

TMM Real Estate Development plc
Consolidated Financial Statements

*As at 31 December 2017 and
for the year then ended
with Independent Auditors' Report*

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

BOARD OF DIRECTORS

Mykola Tolmachov
Larysa Chyvurina
Dominic Dreyfus (resigned on 31 October 2017)
Maarten van den Belt (resigned on 31 October 2017)
Nikoloz Enukidze (resigned on 31 October 2017)

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

CONSOLIDATED MANAGEMENT REPORT

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 Group") for the year ended 31 December 2017.

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 FUTURE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

Group's revenue for the year ended 31 December 2017 amounting to USD 16,343 thousand (2016: USD 32,980 thousand). Revenue for 2016 includes an amount of USD 15,806 thousand, which relates to sales of property for which risks and rewards were transferred to the buyers in periods prior to 31 December 2015. Revenue for 2016 adjusted for amount of sales of property for which risks and rewards were transferred to the buyers in periods prior to 31 December 2015, amounting to USD 17,174 thousand. Slight decrease in revenues is mainly represented by the currency translation difference and the fact that the Group is exposed to weakened demand for residential and commercial property in Ukraine.

As at 31 December 2017 the Group's current liabilities exceeded its current assets by USD 33,572 thousand (2016: USD 27,543 thousand). In addition, during the year ended 31 December 2017, the Group incurred a net loss of USD 6,104 thousand (2016: net income of USD 1,499 thousand).

The decline in market liquidity and consumption power affected the Group's ability to generate cash flows from operating activities sufficient to repay its debt when it falls due.

The Board of Directors has assessed the risks set out in this report and believes that steps taken in a country specific environment 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 acceptable under the present circumstances;
- (ii) (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 profit 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.

The Group's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and 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. Various events in March 2014 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.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation devaluation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the "NBU") and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017 Moody's upgraded Ukraine's credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

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.

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 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.

(ii) (ii) 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 - 2016 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 and thereafter, the lack of availability of mortgage and development financing and weak consumption power in the market.

(iii) (iii) going concern uncertainty

The Group needs to repay USD 49,088 thousand of loans and borrowings. In the end of 2017 the Group commenced negotiations with its majority lender seeking to extend the repayment of debt due in December 2017. Subsequently to the reporting date, the Group suggested a restricting plan to the bank subject to approval of the bank's credit committee as the date these consolidated financial statements were authorised for issue. The plan includes the following:

- the part of the finished goods (apartments) that were pledged with the bank as at 31 December 2017 are to be transferred to the bank based on the agreed price;
- the Group will be selling these apartments on the behalf of the bank;
- also, the Group asked the bank to introduce financing opportunities for the potential customers.

As at 31 December 2017 completed inventory property, property plant and equipment and investment property with carrying values of USD 13,277 thousand, USD 19,792 thousand and 18,734 USD thousand respectively were pledged as collateral with respect to the loan due to this lender (Note 25).

The Group is also carrying negotiations with its second largest bank-lender; however, no defined plan has been introduced.

The Group's financial plan for 2018 anticipates growth in cash inflows from property sales and construction services as compared to 2017. To achieve the increase in positive cash inflow from its operations in 2018 the Group plans the following:

- to sell property which is already completed and property under development on a pre-payment basis;
- participate in tenders for rendering of construction services;
- to sell investment properties and property rights.

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; (ii) its ability to extend the payment terms of or restructure otherwise its interest-bearing loans ; and (iii) the ability to meet scheduled other repayments due in 2018.

SHARE CAPITAL

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

BRANCHES

During the year ended 31 December 2017 the Company did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2017 and at the date of this report are shown on page (a). On 31 October 2017, Maarten van den Belt, Dominic Dreyfus and Nikoloz Ehlukidze resigned from their positions of Board of Directors members.

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

There were no significant changes in the remuneration of the Board of Directors.

USE OF FINANCIAL INSTRUMENTS

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 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.

Interest rate risk

As at 31 December 2017 interest bearing liabilities have fixed rates, the reasonably possible changes in interest rates could not have a significant impact on profit or loss or equity

Credit risk

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.

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.

Foreign currency risk

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 functional currency of the Group's entities. The Group has not entered into transactions designed to hedge against these foreign currency risks.

RELATED PARTY TRANSACTIONS

Disclosed in Note 31.

EVENTS AFTER THE REPORTING DATE

Subsequently to the 31 December 2017, the Group purchased related party's loan from the bank by transferring ownership of the Group's inventory with the approximate carrying value of USD 550 thousand.

Except for the above events and events disclosed in MAIN RISKS AND UNCERTAINTIES paragraph of this Report, no other significant events occurred after the end of the year that have potential effect on the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditors, KPMG 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: 2 July 2018



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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

TMM Real Estate Development plc

Report on the consolidated financial statements

Qualified Opinion

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") on pages 1 to 46 which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the "Basis for qualified opinion" section of our report, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for qualified opinion

As at 31 December 2017 and 2016, management revalued property, plant and equipment located in the Republic of Crimea stated at USD 4,580 and USD 4,831 thousand, respectively, using a method that is not appropriate in the circumstances as required by International Financial Reporting Standard IFRS 13 *Fair Value Measurement*. The effects of this departure from International Financial Reporting Standards on the consolidated financial statements have not been determined.

Κωνσταντίνος Κωνσταντίνου
ΥΠΟ ΤΗΝ ΕΠΙΘΗΚΗ ΤΗΣ
ΣΤΕΦΑΝΟΣ ΚΩΝΣΤΑΝΤΙΝΙΔΗΣ
Ε. 25725 00202

Κωνσταντίνος Κωνσταντίνου
ΥΠΟ ΤΗΝ ΕΠΙΘΗΚΗ ΤΗΣ
ΣΤΕΦΑΝΟΣ ΚΩΝΣΤΑΝΤΙΝΙΔΗΣ
Ε. 25725 00202

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ΣΤΕΦΑΝΟΣ ΚΩΝΣΤΑΝΤΙΝΙΔΗΣ
Ε. 25725 00202



In 2016, the Group recognized revenues from sale of completed inventory property for which the risks and rewards were transferred to customers prior to 31 December 2015. This constitutes a departure from International Financial Reporting Standard IAS 18 *Revenue*. Had these revenues been recognized in the proper period, for the year ended 31 December 2016 revenue would have been decreased by USD 15,806 thousand, cost of revenues would have been decreased by USD 11,497 thousand, other operating expenses would have been decreased by USD 881 thousand, income tax expense would have been decreased by USD 617 thousand and net profit would have been decreased by USD 2,868 thousand. Additionally, as at 1 January 2016 opening accumulated losses would have been decreased by USD 3,172 thousand. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2016 dated 30 June 2017 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the effect of this matter on the comparability of the current year's figures and the corresponding figures.

As at 31 December 2017 and 2016, there are indications of impairment of the related party prepayment which is stated at USD 4,411 thousand and USD 4,553 thousand, respectively. International Financial Reporting Standards require that, where such indications exist, management makes a formal estimate of the recoverable amounts and the related tax risks. No such estimate has been made. The effects of this departure from International Financial Reporting Standards on the consolidated financial statements have not been determined.

We did not observe the physical stock count of inventories held on consignment with the related party under enforcement proceedings as at 31 December 2017 and 2016. The carrying amount of the inventory as at 31 December 2017 and 2016 is USD 1,711 thousand and USD 1,900 thousand, respectively. We were unable to satisfy ourselves as to the existence, condition and valuation of those inventory quantities by alternative means. As a result of these matters, we were unable to determine whether adjustments might have been found necessary in respect of inventories, and the elements making up the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code"), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw your attention to Note 3 to the consolidated financial statements, which describes the fact that the Company incurred a net loss of USD 6,104 thousand for the year ended 31 December 2017 and, as at that date, its current liabilities exceeded its current assets by USD 33,572 thousand.



