TMM Real Estate Development plc
Consolidated Financial Statements

As at 31 December 2014 and
for the year then ended
with Independent Auditors' Report

CONTENT

BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

BOARD OF DIRECTORS

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

SECRETARY

Inter Jura CY (Services) Limited

INDEPENDENT AUDITORS

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
Jean Nouvel Tower
6 Stasinos Ave
1060 Nicosia
Cyprus

BANKERS

Bank of Cyprus Public Company Ltd
VP Bank 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 2014.

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 risks are appropriate to reduce 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 under the present circumstances; (ii) the Board of Directors does not expect major changes in the principal activities of the Group in the short term.

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. 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 2014 the Company did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2014 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

Date: 30 June 2015

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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 statement of financial position as at 31 December 2014, 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 2014, 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.

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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 21,535 thousand during the year ended 31 December 2014 (2013: USD 20,697 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 current political and economic situation in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the Group's financial position and performance 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

30 June 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	*2014*	*2013*
Continuing operations			
Revenue	8	32,608	45,114
Cost of revenue	9	(29,958)	(42,725)
Gross profit		2,650	2,389
Change in fair value of investment properties	19	17,325	2,469
Other operating income	10	549	1,069
General and administrative expenses	11	(2,634)	(3,979)
Selling and distribution expenses	12	(511)	(718)
Other operating expenses	13	(16,658)	(5,967)
Operating profit / (loss)		721	(4,737)
Finance costs	14	(6,957)	(12,194)
Foreign exchange loss, net	15	(10,862)	(1,126)
Loss before tax from continuing operations		(17,098)	(18,057)
Income tax (expense) / benefit	17	(4,437)	2,377
Loss for the year from continuing operations		(21,535)	(15,680)
Discontinued operations			
Loss after tax for the year from discontinued operations	20	-	(5,017)
Loss for the year		(21,535)	(20,697)
Other comprehensive (loss) / income			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation to presentation currency		(39,667)	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings	18	17,617	1,346
Income tax effect of revaluation	17	(3,171)	(256)
		14,446	1,090
Other comprehensive (loss) / income for the year, net of tax		(25,221)	1,090
Total comprehensive loss for the year, net of tax		(46,756)	(19,607)
Loss attributable to:			
Equity holders of the parent		(21,460)	(20,619)
Non-controlling interest		(75)	(78)
		(21,535)	(20,697)
Total comprehensive loss attributable to:			
Equity holders of the parent		(46,844)	(19,556)
Non-controlling interest		88	(51)
		(46,756)	(19,607)
Weighted average basic and diluted number of shares (in thousands of shares)	27	51,084	51,084
Basic and diluted earnings per share (in US dollars)		(0.42)	(0.41)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	*31 December 2014*	*31 December 2013*
ASSETS			
Non-current assets			
Property, plant and equipment	18	50,848	74,197
Intangible assets		148	392
Investment properties	19	37,210	49,511
Property development rights	21	11,238	27,688
		99,444	151,788
Current assets			
Inventories	22	93,842	194,170
Trade and other receivables	23	18,279	20,513
Prepayments	24	9,079	19,685
Prepaid income tax	17	-	19
Taxes recoverable, other than income tax	25	161	1,435
Cash and cash equivalents	26	211	2,383
		121,572	238,205
TOTAL ASSETS		221,016	389,993
EQUITY AND LIABILITIES			
Equity			
Share capital	27	510	510
Share premium	27	99,191	99,191
Additional paid-in capital	27	15,450	15,450
Revaluation reserve	27	79,469	65,313
Accumulated deficit		(32,119)	(10,962)
Translation reserve	27	(109,962)	(70,295)
Equity attributable to equity holders of the parent		52,539	99,207
Non-controlling interests		531	443
Total equity		53,070	99,650
Non-current liabilities			
Interest-bearing loans and borrowings	28	41,898	116,487
Deferred tax liability	17	11,681	11,802
		53,579	128,289
Current liabilities			
Trade and other payables	29	20,189	41,880
Interest-bearing loans and borrowings	28	49,901	58,769
Finance lease liability	34	492	2,280
Advances received	30	35,695	56,874
Income tax payable		262	-
Taxes payable, other than income tax	31	3,270	1,662
Provisions	32	4,558	589
		114,367	162,054
TOTAL LIABILITIES		167,946	290,343
TOTAL EQUITY AND LIABILITIES		221,016	389,993

Signed and authorised for release on behalf of TMM Real Estate Development plc on 30 June 2015:

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 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*	*Accumula-ted deficit*	*Translation reserve*	*Total*	*Non-controlling interest*	*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 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
Balance at 31 December 2013	510	99,191	15,450	65,313	(10,962)	(70,295)	99,207	443	99,650
Loss for the year	-	-	-	-	(21,460)	-	(21,460)	(75)	(21,535)
Other comprehensive income / (loss)	-	-	-	14,283	-	(39,667)	(25,384)	163	(25,221)
Total comprehensive loss for the year	-	-	-	14,283	(21,460)	(39,667)	(46,844)	88	(46,756)
Transfer of revaluation reserve, net of taxes	-	-	-	(127)	127	-	-	-	-
Liquidation of an associate (Note 1)	-	-	-	-	176	-	176	-	176
Balance at 31 December 2014	510	99,191	15,450	79,469	(32,119)	(109,962)	52,539	531	53,070

