—	**(344)**
Transfers	7	5	—	—	—	(12)	**—**
Balance at 31 December 2013	**766**	**2 347**	**119**	**119**	**26**	**110**	**3 487**
Balance at 1 January 2014	**766**	**2 347**	**119**	**119**	**26**	**110**	**3 487**
Additions	166	281	26	43	100	37	**653**
Reclassification from inventories	41	—	—	—	—	255	**296**
Disposals	(69)	(57)	(15)	(8)	—	—	**(149)**
Transfers	95	1	—	—	—	(96)	**—**
Balance at 31 December 2014	**999**	**2 572**	**130**	**154**	**126**	**306**	**4 287**
Depreciation and impairment losses							
Balance at 1 January 2013	(228)	(933)	(35)	(82)	—	—	**(1 278)**
Depreciation for the year	(112)	(221)	(18)	(16)	—	—	**(367)**
Disposals	77	22	7	14	—	—	**120**
Balance at 31 December 2013	**(263)**	**(1 132)**	**(46)**	**(84)**	**—**	**—**	**(1 525)**
Balance at 1 January 2014	(263)	(1 132)	(46)	(84)	—	—	**(1 525)**
Depreciation for the year	(109)	(241)	(22)	(18)	—	—	**(390)**
Disposals	61	52	10	8	—	—	**131**
Balance at 31 December 2014	**(311)**	**(1 321)**	**(58)**	**(94)**	**—**	**—**	**(1 784)**
Carrying amounts							
At 1 January 2013	960	1 210	73	30	24	83	**2 380**
At 31 December 2013	503	1 215	73	35	26	110	**1 962**
At 1 January 2014	503	1 215	73	35	26	110	**1 962**
At 31 December 2014	688	1 251	72	60	126	306	**2 503**

14 Investment property

mln RUB	2014	2013
Cost		
Balance at 1 January	**1 469**	—
Transfers from property, plant and equipment (see Note 13)	**—**	344
Transfers (to)/from inventories	**(6)**	1 125
Balance at 31 December	**1 463**	**1 469**
Accumulated depreciation and impairment losses		
Balance at 1 January	**(327)**	—
Transfers from property, plant and equipment (see Note 13)	**—**	(20)
Depreciation for the year	**(48)**	(11)
Impairment loss	**(280)**	(296)
Balance at 31 December	**(655)**	**(327)**
Carrying amount at 1 January	**1 142**	**—**
Carrying amount at 31 December	**808**	**1 142**

The Group's investment properties represent various commercial property (a retail and exhibition complex and business centers). The Group accounts for investment properties at cost less accumulated depreciation and impairment losses.

The Group determines fair value of its investment properties on an annual basis by engaging an independent valuer. As at 31 December 2014 fair value amounted to RUB 808 million, which was determined based on discounted cash flows from the use of the property using the income approach. During the year ended 31 December 2014 the Group has recognised an impairment loss of RUB 280 million for properties, which carrying amounts exceeded fair value (year ended 31 December 2013: RUB 296 million).

15 Other long-term investments

mln RUB	2014	2013
Bank promissory notes	**765**	234
Loans, at amortised cost	**31**	31
Bank deposits	**240**	—
Other	**—**	10
	1 036	275

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26. Bank promissory notes are pledged as security of secured bank loans and as securiry for liability for acquisition of land plot.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
mln RUB	2014	2013	2014	2013	2014	2013
Property, plant and equipment	**133**	91	(310)	(290)	(177)	(199)
Investments	**13**	13	—	—	13	13
Inventories	**1 211**	658	(102)	(493)	1 109	165
Trade and other receivables	**394**	124	(2 696)	(1 178)	(2 302)	(1 054)
Deferred expenses	**28**	93	(311)	(63)	(283)	30
Loans and borrowings	**15**	16	(5)	(6)	10	10
Provisions	**337**	72	25	15	362	87
Trade and other payables	**734**	559	(189)	(28)	545	531
Tax loss carry-forwards	**98**	95	(1)	(1)	97	94
Other	**69**	70	(14)	(13)	55	57
Tax assets/(liabilities)	**3 032**	1 791	(3 603)	(2 057)	(571)	(266)
Set off of tax	**(2 147)**	(1 231)	2 147	1 231	—	—
Net tax assets/(liabilities)	**885**	**560**	**(1 456)**	**(826)**	**(571)**	**(266)**

