OAO Group of Companies PIK
Consolidated Financial Statements
for the year ended
31 December 2014
and Auditors' Report

Contents

Consolidated Statement of Financial Position

In million RUB	Note	2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	13	8,594	9,049
Intangible assets	14	17,425	20,069
Investments in equity accounted investees		174	257
Other investments		57	7
Deferred tax assets	16	1,473	887
Total non-current assets		**27,723**	**30,269**
Current assets			
Inventories	17	47,604	66,237
Other investments		2	30
Income tax receivable		678	334
Trade and other receivables	18	6,702	9,272
Cash and cash equivalents		14,239	11,089
Total current assets		**69,225**	**86,962**
Total assets		**96,948**	**117,231**
EQUITY AND LIABILITIES			
Equity	19		
Share capital		41,295	41,295
Additional paid-in capital		(8,470)	(8,470)
Retained earnings		(12,058)	(12,750)
Total equity attributable to equity owners of the Company		**20,767**	**20,075**
Non-controlling interests		546	548
Total equity		**21,313**	**20,623**
Non-current liabilities			
Loans and borrowings	20	-	3,631
Trade and other payables		249	2
Deferred tax liabilities	16	1,412	1,397
Total non-current liabilities		**1,661**	**5,030**
Current liabilities			
Loans and borrowings	20	24,487	25,469
Trade and other payables	21	38,709	53,198
Provisions	22	10,530	12,695
Income tax payable		248	216
Total current liabilities		**73,974**	**91,578**
Total liabilities		**75,635**	**96,608**
Total equity and liabilities		**96,948**	**117,231**

These consolidated financial statements were approved by Management on 2 April 2015 and were signed on its behalf by:

Sergey E. Gordeev
President

Alexander V. Titov
Vice-President, Economics and Finance

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 7 to 47.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In million RUB	Note	2014	2013
Revenue	5 (i)	61,260	62,543
Cost of sales		(45,240)	(44,883)
Gross profit		**16,020**	**17,660**
Gain on disposal of subsidiaries and development rights, net		88	105
Distribution expenses	8	(938)	(916)
Administrative expenses	9	(3,335)	(3,334)
Impairment losses, net	15	(5,202)	(894)
Other expenses, net	11	(154)	(227)
Results from operating activities		**6,479**	**12,394**
Finance income	10	1,067	1,460
Finance costs	10	(3,166)	(5,173)
Net finance costs		**(2,099)**	**(3,713)**
Share of profit of equity accounted investees (net of income tax)		27	13
Profit before income tax		**4,407**	**8,694**
Income tax expense	12	(615)	(1,246)
Profit and total comprehensive income for the year		**3,792**	**7,448**
Attributable to:			
Owners of the Company		3,440	6,794
Non-controlling interests		352	654
Profit and total comprehensive income for the year		**3,792**	**7,448**
Basic and diluted profit per share, RUB	19	**5,21**	**11,55**

The consolidated statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 47.

Consolidated Statement of Changes in Equity

	Attributable to equity owners of the Company					
In million RUB	**Share capital**	**Additional paid-in-capital**	**Retained earnings**	**Subtotal**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2013	**30,843**	**(8,424)**	**(19,544)**	**2,875**	**470**	**3,345**
Profit and total comprehensive income for the year	-	-	6,794	**6,794**	654	**7,448**
Transactions with owners of the Company						
Share issue, net of related costs (note 19)	10,452	(46)	-	**10,406**		**10,406**
Dividends declared by subsidiaries to non-controlling interest	-	-	-	**-**	(576)	**(576)**
Total transactions with owners	**10,452**	**(46)**	**-**	**10,406**	**(576)**	**9,830**
Balance as at 31 December 2013	**41,295**	**(8,470)**	**(12,750)**	**20,075**	**548**	**20,623**
Balance as at 1 January 2014	**41,295**	**(8,470)**	**(12,750)**	**20,075**	**548**	**20,623**
Profit and total comprehensive income for the year	-	-	3,440	**3,440**	352	**3,792**
Transactions with owners of the Company						
Dividends declared to owners of the Company (note 19)	-	-	(2,748)	**(2,748)**	-	**(2,748)**
Dividends declared by subsidiaries to non-controlling interest	-	-	-	**-**	(354)	**(354)**
Total transactions with owners	**-**	**-**	**(2,748)**	**(2,748)**	**(354)**	**(3,102)**
Balance as at 31 December 2014	**41,295**	**(8,470)**	**(12,058)**	**20,767**	**546**	**21,313**

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 7 to 47.

Consolidated Statement of Cash Flows

In million RUB	2014	2013
OPERATING ACTIVITIES		
Profit for the year	**3,792**	**7,448**
Adjustments for:		
Depreciation and amortisation	737	705
Impairment losses and reversal of impairment losses including those in cost of sales, net	5,704	1,070
Gain on disposal of other investments	(37)	-
Foreign exchange gains, net	(34)	(226)
(Gain)/ loss on disposal of property, plant and equipment	(65)	35
Impairment (gains)/ losses on financial assets, net	(159)	746
Write-off of accounts payable	(70)	(667)
Gain from disposal of subsidiaries and development rights	(88)	(105)
Share of income of equity accounted investees	(27)	(13)
Interest expense	3,147	4,382
Change in non-controlling interest in limited liability companies	19	(205)
Interest income	(778)	(362)
Income tax expense	615	1,246
Cash from operating activities before changes in working capital and provisions	**12,756**	**14,054**
Decrease in inventories	18,146	2,528
Decrease in trade and other receivables	3,113	1,109
(Decrease)/ increase in trade and other payables	(14,641)	4,266
Decrease in provision for cost to complete	(1,393)	(1,519)
Cash flows from operations before income taxes and interest paid	**17,981**	**20,438**
Income tax paid	(2,270)	(2,350)
Interest paid	(3,494)	(5,616)
Net cash from operating activities	**12,217**	**12,472**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	135	16
Interest received	716	375
Acquisition of property, plant and equipment	(392)	(656)
Acquisition and prepayments for aquisition of development rights and other intangible assets	(2,251)	(3,410)
Acquisition of subsidiaries, net of cash acquired	(392)	-
Other proceeds/acquisitions, net	197	554
Net cash used in investing activities	**(1,987)**	**(3,121)**
FINANCING ACTIVITIES		
Proceeds from borrowings	25,192	1,936
Repayment of borrowings	(29,392)	(15,218)
Proceeds from sale of own shares	-	10,406
Dividends paid by a subsidiary to non-controlling interest	(132)	(760)
Dividends paid to owners of the Company	(2,748)	-
Net cash used in financing activities	**(7,080)**	**(3,636)**
Net increase in cash and cash equivalents	3,150	5,715
Effect of exchange rate fluctuations on cash and cash equivalents	-	307
Cash and cash equivalents at beginning of year	11,089	5,067
Cash and cash equivalents at end of year	**14,239**	**11,089**

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 7 to 47.

