

Limited Liability Company
“Tekhnopark LZTA”

Financial statements
31 December 2013

These financial statements contain 37 pages

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Limited Liability Company "Tekhnopark LZTA"
Financial statements as at and for the year ended 31 December 2013
Statement of financial position as at 31 December 2013

| <i>(in thousands of Ukrainian hryvnias)</i> | <i>Note</i> | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|-------------|-------------------------|-------------------------|
| Assets | | | |
| Non-current assets | | | |
| Investment property | 5 | 191,365 | 252,885 |
| Property, plant and equipment | 4 | 3,789 | 3,964 |
| Other non-current assets | | - | 57 |
| | | <hr/> 195,154 | <hr/> 256,906 |
| Current assets | | | |
| Inventories | | 166 | 570 |
| Investments available-for-sale | 7 | - | 9,497 |
| Trade and other accounts receivable | 6 | 8,002 | 16,696 |
| Advances made | | 5,383 | 749 |
| Cash and cash equivalents | 8 | 1,275 | 47 |
| | | <hr/> 14,826 | <hr/> 27,559 |
| Total assets | | <hr/> 209,980 | <hr/> 284,465 |
| Equity and liabilities | | | |
| Equity | | | |
| Statutory fund | 9 | 20,000 | 20,000 |
| Additional paid-in capital | 10 | 6,394 | - |
| Retained earnings | | 82,921 | 155,699 |
| Total equity | | <hr/> 109,315 | <hr/> 175,699 |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | 67,970 | 64,477 |
| Deferred tax liabilities | 18 | 23,003 | 32,976 |
| | | <hr/> 90,973 | <hr/> 97,453 |
| Current liabilities | | | |
| Loans and borrowings | 10 | 2,371 | 7,393 |
| Trade and other accounts payable | 11 | 4,538 | 1,417 |
| Advances received | | 2,540 | 2,039 |
| Other taxes payable | | 243 | 464 |
| | | <hr/> 9,692 | <hr/> 11,313 |
| Total liabilities | | <hr/> 100,665 | <hr/> 108,766 |
| Total equity and liabilities | | <hr/> 209,980 | <hr/> 284,465 |

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 37.

Limited Liability Company "Tekhnopark LZTA"
Financial statements as at and for the year ended 31 December 2013
Statement of profit and loss and other comprehensive income for the year ended 31 December 2013

| | <i>Note</i> | 2013 | 2012 |
|----------------------------------------------------------------------|-------------|-----------------|----------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | |
| Revenue | <i>12</i> | 20,215 | 19,298 |
| Cost of sales | <i>13</i> | (10,958) | (10,319) |
| Gross profit | | 9,257 | 8,979 |
| General administrative expenses | <i>14</i> | (2,301) | (1,366) |
| Loss on investment property revaluation | <i>5</i> | (79,494) | - |
| Other income | | 47 | 380 |
| Other expenses | <i>15</i> | (2,160) | (1,454) |
| Profit from operations | | (74,651) | 6,539 |
| Finance income | | 526 | 660 |
| Finance costs | <i>17</i> | (8,463) | (8,121) |
| Loss before tax | | (82,588) | (922) |
| Income tax benefit | <i>18</i> | 9,944 | 9,923 |
| Net (loss) profit and total comprehensive income for the year | | (72,644) | 9,001 |

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 37.

Limited Liability Company "Tekhnopark LZTA"
Financial statements as at and for the year ended 31 December 2013
Statement of cash flows for the year ended 31 December 2013

