

TMM Real Estate Development plc  
Consolidated Financial Statements

*As at 31 December 2013 and  
for the year then ended  
with Independent Auditors' Report*

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## BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

### BOARD OF DIRECTORS

Maarten van den Belt  
Dominic Dreyfus  
Nikoloz Eukidze  
Mykola Tolmachov  
Larysa Chyvurina

### SECRETARY

Inter Jura CY (Services) Limited

### INDEPENDENT AUDITORS

Ernst & Young Cyprus Limited  
Certified Public Accountants and Registered Auditors  
36 Byron Avenue  
P.O. Box 21656  
1511 Nicosia  
Cyprus

### BANKERS

Bank of Cyprus Public Company Ltd  
JSC "UniCredit bank"  
JSC "State savings bank of Ukraine"  
PJSC "Bank Credit Agricole"

### REGISTERED OFFICE

1, Lampousas Str.,  
1095, Nicosia,  
Cyprus

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of TMM Real Estate Development Plc (the "Company") presents to the shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "the Group") for the year ended 31 December 2013.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are the construction and development of residential and business properties mainly in Kyiv and Kharkiv regions of Ukraine.

### EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

The Board of Directors has assessed the risks set out in this report and believes that steps taken to mitigate the risks are sufficient to prevent their material adverse effect on the financial performance and financial position of the Group. Therefore: (i) the current financial position as presented in the consolidated financial statements is considered satisfactory; (ii) the Board of Directors does not expect major changes in the principal activities of the Group in the foreseeable future.

### FINANCIAL RESULTS AND DIVIDENDS

The Group's results for the year ended are set out on page 1.

The Board of Directors does not recommend the payment of a dividend out of retained earnings. The net loss for the year is transferred to reserves.

### MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties faced by the Group are (i) those related to the political and economic unrest in Ukraine, (ii) real estate market risk in Ukraine and (iii) going concern uncertainty disclosed in notes 2 and 3.

### SHARE CAPITAL

There were no changes to the Company's share capital during the year.

### BRANCHES

During the year ended 31 December 2013 the Group did not operate any branches.

### BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2013 and at the date of this report are shown on page (a). All of them were members of the Board of Directors throughout the year.

In accordance with the Company's Articles of Association all directors presently members of the Board continue in office.

### EVENTS AFTER THE REPORTING DATE

Any significant events that occurred after the end of the year are described in note 37 to the consolidated financial statements.

**INDEPENDENT AUDITORS**

The independent auditors, Ernst & Young Cyprus Limited, were appointed by the shareholders and have expressed their willingness to continue in office. A resolution proposing their re-appointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the next Annual General Meeting.

By order of the Board of Directors,

Director



Mykola Tolmachov

Director



Larysa Chyvurina

## INDEPENDENT AUDITORS' REPORT

### To the Members of TMM Real Estate Development plc

#### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TMM Real Estate Development plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the Consolidated Financial Statements*

The Company's Board of Directors is responsible for the preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

### **Emphasis of Matters**

- (i) We draw attention to Note 3 in the consolidated financial statements which indicates that the Group incurred a net loss of USD 20,697 thousand during the year ended 31 December 2013 (2012: USD 22,187 thousand) and a net cash outflow from its operating activities of USD 2,029 thousand (2012: USD 12,148 thousand). Therefore the Group may be unable to generate sufficient cash inflows from its operating activities in order to repay its debt when it falls due. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.
- (ii) We further draw attention to Note 2 to the consolidated financial statements which describes the political unrest in Ukraine that started in November 2013 and escalated in 2014. The events referred to in Note 2 could adversely affect the Group's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

### **Report on Other Legal Requirements**

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

### **Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Andreas Avraamides  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Ernst & Young Cyprus Limited**  
Certified Public Accountants and Registered Auditors  
27 June 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2013  
(in thousands of US dollars, unless otherwise indicated)

	Notes	2013	2012
Continuing operations			
Revenue	8	45,114	29,663
Cost of revenue	9	(42,725)	(24,721)
Gross profit		2,389	4,942
Change in fair value of investment properties	19	2,469	588
Other operating income	10	1,069	1,117
General and administrative expenses	11	(3,979)	(4,263)
Selling and distribution expenses	12	(718)	(837)
Other operating expenses	13	(5,967)	(11,794)
Operating loss		(4,737)	(10,247)
Share in losses of associates		-	(1,806)
Finance costs	14	(12,194)	(9,011)
Foreign exchange loss, net	15	(1,126)	(436)
Loss before tax from continuing operations		(18,057)	(21,500)
Income tax benefit / (expense)	17	2,377	(687)
Loss for the year from continuing operations		(15,680)	(22,187)
Discontinued operations			
Loss after tax for the year from discontinued operations	20	(5,017)	-
Loss for the year		(20,697)	(22,187)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation to presentation currency		-	(49)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Share in revaluation of buildings of an associate	20	-	282
Revaluation of buildings	18	1,346	1,591
Income tax effect of revaluation	17	(256)	(334)
		1,090	1,257
Other comprehensive income for the year, net of tax		1,090	1,490
Total comprehensive loss for the year, net of tax		(19,607)	(20,697)
Loss attributable to:			
Equity holders of the parent		(20,619)	(22,172)
Non-controlling interest		(78)	(15)
		(20,697)	(22,187)
Total comprehensive loss attributable to:			
Equity holders of the parent		(19,556)	(20,689)
Non-controlling interest		(51)	(8)
		(19,607)	(20,697)
Weighted average basic and diluted number of shares (in thousands of shares)			
	27	51,084	51,172
Basic and diluted earnings per share (in US dollars)		(0.41)	(0.43)

The accompanying notes form an integral part of the consolidated financial statements



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2013**  
*(in thousands of US dollars, unless otherwise indicated)*

	Notes	31 December 2013	31 December 2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	74,197	75,605
Intangible assets		392	459
Investment properties	19	49,511	53,022
Property development rights	21	27,688	32,270
		<u>151,788</u>	<u>161,356</u>
<b>Current assets</b>			
Inventories	22	194,170	178,665
Trade and other receivables	23	20,513	9,478
Prepayments	24	19,685	9,929
Prepaid income tax	17	19	22
Taxes recoverable, other than income tax	25	1,435	1,171
Cash and cash equivalents	26	2,383	553
		<u>238,205</u>	<u>199,818</u>
<b>TOTAL ASSETS</b>		<u><b>389,993</b></u>	<u><b>361,174</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	27	510	510
Share premium	27	99,191	99,191
Additional paid-in capital	27	15,450	2,592
Revaluation reserve	27	65,313	64,596
(Accumulated deficit) / retained earnings		(10,962)	11,602
Translation reserve	27	(70,295)	(70,295)
<b>Equity attributable to equity holders of the parent</b>		<u>99,207</u>	<u>108,196</u>
Non-controlling interests		443	494
<b>Total equity</b>		<u><b>99,650</b></u>	<u><b>108,690</b></u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	28	116,487	95,525
Finance lease liability	34	-	30
Deferred tax liability	17	11,802	13,934
		<u>128,289</u>	<u>109,489</u>
<b>Current liabilities</b>			
Trade and other payables	29	41,880	29,716
Interest-bearing loans and borrowings	28	58,769	60,870
Finance lease liability	34	2,280	2,955
Advances received	30	56,874	47,065
Taxes payable, other than income tax	31	1,662	1,454
Provisions	32	589	935
		<u>162,054</u>	<u>142,995</u>
<b>TOTAL LIABILITIES</b>		<u><b>290,343</b></u>	<u><b>252,484</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>389,993</b></u>	<u><b>361,174</b></u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 27 June 2014:

Director



Mykola Tolmachov

Director



Larysa Chyvurina

*The accompanying notes form an integral part of the consolidated financial statements*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2013**  
*(in thousands of US dollars, unless otherwise indicated)*

	Attributable to equity holders of the parent								
	Share Capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
<b>Balance at 1 January 2012</b>	513	99,227	2,592	63,219	33,619	(70,246)	128,924	502	129,426
Loss for the year	-	-	-	-	(22,172)	-	(22,172)	(15)	(22,187)
Other comprehensive income	-	-	-	1,532	-	(49)	1,483	7	1,490
Total comprehensive loss for the year	-	-	-	1,532	(22,172)	(49)	(20,689)	(8)	(20,697)
Transfer of revaluation reserve, net of taxes	-	-	-	(155)	155	-	-	-	-
Purchase of treasury shares (Note 27)	(3)	(194)	-	-	-	-	(197)	-	(197)
Sale of treasury shares ( Note 27)	-	158	-	-	-	-	158	-	158
<b>Balance at 31 December 2012</b>	<b>510</b>	<b>99,191</b>	<b>2,592</b>	<b>64,596</b>	<b>11,602</b>	<b>(70,295)</b>	<b>108,196</b>	<b>494</b>	<b>108,690</b>
Loss for the year	-	-	-	-	(20,619)	-	(20,619)	(78)	(20,697)
Other comprehensive income	-	-	-	1,063	-	-	1,063	27	1,090
Total comprehensive loss for the year	-	-	-	1,063	(20,619)	-	(19,556)	(51)	(19,607)
Transfer of revaluation reserve, net of taxes	-	-	-	(346)	346	-	-	-	-
Acquisition of a subsidiary (Note 20)	-	-	-	-	(2,291)	-	(2,291)	-	(2,291)
Gain on sale of a subsidiary to a related party (Note 20)	-	-	10,597	-	-	-	10,597	-	10,597
Other contributions by equity holders	-	-	2,261	-	-	-	2,261	-	2,261
<b>Balance at 31 December 2013</b>	<b>510</b>	<b>99,191</b>	<b>15,450</b>	<b>65,313</b>	<b>(10,962)</b>	<b>(70,295)</b>	<b>99,207</b>	<b>443</b>	<b>99,650</b>