These conditions, along with the other matters described in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not further qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis for qualified opinion" and in the "Material uncertainty related to going concern" sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Valuation of freehold buildings and investment properties | |
|---|---|
| See Notes 17 and 18 to the consolidated financial statements | |
| The key audit matter | How the matter was addressed in our audit |
| <p>The Group has a significant holding of freehold buildings and investment properties, which as at 31 December 2017 represented 48% of the total assets. We identified the valuation of freehold buildings and investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and the significant element of judgement and estimation associated with determination of the fair value.</p> <p>The Group measures its freehold buildings and investment properties at fair value. As disclosed in note 17 to the consolidated financial statements, the fair value is determined by independent appraiser primarily based on market comparable approach.</p> <p>As at the reporting date, the Group performed analysis of potential changes in fair value for freehold buildings and investment properties. The Group made an analysis of annual change in real estate prices and changes in pattern of usage of the Group freehold buildings and investment properties.</p> <p>Additionally, the Group involved an independent appraiser for analysis of changes in real estate prices for the Group's portfolio of properties. Based on the analysis performed the Group concluded that there were no significant changes from prior year in fair value of freehold buildings and investment properties as at 31 December 2017 and as such no revaluation is required.</p> | <p>Our audit procedures included, among others, the following:</p> <ol style="list-style-type: none">1. We corroborated the Group's external appraiser findings by comparing the input data to real estate prices provided by reputable agencies.2. Based on the specific item selection, we performed sampling of individual properties for an individual valuation analysis. On a sample basis, we compared the carrying values of individual properties owned by the Group to the prices of comparable properties located in the same area.3. We assessed the adequacy of the disclosures made in the consolidated financial statements. |

| Tax provisioning | |
|---|---|
| See Note 32 to the consolidated financial statements | |
| The key audit matter | How the matter was addressed in our audit |
| Provisioning for tax contingencies require the Board of Directors to make judgments and estimates in relation to tax issues and exposures. Given that the Group operates in a Ukrainian tax jurisdiction which is characterized by numerous types of taxes and frequently changing tax legislation which may be applied retroactively and is open to wide interpretation and in some cases conflicting interpretations, and given that it takes a significant amount of time for tax matters to be agreed with the tax authorities, provisioning for tax and tax contingencies is considered as key audit matter. | <p>Our audit procedures included among other, the following:</p> <ol style="list-style-type: none"> 1. Assessing using our own tax specialists the Group's tax positions. Within this context we analysed and challenged the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the legislation by the relevant authorities and courts. 2. We also assessed the adequacy of the Group's disclosures in respect of tax and uncertain tax positions. |

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the "Report on other legal requirements" section.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.



The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors' Law of 2017, L.53(I)/2017 we report the following:

- In our opinion, the consolidated management report on pages (b) to (c), the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.

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 69 of Law L.53(I)/2017 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.

The engagement partner on the audit resulting in this independent auditors' report is Constantinos N. Kallis.

Constantinos N. Kallis, FCA
Certified Public Accountant and Registered Auditor
for and on behalf of
KPMG Limited

Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

2 July 2018

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2017
(in thousands of US dollars, unless otherwise indicated)

| | Notes | <u>2017</u> | <u>2016</u> |
|---|-------|-----------------|-----------------|
| Revenue | 7 | 16,343 | 32,980 |
| Cost of revenue | 8 | <u>(14,731)</u> | <u>(24,007)</u> |
| Gross profit | | 1,612 | 8,973 |
| Gain on disposal of subsidiary | 30 | - | 2,079 |
| Other operating income | 9 | 987 | 1,426 |
| General and administrative expenses | 10 | (1,455) | (1,385) |
| Selling and distribution expenses | 11 | (350) | (328) |
| Other operating expenses | 12 | <u>(1,196)</u> | <u>(4,159)</u> |
| Operating (loss)/profit | | (402) | 6,606 |
| Finance costs | 13 | (4,038) | (3,265) |
| Foreign exchange loss, net | 14 | <u>(3,042)</u> | <u>(1,554)</u> |
| (Loss)/profit before tax | | (7,482) | 1,787 |
| Income tax benefit/(expense) | 16 | <u>1,378</u> | <u>(288)</u> |
| (Loss)/profit for the year | | <u>(6,104)</u> | <u>1,499</u> |
| Other comprehensive loss | | | |
| <i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Exchange differences on translation to presentation currency | | (450) | (3,073) |
| Other comprehensive loss for the year, net of tax | | <u>(450)</u> | <u>(3,073)</u> |
| Total comprehensive loss for the year, net of tax | | <u>(6,554)</u> | <u>(1,574)</u> |
| (Loss)/profit attributable to: | | | |
| Equity holders of the parent | | (6,096) | 1,506 |
| Non-controlling interests | | <u>(8)</u> | <u>(7)</u> |
| | | <u>(6,104)</u> | <u>1,499</u> |
| Total comprehensive loss attributable to: | | | |
| Equity holders of the parent | | (6,538) | (1,528) |
| Non-controlling interests | | <u>(16)</u> | <u>(46)</u> |
| | | <u>(6,554)</u> | <u>(1,574)</u> |
| Weighted average basic and diluted number of shares (in thousands of shares) | | <u>51,084</u> | <u>51,084</u> |
| Basic and diluted (loss)/profit per share (in US dollars) | | (0.12) | 0.03 |

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

Consolidated statement of financial position
as at 31 December 2017
(in thousands of US dollars, unless otherwise indicated)

| | Notes | 31 December 2017 | 31 December 2016 |
|--|-------|----------------------|-----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 25,030 | 26,169 |
| Intangible assets | | 19 | 35 |
| Investment properties | 18 | 24,448 | 25,241 |
| Property development rights | 19 | 2,726 | 2,761 |
| | | <u>52,223</u> | <u>54,206</u> |
| Current assets | | | |
| Inventories | 20 | 29,708 | 36,076 |
| Receivable under the investment agreement | 21 | 5,123 | 5,287 |
| Trade and other receivables | 22 | 1,282 | 1,001 |
| Prepayments | 23 | 4,987 | 4,867 |
| Taxes recoverable, other than income tax | | 32 | 27 |
| Cash and cash equivalents | | 99 | 193 |
| Assets classified as held for sale | 30 | - | 401 |
| | | <u>41,231</u> | <u>47,852</u> |
| TOTAL ASSETS | | <u>93,454</u> | <u>102,058</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 24 | 510 | 510 |
| Share premium | | 99,191 | 99,191 |
| Additional paid-in capital | | 15,450 | 15,450 |
| Revaluation reserve | | 79,694 | 79,464 |
| Accumulated deficit | | (51,647) | (45,321) |
| Translation reserve | | (128,386) | (127,944) |
| Equity attributable to equity holders of the parent | | <u>14,812</u> | <u>21,350</u> |
| Non-controlling interests | | 248 | 264 |
| Total equity | | <u>15,060</u> | <u>21,614</u> |
| Non-current liabilities | | | |
| Loans and borrowings | 25 | 215 | 215 |
| Deferred tax liability | 16 | 3,376 | 4,834 |
| | | <u>3,591</u> | <u>5,049</u> |
| Current liabilities | | | |
| Trade and other payables | 26 | 6,805 | 7,195 |
| Loans and borrowings | 25 | 49,088 | 48,078 |
| Advances received | 27 | 15,191 | 17,083 |
| Income tax payable | | 101 | 108 |
| Taxes payable, other than income tax | 28 | 3,618 | 2,931 |
| | | <u>74,803</u> | <u>75,395</u> |
| TOTAL LIABILITIES | | <u>78,394</u> | <u>80,444</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>93,454</u> | <u>102,058</u> |

Signed and authorised for release on behalf of TMM Real Estate Development plc on 2 July 2018:

Director

Mykola Tolmachov

Director

Larysa Chyvurina

**Consolidated statement of changes in equity
for the year ended 31 December 2017**
(in thousands of US dollars, unless otherwise indicated)

| | Attributable to equity holders of the Company | | | | | | Total | Non-controlling interests | Total equity |
|--|---|---------------|----------------------------|---------------------|---------------------|---------------------|---------------|---------------------------|---------------|
| | Share Capital | Share premium | Additional paid-in capital | Revaluation reserve | Accumulated deficit | Translation reserve | | | |
| Balance at 1 January 2016 | 510 | 99,191 | 15,450 | 81,660 | (49,023) | (124,910) | 22,878 | 332 | 23,210 |
| Loss for the year | - | - | - | - | 1,506 | - | 1,506 | (7) | 1,499 |
| Exchange differences on translation to presentation currency | - | - | - | - | - | (3,034) | (3,034) | (39) | (3,073) |
| Total comprehensive income/(loss) for the year | - | - | - | - | 1,506 | (3,034) | (1,528) | (46) | (1,574) |
| Transfer of revaluation reserve, net of taxes | - | - | - | (2) | 2 | - | - | - | - |
| Effect from disposal of subsidiary (Note 30) | - | - | - | (2,194) | 2,194 | - | - | (22) | (22) |
| Balance at 31 December 2016 | 510 | 99,191 | 15,450 | 79,464 | (45,321) | (127,944) | 21,350 | 264 | 21,614 |
| Loss for the year | - | - | - | - | (6,096) | - | (6,096) | (8) | (6,104) |
| Exchange differences on translation to presentation currency | - | - | - | - | - | (442) | (442) | (8) | (450) |
| Total comprehensive loss for the year | - | - | - | - | (6,096) | (442) | (6,538) | (16) | (6,554) |
| Transfer of revaluation reserve, net of taxes | - | - | - | 230 | (230) | - | - | - | - |
| Balance at 31 December 2017 | 510 | 99,191 | 15,450 | 79,694 | (51,647) | (128,386) | 14,812 | 248 | 15,060 |