| <i>(in thousands of Ukrainian hryvnias)</i> | <i>Note</i> | 2013 | 2012 |
|-----------------------------------------------------------------------------------------|-------------|-----------------|-----------------|
| Operating activities | | | |
| Net (loss) profit | | (72,644) | 9,001 |
| <i>Adjustments for:</i> | | | |
| Depreciation | | 727 | 492 |
| Loss on property revaluation | | 79,494 | - |
| Loss on disposal of investment property | | 1,113 | - |
| Loss on disposal of property, plant and equipment and other non-current assets | | 13 | 47 |
| Interest expense | | 5,952 | 7,990 |
| Interest income | | (526) | (660) |
| Unrealised foreign exchange loss | | 2,453 | 51 |
| Provision (reversal of provision) for impairment on trade and other accounts receivable | | 365 | 867 |
| Impairment of inventory | | 226 | - |
| Income tax (benefit) expense | | (9,944) | (9,923) |
| Operating cash flows before changes in working capital | | 7,229 | 7,865 |
| Change in inventories | | 235 | 117 |
| Change in trade and other receivables | | 8,945 | 3,540 |
| Change in prepayments and other current assets | | (4,634) | 2,769 |
| Change in trade and other payables | | 3,121 | (3,578) |
| Change in advances received | | 501 | 303 |
| Change in other taxes payable | | (221) | 334 |
| Cash flows from operating activities | | 15,176 | 11,350 |
| Investing activities | | | |
| Proceeds from sales of property, plant and equipment | | - | - |
| Proceeds from sales of financial investments | | 9,244 | - |
| Acquisition of property, plant and equipment and investment property | | (19,133) | (2,267) |
| Cash used in investing activities | | (9,889) | (2,267) |
| Financing activities | | | |
| Proceeds from loans and borrowings | | 41,658 | - |
| Repayments of loans and borrowings | | (40,927) | (5,244) |
| Proceeds from repayment of financial aid given | | - | 11 |
| Financial aid given | | - | (3,419) |
| Interest paid | | (4,790) | (3,393) |
| Interest received | | - | 139 |
| Cash used in financing activities | | (4,059) | (11,906) |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 37.

Limited Liability Company "Tekhnopark LZTA"
Financial statements as at and for the year ended 31 December 2013
Statement of cash flows for the year ended 31 December 2013
(continued)

| | | | |
|-------------------------------------------------------------|---|--------------|----------------|
| Net increase (decrease) in cash and cash equivalents | | 1,228 | (2,823) |
| Cash and cash equivalents at beginning of year | 8 | 47 | 2,870 |
| Cash and cash equivalents at end of year | 8 | 1,275 | 47 |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 37.

Limited Liability Company "Tekhnopark LZTA"
Financial statements as at and for the year ended 31 December 2013
Statement of changes in equity for the year ended 31 December 2013

| <i>(in thousands of Ukrainian hryvnias)</i> | Statutory fund | Additional paid-in capital | Retained earnings | Total |
|-----------------------------------------------------------------------|---------------------------|-------------------------------------------|------------------------------|--------------|
| Balances as at 1 January 2012 | 20,000 | - | 147,394 | 167,394 |
| Net profit and total comprehensive income for the year | - | - | 9,001 | 9,001 |
| Transactions with owners, recognised directly in equity: | | | | |
| Distribution to a related party acting in capacity of shareholders | - | - | (859) | (859) |
| Deferred tax effect | - | - | 163 | 163 |
| Total transactions with owners, recognised directly in equity | - | - | (696) | (696) |
| Balances as at 31 December 2012 | 20,000 | - | 155,699 | 175,699 |
| Net loss and total comprehensive income for the year | - | - | (72,644) | (72,644) |
| Transactions with owners, recognised directly in equity: | | | | |
| Distribution to a related party acting in capacity of shareholders | - | - | (163) | (163) |
| Deferred tax effect | - | - | 29 | 29 |
| Gain on recognition of loan from a related party (note 10) | - | 6,394 | - | 6,394 |
| Deferred tax effect | - | - | - | - |
| Total transactions with owners, recognised directly in equity | - | 6,394 | (134) | 6,260 |
| Balances as at 31 December 2013 | 20,000 | 6,394 | 82,921 | 109,315 |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 37.