(b) Unrecognised deferred tax liability

At 31 December 2014 a deferred tax liability of RUB 1 597 million (31 December 2013: RUB 1 354 million) arising on temporary differences of RUB 31 944 million (31 December 2013: RUB 27 083 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the period

mln RUB	1 January 2014	Recognised in profit or loss	Acquired	31 December 2014
Property, plant and equipment	**(199)**	22	—	(177)
Investments	**13**	—	—	13
Inventories	**165**	944	—	1 109
Trade and other receivables	**(1 054)**	(1 248)	—	(2 302)
Deferred expenses	**30**	(313)	—	(283)
Loans and borrowings	**10**	—	—	10
Provisions	**87**	275	—	362
Trade and other payables	**531**	14	—	545
Tax loss carry-forwards	**94**	3	—	97
Other	**57**	(2)	—	55
	(266)	**(305)**	**—**	**(571)**

mln RUB	1 January 2013	Recognised in profit or loss	Acquired	31 December 2013
Property, plant and equipment	**(29)**	(174)	4	(199)
Investments	**11**	2	—	13
Inventories	**(13)**	178	—	165
Trade and other receivables	**(848)**	(206)	—	(1 054)
Deferred expenses	**42**	(12)	—	30
Loans and borrowings	**10**	—	—	10
Provisions	**232**	(145)	—	87
Trade and other payables	**649**	(118)	—	531
Tax loss carry-forwards	**96**	(2)	—	94
Other	**58**	(1)	—	57
	208	**(478)**	**4**	**(266)**

17 Inventories

mln RUB	2014	2013
Own flats under construction	**25 048**	23 641
Own flats	**18 148**	14 659
Built-in commercial premises under construction	**4 293**	4 024
Built-in and stand-alone commercial premises	**2 190**	1 658
Parking places under construction	**5 898**	3 889
Parking places	**1 649**	1 427
Construction materials	**645**	615
Other	**126**	150
	57 997	**50 063**
Less: Allowance for obsolete inventory	**(472)**	(6)
Total	**57 525**	**50 057**

Project 1

During the year ended 31 December 2010, the Group acquired rights on a land plot for the consideration of RUB 473 million and included it into Own flats under construction. In addition to that, the Group has to transfer to the Seller certain number of flats (up to 20%) to be constructed on this land plot. The final number of flats will be determined taking into account the cost of social infrastructure. At the financial statement date the cost of social infrastructure cannot be determined with sufficient reliability. As a result, the overall cost of flats to be transferred to the Seller of the land plot cannot be determined reliably, consequently no obligation was recognized.

Project 2

In 2013, the Group entered into transaction for acquisition of land plot where a part of acquisition price has to be paid by means of transfer of certain percentage of flats constructed on this land plot. The Group has recognized the land component of this construction project within inventories at fair value of land plot acquired. The fair value of land plot equal to RUB 1 306 million was determined by an independent appraiser based on discounted cash flows from the construction and sale of properties.

Project 3

The Group entered into transaction for acquisition of land plots (2 lots) where a part of acquisition price has to be paid by means of transfer of certain percentage of flats constructed on this land plot. In 2013, the Group has recognized the land component of this construction project (lot 1) within inventories at fair value of land plot acquired, equal to RUB 1 862 million. In February 2014 the Group has recognized land component of this construction project (lot 2) within inventories at fair value of land plot acquired, equal to RUB 3 835 million. The fair value of land plot was determined by an independent appraiser based on discounted cash flows from the construction and sale of properties. The following key assumptions were used by the appraiser:

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4,5% per annum;
- Discount rates – within 11,5% - 12,7% per annum.

