TMM Real Estate Development plc
Unaudited Interim Condensed
Consolidated Financial Statements

As at 30 June 2014

CONTENT

BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

BOARD OF DIRECTORS

Maarten van den Belt
Dominic Dreyfus
Nikoloz Enukidze
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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	*The six-month period ended 30 June 2014*	*The six-month period ended 30 June 2013*
Revenue	4	21,955	16,060
Cost of sales		(19,219)	(16,557)
Gross profit		2,736	(497)
Other operating income		437	1,038
General and administrative expenses		(1,551)	(1,590)
Selling and distribution expenses		(385)	(413)
Other operating expenses		(442)	(1,195)
Operating profit (loss)		795	(2,657)
Finance costs		(5,288)	(3,675)
Foreign exchange (loss) gain, net		(8,326)	262
Loss before tax		(12,819)	(6,070)
Income tax benefit (expense)	6	197	(300)
Loss for the period		(12,622)	(6,370)
Other comprehensive loss			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		(40,115)	13
Other comprehensive (loss) profit for the period		(40,115)	13
Total comprehensive loss for the period		(52,737)	(6,357)
Loss attributable to:			
Equity holders of the parent		(12,599)	(6,354)
Non-controlling interests		(23)	(16)
		(12,622)	(6,370)
Total comprehensive loss attributable to:			
Equity holders of the parent		(52,570)	(6,341)
Non-controlling interests		(167)	(16)
		(52,737)	(6,357)
Basic and diluted earnings per share (in US dollars)		(0.25)	(0.12)

The accompanying notes form an integral part of the interim condensed consolidated financial statements
The interim condensed consolidated financial statements were not subject to audit or review

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	44,918	74,197
Intangible assets		230	392
Investment properties	8	27,208	49,511
Property development rights	10	18,055	27,688
		90,411	151,788
Current assets			
Inventories	11	128,074	194,170
Trade and other receivables		16,233	20,513
Prepayments		1,629	19,685
Prepaid income tax		11	19
Taxes recoverable, other than income tax		800	1,435
Cash and cash equivalents		587	2,383
		147,334	238,205
TOTAL ASSETS		237,745	389,993
EQUITY AND LIABILITIES			
Equity			
Share capital		510	510
Share premium		99,191	99,191
Additional paid-in capital		15,450	15,450
Revaluation reserve		64,486	65,313
Accumulated deficit		(20,978)	(10,962)
Translation reserve		(112,022)	(70,295)
Equity attributable to equity holders of the parent		46,637	99,207
Non-controlling interests		276	443
Total equity		46,913	99,650
Non-current liabilities			
Interest-bearing loans and borrowings	12	78,785	116,487
Deferred tax liability		7,022	11,802
		85,807	128,289
Current liabilities			
Trade and other payables		21,789	41,880
Interest-bearing loans and borrowings	12	46,512	58,769
Finance lease liability		2,141	2,280
Advances received		31,309	56,874
Taxes payable, other than income tax		3,202	1,662
Provisions		72	589
		105,025	162,054
TOTAL LIABILITIES		190,832	290,343
TOTAL EQUITY AND LIABILITIES		237,745	389,993

Signed and authorised for release on behalf of TMM Real Estate Development plc on 18 September 2014:

Director Mykola Tolmachov

Director Larysa Chyvurina

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six-month period ended 30 June 2014
(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 interests	Total equity
Balance at 1 January 2013	510	99,191	2,592	64,596	11,602	(70,295)	108,196	494	108,690
Loss for the period	-	-	-	-	(6,354)	-	(6,354)	(16)	(6,370)
Other comprehensive loss	-	-	-	-	-	13	13	-	13
Total comprehensive loss for the period	-	-	-	-	(6,354)	13	(6,341)	(16)	(6,357)
Transfer of revaluation reserve, net of taxes	-	-	-	(1,783)	1,783	-	-	-	-
Balance at 30 June 2013	510	99,191	2,592	62,813	7,031	(70,282)	101,855	478	102,333
Balance at 1 January 2014	510	99,191	15,450	65,313	(10,962)	(70,295)	99,207	443	99,650
Loss for the period	-	-	-	-	(12,599)	-	(12,599)	(23)	(12,622)
Other comprehensive loss	-	-	-	-	1,756	(41,727)	(39,971)	(144)	(40,115)
Total comprehensive loss for the period	-	-	-	-	(10,843)	(41,727)	(52,570)	(167)	(52,737)
Transfer of revaluation reserve, net of taxes	-	-	-	(827)	827	-	-	-	-
Balance at 30 June 2014	510	99,191	15,450	64,486	(20,978)	(112,022)	46,637	276	46,913

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	The six-month period ended 30 June 2014	The six-month period ended 30 June 2013
Operating activities			
Loss before tax		(12,819)	(6,070)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Depreciation and amortisation	5	846	395
Reversal of impairment of trade and other receivables		-	(516)
(Gain) loss on disposal of property, plant and equipment and investment properties	7, 8	(76)	1
Accrual of VAT liability		2,366	
Finance costs		5,288	3,675
Unrealised foreign exchange (gain) / loss		9,932	(221)
Working capital adjustments			
Change in inventories		8,734	(1,564)
Change in trade and other receivables		(2,749)	(514)
Change in prepayments		3,693	5,051
Change in taxes recoverable, other than income tax		198	(545)
Change in trade and other payables and provisions		(7,853)	2,972
Change in advances received		1,853	(4,151)
Change in taxes payable, other than income tax		49	(126)
Interest paid		(3,186)	(3,292)
Net cash flows from / (used in) operating activities		6,276	(4,905)
Investing activities			
Proceeds from sale of property, plant and equipment and investment properties	7, 8	1,712	2
Purchase of property, plant and equipment and investment properties	7	(915)	(179)
Purchase of property development rights		(73)	(94)
Net cash flows from / (used in) investing activities		724	(271)
Financing activities			
Proceeds from loans	12	1,477	7,443
Repayment of loans		(8,925)	(1,997)
Repayment of finance lease liabilities		(742)	(510)
Net cash flows (used in) / from financing activities		(8,190)	4,936
Net decrease in cash and cash equivalents		(1,190)	(240)
Effect of movements in exchange rates on cash and cash equivalents		(606)	-
Cash and cash equivalents as at 1 January		2,383	553
Cash and cash equivalents as at 30 June		587	313

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

1. Background

Corporate information

These interim condensed 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 Volodymyrska street, Kyiv, Ukraine 01001.

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, Kharkiv, Zhytomir and Crimea).

The list of the subsidiaries and associates and the Company's effective ownership interest as at 30 June is disclosed below.

Name	*Principal activities*	*30 June 2014*	*31 December 2013*
Subsidiaries:			
"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 "Ukrcukorteploizolyaciya"	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%
Associates:			
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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

Ukrainian business environment

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 constrains on operations in the Crimea. As at 30 June 2014, the carrying value of the Group's assets located in or otherwise associated with the Crimea is USD 11,131 thousand.

Furthermore, from 1 January 2014 to 18 September 2014, the Ukrainian Hryvnia has devaluated against major foreign currencies by more than 60%, 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 interim condensed consolidated financial statements.

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 as well as strong fluctuations in demand and purchasing power caused by the unstable economic and political situation in Ukraine.

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 2 "Going concern" for further details.

Cyprus business environment

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), for financial support, which resulted in an agreement and the Eurogroup decision of 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through "bail in". During 2013, the Cyprus economy contracted further with a decrease in the Gross Domestic Product.

Following the positive outcome of the first and second quarterly reviews of Cyprus's economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The Group's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group. On the basis of the evaluation performed, the Group's management has concluded that no provisions or impairment charges are necessary.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

2. Basis of preparation and accounting policies

Statement of compliance

These interim condensed consolidated financial statements for the six-month period ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual financial statements as at and for the year ended 31 December 2013.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013, which are available on the corporate web-site of the Group.