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

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

	Notes	*2014*	*2013*
Operating activities			
Loss before tax from continuing operations		(17,098)	(18,057)
Loss before tax from discontinued operations		-	(5,017)
Loss before tax		(17,098)	(23,074)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Revaluation of investment properties	19	(17,325)	(2,469)
Depreciation	9, 11	765	1,746
Impairment of property, plant and equipment	13	466	-
Gain on revaluation of freehold buildings reported in profit or loss	10, 18	-	(40)
Impairment of property development rights	13	6,408	3,201
(Gain) / loss on disposal of property, plant and equipment and investment properties	13	(58)	398
Gain on extinguishment of liabilities	10	(83)	(202)
Movements in provisions	13	5,636	(564)
Finance costs	14	6,957	12,194
Unrealised foreign exchange loss		18,660	1,377
		4,328	(7,433)
Working capital adjustments			
Change in inventories		13,170	(7,700)
Change in trade and other receivables		(9,467)	4,764
Change in prepayments		(2,164)	(26,406)
Change in taxes recoverable, other than income tax		(13)	(264)
Change in trade and other payables and provisions		(402)	23,791
Change in advances received		9,593	18,509
Change in taxes payable, other than income tax		2,568	193
		17,613	5,454
Interest paid		(6,212)	(7,475)
Income taxes paid		-	(8)
Net cash flows from / (used in) operating activities		11,401	(2,029)
Investing activities			
Proceeds from sale of property, plant and equipment and investment properties		1,447	1,314
Purchase of property, plant and equipment and investment properties		(1,038)	(320)
Purchase of intangible assets		-	(42)
Purchase of property development rights		-	(180)
Net cash flows from investing activities		409	772
Financing activities			
Proceeds from loans		4,233	15,711
Repayment of loans		(16,751)	(11,459)
Repayment of finance lease liabilities		(618)	(1,165)
Net cash flows (used in) / from financing activities		(13,136)	3,087
Net (decrease) / increase in cash and cash equivalents		(1,326)	1,830
Effect of foreign exchange on cash and cash equivalents		(846)	-
Cash and cash equivalents at 1 January		2,383	553
Cash and cash equivalents at 31 December		211	2,383

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014
(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 Vladimirskaya 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 regions).

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

Name	*Principal activities*	*2014*	*2013*
Subsidiaries:			
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 "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%

Seventeen subsidiaries are incorporated in Ukraine. LLC "Tavrida-Plaza", following the accession of Crimea to the Russian Federation, was legally restructured under the legislation of Russian Federation.

In 2014, the Group's associate, LLC "Ukr-bud-service", was liquidated.

The Group is ultimately controlled by Mr. Mykola Tolmachov.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine

The Group conducts its operations 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, high inflation, and significant imbalances in the public finance and foreign trade.

In 2014, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions has led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2014 and up to the date of the issuance of these consolidated financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 177% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. Specific effects of the secession of Crimea and the ongoing conflict in the eastern regions of the country are disclosed below in this note.

Following the accession of Crimea to the Russian Federation, the Group completed a legal restructuring of the majority of its operations and ceased some of its operations in the region. The operations in Crimea have contributed approximately 1% to the Group's total revenues for 2014 (approximately 1% in 2013). The carrying value of the assets located in Crimea as at 31 December 2014 is USD 8,675 thousand (approximately 3.9% of total assets).

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate. Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance 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 and increased in 2014 in UAH terms due to the depreciation of UAH against US Dollar, however, it is not expected that a significant improvement in market conditions will emerge in the foreseeable future given the deterioration of Ukrainian political and economic situation in 2014 and thereafter, the lack of availability of mortgage and development financing 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 2014
(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 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 is classified accordingly.

Interest-bearing loans and borrowings and finance lease liabilities 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 2014 the Group reported a net loss of USD 21,535 thousand (2013: USD 20,697 thousand). The negative financial results are mainly caused by depreciation of UAH against major foreign currencies (Note 2) and weakened demand for residential and commercial property in Ukraine. The decline in market liquidity and consumption power 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 49,901 thousand of interest-bearing loans and borrowings which fall due in 2015. The Group commenced negotiations with its largest lender seeking to extend repayment of debt due in 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 2015 anticipates growth in cash inflows from property sales and construction services as compared to 2014. To achieve the increase in positive cash inflow from its operations in 2015 the Group plans the following:

- to sell completed property with a cost of USD 60,125 thousand which is already completed and property under development which is expected to cost USD 25,998 thousand and may be sold to buyers on a pre-payment basis;
- extend repayment of the principal and interest due to the largest lender in 2015 of USD 45,000 thousand to 2016-2018;
- 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 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

3. Basis of preparation *(continued)*

Going concern *(continued)*

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

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 Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of financial position and the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

4. Changes in accounting policy and disclosures

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2014, as follows:

- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Involvement with Other Entities
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

This adoption did not have a material effect on the accounting policies of the Group.