The accompanying notes form an integral part of the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT  
for the year ended 31 December 2013  
(in thousands of US dollars, unless otherwise indicated)

	Notes	2013	2012
Operating activities			
Loss before tax from continuing operations		(18,057)	(21,500)
Loss before tax from discontinued operations		(5,017)	-
Loss before tax		(23,074)	(21,500)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Revaluation of investment properties	19	(2,469)	(588)
Depreciation and amortisation		1,746	1,459
Impairment of investments	13	-	268
Gain on revaluation of freehold buildings reported in profit or loss	10, 18	(40)	(83)
Loss on disposal of property development rights	13	3,201	-
Loss on disposal of property, plant and equipment and investment properties	13	398	3,256
Gain on extinguishment of liabilities	10	(202)	(108)
Movements in provisions		(564)	-
Share in losses of associates		-	1,806
Finance costs	14	12,194	9,011
Unrealised foreign exchange loss / (gain)		1,377	(610)
		(7,433)	(7,089)
Working capital adjustments			
Change in inventories		(7,700)	(10,901)
Change in trade and other receivables		4,764	(726)
Change in prepayments		(26,406)	(64)
Change in taxes recoverable, other than income tax		(264)	(296)
Change in trade and other payables and provisions		23,791	3,588
Change in advances received		18,509	10,155
Change in taxes payable, other than income tax		193	(190)
		5,454	(5,523)
Interest paid		(7,475)	(6,607)
Income taxes paid		(8)	(18)
Net cash flows used in operating activities		(2,029)	(12,148)
Investing activities			
Proceeds from sale of property, plant and equipment and investment properties		1,314	2,339
Purchase of property, plant and equipment and investment properties		(320)	(2,270)
Purchase of intangible assets		(42)	(94)
Purchase of property development rights		(180)	(84)
Net cash flows from / (used in) investing activities		772	(109)
Financing activities			
Proceeds from loans		15,711	21,601
Repayment of loans		(11,459)	(7,275)
Repayment of finance lease liabilities		(1,165)	(1,991)
Net cash flows from financing activities		3,087	12,335
Net increase in cash and cash equivalents		1,830	78
Cash and cash equivalents at 1 January		553	475
Cash and cash equivalents at 31 December		2,383	553

The accompanying notes form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2013  
(in thousands of US dollars, unless otherwise indicated)

1. Corporate information

These consolidated financial statements are prepared by TMM Real Estate Development plc (hereinafter referred to as the "Company"), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus Companies Law, Cap. 113. The address of the Company's registered office is 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is 49 A Vladimirskaia street, Kyiv, Ukraine 01034.

The Company is a subsidiary of TMM Holdings Ltd, which is also incorporated in Cyprus.

The Company mainly acts as a holding company and exercises control over the operations of its subsidiaries.

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") is the construction and development of residential and business properties in Ukraine (mainly Kyiv and Kharkiv).

The list of the subsidiaries and associates and the Company's effective ownership interest as at 31 December is disclosed below.

<i>Name</i>	<i>Principal activities</i>	<i>2013</i>	<i>2012</i>
<b>Subsidiaries:</b>			
Company "T.M.M." Ltd	Construction and development	100.0%	100.0%
"Geravit" Ltd	Development project	100.0%	100.0%
LLC "Palladiy"	Development project	100.0%	100.0%
LLC "TAVRIDA-PLAZA"	Development project	100.0%	100.0%
LLC "Stimul LTD +"	Development project	100.0%	100.0%
PE "Budinvestservice 2004"	Development project	100.0%	100.0%
PE "GREENBUD"	Development project	100.0%	100.0%
PJSC "Company "Viktor"	Development project	100.0%	100.0%
LLC "Kirovograd Plant of Construction Ceramics"	Production of construction materials	99.9%	99.9%
Ltd "TMM PALLADA"	Development project	99.0%	99.0%
LLC "Economsystema"	Development project	99.0%	99.0%
LLC "Specialist"	Development project	98.0%	98.0%
JSC "Ukrucukorteploizolyaciya"	Production of construction materials	98.0%	98.0%
Ltd "TMM - VIKNA"	Production of construction materials	91.0%	91.0%
LLC "TMM - Budkomplekt"	Production of construction materials	90.0%	90.0%
LLC "B2B"	Development project	99.8%	99.8%
LLC "ADEPT-2004"	Development project	70.0%	70.0%
Ltd "TMM-Energo"	Development project	60.0%	60.0%
<b>Associates:</b>			
PJSC "TMM - Energobud" (Note 20)	Production of power facilities	-	50.0%
LLC "Ukr-bud-service"	Development project	50.0%	50.0%

All subsidiaries and associates are incorporated in Ukraine.

The Group is ultimately controlled by Mr. Mykola Tolmachov.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2013  
*(in thousands of US dollars, unless otherwise indicated)*

## 2. Operating environment, risks and economic conditions in Ukraine

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy is significantly impacted by the government's policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the former Ukrainian government declined to sign the association agreement with the European Union. This event became a starting point in the escalation of the political situation in the country, which resulted in the dismissal of the president and the government by the parliament, secession of the Autonomous Republic of Crimea from Ukraine and armed confrontations in the Eastern regions of the country. The transitional Ukrainian government has initiated a set of anti-crisis measures, aimed at the stabilisation of the political situation, halting of the decline in domestic production, reducing the state budget deficit and deterioration of other macroeconomic indicators. In March 2014, the transitional Government signed a political association with the European Union, followed by the International Monetary Fund making available to Ukraine USD 3.2 billion loan from 17.01 billion two-year Stand-By Arrangement, and is further negotiating additional financial aid from other international financial sources. In June 2014 a new President of Ukraine was elected.

Ukraine claimed unlawful the actions of the Crimean authorities, which resulted in the secession of the Crimea followed by its accession to the Russian Federation and, during April-May 2014, introduced a number of legislative restrictions putting substantial constraints on operations in the Crimea. As at 31 December 2013, the carrying value of the Group's assets located in or otherwise associated with the Crimea is USD 16,536 thousand.

Furthermore, from 1 January 2014 to 27 June 2014, the Ukrainian Hryvnia has devaluated against major foreign currencies by approximately 40-50%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies. The international rating agencies have downgraded sovereign debt ratings for Ukraine.

The economic effects of these factors on the results of the Group's operations, to the extent they are caused by the past events and are determinable and measurable, have been taken into account in preparing these consolidated financial statements. Management is monitoring the current economic situation and is taking actions where appropriate.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments in the political, macroeconomic or international trade conditions may adversely affect the Group's operating results and financial position in a manner not currently determinable.

### Real estate market risk in Ukraine

Starting from the last quarter of 2008, the Ukrainian residential and industrial property markets have suffered a significant fall in demand following the overall macroeconomic turmoil. This resulted in weak liquidity and the poor conditions prevailing in the Ukrainian property market. The market prices stabilised in 2010-2013, however, it is not expected that a significant improvement in market conditions will emerge in the foreseeable future given the lack of availability of mortgage and development finance and weak consumption power in the market.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Please refer to Note 3 "Going concern" for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2013  
(in thousands of US dollars, unless otherwise indicated)

### 3. Basis of preparation

The consolidated financial statements of the Company and all its subsidiaries (the Group) have been prepared on a historical cost basis, except for the following:

- investment property are stated at fair value as determined by independent appraisal;
- freehold buildings are stated at fair values as measured by independent appraisal less accumulated depreciation and impairment losses.

The consolidated financial statements are presented in US dollars and all values are rounded off to the nearest thousand except when otherwise indicated.

Normal operating cycle of the Group's property development segment approximates to 36 months; normal operating cycle of the Group's investment property segment equals to 12 months and classified accordingly.

Interest-bearing loans and borrowings and finance lease liability are not part of the working capital used in the Group's normal operating cycle. Interest-bearing loans and borrowings and finance lease liability are classified as current when are due to be settled within twelve months after the statement of financial position date.

#### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

#### Going concern

During the year ended 31 December 2013 the Group reported a net loss of USD 20,697 thousand (2012: USD 22,187 thousand) and a net cash outflow from its operating activities of USD 2,029 thousand (2012: USD 12,148 thousand). The continuous negative financial results are mainly caused by weakened demand for residential and commercial property in Ukraine. The decline in market liquidity may affect the Group's ability to generate cash flows from operating activities sufficient to repay its debt when it falls due.

The Group needs to repay USD 4,150 thousand and USD 68,788 thousand of interest-bearing loans and borrowings which fall due in 2014 and in the 1<sup>st</sup> half of 2015, respectively. The Group commenced negotiation with one of the lenders seeking to extend repayment of USD 68,788 thousand of debt due in the 1<sup>st</sup> half of 2015. As of the date of authorisation of these consolidated financial statements the results of these negotiations are uncertain.