1 Background

(a) Organization and operations

Limited Liability Company "Tekhnopark LZTA" (the Company) was established on 25 December 2002 in Lviv, Ukraine. The legal address of the Company is 72 Geroyiv UPA Street, Lviv, Ukraine.

The main activities of the Company are investing in the development of new properties in Ukraine and leasing them out. The Company is the owner of the Tekhnopark business centre with a total area of 36,212 square meters located in Lviv.

(b) 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.

Whilst management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment. These financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for investment property, which is measured at fair value by an independent appraiser on a regular basis.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in UAH has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical estimates and judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and could lead to material adjustments within the next financial year is included in the following notes:

- note 5 – valuation of investment property;
- note 6 – valuation of trade and other accounts receivables;
- note 9 – classification of puttable financial instruments and obligation arising on liquidation

The amendment *Puttable Financial Instruments and Obligations Arising on Liquidation*, issued in February 2008, amended International Financial Reporting Standard IAS 32 *Financial Instruments: Presentation* and International Financial Reporting Standard IAS 1 *Presentation of Financial Statements*. The amendments became effective for annual periods beginning on or after 1 January 2009. Prior to the amendment, IAS 32 required shareholders' interests in limited liability companies to be classified as liabilities because such companies are obliged to pay a withdrawing shareholder its share of the company's net assets. Following amendment, IAS 32 requires such interests to be classified as equity, rather than liabilities, if, as well as other criteria being met, the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in recognised net assets or the change in the fair value of the recognised and unrecognized net assets over the life of the instrument and there are no other instruments issued that have cash flows based substantially on the total cash flows based substantially on the above items or restrict or fix the residual return to the puttable instrument holders. Although the exercise price for puttable instruments is based on the Company's statutory financial statements, management believes that the difference between the IFRS and statutory financial statements are temporary and expected to converge over time. In addition, the exit of a single participant in a limited liability company is prohibited. Consequently, in the view of management, the above criteria are met.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except stated otherwise.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

The principal UAH exchange rates used in the preparation of these financial statements are as follows:

| Currency | 31 December 2013 | 31 December 2012 |
|-----------------|------------------|------------------|
| US dollar (USD) | 8.28 | 7.993 |

As at the date of these financial statements, 13 June 2014, the exchange rate is UAH 11.73 to USD 1.00.

(b) Changes in accounting policies and presentation

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- IFRS 13 *Fair Value Measurements*
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*)

The nature and the effect of the changes are explained below.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as 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. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. (see Note 19(e)).

As a result, the Company adopted a new definition of fair value, as set out in Note 3(c)(iii). The change had no significant impact on the measurements of assets and liabilities. However, the Company included new disclosures in the consolidated financial statements that are required under IFRS 13, comparatives not restated.

(ii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Company modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

(c) Financial instruments

(i) *Non-derivative financial assets*

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables, and cash and cash equivalents.

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other accounts receivable. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or

loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost less impairment.

Available-for-sale financial assets comprise investments in equity and debt.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The Company has the following non-derivative financial liabilities: trade and other payables and loans and borrowings.

(iii) Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

(iv) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial

instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Company measures assets and long positions at the bid price and liabilities and short positions at the ask price.

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

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(v) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment property principally comprises buildings held for rental income earning.

(i) Initial measurement and recognition

Investment property is measured initially at cost, including related acquisition costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

If the Company uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for

separately. Therefore the part that is rented out is investment property. If the portions cannot be sold or leased out separately, the property is investment property only if the company-occupied portion is insignificant.

(ii) Subsequent measurement

Subsequent to initial recognition investment property is stated at fair value. Any gain or loss arising from a change in fair value is included in profit or loss in the period in which it arises.

When the Company begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured at fair value, and is not reclassified to property and equipment during the redevelopment.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property is derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised as gain or loss in profit or loss.

It is the Company's policy that an external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being appraised, values the portfolio.

(e) Property, plant and equipment

(i) Basis of measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Construction in progress

Construction in progress is stated at cost less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and construction in progress are not depreciated.

