Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2014
Etalon Group Limited

03. Independent Auditors' Report on Review of Etalon Group Limited Consolidated Interim Financial Statements
05. Consolidated Interim Statement of Profit or Loss and other Comprehensive Income
06. Consolidated Interim Statement of Financial Position
07. Consolidated Interim Statement of Changes in Equity
09. Consolidated Interim Statement of Cash Flows
10. Notes to the Consolidated Interim Financial Statements

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Independent Auditors' Report on Review of Consolidated Interim Financial Statements

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Etalon Group Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, and the related consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six - month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (the "consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

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

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Entered in the Guernsey Register of Recognized auditors on 13 November 2013, Registration No. RA-15.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give true and fair view of the financial position of the Group as at 30 June 2014, and its financial performance and its cash flows for the six - month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

Andrei Shvetsov
Director
For and on behalf of ZAO KPMG
Member of Chamber of Auditors of Russia
And Recognized Auditor

10 October 2014

		Six months ended 30 June	
mln RUB	Note	2014	2013
Revenue	7	14,539	16,635
Cost of sales		(10,759)	(11,064)
Gross profit		3,780	5,571
General and administrative expenses	9	(1,957)	(1,387)
Selling expenses		(577)	(460)
Other expenses, net	10	(166)	(96)
Results from operating activities		1,080	3,628
Finance income	12	391	434
Finance costs	12	(242)	(142)
Net finance income		149	292
Profit before income tax		1,229	3,920
Income tax expense	13	(302)	(822)
Profit for the period		927	3,098
Total comprehensive income for the period		927	3,098
Profit attributable to:			
Owners of the Company		927	3,083
Non-controlling interest		–	15
Profit for the period		927	3,098
Total comprehensive income attributable to:			
Owners of the Company		927	3,083
Non-controlling interest		–	15
Total comprehensive income for the period		927	3,098
Earnings per share			
Basic and diluted earnings per share (RUB)	23	3.17	10.56

These consolidated interim financial statements were approved by the Board of Directors on 10 October 2014 and were signed on its behalf by:

Robert King
Director

mln RUB	Note	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,326	1,962
Investment property	15	1,052	1,142
Other long-term investments	16	684	275
Trade and other receivables	19	756	1,332
Deferred tax assets	17	710	560
Other non-current assets		10	10
Total non-current assets		5,538	5,281
Current assets			
Inventories	18	57,132	50,057
Trade and other receivables	19	17,746	15,078
Short-term investments	20	5,493	5,008
Cash and cash equivalents	21	9,635	8,139
Other current assets		18	7
Total current assets		90,024	78,289
Total assets		95,562	83,570
EQUITY AND LIABILITIES			
Equity			
Share capital	22	14,983	14,967
Retained earnings		30,259	29,332
Total equity attributable to equity holders of the Company		45,242	44,299
Non-controlling interest		387	387
Total equity		45,629	44,686
Non-current liabilities			
Loans and borrowings	24	10,050	10,176
Trade and other payables	26	678	785
Provisions	25	91	89
Deferred tax liabilities	17	650	826
Total non-current liabilities		11,469	11,876
Current liabilities			
Loans and borrowings	24	4,689	3,043
Trade and other payables	26	32,436	22,300
Provisions	25	1,339	1,665
Total current liabilities		38,464	27,008
Total equity and liabilities		95,562	83,570

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 10 to 48.

	Attributable to equity holders of the Company				
mln RUB	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	14,967	22,688	37,655	408	38,063
Total comprehensive income for the period					
Profit for the period	–	3,083	3,083	15	3,098
Total comprehensive income for the period	–	3,083	3,083	15	3,098
Transactions with owners, recorded directly in equity					
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	–	–	–	(29)	(29)
Total transactions with owners	–	–	–	(29)	(29)
Balance at 30 June 2013	14,967	25,771	40,738	394	41,132

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 10 to 48.

	Attributable to equity holders of the Company				
mln RUB	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 period					
Profit for the period	–	927	927	–	927
Total comprehensive income for the period	–	927	927	–	927
Transactions with owners, recorded directly in equity					
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Transactions with own shares	16	–	16	–	16
Total transactions with owners	16	–	16	–	16
Balance at 30 June 2014	14,983	30,259	45,242	387	45,629

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 10 to 48.

		Six months ended 30 June	
mln RUB	Notes	2014	2013
OPERATING ACTIVITIES:			
Profit for the period		927	3,098
Adjustments for:			
Depreciation	14, 15	204	168
Gain on disposal of property, plant and equipment	10	(46)	(27)
Impairment loss on investment property	10	60	–
Impairment loss on inventories	10	85	
Finance income, net		(149)	(319)
Income tax expense		302	822
Cash from operating activities before changes in working capital and provisions		1,383	3,742
Change in inventories		(6,763)	(1,957)
Change in accounts receivable		(2,093)	(3,243)
Change in accounts payable		10,135	1,478
Change in provisions	25	(324)	(317)
Change in other current assets		(11)	12
Income tax paid		(742)	(632)
Interest paid		(683)	(871)
Net cash from/(used in) operating activities		902	(1,788)
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		52	57
Interest received		342	351
Acquisition of property, plant and equipment		(364)	(160)
Loans given		(16)	(37)
Loans repaid		79	17
Disposal of subsidiaries, net of cash disposed of		–	(7)
(Acquisition)/disposal of other investments		(964)	2,850
Net cash (used in)/from investing activities		(871)	3,071
FINANCING ACTIVITIES:			
Proceeds from borrowings		5,627	2,785
Repayments of borrowings		(4,278)	(6,624)
Acquisition of own shares		16	–
Net cash from/(used in) financing activities		1,365	(3,839)
Net increase / (decrease) in cash and cash equivalents		1,396	(2,556)
Cash and cash equivalents at the beginning of the period		8,139	10,716
Effect of exchange rate fluctuations on cash and cash equivalents		100	399
Cash and cash equivalents at the end of the period	21	9,635	8,559

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 10 to 48.

