Etalon Group Limited

THE Etalon

Annual Report 2015

Well adapted
and ready to perform

Contents

Introduction to Etalon Group

Etalon Group is one of Russia's leading real estate development and construction companies. Its core business is building comfort-class housing projects in and around Moscow and St. Petersburg, Russia's two most prosperous regions.

Focus on the middle class

Etalon Group's strategic focus is on building apartments for middle-class Russians, whose demand for housing is generally more sustainable than the economy and elite segments. This sustainability has been proven time and again during periods of market turmoil, including the cool-down seen in 2015.

Building in the Moscow and St. Petersburg metropolitan areas

By focusing on Russia's two largest metropolitan areas by population, which are also centres of economic activity, Etalon Group works in the two markets that are the most resilient through economic cycles.

Gaining market share

Etalon Group has outperformed the market in its target regions, the Moscow metropolitan area ("MMA") and St. Petersburg metropolitan area ("SPMA"), and has increased its market share in terms of sales. The Company's strong reputation as a reliable developer, combined with continued launches of interesting new projects, has continued to attract buyers even in the softer market environment.

High-quality landbank

Etalon Group's landbank was valued by JLL at RUB 104.4 billion as of 31 December 2015. This demonstrated the stability of the Company's real estate portfolio, which was valued at RUB 104.3 billion a year earlier. With total unsold NSA of 2.72 million sqm, the Company has sufficient landbank to continue construction for years to come.

Flexible business model

Etalon Group's business model enables it to minimise fixed costs due to the majority of the construction taking place on-site. In addition, the poured-concrete and brick construction technique that Etalon Group uses for its apartment buildings means that construction can be launched faster. The Company also has a flexible financing model, with a large portion of income coming from pre-sales of new projects, which helps to minimise dependence on debt.

Strong balance sheet

Etalon Group has historically maintained low debt levels thanks to its strong pre-sales model, which provides a significant portion of financing for new projects from customers. As of 31 December 2015, the Company's net debt/EBITDA ratio was at a comfortable level below 1.0x.

A strong track record

Etalon Group's 28-year history of successful delivery through multiple periods of challenging macroeconomic conditions affecting the market has earned the Company a reputation as a reliable developer.

Transparency

Etalon Group provides monthly visual updates on the status of its projects, quarterly updates on operational performance, and it publishes semi-annual IFRS financial statements. The Company's IR department has earned "best IR" awards for two years in a row in recognition of its adherence to best practice in investor relations. The Board of Directors represents a healthy balance of shareholder groups, including five Non-Executive Directors, three of whom are Independent Directors.

2015 Highlights

Tsar's Capital, St. Petersburg

2015 in brief

First Quarter

- Etalon Group delivered 40 ths sqm of NSA at Swallow's Nest in St. Petersburg
- 2014 landbank valuation showed portfolio market value up 17% year-on-year, to RUB 104 bln
- 1Q 2015 operating results: new contract sales of 46,990 sqm and RUB 3,804 mln. Average prices for apartments increased 14% year-on-year to RUB 106,228 per sqm

Second Quarter

- The Board of Directors recommended a final dividend of USD 0.12 per share for the year ended 31 December 2014
- Etalon Group delivered 50 ths sqm at Tsar's Capital in St. Petersburg
- 1H 2015 results: new contract sales of 88,963 sqm and RUB 7,914 mln. Revenue up 25% year-on-year to RUB 18,148 mln

Third Quarter

- Launch of sales at Landyshi in St. Petersburg
- Etalon Group's construction services division won a contract for Hermitage Museum construction work
- 3Q 2015 operating results: new sales rose to RUB 11,392 mln and 121,522 sqm, up by 20% and 15% year-on-year, respectively

Fourth Quarter

- Launch of sales for Golden Star in Moscow
- 4Q 2015 operating results: new sales rose to RUB 15,774 mln and 174,767 sqm, both up by 19% year-on-year. Number of contracts was 3,457
- Etalon Group delivered a total of 502 ths sqm in 2015, including at five projects in the fourth quarter: 128 ths sqm at Samotsvety, 43 ths sqm at Etalon City, 65 ths sqm at Emerald Hills, 66 ths sqm at Moscow Gates, 110 ths sqm at Tsar's Capital

Swallow's Nest, St. Petersburg

Strategic highlights

New projects launched

New NSA launched in 2015 accounted for around 30% of new sales for the full year

Share of MMA sales increased

Share of MMA in new sales was 54% in 4Q 2015, the first time it has risen above 50%

High pre-sales contracted

New contract sales in 2015 outperformed Company guidance and market expectations, amounting to RUB 35,080 million

Strong financial position maintained

Net debt/EBITDA ratio of just 0.96x as of 31 December 2015

Operating highlights

KEY 2015 OPERATING HIGHLIGHTS

Deliveries	New contract sales
502 ths sqm	385,252 sqm
Number of contracts	New contract sales
7,841	35,080 mln RUB

Financial highlights

KEY 2015 FINANCIAL HIGHLIGHTS

Revenue	EBITDA
42,404 mln RUB	7,675 mln RUB
Gross profit	Net income
12,999 mln RUB	5,429 mln RUB

Statement by the Chairman of the Board of Directors

A statement by Viacheslav Zarenkov Founder, President and Chairman of the Board of Directors of Etalon Group Limited

DEAR SHAREHOLDERS,

The Board and I are very pleased with Etalon Group's performance in 2015. The Company demonstrated once again that it has the right strategy to thrive in Russia's residential real estate market, with the right team to execute that strategy.

Operational results exceed expectations

Despite very challenging macroeconomic conditions, Etalon Group's operating results for 2015 were second only to the record performance that the Company delivered in 2014. New sales in 2015 significantly surpassed both market expectations and the guidance that was provided at the beginning of the year, with new contracts equalling RUB 35 billion, or 385 ths sqm of NSA. Deliveries were exactly in line with the construction plan, at 502 ths sqm of NSA.

Strong operating performance in 2015 was driven by a number of factors. First, Etalon Group's solid reputation and the Company's leading position in the comfort-class segment meant that it was more resilient to the turbulent macroeconomic environment than many of its peers. Second, the record volume of NSA launched for sale in 2015, including two very successful project starts at Landyshi in St. Petersburg and Golden Star in Moscow, also provided a significant boost to new sales during the year.

Solid financial performance

The Board of Directors worked with the management team to adapt and refine Etalon Group's business tactics throughout the course of 2015, and this helped the Company record good financial results despite the impact of the complex macroeconomic environment and the significant market slowdown that affected the entire sector in the first half of the year. Revenue for 2015 was RUB 42.4 billion, second only to the record results achieved in 2014. Gross profit was RUB 13.0 billion for 2015, meaning the Company maintained a consolidated gross margin of 31%, in line with previous years.

Etalon Group's pre-sales model means that it has strong cash generation capacity, which is supported by its reputation as a reliable developer. This enabled the Company to finish 2015 with a solid financial position, represented by a net debt/EBITDA ratio below 1.0x. It is worth noting that the Company maintained this ratio despite 2015 dividend payments more than doubling compared to 2014.

Strategic focus

The Board of Directors maintained regular dialogue with management throughout 2015 to ensure that Etalon Group continued to thrive in Russia's volatile macroeconomic environment. The Company continued to focus on its strategy of building comfort-class homes in Moscow and St. Petersburg throughout 2015, and it performed extremely well as a result.

While achieving these excellent results, Etalon Group's management also maintained a prudent attitude towards financing. This is an important key to future growth, as it gives the Company both the flexibility to ramp up construction rates using its current landbank and the financial firepower to take advantage of the current situation to acquire interesting projects on attractive terms, as it did after the crisis of 2008-2009.

Governance based on experience and a balance of interests

Etalon Group's Board of Directors continues to monitor and evaluate the Company's success, holding management accountable to deliver on specific operating and financial targets, as well as strategic priorities that were developed on the basis of many years of experience in Russia's residential real estate market. The Board is made up of professionals with a diverse set of backgrounds, which helps to ensure that issues of long-term strategic importance are looked at from a full range of viewpoints.

The composition of the Board continues to be a healthy representation of Etalon Group's shareholder structure. With three independent non-executive directors joining the voices of representatives of other major shareholders, this provides a good balance when considering how to ensure that the Company delivers value for all shareholders in the future.

A flexible approach and positive outlook

Looking at the year ahead, Etalon Group expects new sales to grow by over 20% year-on-year in 2016, driven by a continued boost from the new NSA launched in 2015, as well as further expansion and diversification of its sales portfolio with three completely new projects in 2016: two in Moscow and Galactica in St. Petersburg. Galactica is the pearl of Etalon Group's portfolio in St. Petersburg, with total planned NSA of 798 ths sqm on a 38 hectare plot in a prestigious region near the city centre.

The Company's strategy in the softer market environment will be to focus on new sales and cash generation. This can be achieved both by launching attractive new projects and by selling down existing inventory. The Board and management believe that this will make Etalon a stronger company and create significant potential for expansion when market conditions are right.

The challenging period in which the Russian real estate market finds itself today will create new winners and losers. With an excellent team, strong financial position and a diversified portfolio of projects, Etalon Group is well positioned to emerge as one of the winners and to deliver solid performance along the way.

Sincerely,
Viacheslav Zarenkov

Prestige

ST. PETERSBURG

This project has an understated, refined style, boasting penthouses with terraces on the 14th floor that offer majestic views over the city centre and the Gulf of Finland.

Market Review

Etalon Group's performance exceeded expectations in 2015, despite the challenging macroeconomic situation that affected many sectors of the Russian economy.

The Company's management and Board of Directors responded to these challenges by adjusting tactics in the short term, while sticking to the long-term strategy aimed at growing Etalon Group's residential real estate development and construction business in the Moscow and St. Petersburg metropolitan areas. The Company maintains a positive long-term outlook, and also believes that comfort-class real estate in MMA and SPMA is subject to more sustainable demand than many other segments of the market.

Market overview—demand

According to Russia's Federal State Statistics Service, Rosstat, the increase in the volume of housing stock between 2010 and 2014 in Etalon Group's target markets outpaced population growth only in Russia's capital, Moscow.

Housing stock, mln sqm	2010	2011	2012	2013[1]	2014[1]	Change 2010-2014
Moscow	216	218	231	233	234	**8.7%**
Moscow region	205	213	210	191	213	**4.1%**
St. Petersburg	113	115	120	120	120	**6.0%**
Leningrad region	44	45	47	39	44	**(1.6%)**

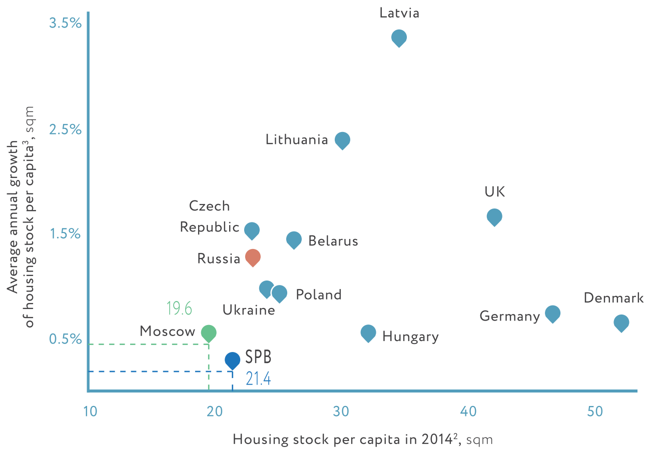
Source: Rosstat

Population, mln	2010	2011	2012	2013	2014	Change 2010-2014
Moscow	11.78	11.86	11.98	12.11	12.20	**3.6%**
Moscow region	6.87	6.96	7.05	7.13	7.23	**5.2%**
St. Petersburg	4.90	4.95	5.03	5.13	5.19	**6.0%**
Leningrad region	1.72	1.73	1.75	1.76	1.78	**3.3%**

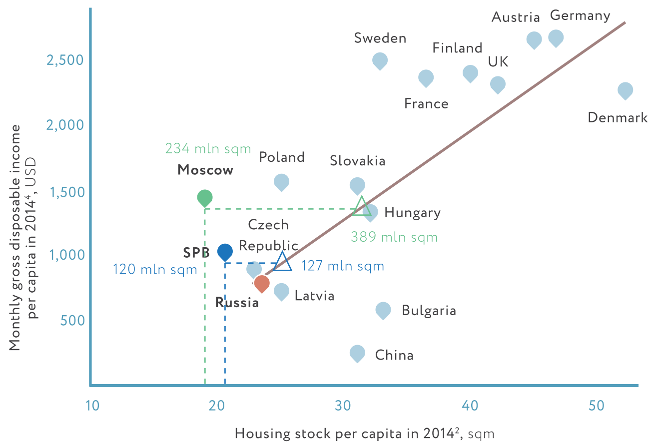
Source: Rosstat

Even in Moscow, however, the potential demand for new housing remains substantial when viewed in the context of housing stock per capita compared to other European markets. Despite the growth over the last five years, Moscow and St. Petersburg currently have some of the lowest levels of housing stock per capita, combined with some of the slowest annual average growth of housing stock per capita.

The Moscow and St. Petersburg markets are also two of Russia's most affluent, and viewed in terms of monthly disposable income, there is a significant gap between supply and potential demand compared to many other markets.



Sources: World Bank, Organisation for Economic Co-operation and Development (OECD), Economist Intelligence Unit (EIU), national statistics offices.



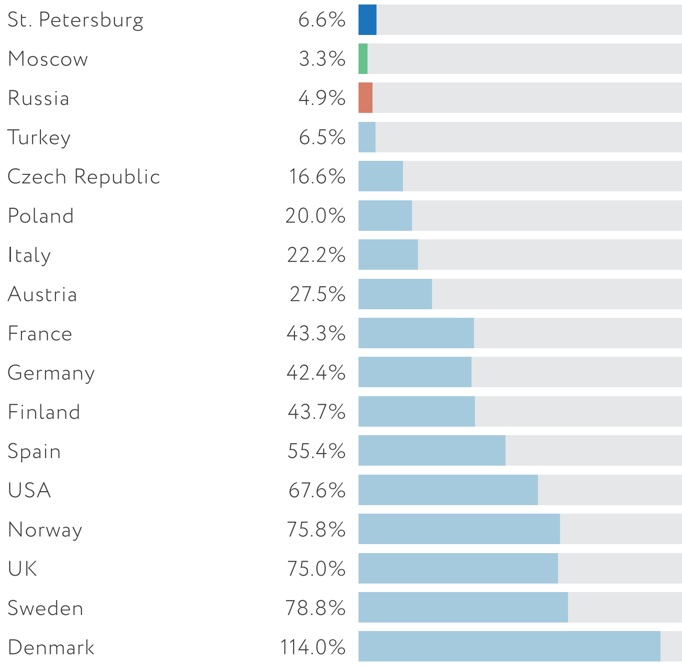
Sources: World Bank, OECD, EIU, HIS, national statistics offices.

[1] Rosstat has been using a different methodology since 2013, and it now relies on data from local authorities instead of reviewing housing owners directly.
[2] 2011 data applied for the United Kingdom; 2012 data for Latvia; 2013 data for France and the Czech Republic; 2014 data for Denmark, Germany, Hungary, Poland, Bulgaria, Russia, Belarus, Lithuania, Slovakia and Ukraine.
[3] Based on 2003-2014 data for Russia, Moscow and St. Petersburg, and average growth rates for available periods for other countries.
[4] 2011 data applied for the United Kingdom, Latvia and China; 2013 data for France and the Czech Republic; 2014 data for Denmark, Sweden, Germany, Austria, Finland, Hungary, Poland, Bulgaria, Slovakia and Russia.

While the macroeconomic situation in Russia in 2014 and 2015 affected consumer behaviour, causing a cool-down in activity in the first half of 2015, the fundamental demand for new housing remains intact. The Company believes that macroeconomic shocks like those that have occurred in the past two years in Russia often lead consumers to delay major purchases like improving their housing conditions, but that most consumers then proceed with planned purchases once they feel that the situation has stabilised (even if it has not improved). Etalon Group's operating performance in the second half of 2015, which saw double-digit year-on-year growth and beat the Company's own forecasts, appears to demonstrate just such behaviour.

The rebound in consumer demand in 2H 2015 was helped by the Russian Government's introduction of subsidised mortgage rates in the second quarter of the year. While this helped return mortgage lending to close to previous levels, Russia continues to have very low mortgage lending penetration as a share of GDP compared to many developed and developing markets in Europe. While potential demand for new housing remains significant in Russia, the potential for increased mortgage lending represents a further opportunity to improve consumers' ability to finance such purchases.

TOTAL OUTSTANDING RESIDENTIAL LOANS TO GDP (2014)



Source: Hypostat, AHML

Macroeconomic shocks like those that have occurred in the past two years in Russia often lead consumers to delay major purchases like improving their housing conditions, but most consumers then proceed with planned purchases once they feel that the situation has stabilised.

Market overview—supply

Russia's residential real estate development market remains highly fragmented, which means that large, established players with a successful track record of deliveries, like Etalon Group, have a good opportunity to act as consolidators.

Etalon Group's total deliveries in Moscow, the Moscow region, St. Petersburg and the Leningrad region since 2010 have grown significantly, increasing by 140% to 502 ths sqm by 2015.

While the Russian Federation Service for State Registration, Cadastre and Cartography (Rosreestr) reported a decline in the number of agreements on share participation in housing construction by 18.4% in Moscow and by 17.3% in St.Petersburg in 2015, Etalon Group's new contracts decreased by just 13% year-on-year in the same period. Further diversification of the Company's portfolio, with Galactica in St. Petersburg and two new projects currently at the design stage in Moscow, Etalon Group is likely to increase its market share in the coming years.

Emerald Hills, the Moscow region

Moscow and St. Petersburg—Russia's most stable regions

Moscow and the Moscow region, together with St. Petersburg and the Leningrad region, are among the most affluent in Russia, and are growing population centres. Together, they account for 18% of Russia's population of 146.5 million people, according to Russia's Federal State Statistics Service.