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

Consolidated cash flow statement
for the year ended 31 December 2017
(in thousands of US dollars, unless otherwise indicated)

| | Notes | 2017 | 2016 |
|---|-------|----------------|----------------|
| Operating activities | | | |
| (Loss)/profit before tax | | (7,482) | 1,787 |
| Non-cash adjustments to reconcile loss before tax to net cash flows | | | |
| Gain on disposal of subsidiary | 30 | - | (2,079) |
| Gain from release of provision for tax and legal risks | 9 | - | (1,256) |
| Depreciation and amortization | | 760 | 676 |
| Impairment of trade and other receivables and prepayments | 12 | 1 | 155 |
| Direct write-downs of receivables | 12 | - | 77 |
| Loss on disposal of property, plant and equipment and investment properties | 12 | 202 | 335 |
| Finance costs | 13 | 4,038 | 3,265 |
| Impairment of property development rights | 12 | - | 1,359 |
| Other adjustments, net | | (21) | - |
| Unrealised foreign exchange loss and other non-cash movements | | 3,042 | 1,572 |
| | | 540 | 5,891 |
| Working capital adjustments | | | |
| Change in inventories | | 3,139 | 14,027 |
| Change in trade and other receivables | | (330) | (637) |
| Change in prepayments | | 1,310 | (150) |
| Change in taxes recoverable, other than income tax | | (6) | 25 |
| Change in trade and other payables and provisions | | (133) | 411 |
| Change in advances received | | 726 | (14,343) |
| Change in taxes payable, other than income tax | | 529 | 2,824 |
| | | 5,775 | 8,048 |
| Interest paid | | (3,460) | (5,450) |
| Income taxes paid | | - | (25) |
| Net cash flows from operating activities | | 2,315 | 2,573 |
| Investing activities | | | |
| Proceeds from sale of property, plant and equipment and investment properties | | 236 | 253 |
| Purchase of property, plant and equipment | | (1,003) | (110) |
| Net cash flows (used in)/from investing activities | | (767) | 143 |
| Financing activities | | | |
| Proceeds from loans | | - | 511 |
| Repayment of loans | | (1,641) | (2,980) |
| Repayment of finance lease liabilities | | - | (121) |
| Net cash flows used in financing activities | | (1,641) | (2,590) |
| Net decrease in cash and cash equivalents | | (93) | 126 |
| Effect of foreign exchange on cash and cash equivalents | | (1) | (18) |
| Cash and cash equivalents at 1 January | | 193 | 85 |
| Cash and cash equivalents at 31 December | | 99 | 193 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(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 49A, Volodymyrska street, Kyiv, Ukraine 04116. The Company's shares are listed on Frankfurt Stock Exchange.

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 and provision of utility and lease services in Ukraine (mainly Kyiv and Kharkiv regions).

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

| <i>Name</i> | <i>Principal activities</i> | <i>2017</i> | <i>2016</i> |
|-------------------------|---|-------------|-------------|
| Subsidiaries: | | | |
| Company "T.M.M." (Ltd) | Construction, development and provision of utility services | 100.0% | 100.0% |
| Ltd "TMM - VIKNA" | Production of construction materials | 91.0% | 91.0% |
| "TMM - Budkomplekt" LLC | Production of construction materials | 98.9% | 98.9% |

As at 31 December 2017 all subsidiaries of the Group are incorporated in Ukraine.

In 2016 the Group transferred its shares in subsidiary JSC "Ukrucukorteploizolyaciya" in order to settle a liability to a counterparty (Note 30).

The Group is ultimately controlled by Mr. Mykola Tolmachov.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***2. Operating environment, risks and economic conditions****(a) Ukrainian business environment**

The Group's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and 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. Various events in March 2014 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.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower devaluation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the "NBU") and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017 Moody's upgraded Ukraine's credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

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 31 December 2017, the carrying value of the Group's property located in Yalta, the city of the Republic of Crimea, amounted to USD 4,580 thousand (2016: USD 4,831 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 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 CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***2. Operating environment, risks and economic conditions (continued)****(b) Cyprus business environment**

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, following the negotiations and the relevant agreements reached with the European Commission, the European Central Bank and the International Monetary Fund (IMF) for financial assistance which was dependent on the formulation and the successful implementation of an Economic Adjustment Program. The agreements also resulted in the restructuring of the two largest (systemic) banks in Cyprus through a "bail in".

The Cyprus Government has successfully completed earlier than anticipated the Economic Adjustments Program and exited the IMF program on 7 March 2016, after having recovered in the international markets and having only used EUR 7,25 billion of the total EUR 10 billion earmarked in the financial bailout. Under the new Euro area rules, Cyprus will continue to be under surveillance by its lenders with bi-annual post-program visits until it repays 75% of the economic assistance received.

The current economic environment of Cyprus is not expected to have a significant impact on the operations of the Group as the Group does not hold significant funds in Cypriot financial institutions.

On the basis of the evaluation performed, the Group's management has concluded that no additional provisions or impairment charges regarding the impact of environment of Cyprus are necessary. The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

3. Basis of preparation**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.

Basis of measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for investment property and freehold buildings stated at fair value as determined by independent appraisal.

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.

Going concern basis

As at 31 December 2017 the Group's current liabilities exceeded its current assets by USD 33,572 thousand. In addition, during the year ended 31 December 2017, the Group incurred a net loss of USD 6,104 thousand.

The Group needs to repay USD 49,088 thousand of loans and borrowings (Note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. Basis of preparation (continued)

In the end of 2017 the Group commenced negotiations with its majority lender seeking to extend the repayment of debt due in December 2017. Subsequently to the reporting date, the Group suggested a restructuring plan to the bank subject to approval of the bank's credit committee as the date these consolidated financial statements were authorised for issue. The plan includes the following:

- the part of the finished goods (apartments) that were pledged with the bank as at 31 December 2017 are to be transferred to the bank based on the agreed price;
- the Group will be selling these apartments on the behalf of the bank;
- also, the Group asked the bank to introduce financing opportunities for the potential customers.

As at 31 December 2017 completed inventory property, property plant and equipment and investment property with carrying values of USD 13,277 thousand, USD 19,792 thousand and 18,734 USD thousand respectively were pledged as collateral with respect to the loan due to this lender (Note 25).

The Group is also carrying negotiations with its second largest bank-lender; however, no defined plan has been introduced.

The Group's financial plan for 2018 anticipates growth in cash inflows from property sales and construction services as compared to 2017. To achieve the increase in positive cash inflow from its operations in 2018 the Group plans the following:

- to sell property which is already completed and property under development on a pre-payment basis;
- participate in tenders for rendering of construction services;
- to sell investment properties and property rights.

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; (ii) its ability to extend the payment terms of or restructure otherwise its interest-bearing loans ; and (iii) the ability to meet scheduled other repayments due in 2018.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. Basis of preparation (continued)

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 profit or loss and other 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.

4. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated 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.

Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

(i) 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:

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.

The Group's business model - i.e. the entity's intentions regarding that property - is the primary criterion to consider in determining whether classification as investment property is appropriate.

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.

Revenue recognition – sales of completed inventory property

Revenue from sale of real estate properties comprise revenue from sale of standardised apartments and non-residential property, which are constructed without reference to a specific customer's request.

Revenue from sale of the real estate property is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is usually when the customer has accepted the property and received physical access to the property, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***4. Significant accounting judgments, estimates and assumptions (continued)**

Revenue from the sale of real estate property is recognized when construction is complete and the property is transferred to the customer.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

Going concern

Please refer to Note 3.

(ii) Estimates and Assumptions***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 reporting date and is determined by the Group having taken suitable 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 creditworthiness 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 reporting date. In the case of significant changes in market prices, 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, the valuers also use 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 inductiveness of the market quotes used as source data for valuation. 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 at their fair values.

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. More details are provided in Note 31.

Useful lives of the freehold buildings

The Group's freehold buildings are depreciated over their estimated useful lives to their estimated residual values. The Group exercises significant judgment in determination of the estimated useful lives of the freehold buildings. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities, except for application of amendments, which are effective for annual periods beginning on or after 1 January 2017.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

The amendments to IAS 7 require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. To satisfy the new disclosure requirements, the Group presented reconciliation between the opening and closing balances for liabilities with changes arising from financing activities in Note 25. Although the amendments only require disclosure of a reconciliation of changes in liabilities arising from financing activities, the Group has elected to expand the disclosure to cover changes in equity balances arising from financing activities as well.

The Group applied new disclosure requirements of IAS 7 as at and for the year ended 31 December 2017 for the first time. Accordingly, comparative information for preceding periods is not presented.

Other amendments applied for the first time in 2017 did not have a material impact on the combined financial statements of the Group.

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 general and 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.

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 (CGU) 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.

Functional and presentation currencies

The Group's presentation currency and the functional currency of the parent company 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 reporting date. The revenues and expenses for the year or, if shorter, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***5. Summary of significant accounting policies (continued)**

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 OCI. The translation of the UAH denominated assets and liabilities into USD as at 31 December 2017 and 2016 does not indicate that the Group could realize or settle the translated values of those assets and liabilities in USD.

