

**TMM Real Estate Development plc**  
Unaudited Interim Condensed  
Consolidated Financial Statements

*As at 30 June 2016*

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## **BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS**

### **BOARD OF DIRECTORS**

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

### **SECRETARY**

Inter Jura CY (Services) Limited

### **INDEPENDENT AUDITORS**

KPMG Limited  
Chartered Accountants  
14 Esperidon Street, 1087 Nicosia, Cyprus  
P.O.Box 21121, 1502, Nicosia, Cyprus  
T: +357 22 209000

### **BANKERS**

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

### **REGISTERED OFFICE**

1, Lampousas Str.,  
1095, Nicosia,  
Cyprus

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six-month period ended 30 June 2016

(in thousands of US dollars, unless otherwise indicated)

	Notes	The six-month period ended 30 June 2016	The six-month period ended 30 June 2015
Revenue	4	6,921	6,257
Cost of sales		(4,518)	(4,732)
<b>Gross profit</b>		<u>2,403</u>	<u>1,525</u>
Other operating income		98	155
General and administrative expenses		(425)	(757)
Selling and distribution expenses		(130)	(158)
Other operating expenses		(1,228)	(951)
<b>Operating (loss) / profit</b>		<u>718</u>	<u>(186)</u>
Finance costs		(1,545)	(1,902)
Foreign exchange loss, net		(1,020)	(3,520)
<b>Loss before tax</b>		<u>(1,847)</u>	<u>(5,608)</u>
Income tax benefit / (expense)	6	47	(467)
<b>Loss for the period</b>		<u>(1,800)</u>	<u>(6,075)</u>
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation to presentation currency		(822)	(11,206)
<b>Other comprehensive loss for the period</b>		<u>(822)</u>	<u>(11,206)</u>
<b>Total comprehensive loss for the period</b>		<u>(2,622)</u>	<u>(17,281)</u>
Loss attributable to:			
Equity holders of the parent		(1,794)	(6,064)
Non-controlling interests		(6)	(11)
		<u>(1,800)</u>	<u>(6,075)</u>
Total comprehensive loss attributable to:			
Equity holders of the parent		(2,605)	(17,137)
Non-controlling interests		(17)	(144)
		<u>(2,622)</u>	<u>(17,281)</u>
Basic and diluted earnings per share (in US dollars)		(0.04)	(0.12)

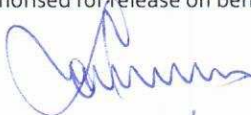
The accompanying notes form an integral part of the interim condensed consolidated financial statements  
The interim condensed consolidated financial statements were not subject to audit or review

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****as at 30 June 2016***(in thousands of US dollars, unless otherwise indicated)*

	Notes	30 June 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	28,782	30,265
Intangible assets		50	69
Investment properties	8	27,919	28,913
Property development rights	9	4,768	4,863
		<u>61,519</u>	<u>64,110</u>
<b>Current assets</b>			
Inventories	10	52,589	55,306
Receivables under the investment agreement		5,370	5,558
Trade and other receivables		2,215	703
Prepayments		5,965	5,354
Taxes recoverable, other than income tax		55	57
Cash and cash equivalents		819	85
Assets classified as held for sale		2,874	2,953
		<u>69,887</u>	<u>70,016</u>
<b>TOTAL ASSETS</b>		<u>131,406</u>	<u>134,126</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		510	510
Share premium		99,191	99,191
Additional paid-in capital		15,450	15,450
Revaluation reserve		81,660	81,660
Accumulated deficit		(50,817)	(49,023)
Translation reserve		(125,721)	(124,910)
<b>Equity attributable to equity holders of the parent</b>		<u>20,273</u>	<u>22,878</u>
Non-controlling interests		315	332
<b>Total equity</b>		<u>20,588</u>	<u>23,210</u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	11	215	215
Deferred tax liability		4,943	5,168
		<u>5,158</u>	<u>5,383</u>
<b>Current liabilities</b>			
Trade and other payables		9,736	7,664
Interest-bearing loans and borrowings	11	55,253	58,731
Finance lease liability		82	38
Advances received		34,580	34,680
Income tax payable		104	137
Taxes payable, other than income tax		1,231	341
Provisions		4,249	3,585
Liabilities classified as held for sale		425	357
		<u>105,660</u>	<u>105,533</u>
<b>TOTAL LIABILITIES</b>		<u>110,818</u>	<u>110,916</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>131,406</u>	<u>134,126</u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 30 September 2016:

