

**PAO Group of Companies PIK
Consolidated Interim Condensed
Financial Statements
as at and for the six-month period ended
30 June 2016**

Contents

Consolidated Interim Condensed Financial Statements

Consolidated Interim Condensed Statement of Financial Position	3
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income	4
Consolidated Interim Condensed Statement of Changes in Equity	5
Consolidated Interim Condensed Statement of Cash Flows	6
Notes to the Consolidated Interim Condensed Financial Statements	7-15
Auditors' Report on Review of Consolidated Interim Condensed Financial Information	16

Consolidated Interim Condensed Statement of Financial Position

mln RUB	Note	30 June 2016 (unaudited)	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment		7,130	7,752
Intangible assets		146	144
Investments in equity accounted investees		-	170
Other investments		204	169
Deferred tax assets		1,580	1,211
Total non-current assets		9,060	9,446
Current assets			
Inventories		89,620	69,933
Income tax receivable		203	346
Trade and other receivables		7,230	9,958
Cash and cash equivalents		19,812	17,022
Total current assets		116,865	97,259
Total assets		125,925	106,705
EQUITY AND LIABILITIES			
Equity			
Share capital		41,295	41,295
Additional paid-in capital		(8,470)	(8,470)
Retained earnings		423	(886)
Total equity attributable to equity holders of the Company		33,248	31,939
Non-controlling interest		1,181	808
Total equity		34,429	32,747
Non-current liabilities			
Loans and borrowings	9	4,905	12,894
Trade and other payables		1,489	988
Deferred tax liabilities		246	1,078
Total non-current liabilities		6,640	14,960
Current liabilities			
Loans and borrowings	9	8,329	270
Trade and other payables		69,548	50,319
Provisions		6,806	7,801
Income tax payable		173	608
Total current liabilities		84,856	58,998
Total liabilities		91,496	73,958
Total equity and liabilities		125,925	106,705

These consolidated interim condensed financial statements were approved by Management on 29 August 2016 and were signed on its behalf by:

 Sergey E. Gordeev
President

 Alexander V. Titov
Vice-President, Economics and Finance

Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income

mln RUB	Note	Six-month period ended	
		30 June 2016 (unaudited)	30 June 2015 (unaudited)
Revenue	4	18,914	22,053
Cost of sales		(13,391)	(13,357)
Gross profit		5,523	8,696
Gain/(loss) from disposal of subsidiaries and development rights, net		35	(12)
Distribution expenses		(1,334)	(481)
Administrative expenses		(1,425)	(1,244)
Impairment losses, net	8	(161)	(205)
Other expenses, net		(451)	(293)
Finance income	6	1,084	1,057
Finance costs	6	(1,311)	(2,362)
Share of income of equity accounted investees, net of income tax		-	24
Profit before income tax		1,960	5,180
Income tax expense	7	(293)	(1,100)
Profit and total comprehensive income for the period		1,667	4,080
<i>Attributable to:</i>			
Owners of the Company		1,309	4,010
Non-controlling interest		358	70
Profit and total comprehensive income for the period		1,667	4,080
Basic and diluted earnings per share, RUB		1.98	6.07

Consolidated Interim Condensed Statement of Changes in Equity

mIn RUB	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Share capital	Additional paid-in- capital	Retained earnings	Subtotal		
Balance as at 1 January 2015	41,295	(8,470)	(12,058)	20,767	546	21,313
Profit and total comprehensive income for the period (unaudited)	-	-	4,010	4,010	70	4,080
Disposal of subsidiaries (unaudited)	-	-	-	-	3	3
Balance as at 30 June 2015 (unaudited)	41,295	(8,470)	(8,048)	24,777	619	25,396
Balance as at 1 January 2016	41,295	(8,470)	(886)	31,939	808	32,747
Profit and total comprehensive income for the period (unaudited)	-	-	1,309	1,309	358	1,667
Acquisition and disposal of subsidiaries, net	-	-	-	-	15	15
Balance as at 30 June 2016 (unaudited)	41,295	(8,470)	423	33,248	1,181	34,429