The estimated useful lives for the current period are as follows:

| | |
|-----------------------|------------|
| Buildings | 4-20 years |
| Plant and equipment | 2-10 years |
| Motor vehicles | 5 years |
| Fixtures and fittings | 1-5 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's statement of financial position.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the specific identification of their individual costs and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (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. 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 group's of assets (the "cash-generating unit").

The Company'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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

(i) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(j) Revenue (rental income)

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Rental income is recognised when the recovery of the consideration is probable and the amount of income can be measured reliably.

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Finance income and finance costs

Finance income comprises interest income from funds invested and foreign currency gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowing and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in gain or net loss position.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations:

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018. The Group does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Company has not yet analysed the likely impact of the new standards, above amendments and improvements on its financial position or performance.

4 Property, plant and equipment

Movements in property, plant and equipment for the year ended 31 December 2013 are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | Land and buildings | Plant and equipment | Motor vehicles | Fixtures and fittings | Total |
|-------------------------------------------------|-------------------------------|--------------------------------|---------------------------|----------------------------------|----------------|
| <i>Cost</i> | | | | | |
| At 1 January 2013 | 4,857 | 464 | 538 | 225 | 6,084 |
| Additions | 312 | 95 | 110 | 48 | 565 |
| Disposals | - | (1) | (80) | (2) | (83) |
| At 31 December 2013 | 5,169 | 558 | 568 | 271 | 6,566 |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 January 2013 | (1,169) | (279) | (488) | (184) | (2,120) |
| Depreciation charge | (546) | (66) | (85) | (30) | (727) |
| Disposals | - | 1 | 67 | 2 | 70 |
| At 31 December 2013 | (1,715) | (344) | (506) | (212) | (2,777) |
| <i>Net book value</i> | | | | | |
| At 1 January 2013 | 3,688 | 185 | 50 | 41 | 3,964 |
| At 31 December 2013 | 3,454 | 214 | 62 | 59 | 3,789 |

Movements in property, plant and equipment for the year ended 31 December 2012 are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | Land and buildings | Plant and equipment | Motor vehicles | Fixtures and fittings | Total |
|-------------------------------------------------|-------------------------------|--------------------------------|---------------------------|----------------------------------|----------------|
| <i>Cost</i> | | | | | |
| At 1 January 2012 | 4,694 | 441 | 519 | 225 | 5,879 |
| Additions | 166 | 26 | 19 | 1 | 212 |
| Disposals | (3) | (3) | - | (1) | (7) |
| At 31 December 2012 | 4,857 | 464 | 538 | 225 | 6,084 |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 January 2012 | (883) | (212) | (382) | (153) | (1,630) |
| Depreciation charge | (287) | (68) | (106) | (31) | (492) |
| Disposals | 1 | 1 | - | - | 2 |
| At 31 December 2012 | (1,169) | (279) | (488) | (184) | (2,120) |
| <i>Net book value</i> | | | | | |
| At 1 January 2012 | 3,811 | 229 | 137 | 72 | 4,249 |
| At 31 December 2012 | 3,688 | 185 | 50 | 41 | 3,964 |

The cost of fully depreciated items of property, plant and equipment amounts to UAH 79 thousand as at 31 December 2013 (31 December 2012: UAH 52 thousand). These items of property, plant and equipment remain in use.

5 Investment property

Investment property as at 31 December is as follows:

| | 2013 | 2012 |
|----------------------------------------------------|----------------|----------------|
| <i>(in thousands of UAH)</i> | | |
| Revalued amount | | |
| 1 January | 252,885 | 250,830 |
| Additions | 18,568 | 2,055 |
| Interest expense capitalised | 519 | - |
| Disposals | (1,113) | - |
| Remeasurement of investment property to fair value | (79,494) | - |
| 31 December | 191,365 | 252,885 |

As at 31 December 2013 investment property with a carrying amount of UAH 169,804 thousand (31 December 2012: UAH 125,018 thousand) is pledged to secure bank loans and borrowings.