Director



Mykola Tolmachov

Director



Larysa Chyvurina

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2016

(in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total		
<b>Balance at 1 January 2015</b>	510	99,191	15,450	79,469	(32,119)	(109,962)	52,539	531	53,070
Loss for the period	-	-	-	-	(6,064)	-	(6,064)	(11)	(6,075)
Other comprehensive loss	-	-	-	-	-	(11,073)	(11,073)	(133)	(11,206)
Total comprehensive loss for the period	-	-	-	-	(6,064)	(11,073)	(17,137)	(144)	(17,281)
Transfer of revaluation reserve, net of taxes	-	-	-	-	-	-	-	-	-
<b>Balance at 30 June 2015</b>	510	99,191	15,450	79,469	(38,183)	(121,035)	35,402	387	35,789
<b>Balance at 1 January 2016</b>	510	99,191	15,450	81,660	(49,023)	(124,910)	22,878	332	23,210
Loss for the period	-	-	-	-	(1,794)	-	(1,794)	(6)	(1,800)
Other comprehensive loss	-	-	-	-	-	(811)	(811)	(11)	(822)
Total comprehensive loss for the period	-	-	-	-	(1,794)	(811)	(2,605)	(17)	(2,622)
Transfer of revaluation reserve, net of taxes	-	-	-	-	-	-	-	-	-
<b>Balance at 30 June 2016</b>	510	99,191	15,450	81,660	(50,817)	(125,721)	20,273	315	20,588

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**for the six-month period ended 30 June 2016**  
*(in thousands of US dollars, unless otherwise indicated)*

	Notes	The six- month period ended 30 June 2016	The six- month period ended 30 June 2015
<b>Operating activities</b>			
Loss before tax		(1,847)	(5,608)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Depreciation and amortisation		196	316
Gain on disposal of property, plant and equipment and investment properties	7, 8	(16)	(4)
Accrual of VAT liability		-	442
Finance costs		1,545	1,902
Unrealised foreign exchange loss		1,020	5,309
Working capital adjustments			
Change in inventories		1,103	966
Change in trade and other receivables		(1,468)	79
Change in prepayments		(756)	126
Change in taxes recoverable, other than income tax		3	(18)
Change in trade and other payables and provisions		2,855	1,726
Change in advances received		1,062	1,740
Change in taxes payable, other than income tax		886	(59)
Interest paid		(2,399)	(1,546)
<b>Net cash flows from operating activities</b>		<u>2,184</u>	<u>5,371</u>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment and investment properties	7, 8	90	8
Purchase of property, plant and equipment and investment properties	7	(12)	(35)
<b>Net cash flows (used in) / from investing activities</b>		<u>78</u>	<u>(27)</u>
<b>Financing activities</b>			
Proceeds from loans	11	49	-
Repayment of loans		(1,588)	(5,349)
Repayment of finance lease liabilities		(3)	(27)
<b>Net cash flows used in financing activities</b>		<u>(1,542)</u>	<u>(5,376)</u>
Net decrease in cash and cash equivalents		720	(32)
Effect of movements in exchange rates on cash and cash equivalents		14	(53)
Cash and cash equivalents as at 1 January		85	211
<b>Cash and cash equivalents as at 30 June</b>		<u>819</u>	<u>126</u>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2016**  
*(in thousands of US dollars, unless otherwise indicated)*

## 1. Background

### Corporate information

These interim condensed consolidated financial statements are prepared by TMM Real Estate Development plc (hereinafter referred to as the "Company"), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus Companies Law, Cap. 113. The address of the Company's registered office is 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is 3 Proviantska street, Kyiv, Ukraine 04116.

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 30 June is disclosed below.

<i>Name</i>	<i>Principal activities</i>	<i>30 June 2016</i>	<i>31 December 2015</i>
<b>Subsidiaries:</b>			
	Construction, development and provision of utility services		
"T.M.M." Ltd		100.0%	100.0%
"Geravit" Ltd	Development project	100.0%	100.0%
LLC "Palladiy"	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 "Ukrckorteploizolyaciya"	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%

All subsidiaries are incorporated in Ukraine.

