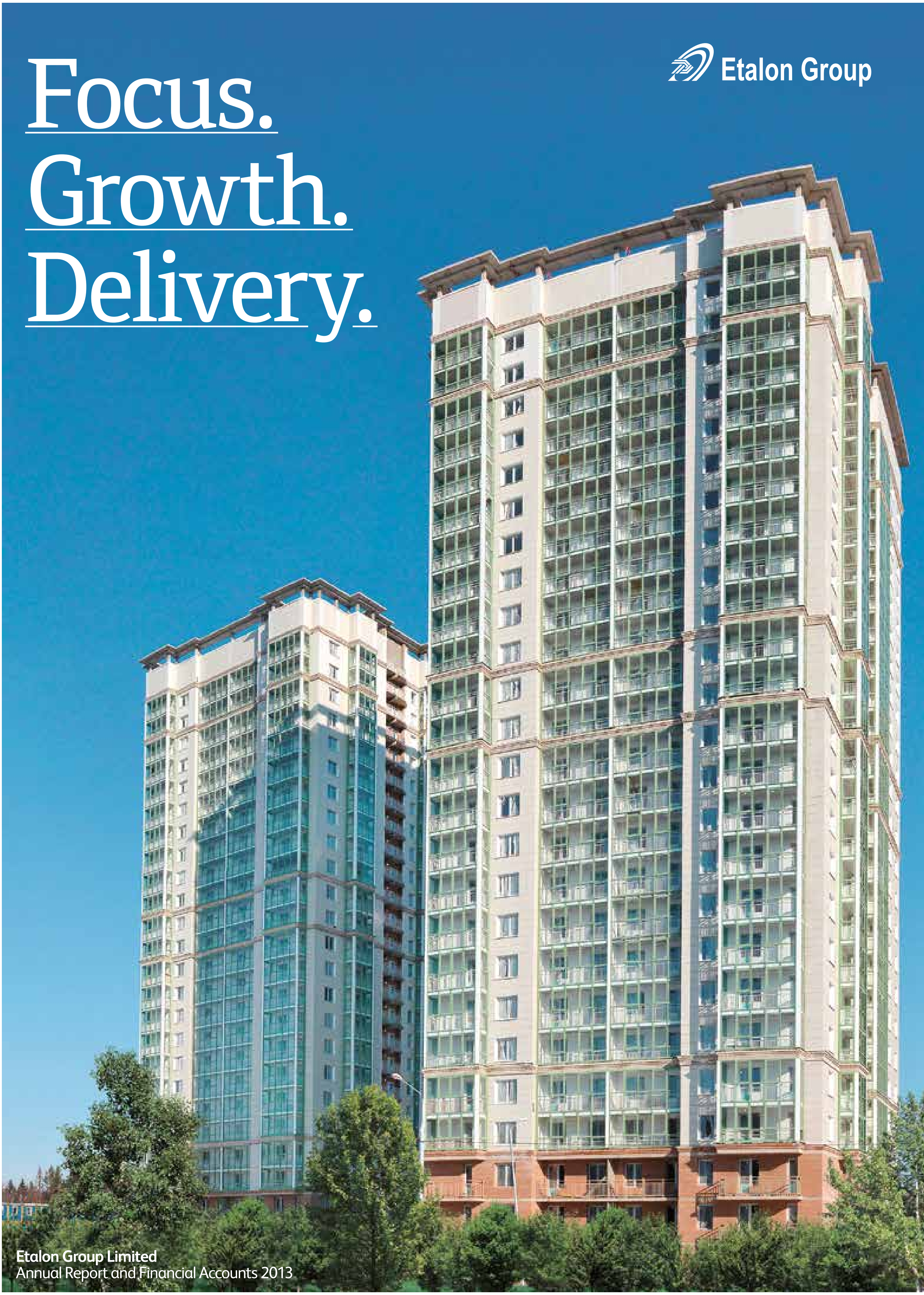
Focus. Growth. Delivery.

Etalon Group



Etalon Group Limited
Annual Report and Financial Accounts 2013

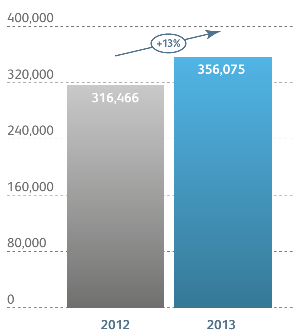
Etalon Group is one of Russia's leading and longest established residential real estate developers.

We are a real estate developer with a focus on integrated residential complexes, targeting the comfort class segment in the Moscow and St. Petersburg Metropolitan Areas. We have a growing project portfolio and a construction plan that targets 25% CAGR for construction volumes in 2010-2016. Our long-term growth will be driven by the development of our high quality landbank and further acquisitions, supported by our strong financial position and successful pre-sales model.

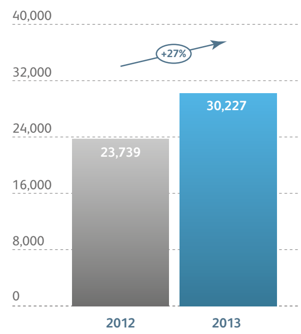
Nationwide sales and marketing

Robust new contract sales growth

New contract sales, sqm



New contract sales, mln RUB

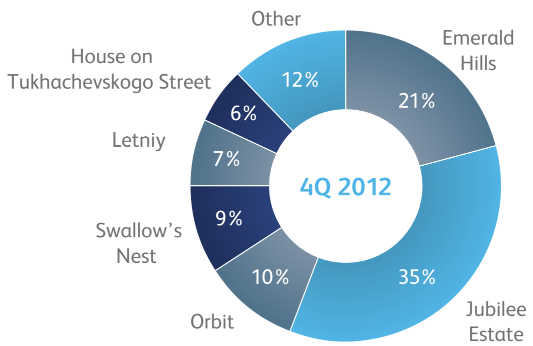


Strong operational performance in 2013

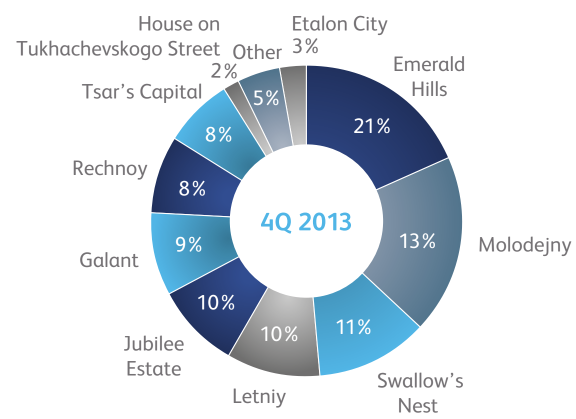
- New contract sales of 356 thousand sqm and RUB 30.2 billion, year-on-year increases of 13% and 27%, respectively
- Average price per sqm increased 13% year-on-year to RUB 84,889 for 2013
- Number of new contracts up 20% year-on-year to 6,932
- Delivered 468 thousand sqm, in line with construction programme and 2013 guidance
- Product mix significantly more diversified with three new projects launched during 2013

Better product mix drives new contract sales

New contract sales by project, sqm



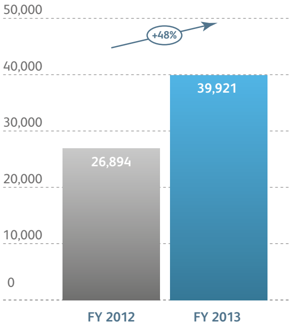
New contract sales by project, sqm



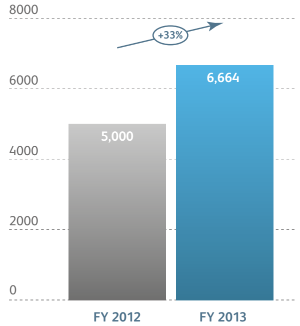
Sustainable financial performance

- Revenue of RUB 39,921 million, up 48% year-on-year
- EBITDA of RUB 9,430 million, up 36% year-on-year
- Net income of RUB 6,664 million, up 33% year-on-year
- Strong balance sheet, with net debt of just RUB 182 million

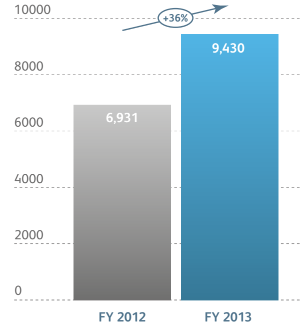
Total revenue, mln RUB



Net income, mln RUB



EBITDA, mln RUB

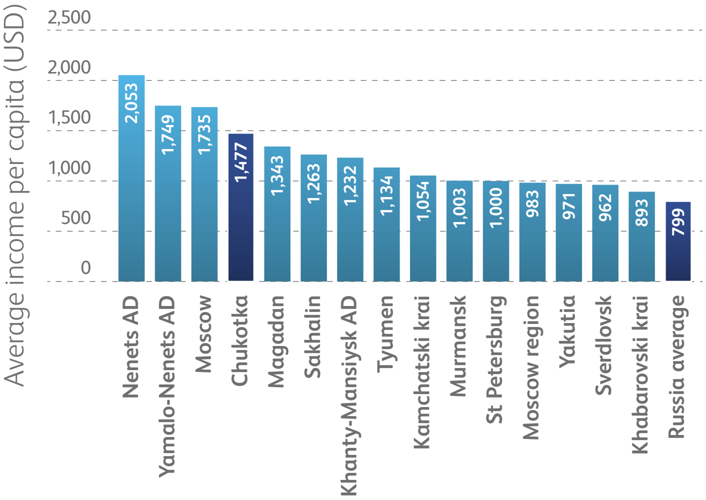


Nationwide sales network

Moscow and St. Petersburg are growing centres of internal migration

- Etalon Group's sales force is focused on the regions with the largest income per capita
- Key markets: SPMA and MMA
- 36 cities covered with 13 sales offices in St. Petersburg and 14 more sales offices nationwide
- External professional marketing and sales service agents engaged nationwide

Etalon Group sells its flats in 14 of Russia's 15 most affluent regions



Etalon Group's target regions

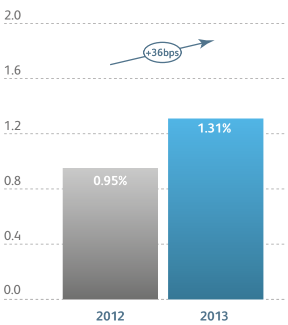
Average monthly cash income per capita, Rosstat preliminary estimates for FY13, average USD/RUB FX rate in 2013 31.91.

Geography of regional sales in FY2013

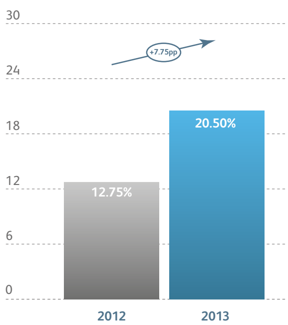
Region	Share of total contracts, %
Leningrad	5.4
Khanty-Mansiysk AD	3.1
Krasnoyarski krai	2.2
Yamalo-Nenets AD	1.8
Murmansk	1.6
Kamchatski krai	1.5
Khabarovski krai	1.4
Magadan	1.3
Yakutia	1.3
Sakhalin	1.0
Other Russian regions	11.8
Foreigners	0.4
Total	32.7

Growing mortgage transactions

Growing share of mortgage deals on key markets* %



Share of mortgage sales %



* Calculated as share of Etalon Group mortgage contracts on St. Petersburg, Moscow and Moscow region markets. Total number of mortgage deals based on CBR data for FY 2013.

Highlights

- Etalon Group offers mortgage programmes with major domestic and international banks, including Sberbank, VTB Group, Societe Generale (Rosbank), Raiffeisen Group and Absolut Bank
- Joint programmes established with 23 banks and special mortgage agencies to offer flexible financing options:
  - minimum down payment: 0 –30%
  - maturity: 1–30 years
  - interest:
    - from 10.5% in RUB
    - from 10% in EUR
    - from 10.5% in USD

Focused strategic approach

We remain the dominant player in the "comfort class" segment of high quality housing targeted at Russia's growing middle class. Our focus is on Russia's two most affluent regions: Moscow and St. Petersburg. Our key customers are successful middle managers from throughout Russia – people with stable incomes that are sufficient for them to be able to consider an "upgrade" from standard economy class housing.

Read **Our Strategy** on page 08

Growth in construction volumes

We increased delivery volumes by 29% year-on-year in 2013 to 468 thousand sqm. This is more than double the 209 thousand sqm delivered in 2010, the year before our IPO. While increasing volumes we also diversified our portfolio by launching construction of three new projects (Etalon City in Moscow, Galant and Tsar's Capital in St. Petersburg), and we are on track to reach our target of 800 thousand sqm by 2016.

Read about our **Portfolio** on page 14

Delivery of projects in line with plans

We met our guidance for delivery volumes in 2013, and are on track to deliver a 25% year-on-year increase in 2014, reaching 584 thousand sqm. Our current landbank is sufficient for us to implement our construction programme until 2018, by which time we plan to be delivering over 800 thousand sqm per year – roughly four times the volume we delivered in 2010, the year before our IPO. With a robust balance sheet and a strong cash-collections business model, we are well-positioned to make further acquisitions and achieve sustainable growth over the long-term.

Read the **Business Review** on page 22

48%

year-on-year increase in revenue to RUB 39,921 mln

29%

year-on-year increase in delivery volumes to 468 ths sqm

RUB 182 mln

net debt as of 31 December 2013

Contents

Viacheslav Zarenkov is the founder, Chairman of the Board of Directors and President of Etalon Group.

Dear shareholders,

I am very pleased to mark the completion of another successful year for Etalon Group in 2013. During the past year we continued to deliver on our core strategy of growing our portfolio of comfort class real estate projects in the Moscow and St. Petersburg metropolitan areas while maintaining a strong balance sheet and making important progress on key corporate governance and disclosure issues.

We delivered 468 thousand square metres of net sellable area in 2013, up 29% from 2012. This was exactly in line with our construction plan and the guidance we provided to shareholders throughout the year. Cash collections increased 25% year-on-year to RUB 26 billion in 2013, and we saw average price per square metre for 2013 increase 13% from 2012 levels on a significantly more diversified portfolio of projects.

While we delivered on our construction plan in 2013, we also laid the groundwork for future growth, launching three new projects during the year. With Etalon City in Moscow and Tsar's Capital and Galant in St. Petersburg launched during the year, we remain on track to deliver growth for years to come as we deliver these and launch other new projects. Thanks to our conservative financial policy and strong reputation as a reliable developer, we remain in a strong financial position with a significant part of our current and future construction financed by pre-sales of flats, starting from when necessary project documentation is received from authorities to begin construction.

We achieved strong financial results for 2013, with net profit up 33% to RUB 6.7 billion. Our robust operating performance throughout the year was the main driver of our solid financial results. Sustainable demand for our comfort class residential offering, combined with further improvements in our portfolio mix, helped us to increase price per square metre while also selling more flats during the year. At the end of 2013 our portfolio of projects was valued at USD 2,727 million by Jones Lang LaSalle and we have a landbank of 3.44 million sqm, which is sufficient to implement our construction plan until 2018.

While I am extremely pleased to report the strong financial and operational results for 2013, I also want to underscore the important progress we have made in other areas that we hope will help to grow sustainable value for shareholders. The past year saw several important developments in the corporate governance field for example, Etalon Group has introduced a dividend policy aimed at paying out between 15% and 30% of IFRS net profits to shareholders.

After successfully executing the investment programme financed by Etalon's IPO in 2011, we are in a good position to start giving cash back to our investors, and in April of 2014, the Board of Directors announced Etalon Group's first ever dividend recommendation of USD 0.075 per share for 2013. This represents 20% of our net profit for the second half of the year.

We have made important changes to our governance structures as well: effective 1 March 2014 I have stepped down from my position as CEO of Etalon Group, with our Anton Evdokimov, who had served as CFO of Etalon Group and CEO of our primary operating subsidiary, taking over this role. I have led this Company for over 25 years, since founding it in 1987, and today Etalon Group has matured to a point where our stakeholders will be best served by appointing an experienced CEO to focus on day-to-day management, while I will maintain my influence on decision-making and will be able to concentrate on Etalon's long-term development in my roles as President and Chairman of the Board of Directors.

By separating the executive and strategic functions, I will be able to concentrate more on building long term shareholder value, and better-positioned to hold management accountable for successfully implementing the Board's decisions. I will also be able to take a more active part in Etalon Group's investor relations and government relations activities.

Boris Svetlichny who was an Independent Non-Executive Director, has taken on the CFO role, and will remain on the Board as an Executive Director. Before joining Etalon Group, Boris has held various senior finance positions at Orange Business Services, VimpelCom and GoldenTelecom. Boris has more than 25 years of international financial and senior management experience, which I believe will enable him to make a significant contribution to the success of the company.