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:

| | <u>USD</u> | <u>EUR</u> |
|------------------|------------|------------|
| Average for 2016 | 25.55 | 24.21 |
| 31 December 2016 | 27.19 | 28.42 |
| Average for 2017 | 26.60 | 30.08 |
| 31 December 2017 | 28.07 | 33.50 |

As at the date that these financial statements are authorised for issue, 2 July 2018, the exchange rates are UAH 26.33 to USD 1.00 and UAH 30.58 to EUR 1.00.

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 reporting 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. Summary of significant accounting policies (continued)

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

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

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

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

Financial assets

Initial recognition

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

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

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

The Group's financial assets include cash and cash equivalents and trade and other receivables, all classified as "loans and receivables".

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 profit or loss and other 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.

Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***5. 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 profit or loss and 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 profit or loss and 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, or as other financial liabilities. 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, less directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, obligations under finance leases and trade and other payables, all classified as "other financial liabilities".

Subsequent measurement of loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and comprehensive income when the liabilities are derecognised as well as through the 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 costs in the statement of profit or loss and other 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 profit or loss and comprehensive income.

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***5. Summary of significant accounting policies (continued)****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 profit or loss and 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 revalued amount, representing 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 equity, 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. 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 in equity.

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. Construction in progress is stated at cost less impairment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. Summary of significant accounting policies (continued)

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 |
| • Office and computer equipment | 4 years |

The useful life of an asset is defined in terms of the asset's expected utility to the Group and is reassessed at each reporting date.

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 reporting 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.

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 carrying value to inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset, except for inventories and deferred taxes, 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.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating unit ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***5. Summary of significant accounting policies (continued)**

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.

Prepayments and advances received

Prepayments are recognised on an undiscounted basis, stated at cost less impairment. Advances received are recognised on an undiscounted basis, stated at cost.

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 Group 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 profit or loss and 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. 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

Revenue from sale of real estate properties comprise revenue from sale of standardised apartments and non-residential property, which are constructed without reference to a specific customer's request.

Revenue from sale of the real estate property is measured at the fair value of the consideration received or receivable, net of allowances and trade discounts, if any. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is usually when the customer has accepted the property and received physical access to the property, recovery of the consideration is probable, the associated costs and possible return of property can be estimated reliably, and there is no continuing management involvement with the property, and the amount of revenue can be measured reliably.

Revenue from the sale of real estate property is recognized when construction is complete and the property is transferred to the customer.

Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

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, and on a gross basis where the Group acts as principal.

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.

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 reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. 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 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 tax assets is reviewed at each reporting 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 tax assets are reassessed at each reporting 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 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 reporting 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 OCI 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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Value-added tax

Income, 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
- prepayments and advances received are stated net of VAT.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

5. Summary of significant accounting policies (continued)

Comparatives

In order to comply with the requirements of IFRS and to meet the objective of providing information that is useful in making economic decisions the Group can adjust the corresponding figures to conform to the presentation of the current year amounts. Certain comparatives in the notes were amended to adjust to current period presentation.

6. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations and financial statements. The Group plans to adopt these standards and interpretations when they become effective.

(i) Standards and Interpretations adopted by the EU

IFRS 9 Financial Instruments

The Group is required to adopt IFRS 9 "Financial Instruments: Classification and Measurement" from 1 January 2018. IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes revised guidance on the classification and measurement of financial instruments, impairment of financial assets and accounting for hedging.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements.

Classification - Financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Based on its assessment, the Group believes that the new classification requirements will not have significant impact on accounting of the Group's financial assets and financial liabilities.

Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to financial assets measured at amortised cost and FVOCI and the contract assets. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired.

Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

6. New standards and interpretations not yet adopted (continued)

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The new standard introduces comprehensive guidance on identifying separate components, which applies to all types of revenue-generating transactions. This could result in goods or services being unbundled or bundled more frequently than under current practice. However, in most cases, a 'traditional' construction contract relating to a single asset or a combination of assets that are closely inter-related or interdependent, will meet the conditions to be a single performance obligation – and so treating the whole contract as the unit of account is likely to continue.

Additionally, contracts are currently accounted for under the stage-of-completion method in accordance with IAS 11 whenever they meet the definition of a construction contract. By contrast, the new standard uses new concepts that entities need to apply to the specific facts and circumstances of individual performance obligations. This could result in different assessment outcomes – and therefore significant differences in the timing of revenue recognition – compared with current practice.

In addition, IFRIC 15 *Agreements for the Construction of Real Estate* introduced the notion that the criteria for recognising a sale of goods could also be met progressively over time for certain real estate transactions, resulting in the recognition of revenue over time. Difficulty in determining when control of real estate transfers to the customer resulted in diversity in current practice, particularly for certain multi-unit residential developments. The new standard replaces IFRIC 15 with specific requirements on determining when goods or services transfer over time. Applying this guidance – especially when assessing whether criterion 3 is met – requires consideration of the specific facts and circumstances of each case.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

6. New standards and interpretations not yet adopted (continued)

Transition

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 15 neither has initiated any specific actions towards the preparation for implementation of IFRS 15. Accordingly, it is not practicable to estimate the impact that the application of IFRS 15 will have on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of land. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions.

Transition

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***6. New standards and interpretations not yet adopted (continued)****Various Other Changes to IFRS**

The following new or amended standards are not expected to have a significant impact of the Group's financial statements.

- *Annual Improvements to IFRS Standards 2014-2016 Cycle* (effective for annual periods beginning on or after 1 January 2018)
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations* (effective for annual periods beginning on or after 1 January 2018)
- IAS 40 (Amendments) *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018)
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***7. Revenue**

Revenue comprised:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| Sales of completed inventory property | 7,879 | 25,350 |
| Construction and transportation services | 2,136 | 2,604 |
| Utility services income | 2,826 | 2,550 |
| Rental income from investment properties (Note 18) | 1,413 | 1,159 |
| Other | 2,089 | 1,317 |
| | <u>16,343</u> | <u>32,980</u> |

Sales of completed inventory property figure for 2016 of USD 25,350 thousand includes an amount of USD 15,806 thousand, which relates to sales of property for which risks and rewards were transferred to the buyers in periods prior to 31 December 2015.

8. Cost of revenue

Wages and salaries and social security taxes included in cost of revenue for year ended 31 December 2017 amounted to USD 863 thousand and USD 186 thousand, respectively (2016: USD 703 thousand and USD 151 thousand, respectively).

Depreciation included in cost of revenue for the year ended 31 December 2017 amounted to USD 727 thousand (2016: USD 610 thousand) (Note 17).

Cost of completed inventory property sold figure for 2016 includes an amount of USD 11,497 thousand, which relates to sales of property for which risks and rewards were transferred to the buyers in periods prior to 31 December 2015.

9. Other operating income

Other operating income comprised:

| | <u>2017</u> | <u>2016</u> |
|--|-------------|--------------|
| Penalties received | 793 | - |
| Gain on sale of miscellaneous goods and services | 2 | 47 |
| Gain from release of provision for tax and legal risks | - | 1,256 |
| Other | 192 | 123 |
| | <u>987</u> | <u>1,426</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***10. General and administrative expenses**

General and administrative expenses comprised:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|--------------|--------------|
| Wages and salaries | 666 | 761 |
| Taxes, other than income tax | 237 | 161 |
| Social security taxes | 109 | 83 |
| Professional services | 93 | 68 |
| Audit fees | 37 | 38 |
| Insurance | 32 | 32 |
| Communication costs | 31 | 32 |
| Depreciation (Note 17) | 17 | 38 |
| Bank charges | 11 | 17 |
| Materials | - | 4 |
| Other | 222 | 151 |
| | <u>1,455</u> | <u>1,385</u> |

The average number of employees employed by the Group during the year 2017 and 2016 were 574 and 567 respectively.

11. Selling and distribution expenses

Selling and distribution expenses comprised:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------|-------------|
| Advertising | 153 | 118 |
| Wages and salaries | 100 | 53 |
| Social security taxes | 22 | 11 |
| Other | 75 | 146 |
| | <u>350</u> | <u>328</u> |

12. Other operating expenses

Other operating expenses comprised:

| | <u>2017</u> | <u>2016</u> |
|---|--------------|--------------|
| Post-construction costs on inventory property | 367 | 750 |
| Loss on disposal of property, plant and equipment and investment properties | 202 | 335 |
| Utility services for unoccupied premises | 237 | 270 |
| Fines and penalties | 235 | 988 |
| Change in allowance for doubtful debts and prepayments | 1 | 155 |
| Impairment of property development rights (Note 19) | - | 1,359 |
| Direct write-downs of receivables | - | 77 |
| Other | 154 | 225 |
| | <u>1,196</u> | <u>4,159</u> |

During the year ended 31 December 2016, impairment loss on transfer of certain assets to the category of assets classified as held for sale in amount of USD 28 thousand was included in other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***13. Finance costs**

Finance costs comprised:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|--------------|--------------|
| Interest costs | 4,038 | 3,228 |
| Finance lease charges | - | 37 |
| | <u>4,038</u> | <u>3,265</u> |

14. Foreign exchange loss, net

Foreign exchange loss, net comprised:

| | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|
| Foreign exchange loss on loans and borrowings and finance lease liability | (3,042) | (1,533) |
| Other | - | (21) |
| | <u>(3,042)</u> | <u>(1,554)</u> |

15. 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 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.