1. Background

(a) Organisation and operations

Etalon Group Limited (Etalon Limited before 19 January 2011, 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:
Ogier 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, see note 22.

Related party transactions are disclosed in note 31.

(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 to develop, 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 consolidated interim 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 interim 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 interim 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 interim financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of consolidated interim 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 interim 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 4b – derivatives;
- Note 8 – revenue recognition;
- Note 18 – inventory obsolescence provisions;
- Note 25 – provisions;
- Note 30 – contingencies;
- Note 32 – 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 interim consolidation

(i) Business combinations

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

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) 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 interim financial statements from the date on which control commences until the date on which control ceases.

(iv) Acquisitions from entities under common control

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.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value at the date that control is lost.

(vi) 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

(i) Foreign currency transactions

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.

(ii) Foreign operations

The functional currency of foreign operations is RUB – the same as that of the Group, as activities of the foreign operations are carried out as an extension of the activities of the Group in the Russian Federation.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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 interim 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 (including liabilities designated at fair value through profit or loss) 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.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury 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.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(f) Investment property

Investment property comprises items of real estate which are held to earn rentals.

Investment property is measured at its cost less any accumulated depreciation and impairment losses. The cost of self-constructed investment property includes cost of materials, labour and other directly related expenses.

Residual value and useful lives are revised and adjusted at each reporting date. When the carrying amount of an asset exceeds its recoverable amount the carrying value is reduced to that recoverable amount and the difference is recognized as an impairment loss in the statement of comprehensive income in the same period.

The Group determines the fair value of its investment property on an annual basis by engaging an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued and discloses the results of valuation in the notes to the financial statements.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised on the Group's consolidated interim statement of financial position.

(h) Inventories

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

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

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

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.

(i) Impairment

(i) 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.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated interim statement of profit or loss and other comprehensive income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed 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.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in the consolidated interim statement of comprehensive income in the periods during which services are rendered by employees.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

The provision for warranties relates mainly to the residential units sold during the period. The provision is based on estimates made from historical experience from sale of such units.

(ii) 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 the budgeted project costs and contractual arrangements for the performance of such works.

(l) 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.

Although transfer of risks and rewards vary depending on the individual terms of the sales contracts, 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. 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.

Sales may be contracted under share participation agreements, which are non-cancellable contracts. In such instances, 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.

(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 interim 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(h)) is recognised in the consolidated interim statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) 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.

(p) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 5).

Inter-segment pricing is determined on an arm's length basis.

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June, 2014, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. Of these pronouncements, potentially the following will have an impact on the Group's operations.

- IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after [1 January 2018]. The new standard replaces International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The Group recognises that the new standard introduces many changes to the accounting for financial instruments, but has yet to analyse the impact of these changes. The Group does not intend to adopt this standard early.
- IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2017. The new standard replaces International Financial Reporting Standard IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – Barter Transactions Involving Advertising Services. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, came into effect after 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. Determination of fair values

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

(a) Non-derivative financial assets

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

(b) Derivatives

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

Due to current market conditions the Group suspends applying upper and lower ranges of exchange rate (corridor 32 RUB – 36 RUB per a conditional unit, prescribed by sales contract) for its settlements and uses RUB/USD exchange rate equal to 32 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 six months ended 30 June 2014 or 2013.

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
mln RUB	2014	2013	2014	2013	2014	2013	2014	2013
External revenues	8,873	12,249	3,979	2,947	1,687	1,439	14,539	16,635
Inter-segment revenue	–	–	5,454	5,125	590	834	6,044	5,959
Total segment revenue	8,873	12,249	9,433	8,072	2,277	2,273	20,583	22,594
Gross profit	3,044	4,883	281	249	581	229	3,906	5,361
Interest in cost of sales (note 12)	340	354	–	–	–	–	340	354
Gross profit adjusted for interest in cost of sales	3,384	5,237	281	249	581	229	4,246	5,715
Gross profit adjusted, %	38 %	43 %						
	30 June 2014	December 2013	30 June 2014	December 2013	30 June 2014	December 2013	30 June 2014	December 2013
Reportable segment assets: inventory	59,085	52,043	675	516	86	65	59,846	52,624
Reportable segment liabilities: advances from customers	14,799	9,058	7,524	6,015	380	246	22,703	15,319

(b) Geographical information

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

	Revenues		Non-current assets	
	Six months ended 30 June		30 June	31 December
mln RUB	2014	2013	2014	2013
St. Petersburg metropolitan area	10,836	12,630	5,043	4,351
Moscow metropolitan area	3,703	4,005	495	930
	14,539	16,635	5,538	5,281

(c) Major customer

Revenue from one customer of the Group, recognised within the segment “Construction services”, amounted to RUB 3 130 million or 22% of the Group’s total revenue for the six months ended 30 June 2014 (revenue from this customer for the six months ended 30 June 2013: RUB 1 773 million or 11% of the Group’s total revenue).