Going concern

During the six-month period ended 30 June 2014 the Group reported a net loss of USD 12,622 thousand (six-month period ended 30 June 2013: USD 6,370 thousand). The deterioration in financial results is 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.

During the six-month period ended 30 June 2014 the Group entered into additional agreement with Ukrainian banks extending repayment of UAH credit line current principal in the amount of USD 28,562 thousand from 2014 to 2015-2017. Repayment of interest in the amount of USD 8,393 thousand was rescheduled from 2014 to 2015.

The Group's financial plan for 2014-2015 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 the Group plans the following:

- to sell completed property which is already completed and property under development which may be sold to buyers on a pre-payment basis;
- participate in tenders for rendering of construction services;
- 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 2014-2015.

Functional and presentation currencies

These interim condensed consolidated financial statements are presented in US dollars ("USD") and all values are rounded off to the nearest thousand except when otherwise indicated.

The functional currency of major companies of the Group is the Ukrainian hryvnia ("UAH") as it reflects the economic substance of the underlying events and circumstances of their operations.

In translating the financial statements into USD the Group follows a translation policy in accordance with International Financial Reporting Standard IAS 21 *The Effects of Changes in Foreign Exchange Rates* and the following procedures are performed:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

- Historical rates: for the equity accounts except for net profit or loss for the year
- Year-end rate: for all assets and liabilities
- Rates at the dates of the transactions: for the statement of profit or loss and other comprehensive income and for capital transactions.

UAH is not a freely convertible currency outside Ukraine, and, accordingly, any conversion of UAH amounts into USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

The principal exchange rate used in the preparation of these interim condensed consolidated financial statements is UAH 11.82 to USD 1.00 (31 December 2013: UAH 7.99 to USD 1.00). Average USD exchange rate for the six-month period ended 30 June 2014 is UAH 10.18 to USD 1.00 (30 June 2013: UAH 7.99 to USD 1.00).

Judgements and estimates

Preparing the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Significant accounting policies

Except as described below, the accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2013. The following changes in the accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2014.

IFRS 10 *Consolidated Financial Statements* introduced a single control model to determine whether an investee should be consolidated. As a result, the Group did not change its consolidation conclusion in respect of its investees and there were no changes in the current accounting for these investees.

IFRS 12 *Disclosure of Interests in Other Entities* brought together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of IFRS 12 did not have significant impact on these interim condensed consolidated financial statements.

A number of new Standards, amendments to Standards and Interpretations are not yet effective for the six-month period ended 30 June 2014, and have not been applied in preparing these interim condensed consolidated financial statements. Management plans to adopt these pronouncements when they become effective, and has not yet analysed the likely impact of these new standards on its consolidated financial statements.

3. Seasonality of operations

The Group's business is not materially exposed to the seasonal fluctuations.

4. Revenue

Revenue for the six-month period ended 30 June comprised:

	2014	*2013*
Sales of completed inventory property	11,483	10,259
Construction services revenue	5,831	1,626
Utility services income	2,267	2,404
Rental income from investment properties	1,071	1,360
Other services	1,303	411
	21,955	16,060

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

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

5. 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 and selling and distribution expenses.

For the six-month period ended 30 June the Group's segmental information was as follows:

2014	*Investment property*	*Property development*	*Other non-reportable*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue						
External customers	1,071	17,314	3,844	22,229	(274)	21,955
Inter-segment	-	-	(179)	(179)	179	-
Total revenue	1,071	17,314	3,665	22,050	(95)	21,955
Results						
Depreciation and amortisation	-	(846)	-	(846)	-	(846)
Selling and distribution expenses	(46)	(339)	-	(385)	-	(385)
Segment results (including cost of sales)	1,025	847	574	2,446	(95)	2,351