1 Background

(a) Organisation and operations

OAO Group of Companies PIK (the "Company") and its subsidiaries (together referred to as the "Group") comprise of closed and open joint stock companies and limited liability companies incorporated under requirements of the Civil Law of the Russian Federation and entities registered in Cyprus, Netherlands and in the British Virgin Islands. The Company was established as a privately owned enterprise in 1994. Since 1 June 2007 the Company's shares are traded on the London Stock Exchange (in the form of global depositary receipts) and Moscow Exchange (MOEX) in Russia.

The Company's registered office is 19 Barrikadnaya st., Moscow, 123242, Russian Federation.

The primary activities of the Group are investing in development projects for construction of residential buildings and sales of real estate properties; construction services; production of construction materials, including concrete panels, window frames and other construction elements. During 2014 and 2013 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

As at 31 December 2014, entities affiliated with Sergey Gordeev, Group CEO, owned 29.9% of the Company's ordinary shares.

(b) Business environment

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

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

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting".

(b) Functional and presentation currency

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

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated into presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

(c) 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 on-going 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 is included in the following notes:

- Note 15 *Impairment losses on non-financial assets and write down of inventories;*
- Note 18 *Trade and other receivables;*
- Note 22 *Provisions;*
- Note 6 *Revenue;*
- Note 16 *Deferred tax assets and liabilities;*
- Note 24 *Contingencies.*

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 15 *Impairment losses on non-financial assets and write down of inventories;*
- Note 22 *Provisions.*

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. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions of controlling shareholdings in entities in which there is no integrated set of activities conducted and assets are managed for the purpose of providing a return to investors, are accounted for as purchases of assets. The consideration paid for such companies (typically entities holding development rights) is allocated to the identifiable assets and liabilities based on their relative fair values.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies 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. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(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. All other financial assets (including assets 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 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 statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of 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 category comprise the following classes of assets: loans issued, trade and other receivables as presented in note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings as presented in note 20, bank overdrafts, and trade and other payables as presented in note 21.

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 statement of cash flows.

(d) Share capital

Ordinary shares

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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 capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(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

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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 20-60 years;
- plant and equipment 5-25 years;
- fixtures and fittings 5-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

(i) Development rights

Expenditure on identifying land plots with the purpose of obtaining new development projects is recognised in the profit or loss as an expense as incurred.

Expenditure on obtaining development rights, necessary to start construction activities, are recognised in intangible assets if the projects are technically and commercially feasible and the Group has sufficient resources to accomplish the development of the projects. The cost of development rights includes the cost of obtaining the right to lease a land plot and the cost of obtaining the registered permit to construct a specific property.

Capitalised development rights recognised on initial acquisition as intangible assets are measured at cost less accumulated impairment losses until the development starts. On commencement of construction such development rights are reclassified as construction in progress, included in inventories.

When the Group does not act as a developer, but participates in projects in the capacity of an investor or co-investor, the cost of development rights contributed to such projects is recognised within inventories, refer note 3(h) below.

(ii) Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(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.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

(h) Inventories

Inventories include construction work in progress when the Group acts in the capacity of a developer and the real estate is intended for sale, and prepayments made under investment and co-investment agreements for apartments intended for sale, raw materials, other work in progress and finished goods.

Inventories are stated 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. These costs are allocated to completed individual apartments on a prorate 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.

The Group enters into investment or co-investment agreements to develop residential buildings with local authorities. Such investment contracts may require that the Group:

- for no consideration delivers certain properties to the local authorities upon completion of the construction, e.g., schools, kindergartens, etc.
- constructs certain infrastructure facilities in exchange of the ability to develop the properties, e.g., electricity, sewage systems, roads;

- constructs certain objects for public use where the expected compensation from the buyers will not reimburse the Group with the costs to be incurred, e.g., certain parking spaces;
- enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been pre-sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such contracts are negotiated with the local authorities as part of acquisition of the development rights, and they cannot be assessed as onerous (as described in note 3(e)(ii)), the costs to complete the construction are included in the total costs of construction of properties which these development rights relate to.

The cost of inventories, other than construction work in progress intended for sale and prepayments for real estate properties 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.

Advances made under terms of co-investment contracts represent payments made by or assets transferred from the Group in its capacity of investor or co-investor to finance the construction of real estate, which is developed by a third party.

The Group’s normal operating cycle for a construction project may exceed twelve months. Inventories are classified as current assets even when they are not expected to be realised within twelve months after the balance sheet date.

(i) Impairment

Non-derivative 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 (including equity securities) 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 loans and receivables or held-to-maturity investment securities. 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.

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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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

(i) Contributions to state pension fund

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 profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(ii) Short-term benefits

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 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.

(iii) Share-based payment transactions

The grant-date fair value of share-based payment award to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

(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) Tax provisions

The Group provides for tax exposures including interest and penalties, when the tax becomes payable according to the effective laws and regulations. Such provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities. Upon expiry of the review period the provisions are released. Tax provisions are recognised as part of income tax expense or cost of sales.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

As described in note 3(h), the Group enters into investment or co-investment agreements to develop residential buildings, the contracts may require that the Group delivers certain properties to the local authorities upon completion of the construction or/and construct certain infrastructure facilities in exchange for the ability to develop the property for no consideration. In addition the Group enters into agreements with local authorities to complete construction of certain residential properties where the apartments had been sold by a predecessor developer to the general public; however, the construction was subsequently stopped due to insolvency of such predecessor developer or other similar reasons.

When such agreements cannot be directly attributed to any of the Group's projects and the agreements are assessed as onerous, a provision is recognised in the Group's consolidated financial statements when entering into the agreement to complete the construction. The provision is estimated based on the present value of estimated unavoidable net costs to complete the construction.

(l) Revenues

(i) Revenue from sale of real estate properties

Revenues from sale of real estate properties comprise revenues from sale of standardised apartments, which are constructed without reference to a specific customer's request.

Revenue from the sale of real estate property is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised when 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 property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of real estate properties, transfer usually occurs when the respective building is approved by the State commission established by the local regulating authorities for acceptance of finished buildings ("State commission"). The revenue received in connection with sales of apartments to individuals is recognized when a prepayment is more than 95% of the sale price.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(ii) Revenue from construction services

Revenues from construction comprise construction services which are rendered to a specific customer's request.