We also replaced our Head of Corporate Investments and IR in mid-2013, bringing in Kirill Bagachenko, who has excellent qualifications to help upgrade the Company's investor relations practice and establish Etalon Group as the benchmark of transparency and disclosure among its peers.

Looking ahead to 2014 we remain in a strong financial position, with net debt of just RUB 182 million and three projects on track to launch this year. We continue to look for opportunities to further expand our landbank and secure further growth beyond 2018. In the immediate future, however, we are well on track to deliver another 25% year-on-year increase in deliveries in 2014, reaching 584 thousand sqm of residential NSA – up from 209 thousand sqm in 2010.

We have delivered in a number of key areas during 2013 and we intend to maintain our focus to continue to grow sustainable value in 2014. Thank you to the management and Board and the entire Etalon team for another excellent year – may we look back at the coming years with a similar sense of achievement!

Sincerely,

Viacheslav Zarenkov

+29%
Deliveries (year-on-year)

30 bln
New contract sales (RUB)

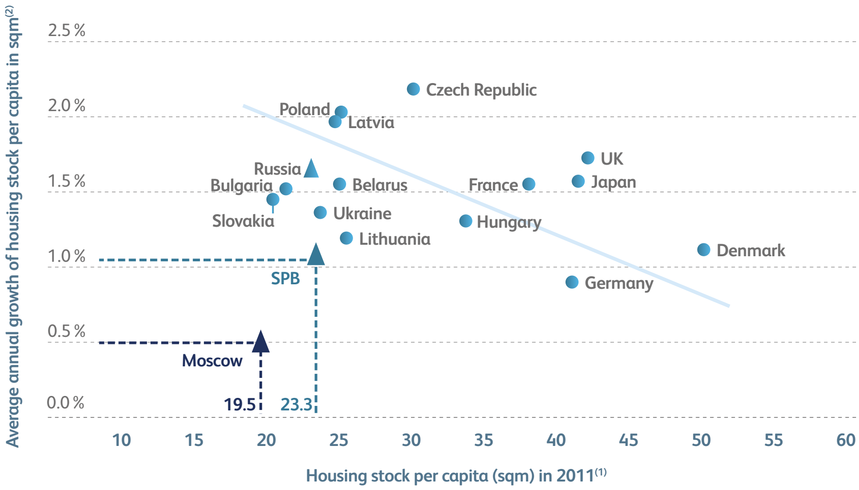
Honoured Builder of Russia
Viacheslav Zarenkov being awarded as an Honoured Builder of Russia in 2007.

Well-positioned to grow in an attractive market

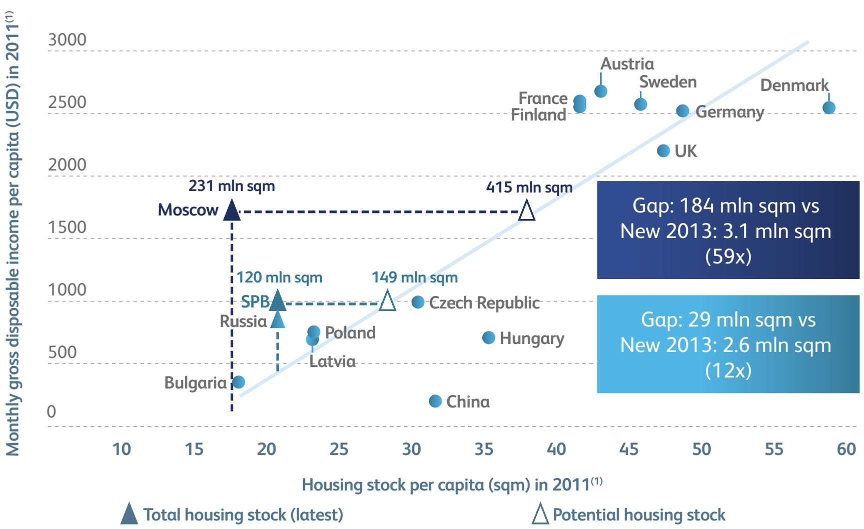
The Russian real estate market, especially in the Moscow and St. Petersburg regions, is unique in terms of its potential for continued growth.

Sustainable demand for new housing is likely to be driven by persistent undersupply, as illustrated by the two charts below:

Growth rate for Moscow and St. Petersburg housing stock over last seven years lags well behind other European countries, indicating huge potential for growth



Residential stock in Moscow is disproportionally low for the population's disposable income levels



The fundamentals of the homebuilding market in Russia are straightforward:

– Russia's housing market remains undersupplied, with penetration significantly below European levels
– Moscow and St. Petersburg are the two most affluent and attractive markets
– Mortgage lending remains underdeveloped and is set to grow
– Russian GDP per capita is higher than in many other developing economies

Note: Average USD/RUB FX rates for 2011 and 2012: 29.4 and 31.1, accordingly; average EUR/USD FX rates for 2011 and 2012: 1.39 and 1.28, accordingly.

Source: Rosstat, AHML, UN, OECD, Eurostat, HelgiLibrary, World Bank, Turkish Statistical Institute, NBP, IRN, St. Petersburg Real Estate Bulletin.

Talisman

Talisman is a middle class residential complex, located in the historic Vasileostrovsky district of St. Petersburg.

Growth and capital concentrated in the "golden triangle"

Moscow and St. Petersburg offer the highest prices and widest margins for real estate developers. In both cities, the sector is demonstrating its resilience and long-term investment attractiveness.

MMA and SPMA account for 13% of Russia's population – more than twice the percentage of GDP (according to Rosstat data for 2012). MMA and SPMA continue to be the principal centres of Russia's economic and political gravity, attracting people from across the country. Added to the potential already present from the resident populations, this creates further sustainable demand for housing.

Population growth in Moscow and St. Petersburg has significantly outpaced delivery of new housing stock, while disposable income growth has also outpaced real estate prices, improving affordability and indicating significant potential demand

City / region	Population 2013 (mln)	Cumulative growth 2003-13	Monthly disposable income 2012 (USD)	Cumulative growth 2009-12 (RUB)
Moscow	12	16.6%	1,566	52.2%
Moscow region	7	6.6%	956	55.9%
Moscow and region (MMR)	19	12.7%	1,348	54.2%
SPB	5	7.2%	895	64.0%
SPB region	1.8	4.7%	577	55.0%
SPB and region (SSR)	6.8	6.6%	818	63.1%
Other regions with Etalon sales offices[3]	13.9	-1.4%	956	41.7%
Russia	**143.3**	**-1.6%**	**742**	**55.1%**

(1) 2012 data applied for Moscow.
(2) Based on 2005-2011 data for Russia, SPB and SSR; 2005-2012 – for Moscow and MMR; for other countries – average growth rates for available periods.
(3) Murmansk region, Krasnoyarski krai, Tyumen region, Khanty-Mansiysk autonomous district, Yakutia, Magadan region, Kamchatski krai, Khabarovski krai, Sakhalin region and Primorskiy krai.

Market Overview
continued

Market share – room for growth

Our combined market share in the Moscow and St. Petersburg metropolitan areas in 2013 was around 3.5%[1]. In the places where we compete, our product benefits from significant advantages in terms of the quality we offer to customers at competitive prices. As we continue to build the scale of the business in line with our construction plan, we believe we will be able to take market share thanks to the clear advantages of our product in the comfort class segment.

We believe we will be able to gain market share primarily from the many smaller developers that make up the majority of the residential development sector today. Supported by the size of our operations, established brand, nationwide sales network and robust cash flows, we believe we will be able to outgrow the smaller players, and the market will consolidate around the largest companies.

Sustainable demand through economic cycles

While Russian GDP has under-performed in 2013 and economic growth forecasts have been downgraded several times, we have seen strong demand for housing remain intact, with higher numbers of contracts, higher average prices and good pre-sales dynamics across our projects. This is partly due to the fact that consumer spending growth in Russia has remained in line with 2012 levels, despite GDP growth declining. We believe the Russian middle class consumer remains strong and this will reflect positively on the housing market. This is supported by numerous economic data points:

- Russian unemployment of 5.6% as of December 2013 remains at historically low levels
- Russia's consumer confidence index remained strong through the end of the 2013
- Real wage growth remains positive despite some decoration (4% year-on-year in 4Q 2013 and 7% year-on-year in 3Q 2013)
- Russian mortgage issuance grew by c. 30% year-on-year in 2013
- Consumers still able to spend on potential large purchases thanks to significant cash reserves: deposits-to-GDP ratio at the end of 2013 was around 26%.

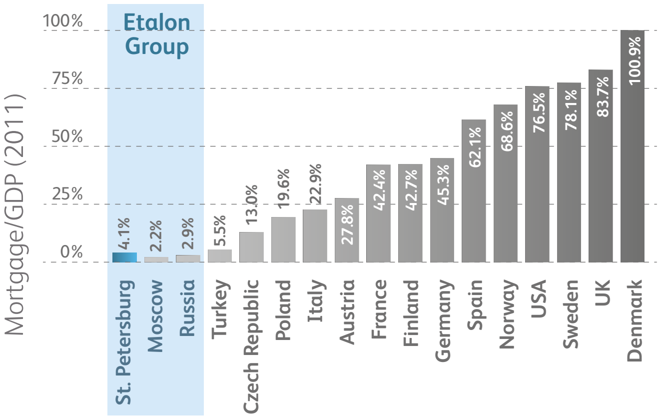
Housing market supply in MMA and SPMA continues to lag behind demand, and deliveries remain around 12%–15% below their peaks in 2007 and 2008. This is despite the fact that real wages have outgrown prices in the ensuing five to six years, making flats significantly more affordable.

Mortgage lending on the rise

While we differentiate ourselves by offering tailored instalment plans that are often preferable to other forms of financing, mortgages nevertheless represented 21% of our sales in 2013, and we have increased our share of the total number of mortgage deals in our key markets from 0.95% in 2012 to 1.31% in 2013.

Compared with other developing nations, and despite rapid growth in the mid-2000s, mortgage lending remains under-developed in Russia. As the mortgage market develops in Russia, it is likely to become an increasingly important factor driving sustainable demand for housing over the longer term.

Mortgage to GDP ratio illustrates significant under-penetration and huge potential for growth in demand supported by higher borrowing levels



(1) Source: Rosstat and Goldman Sachs Global Investment Research.

Etalon City

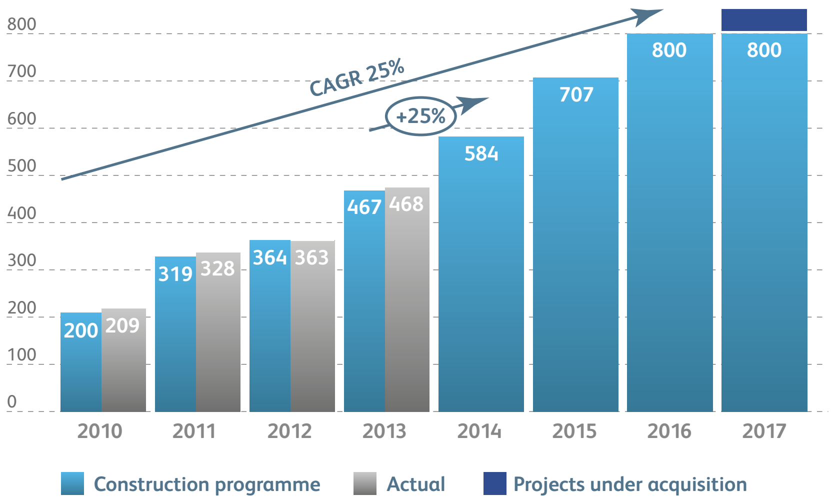
Construction period: 2013-2017
Total NSA of project: 430 ths sqm

Focused strategic approach

We have a track record of successfully executing against our strategy. By staying true to our core competencies, we have built a business with a strong reputation, solid financial position and excellent operational performance. Already a leader in our home base of St. Petersburg, we have now established a strong foothold in the Moscow Metropolitan Area.

Construction programme

Construction programme, ths sqm of NSA



Emerald Hills
Construction period: 2008-2018
Total NSA of project: 862 ths sqm

There are five key components to our strategy:

#1
Focus on core strength of home building

- We concentrate on developing medium-scale and large-scale residential complexes in the affordable "comfort class" price segment.
- We adapt to changes in market demand by responding to feedback from our extensive sales network and tailoring future projects to match.
- We maintain a vertically integrated business model to control timing, quality and costs.
- We have our own in-house design institute, which helps us to develop projects tailored specifically to Etalon's market segment and capabilities.

#2
Target key markets of SPMA and MMA

- We intend to remain the leading property developer in the St. Petersburg Metropolitan Area (SPMA).
- We have firmly established our presence in the Moscow Metropolitan Area (MMA), where we continue to increase our market share (target 50/50 split between MMA and SPMA).
- We continue to grow our national sales network to expand our customer base across Russia and fuel sustainable growth.

#3
Disciplined management of landbank

- We plan to maintain enough land reserves to fulfil our needs over the medium term.
- We are currently landbank sufficient until 2018, and are acquiring projects to ensure expansion capacity from 2018 though 2022.
- We do not hold on to projects for future development, but look to minimise the time between acquisition and development.
- We seek to enhance returns by reinvesting capital efficiently.

#4
Prudent attitude to financing

- We focus on pre-sales as a key source of funding for the construction process.
- We have a conservative financial strategy built on improving our borrowing structure.
- We are lengthening the overall maturity profile of our debt, reducing borrowing costs and diversifying our sources of financing.
- We aim to maintain a low level of leverage, measured by our debt-to-EBITDA ratio.

#5
Maintain strong cash-collections for pre-sales financed business model

- We continue to expand our brand recognition by investing in our sales and marketing operations as well as construction.
- We emphasise customer service to create positive perceptions and enhance our reputation – a virtuous circle.
- We generate sales in large part thanks to our reputation for consistently providing products of the highest quality.

By adhering to our clear strategic priorities, we have successfully provided our shareholders with consistent growth in construction volumes and portfolio value. Between 2010 and 2013 we more than doubled our residential delivery volumes. We have done this while keeping debt levels very low, meaning we are in a strong financial position to further grow our business to nearly quadruple volumes by 2016.

Best-in-class housing for Russia's growing middle class

We are very proud of our product, which we believe offers our customers the best value for their money. We operate in the comfort class, in the sweet spot between economy and business classes. This is the "sweet spot" because we sell at prices that are accessible to a much broader customer base than business class, while our customers are in a more secure financial position than those who buy economy class apartments, as we saw during the crisis. We effectively offer our customers business class build quality at affordable prices.

One of the keys to success in our segment is the instalment plan payment scheme that we offer. Etalon Group's tailored instalment plans make it possible for more families to purchase apartments with balanced payments that fit within the family's budget on the one hand while, on the other hand, ensuring stable cash-collections for Etalon. We offer our customers unique instalment plans, with down payments ranging from 10-90% and payment periods of up to 40 months or more. This allows us to tailor payment schedules to fit the disposable incomes of our customers.

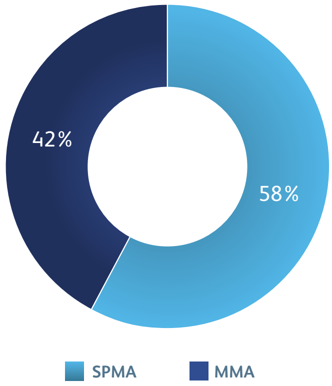
Fully landbank sufficient to 2018 with a high quality construction programme aimed at delivering sustainable growth

We are fully landbank sufficient until 2018. We acquire land with a view to starting construction within 18 months. This means we do not try to speculate with our land, we do not acquire agricultural land or land that has infrastructure problems, we never take zoning risks and always maintain a "live" landbank.

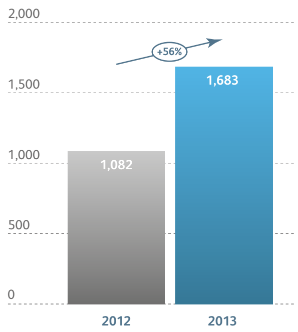
We are a developer that helps cities to grow. Cities such as Moscow and St. Petersburg naturally grow in concentric circles and hence our landbank is fully replenishable: we usually operate in the 6th, 7th and 8th belts around city centres, where land is still a commodity.

Our ambitious construction programme is based entirely on projects where we already own land rights. By 2016 we plan to deliver 800 thousand sqm, which is nearly double our deliveries in 2013 and almost four times 2010 levels.