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

mln RUB	Six months ended 30 June	
	2014	2013
Revenues		
Total revenue for reportable segments	20,583	22,594
Elimination of inter-segment revenue	(6,044)	(5,959)
Consolidated revenue	14,539	16,635
Profit or loss		
Gross profit for reportable segments	3,906	5,361
General and administrative expenses	(1,957)	(1,387)
Selling expenses	(577)	(460)
Other expenses, net	(166)	(96)
Finance income	391	434
Finance costs	(242)	(142)
Elimination of inter-segment (loss)/profit	(126)	210
Consolidated profit before income tax	1,229	3,920
	30 June 2014	31 December 2013
Assets		
Total assets for reportable segments: inventory	59,846	52,624
Elimination of unrealised gain	(2,714)	(2,567)
Total inventories	57,132	50,057
Liabilities		
Total liabilities for reportable segments: advances from customers	22,703	15,319
Elimination of intersegment advances	(1,006)	(962)
Total advances from customers	21,697	14,357

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

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

6. Acquisitions and disposals of subsidiaries and non-controlling interest

There was no significant effect of these transactions on non-controlling interest during the six months ended 30 June 2014 and resulted in a decrease in non-controlling interest of RUB 29 million and corresponding increase in retained earnings during the six months ended 30 June 2013.

7. Revenue

	Six months ended 30 June	
mln RUB	2014	2013
Sale of flats	8,421	11,160
Sale of built-in commercial premises	305	762
Sale of parking places	147	327
Total revenue of segment Residential development (note 5 (a))	8,873	12,249
Construction contracts (note 8)	3,591	2,659
Other construction services	388	288
Total revenue of segment Construction services (note 5 (a))	3,979	2,947
Sale of construction materials	460	534
Sale of stand-alone commercial premises	13	44
Rental revenue	327	219
Other revenue	887	642
Total other revenue (note 5 (a))	1,687	1,439
Total revenues	14,539	16,635

The Group denominates part of its sales in conditional units. For more details refer to note 4b.

8. Construction contracts

	Six months ended 30 June	
mln RUB	2014	2013
Revenue recognised during the period	3,591	2,659
Costs incurred	(3,453)	(2,528)
Recognised profits during the period	138	131

	30 June 2014	30 June 2013
For contracts in progress – aggregate amount of costs incurred and recognised profits to date	12,151	5,860
Unbilled receivables	2,815	882
Billings in excess of work completed	42	27
Retentions relating to construction contracts	16	2

Revenue recognised during the period is included into the line “Construction services” in note 7.

Unbilled receivables under construction contracts and retentions relating to construction contracts in progress are included into accounts receivable (see note 19).

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 26).

9. General and administrative expenses

	Six months ended 30 June	
mln RUB	2014	2013
Payroll and related taxes	1,413	976
Services	95	111
Audit and consulting services	47	53
Bank fees and commissions	*42*	*40*
Materials	*56*	*30*
Repair and maintenance	69	43
Depreciation	65	28
Other taxes	46	30
Other	124	76
Total	1,957	1,387

10. Other expenses, net

mln RUB	Six months ended 30 June	
Other income	2014	2013
Gain on disposal of property, plant and equipment	46	27
Gain on disposal of inventory	*9*	–
Fees and penalties received	*36*	–
Other income	23	–
	114	27
Other expenses		
Other expenses	(135)	(118)
Impairment of investment property (Note 15)	*(60)*	–
Other impairment loss	*(85)*	–
Fees and penalties incurred	–	(5)
	(280)	(123)
Other expenses, net	(166)	(96)

11. Personnel costs

	Six months ended 30 June	
mln RUB	2014	2013
Wages and salaries	2,416	1,934
Contributions to State pension fund	548	437
	2,964	2,371

During the six months ended 30 June 2014 personnel costs and related taxes included in cost of production amounted to RUB 1 358 million (six months ended 30 June 2013: RUB 1 230 million). The remaining part of personnel expenses was subsumed within general and administrative expenses (see note 9) and selling expenses in the amount of RUB 193 million (six months ended 30 June 2013: RUB 165 million).

12. Finance income and finance costs

	Six months ended 30 June	
mln RUB	2014	2013
Recognised in profit or loss		
Finance income		
Interest income on bank deposits	307	342
Net foreign exchange gain	–	48
Unwinding of discount on trade receivables	47	35
Interest income on loans and receivables	35	9
Gain on write-off of accounts payable	2	–
Finance income	391	434
Finance costs		
Interest expense on loans	(128)	(105)
Increase in allowance for doubtful accounts receivable	(22)	(27)
Net foreign exchange loss	(70)	–
Interest expense on finance leases	(12)	(10)
Loss on write-off of accounts receivable	(10)	–
Finance costs	(242)	(142)
Net finance income recognised in profit or loss	149	292

In addition to interest expense recognised in the consolidated interim 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:

	Six months ended 30 June	
mln RUB	2014	2013
Borrowing costs capitalised during the period	568	732
Weighted average capitalisation rate (annualized)	10.6 %	9.8 %

During the six months ended 30 June 2014, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 340 million (six months ended 30 June 2013: RUB 354 million), were included into the cost of sales upon completion of construction and sale of those properties.

13. Income tax expense

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

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

	Six months ended 30 June	
mln RUB	2014	2013
Current tax expense		
Current period	628	639
Under-provided/(over-provided) in prior period	–	2
	628	641
Deferred tax expense		
Origination and reversal of temporary differences	(326)	181
Income tax expense	302	822

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

	Six months ended 30 June	
mln RUB	2014	2013
Profit before tax	1,229	3,920
Theoretical income tax at statutory rate of 20 %	246	784
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes, net	56	38
Income tax expense	302	822

14. Property, plant and equipment

During the six months ended 30 June 2014, depreciation expense of RUB 160 million (six months ended 30 June 2013: RUB 149 million) has been charged to cost of goods sold, RUB 15 million (six months ended 30 June 2013: RUB 16 million) to cost of real estate properties under construction, RUB 1 million (six months ended 30 June 2013: RUB 1 million) to selling expenses and RUB 19 million (six months ended 30 June 2013: RUB 18 million) to general and administrative expenses.