Accordingly, by 31 December 2014 the cost of land plots (Project 2 and Project 3) measured as described above and related to sold premises was recognised in cost of sales of 2013 and 2014 in the amount of RUB 2 828 million, the remaining balance of RUB 2 466 million is included to finished goods and RUB 1 709 million to inventories under construction.

In the course of implementation of several development projects the Group has to construct and then transfer certain social infrastructure to the City Authorities. As at 31 December 2014 the cost of such social infrastructure amounts RUB 1 818 million and is included in the balance of finished goods and inventories under construction.

The following is movement in the allowance for obsolete inventory:

mln RUB	2014	2013
Balance at the beginning of the year	**6**	304
Provision for item of inventory transferred to investment property	**—**	(296)
Change in allowance for obsolete inventory	**466**	(2)
Balance at end of the year	**472**	**6**

As at 31 December 2014 the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 472 million (2013: RUB 6 million) and the respective allowance was recognised in other expenses, see note 9. The allowance relates mainly to slow-moving parking places.

In June 2013, the Group transferred an item of stand-alone commercial property with a gross book value of RUB 934 million and accumulated impairment loss of RUB 296 million from inventories to investment property, see note 14.

The Group has temporarily rented out part of certain items of property classified as inventories in these consolidated financial statements. The total carrying value of these items of property was RUB 1 174 million as at 31 December 2014 (31 December 2013: RUB 914 million). The Group is actively seeking buyers for these properties.

Inventories with a carrying amount of RUB 2 522 million (31 December 2013: RUB 5 796 million) are pledged as security for borrowings, see note 23.

18 Trade and other receivables

mln RUB	2014	2013
Long-term		
Trade receivables	**2 360**	1 254
Advances paid to suppliers	**10**	41
Other receivables	**151**	37
	2 521	**1 332**
Short-term		
Advances paid to suppliers	**6 920**	5 589
VAT recoverable	**1 818**	3 586
Trade receivables	**5 721**	3 103
Income tax receivable	**159**	103
Unbilled receivables	**507**	2 345
Trade receivables due from related parties	**32**	49
Other taxes receivable	**10**	6
Other receivables due from related parties	**2**	—
Other receivables	**205**	371
	15 374	**15 152**
Less: Allowance for doubtful accounts receivable	**(300)**	(74)
Short-term less allowance	**15 074**	**15 078**
Total	**17 595**	**16 410**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

19 Short-term investments

mln RUB	2014	2013
Bank deposits (over 3 months)	**784**	4 898
Bank promissory notes	**385**	69
Other	**52**	41
	1 221	**5 008**

As at 31 December 2014 bank promissory notes in the amount of RUB 385 million are pledged as security for fulfilment of obligations under construction contract recognised within the segment "Construction services" (as at 31 December 2013: RUB 69 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

20 Cash and cash equivalent

mln RUB	2014	2013
Cash in banks, in USD	**2 936**	3 601
Cash in banks, in RUB	**1 499**	1 522
Cash in banks, in EUR	**1 935**	228
Petty cash	**25**	16
Cash in transit	**17**	3
Short-term deposits (less than 3 months)	**8 219**	2 769
Total	**14 631**	**8 139**

The Group keeps major bank balances in the following Russian banks - Bank St. Petersburg, Alfa Bank, Sberbank, Renaissance securities and London branch of Citibank.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

21 Capital and reserves

(a) Share capital

The table below summarizes the information about the share capital of Etalon Group Limited.

	Ordinary shares	
Number of shares unless otherwise stated	2014	2013
Authorised shares		
Par value at beginning of year	**0,00005 GBP**	0,00005 GBP
On issue at beginning of year	**292 029 971**	292 029 971
Par value at end of year	**0,00005 GBP**	0,00005 GBP
Own shares distributed	**100 000**	—
On issue at end of year, fully paid	**292 129 971**	**292 029 971**

The holders of ordinary shares are entitled to receive dividends and to one vote per share at meetings of the Company.