Unsold NSA by region*



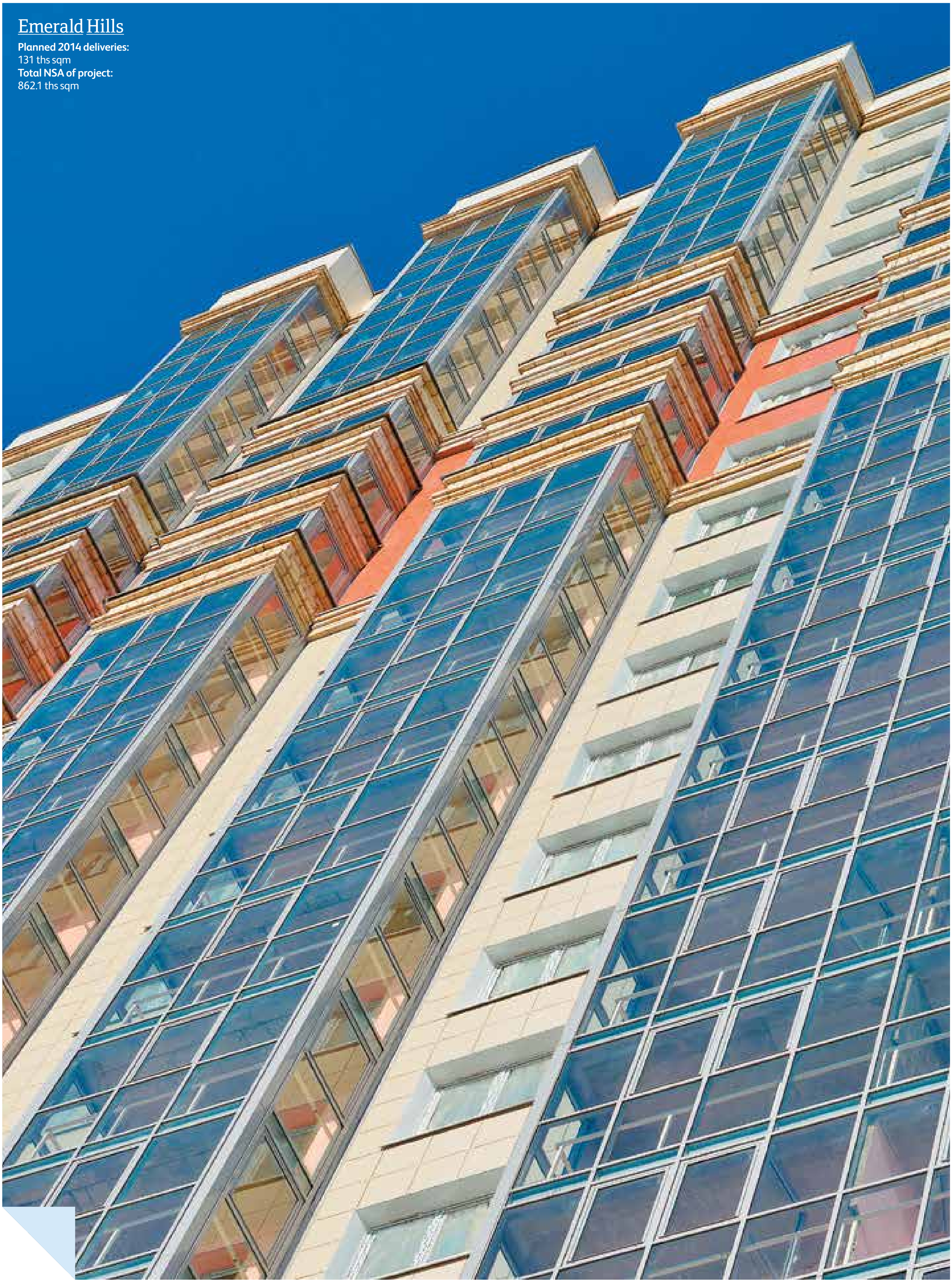
Number of MMA contracts



* Source: Jones Lang LaSalle land bank valuation report as of 31.12.2013.

Emerald Hills

Planned 2014 deliveries:
131 ths sqm
Total NSA of project:
862.1 ths sqm



Residential high-rise development is our core business activity

We are a residential developer in Russia's "golden triangle" of St. Petersburg, Moscow and the greater Moscow area, with a dominant position in the comfort class segment.

A distinctive feature of Etalon Group's residential developments is that they involve the construction of entire estates – in essence creating destinations, or entire micro-districts, integrated with a full range of supporting infrastructure from schools to medical clinics to shopping and entertainment venues.

We often build in suburban or newly urbanised areas outside city centres, which means our residential developments offer customers more living space compared to city centres, while maintaining convenient access to transportation networks. Building outside of the centres also means that residents benefit from better environmental conditions and are often adjacent to parks and lakes.

Truly vertically integrated business model

Etalon Group is the only company in the sector that can boast true vertical integration, with two strong construction management companies, five general contractors, 16 subcontractors, a crane company, a brick factory and a nationwide sales network. In addition to homebuilding, the superior quality of our offering means that we are a trusted industrial construction partner for clients including General Motors, Toyota, Ford Motors, Bosch, Siemens, Nissan, Suzuki and Gazprom.

Our unique nationwide sales network, which covers 14 of the 15 wealthiest regions of Russia and spans 36 cities in total, is also an important contributor to our overall sale.

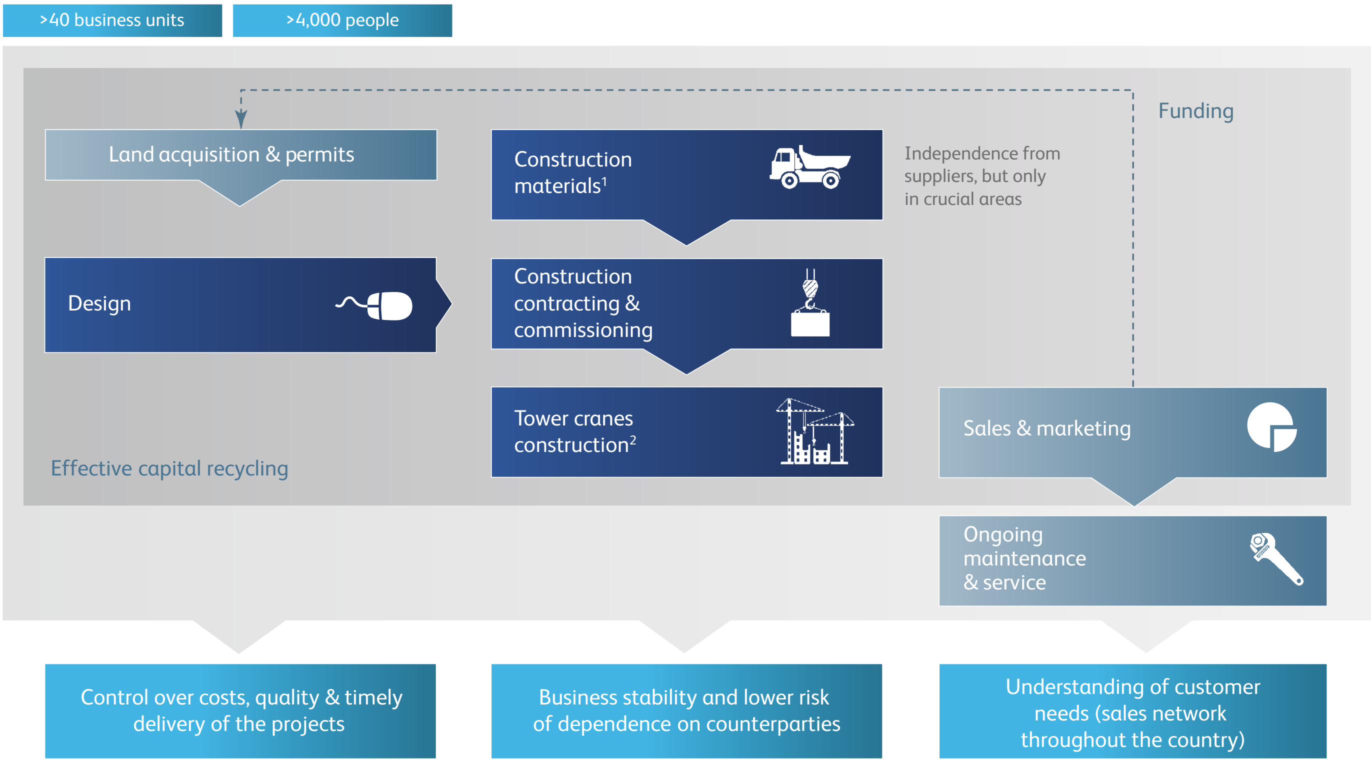
3+3

New projects launched in 2013 + due to be launched in 2014

20%

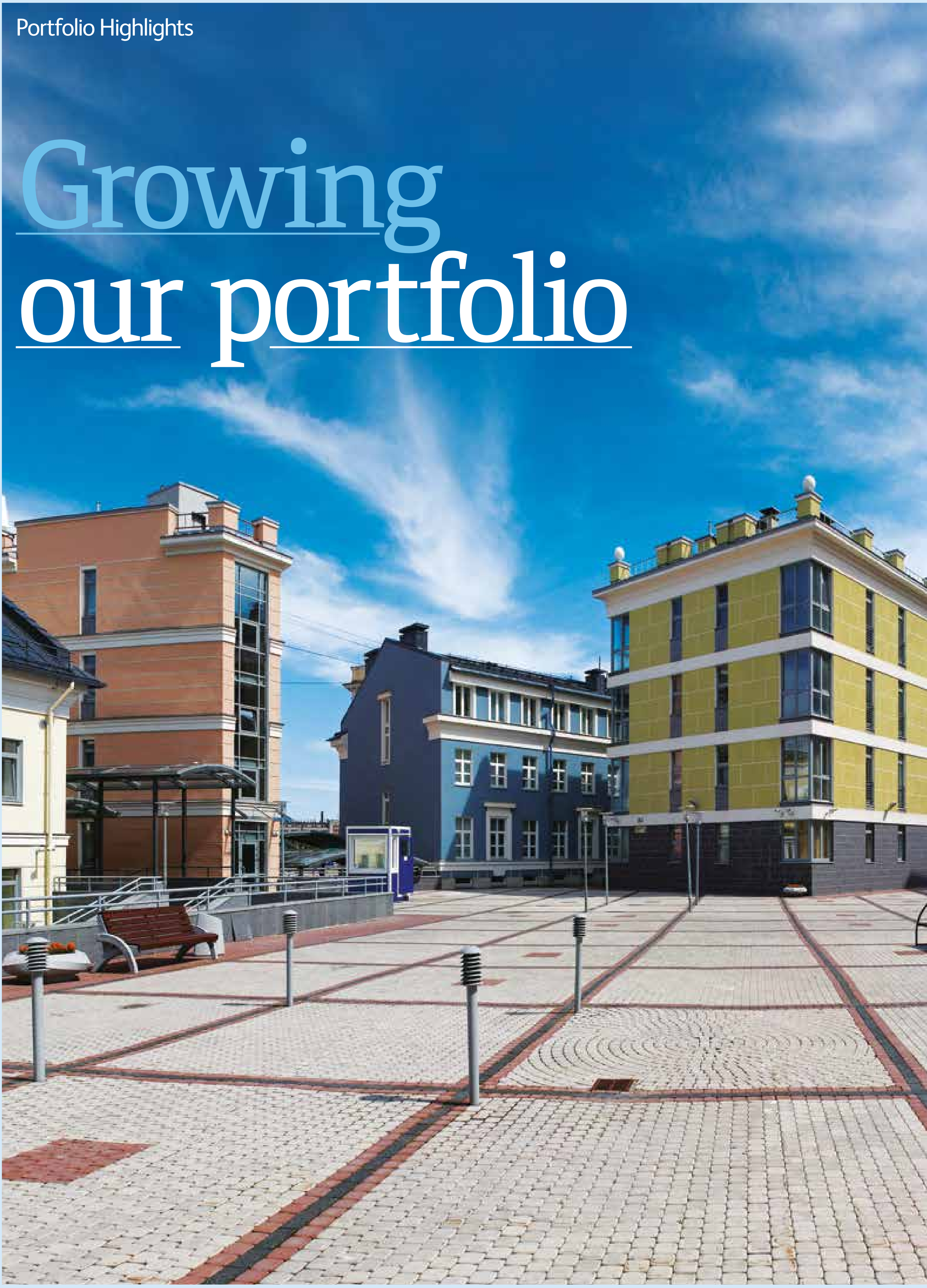
Share of Etalon City, Tsar's Capital and Galant (all launched in 2013) in 4Q 2013 sales

Our vertically integrated business model



(1) Brick plant and concrete products plant. Own production only for "bottleneck" construction materials.
(2) 61 Liebherr tower cranes. Data as of 31.12.2013.

Growing our portfolio



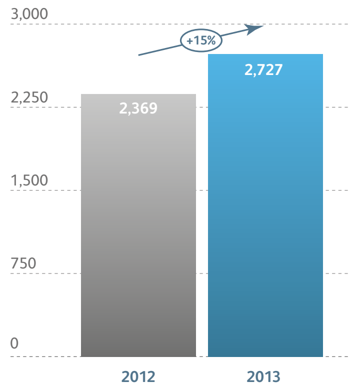
We have a solid portfolio of projects that are currently completed or in various stages of completion in both SPMA and MMA.

Near Rostral Columns

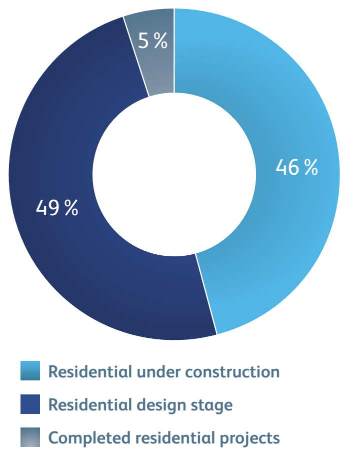
Total NSA of project: 69 ths sqm
Completed in 2007

Growing portfolio, strong pipeline

Open market value, USD mln



Breakdown by stage of development



A solid portfolio of property

Moscow Metropolitan Area

(MMA)

Etalon Group began to establish a solid foothold in the Moscow Metropolitan Area in 2008, and we continue to expand our presence in this market, with two projects currently under construction and four in development stage.

As of 31 December 2013, property in the Moscow Metropolitan Area accounted for 42% of net sellable area in our portfolio and during 2013 we saw the number of contracts in MMA increase 56% year-on-year to 1,683.

- Design stage
- Under construction
- Delivered

St. Petersburg Metropolitan Area

(SPMA)

Etalon Group has successfully established itself as a leading property developer in the St. Petersburg Metropolitan Area. We averaged 10% annual market share of total residential completions (excluding individual construction) in the region between 2009 and 2013.

As of 31 December 2013, our projects in the St. Petersburg Metropolitan Area comprised 58% of our total unsold net sellable area. We are currently actively selling flats at a wide range of current and completed projects in SPMA, with more due to come online this year.

Highlights

Project portfolio focused on cash flow generation.

Focus on comfort class, which we sell through a nationwide sales network.

Continued growth of share of MMA projects in portfolio value to 42% in 2013.

Three new projects launched in 2013, helping to significantly diversify portfolio.

Overview
We have a well-diversified portfolio of high quality projects across our core markets in the Moscow and St. Petersburg Metropolitan Areas. Our projects, which are focused on the "comfort class", ensure steady cash flow generation within the Group.

An unrivalled history and track record…
Our more than 25-year history and track record of delivery instils trust in our customers, trust which only grew in recent times of market uncertainty. Since Etalon was founded in 1987, we have successfully delivered more than 160 residential buildings with a total NSA of more than 3.9 million sqm.

A strong platform for future growth…
We have 16 projects currently under development representing a total NSA of more than 4.1 million sqm, including the largest and the most ambitious Emerald Hills project in the Moscow Metropolitan Area (862 ths sqm).

We are fully landbank sufficient until 2018 and are on track to more than double our 2012 construction volumes to 800 thousand sqm per year by 2016.

… and a robust pipeline…
On the following pages is an overview of our current projects underway in both St. Petersburg and Moscow. A selection of some of our new flagship projects are featured in more detail on the following pages.

* Source: Jones Lang LaSalle portfolio valuation as of 31.12.2013.

Completed projects

#1 Letniy (SPMA)

Letniy is located in the south of the Moskovsky district of St. Petersburg and has good transport accessibility. The centre of St. Petersburg is approximately 15 minutes away by car and the complex is within walking distance of the modern Pulkovo shopping centre.

Total NSA:
64.9 ths sqm

Income from sales*:
USD 116.5 million

Status:
Completed

#2 House on Tukhachevskogo Street (SPMA)

The House on Tukhachevskogo str. site is close to the 50th Anniversary of October Park and just within 15 minutes by car from the central district of St. Petersburg.

Total NSA:
24.3 ths sqm

Income from sales*:
USD 42.2 million

Status:
Completed

Ongoing Projects

#3
Swallow's Nest (SPMA)

This property is located in the Nevsky district of St. Petersburg and has good transport accessibility, being just 500 metres from Oktyabrskaya Embankment – one of the most convenient traffic arteries (approximately 20 minutes by car to the centre of St. Petersburg), and just 2 km to the KAD ring road. The nearest metro station, Proletarskaya, can be reached by public transport, which can be taken from a number of bus stops on the Oktyabrskaya Embankment. The development has good view of the Neva River.