(a) Security

At 30 June 2014 properties with a carrying amount of RUB 76 million (31 December 2013: RUB 197 million) are subject to a registered debenture to secure bank loans (see note 24).

(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 30 June 2014 the net book value of leased plant and machinery was RUB 252 million (31 December 2013: RUB 262 million). The leased equipment secures lease obligations.

mln RUB	Buildings and con-structions	Machinery and equip-ment	Vehicles	Other	Land	Construc-tion in progress	Total
Cost							
Balance at 1 January 2013	1,188	2,143	108	112	24	83	3,658
Additions	54	58	6	11	–	12	141
Reclassification from inventories	106	–	–	–	–	–	106
Disposals	(38)	(22)	(6)	(11)	–	(16)	(93)
Transfer to inventory	(579)	–	–	–	–	–	(579)
Transfers	2	–	–	5	–	(7)	–
Balance at 30 June 2013	733	2,179	108	117	24	72	3,233
Balance at 1 January 2014	766	2,347	119	119	26	110	3,487
Additions	34	172	12	13	–	133	364
Reclassification from inventories	11	–	–	–	–	191	202
Disposals	(16)	(11)	(6)	(2)	–	–	(35)
Transfers	29	1	–	–	–	(30)	–
Balance at 30 June 2014	824	2,509	125	130	26	404	4,018
Depreciation and impairment losses							
Balance at 1 January 2013	(228)	(933)	(35)	(82)	–	–	(1,278)
Depreciation for the period	(56)	(111)	(9)	(8)	–	–	(184)
Disposals	61	9	2	10	–	–	82
Balance at 30 June 2013	(223)	(1,035)	(42)	(80)	–	–	(1,380)
Balance at 1 January 2014	(263)	(1,132)	(46)	(84)	–	–	(1,525)
Depreciation for the period	(59)	(116)	(11)	(9)	–	–	(195)
Disposals	13	10	3	2	–	–	28
Balance at 30 June 2014	(309)	(1,238)	(54)	(91)	–	–	(1,692)
Carrying amounts							
At 1 January 2013	960	1,210	73	30	24	83	2,380
At 30 June 2013	510	1,144	66	37	24	72	1,853
At 1 January 2014	503	1,215	73	35	26	110	1,962
At 30 June 2014	515	1,271	71	39	26	404	2,326

15. Investment property

mln RUB	2014	2013
Cost		
Balance at 1 January	1,469	–
Transfers from inventories	–	934
Transfers to inventories	(6)	–
Balance at 30 June	1,463	934
Accumulated depreciation and impairment losses		
Balance at 1 January	(327)	–
Depreciation for the period	(24)	(296)
Impairment loss	(60)	–
Balance at 30 June	(411)	(296)
Carrying amount at 1 January	1,142	–
Carrying amount at 30 June	1,052	638

In June 2013, the Group has transferred from inventories to investment property one item of stand-alone commercial property, represented by Retail and exhibition complex with the carrying amount of RUB 638 million (gross book value RUB 934 million and accumulated impairment loss of RUB 296 million), see note 18. The fair value of this item of property as at 30 June 2014 as determined by an independent appraiser, equals to RUB 591 million. The fair value was determined based on discounted cash flows from the use of the property using the income approach. The following key assumptions were used by the appraiser:

- Inflation rate – 4.5% per annum;
- Discount rate – 10.8% per annum.

In December 2013 the Group transferred from property, plant and equipment and inventories to investment property certain commercial premises, represented by Business Centre with the carrying amount of RUB 515 million. The fair value of this item of property as at 30 June 2014 as determined by an independent appraiser, equals to RUB 461 million. The fair value was determined based on discounted cash flows from the use of the property using the income approach. The following key assumptions were used by the appraiser:

- Inflation rate – 4.5% per annum;
- Discount rate – 11.8% per annum.

16. Other long-term investments

mln RUB	30 June 2014	31 December 2013
Bank promissory notes	655	234
Loans, at amortised cost	29	31
Other	–	10
	684	275

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27. Bank promissory notes are pledged as security of secured bank loans and as security for liability for acquisition of land plot.

17. 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	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Property, plant and equipment	91	91	(303)	(290)	(212)	(199)
Investments	13	13	–	–	13	13
Inventories	870	658	(402)	(493)	468	165
Trade and other receivables	258	124	(1,376)	(1,178)	(1,118)	(1,054)
Deferred expenses	31	93	(85)	(63)	(54)	30
Loans and borrowings	18	16	(6)	(6)	12	10
Provisions	147	72	15	15	162	87
Trade and other payables	700	559	(60)	(28)	640	531
Tax loss carry-forwards	97	95	(1)	(1)	96	94
Other	67	70	(14)	(13)	53	57
Tax assets/(liabilities)	2,292	1,791	(2,232)	(2,057)	60	(266)
Set off of tax	(1,582)	(1,231)	1,582	1,231	–	–
Net tax assets/(liabilities)	710	560	(650)	(826)	60	(266)