(b) Own shares

On 23 November 2011, the independent shareholders of the Company approved the purchase of Global Depositary Receipts (GDR's) representing ordinary shares of the Company of up to 9,25% of the Company's issued share capital. The Programme commenced on 24 November 2011 and was indefinitely suspended on 12 March 2012. As at 31 December 2014, the Group has acquired 2 828 000 own shares or 1% of issued share capital (as at 31 December 2013: 2 928 000 own shares or 1% of issued share capital) for the consideration of RUB 456 million (as at 31 December 2013: RUB 472 million).

The consideration paid for own shares, including directly attributable costs, net of any tax effects, are recognised as a deduction from equity. When own shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

(c) Dividends

As the majority of the Company's subsidiaries are incorporated in the Russian Federation, and in accordance with Russian legislation, the subsidiaries' distributable reserves are limited to the balance of retained earnings as recorded in their statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2014, the total of subsidiaries' retained earnings, including the profits for the current period were RUB 31 944 million (31 December 2013: RUB 26 973 million). Dividends in amount RUB 1 124 million have been declared and paid by the Company during the year ended 2014, no dividends have been declared and paid by the Company during the year ended 2013.

(d) Non-controlling interest in subsidiaries

During the year ended 31 December 2014 and 2013 the Group has acquired and disposed of certain interests in a number of its subsidiaries. The transactions resulted in a decrease of non-controlling interest of RUB 60 million during the year ended 31 December 2014 and in a decrease in non-controlling interest of RUB 56 million during the year ended 31 December 2013.

22 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding during the period, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	2014	2013
Issued shares at 1 January	**292 029 971**	292 029 971
Effect of own shares distributed	**66 576**	—
Weighted average number of shares for year ended 31 December	**292 096 547**	**292 029 971**
Profit attributable to the owners of the Company, mln RUB	**8 345**	6 629
Basic and diluted earnings per share (RUB)	**28,57**	22,70

23 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

mln RUB	2014	2013
Non-current liabilities		
Secured bank loans	**2 995**	2 261
Unsecured bank loans	**4 980**	2 935
Unsecured bond issues	**4 436**	4 980
	12 411	**10 176**
Current liabilities		
Current portion of secured bank loans	**1 037**	1 705
Current portion of unsecured bank loans	**2 267**	1 313
Current portion of unsecured bond issues	**576**	25
	3 880	**3 043**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2014		2013	
mln RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				**4 032**	**4 032**	**3 966**	**3 966**
Secured bank loan	EUR	EURIBOR 6M+5,25%	2014	—	—	752	752
Secured bank loan	RUB	12,00%	2014	—	—	108	108
Secured bank loan	RUB	12,25%	2014	—	—	395	395
Secured bank loan	RUB	11,50%	2015	56	56	146	146
Secured bank loan	RUB	12,00%	2015	328	328	1 856	1 856
Secured bank loan	RUB	12,00%	2015	237	237	603	603
Secured bank loan	RUB	11,50%	2016	1 117	1 117	106	106
Secured bank loan	RUB	13,00%	2017	671	671	—	—
Secured bank loan	RUB	12,40%	2021	500	500	—	—
Secured bank loan	RUB	12,40%	2021	1 123	1 123	—	—
Unsecured bank loans				**7 247**	**7 247**	**4 248**	**4 248**
Unsecured bank loan	EUR	EURIBOR 6M+3,85%	2014	—	—	486	486
Unsecured bank loan	RUB	13,00%	2014	—	—	22	22
Unsecured bank loan	USD	LIBOR 3M+6,5%	2014	—	—	589	589
Unsecured bank loan	RUB	11,00%	2014	—	—	30	30
Unsecured bank loan	EUR	EURIBOR 6M+3,2%	2015	1 384	1 384	1 821	1 821
Unsecured bank loan	RUB	9,50%	2015	203	203	1 200	1 200
Unsecured bank loan	RUB	19,69%	2015	2	2	—	—
Unsecured bank loan	RUB	12,75%	2016	578	578	—	—
Unsecured bank loan	RUB	11,95%	2016	679	679	—	—
Unsecured bank loan	RUB	18,00%	2017	400	400	—	—
Unsecured bank loan	RUB	18,00%	2017	600	600	—	—
Unsecured bank loan	RUB	14,00%	2017	201	201	—	—
Unsecured bank loan	RUB	MosPrime 6M+3,5%	2017	1 200	1 200	100	100
Unsecured bank loan	RUB	12,10%	2018	500	500	—	—
Unsecured bank loan	RUB	17,50%	2018	1 500	1 500	—	—
Unsecured bond issues				**5 027**	**5 012**	**5 025**	**5 005**
Unsecured bonds	RUB	12,90%	2017	5 027	5 012	5 025	5 005
				16 306	**16 291**	**13 239**	**13 219**