Total NSA:

333.7 ths sqm

Open market value*:
USD 247.9 million

Income from sales*:
USD 612.7 million

Construction period:
2012-2016

Planned 2014 deliveries:
82 thousand sqm

#4
Emerald Hills (MMA)

Emerald Hills is a mass market residential complex with several commercial buildings (business centres, supermarkets, fitness centre, multi-purpose shopping and leisure centre and sport park). The district will have adequate social infrastructure represented by kindergartens, elementary and high schools, as well as a fitness and health complex.

Total NSA:

862.1 ths sqm

Open market value*:
USD 448.2 million

Income from sales*:
USD 1,960 million

Construction period:
2008-2018

Planned 2014 deliveries:
131 thousand sqm

#5
Rechnoy (SPMA)

The site is located in the Nevskiy District and just 2 km from the KAD ring road. It faces Rybatsky prospect on one side and the Neva River on the other. The property can be directly accessed from Rybatsky prospect. The nearest metro station is Rybatskoe, which is located, ten minute walk away. The complex will offer residents an excellent view of the Neva River.

Total NSA:

109.7 ths sqm

Open market value*:
USD 50.0 million

Income from sales*:
USD 169.4 million

Construction period:
2012-2014

Planned 2014 deliveries:
110 thousand sqm

#6
Molodejny (SPMA)

The property is located in the Nevsky District of St. Petersburg close to the KAD ring road and has good transport accessibility, meaning that it is possible to reach the centre of St. Petersburg by car in approximately 15 minutes. The nearest metro station is Proletarskaya, which is a five minute walk from the property. Public transport to the central part of the city can also be taken from a number of bus stops within walking distance of the site. The future residential complex will offer occupants an excellent view of the Neva River.

Total NSA:

111.8 ths sqm

Open market value*:
USD 56.9 million

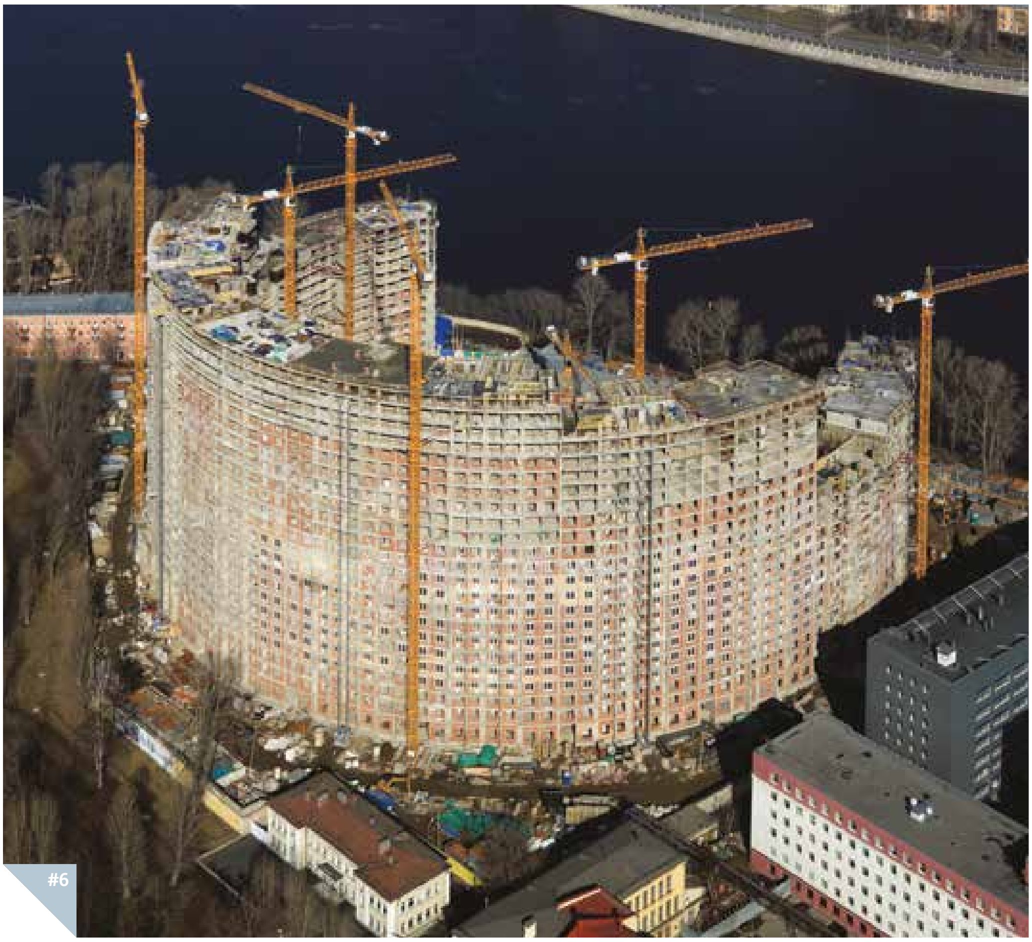
Income from sales*:
USD 193.9 million

Construction period:
2012-2014

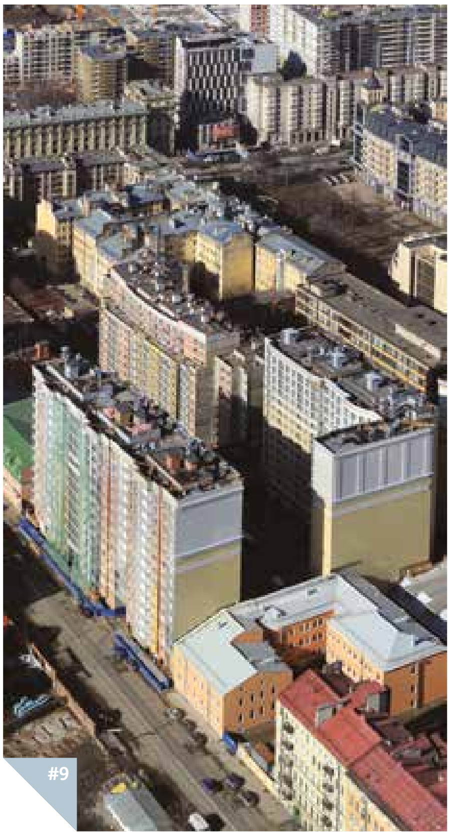
Planned 2014 deliveries:
112 thousand sqm

* Source: Jones Lang LaSalle portfolio valuation as of 31.12.2013.


#4


#6

Projects launched in 2013



#7 Etalon City (MMA)

Etalon City is located in the South Butovo sub-district of the South-Western Administrative District (SWAD) of Moscow which is a well-developed residential area of Moscow that benefits from good ecological conditions. It has good transport accessibility, meaning that it is possible to reach the centre of Moscow by car in approximately 25 minutes in non-peak hours. The Ulitsa Skobelevskaya Light Metro station and a number of bus stops are situated within walking distance.

Total NSA:

429.5 ths sqm

Open market value:
USD 182.4 million

Income from sales:
USD 954.5 million

Construction period:
2013-2017

Planned 2014 deliveries:
5 thousand sqm

#8 Tsar's Capital (SPMA)

The site is located in the geographical centre of St. Petersburg and has good transport accessibility, being 1 km from the Ploschad Vosstania metro station, close to Nevsky Prospect, and within walking distance from numerous shopping and entertainment centres. Social infrastructure: kindergarten and school planned on the territory of the project.

Total NSA:

390.3 ths sqm

Open market value:
USD 279.8 million

Income from sales:
USD 1,101.4 million

Construction period:
2013-2016

Planned 2014 deliveries:
106 thousand sqm

#9 Galant (SPMA)

The site is located in the Moskovskiy District. The proximity of the Moskovskiy District to the city centre makes it a prestigious location for both living and business. The site is located on the second line of Moskovskiy prospect, which stretches from the south to the city centre, and has good transport accessibility, meaning that it is possible to reach the centre of St. Petersburg by car in approximately ten minutes during non-peak hours. It is also within a five minute walk of a number of bus stops. Frunzenskaya metro station us also just a five to seven minute walk from the property. There is free parking for cars along the street.

Total NSA:

49.2 ths sqm

Open market value:
USD 68.0 million

Income from sales:
USD 131.5 million

Construction period:
2013-2014

Planned 2014 deliveries:
38 thousand sqm

* Source: Jones Lang LaSalle portfolio valuation as of 31.12.2013

Selected future projects

#10 Galactica (SPMA)

The property is located within the borders of Admiralteyskiy District of St. Petersburg. The district is situated close to the city centre, which makes it a prestigious location for both living and business. Project Galactica will create an entirely new comfort class residential area. Transport access will be from Moskovskiy Pr., Obvodny Channel Emb. and Mitrofanievskoe Hwg., which are located to the east, north and west, respectively. Some internal roads will also be constructed in the process of development. The nearest metro stations, Frunzenskaya and Moskovskie Vorota, are situated ten to 15 minutes from the development.

Total NSA:

752.3 ths sqm

Open market value:
USD 258.0 million

Income from sales:
USD 2,115.7 million

Construction period:
2015-2020

Planned launch of sales:
2015

#11 Samotsvety (SPMA)

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

Total NSA:

189.1 ths sqm

Open market value:
USD 125.0 million

Income from sales:
USD 541.6 million

Construction period:
2014-2016

Planned launch of sales:
2014

#12 Dmitrovskoe Shosse (MMA)

The site borders Yahromsky passage to the north and Dmitrovskoye highway to the east, and can be accessed easily from either of these major transport routes, meaning it is possible to reach the centre of Moscow by car in approximately 20 minutes during non-peak hours. Beskudnikovo railway station is just 1.5 km from the complex, providing easy transport access to the centre of Moscow. In addition, the complex is situated in a pleasant environment, close to Dmitrovsky Park, VISKHOM Park and the Veteran Theme Park. There are plans to build a metro station, Yubileinaya, adjacent to the site and there are also a number of bus stops situated within walking distance.

Total NSA:

287.4 ths sqm

Open market value:
USD 151.4 million

Income from sales:
USD 844.5 million

Construction period:
2015-2017

Planned launch of sales:
2015

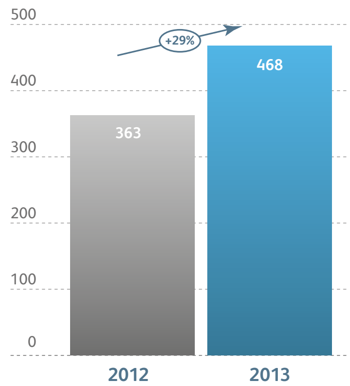
* Source: Jones Lang LaSalle portfolio valuation as of 31.12.2013

Delivery of projects in line with schedules

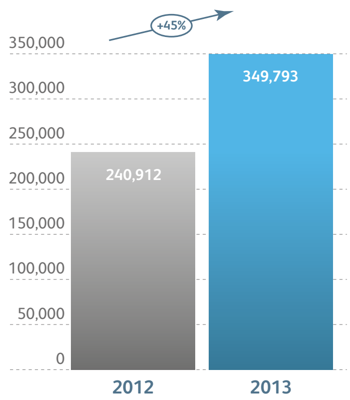
In 2013 we delivered 468 ths sqm of NSA, up 29% from 2012 and in line with our guidance for the year. We successfully diversified our portfolio further with the launch of sales at three projects and we developed our landbank with the acquisition of two new projects.

Solid operating performance

2012-2013 deliveries, ths sqm



2012-2013 transfers y-o-y, sqm



Emerald Hills
Planned 2014 deliveries: 131 ths sqm
Total NSA of project: 862.1 ths sqm

Operational Review

We successfully delivered on our construction plan in 2013, completing 468 thousand sqm of NSA for the year, up 29% compared to 2012 and an all-time record for Etalon Group. During the last year Etalon delivered 17 buildings containing 7,110 flats at ongoing projects including Tsar's Capital, Swallow's Nest, Galant and Emerald Hills, as well as at Letniy and House on Tukhachevskogo Street, where we completed construction work.

During 2013 we launched sales at Tsar's Capital and Galant, both of which are located in prestigious regions of St. Petersburg, as well as at Etalon City, which is Etalon Group's first project in Moscow. Along with projects launched in 2012, this has significantly diversified our portfolio, which was reflected in robust growth in new contract sales and price per sqm.

We also acquired two new projects in 2013, one each in the Moscow and St. Petersburg Metropolitan Areas. These new projects, together with our decision to go ahead with the TechnoPark project and increases in planned NSA at several projects in development stage, have helped to replenish our landbank and secure our construction programme up to 2018.

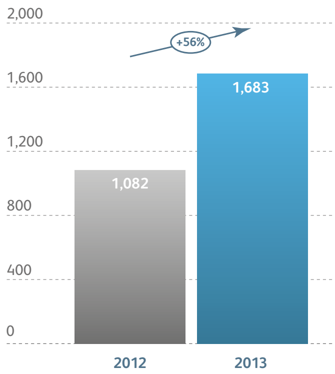
New contract sales

New contract sales for 2013 amounted to 356 thousand sqm and RUB 30.2 billion, year-on-year increases of 13% and 27%, respectively.

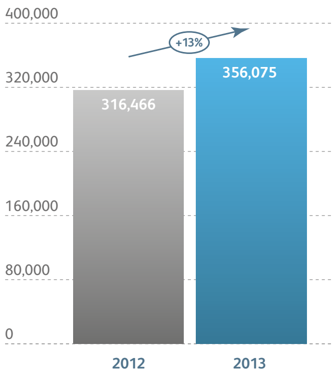
2013 Deliveries – breakdown by project

Project	NSA delivered in 2013, ths sqm
Swallow's Nest	189
Emerald Hills	107
Tsar's Capital	72
Letniy	64
House on Tukhachevskogo Street	25
Galant	11
Total	468

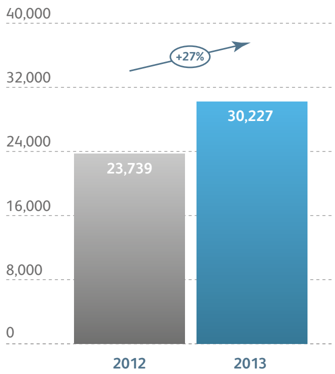
Number of MMA contracts



New contract sales, sqm



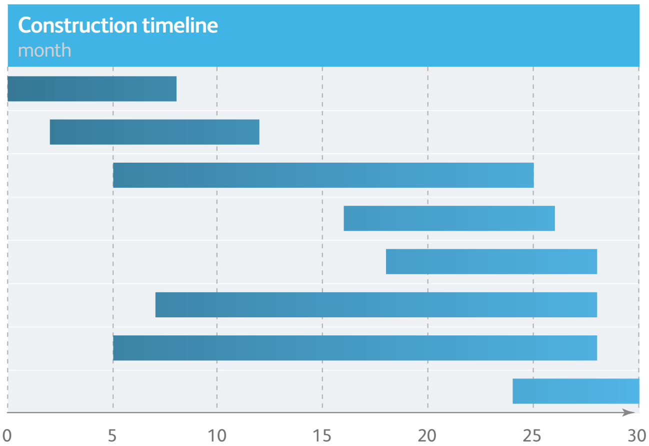
New contract sales, mln RUB



Typical project lifecycle*

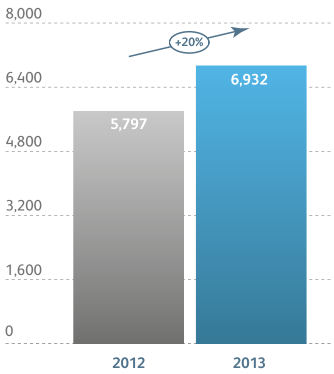
Our typical project lasts approximately 30 months from pre-development to completed urban landscaping. The table on the right illustrates how the various key stages fit together for a typical project.

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



* Source: Company estimates for typical project based on current portfolio average. Actual breakdown per project is subject to significant variation due to a number of factors.

Number of contracts



The total number of contracts in FY 2013 increased 20% y-o-y to 6,932. In 2013, the number of MMA contracts rose by 56% y-o-y to a total of 1,683.

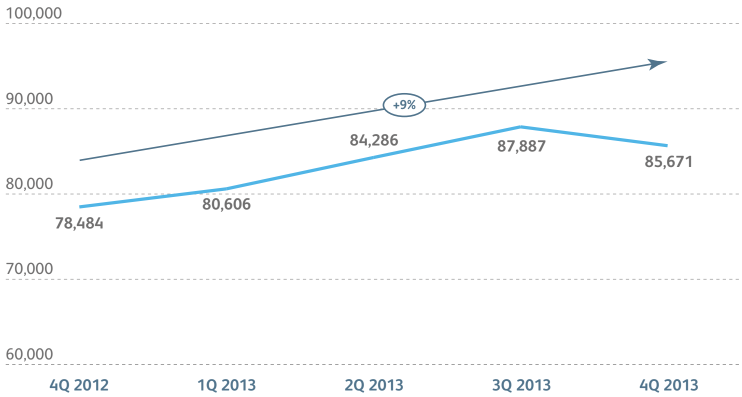
Cash collections were strong, with a total of RUB 26,073 million in 2013, up 25% from RUB 20,869 million in 2012 (per management accounts). The average down payment reached 71% and the share of mortgage sales rose to 20.5% for the year, the highest level in Etalon Group's history.