(b) Unrecognised deferred tax liability

At 30 June 2014 a deferred tax liability of RUB 1 462 million (31 December 2013: RUB 1 354 million) arising on temporary differences of RUB 29 245 million (31 December 2013: RUB 27 083 million) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the period

mln RUB	1 January 2014	Recognised in profit or loss	Acquired	30 June 2014
Property, plant and equipment	(199)	(13)	–	(212)
Investments	13	–	–	13
Inventories	165	303	–	468
Trade and other receivables	(1,054)	(64)	–	(1,118)
Deferred expenses	30	(84)	–	(54)
Loans and borrowings	10	2	–	12
Provisions	87	75	–	162
Trade and other payables	531	109	–	640
Tax loss carry-forwards	94	2	–	96
Other	57	(4)	–	53
	(266)	326	–	60

mln RUB	1 January 2013	Recognised in profit or loss	Acquired	30 June 2013
Property, plant and equipment	(29)	(120)	4	(145)
Investments	11	2	–	13
Inventories	(13)	(27)	–	(40)
Trade and other receivables	(848)	190	–	(658)
Deferred expenses	42	23	–	65
Loans and borrowings	10	(3)	–	7
Provisions	232	(41)	–	191
Trade and other payables	649	(206)	–	443
Tax loss carry-forwards	96	(2)	–	94
Other	58	3	–	61
	208	(181)	4	31

18. Inventories

mln RUB	30 June 2014	31 December 2013
Own flats under construction	30,241	23,641
Own flats	13,548	14,659
Built-in commercial premises under construction	5,156	4,024
Built-in and stand-alone commercial premises	1,717	1,658
Parking places under construction	4,272	3,889
Parking places	1,399	1,427
Construction materials	758	615
Other	132	150
	57,223	50,063
Less: Allowance for obsolete inventory	(91)	(6)
Total	57,132	50,057

Project 1

During the year ended 31 December 2010, the Group acquired rights on a land plot for the consideration of RUB 473 million and included it into Own flats under construction. In addition to that, the Group has to transfer to the Seller certain number of flats (up to 20%) to be constructed on this land plot. The final number of flats will be determined taking into account the cost of social infrastructure. At the financial statement date the cost of social infrastructure cannot be determined with sufficient reliability. As a result, the overall cost of flats to be transferred to the Seller of the land plot cannot be determined reliably.

Project 2

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

Project 3

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

- Cash flows were projected based on the business plans for construction of residential property;
- Inflation rates – within 4.5% per annum;
- Discount rates – within 11.5% – 12.7% per annum.

Accordingly, by 30 June 2014 the cost of land plots (Project 2 and Project 3) measured as described above was written off to cost of sales and retained earnings in the amount of RUB 994 million, the remaining balance of RUB 740 million is included to finished goods and RUB 5 269 million to inventories under construction.

The following is movement in the allowance for obsolete inventory:

mln RUB	30 June 2014	31 December 2013
Balance at the beginning of the period	6	304
Provision for item of inventory transferred to investment property	–	(296)
Change in allowance for obsolete inventory	85	(2)
Balance at end of the period	91	6

In June 2013, the Group transferred an item of stand-alone commercial property with a gross book value of RUB 934 million and accumulated impairment loss of RUB 296 million from inventories to investment property, see note 15.

The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated interim financial statements. The total carrying value of these items of property was RUB 382 million as at 30 June 2014 (31 December 2013: RUB 302 million). The Group is actively seeking a buyer for these properties.

Inventories with a carrying amount of RUB 6 192 million (31 December 2013: RUB 5 796 million) are pledged as security for borrowings, see note 24.

19. Trade and other receivables

mln RUB	30 June 2014	31 December 2013
Long-term		
Trade receivables	707	1,254
Advances paid to suppliers	39	41
Other receivables	10	37
	756	1,332
Short-term		
Advances paid to suppliers	6,660	5,589
VAT recoverable	4,708	3,586
Trade receivables	3,055	3,103
Income tax receivable	85	103
Unbilled receivables	2,868	2,345
Trade receivables due from related parties	49	49
Other taxes receivable	10	6
Other receivables due from related parties	1	–
Other receivables	406	371
	17,842	15,152
Less: Allowance for doubtful accounts receivable	(96)	(74)
Short-term less allowance	17,746	15,078
Total	18,502	16,410

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

20. Short-term investments

mln RUB	30 June 2014	31 December 2013
Bank deposits (over 3 months)	5,453	4,898
Bank promissory notes	4	69
Other	36	41
	5,493	5,008

As at 31 December 2013 bank promissory notes in the amount of RUB 69 million are pledged as security for fulfilment of obligations under construction contract recognised within the segment "Construction services" (as at 30 June 2014: nil).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

21. Cash and cash equivalents

mln RUB	30 June 2014	31 December 2013
Cash in banks, in USD	3,902	3,601
Cash in banks, in RUB	2,436	1,522
Cash in banks, in EUR	203	228
Petty cash	10	16
Cash in transit	41	3
Short-term deposits (less than 3 months)	3,043	2,769
Total	9,635	8,139

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

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

22. Capital and reserves

(a) Share capital

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

Number of shares unless otherwise stated	Ordinary shares	
	30 June 2014	31 December 2013
Authorised shares		
Par value at beginning of period	0.00005 GBP	0.00005 GBP
On issue at beginning of period	292,029,971	292,029,971
Par value at end of period	0.00005 GBP	0.00005 GBP
Own shares distributed	100,000	–
On issue at end of period, fully paid	292,129,971	292,029,971

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

(b) Reserve for own shares

Acquisition of 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 30 June 2014, the Group has acquired 2 828 000 own shares or 1% of issued share capital (as at 31 December 2013: 2 928 000 own shares or 1% of issued share capital) for the consideration of RUB 456 million (as at 31 December 2013: RUB 472 million).