Revenue from construction services rendered is recognised in the profit or loss on a monthly basis according to the following principles:

- If the outcome of a construction contract can be estimated reliably the contract revenue is recognised in proportion to the stage of completion of the contract. The Management believes that, the outcome of a construction contract is deemed reliable when the actual costs to budgeted costs exceed certain threshold.

- If the ratio of actual costs to budgeted costs is below the threshold the revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable.

The stage of completion is assessed monthly as a ratio of actual costs to budgeted costs and fixed in acts of completed works signed by the Group and the customer. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

There are certain construction projects, where one Group entity participates as an investor/co-investor while a third party acts as a developer. At the same time other Group entities may provide construction services to the developer. Revenues from construction services relating to such projects are treated as an intercompany transaction and eliminated against related costs.

(iii) Other sales

Revenue from the sale of construction materials and other sales is recognised in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer.

(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.

(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 the profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. 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 normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of financial assets, dividends on preference shares classified as liabilities, and impairment losses recognised on financial assets (other than trade receivables).

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.

The Group uses exemption for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis, therefore borrowing costs related to construction of mass residential premises are not capitalised. Where real estate property is not being actively developed, net rental and finance costs are taken to the profit or loss.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(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 year, 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 jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

(p) Earnings per share

The Group presents basic and diluted 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(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 Group's CEO 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).

(r) Adoption of amended Standards and Interpretation

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 27 (Amended) "Separate Financial Statements"	1 January 2014
IAS 32 (Amended) "Financial Instruments: Presentation"	1 January 2014
IAS 36 (Amended) "Impairment of assets"	1 January 2014
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	1 January 2014
IFRS 10 (Amended) "Consolidated Financial Statements"	1 January 2014
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	1 January 2014
IFRIC 21 "Levies"	1 January 2014

The amended standards and interpretations did not have significant effect on Group's financial statements.

(s) New accounting pronouncements

Adoption of amended Standards and Interpretation

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing this consolidated financial statements.

Standards	Effective for annual periods beginning on or after
IAS 1 (Amended) "Presentation of Financial Statements"	1 January 2016
IAS 16 (Amended) "Property, Plant and Equipment"	1 July 2014, 1 January 2016
IAS 19 (Amended) "Employee Benefits (2011)"	1 July 2014
IAS 24 (Amended) "Related Party Disclosures"	1 July 2014
IAS 27 (Amended) "Separate Financial Statements"	1 January 2016
IAS 34 (Amended) "Interim Financial Reporting"	1 January 2016
IAS 37 (Amended) "Provisions, Contingent Liabilities and Contingent Assets"	1 July 2014
IAS 38 (Amended) "Intangible Assets"	1 July 2014, 1 January 2016
IAS 39 (Amended) "Financial Instruments: Recognition and Measurement"	1 July 2014
IAS 40 (Amended) "Investment Property"	1 July 2014
IAS 41 (Amended) "Agriculture"	1 January 2016

Standards	Effective for annual periods beginning on or after
IFRS 1 (Amended) "First-time Adoption of International Financial Reporting Standards"	1 July 2014, 1 January 2016
IFRS 2 (Amended) "Share-based Payment"	1 July 2014
IFRS 3 (Amended) "Business Combinations"	1 July 2014
IFRS 7 (Amended) "Financial Instruments: Disclosures"	1 January 2015
IFRS 8 (Amended) "Operating Segments"	1 July 2014
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 10 (Amended) "Consolidated Financial Statements"	1 January 2016
IFRS 11 (Amended) "Joint Arrangements"	1 January 2016
IFRS 13 (Amended) "Fair Value Measurement"	1 July 2014
IFRS 14 (Amended) "Regulatory Deferral Accounts"	1 January 2016
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017

4 Measurement 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) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, 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) 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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has four reportable segments which are the Group's strategic business units:

- *Real estate development*: The implementation of developments planned and undertaken by the Group, including identification of investment opportunities, performance of feasibility studies, obtaining the necessary construction permits, carrying out construction of projects and performing project management activities, and marketing real estate projects to potential buyers.
- *Construction segment*: Contracting activities, production and assembly of prefabricated panel buildings and related activities.
- *Industrial segment:* Production of concrete panels, window frames and other construction materials.
- *Other:* Real estate maintenance services provided to tenants, rental services and other activities.

There are varying levels of integration between the Real estate development, Construction and Industrial reportable segments. This integration includes construction services provided during the construction of the real estate for further reselling, production of construction materials.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit/ (loss), as included in the internal management reports that are reviewed by the Group’s CEO. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Segments profit and losses

	Real estate development		Construction segment		Industrial segment		Other		Total	
mln RUB	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External revenues	54,282	53,296	2,095	4,460	2,261	2,274	2,622	2,513	**61,260**	**62,543**
Inter-segment revenue	46	80	12,617	11,562	1,178	1,040	637	389	**14,478**	**13,071**
Total revenue for reportable segments	**54,328**	**53,376**	**14,712**	**16,022**	**3,439**	**3,314**	**3,259**	**2,902**	**75,738**	**75,614**
Reportable segment gross profit	**14,742**	**15,200**	**410**	**1,267**	**174**	**250**	**694**	**943**	**16,020**	**17,660**
Gross profit margin	**27%**	**29%**	**20%**	**28%**	**8%**	**11%**	**26%**	**38%**	**26%**	**28%**

(ii) Geographical information

The Real estate development, Construction segment, Industrial segment and Other segments operations are located in Russia and operate in three principal geographical areas: Moscow, the Moscow Region and the Other Regions.

In presenting information on the basis of geography, external revenues of the Real estate development are based on the geographical location of development sites.

	Real estate development	
	2014 mln RUB	2013 mln RUB
Moscow	22,013	22,728
Moscow Region	25,493	24,971
Other regions	6,776	5,597
	54,282	**53,296**

(iii) Reconciliations of reportable segment revenues and profit or loss

	2014 mln RUB	2013 mln RUB
Reconciliation of Revenue		
Total revenue for reportable segments	75,738	75,614
Elimination of inter-segment revenue	(14,478)	(13,071)
Group Revenue	**61,260**	**62,543**
Gross profit or loss reconciliation		
Reportable segment profit	16,020	17,660
Group Gross profit	**16,020**	**17,660**
Unallocated amounts		
Gain on disposal of subsidiaries and development rights, net	88	105
Distribution expenses	(938)	(916)
Administrative expenses	(3,335)	(3,334)
Impairment losses, net	(5,202)	(894)
Other expenses, net	(154)	(227)
Finance income	1,067	1,460
Finance costs	(3,166)	(5,173)
Share of profit of equity accounted investees, net of income tax	27	13
Consolidated profit before income tax	**4,407**	**8,694**

(iv) Major customers

In 2014 and 2013, no customer represented more than 10% of the Group's total revenue.