Deliveries grow to over 2 times the level in 2010

Deliveries increased by 29% y-o-y to 468 thousand sqm – in line with management guidance for 2013 and the Etalon Group construction programme. This is more than double the 209 thousand square metres that we delivered in 2010, the year before our IPO. Transfers to customers rose by 45% y-o-y to 350 thousand sqm of NSA.

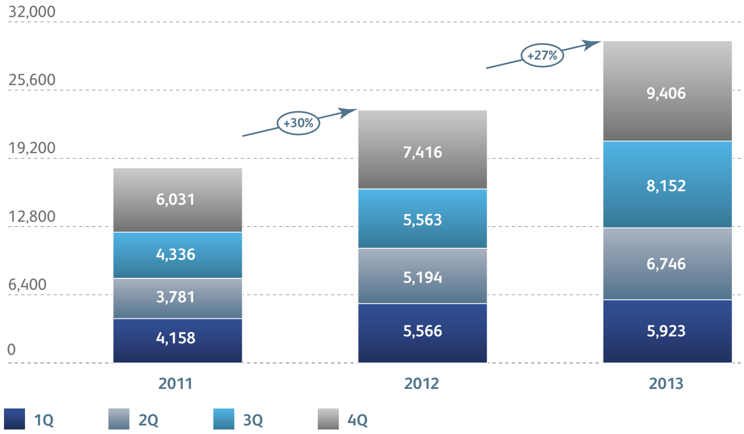
The stronger growth in RUB terms was due primarily to an increase in price per sqm thanks to an improved product mix as we successfully diversified our portfolio during 2013.

Average price, RUB/sqm



New contract sales in rouble terms were higher year-on-year in every quarter of 2013, with the strongest performance in the second half of the year, especially in the traditionally active fourth quarter.

New contract sales year-on-year, mln RUB



2013 Operating results overview

New sales	FY 2013	FY 2012	Change %
New sales, sqm	**356,075**	316,466	13%
New sales, mln RUB	**30,227**	23,739	27%
Number of contracts	**6,932**	5,797	20%
Average price, RUB/sqm	**84,889**	75,013	13%

Deliveries	FY 2013	FY 2012	Change %
NSA delivered, ths sqm	**468**	363	29%

Transfers to customers	FY 2013	FY 2012	Change %
Transferred to customers, sqm	**349,793**	240,912	45%

Financial Review

Revenue

+48%

Year-on-year to RUB 39,921 mln from RUB 26,894 mln in FY 2012

+36%

EBITDA increased to RUB 9,430 mln for FY 2013

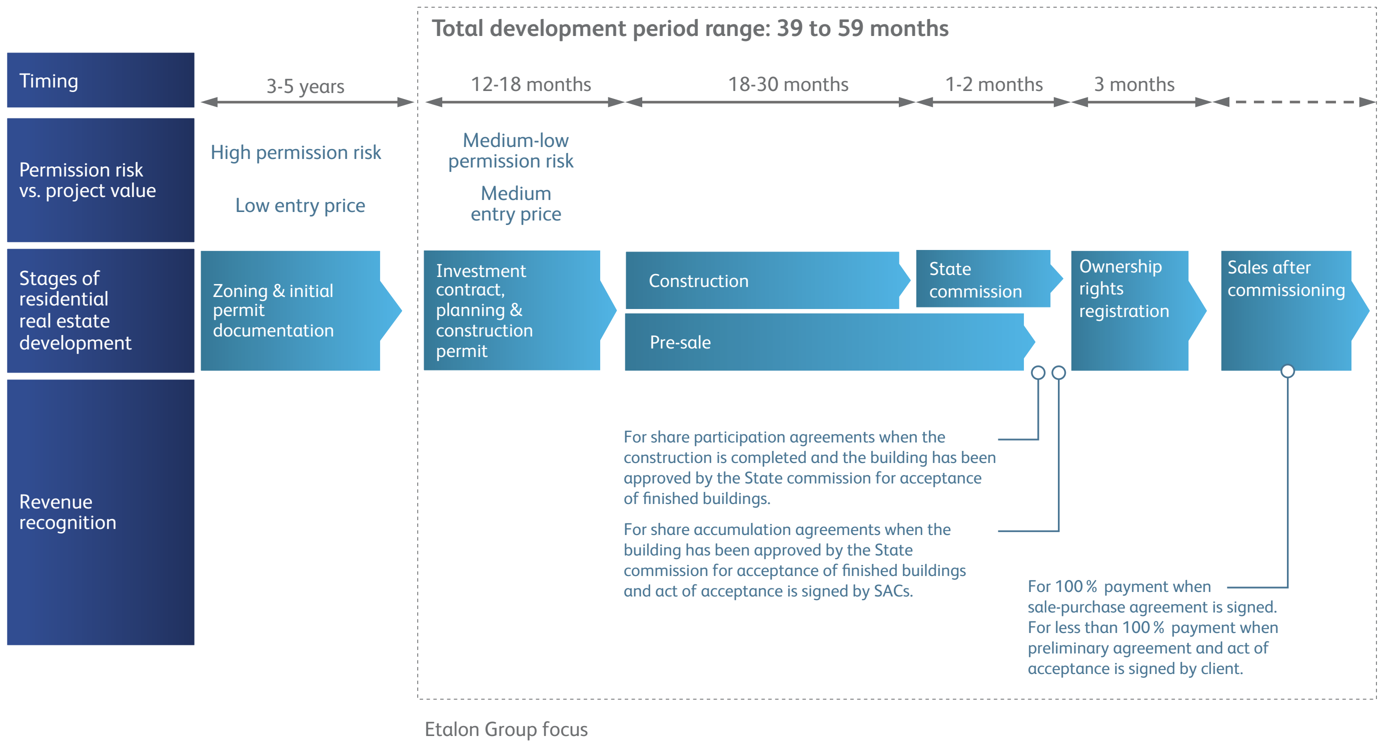
New revenue recognition policies
In the second half of 2013, we adopted new accounting policies for revenue recognition relating to real estate development participation agreements (as defined by the Russian Federation Federal Law #214-FZ).

Etalon Group expects real estate development participation agreements to become the most widespread legal form for transactions on Russia's primary residential real estate market in the coming years. We introduced this new accounting policy to keep pace with this important development and in line with industry practice in order to make revenue recognition more predictable going forward.

The exact text of the new policy is as follows: "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."

This means that revenue for the full value of the premises already contracted through real estate development participation agreements is recognised on the date when the State commission for acceptance of finished buildings issues an act of acceptance for the building (or buildings).

Residential development scheme

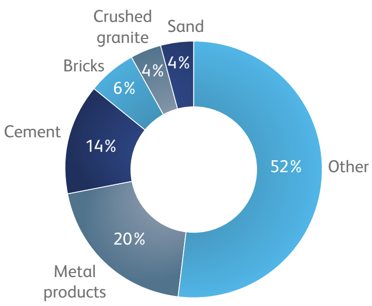


Illustrative project cost structure

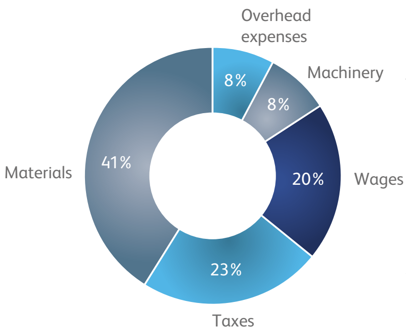
The charts below are provided as an illustrative example of our project cost structure based on Etalon Group's current portfolio average. Thanks to our high degree of vertical integration – from our own sales network and design bureau, to construction management, crane operators and even brick manufacturing – we have considerable control over project costs throughout the cycle.

Typical project cost structure

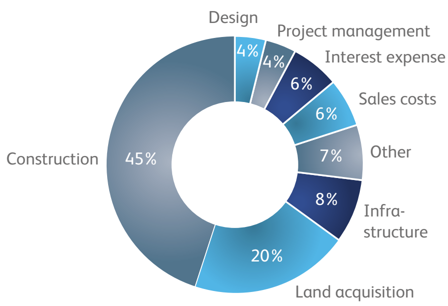
Materials cost structure*
(USD 375-550 per sqm of NSA)



Construction cost structure*
(USD 900-1,200 per sqm of NSA)



Total cost structure*
(USD 1,800-2,200 per sqm of NSA)



*Source: Company estimates for typical project based on current portfolio average. Actual breakdown per project is subject to significant variation due to a number of factors.

We maintained tight control over costs during the year, which resulted in selling, general and administrative expenses (SG&A) increased at a slower pace than revenue in 2013, up 27% year-on-year to RUB 4,180 million. SG&A as a percent of revenue decreased from 12.2% in 2012 to 10.5% in 2013.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) was RUB 9,430 million, up 36% from RUB 6,931 million in FY 2012, supported by higher transfers to customers and better prices per sqm.

Net income for the year was RUB 6,664 million up 33% from RUB 5,000 million for FY 2012.

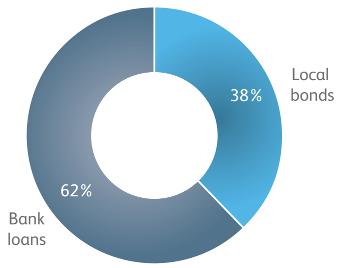
Balance sheet position

While we used cash resources for two new acquisitions, we nonetheless ended the year with a net debt position of just RUB 182 million. Gross debt at 31 December 2013 was RUB 13,219 million, with repayments evenly spread out between 2014 and 2017.

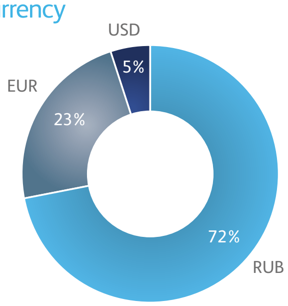
Overall, our balanced debt maturity profile, solid track record and net cash position combined with strong cash-collections will enable us to continue to acquire high quality projects and provide a perfect growth platform for the years to come.

Debt composition (as of 31/12/2013)*

By type of facility



By currency



* Source: audited consolidated IFRS accounts for FY 2013.

Building integrated schemes

Opening of a new school built by Etalon Group as a part of an integrated development project.

Sustainability policy and practice

Health and safety

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

Environment

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

Society

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

Emerald Hills
Opening of Boulevard of Cosmonauts.

Project Rainbow
Opening of school.

We take a holistic approach to sustainability, and consider its implications across a number of different areas.

Sustainability Policy and Practice
continued

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

During 2013 several educational facilities that Etalon Group built at its housing projects were opened:
- Emerald Hills (MMA): a kindergarten (240 child capacity) and primary school (300 pupil capacity) were opened in May and September of 2013, respectively.
- Orbit (SPMA): two kindergartens with capacities of 95 and 60 children were opened in September and December of 2013, respectively.

We continued to build educational facilities at several of our projects during 2013 as well:
- Emerald Hills (MMA): primary school with an estimated capacity of 1,100 pupils scheduled for delivery in 2014
- Molodejny (SPMA): kindergarten with an estimated capacity of 95 children scheduled for delivery in 2014
- Rechnoy (SPMA): kindergarten with an estimated capacity of 50 children scheduled for delivery in 2014

Additional social infrastructure structures have planned in the process of obtaining land planning permits for our Swallow's Nest and Etalon City projects. These buildings are currently at design stage, and we plan to build them in 2015 and 2016.

We also aim to support both culture and sports in our key areas of operation. Most recently, we supported the construction of a children's music school and motor and cycle training facilities in St. Petersburg. In addition, our construction subsidiary has supported the maintenance and revival of a number of St. Petersburg's historical and cultural centres.

Emerald Hills
Primary school opened in 2013.

Emerald Hills
NSA delivered in 2013: 107 ths sqm
Total NSA of project: 862 ths sqm

Charity

We engage in certain charity activities in order to support local communities in the areas where we operate. LenSpecSMU (Etalon Group's primary operating subsidiary), for example, participated in the reconstruction of a memorial to the Heroic Defenders of Leningrad in the Nevskiy district of St Petersburg that was unveiled in May 2013. In Moscow, Etalon-Invest (an Etalon Group subsidiary) is participating in the construction of a church in honour of St. Stephen of Perm in South Butovo.

Employees

We are proud of all our teams across the Group, and focus on employee development on an ongoing basis through a number of training programmes. We also seek to ensure that our employees have sufficient social protections to support their long-term wellbeing. Etalon Group provides financial assistance to its employees for important life events such as the birth of a child, in the event of an illness or accident resulting in temporary disability, after the death of a relative or in the event of loss or damage to property as a result of a flood, fire, theft or natural disaster. We also provide loyalty premiums to employees for long-term employment with our Company, to honour significant contributions to the Company's development, and upon retirement to recognise loyal and dedicated service to Etalon Group.

Programme	Number of employees participated in 2013
Financial assistance in case of childbirth	79
Financial assistance in case of death of employee's relative	32
Financial assistance (other)	203
Monthly pension for former employees	24
One-off and retirement bonus	1

Emerald Hills

Opening of a kindergarten.

Swallow's Nest

Opening of a memorial to the Heroic Defenders of Leningrad.

Corporate Governance

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

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

Further, the Board recognises that it has a responsibility to set the correct ethical tone for the rest of the Etalon organisation to follow.

Corporate Governance Structure

Board of Directors

The Board is collectively responsible to shareholders for Etalon's continuing success, providing leadership to the business and bringing an independent judgement on all matters of strategy, performance, resources, standards of conduct and accountability. To assist with this process, the Board has delegated specific responsibilities to the Audit Committee, Remuneration and Nomination Committee and Strategy Committee and to the Company's executive management team.

In addition to the Board Committees, regular meetings of the Group's senior management are held which are attended by the members of the Board. These meetings consider, discuss and agree on the Group's prospective projects, pipeline, buildings under construction, sales and cash flows.

As of 31 December 2013, the Board and its Committees were structured as shown below:

During 2013, the Directors approved a formal schedule of regular Board meetings, allowing sufficient time at each for discussion about the Company's strategic planning, financial control and key areas of governance. Formal minutes are prepared and are circulated to all Board members for approval. Papers are circulated in advance of these meetings which has enabled the Board to focus its time on matters of strategic and financial importance. In turn, this has resulted in an enhanced level of discussion.

In addition, in order to clarify the Board's governance responsibilities, the Directors adopted a Management Policy which sets out a schedule of matters reserved for its approval as well as the roles and responsibilities of the Directors. The matters specifically reserved for the Board are set out in writing and include:

- To approve Etalon Group's long-term objectives and corporate strategy;
- To approve the corporate operating and capital expenditure budgets;
- To approve material acquisitions, disposal, investment, contract, expenditure or other transactions;
- To approve the interim and final results, the annual report and accounts, including the corporate governance statement, the dividend policy and declaration of interim and recommendation of final dividend;
- To approve, following recommendation from the Remuneration and Nomination Committees as appropriate, appointments to the Board and other key senior management, committee membership and remuneration for Directors and senior executives;
- To review, following recommendation from the Audit Committee the effectiveness of our internal control and risk management systems; and
- To approve Etalon's corporate governance policies and procedures and set our values and standards.

Roles and responsibilities

Mr Viacheslav Zarenkov is the founder of the Etalon Group and throughout 2013 has acted as the President, Chairman of the Board and Chief Executive Officer. As Chairman, he is responsible for the effective running of the Board and for ensuring that it plays a full and constructive role in the development and determination of our ongoing strategy. Together with other Executive Directors, the Chairman sets the agenda for Board meetings, ensuring that accurate, timely and clear information is provided by Etalon's officers and external advisers and that sufficient time is allowed for the discussion of complex and contentious issues. The Chairman is also responsible for ensuring that new Directors are provided with a properly constructed induction programme and for identifying the development needs of individual Directors and of the Board as a whole.

As Chief Executive Officer of Etalon Group Limited, Mr Zarenkov is responsible for all executive management matters affecting the Group, as all members of executive management report either directly or indirectly to him. Together with the executive management team, he is responsible for implementing the strategic and commercial decisions of the Board and its Committees and ensuring that the executive team comply with the Board's approved procedures, for identifying and executing new business opportunities outside the current core activities, in line with strategic plans and for leading the communication programme with shareholders.

The First Vice President and Chief Financial Officer, Mr Anton Evdokimov, is responsible for the development of our projects, real estate, economics and effectiveness, legal support as well as for managing all of Etalon's financial and treasury activities. In addition, Mr Evdokimov is Chief Executive Officer of management company Etalon-LenSpetsSMU and therefore responsible for the day-to-day management of the business.