(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 30 June 2014, the total of subsidiaries' retained earnings, including the profits for the current period were RUB 29 195 million (31 December 2013: RUB 26 973 million). No dividends have been declared and paid by the Company during the six months ended 2014 and 2013.

23. Earnings per share

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

Number of shares unless otherwise stated	2014	2013
Issued shares at 1 January	292,029,971	292,029,971
Effect of own shares distributed	32,597	–
Weighted average number of shares for the six months ended 30 June	292,062,568	292,029,971

Profit attributable to the owners of the Company, mln RUB	927	3,083
Basic and diluted earnings per share (RUB)	3.17	10.56

24. 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 27.

mln RUB	30 June 2014	31 December 2013
Non-current liabilities		
Secured bank loans	2,460	2,261
Unsecured bank loans	2,608	2,935
Unsecured bond issues	4,982	4,980
	10,050	10,176
Current liabilities		
Current portion of secured bank loans	1,967	1,705
Current portion of unsecured bank loans	2,699	1,313
Current portion of unsecured bond issues	23	25
	4,689	3,043

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2014		31 December 2013	
mln RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				4,427	4,427	3,966	3,966
Secured bank loan	EUR	EURIBOR 6M+5,25 %	2014	–	–	752	752
Secured bank loan	RUB	12.25 %	2016	540	540	395	395
Secured bank loan	RUB	11.50 %	2015	109	109	146	146
Secured bank loan	RUB	12.00 %	2015	1,106	1,106	1,856	1,856
Secured bank loan	RUB	12.00 %	2015	544	544	603	603
Secured bank loan	RUB	11.50 %	2016	835	835	106	106
Secured bank loan	RUB	12.00 %	2014	24	24	108	108
Secured bank loan	RUB	11.00 %	2021	450	450	–	–
Secured bank loan	RUB	12.40 %	2021	819	819	–	–
Unsecured bank loans				5,307	5,307	4,248	4,248
Unsecured bank loan	EUR	EURIBOR 6M+3.85 %	2014	248	248	486	486
Unsecured bank loan	RUB	11.95 %	2016	874	874	–	–
Unsecured bank loan	EUR	EURIBOR 6M+3.2 %	2015	1,393	1,393	1,821	1,821
Unsecured bank loan	RUB	12.00 %	2017	600	600	–	–
Unsecured bank loan	RUB	13.00 %	2014	–	–	22	22
Unsecured bank loan	RUB	9.50 %	2015	1,103	1,103	1,200	1,200
Unsecured bank loan	USD	LIBOR 3M+6.5 %	2015	–	–	589	589
Unsecured bank loan	RUB	11.00 %	2015	30	30	30	30
Unsecured bank loan	RUB	12.10 %	2017	1,059	1,059	100	100
Unsecured bond issues				5,023	5,005	5,025	5,005
Unsecured bonds	RUB	12.90 %	2017	5,023	5,005	5,025	5,005
				14,757	14,739	13,239	13,219

Bank loans are secured by:

- buildings with a carrying amount of RUB 76 million, see note 14;
- inventory with a carrying amount of RUB 6 192 million, see note 18;
- pledge of 100% of shares in a subsidiary company LLC “ZHK Moskovskiy”;
- 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. None of the restrictive covenants have been breached during the reporting period.

25. Provisions

mln RUB	Warranties	Provision for deferred works	Total
Balance at 1 January 2013	65	580	645
Provisions made during the period	–	155	155
Provisions used during the period	(4)	(468)	(472)
Balance at 30 June 2013	61	267	328
Balance at 1 January 2014	89	1,665	1,754
Provisions made during the period	7	766	773
Provisions used during the period	(5)	(1,092)	(1,097)
Balance at 30 June 2014	91	1,339	1,430
Non-current	91	–	91
Current	–	1,339	1,339
	91	1,339	1,430

(a) Warranties

The provision for warranties relates mainly to the residential units sold during the period. 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.

26. Trade and other payables

mln RUB	30 June 2014	31 December 2013
Long-term		
Trade payables	491	539
Finance lease liabilities	160	197
Advances from customers	–	21
Other payables	27	28
	678	785
Short-term		
Advances from customers	21,697	14,336
Trade payables	5,882	3,399
VAT payable	3,788	3,321
Payroll liabilities	501	449
Other taxes payable	157	169
Billings in excess of work completed	61	45
Income tax payable	116	248
Finance lease liabilities	34	25
Other payables	200	308
	32,436	22,300
Total	33,114	23,085

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

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

Finance lease liabilities are payable as follows:

	30 June 2014			31 December 2013		
mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	53	19	34	47	22	25
Between one and five years	181	21	160	227	30	197
	234	40	194	274	52	222

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

mln RUB			30 June 2014		31 December 2013	
Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
RUB	15,65%; 24,27%	2014 – 2018	194	194	222	222
			194	194	222	222