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.

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

Classification of property

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

- Investment property comprises buildings (principally offices, commercial warehouses 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 for 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.

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 and investment properties is determined by independent real estate valuation experts. Freehold buildings and investment properties are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. Besides, in arriving at their estimates of market values as at 31 December 2014, the valuers have also used their market knowledge and professional judgement. Valuation of freehold buildings and investment properties is within level 2 of the fair value hierarchy.

Weak liquidity and the poor conditions prevailing in the Ukrainian property market (Note 2) may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2014. 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.

Impairment of non-current assets

As of 31 December 2014 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.

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

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 the management. As a result, tax authorities may challenge transactions and the Group's entities may be levied 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 2014 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.

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-related 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, any previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in 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.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation of and the portion of the CGU retained.

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

Functional and presentation currencies

The Group's presentation currency is the US dollar ("USD"). The functional currency of the Company's Ukrainian subsidiaries is UAH.

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 2014 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.

A fair value measurement of a non-financial assets 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:

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

- 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 2014.

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.

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.

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

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.

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.

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

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 the 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.

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.

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

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 is 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.

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.

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

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 the start 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.

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 being 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.

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6. Summary of significant accounting policies (continued)

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.

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.

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.

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

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.

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.

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

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.

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.

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

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.

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 consolidated financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

Issued by the IASB and adopted by the European Union

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011 -2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property
- Meaning of effective IFRSs – Amendments to IFRS 1

Issued by the IASB but not yet adopted by the European Union

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Issued by the IASB but not yet adopted by the European Union (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Company currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Issued by the IASB but not yet adopted by the European Union (continued)

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures – servicing contracts
- IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements
- IAS 19 Employee Benefits – regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Revenue

Revenue comprised:

	2014	*2013*
Sales of completed inventory property	18,619	28,406
Construction services revenue	7,969	7,626
Utility services income	3,209	4,267
Rental income from investment properties	1,761	2,940
Other services	1,050	1,875
	32,608	45,114

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:

	2014	*2013*
Cost of completed inventory property sold	16,669	26,419
Other construction services cost	7,533	7,101
Utility services cost	4,066	6,135
Other services	1,690	3,070
	29,958	42,725

Borrowing costs included in cost of completed inventory property sold for the year ended 31 December 2014 amounted to USD 4,396 thousand (2013: USD 7,120 thousand).

Wages and salaries and social security taxes included in cost of revenue for year ended 31 December 2014 amounted to USD 1,965 thousand and USD 715 thousand, respectively (2013: USD 2,727 thousand and USD 992 thousand, respectively).

Depreciation included in cost of revenue for the year ended 31 December 2014 amounted to USD 652 thousand (2013: USD 1,173 thousand).

10. Other operating income

Other operating income comprised:

	2014	*2013*
Gain on sale of miscellaneous goods and services	174	113
Gain on extinguishment of liabilities	83	202
Gain on disposal of property, plant and equipment and investment properties, net	58	-
Gain on reversal of provisions (Note 32)	-	689
Gain on revaluation of freehold buildings (Note 18)	-	40
Other	234	25
	549	1,069

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11. General and administrative expenses

General and administrative expenses comprised:

	2014	*2013*
Wages and salaries	1,081	1,760
Professional services	471	317
Social security taxes	300	568
Bank charges	117	154
Depreciation and amortization	113	573
Taxes, other than income tax	106	140
Insurance	70	108
Communication costs	63	94
Materials	55	120
Auditor's remuneration in relation to statutory audit	14	71
Other	244	74
	2,634	3,979

12. Selling and distribution expenses

Selling and distribution expenses comprised:

	2014	*2013*
Advertising	290	395
Wages and salaries	130	167
Social security taxes	41	64
Other	50	92
	511	718

13. Other operating expenses

Other operating expenses comprised:

	2014	*2013*
Impairment of property development rights (Note 21)	6,408	3,201
Change in provisions (Note 32)	5,636	125
Change in allowance for doubtful debts and impairment of prepayments (Note 23 and 24)	1,221	1,235
Inventory write-down to net realisable value (Note 22)	1,360	450
Post-construction costs on sold inventory property	1,049	352
Impairment of property, plant and equipment (Note 18)	466	-
Loss on disposal of property, plant and equipment and investment properties, net	-	398
Other	518	206
	16,658	5,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. Finance costs

Finance costs comprised:

	2014	*2013*
Interest costs	6,957	11,785
Finance lease charges	-	409
	6,957	12,194

15. Foreign exchange loss, net

Foreign exchange loss, net comprised:

	2014	*2013*
Foreign exchange loss on loans and borrowings and finance lease	(10,837)	(1,093)
Foreign exchange loss on cash and currency purchase / sale	(13)	(52)
Foreign exchange (loss) / gain on trade payables	(12)	19
	(10,862)	(1,126)

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.
- Utility services and other operations segment – provides utility services to tenants.