The Board recognises the importance of maintaining an ongoing and high quality relationship with its shareholders and the wider investment community. Therefore, the Chairman and Chief Financial Officer meet regularly with investors and analysts to communicate our strategies and objectives and to showcase our projects.

Our Non-Executive Directors bring a wealth of knowledge and business experience from other sectors and industries to the Board and its Committees. Through their contributions, the Non-Executive Directors provide Etalon with impartial views on matter of strategy, performance, risk and conduct. As of 31 December 2013, the Board had five Non-Executive Directors: Martin Cocker, Anton Poryadin, Boris Svetlichny, Michael Calvey and Alexei Kalinin. Three of the Non-Executive Directors, namely Martin Cocker, Anton Poryadin and Boris Svetlichny were also considered to be independent.

Board Committees

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

Audit Committee

Membership

During the year under review, the membership of the Audit Committee was as follows:

Mr Martin Cocker
Committee Chairman and Independent Non-Executive Director

Mr Anton Poryadin
Independent Non-Executive Director

Mr Anton Evdokimov
Executive Director and Chief Financial Officer

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

Responsibilities

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

The Audit Committee held four meetings during 2013 where the key matters for consideration were:

- The financial results for the year ended 31 December 2012 together with the report on the audit by the external auditor;
- The interim results for the half-year to 30 June 2013 together with a report on the review engagement by the external auditor;
- Matters raised by the external auditor as part of the audit process requiring the attention of management and the actions taken by management to address those matters;
- Reviewing the performance and independence of the external auditor;
- Recommending to the Board the re-appointment of the external auditor and the level of fee for the audit services;
- Reviewing the terms of reference of the Audit Committee and recommending amendments thereto to the Board;
- Reviewing the terms of reference for Internal Audit and its audit plan;
- Monitoring the results of engagements conducted by Internal Audit and the remedial actions taken by management in respect of any matters arising;
- Reviewing the risk management systems used to identify and monitor significant risks faced by the Group;
- The Etalon Group "Whistleblower" procedures and the actions taken to investigate and resolve any matters arising through these procedures.

External Audit

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

The Audit Committee regularly meets the external auditor without management presence.

Internal Audit

We have established an Internal Audit function to provide independent objective assurance and advisory oversight of the business' operations and systems of internal control. Internal Audit helps Etalon accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. During 2013, Internal Audit reviews were focused on the evaluation of Etalon's Document Retention and Archiving system and Treasury Finance Management System.

The Audit Committee regularly meets the head of Internal Audit without management presence.

Internal controls and risk management systems

Effective risk management is critical to our success. We have established a risk management framework that identifies and evaluates the key risks faced by Etalon Group. Appropriate limits and controls are set, maintained and monitored to ensure compliance. In particular, the risk management framework identifies those risks that might, if not managed correctly, materially affect the achievement of the Group's objectives or lead to material misstatements in the Group's financial results.

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

The Audit Committee is responsible for overseeing how the Chief Risk Officer, and management generally, monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework. The Audit Committee is assisted in this oversight role by the Company's Internal Audit function. The Audit Committee is pleased with the progress that has been made in this area to date.

Remuneration and Nomination Committee

Membership

During the year under review, the membership of the Remuneration and Nomination Committee was as follows:

Mr Viacheslav Zarenkov
Committee Chairman and Chairman of the Board

Mr Dmitry Zarenkov
Vice President and Executive Director

Mr Martin Cocker
Independent Non-Executive Director

Mr Michael Calvey
Non-Executive Director

Mr Alexei Kalinin
Non-Executive Director

Responsibilities

The Remuneration and Nomination Committee has adopted formal terms of reference which set out its responsibilities in detail. In summary, on remuneration, the Committee advises the Board of Directors on the remuneration of the senior managers and executive officers and the terms and conditions of employment agreements with the senior managers.

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

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

The Committee held two meetings during 2013 at which it considered various changes to the membership of the Board and the adoption and implementation of an all-employee incentive plan.

Strategy Committee

Membership

During the year under review, the membership of the Strategy Committee was as follows:

Mr Anton Poryadin
Committee Chairman and Independent Non-Executive Director

Mr Viacheslav Zarenkov
President and Chairman of the Board

Mr Anton Evdokimov
Executive Director and Chief Financial Officer

Mr Alexei Kalinin
Non-Executive Director

Responsibilities

The Strategy Committee has adopted formal terms of reference, which set out its responsibilities in detail. In summary, the Strategy Committee's role is to assist the Board in fulfilling its oversight responsibilities relating to the medium and long-term strategic direction and development Etalon Group. The Strategy Committee provides advice, challenge and expertise so that the strategic options may be explored fully before being tabled at Board meetings for deliberation and approval.

The Strategy Committee held two meetings in 2013 during which the key matter for consideration included Etalon Group's development priorities and strategic guidelines for the period from 2018 to 2023 and the establishment of a suitably qualified strategy team which would be responsible for day-to-day management of the Etalon Group's strategic development. In early 2014, the Strategy Committee approved a comprehensive roadmap which is needed to develop the detailed growth strategy for 2018 to 2023. This is currently being implemented.

Changes to the governance structure

In November 2013, the Chairman of the Board, Mr Viacheslav Zarenkov, indicated that he wished to focus on the Company's strategic development and would therefore step down from his position as Chief Executive Officer of the Company with effect from 1 March 2014. Mr Zarenkov will remain as President and as Chairman of the Company.

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

As of the date of this report, therefore, the Board comprises the Executive Chairman, four Executive Directors and four Non-Executive Directors, two of whom are considered to be independent. The Board intends to address this imbalance by appointing an additional independent Non-Executive Director in due course. The Board is confident that its revised structure remains appropriate for the effective and transparent discharge if its duties given the size and complexity of Etalon's operations.

The following table sets out the structure of the Board as of 31 December 2013 and from 1 March 2014:

Shareholding structure of Etalon Group Limited as at 15th April 2014

As at 15th April 2014, the Company is aware of the following interests in its share capital:

Shareholders	%
Zarenkov family[1]	45.15
Baring Vostok Funds[2]	11.15
Management[3]	7.66
Etalon Development Limited[4]	0.99
Free float[5]	35.04[6]
Total	100.00

Notes:

(1) The Company understands that none of the Zarenkov family (namely, Mr Viacheslav Zarenkov, Mrs Galina Zarenkova and Mr Dmitry Zarenkov) have sold or otherwise disposed of any of the Company's securities in the open market since the Company's initial public offering (the "IPO") in April 2011.

(2) "Baring Vostok Funds" includes Baring Vostok Private Equity Fund, L.P., Baring Vostok Fund IV Co-Investment, L.P.1, Baring Vostok Fund IV Co-Investment, L.P. and Baring Vostok Fund IV Supplemental Fund, L.P. The Company understands that the Baring Vostok Funds have not sold or otherwise disposed of any of the Company's securities in the open market since the IPO.

(3) "Management" includes Mr Anton Evdokimov, Mr Mikhail Ivanov and persons related to them. The Company understands that neither Mr Evdokimov, Mr Ivanov nor any persons related to them have sold or otherwise disposed of any of the Company's securities in the open market since the IPO.

(4) Etalon Development Limited is a wholly-owned subsidiary of the Company which acquired 2,928,000 GDRs between 2011 and 2012 in connection with the Company's GDR purchase programme.

(5) The Company understands that the free float has increased following the departure of Mr Dmitry Bulkhukov, Mr Alexander Shkuratov and Mr Kirill Vyazovskiy from the management of the Company.

(6) Company estimate.

Our Non-Executive Directors bring a wealth of knowledge and business experience from other sectors and industries to the Board and its Committees.

As of 31 December 2013: Executive Directors

Mr Viacheslav Zarenkov	Executive Chairman and Chief Executive Officer
Mr Anton Evdokimov	1st Vice President and Chief Financial Officer
Mr Dmitry Zarenkov	Vice President and Executive Director
Mr Kirill Bagachenko	Head of Corporate Investments and Investor Relations

Non-Executive Directors

Michael Calvey	Non-Executive Director
Martin Cocker	Independent Non-Executive Director
Alexei Kalinin	Non-Executive Director
Anton Poryadin	Independent Non-Executive Director
Boris Svetlichny	Independent Non-Executive Director

With effect from 1 March 2014: Executive Directors

Mr Viacheslav Zarenkov	Executive Chairman
Mr Anton Evdokimov	Chief Executive Officer
Mr Dmitry Zarenkov	Vice President and Executive Director
Mr Kirill Bagachenko	Head of Corporate Investments and Investor Relations
Mr Boris Svetlichny	Chief Financial Officer

Non-Executive Directors

Michael Calvey	Non-Executive Director
Martin Cocker	Independent Non-Executive Director
Alexei Kalinin	Non-Executive Director
Anton Poryadin	Independent Non-Executive Director

Executive Directors (as of 31 December 2013)

01 Viacheslav Zarenkov

Chairman of the Board of Directors, founding shareholder and President of Etalon Group

Viacheslav Zarenkov has 44 years of experience in the construction industry and was awarded the title Honoured Builder of Russia. He graduated from the Institute of Civil Engineering and the St. Petersburg University of Internal Affairs. He holds PhDs in economics, technical sciences and architecture and also holds the rank of professor.

02 Dmitry Zarenkov

Vice-President of Etalon Group

Dmitry Zarenkov has 17 years of experience in the construction industry and was awarded the title Honoured Builder of Russia by the Ministry for Regional Development. He holds a PhD in engineering and graduated from the Institute of Aeronautical Instrumentation, St. Petersburg University of Architecture & Civil Engineering and St. Petersburg University of Internal Affairs.

03 Anton Evdokimov

CFO of Etalon Group

Anton Evdokimov has 27 years of experience in the construction industry and holds the Ministry for Regional Development's Certificate of Honour. He studied at Leningrad Engineering Construction Institute, St. Petersburg State University and International Banking Institute. He also received an MBA in business strategy from the Open University Business School.

04 Kirill Bagachenko

Head of Corporate Investments and IR at Etalon Group

Kirill Bagachenko has over 8 years' experience in corporate finance and asset management – prior to joining Etalon Group he held the position of senior equity portfolio manager at TKB BNP Paribas Investment Partners. In 2013, he was voted one of the top three portfolio managers in Russia by Thomson Reuters Extel Survey. Kirill graduated from the St. Petersburg State University of Economics and Finance.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Non-Executive Directors (as of 31 December 2013)

05 Michael Calvey

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

06 Alexei Kalinin

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

07 Martin Cocker

Martin Cocker has 18 years of experience in audit, and four years' experience in the construction industry. He runs his own development business in Portugal and previously worked at Deloitte & Touche, KPMG and Ernst & Young in Russia, Kazakhstan and the UK. He graduated from the University of Keele.

08 Anton Poryadin

Anton Poryadin has 12 years of experience in strategy consulting at A.T. Kearney, where he is Partner and Vice President. Previously he was project manager at Barents International Markets B.V., Corporate Development and Project Finance Director at Torno Internazionale S.p.A., and deputy General Manager of St. Petersburg Foundation for Enterprise Development. He is a graduate of St. Petersburg Technical University and Business School at the University of Rochester.

09 Boris Svetlichny

Boris Svetlichny brings to the Company 25 years of international financial and senior management experience and has held various senior finance positions at Orange Business Services, VimpelCom and GoldenTelecom. Mr Svetlichniy has a BBA in Accounting from the University of Massachusetts, and received an MBA from Carnegie-Mellon University.


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

We have audited the accompanying consolidated financial statements of Etalon Group Limited (the "Company", and together with its subsidiaries, the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 December 2013, and the Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements:
– give a true and fair view of the consolidated financial position of the Group as at 31 December 2013 and of its consolidated financial performance and its consolidated cash flows for the year then ended;
– are in accordance with International Financial Reporting Standards; and
– comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:
– the Company has not kept proper accounting records; or
– the financial statements are not in agreement with the accounting records; or
– we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Andrei Shvetsov
General Director
For and on behalf of ZAO KPMG
Member of Chamber of Auditors of Russia
And Recognized Auditor
18 March 2014

Audited entity: Etalon Group Limited.

Registered by the Guernsey Registry on 8 November 2007, Registration No. 48002.

Address of audited entity: Ogier House, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 IWA.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, 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.

Directors' Report

Principal activity
The principle activity of Etalon Group Limited and its subsidiaries (together referred to as the "Group") is residential development in St. Petersburg Metropolitan area and Moscow Metropolitan Area.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

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

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

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

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

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

(a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
(b) The financial statements, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

Viacheslav Zarenkov
President, Chairman of the Board of Directors

Anton Evdokimov
Chief Executive Officer

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

mln RUB	Note	2013	2012
Revenue	7	**39,921**	26,894
Cost of sales		**(27,553)**	(17,494)
Gross profit		**12,368**	9,400
General and administrative expenses	9	**(3,157)**	(2,324)
Selling expenses		**(1,023)**	(958)
Other expenses, net	10	**(40)**	(209)
Results from operating activities		**8 ,148**	5,909
Finance income	12	**691**	749
Finance costs	12	**(342)**	(132)
Net finance income		**349**	617
Profit before income tax		**8,497**	6,526
Income tax expense	13	**(1,833)**	(1,526)
Profit for the year		**6,664**	5,000
Total comprehensive income for the year		**6,664**	5,000
Profit attributable to:			
Owners of the Company		**6,629**	4,979
Non-controlling interest		**35**	21
Profit for the year		**6,664**	5,000
Total comprehensive income attributable to:			
Owners of the Company		**6,629**	4,979
Non-controlling interest		**35**	21
Total comprehensive income for the year		**6,664**	5,000
Earnings per share			
Basic and diluted earnings per share (RUB)	23	**22.70**	17.05

These consolidated financial statements were approved by the Board of Directors on 18 March 2014 and were signed on its behalf by:

Viacheslav Zarenkov
President, Chairman of the Board of Directors

Anton Evdokimov
Chief Executive Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 44 to 69.

Consolidated Statement of Financial Position

As at 31 December 2013

mln RUB		2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	14	**1,962**	2,380
Investment property	15	**1,142**	–
Other long-term investments	16	**275**	60
Trade and other receivables	19	**1,332**	433
Deferred tax assets	17	**560**	434
Other non-current assets		**10**	11
Total non-current assets		**5,281**	3,318
Current assets			
Inventories	18	**50,057**	41,522
Trade and other receivables	19	**15,078**	11,058
Short-term investments	20	**5,008**	6,870
Cash and cash equivalents	21	**8,139**	10,716
Other current assets		**7**	32
Total current assets		**78,289**	70,198
Total assets		**83,570**	73,516
EQUITY AND LIABILITIES			
Equity			
Share capital	22	**14,967**	14,967
Retained earnings		**29,332**	22,688
Total equity attributable to equity holders of the Company		**44,299**	37,655
Non-controlling interest		**387**	408
Total equity		**44,686**	38,063
Non-current liabilities			
Loans and borrowings	24	**10,176**	12,811
Trade and other payables	26	**785**	980
Provisions	25	**89**	65
Deferred tax liabilities	17	**826**	226
Total non-current liabilities		**11,876**	14,082
Current liabilities			
Loans and borrowings	24	**3,043**	3,825
Trade and other payables	26	**22,300**	16,966
Provisions	25	**1,665**	580
Total current liabilities		**27,008**	21,371
Total equity and liabilities		**83,570**	73,516

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 44 to 69.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

mln RUB	Attributable to equity holders of the Company: Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	14,980	17,704	32,684	372	33,056
Total comprehensive income for the year					
Profit for the year	–	4,979	4,979	21	5,000
Total comprehensive income for the year	–	4,979	4,979	21	5,000
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Own shares acquired	(13)	–	(13)	–	(13)
Total contributions by and distributions to owners	(13)	–	(13)	–	(13)
Changes in ownership interests in subsidiaries that do not result in a loss of control					
Changes in ownership interest in subsidiaries	–	5	5	15	20
Total transactions with owners	(13)	5	(8)	15	7
Balance at 31 December 2012	14,967	22,688	37,655	408	38,063

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 44 to 69.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

mln RUB	Notes	2013	2012
OPERATING ACTIVITIES:			
Profit for the year		**6,664**	5,000
Adjustments for:			
Depreciation	14, 15	**343**	417
Gain on disposal of property, plant and equipment		**(15)**	(49)
Loss on disposal of subsidiaries		**–**	28
Finance income, net		**(337)**	(544)
Income tax expense		**1,833**	1,526
Cash from operating activities before changes in working capital and provisions		**8,488**	6,378
Change in inventories		**(7,837)**	(7,633)
Change in accounts receivable		**(5,080)**	(3,024)
Change in accounts payable		**4,880**	4,074
Change in provisions	25	**1,109**	(992)
Change in other current assets		**25**	3
Income tax paid		**(907)**	(1,833)
Interest paid		**(1,724)**	(1,097)
Net cash used in operating activities		**(1,046)**	(4,124)
INVESTING ACTIVITIES:			
Proceeds from disposal of non-current assets		**15**	71
Interest received		**611**	552
Acquisition of property, plant and equipment		**(431)**	(844)
Loans given		**(55)**	(371)
Loans repaid		**85**	363
Acquisition of subsidiaries, net of cash acquired		**10**	–
Disposal of subsidiaries, net of cash disposed of		**(20)**	(8)
Disposal/(acquisition) of other investments		**1,606**	(5,506)
Net cash from/(used in) investing activities		**1,821**	(5,743)
FINANCING ACTIVITIES:			
Acquisition of non-controlling interest		**(10)**	(3)
Proceeds from borrowings		**5,937**	12,140
Repayments of borrowings		**(9,668)**	(5,552)
Acquisition of own shares		**–**	(13)
Net cash (used in)/from financing activities		**(3,741)**	6,572
Net decrease in cash and cash equivalents		**(2,966)**	(3,295)
Cash and cash equivalents at the beginning of the year		**10,716**	14,484
Effect of exchange rate fluctuations on cash and cash equivalents		**389**	(473)
Cash and cash equivalents at the end of the year	21	**8,139**	10,716

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 44 to 69.