The Group's financial plan for 2014 anticipates growth in cash inflows from property sales and construction services as compared to 2013. To achieve the increase in positive cash inflow from its operations in 2014 the Group plans the following:

- to sell completed property with a cost of USD 87,157 thousand which is already completed and property under development which is expected to cost USD 78,385 thousand which may be sold to buyers on a pre-payment basis;
- participate in tenders for rendering of construction services;
- extend repayment of the principal and interest due to one of the lenders in 2014 of USD 54,664 thousand to 2015-2017 (Note 37);
- to sell investment properties and property rights;
- enhance an advertising campaign seeking to attract new customers.

Should the Group fail to achieve the planned cash inflows from property sales and rendering construction services the resulting deficit may be partially compensated by suspension of certain construction projects in 2014.

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3. Basis of preparation (*continued*)

Going concern (*continued*)

The Group's ability to continue its operations on a going concern basis depends on (i) its ability to extend the payment terms of its interest-bearing loan which falls due in the 1<sup>st</sup> half of 2015, and (ii) generation of sufficient cash flows from its operating activities.

The actual outcome of the debt restructuring negotiations and the success of the management plan to ensure planned growth in cash inflows from property sales are uncertain. These conditions represent a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. The Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

4. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS adopted with effect from 1 January 2013. The nature and the impact of each new relevant standard and amendment is described below:

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value disclosure is provided in Note 35.

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4. Changes in accounting policy and disclosures (continued)

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

*IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not impact the Group's financial position or performance.

*IAS 19 Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after 1 January 2013. The adoption of amendments had no impact on the Group's financial position or performance.

*Annual Improvements May 2012*

These improvements did not have an impact on the Group's financial position or performance, but include:

*IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

*IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in the interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

#### Judgments other than estimates

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### *Business combinations*

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

More specifically, the following criteria are considered:

- the number of items of land and buildings owned by the subsidiary
- the extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information).

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

##### *Classification of property*

The Group determines whether a property is classified as investment property or inventory property:

- Investment property comprises buildings (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.

##### *Operating lease contracts – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

#### Estimates

##### *Estimation of net realizable value for inventory*

Inventory is stated at the lower of cost and net realisable value (NRV). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

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5. Significant accounting judgments, estimates and assumptions (*continued*)

*Allowance for doubtful accounts*

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

*Valuations of freehold buildings and investment properties*

Freehold buildings and investment properties are stated at fair value as at the statement of financial position date. The fair value of freehold buildings is determined by independent real estate valuation experts using both the cost and the market approach; the fair value of investment properties is determined by independent real estate valuation experts using the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties. Besides, in arriving at their estimates of market values as at 31 December 2013, the valuers have also used their market knowledge and professional judgement. Valuation of property, plant and equipment and investment properties is within level 2 of the fair value hierarchy.

Starting from the last quarter of 2008, Ukrainian property market has suffered a significant fall in demand following the country's macroeconomic turmoil. The significant reduction in transaction volumes continued this year. Accordingly, weak liquidity and the poor conditions prevailing in the Ukrainian property market may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2013.

The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of freehold buildings and investment properties in the short-term.

*Fair values of assets and liabilities acquired in business combinations*

The Group is required to recognise separately, at the acquisition date, all identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

*Impairment of non-current assets*

As of 31 December 2013 the Group's non-current assets recoverable amount was determined based on fair value less costs to sell. The fair value less costs to sell of the Group's non-current assets was identified based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property.

Whilst management believes that determined recoverable amounts of non-current assets reflect their market value, weak liquidity and the poor conditions prevailing in the Ukrainian property market, may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2013.

*Taxes*

Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2013 the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 34.

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## 6. Summary of significant accounting policies

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Where property is acquired through the acquisition of legal entity, management is considering the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise corporate acquisitions are accounted for as business combinations.

### Investments in associates

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of associates. Goodwill relating to associates is included in the carrying amount of the investments and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of associates. Where there has been a change recognised directly in the equity of associates, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and associates are eliminated to the extent of the interest in associates.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of associates and therefore is profit after tax and non-controlling interest in the subsidiaries of associates.

The financial statements of associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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6. Summary of significant accounting policies (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of associates and their carrying value and recognises the amount in profit or loss for the period.

Upon loss of significant influence over associates, the Group measures and recognises any retaining investments at their fair value. Any difference between the carrying amount of associates upon loss of significant influence and the fair value of the retaining investments and proceeds from disposal is recognised in profit or loss.

Functional and presentation currencies

The Group's presentation currency is the US dollar ("USD"). The functional currency of the Company and its subsidiaries is the Ukrainian hryvnia ("UAH") as it reflects the economic substance of the underlying events and circumstances of their operations.

At each reporting date, the assets and liabilities of each company are translated into the Group's presentation currency at the rate of exchange at the statement of financial position date. The revenues and expenses for the year or, if shorter, the period of each company participation in the Group are translated at the foreign exchange rates which approximate the date of transaction.

The difference arising on retranslation from each of the companies' functional currencies into the Group's presentation currency is shown as a currency translation difference in other comprehensive income. The translation of the UAH denominated assets and liabilities into USD as at 31 December 2013 does not indicate that the Group could realize or settle the translated values of those assets and liabilities in USD.

Foreign currency translation

Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional-currency rate of exchange in effect at the statement of financial position date. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in profit or loss for the period.

Fair value measurement

The Group measures regularly non-financial assets such as freehold buildings and investment properties at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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6. Summary of significant accounting policies (*continued*)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets

*Initial recognition*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents and trade and other receivables.

The Group has not designated any financial assets at fair value through profit or loss, as held-to-maturity or available-for-sale during the year ended 31 December 2013.

*Subsequent measurement of loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. Change in allowance for doubtful debts is recognized within other operating expenses.

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6. Summary of significant accounting policies (*continued*)

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the statement of comprehensive income.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include interest-bearing loans and borrowings, obligations under finance leases and trade and other payables.

*Subsequent measurement of loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

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6. Summary of significant accounting policies (*continued*)

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Property, plant and equipment

*Plant and equipment*

Plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statement of comprehensive income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of plant and equipment.

*Freehold buildings*

Freehold buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss for the period, in which case the increase is recognised in profit or loss for the period. A revaluation deficit is recognised in profit or loss for the period, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

*Freehold land*

For the purpose of further constructions of owner-occupied premises the Group acquired certain land plots in the Kyiv region. Freehold land is measured at cost less impairment losses. Land is not depreciated. Certain companies of the Group have the right to permanent use of the land on which they are located or are leasing land under long-term lease agreements from local state authorities. This land is the property of the state and, therefore, is not included in the consolidated financial statements.

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6. Summary of significant accounting policies (continued)

*Construction in progress*

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Construction in progress includes cost of construction works, cost of engineering works, other direct costs and an appropriate proportion of production overheads. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

*Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognised.

*Depreciation*

Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset, as follows:

- |   |          |
|---|----------|
| • Freehold buildings                              | 50 years |
| • Heavy construction equipment                    | 20 years |
| • Production, construction and research equipment | 8 years  |
| • Vehicles  | 6 years  |
| • IT and computer equipment                       | 4 years  |
| • Furniture and office equipment                  | 4 years  |

The useful life of an asset is defined in terms of the asset's expected utility to the Group.

**Intangible assets**

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Intangible assets, other than goodwill, primarily comprise computer software, which are amortised on a straight-line basis over the estimated useful life of five years.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Investment properties**

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. Summary of significant accounting policies *(continued)*

Investment properties are derecognised when either they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment property are recognised in profit or loss in the period of retirement or disposal. Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

#### Property development rights

Property development rights represent the rights owned by the Group to lease land plots to be used for further development. Property development rights are stated at cost, being expenses directly attributable to acquisition of such right, less provisions for impairment, where required. Property development rights are not depreciated. Upon starting of development, property development rights are transferred at cost to inventories.

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The Group estimates an asset's recoverable amount based on determination of its fair value less cost to sell which is identified based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property.

Impairment losses of continuing operations are recognised in profit or loss for the period in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss for the period unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### Inventories

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.

#### *Raw materials*

The cost of raw materials is based on the weighted average method principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

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## 6. Summary of significant accounting policies (continued)

### *Completed and under development inventory property*

Completed and under development inventory property is property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Completed and under development inventory property are stated at cost based on the individual cost method. Cost includes:

- freehold and leasehold rights for land;
- planning and design costs, costs of site preparation;
- cost of raw materials;
- labour costs and amounts paid to subcontractors for construction;
- construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- borrowing costs.

The cost of completed and under development inventory property recognised in profit or loss on disposal is determined with reference to the specific costs incurred on inventories sold and an allocation of any non-specific costs based on the relative size of the property sold.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand.

### Share capital

The Company's share capital is stated at the nominal amount of the issued shares. The difference between the fair value of the consideration received and the nominal value of the share capital being issued is taken to the share premium account.

### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in share premium.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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6. Summary of significant accounting policies *(continued)*

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*The Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

*The Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of completed inventory property and other goods*

Revenues from the sale of completed inventory property are recognized in profit or loss for the period when three conditions are met: a binding agreement is present, the construction is complete and approved by the state commissioner.

Revenue from the sale of other goods is recognised when the significant risks and rewards of ownership over the goods have passed to the buyer, usually on delivery of the goods.