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 2014	*Investment property*	*Property development and construction*	*Utility services and other*	*Total segments*	*Adjustments and eliminations*	*Consolidated*
Revenue						
External customers	1,761	26,588	4,284	32,633	(25)	32,608
Inter-segment	-	-	95	95	(95)	-
Total revenue	1,761	26,588	4,379	32,728	(120)	32,608
Results						
Depreciation	-	(765)	-	(765)	-	(765)
Change in fair value of investment properties	17,325	-	-	17,325	-	17,325
Selling and distribution expenses	(50)	(461)	-	(511)	-	(511)
Segment results	19,036	1,925	(1,402)	19,559	(36,657)	(17,098)
Segment assets	37,210	121,012	434	158,656	62,360	221,016
Segment liabilities	-	44,284	610	44,894	123,052	167,946
Other disclosures						
Capital expenditure	-	81	-	81	957	1,038
As at 31 December 2013						
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

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

	2014	*2013*
Segment results	19,559	800
General and administrative expenses	(2,634)	(3,979)
Other operating expenses	(16,658)	(5,967)
Other operating income	549	1,069
Finance costs	(6,957)	(12,194)
Foreign exchange loss, net	(10,862)	(1,126)
Inter-segment eliminations	(95)	(1,677)
Consolidated loss before tax	(17,098)	(23,074)

Reconciliation of assets

	31 December 2014	*31 December 2013*
Segment assets	158,656	308,263
Property, plant and equipment	43,933	60,806
Trade and other receivables	18,279	20,513
Intangible assets	148	392
Prepaid income tax	-	19
Consolidated assets	221,016	389,993

Reconciliation of liabilities

	31 December 2014	*31 December 2013*
Segment liabilities	44,894	77,623
Interest bearing loans and borrowings	91,799	175,256
Deferred tax liability	11,681	11,802
Finance lease liability	492	2,280
Provisions	4,558	589
Other payables	10,990	21,131
Income tax payable	262	-
Taxes payable, other than income tax	3,270	1,662
Consolidated liabilities	167,946	290,343

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

	2014	*2013*
Current income tax charge	324	11
Deferred tax relating to reversal and origination of temporary differences	4,113	(2,388)
Income tax expense / (benefit) reported in profit or loss	4,437	(2,377)

Other comprehensive income

	2014	*2013*
Deferred tax related to items charged or credited directly to other comprehensive income during the year:		
Gain on revaluation of freehold buildings	3,171	256
Income tax expense charged directly to other comprehensive income	3,171	256

A reconciliation between the income tax expense / (benefit) reported in the consolidated financial statements and the loss before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2014 and 2013 is as follows:

	2014	*2013*
Accounting loss before tax from continuing operations	(17,098)	(18,057)
Accounting loss before tax from discontinued operations	-	(5,017)
Accounting loss before tax	**(17,098)**	**(23,074)**
At the Company's statutory income tax rate of 12.5%	(2,137)	(2,884)
Effect of the change in income tax rate	3,551	870
Tax effect of expenses non-deductible in determining taxable profits	3,964	1,137
Effect of higher tax rates in Ukraine	(941)	(1,500)
Income tax expense / (benefit) reported in profit or loss	4,437	(2,377)

The Group is subject to taxation in two tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2014 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2013: 19%). The tax rate in Cyprus is 12.5% (2013: 12.5%).

Effect of the change in income tax rate is mainly attributable to the change of the income tax rate, from 16% to 18%, applied in Ukraine to long-term temporary differences arising on property, plant and equipment and investment properties.

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17. Income tax *(continued)*

Deferred tax assets and liabilities relate to the following items in 2014:

	31 December 2014	*Charged to profit or loss*	*Charged to other compre-hensive income*	*Foreign currency translation*	*31 December 2013*
Tax effect of taxable temporary differences:					
Property, plant and equipment and investment properties (i)	(12,804)	(5,941)	(3,171)	7,628	(11,320)
Inventories (ii)	(756)	3,411	-	2,385	(6,552)
Gross deferred tax liabilities	(13,560)	(2,530)	(3,171)	10,013	(17,872)
Less: Offsetting with deferred tax assets	1,879				6,070
Recognised deferred tax liabilities	(11,681)				(11,802)
Tax effect of deductible temporary differences:					
Prepayments received (iii)	318	(263)	-	(452)	1,033
Prepayments made (iii)	58	-	-	(57)	115
Investments (iv)	-	(152)	-	(73)	225
Inventories (ii)	598	(421)	-	(785)	1,804
Trade and other receivables (vi)	267	56	-	(232)	443
Interest-bearing loans and borrowings (v)	-	(1,036)	-	(501)	1,537
Property, plant and equipment and investment properties (i)	323	84	-	(274)	513
Trade and other payables (vii)	315	149	-	(234)	400
	1,879	(1,583)	-	(2,608)	6,070
Less: Offsetting with deferred tax liabilities	(1,879)				(6,070)
Net deferred tax liability	(11,681)	(4,113)	(3,171)	7,405	(11,802)