27. 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			
30 June 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)	7,065	–	7,065	–	7,065	–	7,065
Bank deposits (over 3 months)	5,453	–	5,453	–	5,453	–	5,453
Bank promissory notes	659	–	659	–	659	–	659
Cash and cash equivalents	9,635	–	9,635	–	9,635	–	9,635
	22,812	–	22,812	–	22,812	–	22,812
Financial liabilities not measured at fair value							
Secured bank loans	–	(4,427)	(4,427)	–	(4,427)	–	(4,427)
Unsecured bank loans	–	(5,307)	(5,307)	–	(5,307)	–	(5,307)
Unsecured bond issues	–	(5,005)	(5,005)	(5,151)	–	–	(5,151)
Trade and other payables	–	(29,053)	(29,053)	–	(29,053)	–	(29,053)
	–	(43,792)	(43,792)	(5,151)	(38,787)	–	(43,938)

mln RUB	Carrying amount			Fair value			
31 December 2013	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)	7,157	–	7,157	–	7,157	–	7,157
Bank deposits (over 3 months)	4,898	–	4,898	–	4,898	–	4,898
Bank promissory notes	303	–	303	–	303	–	303
Cash and cash equivalents	8,139	–	8,139	–	8,139	–	8,139
	20,497	–	20,497	–	20,497	–	20,497
Financial liabilities not measured at fair value							
Secured bank loans	–	(3,966)	(3,966)	–	(3,966)	–	(3,966)
Unsecured bank loans	–	(4,248)	(4,248)	–	(4,248)	–	(4,248)
Unsecured bond issues	–	(5,005)	(5,005)	(5,425)	–	–	(5,425)
Trade and other payables	–	(19,347)	(19,347)	–	(19,347)	–	(19,347)
	–	(32,566)	(32,566)	(5,425)	(27,561)	–	(32,986)

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

(b) Credit risk

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

Credit risk with regards of cash and cash equivalents and deposits with banks is managed by placing funds primarily in the banks listed in note 21.

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 one customer accounting individually for more than 10% of the Group's balance of trade and other receivables as at 30 June 2014 (31 December 2013: none), amounted to RUB 2 696 million or 15% of the Group's total trade and other receivables as at 30 June 2014.

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

(iii) Exposure to credit risk

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

	Carrying amount	
mln RUB	30 June 2014	31 December 2013
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	7,724	7,460
Bank deposits (over 3 months)	5,453	4,898
Cash and cash equivalents	9,635	8,139
	22,812	20,497

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

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

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
mln RUB	30 June 2014		31 December 2013	
Not past due	2,836	–	3,897	–
Past due 0–30 days	87	–	267	–
Past due 31–120 days	192	–	220	–
Past due more than 120 days	696	(54)	22	(22)
	3,811	(54)	4,406	(22)

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

mln RUB	2014	2013
Balance at 1 January	22	50
Increase during the period	32	16
Decrease due to reversal	–	(7)
Balance at 30 June	54	59

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

mln RUB	2014	2013
Balance at 1 January	52	41
Increase during the period	5	34
Decrease due to reversal	(15)	(16)
Balance at 30 June	42	59

(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 assets and liabilities were as follows:

mln RUB 30 June 2014	Carrying amount	Contractual cash flows	0–6 mths	6–12 mths	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	Over 5 yrs
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	7,724	7,990	5,435	908	530	343	55	41	678
Bank deposits (over 3 months)	5,453	5,546	5,482	64	–	–	–	–	–
Cash and cash equivalents	9,635	9,635	9,635	–		–	–	–	–
	22,812	23,171	20,552	972	530	343	55	41	678

	Carrying amount	Contractual cash flows	0–6 mths	6–12 mths	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	4,427	5,685	293	2,164	1,149	611	202	400	866
Unsecured bank loans	5,307	6,680	1,738	1,460	1,217	1,484	781	–	–
Unsecured bond issues	5,005	6,591	325	320	2,234	2,513	1,199	–	–
Finance lease liabilities	194	233	12	41	80	70	30	–	–
Trade and other payables (excluding taxes payable)	28,859	28,859	27,796	545	149	369	–	–	–
	43,792	48,048	30,164	4,530	4,829	5,047	2,212	400	866

	0–6 mths	6–12 mths	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	Over 5 yrs
Required funding to be covered by operating and/or financing activities arising from financial instruments	(9,612)	(3,558)	(4,299)	(4,704)	(2,157)	(359)	(188)
Cumulative required funding to be covered by operating and/or financing activities arising from financial instruments	(9,612)	(13,170)	(17,469)	(22,173)	(24,330)	(24,689)	(24,877)

mln RUB

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

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

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

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on borrowings denominated in EUR – the currency other than the respective functional currency of Group entities, the Russian Rouble (RUB).

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
mln RUB	30 June 2014		31 December 2013	
Cash and cash equivalents and bank deposits (over 3 months)	3,902	203	3,601	228
Loans and borrowings	–	(1,641)	(589)	(3,059)
Net exposure	3,902	(1,438)	3,012	(2,831)

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
in RUB	Six month ended 30 June 2014	Six month ended 30 June 2013	30 June 2014	31 December 2013
USD 1	34,98	31,02	33,63	32,73
EUR 1	47,99	40,74	45,83	44,97

Sensitivity analysis

A weakening of the RUB, as indicated below, against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

mln RUB	Equity	Profit or loss
Six months ended 30 June 2014		
USD (10 % strengthening)	390	390
EUR (10 % strengthening)	(144)	(144)
	246	246
Six months ended 30 June 2013		
USD (10 % strengthening)	331	331
EUR (10 % strengthening)	(259)	(259)
	72	72

A strengthening of the RUB against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

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

Profile

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

	Carrying amount	
mln RUB	30 June 2014	31 December 2013
Fixed rate instruments		
Financial assets	15,824	14,322
Financial liabilities	(13,292)	(9,793)
	2,532	4,529
Variable rate instruments		
Financial liabilities	(1,641)	(3,648)
	(1,641)	(3,648)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss		Equity	
mln RUB	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Six months ended 30 June 2014				
Variable rate instruments	(16)	16	(16)	16
Cash flow sensitivity (net)	(16)	16	(16)	16
Six months ended 30 June 2013				
Variable rate instruments	(36)	36	(36)	36
Cash flow sensitivity (net)	(36)	36	(36)	36

(e) Fair values versus carrying amounts

Management believes that the fair values of its financial assets and liabilities approximate their carrying amounts.