*Rendering of services*

Revenue from the rendering of services is recognised when services are rendered. Revenue from provision of utility services under arrangements where the Group acts as an agent is recognised on a net basis.

*Rental income*

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

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6. Summary of significant accounting policies (*continued*)

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognised in profit or loss for the period when they arise.

Cost of revenue

Cost of revenue is recognised simultaneously with respective revenue.

Taxes

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

*Deferred income tax*

Deferred income tax is provided using the liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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6. Summary of significant accounting policies (*continued*)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added tax*

Revenues, expenses and assets are recognised net of the amount of value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the face of the consolidated statement of financial position.

Events after the statement of financial position date

Events after the statement of financial position date that provide additional information on the Group's position at the statement of financial position date (adjusting events) are reflected in the consolidated financial statements. Events after the statement of financial position date that are not adjusting events are disclosed in the notes when material.

Change in presentation of comparative information

Certain reclassifications have been made to the 2012 amounts for consistency of presentation with the 2013 amounts.

7. Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

*IFRS 9 Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 mandatory effective date of IFRS 9 and transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The standard and subsequent amendments have not yet been endorsed by the EU. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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7. Standards issued but not yet effective (*continued*)

*IFRS 10 Consolidated Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control so that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. For companies applying IFRS as adopted by the EU, this standard is effective for annual periods beginning on or after 1 January 2014. Management has assessed that the adoption of IFRS 10 will have no impact on the consolidated financial statements or the currently held investments of the Group.

*IFRS 11 Joint Arrangements*

IFRS 11 Joint Arrangements supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities–Non-Monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For companies applying IFRS as adopted by the EU, this standard is effective for annual periods beginning on or after 1 January 2014. Management has assessed that the adoption of this standard by the Group will not have any effect on the financial position or performance of the Group.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. For companies applying IFRS as adopted by the EU, this standard is effective for annual periods beginning on or after 1 January 2014. Management has assessed that the adoption of this standard by the Group will not have any effect on the financial position or performance of the Group as the Group has no subsidiaries with material non-controlling interests and no unconsolidated structured entities.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. For companies applying IFRS as adopted by the EU, this standard is effective for annual periods beginning on or after 1 January 2014. Management has assessed that adoption of this standard will have no impact on the Group's financial position or performance.

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7. Standards issued but not yet effective (*continued*)

*Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*

For companies applying IFRS as adopted by the EU, the guidance is effective for annual periods beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. Management has assessed that the application of this guidance will have no impact on the Group's financial position or performance.

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

*IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

*IAS 36 Impairment of Assets (Amendment)*

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the issuance of IFRS 13 was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

This requirement has been deleted by the amendments to IAS 36. In addition, the IASB added two disclosure requirements: additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal; information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendments harmonise disclosure requirements between value in use and fair value less costs of disposal. The Amendment shall be applied for annual periods beginning on or after 1 July 2014. The Group does not expect that the Amendment will have significant impact on its financial statements, when adopted.

*IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect that this amendment will have no material financial impact in future financial statements.

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7. Standards issued but not yet effective (continued)

*IAS 19 Defined Benefit Plans (Amended): Employee Contributions*

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment has not yet been endorsed by the EU. The Group does not expect that the Amendment will have significant impact on its financial statements, when adopted

*IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has not yet been endorsed by the EU. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group is currently assessing the impact of IFRIC 21 on the financial statements.

The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. The Group is currently assessing the impact of IFRIC 21 on the financial statements.

- *IFRS 2 Share-based Payment:* This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- *IFRS 3 Business combinations:* This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- *IFRS 8 Operating Segments:* This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- *IFRS 13 Fair Value Measurement:* This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- *IAS 16 Property Plant & Equipment:* The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- *IAS 24 Related Party Disclosures:* The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- *IAS 38 Intangible Assets:* The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.



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7. Standards issued but not yet effective (continued)

The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. The Group is currently assessing the impact of IFRIC 21 on the financial statements.

- *IFRS 3 Business Combinations*: This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- *IFRS 13 Fair Value Measurement*: This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- *IAS 40 Investment Properties*: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

8. Revenue

Revenue comprised:

	<u>2013</u>	<u>2012</u>
Sales of completed inventory property	28,406	11,765
Construction services revenue	7,626	7,747
Utility services income	4,267	4,453
Rental income from investment properties	2,940	3,485
Other services	1,875	2,213
	<u>45,114</u>	<u>29,663</u>

Other services mainly comprised transportation, engineering and design services rendered to third parties. All revenue is generated from sales to customers in Ukraine.

9. Cost of revenue

Cost of revenue comprised:

	<u>2013</u>	<u>2012</u>
Cost of completed inventory property sold	26,419	9,995
Other construction services cost	7,101	6,538
Utility services cost	6,135	5,315
Other services	3,070	2,873
	<u>42,725</u>	<u>24,721</u>

Borrowing costs included in cost of completed inventory property sold for the year ended 31 December 2013 amounted to USD 7,120 thousand (2012: USD 1,104 thousand).

Wages and salaries and social security taxes included in cost of revenue for year ended 31 December 2013 amounted to USD 2,727 thousand and USD 992 thousand, respectively (2012: USD 1,099 thousand and USD 400 thousand, respectively).

Depreciation included in cost of revenue for the year ended 31 December 2013 amounted to USD 1,173 thousand (2012: USD 403 thousand).

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10. Other operating income

Other operating income comprised:

	<u>2013</u>	<u>2012</u>
Gain on reversal of provisions (Note 32)	689	214
Gain on extinguishment of liabilities	202	108
Gain on sale of miscellaneous goods and services	113	607
Gain on revaluation of freehold buildings (Note 18)	40	83
Gain on securities sold	-	46
Other	25	59
	<u>1,069</u>	<u>1,117</u>

11. General and administrative expenses

General and administrative expenses comprised:

	<u>2013</u>	<u>2012</u>
Wages and salaries	1,760	1,663
Depreciation and amortization	573	907
Social security taxes	568	453
Professional services	317	517
Bank charges	154	151
Taxes, other than income tax	140	75
Materials	120	94
Insurance	108	132
Communication costs	94	127
Auditor's remuneration in relation to statutory audit	71	71
Other	74	73
	<u>3,979</u>	<u>4,263</u>

12. Selling and distribution expenses

Selling and distribution expenses comprised:

	<u>2013</u>	<u>2012</u>
Advertising	395	411
Wages and salaries	167	267
Social security taxes	64	60
Other	92	99
	<u>718</u>	<u>837</u>

13. Other operating expenses

Other operating expenses comprised:

	<u>2013</u>	<u>2012</u>
Loss on disposal of property development rights	3,201	-
Change in allowance for doubtful debts (Notes 23 and 24)	1,235	2,720
Inventory shortages and damages (Note 22)	450	2,312
Loss on disposal of property, plant and equipment and investment properties, net	398	3,256
Post-construction costs on sold inventory property	352	2,564
Fines and penalties	125	286
Impairment of investments	-	268
Other	206	388
	<u>5,967</u>	<u>11,794</u>

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14. Finance costs

Finance costs comprised:

	<u>2013</u>	<u>2012</u>
Interest costs	11,785	8,276
Finance lease charges	409	735
	<u>12,194</u>	<u>9,011</u>

15. Foreign exchange loss, net

Foreign exchange loss, net comprised:

	<u>2013</u>	<u>2012</u>
Foreign exchange gains	1,953	2,942
Foreign exchange losses	(3,079)	(3,378)
	<u>(1,126)</u>	<u>(436)</u>

16. Operating segment information

Identification of reportable segments

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

- Investment property segment – leases residential and commercial property owned by the Group;
- Property development and construction segment - builds and sells residential and commercial property, renders construction services.

No operating segments have been aggregated to form the above reportable operating segments.

All other non-reportable segments include the Group's operations related to utility services and other operations.

An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result, where segment result is determined as gross profit plus change in fair value of investment properties, selling and distribution expenses and share in losses of associates.

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16. Operating segment information (continued)

The Group's segmental information was as follows:

As at 31 December 2013	Investment property	Property development and construction	Other non- reportable	Total segments	Adjustments and eliminations	Consolidated
Revenue						
External customers	2,940	36,032	6,180	45,152	(38)	45,114
Inter-segment	-	-	172	172	(172)	-
Total revenue	2,940	36,032	6,352	45,324	(210)	45,114
Results						
Depreciation	-	1,173	-	1,173	-	1,173
Change in fair value of investment properties	2,469	-	-	2,469	-	2,469
Selling and distribution expenses	(92)	(626)	-	(718)	-	(718)
Loss from discontinued operations	-	-	(5,017)	(5,017)	-	(5,017)
Segment results	5,317	1,886	(6,403)	800	(23,874)	(23,074)
Segment assets	49,511	257,930	822	308,263	81,730	389,993
Segment liabilities	-	75,193	2,430	77,623	212,720	290,343
Other disclosures						
Capital expenditure	-	523	-	523	517	1,040
As at 31 December 2012						
Revenue						
External customers	3,485	19,512	6,255	29,252	411	29,663
Inter-segment	-	-	4,135	4,135	(4,135)	-
Total revenue	3,485	19,512	10,390	33,387	(3,724)	29,663
Results						
Depreciation	-	403	-	403	-	403
Change in fair value of investment properties	588	-	-	588	-	588
Selling and distribution expenses	(99)	(738)	-	(837)	-	(837)
Share in losses of associates	-	-	(1,806)	(1,806)	-	(1,806)
Segment results	3,974	2,241	(1,885)	4,330	(25,830)	(21,500)
Segment assets	53,022	235,436	1,035	289,493	71,681	361,174
Segment liabilities	-	49,385	4,436	53,821	198,663	252,484
Other disclosures						
Capital expenditure	-	581	-	581	1,632	2,213

External customer's revenues are adjusted for differences in the period of recognition.