In 2015 the Group decided to sell its shares in subsidiary JSC "Ukrckorteploizolyaciya" in order to settle a liability to a counterparty. The sale arrangement was completed in August 2016.

The Group is ultimately controlled by Mr. Mykola Tolmachov.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***Ukrainian business environment**

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest, which started in November 2013, in March 2014 various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued throughout the date of these interim condensed consolidated financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert large part of foreign currency proceeds to local currency, a restriction on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

During six-month period ended 30 June 2016, the National Bank of Ukraine liberalized several temporary anti-crisis measures stated above, which includes decrease in percentage of mandatory conversion of the foreign currency proceeds to local currency, decrease in discount rate of the National Bank of Ukraine, permission on dividends repatriation in respect of financial results for 2015 and 2014 years.

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 2014-2015 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.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

As at 30 June 2016, the carrying value of the Group's property located in Yalta, the city of the Republic of Crimea, amounted to USD 5,341 thousand (31 December 2015: USD 5,587 thousand). The ultimate effect of these developments in the Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets and to maintain and secure its ownership rights cannot yet be determined.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These interim condensed consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***2. Basis of preparation and accounting policies****Statement of compliance**

These interim condensed consolidated financial statements for the six-month period ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual financial statements as at and for the year ended 31 December 2015.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015, which are available on the corporate web-site of the Group.

**Going concern**

During the six-month period ended 30 June 2016 the Group reported a net loss of USD 1,800 thousand (six-month period ended 30 June 2015: USD 6,075 thousand). Additionally, as at 30 June 2016 the Group's current liabilities exceeded its current assets by USD 35,773 thousand (31 December 2015: USD 35,517 thousand). The negative financial results are mainly caused by depreciation of UAH against major foreign currencies (Note 1) 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 55,253 thousand of interest-bearing loans and borrowings, which fall due in the short term.

During the six-month period ended 30 June 2016 one of the creditors of the Group demanded early repayment of loan balances in the amount of USD 17,280 thousand, due on that date via foreclosure of collateral. The creditor claimed early repayment on the basis of the Group's failure to make timely loan repayments by the Group and started legal proceeding.

According to the court decision dated 28 July 2016, claims of plaintiff were satisfied and legal rights on items of investment property with carrying amount of USD 15,546 thousand as at 30 June 2016 and items of property, plant and equipment with carrying amount of USD 7,889 thousand as at 30 June 2016 are to be transferred to the plaintiff. The Group appealed to the court of higher instance and negotiates with creditor in order to restructure its outstanding balance and closure of legal proceeding. As of the date that these interim condensed consolidated financial statements are authorised for issue, the court hearings are in progress and the results are uncertain. As at 30 June 2016 the Group created a provision for fines and penalties under this legal case in the amount of USD 1,917 thousand.

The Group's financial plan for 2016 anticipates growth in cash inflows from property sales and construction services as compared to 2015. To achieve the increase in positive cash inflow from its operations in 2016 the Group plans the following:

- to sell completed property which is already completed and property under development which may be sold to buyers on a pre-payment basis;
- extend repayment of the principal and interest due to the largest lender;
- 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 2016.

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 2016.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)*

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 realise its assets and discharge its liabilities in the normal course of business.

**Functional and presentation currencies**

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

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

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

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

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

The principal exchange rate used in the preparation of these interim condensed consolidated financial statements is UAH 24.85 to USD 1.00 (31 December 2015: UAH 24.00 to USD 1.00). Average USD exchange rate for the six-month period ended 30 June 2016 is UAH 25.54 to USD 1.00 (30 June 2015: UAH 21.36 to USD 1.00).

**Judgments and estimates**

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2015.

**Significant accounting policies**

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2015.

A number of new Standards, amendments to Standards and Interpretations are not yet effective for the six-month period ended 30 June 2016, and have not been applied in preparing these interim condensed consolidated financial statements. Management plans to adopt these pronouncements when they become effective, and has not yet analysed the likely impact of these new standards on its consolidated financial statements.