Information regarding segment assets and liabilities is not provided to the Board of Directors and therefore is not included in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***15. Operating segment information (continued)**

The Group's segmental information was as follows:

| As at 31 December 2017 | <i>Investment property</i> | <i>Property development and construction</i> | <i>Utility services</i> | <i>Total reportable segments</i> |
|---|--------------------------------|--|-----------------------------|--------------------------------------|
| Revenue | | | | |
| External customers | 1,413 | 10,015 | 2,826 | 14,254 |
| Total revenue | 1,413 | 10,015 | 2,826 | 14,254 |
| Results | | | | |
| Depreciation and amortisation | - | (744) | - | (744) |
| Selling and distribution expenses | - | (350) | - | (350) |
| Segment results | 1,413 | (52) | (348) | 1,013 |
| Capital expenditure | - | 478 | - | 478 |
| Other material non-cash items: | | | | |
| - Loss on disposal of property, plant and equipment and investment properties | (202) | - | - | (202) |
| As at 31 December 2016 | | | | |
| Revenue | | | | |
| External customers | 1,159 | 27,954 | 2,550 | 31,663 |
| Inter-segment | 12 | 232 | - | 244 |
| Total revenue | 1,171 | 28,186 | 2,550 | 31,907 |
| Results | | | | |
| Depreciation and amortisation | - | (648) | - | (648) |
| Selling and distribution expenses | - | (328) | - | (328) |
| Segment results | 1,171 | 7,891 | (123) | 8,939 |
| Capital expenditure | - | 45 | - | 45 |
| Other material non-cash items: | | | | |
| - Impairment of property development rights | - | (1,359) | - | (1,359) |
| - Loss on disposal of property, plant and equipment and investment properties | (335) | - | - | (335) |

Major part of unallocated revenues in 2017 relate to export of agricultural produce amounting to USD 768 thousand (2016: 1,055 thousand).

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

Inter-segment revenues are eliminated on consolidation.

The Group has one customer making more 13% of the Group's revenues.

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.

The major part of revenues from external customers relates to residents of Ukraine.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***15. Operating segment information (continued)***Reconciliation of profit or loss*

| | <u>2017</u> | <u>2016</u> |
|---|----------------|--------------|
| Segment results | 1,013 | 8,939 |
| Loss of other operating segments | 249 | (50) |
| General and administrative expenses | (1,455) | (1,385) |
| Other operating expenses | (1,196) | (4,159) |
| Other operating income | 987 | 1,426 |
| Gain on disposal of subsidiary | - | 2,079 |
| Finance costs | (4,038) | (3,265) |
| Foreign exchange loss, net | (3,042) | (1,554) |
| Inter-segment eliminations | - | (244) |
| Consolidated (loss)/ profit before tax | <u>(7,482)</u> | <u>1,787</u> |

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

16. Income tax

The major components of income tax are:

Profit or loss

| | <u>2017</u> | <u>2016</u> |
|--|----------------|-------------|
| Deferred tax relating to reversal and origination of temporary differences | (1,378) | 288 |
| Income tax (benefit)/expense reported in profit or loss | <u>(1,378)</u> | <u>288</u> |

A reconciliation between the income tax (benefit)/expense reported in the consolidated financial statements and the loss before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2017 and 2016 is as follows:

| | <u>2017</u> | <u>2016</u> |
|---|----------------|-------------|
| (Loss)/profit before tax | (7,482) | 1,787 |
| At the Company's statutory income tax rate of 12.5% | (935) | 223 |
| Tax effect of expenses non-deductible / income non-taxable in determining taxable profits | (145) | (119) |
| Under provided in prior years | 151 | - |
| Effect of higher tax rates in Ukraine | (450) | 184 |
| Income tax benefit/(expense) reported in profit or loss | <u>(1,378)</u> | <u>288</u> |

The Group is subject to taxation in two tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2017 Ukrainian corporate income tax was levied on taxable profit at the rate of 18% (2016: 18%). The tax rate in Cyprus is 12.5% (2016: 12.5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***16. Income tax (continued)**

Movements in deferred tax position were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|----------------|----------------|
| Deferred tax liability as at 1 January | | |
| Presented as "Deferred tax liability" | (4,834) | (5,168) |
| Presented as "Liabilities classified as held for sale" | - | (332) |
| | <u>(4,834)</u> | <u>(5,500)</u> |
| Charged to profit or loss | 1,378 | (288) |
| Disposal of subsidiary | - | 312 |
| Foreign currency translation | 80 | 642 |
| Deferred tax liability as at 31 December | | |
| Presented as "Deferred tax liability" | (3,376) | (4,834) |
| Presented as "Liabilities classified as held for sale" | - | - |
| | <u>(3,376)</u> | <u>(4,834)</u> |

Deferred tax assets and liabilities relate to the following items in 2017:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-------------------------|
| <i>Tax effect of taxable temporary differences:</i> | | |
| Property, plant and equipment, investment properties and other classified as held-for-sale | (7,419) | (7,714) |
| Advances received | (3,280) | (2,994) |
| Prepayments made | (54) | - |
| Trade and other payables | (49) | - |
| Gross deferred tax liabilities | <u>(10,802)</u> | <u>(10,708)</u> |
| Less: Offsetting with deferred tax assets | <u>7,426</u> | <u>5,874</u> |
| Recognised deferred tax liabilities | <u>(3,376)</u> | <u>(4,834)</u> |
| <i>Tax effect of deductible temporary differences:</i> | | |
| Inventories | 3,084 | 2,227 |
| Property development rights | 453 | 408 |
| Property, plant and equipment, investment properties and other classified as held-for-sale | 181 | 187 |
| Other | 1,918 | 879 |
| Tax losses carried forward | 1,790 | 2,173 |
| Gross deferred tax assets | <u>7,426</u> | <u>5,874</u> |
| Less: Offsetting with deferred tax liabilities | <u>(7,426)</u> | <u>(5,874)</u> |
| Net deferred tax liability | <u>(3,376)</u> | <u>(4,834)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***17. Property, plant and equipment**

| | <i>Freehold land</i> | <i>Freehold buildings</i> | <i>Heavy construction equipment</i> | <i>Production, construction and research equipment</i> | <i>Vehicles</i> | <i>Office and computer equipment</i> | <i>Construction in progress</i> | <i>Total</i> |
|--|----------------------|---------------------------|-------------------------------------|--|------------------|--------------------------------------|---------------------------------|----------------------|
| <i>Cost or fair value:</i> | | | | | | | | |
| At 1 January 2017 | 2,398 | 22,026 | 2,104 | 1,902 | 249 | 447 | 221 | 29,347 |
| Additions | - | 26 | 382 | 96 | 20 | 22 | 19 | 565 |
| Disposals | - | (26) | (14) | (34) | (29) | (6) | (25) | (134) |
| Transfers to / from assets held for sale (Note 30) | - | - | 41 | - | - | - | - | 41 |
| Translation difference | (75) | (688) | (88) | (80) | (7) | (15) | (12) | (965) |
| At 31 December 2017 | <u>2,323</u> | <u>21,338</u> | <u>2,425</u> | <u>1,884</u> | <u>233</u> | <u>448</u> | <u>203</u> | <u>28,854</u> |
| <i>Accumulated depreciation:</i> | | | | | | | | |
| At 1 January 2017 | - | (468) | (697) | (1,395) | (217) | (401) | - | (3,178) |
| Depreciation charge for the year | - | (478) | (202) | (141) | (7) | (18) | - | (846) |
| Disposals | - | 1 | 8 | 30 | 29 | 5 | - | 73 |
| Translation difference | - | 39 | 32 | 50 | 6 | - | - | 127 |
| At 31 December 2017 | <u>-</u> | <u>(906)</u> | <u>(859)</u> | <u>(1,456)</u> | <u>(189)</u> | <u>(414)</u> | <u>-</u> | <u>(3,824)</u> |
| <i>Net book value</i> | | | | | | | | |
| At 31 December 2017 | <u><u>2,323</u></u> | <u><u>20,432</u></u> | <u><u>1,566</u></u> | <u><u>428</u></u> | <u><u>44</u></u> | <u><u>34</u></u> | <u><u>203</u></u> | <u><u>25,030</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***17. Property, plant and equipment (continued)**