2013	*Investment property*	*Property development*	*Other non-reportable*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue						
External customers	1,360	10,259	4,157	15,776	284	16,060
Inter-segment	-	-	1,349	1,349	(1,349)	-
Total revenue	1,360	10,259	5,506	17,125	(1,065)	16,060
Results						
Depreciation and amortisation	-	(395)	-	(395)	-	(395)
Selling and distribution expenses	(49)	(364)	-	(413)	-	(413)
Segment results (including cost of sales)	1,311	(431)	(725)	155	(1,065)	(910)

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

Inter-segment revenues are eliminated on consolidation.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

5. Operating segment information *(continued)*

Reconciliation of profit

	The six-month period ended 30 June 2014	*The six-month period ended 30 June 2013*
Segment results	2,446	155
General and administrative expenses	(1,551)	(1,590)
Other operating expenses	(442)	(1,195)
Other operating income	437	1,038
Finance costs	(5,288)	(3,675)
Foreign exchange gain	(8,326)	262
Inter-segment sales (eliminations)	(95)	(1,065)
Consolidated loss before tax	(12,819)	(6,070)

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

6. Income tax

The major components of income tax (benefit) expense for the six-month period ended 30 June are:

Profit or loss

	2014	*2013*
Current income tax charge	-	-
Deferred tax relating to reversal and origination of temporary differences	(197)	300
Income tax (benefit) expense reported in profit or loss	(197)	300

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

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus).

The most of the Group's operations are performed in Ukraine. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual.

According to the Tax Code, introduced in Ukraine in December 2010, the income tax rates will decrease gradually from 21.0% in 2012 to 16.0% in 2016. 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. As at 30 June 2014, income tax rate in Ukraine is 18.0% (30 June 2013: 19.0%)

During the six-month period ended 31 June 2014 and 2013 Cyprus income tax rate was 12.5%.

7. Property, plant and equipment

During the six-month period ended 30 June 2014, the Group purchased property and equipment with a cost of USD 915 thousand (six-month period ended 30 June 2013: USD 179 thousand).

Property and equipment with a carrying amount of USD 162 thousand were disposed during six-month period ended 30 June 2014, resulting in a gain on disposal of USD 60 thousand (six-month period ended 30 June 2012: USD 3 thousand and loss of USD 1 thousand, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

8. Investment properties

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

During six-month period ended 30 June 2014 and 2013, the Group did not purchase investment properties. During six-month period ended 30 June 2014, investment properties with a carrying amount of USD 1,474 thousand were disposed, resulting in a gain on disposal of USD 16 thousand (six-month period ended 30 June 2013: nil).

During six-month period ended 30 June 2013, properties with a carrying value of USD 1,222 thousand were transferred from inventory to investment properties (six-month period ended 30 June 2014: nil).

Investment properties with a carrying value of USD 6,711 thousand were exchanged for financial assets available-for-sale during six-month period ended 30 June 2013 (six-month period ended 30 June 2014: nil).

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. Fair value was determined by reference to market based evidence, which is based on active market quotes, adjusted for any difference in the nature, location or condition of the specific property.

The Group did not obtain an updated appraisal report for the investment property as at 30 June 2014, because management believes that no significant changes took place on the real estate market since the date of the latest valuation and that the fair value of investment property did not fluctuate significantly.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

9. Property development rights

Property development rights were as follows (by projects):

Name of the project	*Location of the project*	*Type of the project*	*30 June 2014*	*31 December 2013*
Lisya bukhta	Crimea	Resort	3,576	5,272
Arabatska strilka	Kherson	Resort	2,801	4,125
Satellite Town	Kyiv	Residential	2,653	3,924
Parkove	Yalta	Resort	1,449	2,144
Tankova	Kyiv	Residential	1,157	1,704
Moskovskyj	Kharkiv	Residential	1,562	1,366
Bereznevyj	Kyiv	Residential	1,003	1,195
Pivdenny	Kyiv	Residential	672	988
Uborevicha	Kyiv	Commercial	406	594
Korchagintsiv	Kharkiv	Residential	999	453
Tisa	Carpathians	Resort	214	316
Dytyachoi Komuny	Zhytomyr	Residential	202	290
Parkova Chernomorsk	Crimea	Resort	177	262
Lubyanka	Kyiv	Land plots	101	150
Palladium Centre	Kyiv	Commercial	-	-
Other	Kyiv, Kharkiv	Various	1,083	4,905
			18,055	27,688