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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*
Tax effect of taxable temporary differences:				
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	(17,872)	3,010	(256)	(20,626)
Less: Offsetting with deferred tax assets	6,070			6,692
Recognised deferred tax liabilities	(11,802)			(13,934)
Tax effect of deductible temporary differences:				
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
	6,070	(622)	-	6,692
Less: Offsetting with deferred tax liabilities	(6,070)			(6,692)
Net deferred tax liability	(11,802)	2,388	(256)	(13,934)

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.

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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*
Cost or fair value:								
At 31 December 2013	8,095	47,753	5,972	6,043	2,234	1,967	12,590	84,654
Additions	-	-	52	29	-	18	939	1,038
Disposals	-	-	(257)	(41)	(24)	(11)	(3)	(336)
Transfers to inventories	-	-	-	-	-	-	(421)	(421)
Other transfers	-	334	19	787	-	31	(1,171)	-
Revaluations	-	17,296	-	-	-	-	-	17,296
Translation difference	(3,992)	(27,411)	(2,898)	(3,174)	(1,095)	(980)	(6,022)	(45,572)
At 31 December 2014	4,103	37,972	2,888	3,644	1,115	1,025	5,912	56,659
Accumulated depreciation:								
At 31 December 2013	-	-	(2,269)	(4,450)	(1,947)	(1,791)	-	(10,457)
Depreciation charge for the year	-	(649)	(188)	(351)	(169)	(48)	-	(1,405)
Disposals	-	-	116	36	23	11	-	186
Revaluations	-	321	-	-	-	-	-	321
Impairment charge	-	(400)	-	-	-	-	(66)	(466)
Translation difference	-	719	1,137	2,249	996	893	16	6,010
At 31 December 2014	-	(9)	(1,204)	(2,516)	(1,097)	(935)	(50)	(5,811)
Net book value								
At 31 December 2013	8,095	47,753	3,703	1,593	287	176	12,590	74,197
At 31 December 2014	4,103	37,963	1,684	1,128	18	90	5,862	50,848

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

	Freehold land	*Freehold buildings*	*Heavy construction equipment*	*Production, construction and research equipment*	*Vehicles*	*Office and computer equipment*	*Construction in progress*	*Total*
Cost or fair value:								
At 31 December 2012	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
At 31 December 2013	8,095	47,753	5,972	6,043	2,234	1,967	12,590	84,654
Accumulated depreciation:								
At 31 December 2012	-	-	(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
At 31 December 2013	-	-	(2,269)	(4,450)	(1,947)	(1,791)	-	(10,457)
Net book value								
At 31 December 2012	8,095	47,281	4,002	1,786	577	167	13,697	75,605
At 31 December 2013	8,095	47,753	3,703	1,593	287	176	12,590	74,197

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

As at 31 December 2014 and 2013 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 2014 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 2014 and 2013 was as follows:

	2014	*2013*
Inventories	1,292	1,685
General and administrative expenses	113	573
Total depreciation charge	1,405	2,258

Finance leases

The carrying value of heavy construction equipment held under finance leases at 31 December 2014 was USD 377 thousand (31 December 2013: USD 1,007 thousand). Leased assets under finance lease contracts are pledged as security for the related finance lease liabilities.

Pledged assets

As at 31 December 2014 freehold land and buildings with a carrying value of USD 30,229 thousand (31 December 2013: USD 38,156 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

Fully depreciated assets

Included in property, plant and equipment as at 31 December 2014 are equipment recorded at a cost of USD 3,825 thousand (31 December 2013: USD 5,675 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. Freehold buildings were valued using the market comparable approach. Under the market comparable approach, a property's fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sqm). The weighted average price per sqm applied for valuation of office and residential buildings and parkings was USD 2,250; for valuation of workshops – USD 450.

Net revaluation result for the year ended 31 December 2014 was gain of USD 17,617 thousand which was recognised in other comprehensive income.

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.

If freehold buildings were measured using the cost model, the carrying amounts of freehold buildings would be USD 23,661 thousand as at 31 December 2014 (2013: USD 46,367 thousand).

In 2014, the Group recognised impairment charge in respect of a certain workshop building and related construction in progress in the total amount of USD 466 thousand.

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19. Investment properties

	2014	*2013*
At 1 January	49,511	53,022
Transfers from inventories	-	1,244
Investment property transferred as consideration for the acquired subsidiary (Note 20)	-	(6,711)
Disposals	(1,239)	(513)
Change in fair value of investment properties	17,325	2,469
Translation difference	(28,387)	-
At 31 December	37,210	49,511

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 2014 and 2013. 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. The unit of comparison applied by the Group is the price per square metre (sqm). The weighted average price per sqm applied for valuation of investment properties was USD 2,670.