Inter-segment revenues are eliminated on consolidation.

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16. Operating segment information (continued)

Capital expenditure consists of additions to property, plant and equipment, investment properties and property development rights. Capital expenditure not reportable to the board on a segment basis comprises additions to freehold buildings, vehicles, office and computer equipment and construction in progress.

Reconciliation of profit

	2013	2012
Segment results	800	4,330
General and administrative expenses	(3,979)	(4,263)
Other operating expenses	(5,967)	(11,794)
Other operating income	1,069	1,117
Finance costs	(12,194)	(9,011)
Foreign exchange loss, net	(1,126)	(436)
Inter-segment eliminations	(1,677)	(1,443)
Consolidated loss before tax	<u>(23,074)</u>	<u>(21,500)</u>

Reconciliation of assets

	31 December 2013	31 December 2012
Segment assets	308,263	289,493
Property, plant and equipment	60,806	61,722
Trade and other receivables	20,513	9,478
Intangible assets	392	459
Prepaid income tax	19	22
Consolidated assets	<u>389,993</u>	<u>361,174</u>

Reconciliation of liabilities

	31 December 2013	31 December 2012
Segment liabilities	77,623	53,821
Interest bearing loans and borrowings	175,256	156,395
Deferred tax liability	11,802	13,934
Finance lease liability	2,280	2,985
Provisions	589	935
Other payables	21,131	22,960
Taxes payable, other than income tax	1,662	1,454
Consolidated liabilities	<u>290,343</u>	<u>252,484</u>

Other operating income, general and administrative expenses, other operating expenses, finance income, finance costs and foreign exchange loss are not allocated to individual segments as they are managed on a group basis.

Property, plant and equipment, intangible assets, trade and other receivables, prepaid income tax are not allocated to individual segments as they are managed on a group basis. Property, plant and equipment not reportable to the board on a segment basis comprise freehold buildings, vehicles, office and computer equipment and other.

Deferred tax liabilities, provisions, other payables (including payables for goods for resale), taxes payable, finance lease liability and interest bearing loans and borrowings are not allocated to individual segments as they are managed on a group basis.

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17. Income tax

The major components of income tax expense are:

*Profit or loss*

	<u>2013</u>	<u>2012</u>
Current income tax charge	11	9
Deferred tax relating to reversal and origination of temporary differences	(2,388)	678
Income tax (benefit) / expense reported in profit or loss	<u>(2,377)</u>	<u>687</u>

*Other comprehensive income*

	<u>2013</u>	<u>2012</u>
Deferred tax related to items charged or credited directly to other comprehensive income during the year:		
Gain on revaluation of freehold buildings	256	334
Income tax expense charged directly to other comprehensive income	<u>256</u>	<u>334</u>

A reconciliation between the income tax expense reported in the consolidated financial statements and the loss before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Accounting loss before tax from continuing operations	(18,057)	(21,500)
Accounting loss before tax from discontinued operations	(5,017)	-
Accounting loss before tax	<u>(23,074)</u>	<u>(21,500)</u>
At the Company's statutory income tax rate of 12.5% / 10.0%	(2,884)	(2,150)
Effect of the change in income tax rate	870	3,559
Tax effect of expenses non-deductible in determining taxable profits	1,137	1,643
Effect of higher tax rates in Ukraine	(1,500)	(2,365)
Income tax (benefit)/expense reported in profit or loss	<u>(2,377)</u>	<u>687</u>

The Group is subject to taxation in two tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2013 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 19% (2012: 21%).

According to the changes to the tax legislation in Ukraine introduced in 2013, a tax rate of 18% shall be applied starting from 1 January 2014, 17% – from 1 January 2015 and 16% – from 1 January 2016. When estimating deferred taxes as at 31 December 2013, the Group accounted for these changes. The tax rate in Cyprus is 12.5% from 1 January 2013 (2012: 10.0%).

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17. Income tax (continued)

Deferred tax assets and liabilities relate to the following items in 2013:

	31 December 2013	Charged to profit or loss	Charged to other compre- hensive income	31 December 2012
<i>Tax effect of taxable temporary differences:</i>				
Property, plant and equipment and investment properties (i)	(11,320)	(385)	(256)	(10,679)
Inventories (ii)	(6,552)	3,374	-	(9,926)
Interest-bearing loans and borrowings (v)	-	21	-	(21)
Gross deferred tax liabilities	<u>(17,872)</u>	3,010	(256)	<u>(20,626)</u>
Less: Offsetting with deferred tax assets	<u>6,070</u>			<u>6,692</u>
Recognised deferred tax liabilities	<u>(11,802)</u>			<u>(13,934)</u>
<i>Tax effect of deductible temporary differences:</i>				
Prepayments received (iii)	1,033	299	-	734
Prepayments made (iii)	115	28	-	87
Investments (iv)	225	(12)	-	237
Inventories (ii)	1,804	(700)	-	2,504
Trade and other receivables (vi)	443	129	-	314
Interest-bearing loans and borrowings (v)	1,537	(276)	-	1,813
Property, plant and equipment and investment properties (i)	513	(1)	-	514
Trade and other payables (vii)	400	(89)	-	489
Less: Offsetting with deferred tax liabilities	<u>(6,070)</u>	(622)	-	<u>(6,692)</u>
Net deferred tax liability	<u>(11,802)</u>	2,388	(256)	<u>(13,934)</u>

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17. Income tax (continued)

Deferred tax assets and liabilities relate to the following items in 2012:

	31 December 2012	Charged to profit or loss	Charged to other compre- hensive income	Foreign currency translation	31 December 2011
<i>Tax effect of taxable temporary differences:</i>					
Property, plant and equipment and investment properties (i)	(10,679)	(484)	(334)	(93)	(9,768)
Inventories (ii)	(9,926)	(104)	-	4	(9,826)
Prepayments made (iii)	87	987	-	-	(900)
Interest-bearing loans and borrowings (v)	(21)	2	-	-	(23)
Gross deferred tax liabilities	(20,539)	401	(334)	(89)	(20,517)
Less: Offsetting with deferred tax assets	6,605				7,589
Recognised deferred tax liabilities	<u>(13,934)</u>				<u>(12,928)</u>
<i>Tax effect of deductible temporary differences:</i>					
Prepayments received (iii)	734	(111)	-	-	845
Investments (iv)	237	31	-	-	206
Inventories (ii)	2,504	(862)	-	(1)	3,367
Trade and other receivables (vi)	314	(73)	-	(1)	388
Interest-bearing loans and borrowings (v)	1,813	(145)	-	(1)	1,959
Property, plant and equipment and investment properties (i)	514	287	-	99	128
Trade and other payables (vii)	489	(206)	-	(1)	696
	6,605	(1,079)	-	95	7,589
Less: Offsetting with deferred tax liabilities	(6,605)				(7,589)
Net deferred tax liability	<u>(13,934)</u>	<u>(678)</u>	<u>(334)</u>	<u>6</u>	<u>(12,928)</u>

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment and investment properties – differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis (fair value, revalued cost and fair value at acquisitions vs. historical cost);
- (ii) Inventories - differences in inventories valuation models and the periods of recognition, including capitalisation of borrowing costs, wages and salaries and depreciation ;
- (iii) Prepayments made and received – difference in period of recognition and valuation principles;
- (iv) Investments – differences in valuation, including impairment recognition;
- (v) Interest-bearing loans and borrowings – differences in valuation and in the period of recognition, including recognition of finance lease liability;
- (vi) Trade and other receivables – differences in valuation, including allowances for doubtful receivables, differences in the period of recognition.
- (vii) Trade and other payables – differences in the period of recognition.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**18. Property, plant and equipment**

	Freehold land	Freehold buildings	Heavy construction equipment	Production, construction and research equipment	Vehicles	Office and computer equipment	Construction in progress	Total
<i>Cost or fair value:</i>								
<b>At 31 December 2012</b>	8,095	47,281	5,978	5,550	2,235	1,907	13,697	84,743
Additions	-	6	-	337	4	76	437	860
Disposals	-	(75)	(6)	(47)	(5)	(41)	(1,119)	(1,293)
Transfers to inventories	-	-	-	-	-	-	(197)	(197)
Other transfers	-	-	-	203	-	25	(228)	-
Revaluations	-	541	-	-	-	-	-	541
<b>At 31 December 2013</b>	8,095	47,753	5,972	6,043	2,234	1,967	12,590	84,654
<i>Accumulated depreciation:</i>								
<b>At 31 December 2012</b>	-	-	(1,976)	(3,764)	(1,658)	(1,740)	-	(9,138)
Depreciation charge for the year	-	(845)	(296)	(732)	(294)	(91)	-	(2,258)
Disposals	-	-	3	46	5	40	-	94
Revaluations	-	845	-	-	-	-	-	845
<b>At 31 December 2013</b>	-	-	(2,269)	(4,450)	(1,947)	(1,791)	-	(10,457)
<i>Net book value</i>								
<b>At 31 December 2012</b>	8,095	47,281	4,002	1,786	577	167	13,697	75,605
<b>At 31 December 2013</b>	8,095	47,753	3,703	1,593	287	176	12,590	74,197