6 Revenue from sale of apartments

The Group has recognised revenue of RUB 54,277 million (2013: RUB 52,159 million) for the sale of apartments to individuals. Customers have the legal right to cancel the transaction up to the date of signing final acceptance act. Based on past experience, the percentage of transactions being reversed at the request of customers from the date when the sale is recognised is significantly lower than 1%. The Group has, therefore, recognised revenue in full amount without recognising any provision for returns.

During 2014, the revenues from sale of apartments in exchange for goods and services received amounted to RUB 5 million (2013: RUB 1,137 million).

7 Personnel costs

	2014 mln RUB	2013 mln RUB
Salaries and wages	7,140	6,551
Social charges	1,831	1,830
	8,971	**8,381**

8 Distribution expenses

	2014 mln RUB	2013 mln RUB
Salaries and wages	259	301
Advertising expenses	635	510
Other	44	105
	938	**916**

9 Administrative expenses

	2014 mln RUB	2013 mln RUB
Salaries and wages	2,090	2,008
Professional and other services	618	680
Depreciation	198	223
Other administrative expenses	429	423
	3,335	**3,334**

10 Finance income and costs

Finance income

mln RUB	2014 mln RUB	2013 mln RUB
Interest income	778	362
Foreign exchange gains, net	34	226
Reversal of impairment of financial assets, net	159	-
Write-off of accounts payable	70	667
Other finance income	26	-
Change in non-controlling interest in limited liability companies	-	205
	1,067	**1,460**

Finance costs

mln RUB	2014 mln RUB	2013 mln RUB
Interest expense	(3,147)	(4,382)
Impairment of financial assets, net	-	(746)
Other finance costs	-	(45)
Change in non-controlling interest in limited liability companies	(19)	-
	(3,166)	**(5,173)**

11 Other income and expenses

	2014 mln RUB	2013 mln RUB
Penalties and fines, including reversals, net	(121)	185
Charity expenses	(98)	(192)
Tax expenses	(74)	(64)
Other income/ (expenses)	139	(156)
	(154)	**(227)**

12 Income tax expense

The income tax expense consists of the following:

	2014	2013
	mln RUB	mln RUB
Current tax expense		
Current year	(1,962)	(2,214)
Overprovided in prior years	4	16
Reversal of tax provisions	772	1,280
	(1,186)	**(918)**
Deferred tax benefit/ (expense)		
Origination and reversal of temporary differences	571	(328)
	571	(328)
	(615)	**(1,246)**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2013: 20%). The subsidiaries domiciled in Cyprus were taxed at a rate of 10%.

Reconciliation of effective tax rate:

	2014		2013	
	mln RUB	%	mln RUB	%
Profit before income tax	4,407	100	8,694	100
Income tax expense at applicable tax rate	(881)	20	(1,739)	20
Effect of unrecognised deferred tax assets	(18)	-	(187)	2
Overprovided in prior years	4	-	16	-
Non-deductible expenses	(434)	10	(553)	6
Tax on intra-group dividends	(58)	2	(78)	1
Reversals of tax provisions	772	(18)	1,280	(15)
Effect of income taxed at lower rates	-	-	15	-
	(615)	**14**	**(1,246)**	**14**

13 Property, plant and equipment

mln RUB	Buildings	Plant and equipment	Other fixed assets	Construction in progress	Total
Cost / Deemed cost					
At 1 January 2013	**10,850**	**3,759**	**1,003**	**612**	**16,224**
Additions	-	-	-	755	755
Disposals	(49)	(321)	(157)	(167)	(694)
Transfers	65	649	160	(874)	-
At 31 December 2013	**10,866**	**4,087**	**1,006**	**326**	**16,285**
Additions	-	-	-	1,144	1,144
Disposals	(184)	(294)	(65)	(43)	(586)
Transfers	563	203	45	(811)	-
At 31 December 2014	**11,245**	**3,996**	**986**	**616**	**16,843**
Accumulated depreciation and impairment losses					**-**
At 1 January 2013	**(4,260)**	**(2,235)**	**(653)**	**-**	**(7,148)**
Impairment provision related to disposed assets	-	-	1	-	1
Depreciation charge	(268)	(248)	(82)	-	(598)
Disposals	59	307	143	-	509
At 31 December 2013	**(4,469)**	**(2,176)**	**(591)**	**-**	**(7,236)**
Impairment losses (see note 15)	(499)	(65)	(90)	(123)	(777)
Impairment provision related to disposed assets	22	212	-	-	234
Depreciation charge	(265)	(272)	(97)	-	(634)
Disposals	41	71	52	-	164
At 31 December 2014	**(5,170)**	**(2,230)**	**(726)**	**(123)**	**(8,249)**
Net book value					
At 1 January 2013	**6,590**	**1,524**	**350**	**612**	**9,076**
At 31 December 2013	**6,397**	**1,911**	**415**	**326**	**9,049**
At 31 December 2014	**6,075**	**1,766**	**260**	**493**	**8,594**

(a) Security

At 31 December 2014, property, plant and equipment with a carrying value of RUB 2,445 million (2013: RUB 2,596 million) was pledged to secure bank loans (refer to note 20).

(b) Depreciation expense

Depreciation expense of RUB 455 million has been charged to cost of goods sold, RUB 8 million to distribution expenses, RUB 171 million to administrative expense (2013: RUB 366 million, RUB 9 million, RUB 223 million accordingly).

14 Intangible assets

mln RUB	Development rights	Other intangible assets	Total
Cost			
At 1 January 2013	**22,673**	**270**	**22,943**
Additions	4,391	140	4,531
Disposals	(1,248)	(59)	(1,307)
Reclassification into construction work-in-progress	(297)	-	(297)
At 31 December 2013	**25,519**	**351**	**25,870**
Additions	1,352	118	1,470
Disposals and write-offs	(2,592)	(69)	(2,661)
Reclassification into construction work-in-progress	(2,158)	-	(2,158)
At 31 December 2014	**22,121**	**400**	**22,521**
Accumulated amortisation and impairment losses			
At 1 January 2013	**(6,240)**	**(85)**	**(6,325)**
Impairment losses (see note 15)	(844)	-	(844)
Reversal of impairment (see note 15)	713	-	713
Impairment provision on disposed assets	701	-	701
Amortisation charge	-	(107)	(107)
Derecognition during reporting period	-	61	61
At 31 December 2013	**(5,670)**	**(131)**	**(5,801)**
Impairment losses (see note 15)	(1,987)	(63)	(2,050)
Reversal of impairment (see note 15)	272	-	272
Impairment provision on disposed assets	2,527	-	2,527
Amortisation charge	-	(103)	(103)
Derecognition during reporting period	-	59	59
At 31 December 2014	**(4,858)**	**(238)**	**(5,096)**
Net book value			
At 1 January 2013	**16,433**	**185**	**16,618**
At 31 December 2013	**19,849**	**220**	**20,069**
At 31 December 2014	**17,263**	**162**	**17,425**

In November 2014, the Group commenced development of a land plot located in Moscow. The cost of the land plot and related expenses initially recognized as intangible assets were reclassified as construction in progress and are included in inventories in the amount of RUB 2,099 million.

