TMM Real Estate Development plc

Unaudited Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2018

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

BOARD OF DIRECTORS

Mykola Tolmachov
Larysa Chyvurina

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PJSC "Bank Credit Agricole"

REGISTERED OFFICE

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1095, Nicosia,
Cyprus

’000 USD	**Note**	**30 June 2018**	31 December 2017*
Assets			
Property, plant and equipment	8	**26,295**	25,030
Intangible assets		**25**	19
Investment properties	9	**26,182**	24,448
Property development rights	10	**2,894**	2,726
Non-current assets		**55,396**	52,223
Inventories	11	**32,933**	33,761
Receivables under the investment agreement		**5,496**	5,123
Trade and other receivables		**2,918**	1,282
Prepayments		**6,478**	4,987
Taxes recoverable, other than income tax		**81**	32
Cash and cash equivalents		**849**	99
Current assets		**48,755**	45,284
Total assets		**104,151**	97,507

The condensed consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

'000 USD	Note	30 June 2018	31 December 2017*
Equity			
Share capital		**510**	510
Share premium		**99,191**	99,191
Additional paid-in capital		**15,450**	15,450
Revaluation reserve		**79,694**	79,694
Accumulated deficit		**(50,710)**	(51,647)
Translation reserve		**(128,478)**	(128,386)
Equity attributable to equity holders of the parent		**15,657**	14,812
Non-controlling interests		**263**	248
Total equity		**15,920**	15,060
Liabilities			
Loans and borrowings	12	**215**	215
Deferred tax liabilities		**3,782**	3,376
Non-current liabilities		**3,997**	3,591
Trade and other payables		**8,888**	6,805
Loans and borrowings	12	**50,691**	49,088
Contract liabilities	13	**20,050**	19,244
Income tax payable		**112**	101
Taxes payable, other than income tax		**4,493**	3,618
Current liabilities		**84,234**	78,856
Total liabilities		**88,231**	82,447
Total equity and liabilities		**104,151**	97,507

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 4.

The condensed consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

		For the six months ended 30 June	
'000 USD	**Note**	**2018**	2017
Revenue	6	9,129	6,514
Cost of sales		(6,786)	(5,536)
Gross profit		2,343	978
Other operating income		66	669
General and administrative expenses		(754)	(623)
Selling and distribution expenses		(184)	(253)
Other operating expenses		(210)	(278)
Results from operating activities		1,261	493
Finance costs		(1,950)	(2,050)
Foreign exchange loss, net		1,783	(827)
Profit/(Loss) before income tax		1,094	(2,384)
Income tax (expense)/benefit	7	(160)	228
Profit/(Loss) for the period		934	(2,156)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency		(74)	873
Other comprehensive income for the period, net of income tax		(74)	873
Total comprehensive income for the period		860	(1,283)
Profit attributable to:			
Equity holders of the parent		937	(2,155)
Non-controlling interests		(3)	(1)
		934	(2,156)

The condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

		For the six months ended 30 June	
'000 USD	**Note**	**2018**	2017
Total comprehensive income attributable to:			
Equity holders of the parent		845	(2,193)
Non-controlling interests		15	10
		860	(1,283)
Basic and diluted earnings per share		0.02	(0.04)

These condensed consolidated interim financial statements were approved by management on 31 October 2018 and were signed on its behalf by:

Director — Mykola Tolmachov

Director — Larysa Chyvurina

The condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

'000 USD		**Attributable to equity holders of the parent**								
	Note	**Share capital**	**Share premium**	**Additional paid-in capital**	**Revaluation reserve**	**Accumulated deficit**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018		**510**	**99,191**	**15,450**	**79,694**	**(51,647)**	**(128,386)**	**14,812**	248	**15,060**
Profit for the period		-	-	-	-	937	-	937	(3)	934
Other comprehensive profit		-	-	-	-	-	(92)	(92)	18	(74)
Total comprehensive profit for the reporting period		**`510**	**99,191**	**15,450**	**79,694**	**937**	**(92)**	**845**	15	**860**
Transfer of revaluation reserve, net of taxes		-	-	-	-	-	-	-	-	-
Balance at 30 June 2018		**510**	**99,191**	**15,450**	**79,694**	**(50,710)**	**(128,478)**	**15,657**	263	**15,920**

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

'000 USD		**Attributable to equity holders of the parent**								
	Note	**Share capital**	**Share premium**	**Additional paid-in capital**	**Revaluation reserve**	**Accumulated deficit**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017		510	99,191	15,450	79,464	(45,321)	(127,944)	21,350	264	21,614
Loss for the period		-	-	-	-	(2,155)	-	(2,155)	(1)	(2,156)
Other comprehensive loss for the period		-	-	-	-	-	862	862	11	873
Total comprehensive loss for the reporting period		-	-	-	-	(2,155)	862	(1,293)	10	(1,283)
Transfer of revaluation reserve, net of taxes		-	-	-	-	-	-	-	-	-
Balance at 30 June 2017		510	99,191	15,450	79,464	(47,476)	(127,082)	20,057	274	20,331

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 12 to 30.