As at 31 December 2014 investment properties with a carrying value of USD 27,591 thousand (31 December 2013: USD 38,658 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

20. Acquisition and disposal 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.

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).

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):

Name of the project	*Location of the project*	*Type of the project*	*31 December 2014*	*31 December 2013*
Arabatska strilka	Kherson	Resort	2,109	4,125
Satellite Town	Kyiv	Residential	1,989	3,924
Moskovskyj	Kharkiv	Residential	1,469	1,366
Parkove	Yalta	Resort	1,087	2,144
Bereznevyj	Kyiv	Residential	631	1,195
Uborevicha	Kyiv	Commercial	305	594
Korchagintsiv	Kharkiv	Residential	270	453
Tisa	Carpathians	Resort	160	316
Dytyachoi Komuny	Zhytomyr	Residential	157	290
Lubyanka	Kyiv	Land plots	76	150
Lisya bukhta	Crimea	Resort	-	5,272
Tankova	Kyiv	Residential	-	1,704
Pivdenny	Kyiv	Residential	-	988
Parkova Chernomorsk	Crimea	Resort	-	262
Other	Kyiv, Kharkiv	Various	2,985	4,905
			11,238	27,688

In 2014, the impairment loss of USD 6,408 thousand (2013: USD 3,201 thousand) represented the write off of several property development rights, mainly located in Crimea, as a result of losing by the Group of the control over them. In 2014, property development rights of USD 1,704 thousand were transferred to inventories.

22. Inventories

Inventories consisted of the following:

	31 December 2014	*31 December 2013*
Completed inventory property	60,125	87,157
Inventory property under development	25,998	78,385
Raw materials	6,815	21,252
Goods for resale	471	6,554
Other inventories	433	822
	93,842	194,170

The amount of write-down of inventories recognised as other operating expenses in 2014 is USD 1,360 thousand (2013: USD 450 thousand) (Note 13).

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

Name of the project	*Location of the project*	*Type of the project*	*31 December 2014*	*31 December 2013*
Sonyachna brama	Kyiv	Mainly residential	15,769	55,245
Laborotornyj provulok	Kyiv	Residential	6,855	8,152
Green Town	Kharkiv	Residential	43	7,060
Other	Various	Residential	3,331	7,928
			25,998	78,385

As at 31 December 2014 inventory property under development with a carrying value of USD 2,241 thousand (31 December 2013: USD 26,237 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

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22. Inventories *(continued)*

During 2014 borrowing costs of USD 4,396 thousand (2013: USD 8,496 thousand) were capitalised into inventory property under development. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 10% (2013: 10%).

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

Name of the project	*Location of the project*	*Type of the project*	*31 December 2014*	*31 December 2013*
Sonyachna brama	Kyiv	Residential	44,253	59,716
Ultra	Kharkiv	Residential	5,872	13,757
Green Town	Kharkiv	Residential	4,569	5,087
Kaskad	Kharkiv	Residential	1,458	2,876
Edelweiss	Kharkiv	Residential	940	1,855
Triumph	Kyiv	Residential	679	1,423
Aviator	Kyiv	Residential	627	363
Karat	Kharkiv	Residential	531	1,219
Flamingo	Kharkiv	Residential	199	611
Chaadaeva 2	Kyiv	Residential	109	216
Atoll	Kharkiv	Residential	6	27
Other	Various	Various	882	7
			60,125	87,157

As at 31 December 2014 completed inventory property with a carrying value of USD 44,005 thousand (31 December 2013: USD 68,273 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

23. Trade and other receivables

Trade and other receivables consisted of the following:

	31 December 2014	*31 December 2013*
Receivables for shares of subsidiary (Note 20)	10,000	10,000
Trade receivables	7,475	8,204
Notes receivable	390	770
Other	2,509	7,522
	20,374	26,496
Less: Allowance for impairment	(2,095)	(5,983)
	18,279	20,513

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

As at 31 December 2014 trade receivables and notes receivable at initial value of USD 1,705 thousand and USD 390 thousand, respectively, (31 December 2013: USD 5,214 thousand and USD 769 thousand) were impaired and fully provided for.

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

	2014	*2013*
At 1 January	5,983	4,397
Charge for the year	434	1,980
Unused amounts reversed	(231)	(382)
Utilised	(1,412)	(12)
Translation difference	(2,679)	-
At 31 December	2,095	5,983

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23. Trade and other receivables *(continued)*

As at 31 December the ageing analysis of trade and other receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	61-90 days	91-120 days	>120 days
2014	18,279	12,532	409	572	2,112	891	1,763
2013	20,513	13,619	604	642	2,670	1,000	1,978

24. Prepayments

Prepayments consisted of the following:

	31 December 2014	*31 December 2013*
Prepayments for construction materials and services	9,562	20,639
	9,562	20,639
Less: Impairment	(483)	(954)
	9,079	19,685

25. Taxes recoverable, other than income tax

Taxes recoverable other than income tax consisted of the following:

	31 December 2014	*31 December 2013*
VAT recoverable	161	1,414
Other taxes recoverable	-	21
	161	1,435

26. Cash and cash equivalents

As at 31 December 2014 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.