Bank loans are secured by:

- buildings with a carrying amount of RUB 74 million (31 December 2013: RUB 197 million), see note 13;
- inventories with a carrying amount of RUB 2 522 million (31 December 2013: RUB 5 796 million), see note 17;
- bank promissory notes with a carrying amount of RUB 723 million (31 December 2013: nil);
- pledge of 32% of shares in a subsidiary company CJSC "Zatonskoe" (31 December 2013: pledge of 32% of shares in a subsidiary company CJSC "Zatonskoe", pledge of 100% of shares in a subsidiary company LLC "ZHK Moskovskiy").

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. None of the restrictive covenants have been breached during the reporting period.

24 Provisions

mln RUB	Warranties	Provision for deferred works	Total
Balance at 1 January 2013	**65**	580	645
Provisions made during the year	**29**	2 060	2 089
Provisions used during the year	**(5)**	(975)	(980)
Balance at 31 December 2013	**89**	**1 665**	**1 754**
Balance at 1 January 2014	**89**	1 665	1 754
Provisions made during the year	**30**	4 637	4 667
Provisions used during the year	**(5)**	(4 068)	(4 073)
Balance at 31 December 2014	**114**	**2 234**	**2 348**
Non-current	**114**	—	114
Current	**—**	2 234	2 234
	114	**2 234**	**2 348**

(a) Warranties

The provision for warranties relates mainly to the residential units sold during the year. The provision is based on estimates made from historical experience from the sale of such units. The Group expects the expenses to be incurred over the next three years in average. For the production companies, the warranty provision relates to construction works done.

(b) Provision for deferred works

The Group records provisions in respect of the Group's obligation to incur additional costs associated with landscaping and other works after finishing the construction of apartment buildings. The provision is estimated based on historical experience. The Group expects the expenses to be incurred over the next year.

25 Trade and other payables

mln RUB	2014	2013
Long-term		
Trade payables	**667**	539
Finance lease liabilities	**126**	197
Advances from customers	**18**	21
Other payables	**2 043**	28
	2 854	**785**
Short-term		
Advances from customers	**12 051**	14 336
Trade payables	**6 073**	3 399
VAT payable	**1 694**	3 321
Payroll liabilities	**584**	449
Other taxes payable	**214**	169
Billings in excess of work completed	**99**	45
Income tax payable	**380**	248
Finance lease liabilities	**41**	25
Other payables	**324**	308
	21 460	**22 300**
Total	**24 314**	**23 085**

Advances from customers are represented by prepayments for housing and commercial properties made under sales contracts. In case customers cancel sales contracts, advances received by the Group are repaid within 3 months from the moment of cancellation, but withholding 5-10% forfeit.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

Finance lease liabilities are payable as follows:

	2014			2013		
mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	57	16	41	47	22	25
Between one and five years	139	13	126	227	30	197
	196	**29**	**167**	**274**	**52**	**222**

Terms and conditions of outstanding finance lease liabilities were as follows:

mln RUB			2014		2013	
Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
RUB	15,65%; 24,27%	2015–2018	167	167	222	222
			167	**167**	**222**	**222**