Consolidated Interim Condensed Statement of Cash Flows

mln RUB	Six-months period ended	
	30 June 2016 (unaudited)	30 June 2015 (unaudited)
OPERATING ACTIVITIES		
Profit for the period	1,667	4,080
<i>Adjustments for:</i>		
Depreciation and amortisation	586	353
Impairment losses including those in cost of sales, net	200	286
Foreign exchange losses, net	92	525
Loss on disposal of property, plant and equipment	57	-
Impairment losses on financial assets, net	212	323
Write-off of accounts payable	(46)	(165)
(Gain)/loss from disposal of subsidiaries and development rights, net	(35)	12
Share of income of equity accounted investees	-	(24)
Interest expense	1,002	1,490
Change in non-controlling interest in limited liability companies	5	(1)
Interest income	(1,036)	(891)
Income tax expense	293	1,100
Cash from operating activities before changes in working capital and provisions	2,997	7,088
Increase in inventories	(20,461)	(4,147)
Decrease/(increase) in trade and other receivables	2,590	(28)
Increase in trade and other payables	20,665	4,572
Decrease in provision for cost to complete	(1,544)	(1,102)
Cash flows from operations before income taxes and interest paid	4,247	6,383
Income taxes paid	(1,274)	(1,112)
Interest paid	(932)	(1,468)
Net cash from operating activities	2,041	3,803
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	266	47
Interest received	1,021	875
Acquisition of property, plant and equipment and other intangible assets	(321)	(174)
Acquisition of other investments	(156)	(28)
Other (acquisitions)/proceeds, net	(13)	19
Net cash from investing activities	797	739
FINANCING ACTIVITIES		
Proceeds from borrowings	2,020	-
Repayment of borrowings	(2,020)	(464)
Acquisition of non-controlling interests	(6)	-
Net cash used in financing activities	(6)	(464)
Net increase in cash and cash equivalents	2,832	4,078
Effect of exchange rate fluctuations on cash and cash equivalents	(42)	(525)
Cash and cash equivalents at the beginning of the period	17,022	14,239
Cash and cash equivalents at the end of the period	19,812	17,792

Notes to the Consolidated Interim Condensed Financial Statements

1 Background

(a) Organisation and operations

PAO Group of Companies PIK (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise 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 depository receipts and Moscow Exchange (MOEX) in Russia.

The Company’s registered office is 19 Barrikadnaya Str., 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 2016 and 2015 the Group primarily operated in Moscow, Moscow region and other regions of Russia.

(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 Rouble, 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 interim condensed 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 for preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2015. These consolidated interim condensed financial

statements do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Use of estimates and judgments

The preparation of consolidated interim condensed financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim condensed financial statements, the significant judgments made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

3 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2015, except that the Group has adopted those new and amended standards and interpretations that are mandatory for financial annual periods beginning on 1 January 2016.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
IAS 1 (Amended) "Presentation of Financial Statements"	1 January 2016
IAS 16 (Amended) "Property, Plant and Equipment"	1 January 2016
IAS 19 (Amended) "Employee Benefits "	1 January 2016
IAS 27 (Amended) "Separate Financial Statements"	1 January 2016
IAS 28 (Amended) "Investments in Associates and Joint Ventures"	1 January 2016
IAS 34 (Amended) "Interim Financial Reporting"	1 January 2016
IAS 38 (Amended) "Intangible Assets"	1 January 2016
IAS 41 (Amended) "Agriculture"	1 January 2016
IFRS 7 (Amended) "Financial Instruments: Disclosures"	1 January 2016
IFRS 10 (Amended) "Consolidated Financial Statements"	1 January 2016
IFRS 11 (Amended) "Joint Arrangements"	1 January 2016
IFRS 12 (Amended) "Disclosure of Interests in Other Entities"	1 January 2016
IFRS 14 (Amended) "Regulatory Deferral Accounts"	1 January 2016

These new and amended standards and interpretations did not have significant effect on the Group's consolidated interim condensed financial statements.

New accounting pronouncements

A number of new standards, amendments to standards and interpretations were not yet effective for the six months ended 30 June 2016, and have not been applied in these consolidated interim condensed financial statements.