The expenses on maintenance of the investment property for the year ended 31 December 2013 amounted to UAH 199 thousand (2012: UAH 97 thousand) and are included in cost of sales (refer to note 13).

Management engaged a registered independent appraiser, having a recognised professional qualification and recent experience in the location and categories of the projects being valued, to estimate the fair value of the Company's investment property as at 31 December 2013.

The fair value measurement of the Group's investment property has been categorised as a Level 2 fair value based on the inputs to the valuation techniques used.

As at 31 December 2013 the estimation of fair value was based on certain assumptions, the most important of which are as follows:

- the values of square meter which were based on comparables at the market prices ranging from UAH 920 to UAH 6,000 per square meter;
- bargaining discount ranging from 10% to 20%.

6 Trade and other accounts receivable

Trade and other accounts receivable as at 31 December are as follows:

| | 2013 | 2012 |
|---------------------------------------------------------|--------------|---------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Trade accounts receivable | 4,559 | 6,694 |
| Taxes receivable | 2,216 | - |
| Accounts receivable for sales of property and equipment | 1,329 | 1,330 |
| Financial aid given | 1,229 | 3,539 |
| Accounts receivable for securities | 256 | 5,975 |
| Other accounts receivable | 17 | 397 |
| Provision for impairment | (1,604) | (1,239) |
| | <u>8,002</u> | <u>16,696</u> |

The movement in the provision for impairment in respect of trade and other accounts receivable during the year is as follows:

| | 2013 | 2012 |
|---------------------------------------------------------------|--------------|--------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Balance at 1 January | 1,239 | 372 |
| Impairment loss (reversal of impairment) recognised (note 15) | 365 | 867 |
| | <u>1,604</u> | <u>1,239</u> |
| Balance at 31 December | <u>1,604</u> | <u>1,239</u> |

During the years ended 31 December 2013 and 2012 the Company granted an interest free financing to the related parties acting in the capacity of shareholder. Upon initial recognition the financial aid given was recognised at fair value. The fair value of the financial aid given upon initial recognition was determined by management using the market interest rate for similar financial instruments of 18% (2012: 18%). Upon initial recognition the difference of UAH 134 thousand (net of the deferred tax of UAH 29 thousand) is recognised as distribution to the related party acting in capacity of the shareholder (2012: UAH 696 thousand net of the deferred tax of UAH 163 thousand).

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus ten percent, the trade and other accounts receivable impairment as at 31 December 2013 would be approximately UAH 80 thousand lower/higher (31 December 2012: UAH 167 thousand).

The Company's exposure to credit and currency risk and impairment losses related to trade and other accounts receivable are discussed in note 19.

7 Investments available for sale

Investments are represented by securities available-for-sale as at 31 December 2012 and accounted at cost less impairment. During the year ended 31 December 2013, the Company sold shares in all investees to related party. The carrying amount is disclosed as follows:

| | 2013 | 2012 |
|----------------------------------------------------------|----------|--------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Shares of JSC "Vinkovetskyi zavod budivelnyh materialiv" | - | 6,456 |
| Shares of JSC "Gadyachska silgosphimiya" | - | 2,950 |
| Shares of SJC "BK "Europe-Asia-Ukraine" | - | 91 |
| | <u>-</u> | <u>9,497</u> |

8 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

| | 2013 | 2012 |
|---------------------------------------------|--------------|-----------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Bank balances | 1,265 | 37 |
| Short-term deposits | 10 | 10 |
| | <u>1,275</u> | <u>47</u> |

The long-term credit ratings of banks at which cash and cash equivalents are held as at 31 December by Moody's or its equivalent are presented below:

| Rating | 2013 | 2012 |
|--------|--------------|-----------|
| E | 1,275 | - |
| B2 | - | 47 |
| | <u>1,275</u> | <u>47</u> |