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**18. Property, plant and equipment (continued)**

<i>Cost or fair value:</i>	Freehold land	Freehold buildings	Heavy construction equipment	Production, construction and research equipment	Vehicles	Office and computer equipment	Construction in progress	Total
<b>At 31 December 2011</b>	6,603	48,324	6,137	5,555	2,927	1,886	15,449	86,881
Additions	1,501	318	-	179	46	29	56	2,129
Disposals	-	(2,507)	(158)	(183)	(737)	(7)	(567)	(4,159)
Transfers to inventories	-	-	-	-	-	-	(1,236)	(1,236)
Revaluations	-	1,164	-	-	-	-	-	1,164
Translation difference	(9)	(18)	(1)	(1)	(1)	(1)	(5)	(36)
<b>At 31 December 2012</b>	<u>8,095</u>	<u>47,28</u>	<u>5,978</u>	<u>5,550</u>	<u>2,235</u>	<u>1,907</u>	<u>13,697</u>	<u>84,743</u>
<i>Accumulated depreciation:</i>								
<b>At 31 December 2011</b>	-	-	(1,727)	(3,202)	(1,782)	(1,482)	-	(8,193)
Depreciation charge for the year	-	(955)	(300)	(632)	(324)	(271)	-	(2,482)
Disposals	-	445	53	69	450	12	-	1,029
Revaluations	-	510	-	-	-	-	-	510
Translation difference	-	-	(2)	1	(2)	1	-	(2)
<b>At 31 December 2012</b>	<u>-</u>	<u>-</u>	<u>(1,976)</u>	<u>(3,764)</u>	<u>(1,658)</u>	<u>(1,740)</u>	<u>-</u>	<u>(9,138)</u>
<i>Net book value</i>								
<b>At 31 December 2011</b>	6,603	48,324	4,410	2,353	1,145	404	15,449	78,688
<b>At 31 December 2012</b>	<u>8,095</u>	<u>47,281</u>	<u>4,002</u>	<u>1,786</u>	<u>577</u>	<u>167</u>	<u>13,697</u>	<u>75,605</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*(in thousands of US dollars, unless otherwise indicated)*18. Property, plant and equipment *(continued)*

Fair value was determined based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property.

As at 31 December 2013 and 2012 freehold land comprised the land to be used for the construction of owner-occupied premises; freehold buildings included apartments, parking places and workshops used by the Group for own purposes.

As at 31 December 2013 construction in progress included workshops and offices under construction to be used by the Group for own purposes.

*Depreciation*

The total depreciation charge for the years ended 31 December 2013 and 2012 was as follows:

	2013	2012
Inventories	1,685	1,575
General and administrative expenses	573	907
Total depreciation charge	<u>2,258</u>	<u>2,482</u>

*Finance leases*

The carrying value of heavy construction equipment held under finance leases at 31 December 2013 was USD 1,007 thousand (31 December 2012: USD 1,309 thousand). Leased assets under finance lease contracts are pledged as security for the related finance lease liabilities.

*Pledged assets*

As at 31 December 2013 freehold land and buildings with a carrying value of USD 38,156 thousand (31 December 2012: USD 42,454 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

*Fully depreciated assets*

Included in property, plant and equipment as at 31 December 2013 are equipment recorded at a cost of USD 5,675 thousand (31 December 2012: USD 3,040 thousand), which are fully depreciated but remain in use.

*Revaluation of freehold buildings*

The Group engaged an independent appraiser to determine the fair value of its freehold buildings. The method used to estimate fair value is combination of both the cost and the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property. The dates of the revaluation were 31 December 2013 and 2012.

Net revaluation result for the year ended 31 December 2013 was gain of USD 1,386 thousand of which USD 1,346 thousand of gain on revaluation was recognised in other comprehensive income, and USD 40 thousand of gain on revaluation was recognised in profit or loss.

Net revaluation result for the year ended 31 December 2012 was gain of USD 1,674 thousand of which USD 1,591 thousand of gain on revaluation was recognised in other comprehensive income, and USD 83 thousand of gain on revaluation was recognised in profit or loss.

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19. Investment properties

	<u>2013</u>	<u>2012</u>
At 1 January	53,022	54,781
Transfers from inventories	1,244	141
Investment property transferred as consideration for the acquired subsidiary (Note 20)	(6,711)	-
Disposals	(513)	(2,465)
Change in fair value of investment properties	2,469	588
Translation difference	-	(23)
At 31 December	<u>49,511</u>	<u>53,022</u>

Investment properties comprise a number of commercial properties held with the aim of capital appreciation and earning rentals or both.

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent valuer as at 31 December 2013 and 2012. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market quotes, adjusted for any difference in the nature, location or condition of the specific property.

Change in fair value of investment properties comprise gain of USD 1,231 thousand attributable to investment properties transferred from inventories.

As at 31 December 2013 investment properties with a carrying value of USD 38,658 thousand (31 December 2012: USD 38,412 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

20. Acquisition and disposal of subsidiary

Acquisition of subsidiary

On 31 March 2013, the Group acquired additional 30.00% interest in share capital of its associate PJSC "TMM - Energobud", thus increasing its ownership interest to 80.00%. Prior to March 2013, the Group owned shares in the associate representing 50.00% of its issued share capital. As a result of the acquisition the Group recognised loss on acquisition of the subsidiary of USD 2,291 thousand in equity. The purchase consideration represented investment properties transferred by the Group to the seller in the amount of USD 6,711 thousand (fair value). Net cash acquired by the Group with the subsidiary amounted to USD 294 thousand.

The subsidiary was acquired from a third party with the objective of its further resale in 2013 to a related party. Accordingly, the net loss of the subsidiary from the date of purchase to the date of sale of USD 5,017 thousand was classified in profit or loss as discontinued operations.

Disposal of subsidiary

On 10 October 2013, the Group disposed 80.00% of interest in the share capital of its subsidiary PJSC "TMM-Energobud" to a related party for the cash consideration of USD 10,000 thousand (Note 23). As a result of the disposal the Group recognised gain on disposal of the subsidiary of USD 10,597 thousand as additional paid-in capital. Net cash disposed by the Group with the subsidiary amounted to USD 1,616 thousand.

This subsidiary was engaged in the production of power facilities. The disposal did not have any significant impact on the Group's principal activities.

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## 21. Property development rights

Property development rights were as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Lisya bukhta	Crimea	Resort	5,272	5,272
Arabatska strilka	Kherson	Resort	4,125	4,065
Satellite Town	Kyiv	Residential	3,924	3,924
Parkove	Yalta	Resort	2,144	2,144
Tankova	Kyiv	Residential	1,704	1,704
Moskovskyj	Kharkiv	Residential	1,366	1,334
Bereznevyj	Kyiv	Residential	1,195	1,190
Pivdeny	Kyiv	Residential	988	964
Uborevicha	Kyiv	Commercial	594	594
Korchagintsiv	Kharkiv	Residential	453	417
Tisa	Carpathians	Resort	316	316
Dytyachoi Komuny	Zhytomyr	Residential	290	267
Parkova Chernomorsk	Crimea	Resort	262	262
Lubyanka	Kyiv	Land plots	150	150
Palladium Centre	Kyiv	Commercial	-	2,733
Other	Kyiv, Kharkiv	Various	4,905	6,934
			<u>27,688</u>	<u>32,270</u>

## 22. Inventories

Inventories consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Completed inventory property	87,157	45,415
Inventory property under development	78,385	112,611
Raw materials	21,252	6,295
Goods for resale	6,554	13,309
Other inventories	822	1,035
	<u>194,170</u>	<u>178,665</u>

The amount of write-down of inventories recognised as other operating expenses in 2013 is USD 450 thousand (2012: USD 2,312 thousand).

Inventory property under development as at 31 December was as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Sonyachna brama	Kyiv	Mainly residential	55,245	87,473
Laborotornyj provulok	Kyiv	Residential	8,152	6,814
Green Town	Kharkiv	Residential	7,060	11,926
Other	Various	Residential	7,928	6,398
			<u>78,385</u>	<u>112,611</u>

As at 31 December 2013 inventory property under development with a carrying value of USD 26,237 thousand (31 December 2012: USD 79,168 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

During 2013 borrowing costs of USD 8,496 thousand (2012: USD 13,058 thousand) were capitalised into inventory property under development.