Major purchases of development rights through acquisition of legal entities

Investments in development rights are made mostly through acquisitions of shares in subsidiaries which own or rent on a long-term basis certain land plots. The Group intends to obtain permissions required for further development of the sites. The subsidiaries do not have any other significant assets, liabilities, revenues and profits or losses as at and for the year ended 31 December 2014 and 2013. Accordingly, the consideration paid by the Group to acquire the subsidiaries was accounted as the acquisition of interests in land rights under development rights. There were no significant acquisitions of development rights in 2014 (2013: RUB 3,514 million).

15 Impairment losses on non-financial assets and write down of inventories

At each reporting date the Group reviews impairment indicators for the following assets:

- property, plant and equipment;
- development rights;
- other intangible assets;
- inventories;
- advances paid for construction work and other advances.

(a) Property, plant and equipment

The Group reviewed the carrying amounts of its property, plant and equipment and concluded that there are indicators that assets may be impaired as at 31 December 2014. Therefore, the Group estimated the recoverable amounts of the respective cash generating units.

The values assigned to the key assumptions represent management's assessment of future trends in the construction industry and are based on both external and internal sources (historical data).

Prefabricated panel manufacturing

This group includes assets of OAO PIK-Industries, OAO 480 KGI, OAO 100 KGI, OOO StroyInvest, OOO NSS, OOO Zavod ZBI StroyIndustriya. The following key assumptions were used to determine the recoverable amounts:

- The recoverable amount was determined as higher of the value in use resulting from discounting the future cash flows generated from the continuing use of the assets or estimation of the fair value less cost to sell based on the possibility of immediate sale;
- The cash flows were projected based on actual operating results for 2014, and the five-year business plan with adjustments for intra-group pricing; cash flows beyond the five-year period have been extrapolated for periods representing the remaining useful lives of major assets;
- Plants capacity utilisation is projected at 32% to 85%;
- A nominal, pre-tax discount rate of 25% for RUB denominated cash flows was applied in determining the recoverable amount of the plants.

(b) Development rights and inventories

The Group reviewed its portfolio of the development rights to determine whether the assets are impaired. In most instances the Group used discounted cash-flows to determine the recoverable amounts of the development rights and inventories. Some projects have been valued based on the possibility of immediate sale. Net realizable value was used to determine the recoverable amounts for the finished goods. The Group has also engaged an independent appraiser to estimate the value in use of the Group's investments in the development rights.

The following key assumptions were used in determining the value in use by discounted cash-flow techniques:

- Cash flows were projected for each individually significant project;
- Sales prices for the apartments are based on market prices effective in December 2014 for similar properties;
- A real pre-tax discount rate of 22.3% for RUB based cash flows was applied on average in determining recoverable amounts.

(c) Other intangible assets; advances paid for construction work and other advances

Additional impairment losses/write-downs and reversals of impairment were recognized in 2014 and 2013 with respect to the other intangible assets; advances paid for construction work and other advances.

(d) Results of impairment tests and inventory write downs

		31 December 2014			31 December 2013		
		mln RUB	mln RUB	mln RUB	mln RUB	mln RUB	mln RUB
	Note	Carrying value	Impairment/ write down	Balance after impairment	Carrying value	Impairment/ write down	Balance after impairment
Property, plant and equipment	13	11,936	(3,342)	8,594	11,848	(2,799)	9,049
Development rights	14	22,121	(4,858)	17,263	25,519	(5,670)	19,849
Other intangible assets	14	225	(63)	162	220	-	220
Inventories	17	50,946	(3,342)	47,604	68,955	(2,718)	66,237
Advances paid	18 (b)	4,284	(1,609)	2,675	4,297	(1,293)	3,004
		89,512	**(13,214)**	**76,298**	**110,839**	**(12,480)**	**98,359**

(e) Impairment losses and reversals of impairment

	Note	2014 mln RUB	2013 mln RUB
Impairment losses and write downs			
Property, plant and equipment	13	(777)	-
Development rights	14	(1,987)	(844)
Other intangible assets	14	(63)	-
Inventories	17	(2,822)	(724)
Advances paid	18 (b)	(582)	(456)
		(6,231)	**(2,024)**
Reversal of impairment			
Development rights	14	272	713
Inventories	17	117	185
Advances paid	18 (b)	138	56
		527	**954**
		(5,704)	**(1,070)**

In 2014, impairment losses of finished goods and construction materials included in the cost of sales amounted to RUB 502 million, including RUB 374 million of impairment charge related to parking spaces in the finished goods. Impairment charges and reversals related to property, plant and equipment, development rights, advances paid and construction work in progress, intended for sale in the total amount of RUB 5,202 million were included in impairment losses (2013: RUB 176 million and RUB 894 million accordingly).

In the instances where the value in use of the non-financial assets exceeds the carrying amount of the asset, 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 if no impairment loss had been recognised.

		2014 mln RUB	2013 mln RUB
Reclassification to/ (from) other assets			
Inventories	17	26	88
Advances paid	18 (b)	4	65
		30	**153**

In addition, in 2014 and 2013, impairment losses have been reversed in the following amounts due to disposals of the respective assets. The related gains were included in other income.

	Note	2014 mln RUB	2013 mln RUB
Derecognitions related to disposals			
Property, plant and equipment	13	234	1
Development rights	14	2,527	701
Inventories	17	2,055	310
Advances paid	18 (b)	124	231
		4,940	**1,243**

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

mln RUB	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	112	170	(285)	(270)	(173)	(100)
Investments	73	37	(15)	(103)	58	(66)
Intangible assets	10	3	(138)	(120)	(128)	(117)
Inventories	1,262	1,065	(534)	(159)	728	906
Trade and other receivables	528	446	(787)	(365)	(259)	81
Trade and other payables	1,254	252	(1,588)	(1,772)	(334)	(1,520)
Tax loss carry-forwards	169	306	-	-	169	306
Tax assets/(liabilities)	3,408	2,279	(3,347)	(2,789)	61	(510)
Set off of tax	(1,935)	(1,392)	1,935	1,392	-	-
Net tax assets/(liabilities)	**1,473**	**887**	**(1,412)**	**(1,397)**	**61**	**(510)**

(b) Unrecognised deferred tax assets

Deferred tax assets of RUB 4,365 million (2013: RUB 5,006 million) have not been recognised in respect of the deductible temporary differences and tax losses carried forward. The assets have not been recognised in respect of the above items because it is not probable that future taxable profit will be available against which these assets can be utilized. Tax losses expire in 2018.