26 Financial instruments and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

mln RUB	Carrying amount			Fair value			
31 December 2014	Loans and receiv-ables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets not measured at fair value							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	8 761	—	**8 761**	—	9 024	—	**9 024**
Bank deposits (over 3 months)	1 024	—	**1 024**	—	1 053	—	**1 053**
Bank promissory notes	1 150	—	**1 150**	—	1 150	—	**1 150**
Cash and cash equivalents	14 631	—	**14 631**	—	14 631	—	**14 631**
	25 556	**—**	**25 566**	**—**	**25 858**	**—**	**25 858**
Financial liabilities not measured at fair value							
Secured bank loans	—	(4 032)	**(4 032)**	—	(3 677)	—	**(3 677)**
Unsecured bank loans	—	(7 247)	**(7 247)**	—	(6 920)	—	**(6 920)**
Unsecured bond issues	—	(5 012)	**(5 012)**	(4 200)	—	—	**(4 200)**
Trade and other payables	—	(22 026)	**(22 026)**	—	(20 900)	—	**(20 900)**
	—	**(38 317)**	**(38 317)**	**(4 200)**	**(31 497)**	**—**	**(35 697)**

mln RUB	Carrying amount			Fair value			
31 December 2013	Loans and receiv-ables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value							
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	7 157	—	**7 157**	—	7 157	—	**7 157**
Bank deposits (over 3 months)	4 898	—	**4 898**	—	4 898	—	**4 898**
Bank promissory notes	303	—	**303**	—	303	—	**303**
Cash and cash equivalents	8 139	—	**8 139**	—	8 139	—	**8 139**
	20 497	**—**	**20 497**	**—**	**20 497**	**—**	**20 497**
Financial liabilities not measured at fair value							
Secured bank loans	—	(3 966)	**(3 966)**	—	(3 966)	—	**(3 966)**
Unsecured bank loans	—	(4 248)	**(4 248)**	—	(4 248)	—	**(4 248)**
Unsecured bond issues	—	(5 005)	**(5 005)**	(5 425)	—	—	**(5 425)**
Trade and other payables	—	(19 347)	**(19 347)**	—	(19 347)	—	**(19 347)**
	—	**(32 566)**	**(32 566)**	**(5 425)**	**(27 561)**	**—**	**(32 986)**

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

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

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

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, has developed a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding trade and other receivables.

Credit risk with regards of cash and cash equivalents and deposits with banks is managed by placing funds primarily in the banks listed in note 20.

Credit risk connected with trade receivable arising from sale of apartments to individuals is managed by securing those receivables against sold apartments. A significant share of such sales is made on a prepayment basis.

To manage the credit risk of trade receivables from legal entities the Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are applied.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no customer accounting individually for more than 10% of the Group's balance of trade and other receivables as at 31 December 2014 (31 December 2013: none).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this

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allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

As at 31 December 2014 the Group had not provided any financial guarantees to entities outside the Group (31 December 2013: nil).

(iii) Exposure to credit risk

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

	Carrying amount	
mln RUB	2014	2013
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**9 911**	7 460
Bank deposits (over 3 months)	**1 024**	4 898
Cash and cash equivalents	**14 631**	8 139
	25 566	**20 497**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was concentrated in the St. Petersburg region.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was concentrated on the industrial customers – legal entities included in the segment "Construction services".

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
mln RUB	2014		2013	
Not past due	**6 467**	**—**	3 351	—
Past due 0-30 days	**621**	**—**	267	—
Past due 31-120 days	**364**	**—**	220	—
Past due more than 120 days	**661**	**(277)**	568	(22)
	8 113	**(277)**	**4 406**	**(22)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

mln RUB	2014	2013
Balance at 1 January	**22**	50
Increase during the year	**258**	14
Decrease due to reversal	**(3)**	(42)
Balance at 31 December	**277**	**22**

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

mln RUB	2014	2013
Balance at 1 January	**52**	41
Increase during the year	**17**	33
Decrease due to reversal	**(46)**	(22)
Balance at 31 December	**23**	**52**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Each year the Group prepares cash flow budget to forecast possible liquidity deficits and to define the sources of financing of those deficits.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

mln RUB 31 December 2014	Carrying amount	Contrac-tual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	9 911	10 872	5 876	988	1 256	762	282	241	1 467
Bank deposits (over 3 months)	1 024	1 177	748	100	45	284	—	—	—
Cash and cash equivalents	14 631	14 631	14 631	—		—	—	—	—
	25 566	**26 680**	**21 255**	**1 088**	**1 301**	**1 046**	**282**	**241**	**1 467**