| | <i>Freehold land</i> | <i>Freehold buildings</i> | <i>Heavy construction equipment</i> | <i>Production, construction and research equipment</i> | <i>Vehicles</i> | <i>Office and computer equipment</i> | <i>Construction in progress</i> | <i>Total</i> |
|--|----------------------|---------------------------|-------------------------------------|--|-----------------|--------------------------------------|---------------------------------|----------------|
| <i>Cost or fair value:</i> | | | | | | | | |
| At 1 January 2016 | 2,715 | 25,604 | 1,869 | 2,136 | 665 | 614 | 246 | 33,849 |
| Additions | 1 | - | - | 45 | 34 | 13 | 17 | 110 |
| Disposals | - | (7) | (231) | (32) | (393) | (114) | (9) | (786) |
| Transfers to / from assets held for sale (Note 30) | - | (261) | 670 | - | - | - | - | 409 |
| Transfer to investment property | - | (389) | - | - | - | - | - | (389) |
| Other transfers | - | - | - | 5 | - | - | (5) | - |
| Translation difference | (318) | (2,921) | (204) | (252) | (57) | (66) | (28) | (3,846) |
| At 31 December 2016 | <u>2,398</u> | <u>22,026</u> | <u>2,104</u> | <u>1,902</u> | <u>249</u> | <u>447</u> | <u>221</u> | <u>29,347</u> |
| <i>Accumulated depreciation:</i> | | | | | | | | |
| At 1 January 2016 | - | (26) | (874) | (1,447) | (662) | (575) | - | (3,584) |
| Depreciation charge for the year | - | (492) | (75) | (148) | (2) | (17) | - | (734) |
| Disposals | - | - | 120 | 22 | 393 | 114 | - | 649 |
| Transfer to assets held for sale (Note 30) | - | 5 | 33 | - | - | - | - | 38 |
| Transfer to investment property | - | 12 | - | - | - | - | - | 12 |
| Translation difference | - | 33 | 99 | 178 | 54 | 77 | - | 441 |
| At 31 December 2016 | <u>-</u> | <u>(468)</u> | <u>(697)</u> | <u>(1,395)</u> | <u>(217)</u> | <u>(401)</u> | <u>-</u> | <u>(3,178)</u> |
| <i>Net book value</i> | | | | | | | | |
| At 31 December 2016 | <u>2,398</u> | <u>21,558</u> | <u>1,407</u> | <u>507</u> | <u>32</u> | <u>46</u> | <u>221</u> | <u>26,169</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***17. Property, plant and equipment (continued)**

As at 31 December 2017 and 2016 freehold land comprised the land to be used for the construction of owner-occupied premises and inventory property; freehold buildings included apartments, parking places and workshops used by the Group for own purposes.

Depreciation

The total depreciation charge for the years ended 31 December 2017 and 2016 was as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Cost of revenue (Note 8) | 727 | 610 |
| Inventories | 102 | 86 |
| General and administrative expenses (Note 10) | <u>17</u> | <u>38</u> |
| Total depreciation charge | <u><u>846</u></u> | <u><u>734</u></u> |

Pledged assets

As at 31 December 2017 freehold land and buildings with a carrying value of USD 19,792 thousand (31 December 2016: USD 20,691 thousand) were pledged as collateral with respect to the loans received (Note 25).

Revaluation of freehold buildings

The latest valuation of freehold buildings was performed by an independent appraiser as at 31 December 2015. As at 31 December 2015, 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. Key assumptions relate to the condition, quality and location of buildings used as comparatives. 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.

As of the reporting date, the Group performed analysis of potential changes in fair value for property, plant and equipment. The Group made an analysis of annual change in major macro indexes, real estate prices and changes in pattern of usage of the Group property, plant and equipment. Additionally, the Group involved an independent appraiser for analysis of real estate prices for comparable properties. Based on the analysis performed the Group concluded that there were no significant changes from prior year in fair value of property, plant and equipment as at 31 December 2017 and as such no revaluation is required.

If freehold buildings were measured using the cost model, the carrying amounts of freehold buildings would be USD 4,196 thousand as at 31 December 2017 (2016: USD 4,448 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***18. Investment properties**

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| At 1 January | 25,241 | 28,913 |
| Addition | 12 | - |
| Disposals | (17) | (451) |
| Transfers to assets held for sale | - | (133) |
| Transfers from property, plant and equipment | - | 377 |
| Translation difference | (788) | (3,465) |
| At 31 December | <u>24,448</u> | <u>25,241</u> |

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

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent valuer as at 31 December 2015. 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.

As of the reporting date, the Group performed analysis of potential changes in fair value for investment property. The Group made an internal analysis of annual change in major macro indexes and real estate prices. Based on the analysis performed the Group concluded that there were no significant changes from prior year in fair value of investment property as at 31 December 2017 and as such no revaluation is required.

Investment properties are presented as Level 2 of the fair value hierarchy.

As at 31 December 2017 investment properties with a carrying value of USD 18,734 thousand (31 December 2016: USD 20,011 thousand) were pledged as collateral with respect to the loans received (Note 25).

During 2017, investment property rentals of USD 1,413 thousand (2016: USD 1,159 thousand) were included in revenue (Note 7).

19. Property development rights

Property development rights were as follows (by projects):

| <u>Name of the project</u> | <u>Location of the project</u> | <u>Type of the project</u> | <u>31 December 2017</u> | <u>31 December 2016</u> |
|----------------------------|--------------------------------|----------------------------|-------------------------|-------------------------|
| Arabatska strilka | Kherson | Resort | 1,236 | 1,255 |
| Satellite Town | Kyiv | Residential | 1,118 | 1,154 |
| Korchagintsiv | Kharkiv | Residential | 237 | 215 |
| Tisa | Carpathians | Resort | 92 | 93 |
| Lubyanka | Kyiv | Land plots | 43 | 44 |
| | | | <u>2,726</u> | <u>2,761</u> |

In August 2016 the Group sold property development rights under development "Bereznevyj" to a third party in exchange for 13% of constructed premises to be completed in future periods.

In 2016 an impairment loss of USD 1,359 thousand was recognized, which represents write-off of several property development rights that the Group does not intend to develop further (Note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***20. Inventories**

Inventories consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|--------------------------------------|-------------------------|-------------------------|
| Completed inventory property | 17,985 | 16,929 |
| Inventory property under development | 7,403 | 13,474 |
| Raw materials | 2,884 | 3,729 |
| Goods for resale | 1,369 | 1,875 |
| Other inventories | 67 | 69 |
| | <u>29,708</u> | <u>36,076</u> |

Inventory property under development

As at 31 December 2017 part of inventory property under development amounting to USD 1,480 thousand (2016: USD 2,364 thousand) was pledged as collateral with respect to loans (Note 25).

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

| <u>Name of the project</u> | <u>Location of the project</u> | <u>Type of the project</u> | <u>31 December 2017</u> | <u>31 December 2016</u> |
|----------------------------|--------------------------------|----------------------------|-------------------------|-------------------------|
| Sonyachna brama | Kyiv | Mainly residential | 5,938 | 12,540 |
| Other | Various | Residential | 1,465 | 934 |
| | | | <u>7,403</u> | <u>13,474</u> |

During 2017 borrowing costs of USD 576 thousand (2016: USD 534 thousand) were capitalised into inventory property under development. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 10 % (2016: 10%).

Completed inventory property

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

| <u>Name of the project</u> | <u>Location of the project</u> | <u>Type of the project</u> | <u>31 December 2017</u> | <u>31 December 2016</u> |
|----------------------------|--------------------------------|----------------------------|-------------------------|-------------------------|
| Sonyachna brama | Kyiv | Residential | 15,179 | 13,063 |
| Ultra | Kharkiv | Residential | 162 | 970 |
| Green Town | Kharkiv | Residential | 532 | 692 |
| Kaskad | Kharkiv | Residential | 890 | 990 |
| Edelweiss | Kharkiv | Residential | 509 | 525 |
| Triumph | Kyiv | Residential | 276 | 285 |
| Karat | Kharkiv | Residential | 127 | 140 |
| Aviator | Kyiv | Residential | 92 | 95 |
| Chaadaeva 2 | Kyiv | Residential | 51 | 57 |
| Atoll | Kharkiv | Residential | 2 | 3 |
| Other | Various | Various | 165 | 109 |
| | | | <u>17,985</u> | <u>16,929</u> |

As at 31 December 2017 completed inventory property with a carrying value of USD 11,797 thousand (31 December 2016: USD 13,999 thousand) was pledged as collateral with respect to loans (Note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***20. Inventories (continued)**

As at 31 December 2017 completed inventory property amounting to USD 4,499 thousand (31 December 2016: USD 4,518 thousand) has been leased out. Significant judgment on classification of such properties as investment property or inventory property is disclosed in Note 4.