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 St. Petersburg is also above the national average.

Demand for housing in these two cities has historically come from residents who want to improve 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 2.3% over the last decade, Moscow and St. Petersburg have both seen double-digit growth rates (according to the Federal State Statistics Service).

The comfort-class segment

Etalon Group focuses 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.

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

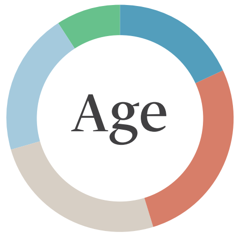
Etalon Group's larger developments include social infrastructure such as kindergartens, schools, parks, playgrounds, sports fields and medical clinics.

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

Customer Profile

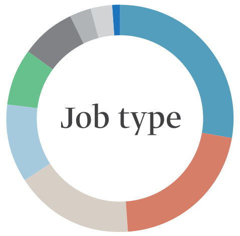
Etalon Group's target buyers are middle-class Russians looking to upgrade their housing conditions for themselves or their family: 85% of customers in 2015 bought apartments for themselves or their children. According to the Company's own research, 66% of people who bought apartments from Etalon Group identified themselves as professionals, mid-level managers or entrepreneurs.

A brief portrait of Etalon Group's customers:



Age	
under 30	18%
30-39	27%
40-49	26%
50-59	20%
Over 60	9%

Purchase motive	
Apartment for me and my family	58%
Apartment for my children	27%
Buying real estate is a good investment	12%
Apartment for my parents	3%



Job type	
Professional / white-collar job	28%
Mid-level management	21%
Entrepreneur or business owner	17%
Government employee	11%
Senior management	8%
Labourer	8%
Student	3%
Retired	3%
Other	1%

66%

PROFESSIONALS, MID-LEVEL MANAGERS OR ENTREPRENEURS

85%

CUSTOMERS IN 2015 BOUGHT APARTMENTS FOR THEMSELVES OR THEIR CHILDREN

Potential buyers surveyed in November 2015 identified the following key reasons for choosing an apartment from Etalon Group:

- A reliable company that delivers projects on time
- A well-known company
- Good projects in the Company's portfolio

Business Model

VERTICALLY INTEGRATED BUSINESS

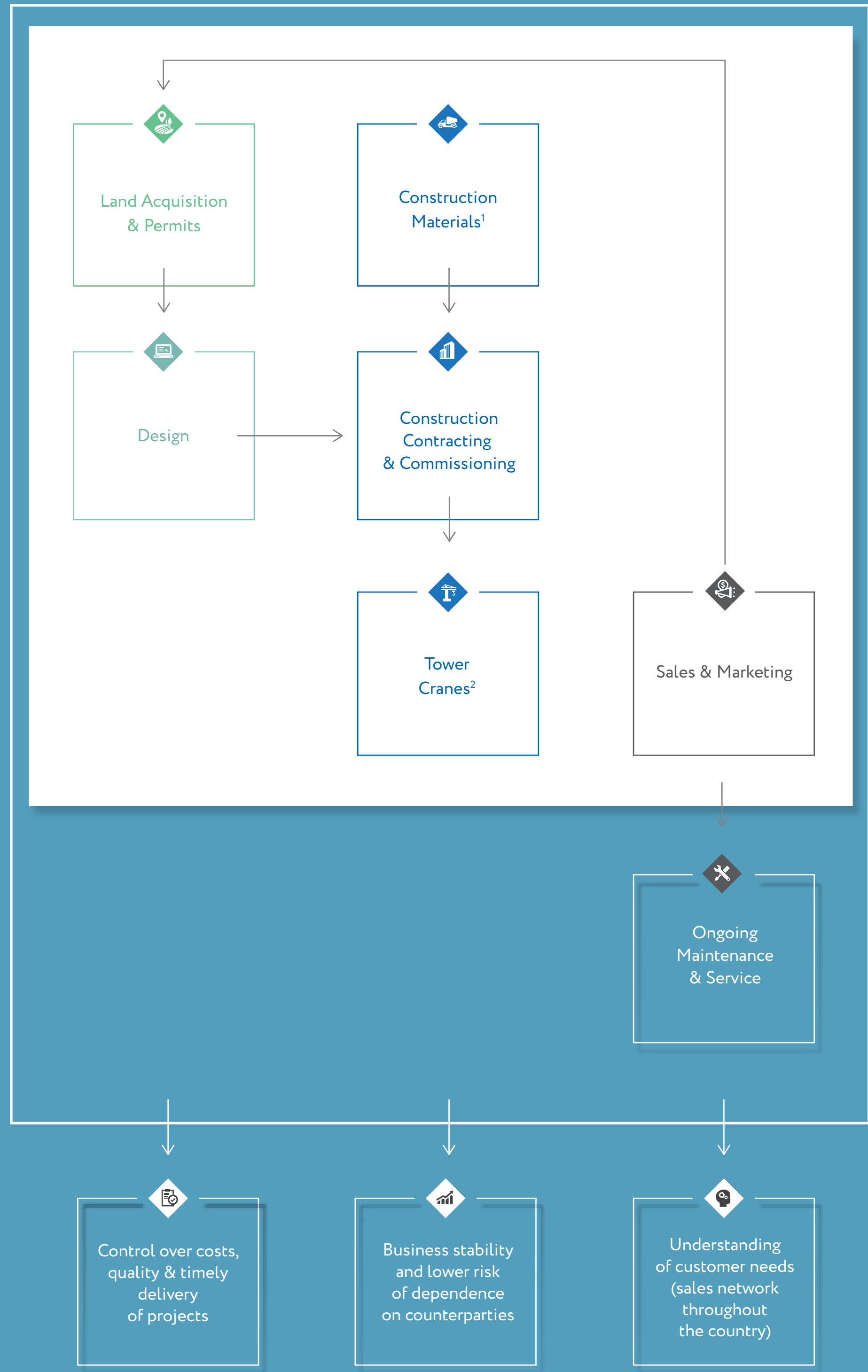
Vertical integration and flexibility are the two core principles of Etalon Group's business model. Vertical integration ensures independence from external suppliers of key construction materials, and also enables Etalon to effectively recycle capital collected through its sales network. At the same time, the Company maintains a high degree of flexibility, and is able to quickly ramp up construction volumes as and when market conditions require. In addition to its homebuilding activities, the superior quality of Etalon Group's offering means that the Company is a trusted industrial construction partner for clients that include the Hermitage Museum, General Motors, Toyota, Ford, Bosch, Siemens, Nissan, Suzuki and Gazprom.

Etalon Group's vertically integrated model

Etalon Group's core operating entities include two strong construction-management companies, four general contractors, eight subcontractors, a crane company, a brick factory and a nationwide sales network. Etalon Group also has its own acquisition and permitting teams, as well as in-house architects.

This model gives the Company greater control over costs, quality and timely project delivery. At the same time, Etalon can get feedback from its in-house sales and marketing teams to help design residential complexes that meet customers' needs.

Etalon has integrated those parts of the construction materials business that address key bottleneck areas. This ensures that the Company has the supplies it needs, while avoiding risks associated with maintaining significant industrial production sites that are dependent on a constant flow of work.



[1] A brick plant and a concrete products plant. Own production only for bottleneck construction materials
[2] 62 tower cranes (Liebherr and Wolff). Data as of 31 December 2015.

Geographic focus

Moscow and St. Petersburg

MMA and SPMA account for 18% of Russia's population[1] and 24% of the country's GDP[2]. These two regions represent the principal centres of Russia's economic and political activity, making them both more stable through challenging economic times and the source of significant potential demand when economic conditions improve.

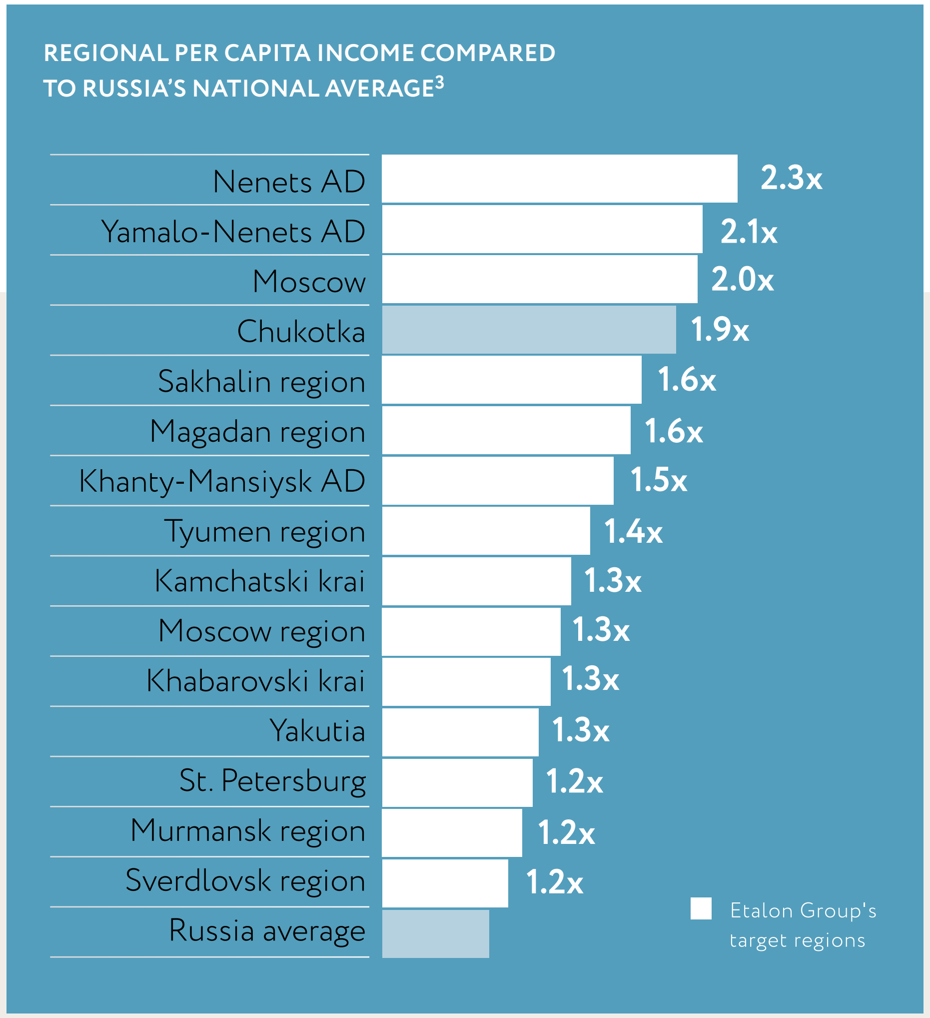
Regional sales network

While Etalon Group's homebuilding activities focus on St. Petersburg and the area in and around Moscow, the Company places great importance on its regional sales network. MMA and SPMA are Russia's two main centres of internal migration, and Etalon Group's regional sales force focuses on regions with the highest per capita income.

SEE PAGE 32

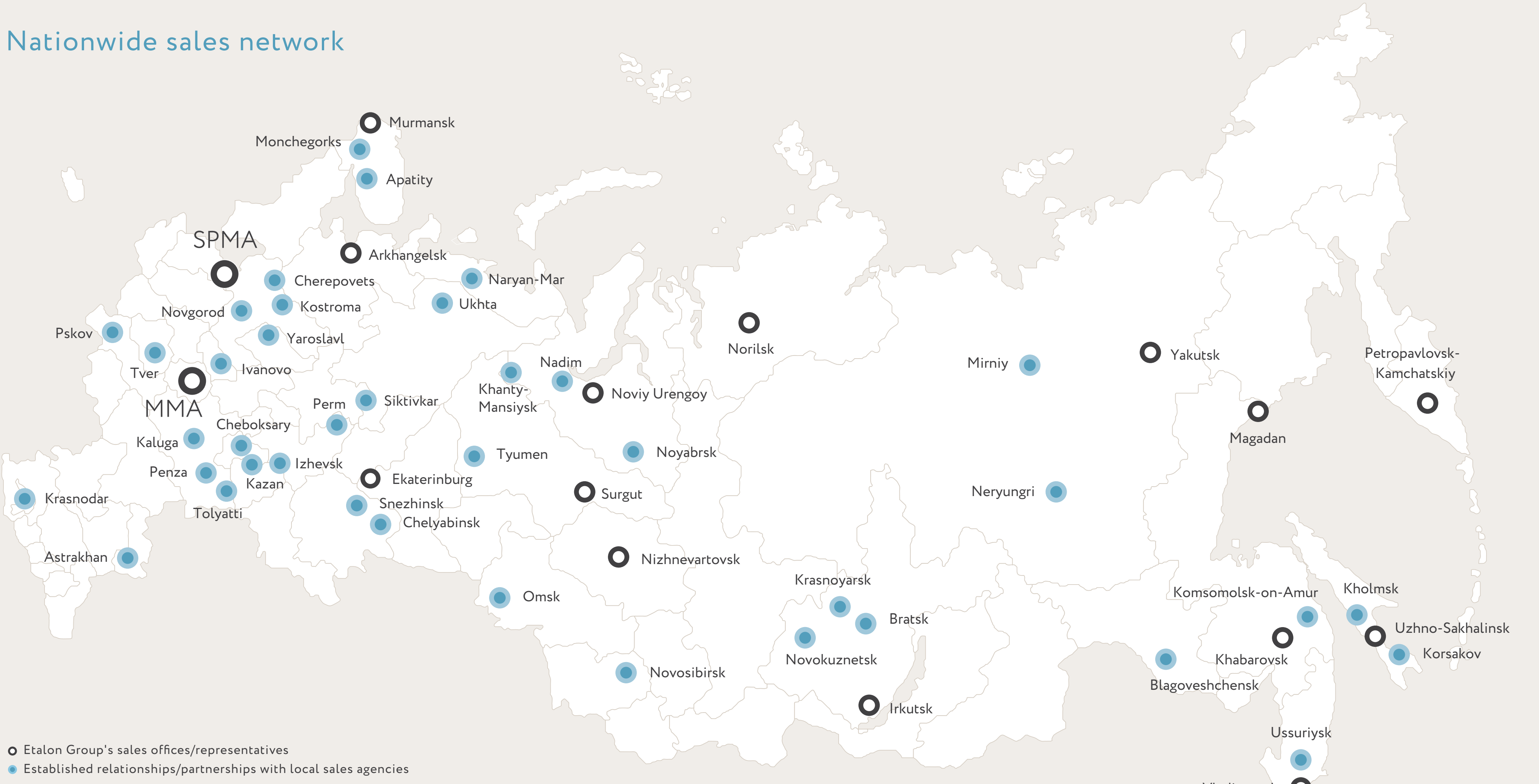
for more information about Etalon Group's sales portfolio

The Company's flats are sold in 14 of Russia's 15 wealthiest regions



Etalon Group has customers in 37 cities, including directly via nine sales offices in St. Petersburg and 18 more nationwide. Its reach is further extended with external professional marketing and sales service agents engaged nationwide.

Nationwide sales network



[1] Preliminary estimates by Rosstat as of 1 January 2016.
[2] Preliminary estimates for 2015 GDP and GRP by Rosstat and forecast for the social and economic development of Moscow, the Moscow region, St. Petersburg and the Leningrad region for 2016-2018.
[3] Preliminary estimates by Rosstat for 2015.

Q&A with the CEO

Anton Evdokimov

CEO of Etalon Group

HOW DID ETALON GROUP RESPOND TO THE CHALLENGING ECONOMIC CONDITIONS IN 2015?

First, I should say that we were well prepared for the changing market conditions, and we came into the year with a diversified portfolio of attractive projects in Moscow and St. Petersburg, a positive reputation as a reliable developer and a strong financial position. It is important to understand that we have a 28-year track record, and we have seen all kinds of ups and downs. Over the years, however, we have continually demonstrated our ability to execute our strategy and to grow successfully through both the good times and the bad.

At the beginning of 2015, we were the first—and I believe the only—major residential developer to announce that we were adapting our construction plan to bring it in line with market demand. By doing this, we showed our customers, shareholders and other stakeholders that we were taking measures to respond to the economic situation while also underscoring our confidence in our updated plans.

At the same time, we maintained a solid pipeline of new projects, launching record volumes of NSA for sale in 2015. Thanks to the attractive locations and interesting buildings that we have in our portfolio, we saw very successful starts to our new projects: during the first three months of sales, 24% of the premises launched at Golden Star in Moscow were sold, while the Company sold 56% of the premises launched at Landyshi in St. Petersburg. I think there is no better evidence to confirm that we chose the right strategy.

To sum up, I would say that we responded decisively, and we demonstrated our ability to be flexible in the face of adverse conditions, and this approach enabled us to further strengthen our reputation and stay on very solid footing as we entered 2016.

HOW DID ETALON GROUP PERFORM AGAINST ITS STRATEGIC TARGETS IN 2015?