		For the six months ended 30 June	
'000 USD	**Note**	**2018**	2017
Cash flows from operating activities			
Profit/(Loss) for the period		1,094	(2,384)
Adjustments for:			
Depreciation and amortisation		457	318
Gain on disposal of property, plant and equipment and investment properties	8	(31)	(3)
Loss on disposal of assets held for sale		-	217
Finance costs		1,950	2,050
Unrealised foreign exchange loss		(1,783)	828
		1,687	1,026
Changes in:			
Inventories		2,001	578
Trade and other receivables		(1,565)	(1,229)
Prepayments		(1,109)	(584)
Taxes recoverable, other than income tax		(46)	4
Trade and other payables and provisions		1,725	1,845
Advances received		(442)	284
Taxes payable, other than income tax		602	685
Cash flows from operations before income taxes and interest paid		2,853	2,609
Interest paid		(653)	(1,918)
Net cash from operating activities		2,200	691
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and investment properties		(63)	28
Purchase of property, plant and equipment and investment properties		86	(28)
Proceeds from sale of assets held for sale		-	151
Net cash from investing activities		23	151
Cash flows from financing activities			
Proceeds from loans		112	-
Repayment of loans		(1,609)	(819)
Net cash used in financing activities		(1,497)	(819)

		For the six months ended 30 June	
’000 USD	**Note**	**2018**	2017
Net decrease in cash and cash equivalents		726	23
Cash and cash equivalents at 1 January		99	193
Effect of exchange rate fluctuations on cash and cash equivalents		24	9
Cash and cash equivalents at 30 June		849	225

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1. Reporting entity

(a) Organisation and operations

These interim condensed consolidated financial statements are prepared by TMM Real Estate Development plc (hereinafter referred to as the "Company"), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus Companies Law, Cap. 113. The address of the Company's registered office is 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is 49A, Volodymyrska street, Kyiv, Ukraine 04116.

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

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

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") is the construction and development of residential and business properties 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 30 June is disclosed below.

Name	*Principal activities*	*30 June 2018*	*31 December 2017*
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%
LLC "TMM - Budkomplekt"	Production of construction materials	98.9%	98.9%

All subsidiaries are incorporated in Ukraine.

The Group is ultimately controlled by Mr. Mykola Tolmachov.

(b) Business environment

Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. 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.

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 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.

Starting from the last quarter of 2008, the Ukrainian residential and industrial property markets have suffered a significant fall in demand following the overall macroeconomic turmoil. This resulted in weak liquidity and the poor conditions prevailing in the Ukrainian property market. The market prices stabilised in 2010-2013 and increased in 2014-2015 in UAH terms due to the depreciation of UAH against US Dollar, however, it is not expected that a significant improvement in market conditions will emerge in the foreseeable future given the deterioration of Ukrainian political and economic situation in 2014 and thereafter, the lack of availability of mortgage and development financing and weak consumption power in the market.

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

As at 3o June 2018, the carrying value of the Group's property located in Yalta, the city of the Republic of Crimea, amounted to USD 4,855 thousand (31 December 2017: USD 4,580 thousand). The ultimate effect of these developments in the Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets and to maintain and secure its ownership rights cannot yet be determined.

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

operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of accounting

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") and should be read in conjunction with the combined financial statements of the Group as at and for the year ended 31 December 2017.

This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 4.

(b) Going concern

During the six-month period ended 30 June 2018 the Group reported a net profit of USD 934 thousand (six-month period ended 30 June 2017: a net loss of USD 2,156 thousand). However, as at 30 June 2018 the Group's current liabilities exceeded its current assets by USD 35,479 thousand (31 December 2017: USD 33,572 thousand).

The Group needs to repay USD 30,406 thousand of loans and borrowings, which fall due in the short term. Additionally, as at 30 June 2018 loan amounting to USD 19,977 thousand was treated as on demand due to a non-compliance with the financial covenants (Note 12).

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.

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

The Group's ability to continue its operations on a going concern basis depends on (i) generation of sufficient cash flows from its operating activities, and (ii) its ability to extend the payment terms of its interest-bearing loan which falls due in 2018.

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

3. Use of estimates and judgments

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements as of and for the year ended 31 December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 4.