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 IWA

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

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

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

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

- Note 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 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 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 2013.

(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 recognised 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 statement of 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 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 statement of 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 statement of 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.

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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) Application of new standards and interpretations

Several other new standards and amendments apply for the first time in 2013. However, they do not significantly impact the annual consolidated financial statements of the Group or the consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment are described below.

Amendment to IAS 1 *Presentation of items of other comprehensive income*

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income. However, use of other titles is permitted.

IFRS 10 *Consolidated Financial Statements* and IAS 27 *(2011) Separate Financial Statements*

IFRS 10 introduces a single control model that applies to all entities including special purpose entities (designated as structured entities in this IFRS). IFRS 10 supersedes a part of previously effective IAS *27 Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. The new standard changes the definition of control such that an investor controls an investee when:
- it has power over the investee;
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to affect those returns through its power over the investee (i.e. there is a link between power and returns).

This standard had no impact on the consolidation of the Group's investees.

IFRS 12 *Disclosure of Interests in Other Entities* contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* supersedes the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Comparative disclosure information is not required for periods before the date of initial application.

The application of IFRS 13 has not had a significant impact on the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures of fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*.

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.
- IFRS 9 *Financial Instruments* is expected to be effective for annual periods beginning not earlier than 1 January 2017. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- 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, will come into effect not earlier than 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.

The Group accounts for such elements of sales contracts as embedded derivatives. Currently, the fair value of such derivative instruments is not significant.

(c) Non-derivative financial liabilities

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

5 OPERATING SEGMENTS

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

– *Residential Development*. Includes construction of residential real estate including flats, built-in premises and parking places.
– *Construction services*. Includes construction services for third parties and for internal purpose.
– *Other operations*. Include selling of construction materials, construction of stand-alone premises for commercial use and various services related to sale and servicing of premises. None of these meet any of the quantitative thresholds for determining reportable segments during the year ended 31 December 2013 or 2012.

(a) Information about reportable segments

	Residential development		Construction services		Other		Total	
mln RUB	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
External revenues	**29,548**	19,424	**7,256**	4,782	**3,117**	2,688	**39,921**	26,894
Inter-segment revenue	**–**	–	**13,173**	8,735	**1,629**	1,457	**14,802**	10,192
Total segment revenue	**29,548**	19,424	**20,429**	13,517	**4,746**	4,145	**54,723**	37,086
Gross profit	**11,185**	8,365	**743**	1,149	**363**	41	**12,291**	9,555
Interest in cost of sales (note 12)	**779**	341	**–**	–	**–**	–	**779**	341
Gross profit adjusted for interest in cost of sales	**11,964**	8,706	**743**	1,149	**363**	41	**13,070**	9,896
Gross profit adjusted, %	**40%**	45%						
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Reportable segment assets: inventory	**52,043**	42,073	**516**	575	**65**	970	**52,624**	43,618
Reportable segment liabilities: advances from customers	**9,058**	9,698	**6,015**	2,386	**246**	152	**15,319**	12,236

(b) Geographical information

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

	Revenues		Non-current assets	
mln RUB	**2013**	2012	**2013**	2012
St. Petersburg metropolitan area	**32,613**	24,648	**4,351**	2,511
Moscow metropolitan area	**7,308**	2,246	**930**	807
	39,921	26,894	**5,281**	3,318

(c) Major customer

Revenue from one customer of the Group, recognised within the segment "Construction services", amounted to RUB 4,256 million or 11% of the Group's total revenue for the year ended 31 December 2013 (revenue from this customer for the year ended 31 December 2012: RUB 4,097 million or 15% of the Group's total revenue).

5 OPERATING SEGMENTS CONTINUED

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

mln RUB	2013	2012
Revenues		
Total revenue for reportable segments	**54,723**	37,086
Elimination of inter-segment revenue	**(14,802)**	(10,192)
Consolidated revenue	**39,921**	26,894
Profit or loss		
Gross profit for reportable segments	**12,291**	9,555
General and administrative expenses	**(3,157)**	(2,324)
Selling expenses	**(1,023)**	(958)
Other expenses, net	**(40)**	(209)
Finance income	**691**	749
Finance costs	**(342)**	(132)
Elimination of inter-segment profit/(loss)	**77**	(155)
Consolidated profit before income tax	**8,497**	6,526

	2013	2012
Assets		
Total assets for reportable segments: inventory	**52,624**	43,618
Elimination of unrealised gain	**(2,567)**	(2,096)
Total inventories	**50,057**	41,522
Liabilities		
Total liabilities for reportable segments: advances from customers	**15,319**	12,236
Elimination of intersegment advances	**(962)**	(489)
Total advances from customers	**14,357**	11,747

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

During the year ended 31 December 2013 and 2012 the Group has acquired and disposed of certain interests in a number of its subsidiaries. The transactions resulted in a decrease of non-controlling interest of RUB 56 million during the year ended 31 December 2013 and in an increase in non-controlling interest of RUB 15 million and corresponding decrease in retained earnings during the year ended 31 December 2012.

7 REVENUE

mln RUB	2013	2012
Sale of flats	**26,582**	18,145
Sale of built-in commercial premises	**2,400**	740
Sale of parking places	**566**	539
Total revenue of segment Residential development (note 5 (a))	**29,548**	19,424
Construction contracts (note 8)	**6,643**	4,291
Other construction services	**613**	491
Total revenue of segment Construction services (note 5 (a))	**7,256**	4,782
Sale of construction materials	**1,091**	1,023
Sale of stand-alone commercial premises	**52**	199
Rental revenue	**497**	366
Other revenue	**1,477**	1,100
Total other revenue (note 5 (a))	**3,117**	2,688
Total revenues	**39,921**	26,894

The Group entered into two transactions for acquisition of land plots where a part of acquisition price has to be paid by means of transfer of certain percentage of flats constructed on these land plots (see note 18). During the year ended 31 December 2013, upon completion of the construction stage on one of those land plots, the Group has transferred to the seller the agreed percentage of flats and recognised revenue of RUB 1,714 million (year ended 31 December 2012 – nil), included into the category "Sale of flats".

8 CONSTRUCTION CONTRACTS

mln RUB	2013	2012
Revenue recognised during the period	6,643	4,291
Costs incurred	(6,306)	(3,537)
Recognised profits during the period	337	754

	2013	2012
For contracts in progress – aggregate amount of costs incurred and recognised profits to date	9,907	3,177
Unbilled receivables	2,202	66
Billings in excess of work completed	7	68
Retentions relating to construction contracts	6	152

Revenue recognised during the year 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

mln RUB	2013	2012
Payroll and related taxes	2,199	1,706
Services	268	144
Audit and consulting services	131	102
Bank fees and commissions	80	67
Materials	71	49
Repair and maintenance	69	45
Charity	25	–
Other	314	211
Total	3,157	2,324

10 OTHER EXPENSES, NET

mln RUB	2013	2012
Other income		
Gain on disposal of inventory	44	13
Gain on disposal of property, plant and equipment	15	49
	59	62
Other expenses		
Other expenses	(99)	(239)
Fees and penalties incurred	–	(4)
Loss on disposal of subsidiaries	–	(28)
	(99)	(271)
Other expenses, net	(40)	(209)

11 PERSONNEL COSTS

mln RUB	2013	2012
Wages and salaries	4,533	3,442
Contributions to State pension fund	864	683
	5,397	4,125

During the year ended 31 December 2013, personnel costs and related taxes included in cost of sales amounted to RUB 2,809 million (year ended 31 December 2012: RUB 2,070 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 389 million (year ended 31 December 2012: RUB 349 million).

12 FINANCE INCOME AND FINANCE COSTS

mln RUB	2013	2012
Recognised in profit or loss		
Finance income		
Interest income on bank deposits	583	543
Unwinding of discount on trade receivables	68	124
Interest income on loans and receivables	28	9
Gain on write-off of accounts payable	4	13
Decrease in allowance for doubtful accounts receivable	8	60
Finance income	691	749
Finance costs		
Interest expense on loans	(209)	(3)
Net foreign exchange loss	(109)	(125)
Interest expense on finance leases	(24)	(4)
Finance costs	(342)	(132)
Net finance income recognised in profit or loss	349	617

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

mln RUB	2013	2012
Borrowing costs capitalised during the period	1,367	1,243
Weighted average capitalisation rate	11.10%	8.40%

During the year ended 31 December 2013, borrowing costs that have been capitalised into the cost of real estate properties under construction in the amount of RUB 779 million (year ended 31 December 2012: RUB 341 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 (2012: 20%).

mln RUB	2013	2012
Current tax expense		
Current year	1,387	1,370
Under-provided/(over-provided) in prior year	(32)	(215)
	1,355	1,155
Deferred tax expense		
Origination and reversal of temporary differences	478	156
Under-provided in prior year	–	215
Income tax expense	1,833	1,526

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate 20% (2012: 20%):

mln RUB	2013	2012
Profit before tax	**8,497**	6,526
Theoretical income tax at statutory rate of 20%	**1,699**	1,305
Adjustments due to:		
Expenses not deductible and income not taxable for tax purposes, net	**134**	221
Income tax expense	**1,833**	1,526

14 PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2013, depreciation expense of RUB 292 million (year ended 31 December 2012: RUB 385 million) has been charged to cost of goods sold, RUB 35 million (year ended 31 December 2012: RUB 17 million) to cost of real estate properties under construction, RUB 1 million (year ended 31 December 2012: RUB 1 million) to selling expenses and RUB 39 million (year ended 31 December 2012: RUB 31 million) to general and administrative expenses.

(a) Security

At 31 December 2013 properties with a carrying amount of RUB 197 million (31 December 2012: RUB 81 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 31 December 2013 the net book value of leased plant and machinery was RUB 262 million (31 December 2012: RUB 416 million). The leased equipment secures lease obligations.

mln RUB	Buildings and constructions	Machinery and equipment	Vehicles	Other	Land	Construction in progress	Total
Cost							
Balance at 1 January 2012	1,202	1,599	88	104	12	13	3,018
Additions	224	625	37	18	12	82	998
Disposals	(250)	(81)	(17)	(10)	–	–	(358)
Transfers	12	–	–	–	–	(12)	–
Balance at 31 December 2012	1,188	2,143	108	112	24	83	3,658
Balance at 1 January 2013	**1,188**	**2,143**	**108**	**112**	**24**	**83**	**3,658**
Additions	**98**	**231**	**25**	**21**	**2**	**54**	**431**
Reclassification from inventories	**110**	**–**	**–**	**–**	**–**	**–**	**110**
Disposals	**(49)**	**(32)**	**(14)**	**(14)**	**–**	**(15)**	**(124)**
Transfer to inventory	**(244)**	**–**	**–**	**–**	**–**	**–**	**(244)**
Transfer to investment property	**(344)**	**–**	**–**	**–**	**–**	**–**	**(344)**
Transfers	**7**	**5**	**–**	**–**	**–**	**(12)**	**–**
Balance at 31 December 2013	**766**	**2,347**	**119**	**119**	**26**	**110**	**3,487**
Depreciation and impairment losses							
Balance at 1 January 2012	(201)	(698)	(33)	(77)	–	–	(1,009)
Depreciation for the year	(112)	(292)	(15)	(15)	–	–	(434)
Disposals	85	57	13	10	–	–	165
Balance at 31 December 2012	(228)	(933)	(35)	(82)	–	–	(1,278)
Balance at 1 January 2013	**(228)**	**(933)**	**(35)**	**(82)**	**–**	**–**	**(1,278)**
Depreciation for the year	**(112)**	**(221)**	**(18)**	**(16)**	**–**	**–**	**(367)**
Disposals and transfers	**77**	**22**	**7**	**14**	**–**	**–**	**120**
Balance at 31 December 2013	**(263)**	**(1,132)**	**(46)**	**(84)**	**–**	**–**	**(1,525)**
Carrying amounts							
At 1 January 2012	1,001	901	55	27	12	13	2,009
At 31 December 2012	960	1,210	73	30	24	83	2,380
At 31 December 2013	**503**	**1,215**	**73**	**35**	**26**	**110**	**1,962**

15 INVESTMENT PROPERTY

mln RUB	2013	2012
Cost		
Balance at 1 January	–	–
Transfers from property, plant and equipment	344	–
Transfers from inventories	1,125	–
Balance at 31 December	**1,469**	–
Accumulated depreciation and impairment losses		
Balance at 1 January	–	–
Transfers from property, plant and equipment	(20)	–
Transfers from inventories	(296)	–
Depreciation for the year	(11)	–
Balance at 31 December	**(327)**	–
Carrying amount at 1 January	–	–
Carrying amount at 31 December	1,142	–

In June 2013, the Group has transferred from inventories to investment property one item of stand-alone commercial property 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 31 December 2013 as determined by an independent appraiser, equals to RUB 707 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 – 7% per annum;
– Discount rate – 10.3% per annum.

In December 2013 the Group transferred from property, plant and equipment and inventories to investment property certain commercial premises with the carrying amount of RUB 515 million, see notes 14 and 18. The fair value of these items of property as at 31 December 2013 approximates their carrying amounts.

16 OTHER LONG-TERM INVESTMENTS

mln RUB	2013	2012
Bank promissory notes	234	–
Loans, at amortised cost	31	40
Other	10	20
	275	60

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 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	2013	2012	2013	2012	2013	2012
Property, plant and equipment	91	170	(290)	(199)	(199)	(29)
Investments	13	11	–	–	13	11
Inventories	658	388	(493)	(401)	165	(13)
Trade and other receivables	124	85	(1,178)	(933)	(1,054)	(848)
Deferred expenses	93	131	(63)	(89)	30	42
Loans and borrowings	16	13	(6)	(3)	10	10
Provisions	72	225	15	7	87	232
Trade and other payables	559	624	(28)	25	531	649
Tax loss carry-forwards	95	108	(1)	(12)	94	96
Other	70	69	(13)	(11)	57	58
Tax assets/(liabilities)	1,791	1,824	(2,057)	(1,616)	(266)	208
Set off of tax	(1,231)	(1,390)	1,231	1,390	–	–
Net tax assets/(liabilities)	560	434	(826)	(226)	(266)	208

(b) Unrecognised deferred tax liability

At 31 December 2013 a deferred tax liability of RUB 1,354 million (31 December 2012: RUB 1,081 million) arising on temporary differences of RUB 27,083 million (31 December 2012: RUB 21,621 million) related to investments in subsidiaries was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Movement in temporary differences during the year

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

mln RUB	1 January 2012	Recognised in profit or loss	Disposed of	31 December 2012
Property, plant and equipment	(57)	28	–	(29)
Investments	11	–	–	11
Inventories	686	(699)	–	(13)
Trade and other receivables	(389)	(459)	–	(848)
Deferred expenses	62	(20)	–	42
Loans and borrowings	–	10	–	10
Provisions	124	108	–	232
Trade and other payables	(9)	658	–	649
Tax loss carry-forwards	95	3	(2)	96
Other	58	–	–	58
	581	(371)	(2)	208

18 INVENTORIES

mln RUB	2013	2012
Own flats under construction	**23,641**	19,937
Own flats	**14,659**	10,535
Built-in commercial premises under construction	**4,024**	3,525
Built-in and stand-alone commercial premises	**1,658**	2,962
Parking places under construction	**3,889**	3,150
Parking places	**1,427**	1,070
Construction materials	**615**	518
Other	**150**	129
	50,063	41,826
Less: Allowance for obsolete inventory	**(6)**	(304)
Total	**50,057**	41,522

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.