	Carrying amount	Contrac-tual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	4 032	5 247	897	613	1 353	837	626	329	592
Unsecured bank loans	7 247	9 288	1 674	1 402	1 531	3 547	1 134	—	—
Unsecured bond issues	5 012	6 266	320	872	2 655	2 419	—	—	—
Finance lease liabilities	167	196	44	13	75	58	6	—	—
Trade and other payables (excluding taxes payable)	21 859	21 859	18 023	1 106	1 051	1 638	7	15	19
	38 317	**42 856**	**20 958**	**4 006**	**6 665**	**8 499**	**1 773**	**344**	**611**

	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Required funding to be covered by operating and/or financing activities arising from financial instruments	297	(2 918)	(5 364)	(7 453)	(1 491)	(103)	856
Cumulative required funding to be covered by operating and/or financing activities arising from financial instruments	297	(2 621)	(7 985)	(15 438)	(16 929)	(17 032)	(16 176)

mln RUB 31 December 2013	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	7 460	7 460	5 456	448	1 218	227	38	22	51
Bank deposits (over 3 months)	4 898	4 898	4 811	87	—	—	—	—	—
Cash and cash equivalents	8 139	8 139	8 139	—	—	—	—	—	—
	20 497	**20 497**	**18 406**	**535**	**1 218**	**227**	**38**	**22**	**51**

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	3 966	4 681	591	1 585	2 308	197	—	—	—
Unsecured bank loans	4 248	4 467	494	972	1 063	1 832	106	—	—
Unsecured bond issues	5 005	6 936	345	325	1 192	2 655	2 419	—	—
Finance lease liabilities	222	274	14	33	88	75	58	6	—
Trade and other payables (excluding taxes payable)	19 125	19 126	15 924	2 614	181	390	10	2	5
	32 566	**35 484**	**17 368**	**5 529**	**4 832**	**5 149**	**2 593**	**8**	**5**

	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Required funding to be covered by operating and/or financing activities arising from financial instruments	1 038	(4 994)	(3 614)	(4 922)	(2 555)	14	46
Cumulative required funding to be covered by operating and/or financing activities arising from financial instruments	1 038	(3 956)	(7 570)	(12 492)	(15 047)	(15 033)	(14 987)

(d) Market risk

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

(i) Currency risk

The Group's exposure to foreign currency risk is limited. As at 31 December the Group's net positions in foreign currency were as follows:

mln RUB	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
	2014		2013	
Cash and cash equivalents and bank deposits (over 3 months)	2 936	1 935	3 601	228
Loans and borrowings	—	(1 384)	(589)	(3 059)
Net exposure	2 936	551	3 012	(2 831)

The following significant exchange rates applied during the period:

in RUB	Average rate		Reporting date spot rate	
	2014	2013	31 December 2014	31 December 2013
USD 1	**38,36**	31,91	**56,26**	32,73
EUR 1	**50,77**	42,40	**68,34**	44,97

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased equity and profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

mln RUB	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2014				
Variable rate instruments	(26)	26	(26)	26
Cash flow sensitivity (net)	(26)	26	(26)	26
2013				
Variable rate instruments	(36)	36	(36)	36
Cash flow sensitivity (net)	(36)	36	(36)	36

(ii) Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivative instruments to manage interest rate risk exposure.

Profile

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

	Carrying amount	
mln RUB	2014	2013
Fixed rate instruments		
Financial assets	**19 196**	14 322
Financial liabilities	**(13 874)**	(9 693)
	5 322	**4 629**
Variable rate instruments		
Financial liabilities	**(2 584)**	(3 748)
	(2 584)	**(3 748)**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

Management believes that the fair values of its financial assets and liabilities approximate their carrying amounts as at 31 December 2013. Fair value of financial assets and liabilities as at 31 December 2014 are disclosed in 26 (a).

(f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to equity holders through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with it.