(a) Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the group audit committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* (see A) and IFRS 9 *Financial Instruments* (see B) from 1 January 2018. Adoption of standards mentioned above has no material impact of Group's equity as at 1 January 2018, except for the matter described in Note 13. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Impact on the condensed consolidated statement of financial position:

30 June 2018 **'000 USD**	**Note**	**Amounts without adoption of IFRS 15**	**Adjustments**	**As reported**
Assets				
Inventories	11	28,584	4,349	32,933
Current assets		**28,584**	**4,349**	**32,933**
Total assets		**28,584**	**4,349**	**32,933**
Contract liabilities	13	15,701	4,349	20,050
Current liabilities		**15,701**	**4,349**	**20,050**
Total liabilities		**15,701**	**4,349**	**20,050**
Total equity and liabilities		**15,701**	**4,349**	**20,050**

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
a. Sales of apartments	The Group satisfies the performance obligation at a point in time by transferring a promised apartments (an assets) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.	IFRS 15 did not have a significant impact on the Group's accounting policies apart from treatment of significant financing component described in Note 13.
e. Utility services income; Rental income from investment properties;	Revenue is recognised over time as those services are provided. Invoices for forestry services are issued on a monthly basis and are usually payable within 30 days. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the Group sells the services in separate transactions.	IFRS 15 did not have a significant impact on the Group's accounting policies as the Group records Revenue on a monthly basis

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

The impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings is not material.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or 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. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 is not material. Under IAS 39 Group's financial assets were classified as loans and receivables. Implementation of IFRS 9 lead to change in classification of all Group's financial assets as financial assets at amortised cost.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and other comprehensive income.

Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and other comprehensive income due to materiality considerations.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

– The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and

reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

5. Operating segments

(i) Identification of reportable segments

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

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

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

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

For the six months ended 30 June:

2018	Investment property	Property development and construction	Utility services	Total reportable segments
Revenue				
External customers	958	5,915	2,141	9,014
Inter-segment	-	1	-	1
Total revenue	958	5,916	2,141	9,015
Results				
Depreciation	-	(350)	-	(350)
Selling and distribution expenses	-	(184)	-	(184)
Segment results (including cost of sales)	958	1,231	313	2,502

2017	Investment property	Property development and construction	Utility services	Total reportable segments
Revenue				
External customers	612	3,209	1,522	5,343
Inter-segment	8	47	3	58
Total revenue	620	3,256	1,525	5,401
Results				
Depreciation	-	(318)	-	(318)
Selling and distribution expenses	-	(253)	-	(253)
Segment results (including cost of sales)	620	325	(233)	712

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

Inter-segment revenues are eliminated on consolidation.

(ii) Reconciliations of reportable segment profit or loss for the period

	For the six months ended	
'000 USD	**2018**	**2017**
Profit for the period	2,502	712
Gain of other operating segments	(342)	71
General and administrative expenses	(754)	(623)
Other operating expenses	(210)	(278)
Other operating income	66	669
Finance costs	(1,950)	(2,050)
Foreign exchange loss, net	1,783	(827)
Inter-segment sales (eliminations)	(1)	(58)
Consolidated loss before tax	1,094	(2,384)

Major part for unallocated revenues during the six-month period ended 30 June 2017 relate to export of agricultural produce amounting to USD 768 thousand.

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

6. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements.

The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in Note 4.

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

	2018	2017
Sales of completed inventory property	4,761	2,010
Utility services income	2,141	1,522
Construction services revenue	1,154	1,199
Rental income from investment properties	959	612
Other services	114	1,171
	9,129	6,514

(a) Seasonality of operations

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

7. Income tax expense

The Group recognises income tax expense based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group is subject to taxation in two tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). During the six-month period ended 30 June 2018 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2017: 18%). The tax rate in Cyprus is 12.5% (2017: 12.5%).

Income tax expense is recognised at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

8. Property, plant and equipment

During the six-month period ended 30 June 2018, the Group acquired property plant and equipment with a cost of USD 63 thousand (six-month period ended 30 June 2017: USD 28 thousand).

Property and equipment with a carrying amount of USD 61 thousand were disposed during six-month period ended 30 June 2018, resulting in a gain on disposal of USD 31 thousand (six-month period ended 30 June 2017: USD 7 thousand and gain of USD 5 thousand, respectively).

9. Investment properties

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

During six-month period ended 30 June 2018 and 2017, the Group did not purchase investment properties.

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 at 30 June 2018 and 31 December 2017, 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 31 December 2015 in fair value of investment property as at 30 June 2018 and 31 December 2017 and as such no revaluation is required.