21. Receivable under the investment agreement

Movements in the receivable under investment agreement were as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|--------------|--------------|
| At 1 January | 5,287 | 5,558 |
| Recognised during the year | - | 381 |
| Translation difference | (164) | (652) |
| At 31 December | <u>5,123</u> | <u>5,287</u> |

In December 2015 the Group sold inventory property under development "Laboratornyj provulok" to a third party in exchange for 28% of constructed premises to be completed in 2018. As at 31 December 2017 the Group recognised a receivable under the investment agreement in the amount of USD 4,753 thousand (2016: USD 4,906 thousand) representing a consideration of 28% of premises to be constructed.

In August 2016 the Group sold property development rights under development "Bereznevyj" to a third party in exchange for 13% of constructed premises to be completed in future periods. As at 31 December 2017 the Group recognised a receivable under the investment agreement in the amount of USD 370 thousand (2016: USD 381 thousand) representing a consideration of 13% of premises to be constructed.

The sales were considered as sale in exchange for dissimilar goods. Revenue was measured at the fair value of the asset given up that approximated costs incurred up to the date of sale and presented on the net basis in the consolidated statement of profit or loss and other comprehensive income.

22. Trade and other receivables

Trade and other receivables consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|--------------------------------|-------------------------|-------------------------|
| Trade receivables | 1,873 | 1,687 |
| Notes receivable | 206 | 212 |
| Loans to employees | 152 | 216 |
| Other | 460 | 389 |
| | <u>2,691</u> | <u>2,504</u> |
| Less: Allowance for impairment | (1,409) | (1,503) |
| | <u>1,282</u> | <u>1,001</u> |

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

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

| | <u>2017</u> | <u>2016</u> |
|------------------------|--------------|--------------|
| At 1 January | 1,503 | 11,622 |
| Charge for the year | 110 | 184 |
| Recovery of bad debts | (109) | (158) |
| Write-off | (50) | (10,003) |
| Translation difference | (45) | (142) |
| At 31 December | <u>1,409</u> | <u>1,503</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

*(in thousands of US dollars, unless otherwise indicated)***22. 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 |
| 2017 | 1,282 | - | 1,282 | - | - | - | - |
| 2016 | 1,001 | - | 1,001 | - | - | - | - |

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 34.

23. Prepayments

Prepayments consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---|-------------------------|-------------------------|
| Prepayments for construction materials and services | <u>5,750</u> | <u>5,649</u> |
| Less: Impairment | <u>(763)</u> | <u>(782)</u> |
| | <u>4,987</u> | <u>4,867</u> |

24. Issued capital and reserves***Share capital***

As at 31 December 2017 and 2016 the Group'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 2017 and 2016 the Company's total authorised share capital comprised 100,000,000 shares.

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 transaction costs over par value of issued additional ordinary shares represents share premium.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***25. Loans and borrowings**

Loans and borrowings consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|-------------------------|-----------------------------|-----------------------------|
| <i>Current</i> | | |
| Bank loans | 48,538 | 47,553 |
| Loans from shareholders | 485 | 473 |
| Other loans | 37 | 38 |
| Supplier credits | 28 | 14 |
| | <u>49,088</u> | <u>48,078</u> |
| <i>Non-current</i> | | |
| Supplier credits | 215 | 215 |
| | <u>215</u> | <u>215</u> |
| | <u>49,303</u> | <u>48,293</u> |

Interest rate and currency split for major interest-bearing loans and borrowings were as follows:

| | <u>Nominal interest rate</u> | <u>Contractual maturity</u> | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------------------|
| UAH Loans from a Ukrainian bank | 10% - 23% | Overdue | 28,984 | 31,532 |
| EUR Loan from a Ukrainian bank | 10% | Presented as payable on demand | 19,554 | 16,021 |

Loans and borrowings were secured as follows:

| <i>Type of collateral</i> | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---|-----------------------------|-----------------------------|
| Property, plant and equipment (Note 17) | 19,792 | 20,691 |
| Investment properties (Note 18) | 18,734 | 20,011 |
| Inventories (Note 20) | 13,277 | 16,363 |
| | <u>51,803</u> | <u>57,065</u> |

As at 31 December 2017 loans and borrowings are also secured with property rights for future revenues in amount of USD 219 thousand (31 December 2016: USD 226 thousand).

As at 31 December 2017 and 2016, the Group did not comply with financial covenants and other provisions of loan amounting to USD 19,554 thousand (2016: USD 16,021 thousand), including interest payable of USD 1,823 thousand (2016: USD 490 thousand). As a result of breach of these covenants, the creditor has a right to demand immediate repayment of this loan balance. As at 31 December 2017 the loan was treated as on demand due to the overdue payable, non-compliance with financial covenants and other provisions of this loan.

As at 31 December 2017, loans to another lender amounting to USD 28,984 thousand (2016: USD 31,532 thousand) was payable in December 2017 and is overdue.

The Group's exposure to currency and interest rate risks related to loans and borrowings is disclosed in Note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

*(in thousands of US dollars, unless otherwise indicated)***25. Loans and borrowings (continued)****Reconciliation of movements of liabilities to cash flows arising from financing activities**

| <i>(in thousands of USD)</i> | <i>Liabilities</i> | |
|---|--------------------|-----------------------------------|
| | <i>Bank loans</i> | <i>Other loans and borrowings</i> |
| Balance at 1 January 2017 | 47,553 | 740 |
| Changes from financing cash flows | | |
| Proceeds from loans and borrowings | - | - |
| Repayment of borrowings | (1,641) | - |
| Total changes from financing cash flows | (1,641) | - |
| | 45,912 | 740 |
| The effect of changes in foreign exchange rates | 1,486 | 11 |
| Other changes | | |
| Interest paid | (3,460) | - |
| Interest accrual | 4,600 | 14 |
| Total liability-related other changes | 1,140 | 14 |
| Balance at 31 December 2017 | 48,538 | 765 |

26. Trade and other payables

Trade and other payables consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---|-------------------------|-------------------------|
| Trade accounts payable | 4,726 | 5,198 |
| Payables for goods purchased for resale | 639 | 660 |
| Due to employees | 543 | 462 |
| Other | 897 | 875 |
| | <u>6,805</u> | <u>7,195</u> |

The Group's exposure to currency risk related to trade and other payables is disclosed in Note 34.

27. Advances received

Advances received consisted of the following:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-------------------------|
| Advances for apartments and non-residential property | 14,172 | 16,341 |
| Other | 1,019 | 742 |
| | <u>15,191</u> | <u>17,083</u> |

28. Taxes payable, other than income tax

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

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|-------------------------|-------------------------|-------------------------|
| Value added tax payable | 3,397 | 2,711 |
| Payroll related taxes | 124 | 102 |
| Miscellaneous taxes | 97 | 118 |
| | <u>3,618</u> | <u>2,931</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of US dollars, unless otherwise indicated)

29. Provisions

Movements in provisions were as follows:

| | <i>Provision for tax disputes</i> | <i>Provision for legal disputes</i> | <i>Total</i> |
|-------------------------|---------------------------------------|---|--------------|
| At 1 January 2016 | 52 | 3,533 | 3,585 |
| Arising during the year | - | (1,985) | (1,985) |
| Utilised | (49) | (1,207) | (1,256) |
| Released | (3) | (341) | (344) |
| At 31 December 2016 | - | - | - |
| Utilised | - | - | - |
| Released | - | - | - |
| Translation difference | - | - | - |
| At 31 December 2017 | - | - | - |

In 2016, the provision for legal disputes was settled through disposal of subsidiary (Note 30).

No provision was created as at 31 December 2017.

30. Disposal of assets held for sale

Assets held-for-sale were as follows:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-------------------------|
| Other non-current assets classified as held for sale | - | 401 |
| | <u>-</u> | <u>401</u> |

During the year ended 31 December 2017, the Group sold assets held for sale with the carrying amount of USD 360 thousand as at 31 December 2016.

The assets held for sale with with the carrying amount of USD 41 thousand as at 31 December 2016 was transferred to property, plant and equipment (Note 17).

On 4 August 2016, the Group sold its subsidiary JSC "Ukrckukorteploizolyaciya" in settlement of supplier debt amounting to EUR 3,297 thousand. As at the date of disposal, provision for legal dispute with this supplier was created in amount USD 2,305 thousand.

Disposal of the subsidiary did not involve cash consideration.