(c) Unrecognised deferred tax liabilities related to investments in subsidiaries

At 31 December 2014 a deferred tax liability for temporary differences of RUB 8,529 million (2013: RUB 5,991 million) related to investments in a 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.

(d) Movement in temporary differences during the year

mln RUB	1 January 2014	Recognised in profit and loss	31 December 2014
Property, plant and equipment	(100)	(73)	(173)
Investments	(66)	124	58
Intangible assets	(117)	(11)	(128)
Inventories	906	(178)	728
Trade and other receivables	81	(340)	(259)
Trade and other payables	(1,520)	1,186	(334)
Tax loss carry-forwards	306	(137)	169
	(510)	**571**	**61**

mln RUB	1 January 2013	Recognised in profit and loss	Changes due to acquisition of subsidiaries	31 December 2013
Property, plant and equipment	(201)	101	-	(100)
Investments	(83)	17	-	(66)
Intangible assets	(82)	(35)	-	(117)
Inventories	923	2	(19)	906
Trade and other receivables	429	(348)	-	81
Trade and other payables	(1,309)	(211)	-	(1,520)
Tax loss carry-forwards	107	146	53	306
	(216)	**(328)**	**34**	**(510)**

17 Inventories

	2014 mln RUB	2013 mln RUB
Construction work in progress, intended for sale	39,382	53,241
Raw materials and consumables	1,772	1,800
Work in progress	46	41
Finished goods and goods for resale	6,404	11,155
	47,604	**66,237**
Write down	(3,342)	(2,718)

18 Trade and other receivables

(a) Construction contracts in progress

	2014 mln RUB	2013 mln RUB
Cost incured to date	6,187	6,231
Profits recognized to date	1,111	962
Revenue recognized to date	7,298	7,193
Progress payments received	(7,005)	(7,130)
	293	63
Amounts due to customers	(67)	(193)
Amounts due from customers	360	256

(b) Trade and other receivables

	2014 mln RUB	2013 mln RUB
Trade accounts receivable	3,359	4,865
Advances paid	2,675	3,004
Taxes receivable	385	961
Others	283	442
	6,702	**9,272**
Impairment losses	(2,435)	(3,291)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

19 Equity

(a) Share capital

In June 2013, the Group issued additional shares which increased the Group's capital by RUB 10,452 million. The total number of ordinary shares issued was 167,237 thousand with the nominal value of RUB 62.50 per share, as a result, the total number of ordinary shares outstanding as at 31 December 2014 constituted 660,497 thousand (31 December 2013: 660,497 thousand).

Weighted average number of shares is calculated bellow:

	2014	2013
Issued shares outstanding at 1 January	660,497	493,260
Effect of shares issued in 7 June, 2013	-	94,844
Weighted average number of shares for the year ended 31 December, thousand shares	660,497	588,104

(b) Dividends

In accordance with the Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

In 2014, Board of Directors of the Group approved and declared dividends in the amount of RUB 2,748 million, representing RUB 4.16 per ordinary share. As at 31 December 2014, dividends declared have been paid in full.

(c) Earnings per share

The calculation of earnings per share is based on the profit for the year attributable to the ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	2014	**2013**
Profit for the year attributable to the owners of the Company, mln RUB	3,440	6,794
Weighted average number of shares for the year ended 31 December, thousand shares	660,497	588,104
Basic and diluted earnings per share, RUB	**5,21**	**11,55**

20 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 23.

	2014 mln RUB	**2013 mln RUB**
Non-current		
Secured bank loans	-	3,631
Current		
Secured bank loans	24,487	25,093
Interest payble	-	376
	24,487	**29,100**

As at 31 December 2014 and 2013, the bank loans were secured with:

- property, plant and equipment with a carrying value of RUB 2,445 million (2013: RUB 2,596 million);
- inventory with a carrying value of RUB 9,254 million (2013: RUB 9,091 million);
- development rights with a carrying value of RUB 9,969 million (2013: RUB 11,148 million);
- shares of the certain subsidiaries which comprise a substantial part of the Group.

As at 31 December 2014, there were no pledges of residential and commercial real estate premises intended for sale to customers (2013: 102 thousand square meters and 3,756 parking lots in Moscow and the Moscow Region with carrying value of RUB 7,641 million and RUB 1,806 million).

In June 2014, the Group signed a one year loan agreement in the amount of RUB 24,300 million which may be extended up to five years subject to certain conditions. Proceeds from the loan amounting to RUB 24,053 million, net of related issuing costs, were used to refinance existing credit facilities from two major lenders and to finance current working capital needs.

Terms and conditions of outstanding debt

Terms and conditions of outstanding loans were as follows:

	2014 mln RUB	2013 mln RUB
Secured bank loans		
RUB - fixed at 11,4%-14%	24,487	26,364
USD - fixed at 9%-11%	-	1,160
RUB - fixed at 10,9%	-	1,200
Interest payable	-	376
	24,487	**29,100**

21 Trade and other payables

	2014 mln RUB	2013 mln RUB
Current		
Advances from customers	32,378	43,426
Accounts payable for construction works and other trade payables	3,900	5,652
Other taxes payable	723	2,218
Other payables	1,708	1,902
	38,709	**53,198**

The Group’s exposure to currency and liquidity risks related to trade and other payables is disclosed in note 23.

22 Provisions

Estimated costs to complete represent the Group's estimate of future costs which are expected to be incurred in relation to construction of infrastructure facilities and other local amenities, such as schools, parking places, commercial real estate etc., which the Group is obliged to build as part of its building permit requirements.

These estimates are particularly dependent on the changes in city development regulations, which may trigger the changes in the investment contacts with the Group, change in prices for construction materials and labor, and the ability of the Group to further sell such assets at expected prices.

The tax provisions relating to deductibility for tax purposes of certain expenses primarily comprise of a provision of income tax of RUB 1,170 million (2013: RUB 1,942 million). The provision includes penalties and has not been subject to discounting.

In 2014 the Group reversed tax provision amounting RUB 944 million recognised in prior periods.

mln RUB	Provision for costs to complete	Provision for tax	Total
As at 1 January 2014	**10,753**	**1,942**	**12,695**
Additional provisions	2,748	172	2,920
Releases of provisions	(2,901)	(944)	(3,845)
Amount used	(1,240)	-	(1,240)
As at 31 December 2014	**9,360**	**1,170**	**10,530**
As at 1 January 2013	**12,272**	**3,222**	**15,494**
Additional provisions	4,222	-	4,222
Releases of provisions	(2,622)	(1,280)	(3,902)
Amount used	(3,119)	-	(3,119)
As at 31 December 2013	**10,753**	**1,942**	**12,695**

23 Financial instruments

(a) Overview

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 Board of Directors has overall responsibility for the establishment and oversight of the Group's 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, aims to develop 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 the Group's receivables from customers and investment securities.