10. Property development rights

Property development rights were as follows (by projects):

Name of the project	Location of the project	Type of the project	30 June 2018	31 December 2017
Arabatska strilka	Kherson	Resort	1,314	1,236
Satellite Town	Kyiv	Residential	1,198	1,118
Korchagintsiv	Kharkiv	Residential	239	237
Tisa	Carpathians	Resort	98	92
Lubyanka	Kyiv	Land plots	45	43
			2,894	2,726

11. Inventories

There were no inventory write-downs recognised during the six-month period ended 30 June 2018 and 2017.

12. Loans and borrowings

	30 June 2018	31 December 2017
Current		
Bank loans	50,383	48,538
Loans from shareholder	232	485
Other loans	41	37
Supplier credits	35	28
	50,691	49,088
Non-current		
Supplier credits	215	215
	215	215
	50,905	49,303

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

	Nominal interest rate	Contractual maturity	30 June 2018	31 December 2017
UAH Loans from a Ukrainian bank	10% - 23%	On demand/Partly on demand and partly due in 2016	30,406	28,984
EUR Loan from a Ukrainian bank	10%	Due in 2021	19,977	19,554

(a) Breach of loan covenant

As at 30 June 2018 and 31 December 2017, the Group did not comply with financial covenants and other provisions of loan amounting to USD 19,977 thousand (31 December 2017: USD 19,554 thousand), including interest payable of USD 2,635 thousand (31 December 2017: USD 1,823 thousand). As a result of breach of these covenants, the creditor has a right to demand immediate repayment of this loan balance. As at 30 June 2018 and 31 December 2017 the loan was treated as on demand due to the overdue amounts payable, non-compliance with financial covenants and other provisions of this loan.

As at 30 June 2018 and 31 December 2017, loans to another, majority, lender amounting to USD 30,406 thousand (31 December 2017: USD 28,984 thousand) were overdue.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

(in thousands of USD)	Liabilities Bank loans	Other loans and borrowings
Balance at 1 January 2017	**48,538**	**765**
Changes from financing cash flows		
Proceeds from loans and borrowings	-	112
Repayment of borrowings	(1,215)	(394)
Total changes from financing cash flows	**47,323**	**483**
The effect of changes in foreign exchange rates	**1,604**	**34**
Other changes		
Interest paid	(653)	-
Interest accrual	2,109	5
Total liability-related other changes	**1,456**	**5**
Balance at 31 December 2017	**50,383**	**522**

13. Contract liabilities

As at 30 June 2018 according to requirements of IFRS 15, management considered element of significant financing component in contract liabilities and recognised respective interest expenses in amount of USD 4,349 thousand for the six months ended 30 June 2018, which were capitalized on cost of inventory as the nature of advance is financing of construction of the apartments. The Group used the discount rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception.

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 4). Effect of implementation of IFRS 15 and recognition of significant financing component on opening figures as at 1 January 2018 equals to USD 4,054 thousand and was recognized as an increase in cost of inventory and ccontract liabilities.

14. Contingencies

Taxation contingencies in Ukraine

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, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 30 June 2018 the Group's management estimated that the maximum, other than provided, cumulative tax exposure amounted to USD 8,839 thousand (31 December 2017: USD 7,640 thousand).

15. Financial instruments and risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

16. Related parties

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

	Revenue	Other operating income	Purchases	Other operating expenses
2018				
Entities under common control	-	-	-	-
Other related parties	158	-	-	-
	158	-	-	-
2017				
Entities under common control	-	-	-	-
Other related parties	8	-	-	-
	8	-	-	-

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

	Trade and other receivables	Prepayments	Trade and other payables	Advances received	Loans from shareholders
30 June 2018					
Entities under common control	24	5,673	2,873	4,350	-
Other related parties	201	-	1	38	232
	225	**5,673**	**2,874**	**4,388**	**232**
31 December 2017					
Entities under common control	8	4,411	2,682	4,276	-
Other related parties	3	-	373	2	485
	11	4,411	3,055	4,278	485

(i) Terms and conditions of transactions with related parties

Outstanding receivable and payable balances, excluding prepayments and advances received, at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. As at and for the six-month period ended 30 June 2018 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

(ii) Key management personnel compensation

Key management personnel consist of five top executives and three non-executive directors of the Group.

During six-month period ended 30 June 2018 the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 75 thousand (30 June 2017: USD 133 thousand) and were included in general and administrative expenses.

17. Subsequent events

Subsequently to the reporting date, the Group’s Lender, Ukrainian bank, issued consent to restructuring of Group’s indebtedness in amount of USD 30,406 thousand as at 30 June 2018.

18. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed consolidated interim financial statements.

The Group does not have updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.