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27. Issued capital and reserves *(continued)*

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.

As at 31 December 2014 and 2013 the Company's issued and paid-in share capital comprised 51,084,235 ordinary shares with a par value of USD 0.01 each. As at 31 December 2014 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.

(in shares)	*31 December 2014*	*31 December 2013*
Issued shares as at 1 January	51,084,235	51,084,235
Weighted average number of shares for the year	51,084,235	51,084,235

28. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following:

	31December 2014	*31 December 2013*
Current		
Bank loans	48,390	57,081
Supplier credits	1,511	1,688
	49,901	58,769
Non-current		
Bank loans	41,898	116,487
	41,898	116,487
	91,799	175,256

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28. Interest-bearing loans and borrowings *(continued)*

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

	31 December 2014	*31 December 2013*
1 to 2 years	30,285	78,157
2 to 3 years	2,494	38,330
3 to 4 years	2,549	-
4 to 5 years	2,549	-
Over 5 years	4,021	-
	41,898	116,487

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

	Effective interest rate	*31 December 2014*	*31 December 2013*
Secured			
UAH Credit line from a Ukrainian bank	10.00%	71,895	152,179
EUR Credit line from a Ukrainian bank	Euribor 1m + 5.25%	18,393	21,241
EUR Supplier credits	9.72%	1,511	1,836
		91,799	175,256

As at 31 December 2014 the Group had available un-drawn borrowing facilities of USD 14,510 thousand (2013: USD 2,732 thousand). Availability of the respective undrawn long-term borrowing facilities is dependent on the fulfilment by the Group of certain conditions.

Interest-bearing loans and borrowings were secured as follows:

Type of collateral	*31 December 2014*	*31 December 2013*
Inventories (Note 22)	46,246	94,510
Property, plant and equipment (Note 18)	30,229	38,156
Investment properties (Note 19)	27,591	38,658
Investments (at nominal)	-	6,282
	104,066	177,606

29. Trade and other payables

Trade and other payables consisted of the following:

	31 December 2014	*31 December 2013*
Trade accounts payable	9,199	20,749
Payables for goods purchased for resale	4,629	14,236
Due to employees	676	1,972
Other	5,685	4,923
	20,189	41,880

30. Advances received

As at 31 December 2014 advances received included USD 35,085 thousand (31 December 2013: USD 54,444 thousand) of advances received for inventory property under development that management estimates will be realised in the Group's normal operating cycle.

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31. Taxes payable, other than income tax

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

	31 December 2014	*31 December 2013*
Value added tax payable	2,789	507
Payroll related taxes	321	861
Miscellaneous taxes	160	294
	3,270	1,662

32. Provisions

Movements in provisions were as follows:

	Provision for post-construction expenses	*Provision for tax and other disputes*	*Total*
At 1 January 2013	-	935	935
Arising during the year	483	125	608
Utilised	-	(265)	(265)
Reversed	-	(689)	(689)
At 31 December 2013	483	106	589
Arising during the year	-	5,636	5,636
Utilised	(161)	-	(161)
Translation difference	-	(1,506)	(1,506)
At 31 December 2014	322	4,236	4,558

33. Related party disclosure

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

	Revenue	*Other operating income*	*Purchases*	*General and administrative expenses*	*Other operating expenses*
2014					
Entities under common control	-	-	680	-	-
Other related parties	74	-	320	-	-
	74	-	1,000	-	-
2013					
Associate	19	-	908	-	-
Entities under common control	9	-	-	-	-
Other related parties	436	11	210	-	2
	464	11	1,118	-	2

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33. Related party disclosure *(continued)*

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

	Trade and other receivables	*Prepayments*	*Trade and other payables*	*Advances received*
31 December 2014				
Entities under common control	10,049	-	5,089	7,610
Other related parties	686	-	53	3
	10,735	-	5,142	7,613
31 December 2013				
Associate	295	18,863	12,444	15,013
Entities under common control	10,042	-	-	-
Other related parties	2,625	196	388	6
	12,962	19,059	12,832	15,019

Revenue from related parties in 2014 comprised: a) rental income amounting to USD 44 thousand (2013: USD 112 thousand); b) other income amounting to USD 30 thousand (2013: USD 324 thousand);

Purchases from related parties in 2014 comprised: a) purchase of construction materials amounting to USD 302 thousand (2013: USD 210 thousand); b) purchase of construction services amounting to USD 698 thousand (2013: USD 908 thousand).