(i) Sale of apartments to individuals

The Group is not significantly exposed to credit risk in connection with sales of apartments to individuals as such sales are significantly on a prepayment basis.

(ii) Trade receivables from organisations

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each contractor.

The Group has established a credit policy under which each new contractor is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. These provide for penalties in the event of late payment or late delivery.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether type of contract, aging profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. 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 estimates of the possible redemption amounts for each contract.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to the Group's subsidiaries.

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:

Credit risk	**2014**	**2013**
	mln RUB	**mln RUB**
Loans and receivables	3,675	5,316
Cash and cash equivalents	14,239	11,089
	17,914	16,405

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	2014 mln RUB	2013 mln RUB
Receivable from goods and services provided	2,303	3,954
Entities with significant state share in equity	1,056	911
	3,359	**4,865**

Impairment losses

The aging of trade receivables and loans receivable at the reporting date was:

Impairment losses	Gross 2014 mln RUB	Impairment 2014 mln RUB	Gross 2013 mln RUB	Impairment 2013 mln RUB
Not past due	3,234	-	4,712	-
Past due 90 days	156	(156)	480	(438)
Past due 91-180 days	101	(101)	66	(60)
Past due 181 days-1 year	52	(50)	466	(462)
More than one year	741	(740)	1,367	(1,367)
	4,284	**(1,047)**	**7,091**	**(2,327)**

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

	2014 mln RUB	2013 mln RUB
Balance at beginning of the year	2,327	1,894
(Decrease)/ increase during the year	(159)	746
Amounts written off against financial assets	(1,121)	(313)
Balance at end of the year	**1,047**	**2,327**

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans issued. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

Group’s treasury carries out liquidity risk management including risks which the Group would face in the long-, medium- and short-term periods under governance approved and provided by the Board that is reviewed regularly in order to reflect changes in market conditions.

The liquidity position is centrally managed for all subsidiaries of the Group in order to control cash balances available at any time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Liquidity risk

2014	**Average interest rate**				
mln RUB	**Contra-ctual**	**Effective**	**Carrying value**	**0-6 mths**	**Total**
Bank loans	11,4-12%	12-12,5%	24,487	24,600	24,600
Trade and other payables	-	-	5,319	5,319	5,319
Interest payable	-	-	-	1,258	1,258
			29,806	**31,177**	**31,177**

2013	**Average interest rate**								
mln RUB	**Contra-ctual**	**Effective**	**Carrying value**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**Total**
Bank loans	10-16%	10-16%	28,724	16,069	9,024	1,458	1,908	265	28,724
Trade and other payables	-	-	7,450	7,450	-	-	-	-	7,450
Interest payable	-	-	376	1,949	564	388	166	2	3,069
			36,550	**25,468**	**9,588**	**1,846**	**2,074**	**267**	**39,243**

As at 31 December 2014, the Group's current liabilities exceeded its current assets by RUB 4,749 million. Of its total current liabilities, RUB 24,600 million in loans fall due in 2015. Management is in advanced negotiations with its lenders to extend the maturity of the current loan amounting to RUB 24,300 million to the years 2015-2019. Management is confident that such agreement will be reached before the contracted maturity and the Group will not be requested to repay the respective loan within the next 12 months. However, should the Group fail to extend the loan, it is possible that some of the Group's land plots might be put on sale to generate cash flows of at least RUB 12,397 million (estimated proceeds represent 80% of these assets' fair values). Such proceeds, in addition to the current operational cash flows, should be sufficient to continue operations in the next 12 months from the date of these financial statements.

(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.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(i) Currency risk

The Group's primary operating currency is the Russian Rouble (RUB). The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUB). These transactions, which could be exposed to foreign currency risks are typically denominated in U.S. Dollars (USD). Management estimates the share of such foreign currency transactions in the current operations to be insignificant.

Borrowings and arising interest payments are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB in 2014 and USD in 2013. This provides a natural economic hedge and no currency derivatives are used by the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

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

mln RUB	2014 USD denominated	2013 USD denominated
Cash	2,870	32
Receivables	94	89
Trade payables	(6)	(1)
Loans and borrowings	-	(1,173)
Total	**2,958**	**(1,053)**

The RUB/USD exchange rates at 31 December 2014 and 31 December 2013 were 56.26 and 32.73 respectively. The average RUB/USD rates for the years were 38.42 and 31.89 respectively.

Sensitivity analysis

A 20% strengthening of the RUB against the USD at 31 December 2014 would have decreased equity and profit by RUB 592 million. The same strengthening effect of the RUB again USD at 31 December 2013 would have increased equity and profit by RUB 211 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 20% weakening of the RUB against the USD at 31 December 2014, and 31 December 2013 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

	Carrying ammount	
	2014	**2013**
Fixed rate instruments	**mln RUB**	**mln RUB**
Financial assets	11,600	8,858
Financial liabilities	(24,487)	(29,100)
	(12,887)	**(20,242)**

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, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

As at 31 December 2014 and 31 December 2013 the carrying values of the Group's financial assets and liabilities approximated their fair values. The basis for determining fair values is disclosed in note 4.

(f) Capital management

The Group'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 Board of Directors monitors capital structure goal defined as net debt divided by Earnings before interest, income taxes, depreciation and amortisation (EBITDA). The calculation of net debt and EBITDA is disclosed in note 28.

During 2013 and 2014, the Group focused on its debt restructuring by active negotiations with its lenders on payment terms and interest rates. The Group established a goal to reduce the short-term portion of total debt to acceptable limits.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insured its property and equipment to compensate for expenses arising from accidents. The Group has also insured certain professional and financial risks in relation to quality of construction works. The Group does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

The Group does not have insurance in respect of any force majeure circumstances, which may arise in relation to constructed buildings in the period after the sales have been recognised until the time when ownership rights are registered with the customer or acceptance act is signed in respect of shared construction contracts. The risk of damage in case of force majeure circumstances in these periods of time is borne by the Group.

In cases stipulated by the Federal Law №214-FZ, Group acting as the developer participates in the Society of mutual liability insurance builders. Under shared construction contracts the Group has insured its civil liability for any failure to transfer completed properties to customers.