**3. Seasonality of operations**

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***4. Revenue**

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

	<u>2016</u>	<u>2015</u>
Sales of completed inventory property	3,458	3,924
Utility services income	1,223	1,314
Construction services revenue	965	170
Rental income from investment properties	505	591
Other services	770	258
	<u>6,921</u>	<u>6,257</u>

**5. Operating segment information****Identification of reportable segments**

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

- Investment property segment – leases residential and commercial property owned by the Group;
- Property development and construction segment - builds and sells residential and commercial property, renders construction services.
- Utility services and other operations segment – provides utility services to tenants.

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

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

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

<b>2016</b>	<i>Investment property</i>	<i>Property development</i>	<i>Utility services and other operations segment</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
<b>Revenue</b>						
External customers	505	4,423	1,993	6,921	-	6,921
Inter-segment	-	-	450	450	(450)	-
<b>Total revenue</b>	<u>505</u>	<u>4,423</u>	<u>2,443</u>	<u>7,371</u>	<u>(450)</u>	<u>6,921</u>
<b>Results</b>						
Depreciation	-	(196)	-	(196)	-	(196)
Selling and distribution expenses	(17)	(113)	-	(130)	-	(130)
<b>Segment results (including cost of sales)</b>	<u>488</u>	<u>1,173</u>	<u>1,062</u>	<u>2,723</u>	<u>(450)</u>	<u>2,273</u>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***5. Operating segment information (continued)**

<b>2015</b>	<i>Investment property</i>	<i>Property development</i>	<i>Utility services and other operations segment</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
<b>Revenue</b>						
External customers	591	4,094	1,715	6,400	(143)	6,257
Inter-segment	-	-	97	97	(97)	-
<b>Total revenue</b>	<b>591</b>	<b>4,094</b>	<b>1,812</b>	<b>6,497</b>	<b>(240)</b>	<b>6,257</b>
<b>Results</b>						
Depreciation	-	(316)	-	(316)	-	(316)
Selling and distribution expenses	(15)	(143)	-	(158)	-	(158)
<b>Segment results (including cost of sales)</b>	<b>576</b>	<b>921</b>	<b>110</b>	<b>1,607</b>	<b>(240)</b>	<b>1,367</b>

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

Inter-segment revenues are eliminated on consolidation.

*Reconciliation of profit*

	<i>The six-month period ended 30 June 2016</i>	<i>The six-month period ended 30 June 2015</i>
<b>Segment results</b>	2,723	1,607
General and administrative expenses	(425)	(757)
Other operating expenses	(1,228)	(951)
Other operating income	98	155
Finance costs	(1,545)	(1,902)
Foreign exchange loss, net	(1,020)	(3,520)
Inter-segment sales (eliminations)	(450)	(240)
<b>Consolidated loss before tax</b>	<b>(1,847)</b>	<b>(5,608)</b>

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

**6. Income tax**

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

*Profit or loss*

	<u>2016</u>	<u>2015</u>
Current income tax charge	-	-
Deferred tax relating to reversal and origination of temporary differences	(47)	467
<b>Income tax (benefit) / expense reported in profit or loss</b>	<b>(47)</b>	<b>467</b>

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

The Group is subject to taxation in two tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). During the six-month period ended 30 June 2016 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2015: 18%). The tax rate in Cyprus is 12.5% (2015: 12.5%).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***7. Property, plant and equipment**

During the six-month period ended 30 June 2016, the Group purchased property and equipment with a cost of USD 12 thousand (six-month period ended 30 June 2015: USD 35 thousand).

Property and equipment with a carrying amount of USD 74 thousand were disposed during six-month period ended 30 June 2016, resulting in a gain on disposal of USD 16 thousand (six-month period ended 30 June 2015: USD 4 thousand and gain of USD 4 thousand, respectively).

**8. Investment properties**

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

During six-month period ended 30 June 2016 and 2015, the Group did not purchase investment properties.

During six-month period ended 30 June 2016 and 2015, the Group did not dispose of investment properties.

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent appraiser as at 31 December 2015. Fair value was determined by reference to market based evidence, which is based on active market quotes, adjusted for any difference in the nature, location or condition of the specific property.