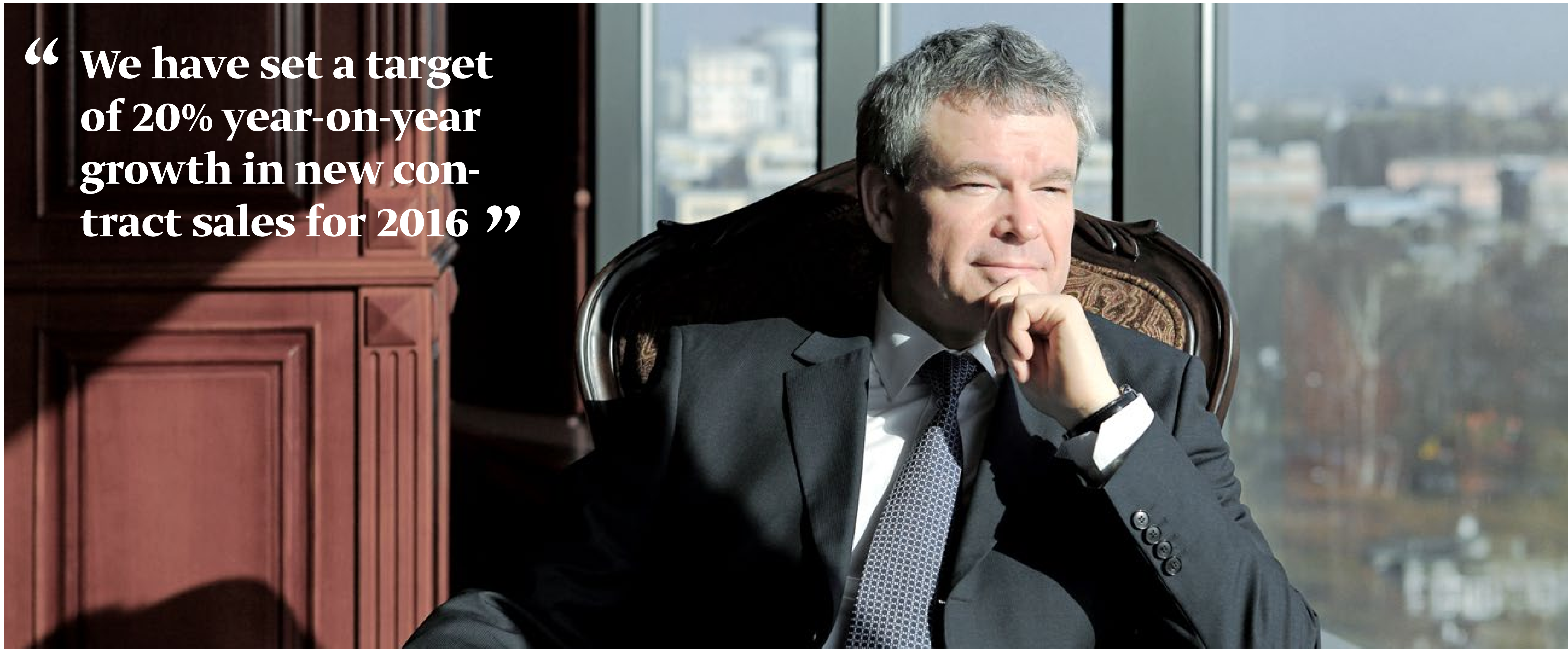
I am very pleased to say that we delivered strong results on all of our strategic priorities in 2015. We also continued to implement innovative technologies for our residential projects, including Building Information Modelling, which provides us with the ability to plan and manage our buildings much more efficiently.

We delivered 502 ths sqm of NSA in 2015, exactly in line with the construction plan that we communicated to the market at the beginning of the year, and we over-delivered on our guidance (and the market's expectations) on new sales, which amounted to RUB 35 billion for the year.

In terms of building our business in the Moscow and St. Petersburg metropolitan areas, we achieved an important milestone in 4Q 2015, with MMA accounting for 54% of new sales, in line with our target of growing our business in Moscow to achieve a 50/50 balance between the two regions.

We consciously stayed on the sidelines with regards to acquisition of new projects in 2015. Our strategic priority is to take a disciplined approach to managing our landbank, and we believe that we are best served by waiting for interesting projects at attractive prices to come onto the market.

When this happens, we will be ready, having consistently maintained a prudent attitude to financing. With a net debt/EBITDA ratio of just 0.96x as of 31 December 2015, and strong cash flows from new sales, we are in an excellent position to take advantage of opportunities when they arise—and to remain financially stable.



“We have set a target of 20% year-on-year growth in new contract sales for 2016”

HOW HAVE YOUR STRATEGIC PRIORITIES CHANGED OVER THE LAST YEAR?

The Board and management believe that in the current market conditions, sticking to our existing strategy is the best course to take. This approach has proven successful through numerous economic cycles in Russia, and it has helped us grow over the years.

At the same time, we fine-tuned our approach in order to adapt to the current situation. We scaled back construction volumes compared to our original plans, while continuing to launch sales at new projects on schedule, and we undertook cost-optimisation measures.

The result, I think, has been positive: Etalon Group finished the year with better-than-expected operational results, in a solid financial position and with a promising outlook.

WHAT DO YOU PLAN TO FOCUS ON IN 2016 AND BEYOND?

The Board has tasked management with continuing to grow and diversify our residential real estate business in the Moscow and St. Petersburg metropolitan areas, with a focus on comfort-class housing in attractive regions in both cities.

To this end, we have set a target of 20% year-on-year growth in new contract sales for 2016, while deliveries are due to amount to 422 ths sqm. We aim to achieve this by selling down existing inventory and launching sales for three new projects in 2016, bringing the total amount of NSA under construction to nearly 1 million sqm.

We are very excited about these new projects. Galactica in St. Petersburg will consist of 798 ths sqm of NSA on a 38 hectare plot of land near the centre of the city. It will create an entirely new residential district where convenience is key. In Moscow, we are launching Summer Garden and a project in the Losinoostrovskiy district, with 283 ths sqm and 92 ths sqm of NSA, respectively. Combined with our existing Moscow portfolio, these two new projects will help us maintain the geographic balance in sales that we have been looking for by growing our business in Moscow in recent years.

I have every reason to believe we will be successful in reaching our targets for 2016, and that we will continue to perform strongly in the years to come.

“We delivered 502 ths sqm of NSA in 2015, exactly in line with the construction plan that we communicated to the market at the beginning of the year, and we over-delivered on our guidance (and the market's expectations) on new sales, which amounted to RUB 35 billion for the year.”

Tsar's Capital

ST. PETERSBURG

The largest project recently constructed in the Central district of St. Petersburg, only a few steps away from Nevsky Prospect. Etalon Group's offering in the residential complex includes turnkey fit-out apartments.

Strategy

Etalon Group's core strategic principles have been developed based on its 28-year history of delivering through good times and bad.

These principles have helped Etalon grow faster than the market since its IPO in 2011, maintain a strong reputation as a reliable partner and homebuilder, and build a profitable and sustainable business. The Company believes that it is providing the necessary guidance to continue growing in the years to come.

Etalon Group has adhered to its strategy through five years of post-IPO growth, putting the company in a unique position to take advantage of opportunities that may arise in the medium term.

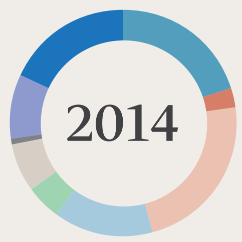
Strategy component	What it means in practice	What Etalon Group did in 2015
FOCUS ON CORE STRENGTH OF HOME-BUILDING	· Etalon Group concentrates on developing medium-sized and large-scale residential complexes in the affordable comfort-class price segment. · The Company adapts to changes in market demand by responding to feedback from its extensive sales network and tailoring future projects to match. · Etalon Group maintains a vertically integrated business model to control timing, quality and costs. · The Company has its own in-house design institute, which helps us to develop projects tailored specifically to the market segment and the company's capabilities.	· Delivered 502 ths sqm of residential NSA in 2015, exactly in line with the company's construction programme · Remained a recognised leader in the use of Building Information Modelling (BIM) technology in Russia · Used new project design solutions to optimise costs without compromising on quality or other parameters · Expanded offer of fully fit-out apartments in response to growing demand
TARGET KEY MARKETS OF SPMA AND MMA	· Etalon Group intends to remain the leading property developer in the SPMA. · The Company has firmly established a presence in the MMA, and aims to maintain a 50/50 balance in sales with SPMA. · Etalon Group maintains a nationwide sales network, which expands its customer base across Russia and fuels sustainable growth.	· In 4Q 2015, Etalon reached its target geographic balance, with MMA accounting for 54% of new sales · MMA makes up 43% of Etalon Group's portfolio, according to a JLL valuation as of 31 December 2015
DISCIPLINED MANAGEMENT OF LANDBANK	· Etalon Group plans to maintain enough land reserves to meet its needs over the medium term. · The Company currently has enough landbank capacity, with the ability to acquire new projects as and when needed. · Etalon Group does not hold on to projects for future development, but looks to minimise the time between acquisition and development. · Etalon Group aims to enhance returns by reinvesting capital efficiently.	· Etalon Group's landbank volume is 2.72 million sqm of unsold NSA, sufficient for the company's current construction plan through 2019 · Landyshi, purchased in 2014, was launched less than a year later in July 2015
PRUDENT ATTITUDE TO FINANCING	· Etalon Group focuses on pre-sales as a key source of funding for the construction process. · The Company has a conservative financial strategy. · Etalon Group aims to maintain a low level of leverage, measured by its net debt/EBITDA ratio.	· Ended the year with net debt of just RUB 7,397 million · Net-debt/EBITDA ratio was less than 1x · Debt is entirely nominated in RUB · Cash and cash equivalents of RUB 12,017 million as of 31 December 2015
MAINTAIN STRONG CASH COLLECTIONS FOR A PRE-SALES-FINANCED BUSINESS MODEL	· Etalon Group continues to grow its brand recognition by investing in sales and marketing operations, as well as construction. · Etalon Group emphasises customer service to create positive perceptions and enhance the Company's reputation. · The Company generates sales in large part thanks to its reputation for consistently providing products of the highest quality.	· New contract sales of RUB 35,080 million, outperforming Company guidance and market expectations · Average down payment in 2015 reached 62%

Portfolio Review

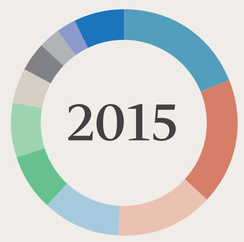
Etalon Group continued to diversify its sales portfolio in 2015, with the launch of sales at Golden Star in Moscow and Landyshi in St. Petersburg. In total, projects launched in 2015 accounted for about 30% of new sales for the year.

These new projects helped the Company deliver stronger-than-expected operating results for the year. Looking ahead to 2016, the Company plans to launch three new projects. In March 2016, pre-sales began at Summer Garden in Moscow, and master plan documentation was approved for Galactica in St. Petersburg. These attractive new projects will further diversify Etalon Group's sales portfolio and should provide a boost for new sales going forward.

NEW CONTRACT SALES BY PROJECT, SQM



Emerald Hills	20%
Etalon City	3%
Swallow's Nest	23%
Tsar's Capital	14%
Samotsvety	5%
Rechnoy	7%
Moscow Gates	1%
Molodejny	9%
Other projects	18%



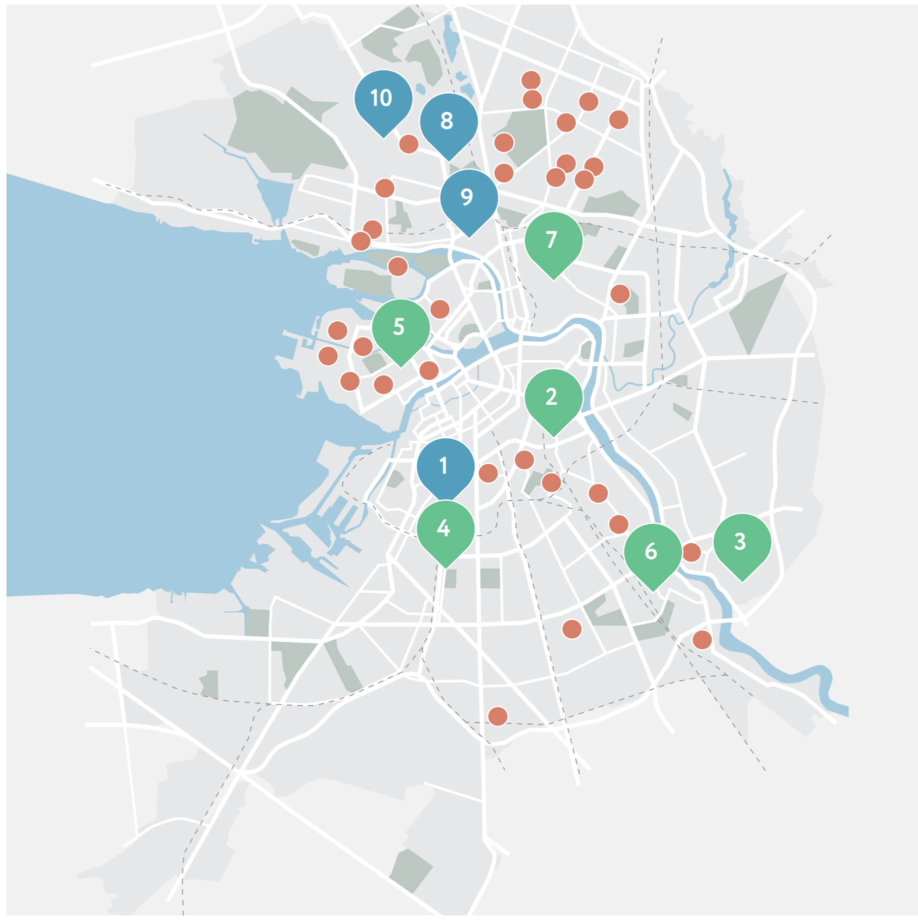
Emerald Hills	19%
Etalon City	18%
Swallow's Nest	14%
Tsar's Capital	11%
Landyshi	8%
Samotsvety	8%
Rechnoy	5%
Moscow Gates	4%
Golden Star	3%
Molodejny	3%
Other projects	7%

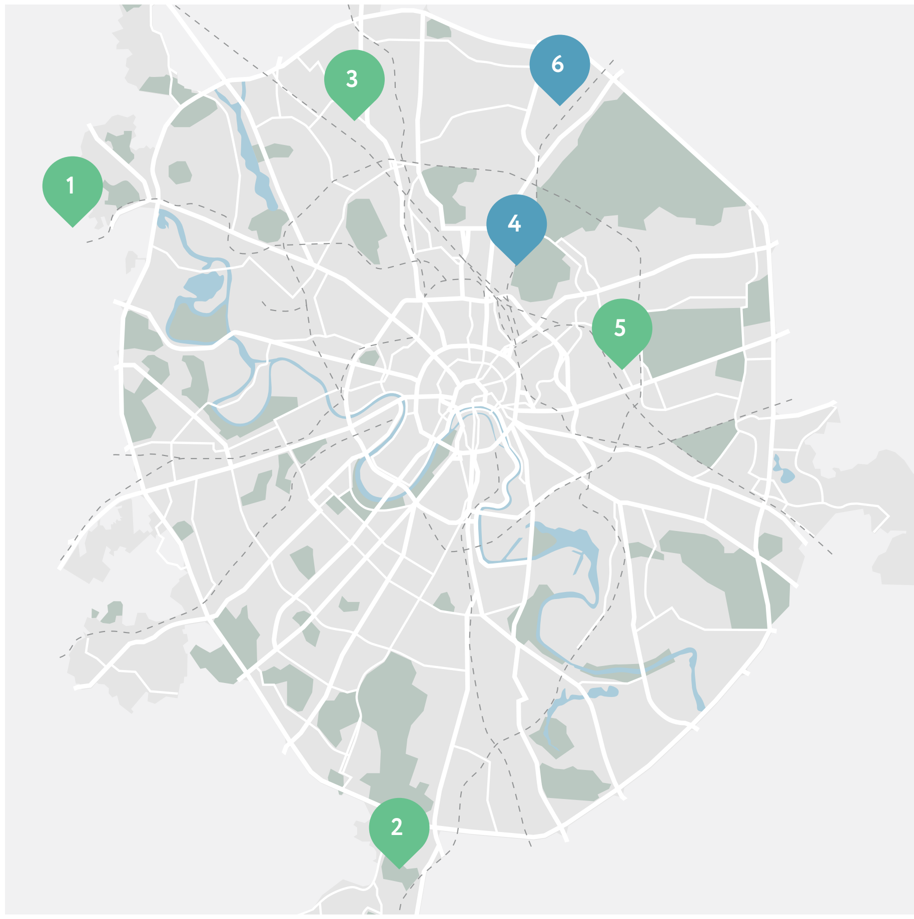
Map of SPMA projects (as of April 2016)

Under construction
2 Tsar's Capital
3 Swallow's Nest
4 Moscow Gates
5 Samotsvety
6 Molodejny
7 Landyshi

Design stage
1 Galactica
8 Technopark
9 Beloostrovskaya
10 Koroleva

Completed





Map of MMA projects (as of April 2016)

Under construction
1 Emerald Hills
2 Etalon City
3 Summer Garden
5 Golden Star

Design stage
4 Silver Fountain
6 Losinoostrovskiy District

Projects launched in 2015

GOLDEN STAR

GOLDEN STAR Moscow	Total NSA	Open Market Value*	Income from sales*
	85 ths sqm	4,540 mln RUB	11,009 mln RUB

Located in the Sokolinaya Gora district (Eastern administrative division of Moscow), the Golden Star project benefits from good access to central Moscow by metro and

by car: the nearest metro station, Shosse Entuziastov, is within a 10-minute walk, while driving to the centre should take no more than 15 minutes. The completion of the north-east section of the Fourth Transport Ring will further improve access for Golden Star residents. Golden Star is situated in an area with well-developed infrastructure and is approximately 800 metres from Izmaylovsky park, one of Moscow's largest parks.

2015 | 04/2016 | 2017

* JLL estimate as of 31 December 2015.

LANDYSHI

Situated on Polyustrovskiy prospect in the Kalininskiy district of St. Petersburg, Landyshi is located within walking distance of the Lesnaya metro station and is 4 kilometres from central St. Petersburg. The development will consist of a residential complex with built-in commercial areas and parking.

LANDYSHI St. Petersburg	Total NSA	Open Market Value*	Income from sales*
	91 ths sqm	2,081 mln RUB	7,299 mln RUB

2015 | 04/2016 | 2018

* JLL estimate as of 31 December 2015.