In 2013 the Group entered into two additional transactions for acquisition of land plots where a part of acquisition price has to be paid by means of transfer of certain percentage of flats constructed on these land plots. The Group has recognised the land component of these construction projects within inventories at fair value of land plots acquired. The fair value of land plots was determined by an independent appraiser based on discounted cash flows from the construction and sale of properties. The following key assumptions were used by the appraiser:

– Cash flows were projected based on the business plans for construction of residential property;
– Inflation rates – within 5,5% – 7% per annum;
– Discount rates – within 11,8% – 12,7% per annum.

18 INVENTORIES CONTINUED

The estimated fair values of land plots as at acquisition dates based on the above assumption inputs, which are not observable on the market (level 3 inputs), amount to RUB 1 306 million and RUB 1 862 million. Upon completion of the construction stage on one of those projects the Group has transferred the agreed percentage of flats to the seller (also see note 7).

The following is movement in the allowance for obsolete inventory:

mln RUB	2013	2012
Balance at the beginning of the year	304	143
Provision for item of inventory transferred to investment property	(296)	–
Change in allowance for obsolete inventory	(2)	161
Balance at end of the year	6	304

As at 31 December 2012 the amount of allowance of RUB 296 million out of RUB 304 million related to one item of stand-alone commercial property, included into the segment "Other" in note 5(a). In June 2013, the Group transferred this item of stand-alone commercial property with a gross book value of RUB 934 million (31 December 2012: RUB 933 million) from inventories to investment property, see note 15.

In December 2013 the Group transferred from inventories to investment property certain commercial premises with the carrying amount of RUB 191 million, see note 15. The Group has temporarily rented out part of certain items of property classified as inventory in these consolidated financial statements. The total carrying value of these items of property was RUB 302 million as at 31 December 2013 (31 December 2012: RUB 1,339 million). The Group is actively seeking a buyer for these properties.

Inventories with a carrying amount of RUB 5,796 million (31 December 2012: RUB 4,593 million) are pledged as security for borrowings, see note 24.

19 TRADE AND OTHER RECEIVABLES

mln RUB	2013	2012
Long-term		
Trade receivables	1,254	427
Advances paid to suppliers	41	3
Other receivables	37	3
	1,332	433
Short-term		
Advances paid to suppliers	5,589	5,759
VAT recoverable	3,586	1,717
Trade receivables	3,103	2,954
Income tax receivable	103	310
Unbilled receivables	2,345	118
Trade receivables due from related parties	49	6
Other taxes receivable	6	4
Other receivables due from related parties	–	1
Other receivables	371	280
	15,152	11,149
Less: Allowance for doubtful accounts receivable	(74)	(91)
Short-term less allowance	15,078	11,058
Total	16,410	11,491

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	2013	2012
Bank deposits (over 3 months)	4,898	6,810
Bank promissory notes	69	–
Other	41	60
	5,008	6,870

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".

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	2013	2012
Cash in banks, in USD	**3,601**	4,226
Cash in banks, in RUB	**1,522**	763
Cash in banks, in EUR	**228**	399
Petty cash	**16**	3
Cash in transit	**3**	15
Short-term deposits (less than 3 months)	**2,769**	5,310
Total	**8,139**	10,716

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.

	Ordinary shares	
Number of shares unless otherwise stated	2013	2012
Authorised shares		
Par value at beginning of year	**0.00005 GBP**	0.00005 GBP
On issue at beginning of year	**292,029,971**	292,119,971
Par value at end of year	**0.00005 GBP**	0.00005 GBP
Own shares acquired	**–**	(90,000)
On issue at end of year, fully paid	**292,029,971**	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 31 December 2013, the Group has acquired 2,928,000 own shares or 1% of issued share capital (as at 31 December 2012: 2,928,000 own shares or 1% of issued share capital) for the consideration of RUB 472 million (as at 31 December 2012: 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 31 December 2013, the total of subsidiaries' retained earnings, including the profits for the current year were RUB 26,973 million (31 December 2012: RUB 21,483 million). No dividends have been declared and paid by the Company during in 2013 and 2012.

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

Number of shares unless otherwise stated	2013	2012
Issued shares at 1 January	**292,029,971**	292,119,971
Effect of own shares acquired	**–**	(88,754)
Weighted average number of shares for the year ended 31 December	**292,029,971**	292,031,217
Profit attributable to the owners of the Company, mln RUB	**6,629**	4,979
Basic and diluted earnings per share (RUB)	**22.70**	17.05

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	2013	2012
Non-current liabilities		
Secured bank loans	**4,081**	3,896
Unsecured bank loans	**1,115**	3,941
Unsecured bond issues	**4,980**	4,974
	10,176	12,811
Current liabilities		
Current portion of secured bank loans	**2,192**	360
Current portion of unsecured bank loans	**826**	2,833
Current portion of unsecured bond issues	**25**	632
	3,043	3,825

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2013		2012	
mln RUB	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				**6,273**	**6,273**	4,256	4,256
Secured bank loan	EUR	EURIBOR 6M+5.25 %	2014	**752**	**752**	1,353	1,353
Secured bank loan	EUR	EURIBOR 6M+3.85 %	2015	**486**	**486**	876	876
Secured bank loan	EUR	EURIBOR 6M+3.2 %	2017	**1,821**	**1,821**	600	600
Secured bank loan	RUB	12.25 %	2016	**395**	**395**	20	20
Secured bank loan	RUB	11.50 %	2015	**146**	**146**	526	526
Secured bank loan	RUB	12.00 %	2015	**1,856**	**1,856**	350	350
Secured bank loan	RUB	12.00 %	2015	**603**	**603**	216	216
Secured bank loan	RUB	12.00 %	2016	**106**	**106**	–	–
Secured bank loan	RUB	12.00 %	2014	**108**	**108**	315	315
Unsecured bank loans				**1,941**	**1,941**	6,799	6,774
Unsecured bank loan	USD	LIBOR 3M+6.5 %	2014	**–**	**–**	291	291
Unsecured bank loan	USD	10.00 %	2013	**–**	**–**	607	607
Unsecured bank loan	RUB	13.00 %	2014	**22**	**22**	–	–
Unsecured bank loan	RUB	9.00 %	2013	**–**	**–**	6	6
Unsecured bank loan	RUB	9.50 %	2015	**1,200**	**1,200**	1,250	1,250
Unsecured bank loan	USD	LIBOR 3M+6.5 %	2015	**589**	**589**	607	607
Unsecured bank loan	USD	9.75 %	2015	**–**	**–**	4,038	4,013
Unsecured bank loan	RUB	11.00 %	2015	**30**	**30**	–	–
Unsecured bank loan	RUB	MosPrime+1.1 %	2017	**100**	**100**	–	–
Unsecured bond issues				**5,025**	**5,005**	5,630	5,606
Unsecured bonds	RUB	12.90 %	2017	**5,025**	**5,005**	5,023	4,998
Unsecured bonds	RUB	14.50 %	2013	**–**	**–**	607	608
				13,239	**13,219**	16,685	16,636

Bank loans are secured by:
- buildings with a carrying amount of RUB 197 million, see note 14;
- inventory with a carrying amount of RUB 5,796 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 2012	77	1,560	1,637
Provisions made during the year	25	1,169	1,194
Provisions used during the year	(37)	(2,149)	(2,186)
Balance at 31 December 2012	65	580	645
Balance at 1 January 2013	**65**	**580**	**645**
Provisions made during the year	**29**	**2,060**	**2,089**
Provisions used during the year	**(5)**	**(975)**	**(980)**
Balance at 31 December 2013	**89**	**1,665**	**1,754**
Non-current	89	–	89
Current	–	1,665	1,665
	89	**1,665**	**1,754**

(a) Warranties

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

(b) Provision for deferred works

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

26 TRADE AND OTHER PAYABLES

mln RUB	2013	2012
Long-term		
Trade payables	**539**	779
Finance lease liabilities	**197**	164
Advances from customers	**21**	30
Other payables	**28**	7
	785	980
Short-term		
Advances from customers	**14,336**	11,717
Trade payables	**3,399**	2,887
VAT payable	**3,321**	1,484
Payroll liabilities	**449**	334
Other taxes payable	**169**	132
Billings in excess of work completed	**45**	64
Income tax payable	**248**	7
Finance lease liabilities	**25**	7
Other payables	**308**	334
	22,300	16,966
Total	**23,085**	17,946

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.

26 TRADE AND OTHER PAYABLES CONTINUED

Finance lease liabilities are payable as follows:

mln RUB	2013			2012		
	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	**47**	**22**	**25**	25	18	7
Between one and five years	**227**	**30**	**197**	195	31	164
	274	**52**	**222**	220	49	171

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

mln RUB			2013		2012	
Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
RUB	15.65; 24.27 %	2013 – 2018	**222**	**222**	171	171
			222	**222**	171	171

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			
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	**–**	**(6,273)**	**(6,273)**	**–**	**(6,273)**	**–**	**(6,273)**
Unsecured bank loans	**–**	**(1,941)**	**(1,941)**	**–**	**(1,941)**	**–**	**(1,941)**
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)**

mln RUB	Carrying amount			Fair value			
2012	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)	3,798	–	3,798	–	3,798	–	3,798
Bank deposits (over 3 months)	6,810	–	6,810	–	6,810	–	6,810
Cash and cash equivalents	10,716	–	10,716	–	10,716	–	10,716
	21,324	–	21,324	–	21,324	–	21,324
Financial liabilities not measured at fair value							
Secured bank loans	–	(4,256)	(4,256)	–	(4,256)	–	(4,256)
Unsecured bank loans	–	(6,774)	(6,774)	–	(6,774)	–	(6,774)
Unsecured bond issues	–	(5,606)	(5,606)	(5,606)	–	–	(5,606)
Trade and other payables	–	(16,323)	(16,323)	–	(16,323)	–	(16,323)
	–	(32,959)	(32,959)	(5,606)	(27,353)	–	(32,959)

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 no customers accounting individually for more than 10% of the Group's balance of trade and other receivables as at 31 December 2013 (31 December 2012: none).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees
As at 31 December 2013 the Group had not provided any financial guarantees to entities outside the Group (31 December 2012: 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:

mln RUB	Carrying amount 2013	Carrying amount 2012
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	**7,460**	3,798
Bank deposits (over 3 months)	**4,898**	6,810
Cash and cash equivalents	**8,139**	10,716
	20,497	21,324

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:

mln RUB	2013 Gross	2013 Impairment	2012 Gross	2012 Impairment
Not past due	**3,897**	**–**	2,910	–
Past due 0-30 days	**267**	**–**	134	–
Past due 31-120 days	**220**	**–**	293	–
Past due more than 120 days	**22**	**(22)**	50	(50)
	4,406	**(22)**	3,387	(50)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

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

mln RUB	2013	2012
Balance at 1 January	50	72
Increase during the year	14	13
Write-offs	–	(1)
Decrease due to reversal	(42)	(34)
Balance at 31 December	22	50

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

mln RUB	2013	2012
Balance at 1 January	41	81
Increase during the year	33	24
Write-offs	(9)	(1)
Decrease due to reversal	(13)	(63)
Balance at 31 December	52	41

(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	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
31 December 2013									
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	6,273	6,988	836	1,827	2,308	2,017	–	–	–
Unsecured bank loans	1,941	2,160	249	730	1,063	12	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)

mln RUB	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
31 December 2012									
Non-derivative financial assets									
Loans and receivables (excluding taxes receivable and advances paid to suppliers)	3,798	3,798	3,067	261	211	161	22	20	56
Bank deposits (over 3 months)	6,810	6,810	6,810	–	–	–	–	–	–
Cash and cash equivalents	10,716	10,716	10,716	–	–	–	–	–	–
	21,324	21,324	20,593	261	211	161	22	20	56

	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	4,256	4,823	358	535	2,806	1,124	–	–	–
Unsecured bank loans	6,774	7,237	1,718	1,408	2,466	1,645	–	–	–
Unsecured bond issues	5,606	8,222	965	322	643	1,193	2,666	2,433	–
Finance lease liabilities	171	220	12	13	69	50	43	33	–
Trade and other payables (excluding taxes payable)	16,152	16,152	13,499	1,812	836	1	1	2	1
	32,959	36,654	16,552	4,090	6,820	4,013	2,710	2,468	1

	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	4,041	(3,829)	(6,609)	(3,852)	(2,688)	(2,448)	55
Cumulative required funding to be covered by operating and/or financing activities arising from financial instruments	4,041	212	(6,397)	(10,249)	(12,937)	(15,385)	(15,330)

(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 USD (the US dollar) – 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:

	2013		2012	
mln RUB	**USD-denominated**	**EUR-denominated**	USD-denominated	EUR-denominated
Cash and cash equivalents and bank deposits (over 3 months)	**3,601**	**228**	6,960	399
Loans and borrowings	**(589)**	**(3,059)**	(5,518)	(2,829)
Net exposure	**3,012**	**(2,831)**	1,442	(2,430)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
mln RUB	**2013**	2012	**2013**	2012
USD 1	**31.91**	31.07	**32.73**	30.37
EUR 1	**42.40**	39.91	**44.97**	40.23
GBP 1	**49.90**	49.25	**53.96**	48.96

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Sensitivity analysis

A weakening of the RUB, as indicated below, against the following currencies at 31 December 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 2012, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

mln RUB	Equity	Profit or loss
2013		
USD (10% strengthening)	**301**	**301**
EUR (10% strengthening)	**(283)**	**(283)**
	18	**18**
2012		
USD (10% strengthening)	144	144
EUR (10% strengthening)	(243)	(243)
	(99)	(99)

A strengthening of the RUB against the above currencies at 31 December 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	**2013**	2012
Fixed rate instruments		
Financial assets	**14,322**	17,993
Financial liabilities	**(9,693)**	(13,080)
	4,629	4,913
Variable rate instruments		
Financial liabilities	**(3,748)**	(3,727)
	(3,748)	(3,727)

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
2013				
Variable rate instruments	**(37)**	**37**	**(37)**	**37**
Cash flow sensitivity (net)	**(37)**	**37**	**(37)**	**37**
2012				
Variable rate instruments	(37)	37	(37)	37
Cash flow sensitivity (net)	(37)	37	(37)	37

(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	2013	2012
Total borrowings	**13,219**	16,636
Less: cash and cash equivalents	**(8,139)**	(10,716)
Less: bank deposits (over 3 months), note 20	**(4,898)**	(6,810)
Net debt	**182**	(890)
Total equity	**44,686**	38,063
Debt to capital ratio at period end	**0.004**	(0.020)

Finance lease liabilities (RUB 222 million at 31 December 2013, RUB 171 million at 31 December 2012) 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	2013	2012
Less than one year	**16**	49
Between one and five years	**47**	95
More than five years	**313**	202
	376	346

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

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

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

During the year ended 31 December 2013 an amount of RUB 40 million (year ended 31 December 2012: RUB 57 million) was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases, while RUB 14 million (year ended 31 December 2012: RUB 6 million) were capitalised into the cost of residential and commercial premises under construction.

29 CAPITAL COMMITMENTS

As at 31 December 2013 the Group does not have any capital commitments (31 December 2012: 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 year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

30 CONTINGENCIES CONTINUED

(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 year, which is included in personnel costs (see note 11):

mln RUB	2013	2012
Salaries and bonuses	317	282
	317	282

(ii) Other transactions

Sales to key management personnel are disclosed below:

	Transaction value		Outstanding balance	
mln RUB	2013	2012	2013	2012
Sale of apartments and premises	92	91	77	–
	92	91	77	–

(b) Transactions with other related parties

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

(i) Revenue

	Transaction value		Outstanding balance	
mln RUB	2013	2012	2013	2012
Other related parties	33	66	5	7
	33	66	5	7

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

(ii) Expenses

	Transaction value		Outstanding balance	
mln RUB	2013	2012	2013	2012
Other related parties	43	30	3	1
	43	30	3	1

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

(iii) Loans

mln RUB	Amount loaned 2013	Amount loaned 2012	Outstanding balance 2013	Outstanding balance 2012
Loans given:				
Other related parties	**–**	3	**–**	1
Loans received:				
Other related parties	**–**	(1)	**(1)**	(1)
	–	2	**(1)**	–

During the year ended 31 December 2012 loans bore interest rates of 0.5% per annum.

32 GROUP ENTITIES
Significant subsidiaries

Subsidiary	Country of incorporation	31 December 2013	31 December 2012
CJSC "UK 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%**	80.00%
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 31 December 2013 the Group controlled 121 legal entities (31 December 2012: 111). 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 31 December 2013 for the total amount of RUB 1 147 million.

Subsequent to the reporting date the Group has obtained new loans for the total amount of RUB 1 462 million including a new loan for the total amount of RUB 600 million with interest rate of 12% and repayable at 2017; a new loan for the total amount of RUB 450 million with interest rate of 11% and repayable at 2021, additional tranche of loan for the total amount of RUB 181 million with interest rate of 12% (repayable at 2015), additional tranche of loan for the total amount of RUB 100 million with interest rate of 12,25% and repayable at 2015 and additional tranche of a loan for the total amount of RUB 130 million with the interest rate of 13% and repayable at 2014.

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