<u>Standards</u>	<u>Effective for annual periods beginning on or after</u>
IAS 7 (Amended) "Statement of Cash Flows"	1 January 2017
IAS 12 (Amended) "Income Taxes"	1 January 2017
IFRS 2 (Amended) "Share based payment"	1 January 2018
IFRS 9 (Amended) "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 16 "Leases"	1 January 2019

The adoption of the pronouncement listed above is not expected to have a significant impact on the Group's consolidated financial statements in future periods except for the standard described below.

IFRS 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2018. The new standard was issued in May 2014. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Group recognises that the new standard introduces many changes to the accounting for revenue and potentially may have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of standard adoption. The Group does not intend to adopt this standard early.

4 Operating segments

mln RUB	Real estate development		Construction segment		Industrial segment		Other		Total	
	Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June		Six-month period ended 30 June	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
External revenues	15,744	18,623	1,238	1,211	534	860	1,398	1,359	18,914	22,053
Inter-segment revenue	43	79	2,487	5,241	221	416	31	184	2,782	5,920
Total revenue for reportable segments	15,787	18,702	3,725	6,452	755	1,276	1,429	1,543	21,696	27,973
Reportable segment gross profit	4,976	8,102	212	88	5	84	330	422	5,523	8,696
Gross profit margin	32%	44%	17%	7%	1%	10%	24%	31%	29%	39%

During the six month period ended 30 June 2016 the gross profit of real estate segment includes the positive effect of change in estimates in respect of construction budgets of certain development projects in the total amount of RUB 181 million (2015: RUB 714 million).

(i) Geographical information

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	
	30 June 2016	30 June 2015
	mln RUB	mln RUB
	(unaudited)	(unaudited)
Moscow	1,532	8,050
Moscow Region	11,837	8,926
Other regions	2,375	1,647
	15,744	18,623

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

	30 June 2016	30 June 2015
	mln RUB	mln RUB
	(unaudited)	(unaudited)
Reconciliation of Revenue		
Total revenue for reportable segments	21,696	27,973
Elimination of inter-segment revenue	(2,782)	(5,920)
Group revenue	18,914	22,053
Gross profit reconciliation		
Reportable segment profit	5,523	8,696
Group gross profit	5,523	8,696
Unallocated amounts		
Gain/(loss) from disposal of subsidiaries and development rights, net	35	(12)
Distribution expenses	(1,334)	(481)
Administrative expenses	(1,425)	(1,244)
Impairment losses, net	(161)	(205)
Other expenses, net	(451)	(293)
Finance income	1,084	1,057
Finance costs	(1,311)	(2,362)
Share of loss of equity accounted investees, net of income tax	-	24
Consolidated profit before income tax	1,960	5,180

5 Seasonality of operations

Higher revenues in the construction industry in Russia are usually experienced in the second half of each year when construction works are completed and formally accepted by state commissions.

6 Finance income and costs

Finance income

	30 June 2016	30 June 2015
	mln RUB	mln RUB
	(unaudited)	(unaudited)
Interest income	1,036	891
Write-off of accounts payable	46	165
Change in non-controlling interest in limited liability companies	-	1
Other finance income	2	-
	<u>1,084</u>	<u>1,057</u>

Finance costs

	30 June 2016	30 June 2015
	mln RUB	mln RUB
	(unaudited)	(unaudited)
Interest expense	1,002	1,490
Foreign exchange losses	92	525
Impairment losses on financial assets	212	323
Change in non-controlling interest in limited liability companies	5	-
Other finance costs	-	24
	<u>1,311</u>	<u>2,362</u>

7 Income tax expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to pre-tax income of the interim period.

	30 June 2016	30 June 2015
	mln RUB	mln RUB
	(unaudited)	(unaudited)
<i>Current tax expense</i>		
Current year	(975)	(1,234)
Tax provision recognised	(547)	(38)
	<u>(1,522)</u>	<u>(1,272)</u>
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	1,229	172
	<u>1,229</u>	<u>172</u>
	<u>(293)</u>	<u>(1,100)</u>

8 Impairment losses on non-financial assets

During the six month period ended 30 June 2016, the Group recognized impairment losses of RUB 161 million in respect of fixed assets, work in progress and advances paid for construction work (2015: RUB 205 million).