Effect of disposal of subsidiary on the financial position of the Group was as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------|--------------|
| Property, plant and equipment | - | (2,017) |
| Other assets | - | (6) |
| Deferred tax liabilities | - | 304 |
| Other liabilities | - | 82 |
| Non-controlling interest disposed | - | 22 |
| Net assets and liabilities | - | (1,615) |
| Sale consideration | - | 3,694 |
| Gain on disposal of subsidiary | <u>-</u> | <u>2,079</u> |

On disposal of subsidiary in 2016, the Group reflected in its consolidated statement of changes in equity the transfer of revaluation reserve attributable to a subsidiary company amounting to USD 2,194 thousand to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***31. Related party disclosure**

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

| | <u>Revenue</u> | <u>Other operating income</u> | <u>Other operating expenses</u> |
|-------------------------------|----------------|---------------------------------------|---|
| <i>2017</i> | | | |
| Entities under common control | 11 | 793 | - |
| Other related parties | 4 | - | 842 |
| | <u>15</u> | <u>793</u> | <u>842</u> |
| <i>2016</i> | | | |
| Entities under common control | 34 | 11 | - |
| Other related parties | 9 | - | 450 |
| | <u>43</u> | <u>11</u> | <u>450</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> | <u>Loans to shareholders</u> |
|-------------------------------|--|--------------------|---|------------------------------|----------------------------------|
| <i>31 December 2017</i> | | | | | |
| Entities under common control | 8 | 4,411 | 2,682 | 4,276 | - |
| Other related parties | 3 | - | 373 | 2 | 485 |
| | <u>11</u> | <u>4,411</u> | <u>3,055</u> | <u>4,278</u> | <u>485</u> |
| <i>31 December 2016</i> | | | | | |
| Entities under common control | - | 4,553 | 2,775 | 4,414 | - |
| Other related parties | 3 | - | 294 | 2 | 472 |
| | <u>3</u> | <u>4,553</u> | <u>3,069</u> | <u>4,416</u> | <u>472</u> |

Trade and other payables to other related parties as at 31 December 2017 included remuneration to key management personnel payable amounting to USD 372 thousand (2016: USD 293 thousand).

Other operating expenses on transactions with related parties for the year ended 31 December 2016 included loss of USD 442 thousand, which related to the disposal of property with a carrying value of USD 423 thousand to a related party (close member of key management personnel).

No publicly available financial statements are produced by the Group's ultimate parent company.

The Company's parent company and ultimate controlling party are disclosed in Note 1.

Terms and conditions of transactions with related parties

Prices for related party transactions are determined on an ongoing basis.

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.

Compensation to key management personnel

In 2017, the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 264 thousand (2016: USD 455 thousand) and were included in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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31. Related party disclosure (continued)

Acquisitions from entities under common control

Close to 31 December 2016 the Group acquired 100% shareholding in TMM Energy Limited from a related party, consideration for which was settled with accounts receivable due from this related party (Note 22), and then transferred to another related party for free. The Group considers that this transaction is not a business combination and the Group entered into this transaction to facilitate transfer of mentioned shares to a related party. No gain or loss was earned on this transaction.

32. 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. No provisions for potential tax assessments have been made in these consolidated financial statements, except as disclosed in Note 29.

As a result of the events described in Note 2(a), 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 consolidated financial statements cannot presently be determined and can be significant.

As at 31 December 2017 the Group's management estimated that the maximum, other than provided, cumulative tax exposure amounted to USD 1,417 thousand (2016: USD 6,895 thousand).

Transfer pricing

Ukraine

On 1 September 2013 the Law "On Amendments to the Tax Code of Ukraine (Regarding Transfer Pricing)" came into force (the "TP Law"). The TP Law introduces special TP reporting that must be filed with the tax authorities each year. Additionally, the tax authorities are entitled to request transfer pricing documentation about controlled transactions. The taxpayers must provide such documentation within one month of receiving this request.

Based on these legislative requirements, the transactions between the Group companies incorporated in Ukraine and related parties are subject to transfer pricing compliance and reporting. The Group companies incorporated in Ukraine should thus file transfer pricing reporting with the tax authorities and be ready to provide relevant transfer pricing documentation at their request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2016***(in thousands of US dollars, unless otherwise indicated)***32. Contingencies and commitments (continued)**

Considering the recent implementation of these rules, there is no practice of their application by the tax authorities, there can be no assurance that the tax authorities will not have a different interpretation of the Group's approach and assess fines and penalties. In addition, the main difficulties in determining the controlled transactions and reporting is the lack of legislative criteria for determining normal prices for services and interest on loans received from related parties may lead to ambiguous definition of the value of these parameters and expose the Group to fines.

Lease commitments - the Group as a lessee

As at 31 December 2017, the Group entered into lease agreements on a number of land plots in Kyiv, Kharkiv and other regions of Ukraine with the initial lease term of up to 49 years. All agreements include a clause to enable revision of the rent rate on an annual basis according to annual inflation rate. Legal title is not transferred to the Group. In accordance with these agreements substantially all the risks and rewards incidental to ownership of the assets are retained by the owner. Based on this fact, the Group concluded that these lease agreements are operating leases.

Future minimum lease payments under operating leases as at 31 December 2017 and 31 December 2016 are as follows:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|-------------------|-------------------------|-------------------------|
| Within 1 year | 122 | 139 |
| From 1 to 5 years | 425 | 518 |
| More than 5 years | <u>1,233</u> | <u>1,427</u> |
| | <u>1,780</u> | <u>2,084</u> |

The table above includes future lease payments in the normal course of execution of contracts, without any business disruptions and delays in payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***33. Fair value of financial instruments**

As at 31 December 2017 and 2016 all the financial instruments were measured at amortised cost.

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 and trade and other receivables and payables approximate their fair values due to the short maturities of these instruments.

As at 31 December 2017 and 2016 borrowing arrangements on short-term and long-term debt have fixed interest rates. As at 31 December 2017 and 2016 UAH and EUR denominated loans are on demand and their carrying values approximate their fair values.

34. 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 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

As at 31 December 2017 and 2016, interest bearing liabilities have fixed rates or are overdue (see Note 25), the reasonably possible changes in interest rates could not have a significant impact on profit or loss or equity.

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:

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---------------------------------------|-------------------------|-------------------------|
| Cash and cash equivalents | 99 | 193 |
| Trade and other receivables | 1,282 | 1,001 |
| Receivables from investment agreement | <u>5,123</u> | <u>5,287</u> |
| | <u>6,504</u> | <u>6,481</u> |

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

The credit risk of the Group attached to the outstanding balance of receivables is limited due to constant monitoring carried out by the Group's management of the creditworthiness of corporate customers, and because the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***34. Financial risk management objectives and policies (continued)**

generally requires a prepayment from non-corporate customers. Also refer to Note 2 for description of operating environment, risks and economic conditions.

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.

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

| | <i>Carrying amount</i> | <i>Contractual cash flows</i> | <i>Less than one year</i> | <i>More than 1 year</i> |
|--------------------------|----------------------------|-----------------------------------|-------------------------------|-----------------------------|
| <i>31 December 2017</i> | | | | |
| Loans and borrowings | 49,303 | 49,330 | 49,102 | 228 |
| Trade and other payables | 6,805 | 6,805 | 6,805 | - |
| | <u>56,108</u> | <u>56,135</u> | <u>55,907</u> | <u>228</u> |
| <i>31 December 2016</i> | | | | |
| Loans and borrowings | 48,293 | 48,334 | 48,092 | 242 |
| Trade and other payables | 7,195 | 7,195 | 7,195 | - |
| | <u>55,488</u> | <u>55,529</u> | <u>55,287</u> | <u>242</u> |

Foreign currency risk

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 functional currency of the Group's entities. The Group has not entered into transactions designed to hedge against these foreign currency risks.

Foreign currency exposure as at 31 December 2017 and 2016 has been disclosed in Note 25 and is primarily due to EUR.

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 or loss before tax (due to changes in the carrying value of monetary assets and liabilities). The Group's exposure to foreign currency changes for all other currencies is not material.

| | <i>Change in foreign currency exchange rates</i> | <i>Effect on profit or loss before tax</i> |
|-------------------------------|--|--|
| <i>2017</i> | | |
| Increase in EUR exchange rate | 5.00% | (801) |
| Decrease in EUR exchange rate | (5.00%) | 801 |
| <i>2016</i> | | |
| Increase in EUR exchange rate | 5.00% | (657) |
| Decrease in EUR exchange rate | (5.00%) | 657 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2016***(in thousands of US dollars, unless otherwise indicated)***34. Financial risk management objectives and policies (continued)****Capital risk management**

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

| | <u>31 December 2017</u> | <u>31 December 2016</u> |
|---|-------------------------|-------------------------|
| Long-term borrowings | 215 | 215 |
| Short-term borrowings | 49,088 | 48,078 |
| Advances received from customers | 15,191 | 17,083 |
| Less cash and cash equivalents | (99) | (193) |
| Net debt | <u>64,395</u> | <u>65,183</u> |
| Total equity attributable to equity holders of the parent | <u>14,812</u> | <u>21,350</u> |
| Total capital and net debt | <u><u>79,207</u></u> | <u><u>86,533</u></u> |
| Gearing ratio | 81% | 75% |

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.

During the year ended 31 December 2017 there were no changes to the capital management policy of the Group.

35. Events after the reporting date

Subsequent to 31 December 2017, the Group purchased related party's loan due to Ukrainian bank by transferring ownership of the Group's inventory with the carrying value of USD 550 thousand.

Subsequent to 31 December 2017, the Group lost legal case for foreclosure of USD 3,855 thousand of pledged property.