As at 31 December 2013 and 2012 cash balances with banks are neither impaired nor past due. The Company's exposure to interest risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

9 Statutory fund

As at 31 December 2013 and 31 December 2012, the declared authorised and paid-in statutory fund amounts to UAH 20,000 thousand. The statutory fund in the Company was owned by the following participants:

| | 31 December 2012 | 31 December 2011 |
|------------------|------------------|------------------|
| | Ownership, % | Ownership, % |
| SAROUBAS LIMITED | 100 | 100 |
| | <u>100</u> | <u>100</u> |

The Company is ultimately controlled by Mr. Vitaliy Antonov, citizen of Ukraine. Related party transactions are detailed in note 21.

Dividend payments are restricted to the amount of retained earnings reported in accordance with Ukrainian National Accounting Standards. As at 31 December 2013, the Company had accumulated deficit of UAH 25,277 thousand (31 December 2012: UAH 29,109 thousand) based on the statutory financial statements (unaudited).

10 Loans and borrowings

This note provides information about the contractual terms of loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk refer to note 19.

Loans and borrowings as at 31 December are as follows:

| | | |
|---------------------------------------------|---------------|---------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
| <i>Non-current</i> | | |
| Secured bank loans | 28,688 | 23,553 |
| Unsecured loans from a third party | 39,282 | 40,924 |
| | <u>67,970</u> | <u>64,477</u> |
| <i>Current</i> | | |
| Secured bank loans | 2,371 | 1,680 |
| Unsecured loans from a third party | - | 5,713 |
| | <u>2,371</u> | <u>7,393</u> |
| | <u>70,341</u> | <u>71,870</u> |

Terms and debt repayment schedule

As at 31 December 2013, the terms and debt repayment schedule of bank loans are as follows:

| | Currency | Nominal interest rate | Effective interest rate | Year of maturity | Carrying amount |
|---------------------------------------------|----------|-----------------------|-------------------------|------------------|-----------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | | | |
| Foreign (Cyprus) company | USD | 11% | 11% | 2020 | 39,318 |
| Local Ukrainian bank | USD | 11% | 11% | 2018 | 24,399 |
| Local Ukrainian bank | USD | 11% | 11% | 2020 | 6,624 |
| | | | | | 70,341 |

As at 31 December 2012, the terms and debt repayment schedule of bank loans are as follows:

| | Currency | Nominal interest rate | Effective interest rate | Year of maturity | Carrying amount |
|---------------------------------------------|----------|-----------------------|-------------------------|------------------|-----------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | | | |
| Related party | USD | 11% | 11% | 2013 | 5,713 |
| Local Ukrainian bank | USD | 1m Libor + 8% | 8% | 2013 | 1,680 |
| Local Ukrainian bank | USD | 11% | 11% | 2014-2018 | 23,553 |
| Related party | USD | 11% | 11% | 2014 | 40,924 |
| | | | | | 71,870 |

The Company has two renewable loan facilities with limits up to USD 3,713 thousand and USD 3,510 thousand respectively (approximately UAH 30,744 thousand and UAH 29,063 thousand respectively) with a local Ukrainian bank. The loans are payable in varying installments from 2011 to 2018 and from 2013 to 2020 respectively. The effective interest rate is 11% per annum for both loans. As at 31 December 2013 the loans were secured by investment properties of the Company with carrying value of UAH 169,804 thousand (31 December 2012: UAH 125,018 thousand).

During the year ended 31 December 2013, the Company has renegotiated the terms of the credit line agreement with its related party and decreased the interest rate from 11% to 5% retrospectively. Upon renegotiation of terms of the loan, the difference in interest payable of UAH 6,394 thousand is recognised as additional paid-in capital.

According to the terms of the loan agreement the Company has to comply with the following covenants:

- The Company should perform 80% of all payments through the current accounts, opened with the bank.
- Current assets to current liabilities ratio is not less than 1.
- Maintain collateral coverage.

The Company complied with the covenants as at 31 December 2013 and 2012.