Ongoing projects

EMERALD HILLS

Emerald Hills is Etalon Group's first and largest project in the MMA. This comfort-class residential complex includes several commercial buildings (business centres, supermarkets, a fitness centre, a multipurpose shopping and leisure centre and a sport park). The project also includes social infrastructure such as kindergartens, elementary and high schools, and a fitness and health complex.

EMERALD HILLS	Total NSA	Open Market Value°	Income from sales°
Moscow region	859 ths sqm	17,866 mln RUB	63,905 mln RUB

Construction process

2008 04/2016 2019

° JLL estimate as of 31 December 2015.

ETALON CITY	Total NSA	Open Market Value°	Income from sales°
Moscow	376 ths sqm	8,650 mln RUB	29,066 mln RUB

ETALON CITY

Etalon City is located in the South Butovo region in south-west Moscow, which is a well-developed residential area that benefits from natural surroundings. Etalon City has good transport accessibility, and the Ulitsa Skobelevskaya light metro station and a number of bus stops are situated within walking distance.

Construction process

2013 04/2016 2018

TSAR'S CAPITAL

Located in the geographical centre of St. Petersburg, Tsar's Capital has good transport accessibility: it is just 1 kilometre from the Ploshchad Vosstania metro station, close to Nevsky prospect, and within walking distance of numerous shopping and entertainment centres.

TSAR'S CAPITAL	Total NSA	Open Market Value°	Income from sales°
St. Petersburg	391 ths sqm	10,350 mln RUB	30,255 mln RUB

Construction process

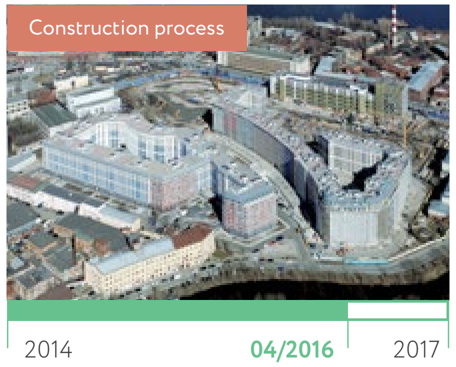
2013 04/2016 2017

° JLL estimate as of 31 December 2015.

SAMOTSVETY

Samotsvety is located in the Vasileostrovsky district of St. Petersburg. The district's proximity to the centre of the city makes it a prestigious location both for living and for business. The nearest metro station is Vasileostrovskaya, which is a 10-minute walk from the property. Buses to the central part of the city can be taken from a number of bus stops within walking distance of the site.

SAMOTSVETY St. Petersburg	Total NSA	Open Market Value°	Income from sales°
	205 ths sqm	6,465 mln RUB	18,455 mln RUB

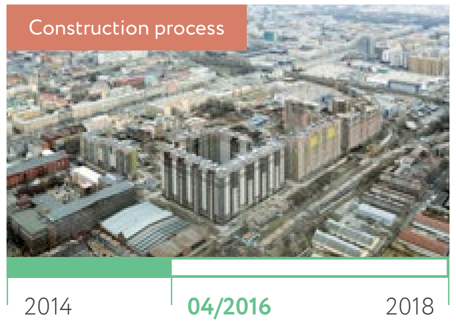


° JLL estimate as of 31 December 2015.

MOSCOW GATES

MOSCOW GATES St. Petersburg	Total NSA	Open Market Value°	Income from sales°
	234 ths sqm	10,176 mln RUB	24,049 mln RUB

Located in the Moskovskiy district of St. Petersburg, Moscow Gates has easy access to both the centre of St. Petersburg and Pulkovo Airport. There are a number of bus stops situated within walking distance, as well as the Moskovskiye Vorota metro station.



SWALLOW'S NEST

SWALLOW'S NEST St. Petersburg	Total NSA	Open Market Value°	Income from sales°
	335 ths sqm	6,700 mln RUB	23,431 mln RUB

With a good view of the Neva River, this property is located in the Nevsky district of St. Petersburg. It has good transport accessibility, being just 500 m from one of the most convenient traffic arteries in the city, the Oktyabrskaya Embankment, and just 2 kilometres from the KAD ring road. The nearest metro station, Proletarskaya, can be reached by public transport, which can be taken from a number of bus stops along the Oktyabrskaya Embankment.

° JLL estimate as of 31 December 2015.

Projects due to launch in 2016

GALACTICA

Galactica is the crown jewel of Etalon Group's St. Petersburg portfolio. The Galactica project will create an entire new comfort-class residential district. Situated on a 38 hectare plot near Moskovsky prospect and Naberezhnaya Obvodnogo Kanala, this is the largest redevelopment project to take place in St. Petersburg's recent history. With a convenient location just south of central St. Petersburg, it is a prestigious spot both for living and for business. The nearest metro stations, Frunzenskaya and Moskovskiye Vorota, are situated 10-15 minutes from the development.

GALACTICA St. Petersburg	Total NSA	Open Market Value°	Income from sales°
	798 ths sqm	10,787 mln RUB	72,311 mln RUB

SUMMER GARDEN

Summer Garden is situated in a pleasant area close to Dmitrovsky park and the Veteran Theme park. The project can be easily accessed from the Yahromsky passage and the Dmitrovskoye highway. Beskudnikovo railway station is just 1.5 kilometres from the complex, and there are plans to build a metro station, Yubileinaya, adjacent to the site.

SUMMER GARDEN Moscow	Total NSA	Open Market Value°	Income from sales°
	283 ths sqm	7,640 mln RUB	32,236 mln RUB

° JLL estimate as of 31 December 2015.

Project	Status	Total NSA (ths sqm)	Unsold NSA (Etalon's share) (ths sqm)[1]	Unsold parking (lots), #	OMV (mln RUB)	Income from sales (mln RUB)[2]	Construction budget (mln RUB)[3]	Outstanding budget (mln RUB)[3]
CURRENT PROJECTS								
St. Petersburg Metropolitan Area								
1. Galactica	Design stage	798.4	646.4	2,976	10,787	72,311	43,374	40,235
2. Tsar's Capital	Construction	390.9	170.8	1,946	10,350	30,225	14,823	2,845
3. Swallow's Nest	Construction	335.1	96.4	1,416	6,700	23,431	13,630	710
4. Moscow Gates	Construction	234.1	180.0	879	10,176	24,049	10,264	4,637
5. Samotsvety	Construction	204.9	131.9	919	6,465	18,455	10,661	4,377
6. Molodejny	Construction	112.1	17.5	382	929	8,703	3,971	271
7. Landyshi	Construction	90.6	58.6	492	2,081	7,299	4,132	3,613
8. Technopark	Design stage	61.3	61.3	363	1,103	6,002	3,571	3,089
9. Beloostrovskaya	Design stage	39.5	39.5	277	498	3,949	2,482	2,473
10. Koroleva	Design stage	6.0	6.0	35	167	610	362	331
Total SPMA		**2,272.9**	**1,408.5**	**9,685**	**49,256**	**195,034**	**107,271**	**62,579**
Moscow Metropolitan Area								
1. Emerald Hills	Construction	859.0	411.6	2,826	17,866	63,905	38,698	**13,699**
2. Etalon City	Construction	376.2	216.9	1,904	8,650	29,066	19,611	**12,761**
3. Summer Garden	Construction	283.4	230.0	1,057	7,640	32,236	16,204	**15,537**
4. Silver Fountain	Design stage	182.9	169.6	2,160	7,810	24,977	8,780	**8,637**
5. Golden Star	Construction	84.9	63.7	325	4,540	11,009	5,040	**4,228**
6. Losinoostrovskiy District	Design stage	91.5	83.9	851	2,943	10,602	4,424	**4,369**
Total MMA		**1,878.0**	**1,175.7**	**9,123**	**49,449**	**171,794**	**92,756**	**59,231**
Total Current Projects		**4,150.8**	**2,584.2**	**18,808**	**98,705**	**366,828**	**200,027**	**121,810**
COMPLETED PROJECTS								
Residential property in completed projects		1,259.0	115.9	2,369	5,156	84,334		
Completed stand-alone commercial properties		18.9	18.9	58	524	737		
Total Completed Projects		**1,278.0**	**134.8**	**2,427**	**5,680**	**85,070**		
ALL PROJECTS								
Total Etalon Group Projects		**5,428.8**	**2,719.1**	**21,235**	**104,384**	**451,898**	**200,027**	**121,810**

All numbers based on JLL estimates as of 31 December 2015.

[1] Including parking with average area c. 30 sqm.

[2] Income from sales includes potential and received incomes as of 31.12.2015.

[3] Excluding land acquisition costs.

Construction services

Etalon Group's construction services subsidiary, EtalonPromstroy, is a leading industrial construction contractor in the North-West region of Russia. Etalon Group believes that its ability and expertise providing quality construction services to well-known international and local companies facilitates the Company's brand development.

ExpoForum, St. Petersburg

The Company has contributed to a number of major projects in and around its home city, including a heat and power station, two hotels, four car assembly plants, shipyards, a machinery plant and a fitness and sports centre, etc.

One of Etalon Group's most recent construction services projects was ExpoForum, St. Petersburg's new exhibition centre, which will host the St. Petersburg International Economic Forum in 2016.

With a total area of 200 ths sqm, and a 45 ths sqm congress centre, ExpoForum is the largest exposition centre in Eastern Europe. The complex is located on a 56 hectare plot of land between the Pulkovskiy and Peterburgskiy highways, conveniently near Pulkovo Airport and other logistics infrastructure.

The facility has three exhibition pavilions, an arcade building, 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.

OTHER HIGHLIGHTS OF THE COMPANY'S CONSTRUCTION SERVICES PROJECTS IN 2015 INCLUDE:

New projects

Restoration and Storage Centre of the State Hermitage Museum, St. Petersburg

RESTORATION AND STORAGE CENTRE OF THE STATE HERMITAGE MUSEUM

Etalon Group is the general contractor for construction of part of the Restoration and Storage Centre of the State Hermitage Museum in St. Petersburg. EtalonPromstroy won the project, worth RUB 1.6 billion, in an open competition.

ZVEZDA-REDUKTOR

EtalonPromstroy won a contract for the overhaul of production lines and the renovation of administrative and service buildings for Zvezda-Reduktor, a subsidiary of Zvezda, Russia's largest manufacturer of compact, high-RPM diesel engines. The new contract covers a total area of 9,854 sqm.

Ongoing project

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.

Rechnoy

ST. PETERSBURG

This development looks out onto the Neva River and includes the restored Academy, built in 1909 and designed by architect Lev Shishko. The renovated building blends seamlessly into the whole project.

Operations Review

NSA delivered

502 ths sqm

Deliveries in 2015 were exactly in line with the construction plan.

Average apartment price

102 ths RUB

Average price for apartments in FY 2015 was RUB 102,258 per sqm, up 7% year-on-year.

New contract sales

35 bln RUB

New contract sales strongly outperformed guidance provided in early 2015 and declined by just 12% year-on-year from the record level set in 2014.

Net debt

7.4 bln RUB

Balance sheet remains very strong, with net debt of only RUB 7.4 bln, representing a 0.96x net debt /EBITDA ratio.

Number of contracts	+13% vs 2013
2015	7,841
2014	9,045
2013	6,932

New contract sales, sqm	+8% vs 2013
2015	385,252
2014	457,056
2013	356,075

New contract sales, mln RUB	+16% vs 2013
2015	35,080
2014	39,961
2013	30,227

2015 DELIVERIES BREAKDOWN

Despite a turbulent macroeconomic environment, Etalon Group delivered 502 ths sqm of NSA in 2015, while new contract sales strongly outperformed the guidance provided in early 2015. The Company delivered 14 residential buildings containing around 6,000 apartments during the year.

Project	NSA delivered in 2015, ths sqm
Tsar's Capital	160
Samotsvety	128
Moscow Gates	66
Emerald Hills	65
Etalon City	43
Swallow's Nest	40
Total:	**502**

RECORD VOLUMES OF NSA WERE LAUNCHED FOR SALES IN 2015, INCLUDING TWO VERY SUCCESSFUL PROJECT STARTS AT LANDYSHI IN ST. PETERSBURG AND GOLDEN STAR IN MOSCOW

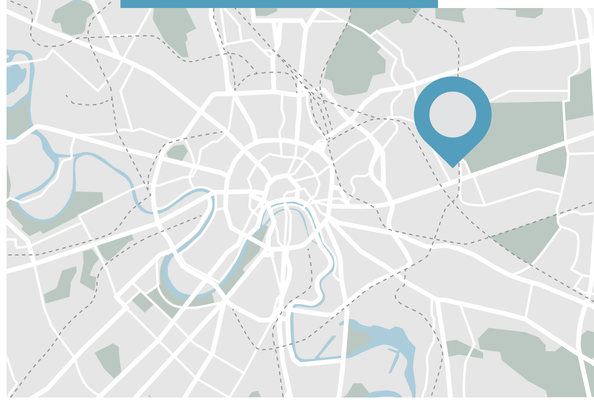
Project portfolio and landbank

SEE PAGE 32

for more information about Etalon Group's sales portfolio

In 2015, Etalon Group opened sales for two new projects, Golden Star in Moscow, where 24% of the launched premises were sold in just three months, and Landyshi in St. Petersburg, where 56% of the launched premises had already been sold three months later.

GOLDEN STAR Moscow	Total NSA	Open Market Value*	Income from sales*
	85 ths sqm	4,540 mln RUB	11,009 mln RUB



GOLDEN STAR

Golden Star is located in the Sokolinaya Gora district, in an area with well-developed infrastructure that is near Izmaylovsky park. The project benefits from good access to central Moscow by metro and by car.

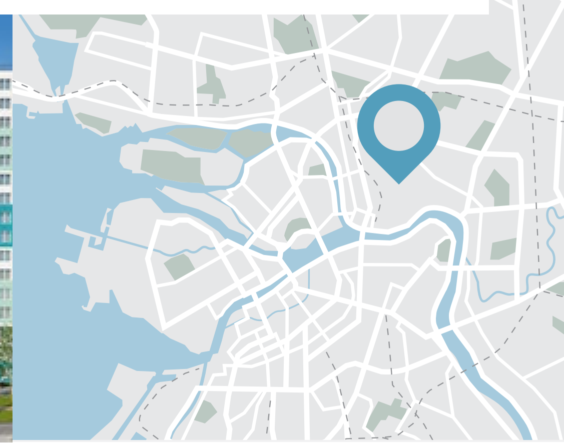
Sales for Golden Star opened in November 2015, and 21% of the launched apartments were pre-sold as of 31 December 2015.

LANDYSHI

The project is situated on Polyustrovskiy prospect in the Kalininskiy district of St. Petersburg. It is located within walking distance of the Lesnaya metro station and 4 kilometres from central St. Petersburg.

Sales for the first phase of Landyshi opened in July 2015, followed by the second phase in late October. As of 31 December 2015, 43% of the launched apartments in both residential buildings had been pre-sold.

LANDYSHI St. Petersburg	Total NSA	Open Market Value*	Income from sales*
	91 ths sqm	2,081 mln RUB	7,299 mln RUB



* JLL estimate as of 31 December 2015.

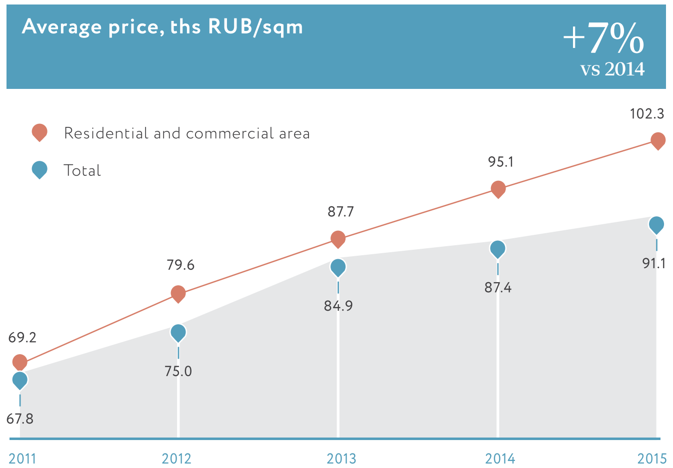
54% SHARE OF MMA PROJECTS IN 4Q 2015

Continued sales portfolio diversification in 2015

Etalon Group further rolled out its Moscow metropolitan area projects and the share of MMA projects reached 54% in 4Q 2015. These projects have helped to further diversify our portfolio, reflected in robust growth in new contract sales and price per sqm. NSA launched in 2015 accounted for c. 30% of new sales for the full year.

Price environment

Prices continued to grow, with the average price for apartments (RUB per sqm) rising by 7% in 2015, from RUB 95,128 per sqm on average in 2014, to RUB 102,258 per sqm in 2015.



After making several acquisitions in 2014, Etalon Group consciously decided to stay on the sidelines regarding new project acquisitions in 2015, in light of the complex macroeconomic situation. Now, with low debt levels and robust cash collections, the Company continues to enjoy a very strong financial position. This will enable Etalon Group to take advantage of the current situation to acquire interesting projects on attractive terms, just as was done after the crisis of 2008-2009.

New contract sales

New contract sales for 2015 amounted to 385 ths sqm and RUB 35.1 billion. This represented a decline from the record levels reached in 2014, but was still significantly higher than previous years. The total number of contracts decreased by 13% year-on-year to 7,841. The share of MMA in new contract sales was 41% in 2015, with 3,221 new contracts signed. The average down-payment for the year was 62%.

Regional sales, which are supported by Etalon Group's nationwide network of sales offices focused on Russia's most affluent regions, continued to play an important role in 2015.

IN FY 2015, REGIONAL SALES ACCOUNTED FOR 38.6% OF ALL NEW SALES.