The Group did not obtain an updated appraisal report for the investment property as at 30 June 2016, because management believes that no significant changes took place on the real estate market since the date of the latest valuation and that the fair value of investment property did not fluctuate significantly.

**9. Property development rights**

Property development rights were as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>30 June 2016</i>	<i>31 December 2015</i>
Arabatska strilka	Kherson	Resort	1,363	1,401
Moskovskyj	Kharkiv	Residential	1,360	1,363
Satellite Town	Kyiv	Residential	1,262	1,307
Bereznevyj	Kyiv	Residential	413	423
Korchagintsv	Kharkiv	Residential	220	214
Tisa	Carpathians	Resort	102	105
Lubyanka	Kyiv	Land plots	48	50
			<u>4,768</u>	<u>4,863</u>

**10. Inventories**

There were no inventory write-downs recognised during the six-month period ended 30 June 2016 and 2015.

**11. Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings were as follows:

	<i>30 June 2016</i>	<i>31 December 2015</i>
<i>Current</i>		
Bank loans	54,068	57,377
Supplier credits	<u>1,185</u>	<u>1,354</u>
	<u>55,253</u>	<u>58,731</u>
<i>Non-current</i>		
Supplier credits	215	215
	<u>215</u>	<u>215</u>
	<u>55,468</u>	<u>58,946</u>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)*

During six-month period ended 30 June 2016, the Group obtained additional debt financing amounting to USD 49 thousand (six-month period ended 30 June 2015: nil).

As at 30 June 2016 short-term loan amounting to USD 17,280 thousand is due to breach of covenant is payable on demand. For details, refer to Note 2.

**12. Related party disclosure**

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

	<u>Revenue</u>	<u>Other operating income</u>	<u>Purchases</u>	<u>Other operating expenses</u>
<i>2016</i>				
Entities under common control	-	-	11	-
Other related parties	2	-	84	-
	<u>2</u>	<u>-</u>	<u>95</u>	<u>-</u>
<i>2015</i>				
Entities under common control	12	-	164	-
Other related parties	16	-	11	58
	<u>28</u>	<u>-</u>	<u>175</u>	<u>58</u>

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

	<u>Trade and other receivables</u>	<u>Prepayments</u>	<u>Trade and other payables</u>	<u>Advances received</u>
<i>30 June 2016</i>				
Entities under common control	27	5,992	3,053	4,828
Other related parties	1	92	10	-
	<u>28</u>	<u>6,084</u>	<u>3,063</u>	<u>4,828</u>
<i>31 December 2015</i>				
Entities under common control	-	5,158	3,305	5,000
Other related parties	1	-	3	2
	<u>1</u>	<u>5,158</u>	<u>3,308</u>	<u>5,002</u>

***Terms and conditions of transactions with related parties***

Outstanding receivable and payable balances, excluding prepayments and advances received, at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. As at and for the six-month period ended 30 June 2016 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

***Compensation to key management personnel***

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

During six-month period ended 30 June 2016 the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 51 thousand and USD 7 thousand, respectively, and were included in general and administrative expenses (30 June 2015: USD 61 thousand and USD 11 thousand, respectively).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2016***(in thousands of US dollars, unless otherwise indicated)***13. Contingencies and commitments****Tax matters**

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation and official pronouncements. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As a result of the events described in Note 1, Ukrainian authorities are not currently able to enforce Ukrainian laws on the territory of the Republic of Crimea. Starting from April 2014, this territory is subject to the transitional provisions of tax rules established by the Russian government to ensure gradual introduction of federal laws into the territory. Although these transitional provisions were thought to put certain relief on the entities registered in the Republic of Crimea, interpretations of these provisions by the tax authorities may be different from the tax payers' view. Management believes that it has adequately provided for tax liabilities based on its understanding of the official pronouncements. In absence of practice of applying new taxation rules by the tax authorities, the effect of potential disagreements in tax treatment of the Group's operations in the Republic of Crimea on the interim condensed consolidated financial statements cannot presently be determined and can be significant.

As at 30 June 2016 the Group's management estimated that the maximum, other than provided, cumulative tax exposure amounted to USD 7,776 thousand (31 December 2015: USD 6,885 thousand).

**14. Financial risk management objectives and policies**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2015.