Trade and other receivables from related parties in 2014 mainly comprised: a) receivables for shares of the sold subsidiary amounting USD 10,000 thousand (31 December 2013: USD 10,000 thousand) (Note 20), b) receivables for construction services amounting USD 524 thousand (31 December 2013: USD 932 thousand); c) receivables for other goods and services of USD 211 thousand (31 December 2013: USD 2,030 thousand).

Trade and other payables from entities under common control and other related parties in 2014 comprised: a) payables for construction materials amounting USD 5,088 thousand (31 December 2013: USD 118 thousand; b) payables for other goods and services amounting USD 54 thousand (31 December 2013: USD 270 thousand).

Advances received from entities under common control as at 31 December 2014 and 31 December 2013 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 2014 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 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 279 thousand (2013: USD 364 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 2014 the Group's management estimated that maximum, other than provided, cumulated tax exposure amounted to USD 12,631 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 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 2014 and 31 December 2013 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 2014 and 2013 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:

	Minimum lease payments	*Present value of minimum lease payments*
at 31 December 2014		
Within one year - overdue	492	492
Total minimum lease payments	492	492
Less amounts representing finance charges	-	
	492	492
at 31 December 2013		
Within one year	2,280	2,280
Total minimum lease payments	2,280	
Less amounts representing finance charges	-	
	2,280	2,280

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34. Contingencies and commitments *(continued)*

Operating lease – the Group as a lessor

During the year ended as at 31 December 2014 the Group has entered into a commercial property lease on certain investment property. This non-cancellable lease has initial term from one to three 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:

	31 December 2014	*31 December 2013*
Within one year	1,251	172
After one year but not more than five years	366	860
More than five years	-	108
	1,617	1,140

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:

	Carrying amount		*Fair value*	
	31 December 2014	*31 December 2013*	*31 December 2014*	*31 December 2013*
Financial assets				
Trade and other receivables	18,279	20,513	18,279	20,513
Cash and cash equivalents	211	2,383	211	2,383
Financial liabilities				
Interest-bearing loans and borrowings	91,799	175,256	84,075	171,178
Finance lease liability	492	2,280	492	2,280
Trade and other payables	20,189	41,880	20,189	41,880

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate. However considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

The carrying values of cash and cash equivalents, trade and other receivables and payables and finance lease liability approximate their fair values due to the short maturities of these instruments.

Borrowing arrangements on short-term and long-term debt have both fixed and variable interest rates. Variable interest rates reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value. The fair value of borrowings with fixed rates was established using significant observable inputs (Level 2) among which are weighted-average value of the borrowed capital denominated in similar currency with similar period, country risk and financial solvency of the borrower. The fair value of the UAH denominated long-term debt was estimated by discounting the expected future cash outflows/inflows by a market interest rate of 17.71% p.a. During reporting period there were no movements between Level 1 and Level 2 of fair value hierarchy.

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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. Risk management is carried out by the Group's financial department. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency 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 2014 and 2013, 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.

	Increase / (decrease) in basis points	*Effect on profit before tax*
		USD ' 000
2014		
EURIBOR	7	(13)
EURIBOR	(7)	13
2013		
EURIBOR	14	(30)
EURIBOR	(14)	30

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:

	31 December 2014	*31 December 2013*
Cash and cash equivalents	211	2,383
Trade and other receivables	18,279	20,513
	18,490	22,896

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.

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36. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

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.

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:

31 December 2014	*Less than one year*	*1 to 7 years*	*Total*
Interest bearing loans and borrowings	54,680	45,343	100,023
Finance lease liability	492	-	492
Trade and other payables	20,189	-	20,189
	75,361	45,343	120,704
31 December 2013			
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
	110,089	132,743	242,832

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the Euro ("EUR") and the US dollar ("USD") 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:

	USD	*EUR*
1 January 2013	7.9930	10.5372
Average for 2013	7.9930	10.6000
31 December 2013	7.9930	11.0415
Average for 2014	11.8589	15.6306
31 December 2014	15.7686	19.2329

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for the year ended 31 December 2014
(in thousands of US dollars, unless otherwise indicated)

36. Financial risk management objectives and policies *(continued)*

Foreign currency risk *(continued)*

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.

	Change in foreign currency exchange rates	*Effect on profit before tax*
2014		
Increase in EUR exchange rate	28,96%	(5,763)
Decrease in EUR exchange rate	-28.96%	5,763
2013		
Increase in EUR exchange rate	30.00%	(6,923)
Decrease in EUR exchange rate	-5.00%	1,154

Subsequent to 31 December 2014, UAH continued significant depreciation against EUR (Note 37).

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.

	31 December 2014	*31 December 2013*
Long-term borrowings	41,898	116,487
Short-term borrowings	49,901	58,769
Finance lease liability	492	2,280
Advances received from customers	35,085	54,444
Less cash and cash equivalents	(211)	(2,383)
Net debt	127,165	229,597
Total equity attributable to equity holders of the parent	52,539	99,207
Total capital and net debt	179,704	328,804
Gearing ratio	71%	70%

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

From 31 December 2014 to 30 June 2015, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 33%.