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22. Inventories (continued)

Completed inventory property as at 31 December was as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Sonyachna brama	Kyiv	Residential	59,716	21,613
Ultra	Kharkiv	Residential	13,757	14,634
Green Town	Kharkiv	Residential	5,087	632
Kaskad	Kharkiv	Residential	2,876	2,818
Edelweiss	Kharkiv	Residential	1,855	1,880
Triumph	Kyiv	Residential	1,423	1,227
Karat	Kharkiv	Residential	1,219	1,229
Flamingo	Kharkiv	Residential	611	654
Aviator	Kyiv	Residential	363	607
Chaadaeva 2	Kyiv	Residential	216	50
Atoll	Kharkiv	Residential	27	33
Other	Various	Various	7	38
			<u>87,157</u>	<u>45,415</u>

As at 31 December 2013 completed inventory property with a carrying value of USD 68,273 thousand (31 December 2012: USD 18,141 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

23. Trade and other receivables

Trade and other receivables consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Receivables for shares of subsidiary (Note 20)	10,000	-
Trade receivables	8,204	6,882
Notes receivable	770	820
Other	7,522	6,173
	<u>26,496</u>	<u>13,875</u>
Less: Allowance for impairment	<u>(5,983)</u>	<u>(4,397)</u>
	<u>20,513</u>	<u>9,478</u>

Trade and other receivables are non-interest bearing and are repayable in the normal course of business.

As at 31 December 2013 trade receivables and notes receivable at initial value of USD 5,214 thousand and USD 769 thousand, respectively, (31 December 2012: USD 3,742 thousand and USD 655 thousand) were impaired and fully provided for.

Movements in the allowance for impairment of trade receivables and notes receivable were as follows:

	<i>2013</i>	<i>2012</i>
At 1 January	4,397	4,872
Charge for the year	1,980	3,224
Unused amounts reversed	(382)	(534)
Utilised	(12)	(3,163)
Translation difference	-	(2)
At 31 December	<u>5,983</u>	<u>4,397</u>

As at 31 December 2013 trade and other receivables past due 365 days, but not impaired equalled to USD 1,812 thousand (31 December 2012: USD 1,576 thousand).

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## 24. Prepayments

Prepayments consisted of the following:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Prepayments for construction materials and services	20,639	11,246
	<u>20,639</u>	<u>11,246</u>
Less: Allowance for impairment	(954)	(1,317)
	<u>19,685</u>	<u>9,929</u>

Movements in the allowance for impairment of prepayments were as follows:

	<u>2013</u>	<u>2012</u>
At 1 January	1,317	1,355
Charge for the year	165	30
Unused amounts reversed	(528)	-
Utilised	-	(68)
Translation difference	-	-
At 31 December	<u>954</u>	<u>1,317</u>

## 25. Taxes recoverable, other than income tax

Taxes recoverable other than income tax consisted of the following:

	<u>31 December 2013</u>	<u>31 December 2012</u>
VAT recoverable	1,414	1,132
Other taxes recoverable	21	39
	<u>1,435</u>	<u>1,171</u>

## 26. Cash and cash equivalents

As at 31 December 2013 cash and cash equivalents mainly comprised cash at banks. Cash at banks earn interest at floating rates based on daily bank deposit rates.

## 27. Issued capital and reserves

### Share premium

On 29 May 2007, the shares of TMM Real Estate Development plc were admitted for trading on the Frankfurt Stock Exchange. As a result of the offering, 6,792,165 shares were sold. The issue price was EUR 11.65 (USD 15.45). Total proceeds for sold shares and related transaction costs amounted to EUR 79,129 thousand (USD 104,939 thousand) and EUR 3,165 thousand (USD 4,198 thousand), respectively. Surplus of the issue proceeds less transactions costs over par value of issued additional ordinary shares represents share premium.

### Treasury shares

In April 2012, the Company repurchased 300,000 of its ordinary shares for the total consideration of USD 197 thousand. In April 2012, the Company sold 35,967 of its repurchased ordinary shares for the total consideration of USD 158 thousand.

As a result of these transactions, as at 31 December 2012 the Company's repurchased ordinary shares amounted USD 1,494 thousand and comprised ordinary 707,930 shares with a par value of USD 0.01 each.

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27. Issued capital and reserves (continued)

As at 31 December 2013 and 2012 the Company's issued and paid-in share capital comprised of 51,084,235 ordinary shares with a par value of USD 0.01 each. As at 31 December 2013 the Company's total authorised share capital comprised 100,000,000 shares.

*Additional paid-in capital*

Additional paid-in capital is used to record additional contributions in kind made by the Company's shareholders.

*Revaluation reserve*

Revaluation reserve is used to record increases in the fair value of freehold buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

*Translation reserve*

Translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements to presentation currency.

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

The share premium, revaluation reserve and translation reserve are not distributable reserves by way of dividend.

*Earnings per share*

The weighted average number of ordinary shares outstanding during the year is calculated as shown below. The Company has no dilutive potential shares.

<i>(in shares)</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Issued shares as at 1 January	51,084,235	51,348,268
Effect of shares repurchase	-	(176,022)
Effect of shares sale	-	-
Weighted average number of shares for the year	<u>51,084,235</u>	<u>51,172,246</u>

28. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
<i>Current</i>		
Bank loans	57,081	59,962
Supplier credits	<u>1,688</u>	<u>908</u>
	58,769	60,870
<i>Non-current</i>		
Bank loans	116,487	95,024
Supplier credits	<u>-</u>	<u>501</u>
	<u>116,487</u>	<u>95,525</u>
	<u>175,256</u>	<u>156,395</u>



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28. Interest-bearing loans and borrowings (continued)

Non-current interest bearing loans and borrowings are repayable as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
1 to 2 years	78,157	38,320
2 to 3 years	38,330	38,984
3 to 4 years	-	18,221
	<u>116,487</u>	<u>95,525</u>

Effective interest rate, maturity and currency split for interest-bearing loans and borrowings were as follows:

	<u>Effective interest rate</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
<i>Secured</i>			
UAH Credit line from a Ukrainian bank	15.55%	152,179	134,310
EUR Credit line from a Ukrainian bank	Euribor 1m + 8.00%	21,241	20,531
EUR Supplier credits	9.72%	1,836	1,554
		<u>175,256</u>	<u>156,395</u>

As at 31 December 2013 the Group had available un-drawn borrowing facilities of USD 2,732 thousand.

Interest-bearing loans and borrowings were secured as follows:

<i>Type of collateral</i>	<u>31 December 2013</u>	<u>31 December 2012</u>
Inventories (Note 22)	94,510	97,309
Property, plant and equipment (Note 18)	38,156	42,454
Investment properties (Note 19)	38,658	38,412
Investments (at nominal)	6,282	6,282
	<u>177,606</u>	<u>184,457</u>

29. Trade and other payables

Trade and other payables consisted of the following:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Trade accounts payable	20,749	6,756
Payables for goods purchased for resale	14,236	16,428
Due to employees	1,972	1,619
Other	4,923	4,913
	<u>41,880</u>	<u>29,716</u>

30. Advances received

As at 31 December 2013 advances received included USD 54,444 thousand (31 December 2012: USD 42,629 thousand) of advances received for inventory property under development that management estimates will be realised in the Group's normal operating cycle. Other advances received as at 31 December 2013 comprised 2,430 thousand USD (31 December 2012: USD 4,436 thousand).

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### 31. Taxes payable, other than income tax

Taxes payable, other than income tax consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Value added tax payable	507	634
Payroll related taxes	861	565
Miscellaneous taxes	294	255
	<u>1,662</u>	<u>1,454</u>

### 32. Provisions

Movements in provisions were as follows:

	<i>Provision for construction expenses</i>	<i>Provision for tax charges and litigations</i>	<i>Total</i>
At 1 January 2012	595	885	1,480
Arising during the year	-	152	152
Utilised	(386)	(97)	(483)
Reversed	(214)	-	-
Translation difference	5	(5)	-
At 31 December 2012	<u>-</u>	<u>935</u>	<u>935</u>
Arising during the year	483	125	608
Utilised	-	(265)	(265)
Reversed	-	(689)	(689)
Translation difference	-	-	-
At 31 December 2013	<u>483</u>	<u>106</u>	<u>589</u>

### 33. Related party disclosure

The Group's transactions with its related parties for the years ended 31 December were as follows:

	<i>Revenue</i>	<i>Other operating income</i>	<i>Purchases</i>	<i>General and administrative expenses</i>	<i>Other operating expenses</i>
<i>2013</i>					
Associate	19	-	908	-	-
Entities under common control	445	11	210	-	2
	<u>464</u>	<u>11</u>	<u>1,118</u>	<u>-</u>	<u>2</u>
<i>2012</i>					
Associate	51	-	1,032	-	-
Entities under common control	276	13	289	39	8
	<u>327</u>	<u>13</u>	<u>1,321</u>	<u>39</u>	<u>8</u>

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33. Related party disclosure (continued)

The outstanding balances due from / to related parties were as follows:

	<u>Trade and other receivables</u>	<u>Prepayments</u>	<u>Cash</u>	<u>Trade and other payables</u>	<u>Advances received</u>
31 December 2013					
Entities under common control	2,667	196	-	388	6
	<u>2,667</u>	<u>196</u>	<u>-</u>	<u>388</u>	<u>6</u>
31 December 2012					
Associate	257	6,149	-	790	-
Entities under common control	1,719	255	-	497	128
	<u>1,976</u>	<u>6,404</u>	<u>-</u>	<u>1,287</u>	<u>128</u>

Revenue from associate and entities under common control in 2013 comprised: a) sales of completed inventory property amounting to USD 280 thousand (2012: null); b) rental income amounting to USD 120 thousand (2012: USD 202 thousand); c) other revenue amounting to USD 64 thousand (2012: USD 125 thousand).