Until the Group obtains full insurance coverage, there is a risk that the loss or destruction of certain assets and other circumstances could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is involved in various claims and legal proceedings relating to supply and service contracts. The amount of RUB 143 million related to accounts payable was claimed in court at the end of the 2014 (2013: RUB 2,870 million). The amount of RUB 119 million was included in accounts payable as at 31 December 2014. Management believes, based on legal advice, that the actions can be successfully defended and therefore no losses will be incurred. The legal claims are expected to be settled in the course of next reporting period.

(c) Taxation contingencies

Taxation system

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 companies entered into transactions involving other Group companies at prices which management believed were consistent with applicable tax law. However, the tax authorities could take a different position to assess the market level of prices applied and attempt to claim additional tax and interest. The potential amount of such assessment cannot be reasonably estimated based on the uncertainty of transfer pricing rules, but could be significant. Management has not made any provision because it believes there will be no outflow of funds relating to any such assessment.

In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group's tax position and create additional tax risks going forward.

Management believes that it has complied in all material respects with all relevant legislation.

Other tax contingencies

As at 31 December 2014 other contingent liabilities related to taxation amounted to approximately RUB 583 million (2013: RUB 889 million). This amount mainly includes contingent profit tax and VAT liabilities resulting from tax treatment of some income and expenses applied by the Group that may be challenged by the tax authorities.

(d) Warranties and guarantees for work performed

The Group is contractually responsible for the quality of construction works performed subsequent to the date when the property is sold, which, in accordance with applicable law, is a period of up to three years from the date of the sale. Based upon prior experience with warranty claims, which have not been significant, no liabilities have been recognised in the consolidated financial statements in relation to warranties and guarantees for work performed.

25 Related party transactions

(a) Control relationships

As at 31 December 2013 and 2014 there were no immediate or ultimate parent companies of the Group.

As at 31 December 2014, entities affiliated with Sergey Gordeev, Group CEO, owned 29.9% of the Company's ordinary shares.

(b) Management remuneration

(i) Salaries and bonuses

Key management received the following remuneration during the year:

	2014 mln RUB	2013 mln RUB
Salaries and bonuses	363	283
Contributions to State Pension Fund	40	17
	403	**300**

(ii) Share-based compensation in 2013

In December 2011, one of the Group's subsidiaries entered into agreements with 10 key executive officers of the Group. The purpose of the agreements is to remunerate Group's executives for their contribution in the Group's success by means of bonus payments, subject to certain conditions, which, among others, include continuance of employment with the Group on 10 August 2012 and 10 August 2014, growth of the Group's share price and performance of the Group's shares against the industry peers.

Should there be a major change in Group's shareholders structure, specific remuneration is to be paid to these executive officers of the Group. In 2013, companies affiliated with Alexander Mamut and Sergey Gordeev acquired Group shares from the fund structures "Suleyman Kerimov Foundation". As a result of this event, RUB 131 million has been recognized as remuneration of the executive management. As at 31 December 2014, this amount has been paid in full.

(c) Group's shares purchase in 2013

In 2013, during Group's secondary public offering, Group's CEO and other executive directors of the Group purchased 468,950 new shares for a total amount of RUB 29 million.

During 2014 no new shares have been purchased by the Group executive directors.

(d) Transactions with associates

As at 31 December 2014 there were no advances from customers related to the Group's associates (ZPFNs) (2013: RUB 174 million).

During the reporting period the Group sold residential properties to two of its associates (ZPFNs) for RUB 174 million. (2013: nil). The unrealized gain, attributable to the Group's share, of RUB 8 million resulting from the sale was eliminated against the balance of equity accounted investees.

(e) Transactions with other related parties

During 2014 and 2013 executive directors and board members purchased from the Group residential property and a parking lots:

	2014 mln RUB	2013 mln RUB
Sales of apartmens and a parking lots in uncompleted buildings	2	19
Sales of apartmens and a parking lots in completed buildings	-	21
	2	**40**

The amounts related to uncompleted properties are included in advances from customers as at 31 December 2014.

26 Significant subsidiaries

As at 31 December 2014 the Group controlled 113 legal entities (2013: 119). Their assets, liabilities, revenues and expenses have been included in these consolidated financial statements.

The following is a list of the most significant subsidiaries:

		Effective ownership		Voting rights	
	Country of incorporation	2014	2013	2014	2013
ZAO Pervaya Ipotechnaya Kompanya-Region (PIK-Region)	Russia	100%	100%	100%	100%
OOO MFS-PIK	Russia	100%	100%	100%	100%
OAO PIK-Industries	Russia	95%	95%	95%	95%
Viniso Investments Limited	Cyprus	75%	75%	75%	75%
OAO 100 KGI	Russia	92%	92%	92%	92%
OAO 480 KGI	Russia	100%	100%	100%	100%

27 Events subsequent to the reporting date

In January 2015, the Group acquired a land plot with a total area of 18 hectares for the total consideration of RUB 954 million. The plot is located south-east of Moscow and the Group intends to use the land plot for residential development and construction of parking spaces.

28 Supplementary information: non-IFRS measures

Net debt:

	2014 mln RUB	2013 mln RUB
Loans and borrowings, current	24,487	25,469
Plus: Loans and borrowings, non-current	-	3,631
Less: Cash and cash equivalents	(14,239)	(11,089)
Net debt	**10,248**	**18,011**

Earnings before interest, taxes, depreciation and amortisation (EBITDA):

	2014 mln RUB	2013 mln RUB
Profit for the year	3,792	7,448
Plus: Depreciation and amortisation	737	705
Plus: Interest expense	3,147	4,382
Less: Interest income	(778)	(362)
Plus: Income tax expense	615	1,246
EBITDA	**7,513**	**13,419**
Impairment losses, net	5,202	894
Impairment (reversals)/ losses on financial assets, net	(159)	746
Write-off of accounts payable	(70)	(667)
Foreign exchange gains, net	(34)	(226)
(Gain)/ loss on disposal of property, plant and equipment	(65)	35
Penalties and fines, including reversals, net	121	(185)
Adjusted EBITDA	**12,508**	**14,016**

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JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Auditors' Report

To the Shareholders and Board of Directors

OAO Group of Companies PIK

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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 the fair presentation of 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 and fair presentation of the consolidated financial statements 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.

Audited entity: OAO Group of Companies PIK

Registered by Government Agency Moscow Registration Chamber on 20 September 1994 Registration No. 756.924

Entered in the Unified State Register of Legal Entities of Legal Entities on 30 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 30 of the Ministry for Taxes and Duties of the Russian Federation Registration No. 1027739137084 Certificate series 77 No. 007637627

bldg. 1, 19 Barrikadnaya Street, Moscow, 123242

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

Altukhov K.V.

Director, (power of attorney dated 16 March 2015 No. 04/15)

JSC "KPMG"

2 April 2015

Moscow, Russian Federation.