11 Trade and other accounts payable

Trade and other accounts payable as at 31 December are as follow:

| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
|---------------------------------------------|--------------|--------------|
| Trade payables | 4,285 | 1,278 |
| Other payables | 119 | 64 |
| Accrual for unused vacations | 134 | 75 |
| | <u>4,538</u> | <u>1,417</u> |

The exposure to currency and liquidity risks related to trade and other accounts payable is disclosed in note 19.

12 Revenues

Revenues for the years ended 31 December 2013 and 2012 comprise the rental income.

13 Cost of sales

Cost of sales for the year ended 31 December is as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
|---------------------------------------------|---------------|---------------|
| Utilities | 5,686 | 5,678 |
| Rent | 1,231 | 1,452 |
| Salary and salary related charges | 952 | 661 |
| Land tax | 871 | 1,008 |
| Security services | 729 | 584 |
| Depreciation | 661 | 437 |
| Materials | 183 | 127 |
| Maintenance | 199 | 97 |
| Other | 446 | 275 |
| | <u>10,958</u> | <u>10,319</u> |

14 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
|---------------------------------------------|--------------|--------------|
| Salary and salary related charges | 1,116 | 753 |
| Professional services | 250 | 248 |
| Depreciation | 66 | 55 |
| Communications | 56 | 42 |
| Other | 813 | 268 |
| | <u>2,301</u> | <u>1,366</u> |

15 Other expenses

Other expenses for the year ended 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
|---------------------------------------------------|--------------|--------------|
| Loss on disposal of investment property | 1,113 | - |
| Impairment of trade and other accounts receivable | 365 | 867 |
| Write-off of inventory | 226 | - |
| Fines and penalties | 275 | 332 |
| Other expenses | 181 | 255 |
| | <u>2,160</u> | <u>1,454</u> |

16 Personnel costs

Personnel costs for the year ended 31 December are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | 2013 | 2012 |
|---------------------------------------------|--------------|--------------|
| Wages and salaries | 1,535 | 1,035 |
| Social security charges | 533 | 379 |
| | <u>2,068</u> | <u>1,414</u> |

17 Finance costs

Finance costs for the year ended 31 December are as follows:

| | 2013 | 2012 |
|---------------------------------------------|--------------|--------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Foreign exchange loss | 2,511 | 131 |
| Interest expense | 5,952 | 7,990 |
| | <u>8,463</u> | <u>8,121</u> |

18 Income tax (benefit) expense

Income tax (benefit) expense for the year ended 31 December is as follows:

| | 2013 | 2012 |
|---------------------------------------------|----------------|----------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Current income tax expense | - | - |
| Deferred tax benefit | (9,944) | (9,923) |
| | <u>(9,944)</u> | <u>(9,923)</u> |

Based on the new tax code that became effective in Ukraine on 1 January 2011, significant changes were introduced for VAT and corporate income tax, including changes in applicable tax rates and policies for recognition of taxable income and expenses. As a result, a reduced corporate income tax rate of 23% applies from 1 April 2011 and gradually decreased further to 21% and 19% in 2012 and 2013, respectively, and from 2014 onwards the tax rate will be fixed at 16%. However, in 2013, the Ukrainian government has revised the income tax rates effective in 2014-2016 and thereon and as such it is set at 18% in 2014 and will be gradually decreased to 16% starting from 1 January 2016.