FY operating results	2015	2014	Change
Deliveries, NSA ths sqm	502	580	(13%)
Number of contracts	7,841	9,045	(13%)
New sales, sqm	385,252	457,056	(16%)
New sales, mln RUB	35,080	39,961	(12%)
Average price, RUB/sqm	91,057	87,431	4%
Average price (apartments), RUB/sqm	102,258	95,128	7%

Gennady Scherbina

Head of LenSpetsSmu, Etalon Group's operating subsidiary in St. Petersburg

With over 28 years of experience, we have almost unparalleled expertise in this market, having delivered over 4.5 million sqm. LenSpetsSMU is one of the oldest and best-recognised brands in the St. Petersburg housing market, and we have earned a reputation as a reliable developer. We are consistently rated among the top three companies by potential buyers of new flats. With a long-established history in public debt markets, we have also developed a strong track record, as evidenced by the S&P credit rating we have maintained since December 2006. Our construction experience covers a very wide range of projects, from our core focus of residential developments to large-scale industrial construction projects like the Nissan car factory and the ExpoForum exhibition centre.

Daniil Seledchik

Head of Etalon-Invest, Etalon Group's operating subsidiary in Moscow

We entered the Moscow market in 2009 with the Emerald Hills project, which is now 60% complete and accounted for nearly 20% of Etalon Group's new sales in 2015. Etalon City, which we launched in 2013, brought in 18% of the Company's new sales last year. Last year we launched Golden Star, which saw very strong demand, with 24% of available NSA pre-sold in just three months. With this continued interest in our projects, we plan to expand further our offerings with two new projects in 2016, the first of which, Summer Garden, we announced in late March.

Design and Construction

2015

IN 2015, THE COMPANY ALSO INTRODUCED NEW SERVICES TO GIVE CUSTOMERS MORE OPTIONS WHEN BUYING APARTMENTS, INCLUDING FULLY FIT-OUT OPTIONS SO THAT CUSTOMERS CAN SPEND LESS TIME PREPARING THEIR NEW HOMES.

Etalon Group uses modern construction techniques and innovative technological solutions throughout a construction project's life cycle.

CJSC Etalon Group[1] First Deputy CEO Dmitry Kashinskiy tells us more:

WHAT KINDS OF INNOVATIONS HAS ETALON GROUP INTRODUCED IN THE LAST YEAR TO HELP SUPPORT DEMAND FOR ITS APARTMENTS?

One of the most challenging parts about buying a completely new apartment is taking care of all of the fitting out and furnishing before you move in. This is especially true for buyers from outside Moscow and St. Petersburg, who often have no easy way to regularly check in on progress or do the work themselves. We decided we could make buying an apartment significantly more convenient by taking care of that part of the work ourselves.

In 2015, we began selling fully fit-out apartments at Swallow's Nest, Tsar's Capital, Landyshi, Moscow Gates and Etalon City. Customers can now choose between Comfort and Comfort Plus levels, both of which make moving in a much easier and faster process than the basic shell and core level that was offered before. This additional service is especially convenient for the more than 30% of buyers from regions outside of MMA and SPMA.

ETALON GROUP HAS BEEN A LEADING IMPLEMENTER OF BUILDING INFORMATION MODELLING IN THE RUSSIAN CONSTRUCTION AND DEVELOPMENT BUSINESS. WHAT EXACTLY DOES BUILDING INFORMATION MODELLING INVOLVE?

Building Information Modelling (BIM) is an innovative technology that we use throughout a project lifecycle to generate and manage digital versions of buildings and infrastructure at project sites. The detailed three-dimensional models contain comprehensive, structured information about each property, which enables us 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.

By the end of 2015, we had constructed over 500 ths sqm of residential real estate in St. Petersburg and the MMA using this technology. In 2015 the volume of residential real estate space being monitored at various stages of preparation and construction increased to 1,670 ths sqm, compared to 1,200 ths sqm in 2014.

I would also mention that in February 2015 Etalon Group was awarded a special prize for Best Practice in Implementation of Information Technologies for Urban Planning in an annual urban planning competition organised by the Russian Federation Ministry of Construction and Housing.

[1] CJSC Etalon Group is Etalon Group's managing company in Russia.

WHAT IS YOUR OUTLOOK FOR BIM AND ITS USE IN RUSSIA'S CONSTRUCTION AND DEVELOPMENT BUSINESS?

We believe that the use of BIM will become widespread in the coming years, and as the leading implementer of BIM in Russia, we aim to leverage our know-how as the rest of the market begins to use this technology.

The Russian Ministry of Construction and Housing, for example, has announced that starting from 2017 it will require contractors to use BIM for some of its new projects. We believe that this represents a first step towards a further requirement that BIM be used by all construction companies in Russia.

In this context, we have launched a BIM consulting service for other construction companies. With years of unique experience implementing BIM throughout the project life cycle, Etalon Group plans to act as an outsourced BIM provider for other companies that have not developed the necessary systems themselves.

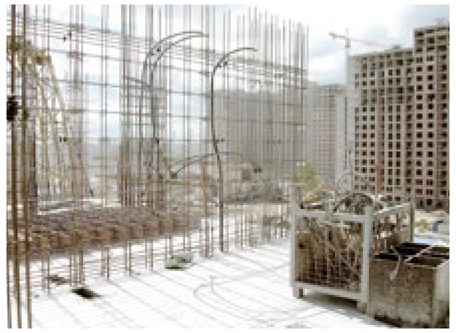
YOU USE POURED-CONCRETE TECHNOLOGY FOR MOST OF YOUR RESIDENTIAL PROJECTS—WHAT IS THIS?

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

Poured-concrete construction typically involves the walls and slabs being constructed together by pouring fluid cement concrete into a formwork system, while using metallic reinforcement bars for strengthening and stabilisation purposes. Openings for doors and windows and electrical and plumbing elements are also in place before the concrete is poured.

WHY DID YOU CHOOSE THIS TECHNIQUE OVER THE OTHERS THAT WERE AVAILABLE?

We believe that this technology offers several advantages. First, higher income: 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 are able to do most of the manufacturing on-site instead of maintaining a separate factory for this construction material.



Second is higher quality and consumer characteristics: the poured-concrete buildings with brick highlights and ventilated facades that we construct are technically superior to the concrete panel technique that is widespread in Russia. The layout of interior spaces is more flexible thanks to fewer internal load-bearing walls, while the external face provides for better heat regulation during summer months and better insulation during cold winters.

The third advantage is scalability. Our rapid expansion since our IPO in 2011 has been helped, among other things, 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.

Finally, I would underscore the adaptability of the technology. 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 that make the concrete resistant to freezing.

WHAT KINDS OF NEW TECHNOLOGIES AND INNOVATIONS ARE YOU PLANNING TO INTRODUCE IN THE FUTURE?

What's next is actually a concept called Etalon NEXT. With large-scale projects like Galactica, where we are creating an entire new neighbourhood in central St. Petersburg, we want to make sure that the whole development is designed to be a comfortable place to live both inside and outside of the buildings. With this in mind, we will be implementing new solutions for the residential buildings that will allow for greater flexibility in the floor plans of the flats, and more interesting building facades. While improving the quality of the offering, we have also focused on minimising any increases in construction costs.

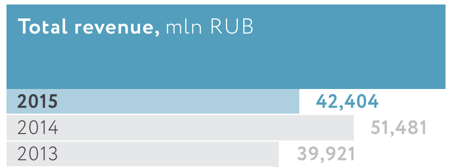
Etalon NEXT also aims to create better common spaces outside of the buildings. The Galactica development, for example, will include a large pedestrian walkway, integrated commercial facilities, as well as sporting and other facilities for residents.

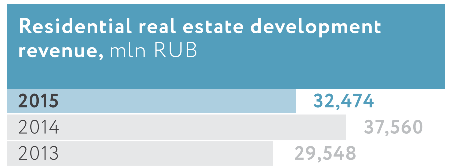
We are continuously looking for ways to improve the quality of what we offer while avoiding any significant impact on the price, thus improving the lives of our customers while continuing to focus on the comfort class segment for Russia's middle class.

Financial Review

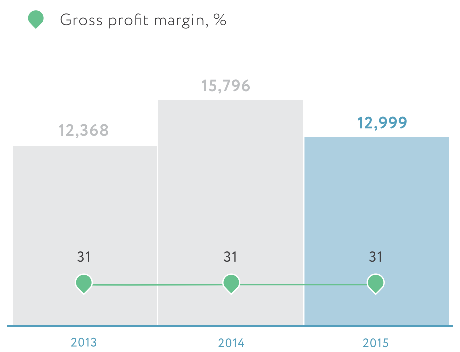
Income statement

Etalon Group's financial performance in 2015 was impacted by a complex macroeconomic environment and a significant market slowdown that affected the entire sector in the first half of the year. At the same time, our efforts throughout the course of last year enabled us to record positive operating results in 2H 2015, supporting 2015 revenue of RUB 42,404 million, which was second only to the RUB 51,481 million Etalon Group achieved in the record-setting year of 2014. Revenue from the residential real estate development segment amounted to RUB 32,474 million in 2015, a result that was 10% higher than the RUB 29,548 million seen in 2013, but still behind the record RUB 37,560 million that Etalon Group reported in 2014.

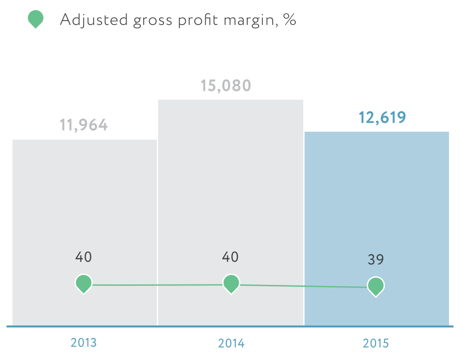




CONSOLIDATED GROSS PROFIT, MLN RUB



RESIDENTIAL REAL ESTATE DEVELOPMENT ADJUSTED GROSS PROFIT[1], MLN RUB



[1] Adjusted for interest in cost of sales.

Gross profit for the year was RUB 12,999 million, meaning that the Company maintained its consolidated gross profit margin of 31%, in line with the level of previous years. This was supported by the residential real estate development segment, which reported an adjusted gross profit of RUB 12,619 million in 2015, with an adjusted gross margin of 39%, on par with 2013 and 2014 profitability levels.

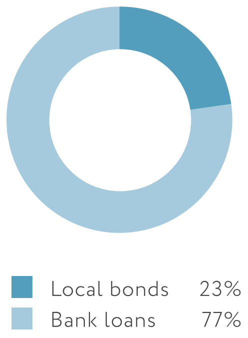
EBITDA in 2015 was RUB 7,675 million, and net income for the year came to RUB 5,429 million.

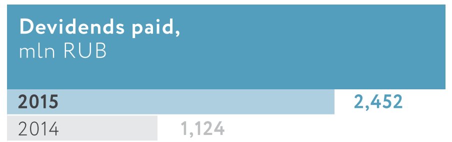
Balance sheet

Etalon Group has traditionally adhered to a conservative financial policy, having often maintained a net cash position in recent years. This, combined with a continued ability to generate cash thanks to its pre-sales business model, helped the Company maintain comfortable debt levels throughout the year.

Net debt was RUB 7,397 million at the end of 2015, and the net debt/EBITDA ratio was below 1.0x as of 31 December 2015. The Company held strong cash reserves during the year, despite more than doubling dividend payouts compared to 2014, and Etalon Group's cash and cash equivalents increased slightly to RUB 12,017 million as of year-end.

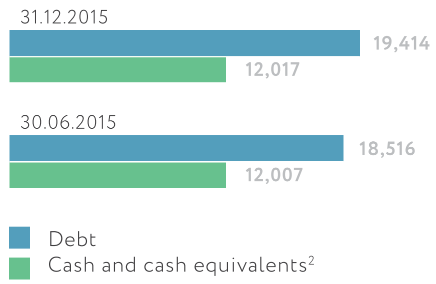
GROSS DEBT COMPOSITION (AS OF 31/12/2015)





THE COMPANY ENJOYS ZERO FOREIGN EXCHANGE RISK EXPOSURE ON ITS LIABILITIES: ALL DEBT IS NOMINATED IN RUSSIAN ROUBLES.

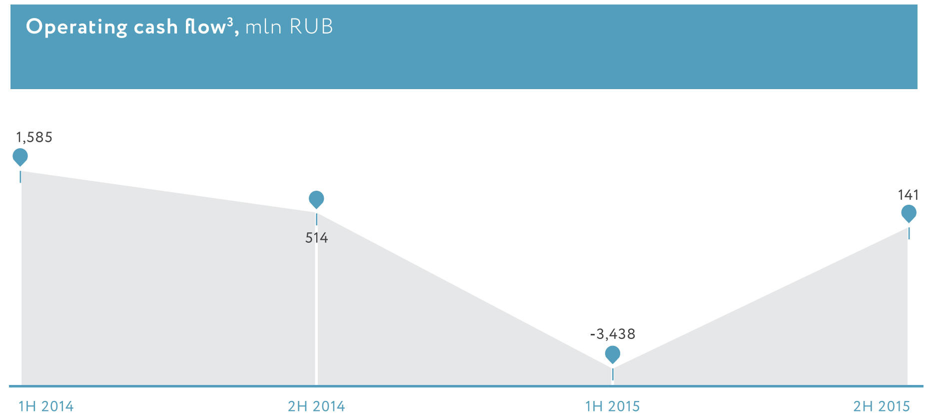
STRONG LIQUIDITY POSITION UNCHANGED, MLN RUB



[2] Including bank deposits in ST Investments.

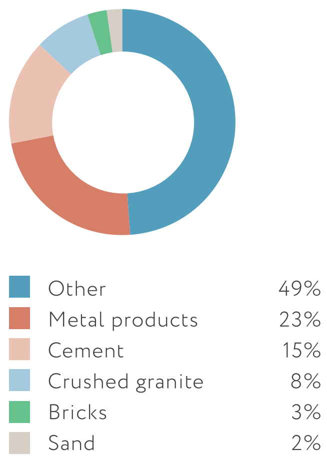
Cash flows

Operating cash flow was positive in the second half of the year, showing solid recovery after the significant slowdown in 1H 2015. With double-digit year-on-year growth in new sales in 2H 2015, this performance contributed to positive operating cash flow generation in the second half of the year, even as the Company launched significant volumes of new projects during the period.

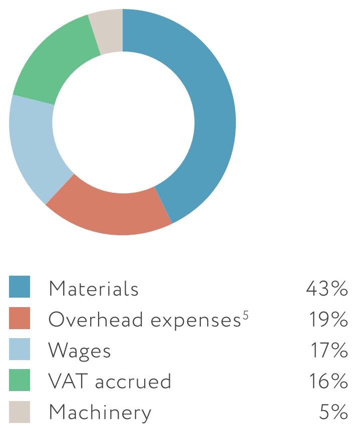


[3] Operating cash flow less interest paid.

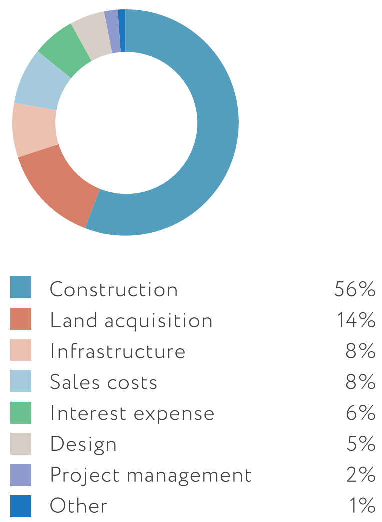
MATERIALS COST STRUCTURE[4] (RUB 12,000–18,000 per sqm of NSA)



CONSTRUCTION COST STRUCTURE[4] (RUB 29,000–39,000 per sqm of NSA)



TOTAL COST STRUCTURE[4] (RUB 59,000–72,000 per sqm of NSA)



[4] Source: Company estimates for typical project based on current portfolio average. Actual breakdown per project is subject to significant variation due to a number of factors.
[5] Including payroll tax

Emerald Hills

MOSCOW REGION

The Company's largest current project, with a total NSA of 859 ths sqm. The theme of space exploration permeates many aspects of the project concept: the central walkway, Cosmonauts' alley, features models of the Vostok-1 and Voskhod-2 spacecraft, and a Cosmonaut Museum in one of the secondary schools is home to a group of school-age researchers who take part in a number of space-themed events and initiatives.

Sustainability

The health and safety of Etalon Group's employees is the Company's most significant operational responsibility, and it adheres strictly to Russian safety regulations in this area.

BIM

UTILISING BUILDING INFORMATION MODELING HAS ALSO RESULTED IN MAKING THE COMPANY'S CONSTRUCTION SITES INCREMENTALLY SAFER

Health and safety

Etalon Group strives to create a healthy and safe working environment at each facility and site. In addition, staff are trained on safety issues through regular occupational safety workshops to ensure they have sufficient knowledge of workplace safety procedures before they are permitted to work on a site or at a facility. All equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. Etalon Group also conducts its own inspections when installing any equipment to ensure proper installation and safety.

Etalon Group uses Building Information Modelling (BIM) to generate and manage three-dimensional digital models that contain comprehensive, structured information about each building and infrastructure object. Utilising BIM has also resulted in making the Company's construction sites incrementally safer. Etalon Group has developed a Safety Index system that combines data from BIM together with Russian state regulations on workplace health and safety, as well as the European system for occupational safety and risk assessment. In 2015, the Safety Index increased by 20% at Etalon Group sites, while the number of occupational injuries decreased significantly.

IN FEBRUARY 2016, TWO OF ETALON GROUP'S PROJECTS WERE FINALISTS IN THE RUSSIAN MINISTRY OF CONSTRUCTION'S TOWN-PLANNING COMPETITION. EMERALD HILLS WAS NOMINATED FOR "BEST INTEGRATED DEVELOPMENT PROJECT". IN ADDITION, THE SCHOOL AT EMERALD HILLS WAS VOTED BEST IN RUSSIA, WINNING THE NOMINATION FOR "BEST EDUCATIONAL CONSTRUCTION PROJECT".