10. Inventories

There were no inventory write-downs recognised during the six-month period ended 30 June 2014 and 2013.

11. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings were as follows:

	30 June 2014	*31 December 2013*
Current		
Bank loans	45,058	57,081
Supplier credits	1,454	1,688
	46,512	58,769
Non-current		
Bank loans	78,785	116,487
	78,785	116,487
	125,297	175,256

During six-month period ended 30 June 2013, the Group obtained additional debt financing within the limits of the credit line provided by a Ukrainian bank amounting to USD 1,477 thousand (six-month period ended 30 June 2013: USD 7,443 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
as at and for the six-month period ended 30 June 2014
(in thousands of US dollars, unless otherwise indicated)

12. Related party disclosure

The Group's transactions with its related parties for the six-month period ended 30 June were as follows:

	Revenue	*Other operating income*	*Purchases*	*Other operating expenses*
2014				
Entities under common control	100	5	616	2
	100	5	616	2
2013				
Associate	37	-	2,413	-
Entities under common control	112	7	188	4
	148	7	2,601	4

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

	Trade and other receivables	*Prepayments*	*Trade and other payables*	*Advances received*
30 June 2014				
Entities under common control	1,372	-	155	67
	1,372	-	155	67
31 December 2013				
Entities under common control	2,667	196	388	6
	2,667	196	388	6

Terms and conditions of transactions with related parties

Outstanding balances at the period-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. As at and for the six-month period ended 30 June 2014 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period 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 five top executives of the Group.

During six-month period ended 30 June 2014 the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 146 thousand and USD 22 thousand, respectively, and were included in general and administrative expenses (30 June 2013: USD 284 thousand and USD 27 thousand, respectively).

13. Contingencies and commitments

Tax environment

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 30 June 2014 the Group's management estimated that maximum cumulated tax exposure amounted to USD 1,914 thousand (31 December 2013: USD 2,830 thousand).

(in thousands of US dollars, unless otherwise indicated)

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.

Tax contingency

One of the Group's companies was under tax audit in 2014 performed by the Ukrainian tax authorities, covering the period from 1 October 2012 till 31 December 2013. As a result of this audit, a penalty of USD 16,847 thousand was issued against the company by the tax authorities. The Group strongly disagrees with the result of tax audit; it has issued an objection act and made respective public statements regarding the matter. The Group's management assessed the risk associated with this tax matter as remote, and no provision is recognised in respect of this tax matter as at 30 June 2014 in these interim condensed consolidated financial statements for the following reasons:

- confidence of the Company in its full compliance with the existing tax legislation and correct reflection of operations in the accounts
- presence of court rulings in favour of other Ukrainian companies which had identical penalties issued against them and took the issue to court
- the Company's objection still being under consideration by the tax authority and suspension of the further decision on the penalty by the tax authority itself till October 2014.

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. During six-month period ended 30 June 2014 investment property was disposed resulting in the end of lease contract.

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

	30 June 2014	*31 December 2013*
Within one year	-	1,375
After one year but not more than five years	-	6,875
More than five years	-	859
	-	9,109

14. Financial risk management objectives and policies

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013.

Management believes that for all the financial assets and liabilities the carrying value is estimated to approximate the fair value as at 30 June 2014 and 31 December 2013. Such fair value was estimated by discounting the expected future cash flows under the market interest rate for similar financial instruments that prevail as at the reporting date.