The capital structure of the Group consists of net debt (borrowings as detailed in note 23 offset by cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as detailed in note 21). The Group is not subject to any externally imposed capital requirements.

The Group's debt to capital ratio at the end of the reporting period was as follows:

mln RUB	2014	2013
Total borrowings	**16 291**	**13 219**
Less: cash and cash equivalents	**(14 631)**	(8 139)
Less: bank deposits (over 3 months), note 19	**(1 024)**	(4 898)
Net debt	**636**	182
Total equity	**51 871**	**44 686**
Debt to capital ratio at period end	**0,012**	0,004

Finance lease liabilities RUB 167 million at 31 December 2014 (RUB 222 million at 31 December 2013) are included in trade and other payables (see note 25) and are not included in the total amount of borrowings.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	2014	2013
Less than one year	**43**	16
Between one and five years	**66**	47
More than five years	**324**	313
	433	**376**

The Group leases a number of land plots for the purpose of construction of residential and commercial premises for sale, as well as land plots occupied by its own production and office facilities under operating leases.

Lease payments for land plots occupied by residential and commercial premises under construction are capitalised into the cost of those premises.

The leases typically run for the period of construction of premises. After these properties are constructed and sold, lease rentals are paid by the owners of those properties. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2014 the amount of RUB 46 million (year ended 31 December 2013: RUB 40 million) was recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases, while RUB 4 million (year ended 31 December 2013: RUB 14 million) were capitalised into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 31 December 2014 the Group does not have any capital commitments (31 December 2013: nil).

29 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Related party transactions

(a) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the period, which is included in personnel costs (see note 10):

mln RUB	2014	2013
Salaries and bonuses	**467**	317
	467	**317**

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
mln RUB	2014	2013	2014	2013
Sale of apartments and premises	**93**	92	32	77
	93	**92**	**32**	**77**

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2014	2013	2014	2013
Other related parties	**31**	33	5	5
	31	**33**	**5**	**5**

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(ii) Expenses

	Transaction value		Outstanding balance	
mln RUB	2014	2013	2014	2013
Other related parties	**72**	43	(14)	3
	72	**43**	**(14)**	**3**

All outstanding balances with related parties are to be settled in cash. None of the balances are secured.

(iii) Loans

	Amount loaned		Outstanding balance	
mln RUB	2014	2013	2014	2013
Loans received:				
Other related parties	—	—	1	(1)
	—	**—**	**1**	**(1)**

During the year ended 31 December 2014 loans bore interest rates of 0,5% per annum.

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2014	31 December 2013
CJSC "GK Etalon"	Russian Federation	100,00%	100,00%
CJSC "Aktiv"	Russian Federation	100,00%	100,00%
CJSC "TSUN LenSpetsSMU"	Russian Federation	100,00%	100,00%
CJSC "SSMO LenSpetsSMU"	Russian Federation	100,00%	100,00%
CJSC "Novator"	Russian Federation	100,00%	90,00%
CJSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100,00%	90,00%
LLC "Etalon-Invest"	Russian Federation	100,00%	100,00%
CJSC "Zatonskoe"	Russian Federation	99,80%	99,80%
LLC "SPM-Zhilstroy"	Russian Federation	100,00%	100,00%
CJSC "Slavyanskiy Stroitel"	Russian Federation	100,00%	100,00%

As at 31 December 2014 the Group controlled 133 legal entities (31 December 2013: 121). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

Structured entities

The Group has established a number of housing cooperatives in which the buyers of residential and commercial premises acquire shares and become members in order to obtain ownership rights for those premises. When third-party participants form a majority of the cooperative's members the Group's control over it ceases.

32 Events subsequent to the reporting date

(a) Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 31 December 2014 for the total amount of RUB 298 million.

Subsequent to the reporting date the Group has obtained an additional tranche of a loan for the total amount of RUB 31 million with the interest rate of 14,5 % (repayable at 2016), additional tranche of a loan for the total amount of RUB 1 127 million with the interest rate of 15,8% (repayable at 2017), additional tranche of a loan for the total amount of RUB 300 million with the interest rate of 18,98% (repayable at 2017).