Environment

The Company is 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. The Company's 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 and air pollution in regulated sanitary zones.

Starting in 2014, Etalon Group installed special waste containers at all its residential complexes to sort paper, glass, plastic, fluorescent bulbs and batteries. On average, 2,500 kg of sorted waste is collected from these containers per week.

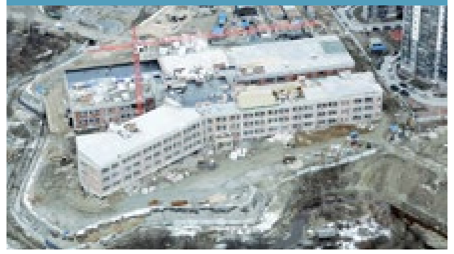
Society

In planning a major development project, Etalon Group aims to ensure that its future residents will be able to receive all the benefits they would expect from moving into a developed community. This means that, in addition to housing, infrastructure for stores, entertainment and fitness centres are also built. It is important that new residents 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 that the Company include social infrastructure as part of the project when it seeks approval for land-planning documentation. In such cases, the construction costs are usually compensated from the municipal budget.

In 2015, work was under way on several educational facilities nearby Etalon Group's residential complexes. In January 2015, the Company received permission to begin construction of a 2-3-storey primary and middle school with a capacity of up to 825 children at the Swallow's Nest residential complex in the St. Petersburg metropolitan area. Construction is now under way and is expected to be completed by the end of 2016.

School at Swallow's Nest



Additionally, a middle school with capacity for 1,100 pupils was opened at Emerald Hills (MMA) in September 2015. The school features a number of recreational zones for children of various ages to play sports.

School at Emerald Hills

In 2015, the company 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.

Historical and cultural sites

- Emerald Hills: The construction of the Cosmonauts' Alley open-air museum dedicated to the history of space travel, which opened on 18 March 2015 to commemorate the 50th anniversary of the first space walk.
- Galactica: The construction of a museum dedicated to the history of Russian Railways at the site of the former Varshavskiy Vokzal train station.
- Moscow Gates: Restoration of a World War II monument.

Other activities

Etalon Group supports 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 who survived the Nazi blockade.

In 2015, a number of holiday festivities and sporting events were organised by the Company for families at many of the Company's residential complexes.

EMPLOYEES

Etalon Group is proud to employ over 4,800 workers, for whom it provides employee development through a number of training programmes

Type of programme	Number of employees
Project management	69
Construction (incl. advanced qualifications)	108
Personal performance	77
Other training	374
Total:	**628**

In 2015, we began holding regular training programmes at our construction sites. These programmes include theory and applied skills aimed at acquainting employees with the latest technologies and materials used onsite. The new skills and techniques taught during these seminars and lessons are then implemented across all of our general contractor and subcontractor organisations.

In 2015, the Company conducted 15 such seminars on topics that included foundation waterproofing, assembly of engineering systems, cement pouring, pile driving and wet facade assembly.

We also aim 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

Type of Insurance	
Private medical insurance	1,401
Accident insurance for construction workers	1,114

After the end of the reporting period, in early 2016 Etalon Group obtained life insurance for 1,300 of its employees.

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. The Company also provides loyalty bonuses 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	
Financial assistance after the birth of a child	104
Financial assistance after a death in the family	62
Monthly pension for former employees	17
Other material support	72

"Greening up" after construction

Etalon Group aims to ensure that the surroundings at its projects provide residents with a pleasant atmosphere once construction at the site is finished. One of the ways the Company does this is by planting trees in the open spaces around the developments. Pictured here is a tree-planting event at Tsar's Capital, which took place after completion of construction of the first stage of the project.

Holiday celebrations

Residents of many of Etalon Group's projects have the benefit of special holiday programmes around New Year's, Shrove Tuesday, Victory Day or the Day of Knowledge (first day of school). The Company organises competitions, theatrical shows and creative workshops that are free to attend.

Sporting events

Jubilee Estate in St. Petersburg hosted a basketball tournament for local teams, in what has become an annual tradition at Etalon Group's 605 ths sqm project in St. Petersburg's Primorskiy district. The Company also organises regular volleyball tournaments for residents of Jubilee Estate and surrounding areas.

Corporate Governance Report

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.

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.

Management of Etalon Group'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, Remuneration and Nomination Committee, Strategy Committee and to the Company's executive management team.

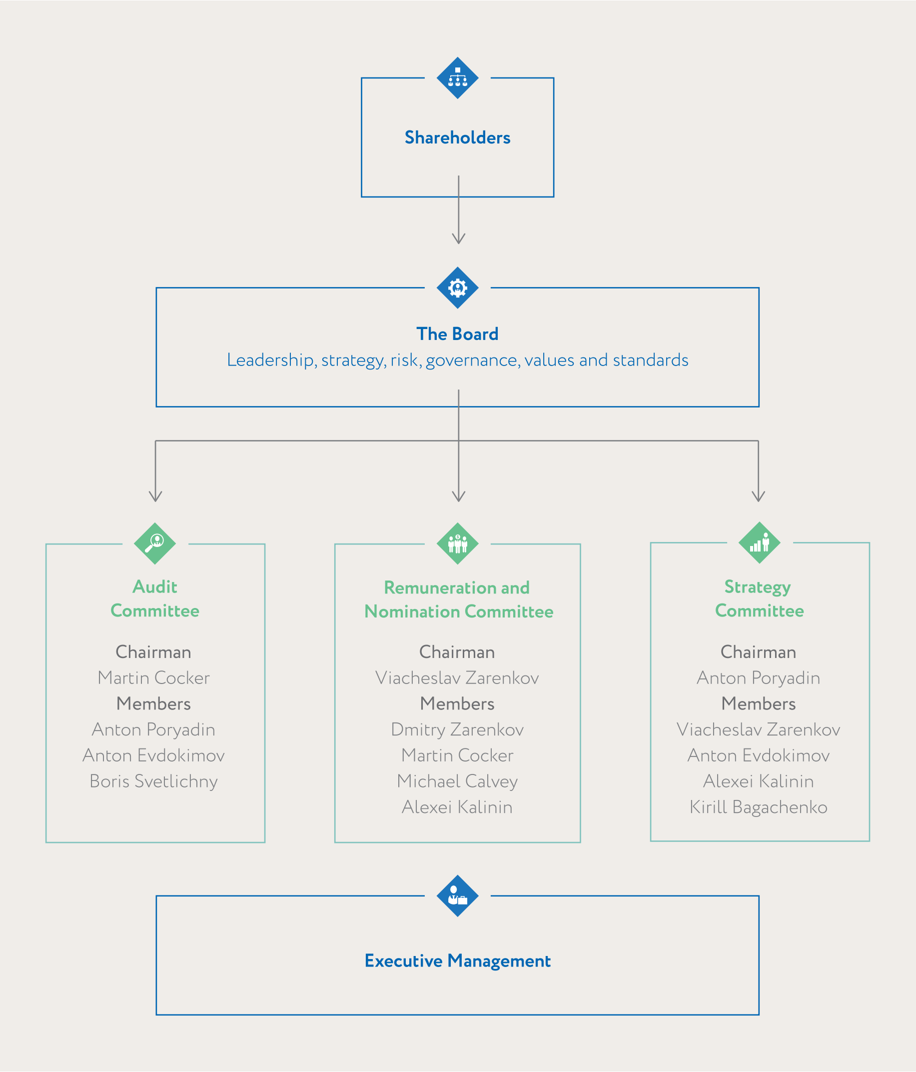
All members of the Board, including the Non-executive Directors, attend the regular meetings of Etalon Group's senior management. These meetings consider the Company's prospective projects, pipeline, buildings under construction, sales and cash flows and, where appropriate and necessary, bring recommendations to the Board for approval.

Ahead of every meeting of the Board of Directors, formal minutes are prepared and circulated to all Board members for review prior to approval. Papers are circulated in advance of meetings, which allows the Directors to focus their time on matters of strategic and financial importance. Any matters requiring consideration or approval in the interim are, where deemed fit, approved by written resolution.

In 2015, the Directors 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. The matters specifically reserved for the Board include:

- approval of the Company's long-term objectives and corporate strategy;
- approval of material acquisitions, disposal, investment, contract, expenditure or other transaction;
- approval, following recommendation of 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 dividends and recommendation of final dividends;
- approval, following recommendation from the Remuneration and Nomination Committee, of any appointments to the Board and other key senior management committee membership;
- review, following recommendation from the Audit Committee, of the effectiveness of the internal control and risk management systems; and
- approval of the Company's corporate governance policies and procedures.

AS OF 31 DECEMBER 2015, THE BOARD AND ITS COMMITTEES WERE STRUCTURED AS FOLLOWS:



Roles and Responsibilities

With effect from 24 April 2015, the roles and responsibilities of the Executive Directors are as follows:

Viacheslav Zarenkov is the founder of Etalon Group. As Chairman and President, 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. Together with the Chief Executive Officer, the Chairman sets the agenda for Board meetings, ensuring that accurate, timely and clear information is provided by Etalon Group'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 properly constructed 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 a First Vice-President and the Company's Chief Executive Officer. As such, he is responsible for all executive management matters affecting the Company, with all members of executive management reporting either directly or indirectly to him. He is also responsible for business effectiveness and legal support.

Mr Svetlichny is an Executive Director and the Company's Chief Financial Officer. In this role, Mr Svetlichny is responsible for managing all the Company'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 the Company and is responsible for the corporate governance of Etalon 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 AN ONGOING AND HIGH QUALITY RELATIONSHIP WITH ITS SHAREHOLDERS AND THE WIDER INVESTMENT COMMUNITY.

Therefore, the Head of Corporate Investments and Investor Relations, together with the Chairman, Chief Executive Officer and Chief Financial Officer, meets regularly with the Company'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, continue to bring a wealth of knowledge and business experience to the Company. Through their contributions, the Non-executive Directors provide Etalon with impartial views on matter of strategy, performance, risk and conduct.

As of 31 December 2015 and as of the date of this Report, the five Non-executive Directors were: Martin Cocker, Anton Poryadin, Michael Calvey, Alexei Kalinin and Andrew Howat, three of whom, namely Martin Cocker, Anton Poryadin and Andrew Howat, are considered to be independent.

Board Committees

The Board of Directors has delegated certain 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 in 2015 and to the date of this Report were as follows:

Mr Martin Cocker	Committee Chairman and Independent Non-executive Director
Mr Anton Poryadin	Independent Non-executive Director
Mr Anton Evdokimov	Executive Director and Chief Executive Officer
Mr Boris Svetlichny	Executive Director and Chief Financial Officer

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 the 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 our risk management policies and procedures, the effectiveness of our 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 in 2015 where the key matters for consideration were:

- The financial results for the year-end, together with the associated report of the external auditor;
- The interim results for the half-year, together with the associated report from the external auditor;
- Matters raised by the external auditor as part of the audit process requiring the attention of management and the 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 fee level 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 the remedial actions taken by management in respect of any matters arising;
- Reviewing the accounting policies adopted by Etalon 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 THEY BE REAPPOINTED AS AUDITORS.

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 presence.

INTERNAL AUDIT

Etalon 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 evaluating and improving 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.

In 2015, the engagements undertaken by Internal Audit focused on Etalon Group's major management systems and business process and included HR, sales and purchases, among others.

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 Etalon Group to achieve its objectives or lead to material misstatement in the Company'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 Etalon 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 COMPANY'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 Etalon 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 and Nomination Committee in 2015 and to the date of this Report were as follows:

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

RESPONSIBILITIES

The terms of reference of the Remuneration and Nomination Committee set out the Committee's responsibilities in detail. In summary, the 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 for reviewing 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.

The Committee held a number of meetings in 2015 at which it considered amendments to Etalon 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 in 2015 and to the date of this Report were as follows:

Mr Anton Poryadin	Committee Chairman and Independent Non-executive Director
Mr Viacheslav Zarenkov	President and Chairman of the Board
Mr Anton Evdokimov	Executive Director and Chief Executive Officer
Mr Alexei Kalinin	Non-executive Director
Mr Kirill Bagachenko	Executive Director and Head of Corporate Investments and Investor Relations

With effect from 24 April 2015, Mr Kirill Bagachenko was appointed by the Board of Directors as an additional member of the Strategy Committee.

RESPONSIBILITIES

The Strategy Committee's terms of reference set out its responsibilities in detail. In summary, 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 may be explored fully before being tabled at Board meetings for deliberation and approval.

The Strategy Committee held several meetings in 2015, where the key matters for consideration were: review of Etalon Group's development priorities and strategic guidelines for the period from 2018 to 2023, further improvements in operational efficiency, and consideration of new development opportunities.

Board of Directors

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.

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.

Martin Cocker

INDEPENDENT NON-EXECUTIVE DIRECTOR

Martin Cocker has over 20 years of experience in audit, and six 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 14 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 Torno 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 over 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 Europeanwide commercial and residential property since 2005.

Viacheslav Zarenkov

CHAIRMAN OF THE BOARD OF DIRECTORS AND PRESIDENT

Viacheslav Zarenkov has 46 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

Dmitry Zarenkov has 19 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

CHIEF EXECUTIVE OFFICER

Anton Evdokimov has 29 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

Kirill Bagachenko has over 11 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

CHIEF FINANCIAL OFFICER

Boris Svetlichny brings to the Company 27 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services, VimpelCom and Golden Telecom. Mr Svetlichny has a BBA in Accounting from the University of Massachusetts, and received an MBA from Carnegie-Mellon University.

Investor relations

Investor relations are a high priority for Etalon Group. The Company's investor relations function is run by the Head of Corporate Investments and Investor Relations, who is also a member of the Board of Directors. This function reports directly to the President of the Company and to the CEO. The main goal of the investor relations function is to maintain active dialogue with the investor community in order to ensure transparency and an accurate understanding of Etalon Group's performance and strategy.

Regular disclosures

Etalon Group discloses all material information about its activities, including:

- Monthly visual updates on the status of projects currently under construction
- Quarterly updates on operating performance, including a press release, presentation and conference call
- Semi-annual updates on IFRS financial results, including a press release, presentation and conference call
- Annual updates on portfolio valuation, including a press release and a presentation

The Company also discloses information about the results of key Board of Directors meetings, all Meetings of Shareholders and important milestones in its development projects (permitting, launch of sales, delivery of property).

Meetings, roadshows and conferences

Throughout the year, Etalon Group's senior management and investor relations team engage with investors face to face at meetings and conferences around the world. In 2015, the Company held approximately 250 meetings with investors, including two roadshows, 12 investor conferences, group meetings for analysts or investors and site visits to selected projects currently under construction.

Awards and recognition

In recognition of the high quality and professional work done by Etalon Group's investor relations team, the Company won two awards in July 2015 at the IR Magazine Russia & CIS Awards. The Company was among the Grand Prix winners for best overall investor relations across all Russian public companies, and Kirill Bagachenko was recognised as the best Head of Investor Relations in the real estate sector. This is the second year in a row that the Company has received awards in these two categories.

INVESTOR EVENTS CALENDAR

Investor conferences and events

- 24-25 May 2016 – Sberbank One-on-One Conference, Moscow
- 6-7 June 2016 – UBS EMEA Conference, London
- 16-18 June 2016 – St. Petersburg International Economic Forum
- 20-21 June 2016 – Renaissance Capital Conference, Moscow
- 7-9 September 2016 – Deutsche Bank Global Emerging Markets Conference, New York
- 7-8 November 2016 – Goldman Sachs CEEMEA One-on-One Conference, London
- 22 November – 2 December 2016 – Wood Winter Conference, Prague

Company announcements and conference calls

- April 2016 – 1Q 2016 operating results
- mid-July 2016 – 1H 2016 operating results
- end-September 2016 – 1H 2016 financial results
- mid-October 2016 – 9M 2016 operating results

Analyst coverage

Etalon Group works with leading brokerages to ensure that investors have access to high-quality and accurate coverage by equity analysts. As of April 2016, the Company was being covered by the following nine analysts:

Organization	Name	Phone	E-mail
Citi	Barry Ehrlich	+7 495 643 1459	barry.ehrlich@citi.com
Credit Suisse	Victoria Petrova	+7 495 967 8406	victoria.petrova@credit-suisse.com
Deutsche Bank	George Buzhenitsa	+7 495 933 9221	george.buzhenitsa@db.com
Goldman Sachs	Anton Farlenkov	+7 495 645 4019	anton.farlenkov@gs.com
J.P. Morgan	Elena Jouronova	+7 495 967 3888	elena.jouronova@jpmorgan.com
OTKRITIE	Georgy Ivanin	+7 495 213 1832	georgy.ivanin@otkritie.com
Renaissance Capital	David Ferguson	+7 495 641 4189	dferguson@rencap.com
Sberbank CIB	Julia Gordeyeva	+7 495 933 9229	Julia_Gordeyeva@sberbank-cib.ru
VTB Capital	Maria Kolbina	+7 495 663 4648	maria.kolbina@vtbcapital.com

Contact information

Investor relations contact information:

ir@etalongroup.com
+44 (0)20 8123 1328

Contact information for Etalon Group GDR holders:

The Bank of New York Mellon
101 Barclay Street
New York 10286
Attention: ADR Division
Fax: +1 212 571 3050

Etalon Group contacts:

Etalon Group Limited
Redwood House
St Julian 's Avenue
St Peter Port Guernsey GY1 1WA

Tel: +44 (0)20 8123 1328
Fax: +44 (0)20 8123 1328
Email: info@etalongroup.com

Near Rostral Columns

ST. PETERSBURG

A European-style development in the centre of St. Petersburg near the Rostral Columns on Vasilievsky Island, this project includes both a residential development and the Sokos hotel. The project was ranked as one of the best examples of renovation and new development in the historic centre of the city.

Consolidated Financial Statements

Etalon Group Limited

For the year ended 31 December 2015

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

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditor's Report to the members of Etalon Croup 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 2015, 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.