(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 24 offset by cash and bank balances) and equity of the Group (comprising issued capital and retained earnings as detailed in note 22). The Group is not subject to any externally imposed capital requirements.

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

mln RUB	30 June 2014	31 December 2013
Total borrowings	14,739	13,219
Less: cash and cash equivalents	(9,635)	(8,139)
Less: bank deposits (over 3 months), note 20	(5,453)	(4,898)
Net debt	(349)	182
Total equity	45,629	44,686
Debt to capital ratio at period end	(0.008)	0.004

Finance lease liabilities RUB 194 million at 30 June 2014 (RUB 222 million at 31 December 2013) are included in trade and other payables (see note 26) and are not included in the total amount of borrowings.

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

mln RUB	30 Jun 2014	31 Dec 2013
Less than one year	26	16
Between one and five years	68	47
More than five years	341	313
	435	376

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

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

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

During the six months ended 30 June 2014 an amount of RUB 21 million (six months ended 30 June 2013: RUB 21 million) was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases, while RUB 7 million (six months ended 30 June 2013: RUB 6 million) were capitalised into the cost of residential and commercial premises under construction.

29. Capital commitments

As at 30 June 2014 the Group does not have any capital commitments (30 June 2013: nil).

30. Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

The Group believes that all Group's sales transactions were taxed in accordance with Russian tax legislation. However, based on the uncertainty of legislation and arbitration practice, the tax authorities could take a different position and attempt to assess additional tax (including VAT), penalties and interest. Based on the uncertainty of practical application of the law the potential amount of such assessment cannot be reliably estimated. The Group has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

31. Related party transactions

(a) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the period, which is included in personnel costs (see note 11):

	Six months ended 30 June	
mln RUB	2014	2013
Salaries and bonuses	201	165
	201	165

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value Six months ended 30 June		Outstanding balance 30 June	Outstanding balance 31 December
mln RUB	2014	2013	2014	2013
Sale of apartments and premises	–	1	63	77
	–	1	63	77

(b) Transactions with other related parties

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

(i) Revenue

	Transaction value Six months ended 30 June		Outstanding balance 30 June	Outstanding balance 31 December
mln RUB	2014	2013	2014	2013
Other related parties	20	33	8	5
	20	33	8	5

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

(ii) Expenses

	Transaction value Six months ended 30 June		Outstanding balance 30 June	Outstanding balance 31 December
mln RUB	2014	2013	2014	2013
Other related parties	15	3	(39)	3
	15	3	(39)	3

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

(iii) Loans

	Amount loaned Six months ended 30 June		Outstanding balance 30 June	Outstanding balance 31 December
mln RUB	2014	2013	2014	2013
Loans received:				
Other related parties	(1)	–	(1)	(1)
	(1)	–	(1)	(1)

During the six months ended 30 June 2014 loans bore interest rates of 0.5% per annum.

32. Group entities

Significant subsidiaries

Subsidiary	Country of incorporation	30 June 2014	31 December 2013
CJSC “GK Etalon”	Russian Federation	100,00 %	100,00 %
CJSC “Aktiv”	Russian Federation	100,00 %	100,00 %
CJSC “TSUN LenSpetsSMU”	Russian Federation	100,00 %	100,00 %
CJSC “SSMO LenSpetsSMU”	Russian Federation	100,00 %	100,00 %
CJSC “Novator”	Russian Federation	90,00 %	90,00 %
CJSC “LenSpetsSMU-Reconstruktsiya”	Russian Federation	90,00 %	90,00 %
LLC “Etalon-Invest”	Russian Federation	100,00 %	100,00 %
CJSC “Zatonskoe”	Russian Federation	99,80 %	99,80 %
LLC “SPM-Zhilstroy”	Russian Federation	100,00 %	100,00 %
CJSC “Slavyanskiy Stroitel”	Russian Federation	100,00 %	100,00 %

As of 30 June 2014 the Group controlled 127 legal entities (31 December 2013: 121). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements. The above is a list of the most significant subsidiaries.

Structured entities

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

33. Events subsequent to the reporting date

(a) Financing events

Subsequent to the reporting date the Group has repaid loans and borrowings outstanding as at 01 July 2014 for the total amount of RUB 840 million.

Subsequent to the reporting date the Group has obtained new loans for the total amount of RUB 2 013 million including a new loan for the total amount of RUB 181 million with the interest 12.4% (repayable at 2021), a new loan for the total amount of RUB 500 million with the interest 12.1% (repayable at 2018), an additional tranche of a loan for the total amount of RUB 670 million with the interest rate of 11.5% (repayable at 2017), additional tranche of a loan for the total amount of RUB 141 million with the interest rate of 12.1% and repayable at 2017, additional tranche of a loan for the total amount of RUB 491 million with the interest rate of 11.5% and repayable at 2016 and additional tranche of a loan for the total amount of RUB 30 million with the interest rate of 12.3% and repayable at 2015.

(b) Dividends

On 11 July 2014 the Annual General Meeting of shareholders of Etalon Group Limited approved a final dividend of USD 0.075 per share for the year ended 31 December 2013. With this approval, the dividend was paid on 30 July 2014 based on the shareholder register as of the record date of 13 June 2014.