Purchases from associate and entities under common control in 2013 mainly comprised: a) purchase of construction materials amounting to USD 210 thousand (2012: USD 289 thousand); b) purchase of construction services amounting to USD 908 thousand (2012: USD 1,032 thousand).

Trade and other receivables from entities under common control as at 31 December 2013 mainly comprised: a) receivables for construction services amounting USD 932 thousand (31 December 2012: USD 942 thousand); b) receivables for other goods and services of USD 946 thousand (31 December 2012: USD 916 thousand).

Prepayments made to entities under common control as at 31 December 2013 and 2012 comprised mainly prepayments for construction-assembly works.

Trade and other payables from entities under common control as at December 2013 mainly comprised: a) payables for construction materials amounting USD 118 thousand (31 December 2012: USD 142 thousand); b) payables for other goods and services USD 212 thousand (31 December 2012: USD 1,065 thousand).

Advances received from entities under common control as at 31 December 2013 and 31 December 2012 comprised mainly advances received for inventory property under development.

*Terms and conditions of transactions with related parties*

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2013 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

*Compensation to key management personnel*

Key management personnel consist of seven top executives of the Group.

In 2013, the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 364 thousand (2012: USD 371 thousand) and were included in general and administrative expenses.

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## 34. Contingencies and commitments

## Tax matters

As discussed in Note 1, the Group conducts majority of its operations in Ukraine. The Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. In general, legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities. Instances of inconsistent interpretations are not unusual. The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect. As at 31 December 2013 the Group's management estimated that maximum cumulated tax exposure amounted to USD 2,830 thousand.

In particular, the Group is exposed to inconsistent interpretations related to revenue recognition for tax purposes in real-estate sector. In addition, certain other transactions carried out by the Group with clients and suppliers in order to provide for both parties with a financial flexibility, may be challenged by regulators and treated for tax purposes in a different way. Consequently, it is possible that tax authorities may assess additional income and other taxes as well as penalties against the Group. Although this risk significantly diminishes with passage of time, the unfavourable outcome, which likelihood and amount cannot be presently determined with sufficient reliability, may have a material effect on the Group's financial position, results of operations and cash flows. The Group management believes that the Group has sufficient basis to support its compliance with all regulations, and it is not likely that any significant settlement will arise from its interpretation and application of tax legislation and regulations.

## Purchase commitments

As at 31 December 2013 and 31 December 2012 the Group had no contractual purchase commitments.

## Lease commitments

*Finance lease*

The Group leases a number of plant and equipment under a finance lease agreements. The lease payments are pegged to EUR and USD; the average lease term is 5 years. As at 31 December 2013 and 2012 the interest rates implicit in the lease are within the range of 15% - 20% per annum.

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments were as follows:

	<i>Minimum lease payments</i>	<i>Present value of minimum lease payments</i>
<i>at 31 December 2013</i>		
Within one year	2,280	2,280
After one year but not more than five years	-	-
Total minimum lease payments	<u>2,280</u>	<u>-</u>
Less amounts representing finance charges	-	
	<u>2,280</u>	<u>2,280</u>
<i>at 31 December 2012</i>		
Within one year	2,994	2,955
After one year but not more than five years	32	30
Total minimum lease payments	<u>3,026</u>	<u>-</u>
Less amounts representing finance charges	(41)	
	<u>2,985</u>	<u>2,985</u>

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34. Contingencies and commitments (continued)

*Operating lease – the Group as a lessor*

During the year ended as at 31 December 2013 the Group has entered into a commercial property lease on certain investment property. This non-cancellable lease has initial term of seven years. Lease includes a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under a non-cancellable operating lease were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Within one year	1,375	600
After one year but not more than five years	6,875	3,000
More than five years	859	3,300
	<u>9,109</u>	<u>6,900</u>

35. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated statement of financial position:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>31 December 2013</u>	<u>31 December 2012</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
<i>Financial assets</i>				
Trade and other receivables	20,513	9,478	20,513	9,478
Cash and cash equivalents	2,383	553	2,383	553
<i>Financial liabilities</i>				
Interest-bearing loans and borrowings	175,256	156,395	171,178	155,153
Finance lease liability	2,280	2,985	2,280	2,985
Trade and other payables	41,880	29,716	41,880	29,716

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the statement of financial position date. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for long-term debt. To determine the fair value of the remaining long-term financial instruments, the discounted values of future cash flows are used. The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

36. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for the development of the Group's property portfolio. The Group has trade and other receivables and cash and short-term deposits that arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

*(in thousands of US dollars, unless otherwise indicated)*36. Financial risk management objectives and policies *(continued)*

Risk management is carried out by the Group's financial department. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarized below.

## Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

In 2013 and 2012, the Group primarily borrowed at both fixed and floating rate pegged to the European Interbank Offering Rate ("EURIBOR").

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	<i>Increase / (decrease) in basis points</i>	<i>Effect on profit before tax</i>
		<u>USD '000</u>
<i>2013</i>		
EURIBOR	14	(30)
EURIBOR	(14)	30
<i>2012</i>		
EURIBOR	3	(6)
EURIBOR	(3)	6

The Group has not entered into transactions designed to hedge against the interest rate risk.

## Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade and other receivables) and from its financing activities, including cash in bank. The Group's maximum credit risk exposure comprised:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Cash and cash equivalents	2,383	553
Trade and other receivables	20,513	9,478
	<u>22,896</u>	<u>10,031</u>

The Group's cash is primarily held with major reputable banks located in Ukraine and Cyprus. The management carries out continuous monitoring of the financial position in respect of the financial institutions where the Group's cash is placed. The credit risk to the Group relates to the default of the banks on their obligations and is limited to the balance of the cash placed with the banks.

The credit risk of the Group attached to the outstanding balance of receivables is limited due to constant monitoring carried out by the Group's management of the creditworthiness of corporate customers, and because the Group generally requires a prepayment from non-corporate customers. The Group's credit risk is associated with the default of the customers on their obligations and is limited to the carrying amount of the accounts receivable. Management believes that the Group's exposure to the credit risk is not material to the overall business of the Group.

Other exposures are monitored and analyzed on a case-by-case basis and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognized against assets.

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36. Financial risk management objectives and policies (continued)

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and customers and bank loans and borrowings.

In the next twelve months the Group expects to finance its operating and investing activities with cash generated from operations.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	<i>Less than one year</i>	<i>1 to 5 years</i>	<i>Total</i>
<i>31 December 2013</i>			
Interest bearing loans and borrowings	65,929	132,743	198,672
Finance lease liability	2,280	-	2,280
Trade and other payables	41,880	-	41,880
	<u>110,089</u>	<u>132,743</u>	<u>242,832</u>
<i>31 December 2012</i>			
Interest bearing loans and borrowings	67,432	116,739	184,171
Finance lease liability	2,994	32	3,026
Trade and other payables	29,716	-	29,716
	<u>100,142</u>	<u>116,771</u>	<u>216,913</u>

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD") and the Euro ("EUR") play a significant role in the underlying economics of the Group's business transactions.

The exchange rates for foreign currencies, in which the Group's financial assets and liabilities were denominated, against the Ukrainian hryvnia ("UAH"), as declared by the National Bank of Ukraine ("NBU") as at the dates stated, were as follows:

	<i>USD</i>	<i>EUR</i>
1 January 2012	7.9898	10.2980
Average for 2012	7.9910	10.2706
31 December 2012	7.9930	10.5372
Average for 2013	7.9930	10.6000
31 December 2013	7.9930	11.0415

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange markets. Such exposure arises from sales or purchases by the Group in currencies other than its functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's exposure to foreign currency changes for all other currencies is not material.

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36. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	<u>Change in foreign currency exchange rates</u>	<u>Effect on profit before tax</u>
2013		
Increase in EUR exchange rate	30.00%	(6,923)
Decrease in EUR exchange rate	-5.00%	1,154
2012		
Increase in EUR exchange rate	12.67%	(2,601)
Decrease in EUR exchange rate	-12.67%	2,601

Capital risk management

The Group considers debt and shareholders' equity as primary capital sources. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and further the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to the Group's access to capital markets.

	<u>31 December 2013</u>	<u>31 December 2012</u>
Long-term borrowings	116,487	95,525
Short-term borrowings	58,769	60,870
Finance lease liability	2,280	2,985
Advances received from customers	54,444	42,629
Less cash and cash equivalents	(2,383)	(553)
Net debt	<u>229,597</u>	<u>201,456</u>
Total equity attributable to equity holders of the parent	<u>99,207</u>	<u>108,196</u>
Total capital and net debt	<u>328,804</u>	<u>309,652</u>
Gearing ratio	70%	65%

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy.

37. Events after the reporting date

Subsequent to the statement of financial position date the Group entered into additional agreement with Ukrainian banks extending repayment of UAH credit line current principal and interest in the amount of USD 42,249 thousand and USD 12,415 thousand, respectively, from 2014 to 2015-2017.

From 31 December 2013 to 23 June 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 40-50%.

In March 2014, the Parliament of Ukraine adopted changes to the tax legislation in accordance to which corporate income tax rate is established at 18% of taxable incomes without further step-downgrading to 17% and 16% in 2015 and 2016, respectively. These changes become effective from 1 April 2014.