Director's 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 statement 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 the 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 a 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 effectivness 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.

Opinion

In our opinion, the consolidated financial statements:

- give a true and a fair view of the consolidated financial position of the Group as at 31 December 2015 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

18 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2015

mln RUB	Note	2015	2014
Revenue	6	42,404	51,481
Cost of sales		(29,405)	(35,685)
Gross profit		**12,999**	**15,796**
General and administrative expenses	8	(4,348)	(4,178)
Selling expenses		(1,411)	(1,474)
Other expenses, net	9	(991)	(913)
Results from operating activities		**6,249**	**9,231**
Finance income	11	1,686	1,717
Finance costs	11	(504)	(553)
Net finance income		**1,182**	**1,164**
Profit before income tax		**7,431**	**10,395**
Income tax expense	12	(2,002)	(2,026)
Profit for the year		**5,429**	**8,369**
Total comprehensive income for the year		**5,429**	**8,369**
PROFIT ATTRIBUTABLE TO:			
Owners of the Company		5,399	8,345
Non-controlling interest		30	24
Profit for the year		**5,429**	**8,369**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		5,399	8,345
Non-controlling interest		30	24
Total comprehensive income for the year		**5,429**	**8,369**
EARNINGS PER SHARE			
Basic and diluted earnings per share (RUB)	22	18.48	28.57

Those consolidated financial statements were approved by the Board of Directors on 18 March 2016 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 82 to 114.

Consolidated Statement of Financial Position

as at 31 December 2015

mln RUB	Note	2015	2014
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,479	2,503
Investment property	14	538	808
Other long-term investments	15	578	1,036
Trade and other receivables	18	3,303	2,521
Deferred tax assets	16	1,159	885
Other non-current assets		5	10
Total non-current assets		**8,062**	**7,763**
CURRENT ASSETS			
Inventories	17	67,722	57,525
Trade and other receivables	18	18,227	15,074
Short-term investments	19	733	1,221
Cash and cash equivalents	20	11,532	14,631
Other current assets		7	66
Total current assets		**98,221**	**88,517**
Total assets		**106,283**	**96,280**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	14,999	14,983
Retained earnings		39,697	36,537
Total equity attributable to equity holders of the Company		**54,696**	**51,520**
Non-controlling interest		147	351
Total equity		**54,843**	**51,871**
NON-CURRENT LIABILITIES			
Loans and borrowings	23	13,138	12,411
Trade and other payables	25	923	2,854
Provisions	24	117	114
Deferred tax liabilities	16	1,810	1,456
Total non-current liabilities		**15,988**	**16,835**
CURRENT LIABILITIES			
Loans and borrowings	23	6,276	3,880
Trade and other payables	25	25,630	21,460
Provisions	24	3,546	2,234
Total current liabilities		**35,452**	**27,574**
Total equity and liabilities		**106,283**	**96,280**

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 82 to 114.

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2015

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**

mln RUB	Attributable to equity holders of the Company: Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	**14,983**	**36,537**	**51,520**	**351**	**51,871**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	5,399	5,399	30	5,429
Total comprehensive income for the year	-	5,399	5,399	30	5,429
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY					
Dividends to equity holders	-	(2,452)	(2,452)	-	(2,452)
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	-	213	213	(234)	(21)
Total transactions with owners	**16**	**(2,239)**	**(2,223)**	**(234)**	**(2,457)**
Balance at 31 December 2015	**14,999**	**39,697**	**54,696**	**147**	**54,843**

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 82 to 114.

Consolidated Statement of Cash Flows

For the Year ended 31 December 2015

mln RUB	Note	2015	2014
OPERATING ACTIVITIES:			
Profit for the year		**5,429**	**8,369**
ADJUSTMENTS FOR:			
Depreciation	13, 14	406	417
Loss / (gain) on disposal of property, plant and equipment	9	(65)	(52)
Impairment loss on investment property	9	215	280
Impairment loss on inventories	9	514	466
Finance income, net		(1,182)	(1,164)
Income tax expense		2,002	2,026
Cash from operating activities before changes in working capital and provisions		**7,319**	**10,342**
Change in inventories		(8,255)	(6,890)
Change in accounts receivable		(3,958)	(1,427)
Change in accounts payable		2,369	1,184
Change in provisions	24	1,315	594
Change in other current assets		59	(59)
Income tax paid		(2,146)	(1,645)
Interest paid		(2,516)	(1,588)
Net cash (used in) / from operating activities		**(5,813)**	**511**
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		188	66
Interest received		1,311	823
Acquisition of property, plant and equipment		(369)	(653)
Loans given		(123)	(178)
Loans repaid		66	174
Disposal of subsidiaries, net of cash disposed of		-	7
(Acquisition)/disposal of other investments		1,155	3,038
Net cash from / (used in) investing activities		**2,228**	**3,277**
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		(20)	(83)
Proceeds from borrowings		9,480	10,763
Repayments of borrowings		(6,281)	(8,498)
Acquisition of own shares		16	16
Dividends paid		(2,452)	(1,124)
Net cash from financing activities		**743**	**1,074**
Net (decrease) / increase in cash and cash equivalents		**(2,842)**	**4,862**
Cash and cash equivalents at the beginning of the year		14,631	8,139
Effect of exchange rate fluctuations on cash and cash equivalents		(257)	1,630
Cash and cash equivalents at the end of the year	20	**11,532**	**14,631**

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 82 to 114.

Notes to the Consolidated Financial Statements
For the Year ended 31 December 2015

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 17 — inventory—barter transactions, 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 2015.

(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, 2015, 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 2018. 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.
- IFRS 16 Leases will be effective for annual periods beginning on or after 1 January 2019. The new standard replaces International Financial Reporting Standard IAS 17 Leases, IFRIC 4 Determining whether an Arrangment contains a Lease, SIC-15 Operating Leases—Incentives, SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 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 2016. 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

For the contracts concluded before April 2015 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 used conversion rate equal to 32 RUB and 33 RUB per a conditional unit before February 2015 and after February 2015, respectively.

Starting from April 2015 all sales are denominated in RUB.

(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 2015 or 2014.

(a) Information about reportable segments

	Residential development		Constructionservices		Other		Total	
mln RUB	2015	2014	2015	2014	2015	2014	**2015**	**2014**
External revenues	32,474	37,560	4,877	9,909	5,053	4,012	**42,404**	**51,481**
Inter-segment revenue	-	-	9,846	12,823	829	1,119	**10,675**	**13,942**
Total segment revenue	32,474	37,560	14,723	22,732	5,882	5,131	**53,079**	**65,423**
Gross profit	11,722	14,056	499	1,369	317	1,017	**12,538**	**16,442**
Interest in cost of sales (note 11)	897	1,024	-	-	-	-	**897**	**1,024**
Gross profit adjusted for interest in cost of sales	12,619	15,080	499	1,369	317	1,017	**13,435**	**17,466**
Gross profit adjusted, %	39%	40%						
	2015	2014	2015	2014	2015	2014	**2015**	**2014**
Reportable segment assets: inventory	70,571	60,044	515	572	773	659	**71,859**	**61,275**
Reportable segment liabilities: advances from customers	13,929	10,398	4,112	2,397	238	358	**18,279**	**13,153**

(b) Geographical information

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

	Revenues		Non-curent assets	
mln RUB	2015	2014	2015	2014
St. Petersburg metropolitan area	35,051	42,672	5,460	5,611
Moscow metropolitan area	7,353	8,809	2,602	2,152
	42,404	**51,481**	**8,062**	**7,763**

(c) Major customer

Revenue from one customer of the Group, recognised within the segment "Residential development", amounted to RUB 3,541 million or 8% of the Group's total revenue for the year ended 31 December 2015 (revenue from major customer within the segment "Construction services" for the year ended 31 December 2014: RUB 7,539 million or 15% of the Group's total revenue).

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

mln RUB	2015	2014
REVENUES		
Total revenue for reportable segments	53,079	65,423
Elimination of inter-segment revenue	(10,675)	(13,942)
Consolidated revenue	**42,404**	**51,481**
PROFIT OR LOSS		
Gross profit for reportable segments	12,538	16,442
General and administrative expenses	(4,348)	(4,178)
Selling expenses	(1,411)	(1,474)
Other expenses, net	(991)	(913)
Finance income	1,686	1,717
Finance costs	(504)	(553)
Elimination of inter-segment loss/ (profit)	461	(646)
Consolidated profit before income tax	**7,431**	**10,395**
ASSETS		
Total assets for reportable segments: inventories	71,859	61,275
Elimination of unrealised gain	(4,137)	(3,750)
Total inventories	**67,722**	**57,525**
LIABILITIES		
Total liabilities for reportable segments: advances from customers	18,279	13,153
Elimination of intersegment advances	(1,489)	(1,084)
Total advances from customers	**16,790**	**12,069**

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	2015	2014
Sale of flats	30,132	35,270
Sale of built-in commercial premises	1,519	1,772
Sale of parking places	823	518
Total revenue of segment Residential development (note 5 (a))	**32,474**	**37,560**
Construction contracts (note 7)	4,242	9,145
Other construction services	635	764
Total revenue of segment Construction services (note 5 (a))	**4,877**	**9,909**
Sale of construction materials	1,991	1,011
Sale of stand-alone commercial premises	284	25
Rental revenue	686	683
Other revenue	2,092	2,293
Total other revenue (note 5 (a))	**5,053**	**4,012**
Total revenues	**42,404**	**51,481**

7 Construction contracts

mln RUB	2015	2014
Revenue recognised during the year	4,242	9,145
Costs incurred	(4,023)	(8,316)
Recognised profits during the year	**219**	**829**

mln RUB	2015	2014
For contracts in progress—aggregate amount of costs incurred and recognised profits to date	7,656	3,450
Unbilled receivables	1,142	507
Billings in excess of work completed	210	79
Retentions relating to construction contracts	11	201

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	2015	2014
Payroll and related taxes	3,142	2,913
Services	258	213
Audit and consulting services	267	275
Bank fees and commissions	95	117
Materials	57	90
Repair and maintenance	39	99
Depreciation	63	94
Other taxes	177	111
Other	250	266
Total	**4,348**	**4,178**

9 Other expenses, net

mln RUB	2015	2014
OTHER INCOME		
Gain on disposal of property, plant and equipment	65	52
Gain on disposal of inventory	13	76
Fees and penalties received	-	25
Other income	13	-
	91	**153**
OTHER EXPENSES		
Impairment loss on inventory (Note 17)	(514)	(466)
Impairment of investment property (Note 14)	(215)	(280)
Loss on disposal of subsidiaries	(44)	-
Other expenses	(309)	(320)
	(1,082)	**(1,066)**
Other expenses, net	**(991)**	**(913)**

10 Personnel costs

mln RUB	2015	2014
Wages and salaries	5,101	5,392
Contributions to State pension fund	1,119	1,028
	6,220	**6,420**

Remuneration to employees in respect of services rendered during the year 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.

During the year ended 31 December 2015 personnel costs and related taxes included in cost of production amounted to RUB 2,707 million (year ended 31 December 2014: RUB 3,048 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 371 million (year ended 31 December 2014: RUB 459 million).

11 Finance income and finance costs

mln RUB	2015	2014
RECOGNISED IN PROFIT OR LOSS		
FINANCE INCOME		
Interest income on bank deposits	1,089	729
Net foreign exchange gain	-	814
Unwinding of discount on trade receivables	356	72
Interest income on loans and receivables	222	94
Gain on write-off of accounts payable	19	8
Finance income	**1,686**	**1,717**
FINANCE COSTS		
Interest expense on loans	(3)	(272)
Increase in allowance for doubtful accounts receivable	(288)	(226)
Net foreign exchange loss	(138)	-
Interest expense on finance leases	(16)	(23)
Loss on write-off of accounts receivable	(59)	(32)
Finance costs	**(504)**	**(553)**

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	2015	2014
Borrowing costs capitalised during the year	2,561	1,324
Weighted average capitalisation rate	13.8%	11.7%

During the year ended 31 December 2015, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 897 million (year ended 31 December 2014: RUB 1,024 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 (2014: 20%).

mln RUB	2015	2014
CURRENT TAX EXPENSE		
Current year	1,902	1,707
Under-provided/(over-provided) in prior year	20	14
	1,922	**1,721**
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	80	305
Income tax expense	**2,002**	**2,026**

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2014: 20%):

mln RUB	2015	2014
Profit before tax	7,431	10,395
Theoretical income tax at statutory rate of 20%	1,486	2,079
ADJUSTMENTS DUE TO:		
Expenses not deductible and income not taxable for tax purposes, net	516	(53)
Income tax expense	**2,002**	**2,026**

13 Property, plant and equipment

During the year ended 31 December 2015, depreciation expense of RUB 284 million (year ended 31 December 2014: RUB 271 million) has been charged to cost of sales, RUB 20 million (year ended 31 December 2014: RUB 21 million) to cost of real estate properties under construction, RUB 6 million (year ended 31 December 2014: RUB 4 million) to selling expenses and RUB 63 million (year ended 31 December 2014: RUB 94 million) to general and administrative expenses.

(a) Security

At 31 December 2015 properties with a carrying amount of RUB 72 million (31 December 2014: RUB 74 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 2015 the net book value of leased plant and machinery was RUB 223 million (31 December 2014: RUB 243 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 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**
Balance at 1 January 2015	999	2,572	130	154	126	306	**4,287**
Additions	186	73	17	23	3	67	**369**
Reclassification from inventories	45	-	-	-	-	203	**248**
Disposals	(180)	(184)	(37)	(26)	(12)	-	**(439)**
Transfer to inventory	(142)	-	-	-	-	-	**(142)**
Transfers	30	1	-	12	-	(43)	**-**
Balance at 31 December 2015	938	2,462	110	163	117	533	**4,323**
DEPRECIATION AND IMPAIRMENT LOSSES							
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)**
Balance at 1 January 2015	(311)	(1,321)	(58)	(94)	-	-	**(1,784)**
Depreciation for the year	(80)	(251)	(23)	(19)	-	-	**(373)**
Disposals	136	142	21	14	-	-	**313**
Balance at 31 December 2015	(255)	(1,430)	(60)	(99)	-	-	**(1,844)**
CARRYING AMOUNTS							
Balance at 1 January 2014	503	1,215	73	35	26	110	**1,962**
Balance at 31 December 2014	688	1,251	72	60	126	306	**2,503**
Balance at 1 January 2015	688	1,251	72	60	126	306	**2,503**
Balance at 31 December 2015	683	1,032	50	64	117	533	**2,479**

14 Investment property

mln RUB	2015	2014
COST		
Balance at 1 January	1,463	1,469
Transfers to inventories	(7)	(6)
Balance at 31 December	**1,456**	**1,463**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Balance at 1 January	(655)	(327)
Depreciation for the year	(48)	(48)
Impairment loss	(215)	(280)
Balance at 31 December	**(918)**	**(655)**
Carrying amount at 1 January	808	1,142
Carrying amount at 31 December	**538**	**808**

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 2015 fair value amounted to RUB 538 million, which was determined based on discounted cash flows from the use of the property using the income approach. Volatile economic situation negatively affected fair value of commercial property, as a result, during the year ended 31 December 2015 the Group has recognised an impairment loss of RUB 215 million for properties, which carrying amounts exceeded fair value (year ended 31 December 2014: RUB 280 million).

15 Other long-term investments

mln RUB	2015	2014
Bank promissory notes	563	765
Loans, at amortised cost	15	31
Bank deposits	-	240
	578	**1,036**

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 security 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	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment	180	133	(252)	(310)	(72)	(177)
Investments	14	13	-	-	14	13
Inventories	1,229	1,211	(308)	(102)	921	1,109
Trade and other receivables	724	394	(2,656)	(2,696)	(1,932)	(2,302)
Deferred expenses	51	28	(574)	(311)	(523)	(283)
Loans and borrowings	15	15	(3)	(5)	12	10
Provisions	188	337	(9)	25	179	362
Trade and other payables	1,007	734	(443)	(189)	564	545
Tax loss carry-forwards	144	98	1	(1)	145	97
Other	63	69	(22)	(14)	41	55
Tax assets/(liabilities)	**3,615**	**3,032**	**(4,266)**	**(3,603)**	**(651)**	**(571)**
Set off of tax	(2,456)	(2,147)	2,456	2,147	-	-
Net tax assets/(liabilities)	**1,159**	**885**	**(1,810)**	**(1,456)**	**(651)**	**(571)**

(b) Unrecognised deferred tax liability

At 31 December 2015 a deferred tax liability of RUB 1,871 million (31 December 2014: RUB 1,597 million) arising on temporary differences of RUB 37,425 million (31 December 2014: RUB 31,944 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 year

mln RUB	1 January 2015	Recognised in profit or loss	31 December 2015
Property, plant and equipment	(177)	105	(72)
Investments	13	1	14
Inventories	1,109	(188)	921
Trade and other receivables	(2,302)	370	(1,932)
Deferred expenses	(283)	(240)	(523)
Loans and borrowings	10	2	12
Provisions	362	(183)	179
Trade and other payables	545	19	564
Tax loss carry-forwards	97	48	145
Other	55	(14)	41
	(571)	**(80)**	**(651)**

mln RUB	1 January 2014	Recognised in profit or loss	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)**

17 Inventories

mln RUB	2015	2014
Own flats under construction	28,595	25,048
Own flats	21,029	18,148
Built-in commercial premises under construction	5,179	4,293
Built-in and stand-alone commercial premises	3,103	2,190
Parking places under construction	7,561	5,898
Parking places	2,569	1,649
Construction materials	582	645
Other	90	126
	68,708	**57,997**
Less: Allowance for obsolete inventory	(986)	(472)
Total	**67,722**	**57,525**

(a) Barter transactions

Project 1

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 2

The Group entered into transaction for acquisition of land plots (3 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 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.