9 Loans and borrowings

	30 June 2016 mln RUB (unaudited)	31 December 2015 mln RUB
<i>Non-current</i>		
Secured bank loans	-	7,989
Bonds	4,905	4,905
<i>Current</i>		
Secured bank loans	7,999	-
Interest payable	330	270
	<u>13,234</u>	<u>13,164</u>

As at 30 June 2016, the bank loans were secured with:

- property, plant and equipment with a carrying value of RUB 1,607 million (2015: RUB 2,191 million);
- shares of certain subsidiaries of the Group.

10 Contingencies

Except as described below, the contingencies of the Group related to insurance and warranties did not change significantly from the contingencies reported in the consolidated financial statements as at and for the year ended 31 December 2015.

Litigation contingencies

The Group is involved as a defendant in legal proceedings relating to supply and services contracts in the total amount of RUB 356 million (2015: RUB 247 million). Management believes, based on a 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 the next reporting period.

Taxation contingencies

A number of new laws introducing changes to the Russian tax legislation have been recently adopted. Starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the practice of its application is very limited and may not be treated as representative. The management does not believe that the Company would suffer material tax outflow as a result of challenge by the tax authorities.

11 Related party transactions

(a) Control relationships

As at 30 June 2016 and 2015 there were no immediate or ultimate parent companies and ultimate controlling party of the Group.

As at 30 June 2016, entities affiliated with Sergey Gordeev, Group CEO, owned 29.9% of the Company's ordinary shares.

(b) Management remuneration

Key management received remuneration of RUB 109 million during the six-month period ended 30 June 2016 (six months 2015: RUB 210 million) including contributions to the state pension fund.

(c) Transactions with associates

During the six-month period ended June 2015 one of the Group's associates sold residential properties to third parties in the amount of RUB 101 million. The unrealized gain of RUB 17 million was released.

During the reporting period the Group the Group fully redeemed shares in its associate.

(d) Transactions with other related parties

During the six-month period ended June 2016 executive directors purchased from the Group residential apartments in uncompleted buildings for the total amount of RUB 26 million (2015 - nil). The amounts related to uncompleted properties are included in advances from customers as at 30 June 2016.

12 Events subsequent to the reporting date

On 5 August 2016 the Group placed a coupon bond amounting to RUB 5,000 million with a maturity of 10 years. The coupon rate for the first three years of circulation is 13%, which amounts to 62.82 roubles per one bond of each issue. Coupon frequency is once every six months.

Proceeds from bond issue will be used to finance the Company's operating activities.

13 Supplementary information: non-IFRS measures

Net debt:

	30 June 2016 mln RUB (unaudited)	31 December 2015 mln RUB
Loans and borrowings, current	8,329	270
Plus: Loans and borrowings, non-current	4,905	12,894
Less: Cash and cash equivalents	(19,812)	(17,022)
Net debt	(6,578)	(3,858)

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

	30 June 2016 mln RUB (unaudited)	30 June 2015 mln RUB (unaudited)
Profit for the period	1,667	4,080
Plus: Depreciation and amortisation	586	353
Plus: Interest expense	1,002	1,490
Less: Interest income	(1,036)	(891)
Plus: Income tax expense	293	1,100
EBITDA	2,512	6,132
Impairment losses, net	161	205
Impairment losses on financial assets, net	212	323
Write-off of accounts payable	(46)	(165)
Foreign exchange losses, net	92	525
Loss on disposal of property, plant and equipment	57	-
(Gain)/loss from disposal of development rights and subsidiaries	(35)	12
Penalties and fines, including reversals	52	26
Adjusted EBITDA	3,005	7,058



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

PAO Group of Companies PIK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO Group of Companies PIK (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Audited entity: PAO Group of Companies PIK.

Registered by Government Agency Moscow Registration Chamber on 20 September 1994. Registration No. 750/924.

Entered in the Unified State Register 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. 1027730137084. Certificate series 77 No. 00760762.

Bldg. 1, 19 Barikadnaya 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. 30 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organizations: No.10301000804.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2016 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Altukhov K.V.

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

JSC "KPMG"

29 August 2016

Moscow, Russian Federation