In 2015 the Group has recognized land component of this construction project (part of lot 3) within inventories at fair value of land plot acquired, equal to RUB 3,105 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 5% per annum;
- Discount rates—within 25% per annum.

Project 3

The Group entered into transaction for acquisition of investment rights for land plots where a part of acquisition price has to be paid by means of transfer of certain premises constructed on these land plots. The Group has recognized the land component of this construction project within inventories at fair value of investment rights acquired. The fair value of the investments rights acquired equal to RUB 4,522 million was determined 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 10% per annum;
- Discount rates—23% per annum.

Accordingly, at 31 December 2015 the cost of land plots (Project 1 and Project 2) measured as described above and related to sold premises was recognised in cost of sales of 2013, 2014, year 2015 in the amount of RUB 5,991 million, the remaining balance of RUB 2,810 million is included to finished goods and RUB 5,829 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 2015 the cost of such social infrastructure amounts RUB 2,296 million and is included in the balance of finished goods and inventories under construction (31 December 2014: RUB 1,818 million).

(b) Allowance for obsolete inventory

The following is movement in the allowance for obsolete inventory:

mln RUB	2015	2014
Balance at the beginning of the year	472	6
Change in allowance for obsolete inventory	514	466
Balance at end of the year	**986**	**472**

As at 31 December 2015 the net realizable value testing resulted in an amount which was less than the carrying amount by RUB 986 million (2014: RUB 472 million) and the respective allowance was recognised in other expenses, see note 9. As at 31 December 2015 the allowance equal to RUB 937 million relates to parking places.

The balance of parking places is equal to RUB 10,130 million as at 31 December 2015 (31 December 2014: RUB 7,547 million). An impairment allowance was made based on the following key assumptions:

- Cash flows were projected during the expected period of sales equal to years of turnover of parking places determined based on historical information on contracts concluded with customers;
- Discount rates—14-17% per annum;
- Inflation rates—5-11% per annum;
- In case there was no historical information on sales of certain parking places, the Group considered historical information of parking places considered analogues.

The determination of net realizable value for parking places is subject to significant estimation uncertainty and, as such, the impairment allowance is judgmental. Changes in the above assumptions—in particular the discount rate and the years of turnover of parking places - could have a material impact on the amount.

(c) Rent out of property classified as inventories

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 1,282 million as at 31 December 2015 (31 December 2014: RUB 1,174 million). The Group is actively seeking buyers for these properties.

d) Pledges

Inventories with a carrying amount of RUB 7,367 million (31 December 2014: RUB 2,522 million) are pledged as security for borrowings, see note 23.

18 Trade and other receivables

mln RUB	2015	2014
LONG-TERM		
Trade receivables	3,293	2,360
Advances paid to suppliers	2	10
Other receivables	8	151
	3,303	**2,521**
SHORT-TERM		
Advances paid to suppliers	8,444	6,920
VAT recoverable	1,730	1,818
Trade receivables	6,832	5,721
Income tax receivable	358	159
Unbilled receivables	1,142	507
Trade receivables due from related parties	36	32
Other taxes receivable	12	10
Other receivables due from related parties	1	2
Other receivables	260	205
	18,815	**15,374**
Less: Allowance for doubtful accounts receivable	(588)	(300)
Short-term less allowance	**18,227**	**15,074**
Total	**21,530**	**17,595**

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	2015	2014
Bank deposits (over 3 months)	485	784
Bank promissory notes	121	385
Other	127	52
	733	**1 221**

As at 31 December 2015 no bank promissory notes are pledged as security for fulfilment of obligations under construction contract recognised within the segment "Construction services" (as at 31 December 2014: RUB 385 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 equivalents

mln RUB	2015	2014
Cash in banks, in USD	1,147	2,936
Cash in banks, in RUB	2,993	1,499
Cash in banks, in EUR	82	1,935
Petty cash	46	25
Cash in transit	10	17
Short-term deposits (less than 3 months)	7,254	8,219
Total	**11,532**	**14,631**

The Group keeps major bank balances in the following Russian banks — Bank St. Petersburg, Alfa Bank, Sberbank 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	2015	2014
AUTHORISED SHARES		
Par value at beginning of year	0.00005 GBP	0.00005 GBP
On issue at beginning of year	292,129,971	292,029,971
Par value at end of year	0.00005 GBP	0.00005 GBP
Own shares distributed	100,000	100,000
On issue at end of year, fully paid	**292,229,971**	**292,129,971**

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 2015, the Group has acquired 2,728,000 own shares or 1% of issued share capital (as at 31 December 2014: 2,828,000 own shares or 1% of issued share capital) for the consideration of RUB 440 million (as at 31 December 2014: RUB 456 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 2015, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 36,115 million (31 December 2014: RUB 31,944 million). Dividends in the amount RUB 2,452 million have been declared and paid by the Company during the year ended 31 December 2015 (year ended 31 December 2014: RUB 1,124 million). Dividends per share amounted to 8.39 RUB during the year ended 31 December 2015.

(d) Non-controlling interest in subsidiaries

During the year ended 31 December 2015 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 234 million during the year ended 31 December 2015 and in a decrease in non-controlling interest of RUB 60 million during the year ended 31 December 2014.

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 year, as shown below. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	2015	2014
Issued shares at 1 January	292,129,971	292,029,971
Effect of own shares distributed	65,206	66,576
Weighted average number of shares for the year ended 31 December	**292,195,177**	**292,096,547**
Profit attributable to the owners of the Company, mln RUB	5,399	8,345
Basic and diluted earnings per share (RUB)	18.48	28.57

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	2015	2014
NON-CURRENT LIABILITIES		
Secured bank loans	3,268	2,995
Unsecured bank loans	7,627	4,980
Unsecured bond issues	2,243	4,436
	13,138	**12,411**
CURRENT LIABILITIES		
Current portion of secured bank loans	3,273	1,037
Current portion of unsecured bank loans	778	2,267
Current portion of unsecured bond issues	2,225	576
	6,276	**3,880**

a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

mln RUB	Currency	Nominal interest rate	Year of maturity	2015 Face value	2015 Carrying amount	2014 Face value	2014 Carrying amount
SECURED BANK LOANS				**6,541**	**6,541**	**4,032**	**4,032**
Secured bank loan	RUB	14.50%	2015	-	-	56	56
Secured bank loan	RUB	15.00%	2015	-	-	328	328
Secured bank loan	RUB	15.00%	2015	-	-	237	237
Secured bank loan	RUB	14.50%	2016	333	333	1,117	1,117
Secured bank loan	RUB	13.00%	2017	671	671	671	671
Secured bank loan	RUB	15.00%	2017	3,386	3,386	-	-
Secured bank loan	RUB	16.53%	2017	450	450	-	-
Secured bank loan	RUB	12.40%	2021	440	440	500	500
Secured bank loan	RUB	12.40%	2021	1,261	1,261	1,123	1,123
UNSECURED BANK LOANS				**8,405**	**8,405**	**7,247**	**7,247**
Unsecured bank loan	EUR	EURIBOR 6M+3.2%	2015	-	-	1,384	1,384
Unsecured bank loan	RUB	15.94%	2015	-	-	2	2
Unsecured bank loan	RUB	12.50%	2015	-	-	203	203
Unsecured bank loan	RUB	14.75%	2015	-	-	578	578
Unsecured bank loan	RUB	11.95%	2016	291	291	679	679
Unsecured bank loan	RUB	14.00%	2017	400	400	400	400
Unsecured bank loan	RUB	14.00%	2017	600	600	600	600
Unsecured bank loan	RUB	14.00%	2017	201	201	201	201
Unsecured bank loan	RUB	12.92%-13.42%	2017	1,200	1,200	1,200	1,200
Unsecured bank loan	RUB	14.95%	2020	1,300	1,300	-	-
Unsecured bank loan	RUB	13.50%	2019	1,000	1,000	-	-
Unsecured bank loan	RUB	15.00%	2017	506	506	-	-
Unsecured bank loan	RUB	16.53%	2017	300	300	-	-
Unsecured bank loan	RUB	12.10%	2018	500	500	500	500
Unsecured bank loan	RUB	13.50%	2018	1,500	1,500	1,500	1,500
Unsecured bank loan	RUB	14.00%	2019	607	607	-	-
UNSECURED BOND ISSUES				**4,475**	**4,468**	**5,027**	**5,012**
Unsecured bonds	RUB	12.90%	2017	4,475	4,468	5,027	5,012
				19,421	**19,414**	**16,306**	**16,291**

Bank loans are secured by:

- buildings with a carrying amount of RUB 72 million (31 December 2014: RUB 74 million), see note 13;
- inventories with a carrying amount of RUB 7,367 million (31 December 2014: RUB 2,522 million), see note 17;
- bank promissory notes with a carrying amount of RUB 866 million (31 December 2014: RUB 723 million);
- pledge of 32% of shares in a subsidiary company CJSC "Zatonskoe" (31 December 2014: pledge of 32% of shares in a subsidiary company CJSC "Zatonskoe").

The bank loans are subject to certain restrictive covenants, which are calculated based on the individual financial statements of certain entities of the Group. There has been no significant breach of any of the restrictive covenants during the reporting year.

24 Provisions

mln RUB	Warranties	Provision for deferred works	Total
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**
Balance at 1 January 2015	114	2,234	2,348
Provisions made during the year	27	3,811	3,838
Provisions used during the year	(24)	(2,499)	(2,523)
Balance at 31 December 2015	**117**	**3,546**	**3,663**
Non-current	117	-	117
Current	-	3,546	3,546
	117	**3,546**	**3,663**

(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	2015	2014
LONG-TERM		
Trade payables	21	667
Finance lease liabilities	61	126
Advances from customers	20	18
Other payables	821	2,043
	923	2,854
SHORT-TERM		
Advances from customers	16,770	12,051
Trade payables	3,468	6,073
VAT payable	1,646	1,694
Payroll liabilities	550	584
Other taxes payable	180	214
Billings in excess of work completed	261	99
Income tax payable	125	380
Finance lease liabilities	52	41
Other payables	2,578	324
	25,630	21,460
Total	**26,553**	**24,314**

Long-term other payables and short-term other payables mainly consist of obligation equal to RUB 2,293 million (31 December 2014: RUB 2,022 million) to construct the social infrastructure objects recognised as part of inventory.

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:

mln RUB	31 December 2015 Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	62	10	52
Between one and five years	64	3	61
	126	13	113

mln RUB	31 December 2014 Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	57	16	41
Between one and five years	139	13	126
	196	29	167

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

mln RUB Currency	Nominal interest rate	Year of maturity	31 December 2015 Face value	Carrying amount
RUB	13.49%; 17.86%	2017-2018	113	113
			113	**113**

mln RUB Currency	Nominal interest rate	Year of maturity	31 December 2014 Face value	Carrying amount
RUB	13.49%; 17.86%	2017-2018	167	167
			167	**167**

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 2015	Loans and receivables	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)	11,126	-	**11,126**	-	9,100	-	**9,100**
Bank deposits (over 3 months)	485	-	**485**	-	505	-	**505**
Bank promissory notes	684	-	**684**	-	489	-	**489**
Cash and cash equivalents	11,532	-	**11,532**	11,532	-	-	**11,532**
	23,827	-	**23,827**	11,532	10,094	-	**21,626**
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE							
Secured bank loans	-	(6,541)	**(6,541)**	-	(6,691)	-	**(6,691)**
Unsecured bank loans	-	(8,405)	**(8,405)**	-	(7,958)	-	**(7,958)**
Unsecured bond issues	-	(4,468)	**(4,468)**	(4,384)	-	-	**(4,384)**
Trade and other payables	-	(7,812)	**(7,812)**	-	(7,543)	-	**(7,543)**
	-	(27,226)	**(27,226)**	(4,384)	(22,192)	-	**(26,576)**

mln RUB	Carrying amount			Fair value			
31 December 2014	Loans and receivables	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**
	25,566	-	**25,566**	14,631	11,227	-	**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	-	(9,957)	**(9,957)**	-	(8,834)	-	**(8,834)**
	-	(26,248)	**(26,248)**	(4,200)	(19,431)	-	**(23,631)**

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) Cred it 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 2015 (31 December 2014: 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 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 2015 the Group had not provided any financial guarantees to entities outside the Group (31 December 2014: 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	2015	2014
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	11,810	9,911
Bank deposits (over 3 months)	485	1,024
Cash and cash equivalents	11,532	14,631
	23,827	**25,566**

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:

	2015	
mln RUB	Gross	Impairment
Not past due	8,667	-
Past due 0-30 days	220	-
Past due 31-120 days	348	-
Past due more than 120 days	926	(372)
	10,161	**(372)**

	2014	
mln RUB	Gross	Impairment
Not past due	6,467	-
Past due 0-30 days	621	-
Past due 31-120 days	364	-
Past due more than 120 days	661	(277)
	8,113	**(277)**

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

mln RUB	2015	2014
Balance at 1 January	277	22
Increase during the year	112	258
Decrease due to reversal	(17)	(3)
Balance at 31 December	**372**	**277**

The movement in the allowance for impairment in respect of advances paid to suppliers and other receivables during the year was as follows:

mln RUB	2015	2014
Balance at 1 January	23	52
Increase during the year	234	17
Decrease due to reversal	(41)	(46)
Balance at 31 December	**216**	**23**

(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.

Contractual maturities of financial liabilities were as follows:

mln RUB 31 December 2015	Carrying amount	Contractual cash flow	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	6,541	7,892	812	3,299	2,596	436	282	371	96
Unsecured bank loans	8,405	11,193	782	1,129	3,939	2,461	2,253	629	-
Unsecured bond issues	4,468	5,100	1,388	1,293	2,419	-	-	-	-
Finance lease liabilities	113	126	25	37	58	6	-	-	-
Trade and other payables (excluding taxes payable)	7,699	7,698	4,809	2,048	490	237	99	5	10
	27,226	**32,009**	**7,816**	**7,806**	**9,502**	**3,140**	**2,634**	**1,005**	**106**

mln RUB 31 December 2014	Carrying amount	Contractual cash flow	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)	9,790	9,790	5,972	1,106	1,033	1,638	7	15	19
	26,248	**30,787**	**8,907**	**4,006**	**6,647**	**8,499**	**1,773**	**344**	**611**

(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 2015	USD-denominated	EUR-denominated 2014
Cash and cash equivalents and bank deposits (over 3 months)	1,147	92	2,936	1,935
Loans and borrowings	-	-	-	(1,384)
Net exposure	**1,147**	**92**	**2,936**	**551**

The following significant exchange rates applied during the year:

in RUB	Average rate 2015	2014	Reporting date spot rate 31 December 2015	31 December 2014
USD 1	60.96	38.36	72.88	56.26
EUR 1	67.78	50.77	79.7	68.34

(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:

mln RUB	Carrying amount 2015	2014
FIXED RATE INSTRUMENTS		
Financial assets	16,136	19,196
Financial liabilities	(19,527)	(13,874)
	(3,391)	**5,322**
VARIABLE RATE INSTRUMENTS		
Financial liabilities	-	(2,584)
	-	**(2,584)**

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.

(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 2015. Fair value of financial assets and liabilities as at 31 December 2015 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 year was as follows:

mln RUB	2015	2014
Total borrowings	**19,414**	**16,291**
Less: cash and cash equivalents	(11,532)	(14,631)
Less: bank deposits, notes 15, 19	(485)	(1,024)
Net debt	**7,397**	**636**
Total equity	**54,843**	**51,871**
Debt to capital ratio at year end	**0.135**	**0.012**

Finance lease liabilities RUB 113 million at 31 December 2015 (RUB 167 million at 31 December 2014) 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	2015	2014
Less than one year	72	43
Between one and five years	207	66
More than five years	715	324
	994	**433**

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 year 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 2015 the amount of RUB 54 million (year ended 31 December 2014: RUB 46 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 52 million (year ended 31 December 2014: RUB 4 million) were capitalised into the cost of residential and commercial premises under construction.

28 Capital commitments

As at 31 December 2015 the Group does not have any capital commitments (31 December 2014: 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 year, 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 year, which is included in personnel costs (see note 10):

mln RUB	2015	2014
Salaries and bonuses	570	467
	570	**467**

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
mln RUB	2015	2014	2015	2014
Sale of apartments and premises	3	93	30	32
	3	**93**	**30**	**32**

(b) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2015	2014	2015	2014
Other related parties	50	31	7	5
	50	**31**	**7**	**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	2015	2014	2015	2014
Other related parties	103	72	(128)	(14)
	103	**72**	**(128)**	**(14)**

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	2015	2014	2015	2014
LOANS RECEIVED:				
Other related parties	(1)	-	(1)	1
	(1)	**-**	**(1)**	**1**

During the year ended 31 December 2015 loans bore interest rates of 0.5% per annum.

31 Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2015	31 December 2014
CJSC "GK Etalon"	Russian Federation	100.00%	100.00%
LLC "EtalonAktiv"	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%	100.00%
CJSC "LenSpetsSMU-Reconstruktsiya"	Russian Federation	100.00%	100.00%
LLC "Etalon-Invest"	Russian Federation	100.00%	100.00%
CJSC "Zatonskoe"	Russian Federation	100.00%	99.80%
LLC "SPM-Zhilstroy"	Russian Federation	100.00%	100.00%

As at 31 December 2015 the Group controlled 140 legal entities (31 December 2014: 133). 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 2015 for the total amount of RUB 1,263 million. Subsequent to the reporting date the Group has obtained an additional tranche of a loan for the total amount of RUB 21 million with the interest rate of 15.00% (repayable at 2017) and an additional tranche of a loan for the total amount of RUB 186 million with the interest rate of 15.00% (repayable at 2020).

Etalon Group

Etalon Group Limited

Redwood House
St Julian's Avenue
St Peter Port
Guernsey
GY1 1WA

Tel.: +44 (0)20 8123 1328
Fax: +44 (0)20 8123 1328

Email: info@etalongroup.com

etalongroup.com