(a) Reconciliation of effective tax rate

The reconciliation of effective tax rate for the year ended 31 December is as follows:

| | 2013 | | 2012 | |
|------------------------------------------------------------------------------|----------------|------------|----------------|--------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | % | | % |
| Loss before tax | (82,588) | 100% | (922) | 100% |
| Income tax at applicable tax rate | (15,692) | 19% | (194) | 21% |
| Non-deductible expenses | 1,291 | (2%) | 121 | (13%) |
| Change in unrecognized deferred tax assets | (602) | 1% | 602 | (65%) |
| Change in estimate regarding the timing of reversal of temporary differences | 5,059 | (6%) | (10,452) | 1134% |
| Income tax benefit | <u>(9,944)</u> | <u>12%</u> | <u>(9,923)</u> | <u>1077%</u> |

(b) Recognised deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the items detailed as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | Assets | | Liabilities | | Net | |
|---------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| Investment property | - | - | (25,576) | (35,164) | (25,576) | (35,164) |
| Trade and other accounts receivables | 315 | 332 | - | - | 315 | 332 |
| Tax losses carried forward | 1,801 | 1,810 | - | - | 1,801 | 1,810 |
| Other | 462 | 46 | (5) | - | 457 | 46 |
| Deferred tax assets (liabilities) | 2,578 | 2,188 | (25,581) | (35,164) | (23,003) | (32,976) |

Movements in recognised deferred tax assets and liabilities by types of temporary differences during the year ended 31 December 2013 are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | As at 1 January 2013 | Recognised in profit or loss | Recognised in equity | As at 31 December 2013 |
|---------------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------|
| Investment property | (35,164) | 9,588 | - | (25,576) |
| Trade and other accounts receivables | 332 | (46) | 29 | 315 |
| Tax losses carried forward | 1,810 | (9) | - | 1,801 |
| Other | 46 | 411 | - | 457 |
| Net deferred tax liabilities | (32,976) | 9,944 | 29 | (23,003) |

Movements in recognised deferred tax assets and liabilities by types of temporary differences during the year ended 31 December 2012 are as follows:

| <i>(in thousands of Ukrainian hryvnias)</i> | As at 1 January 2012 | Recognised in profit or loss | Recognised in equity | As at 31 December 2012 |
|---------------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------|
| Investment property | (45,956) | 10,792 | - | (35,164) |
| Trade and other accounts receivables | 89 | 80 | 163 | 332 |
| Tax losses carried forward | 2,615 | (805) | - | 1,810 |
| Other | 190 | (144) | - | 46 |
| Net deferred tax liabilities | (43,062) | 9,923 | 163 | (32,976) |

(c) Unrecognised deferred tax assets

Deferred tax assets as at 31 December are not recognised in respect of the following items:

| | 2013 | 2012 |
|---------------------------------------------|-------|-------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Tax losses carried forward | - | 602 |
| | <hr/> | <hr/> |
| | - | 602 |
| | <hr/> | <hr/> |

As at 31 December 2012 deferred tax assets are not recognised on taxable differences based on management's determination that it is not probable the Company will be able to utilise these temporary differences in the future.

19 Financial risk management

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for managing and measuring risk, and the management of capital.

The management has overall responsibility for the establishment and oversight of the risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as follows:

| | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|------------------|------------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Trade and other accounts receivable | 8,002 | 16,696 |
| Cash and cash equivalents | 1,275 | 47 |
| | <u>9,277</u> | <u>16,743</u> |

The Company's policy is to manage its credit risk by holding cash balances in different banks.

In addition to the credit risk, the Company is exposed to the risk of non-recoverability of advances made amounting to UAH 5,383 thousand as at 31 December 2013 (31 December 2012: UAH 749 thousand).

(i) Trade and other accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Management has no formal credit policy in place for customers and the exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers. The Company does not require collateral in respect of trade and other accounts receivable.

The Company establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and other accounts receivable. The main components of this provision are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss provision is determined based on historical data of payment statistics for similar financial assets.

Impairment losses

The ageing of trade and other accounts receivables was as follows:

| | 31 December 2013 | | 31 December 2012 | |
|---------------------------------------------|------------------|----------------|------------------|----------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | | |
| | Gross | Impairment | Gross | Impairment |
| Not past due | 8,002 | - | 5,619 | - |
| Past due and impaired | 1,604 | (1,604) | 12,316 | (1,239) |
| | <u>9,606</u> | <u>(1,604)</u> | <u>17,935</u> | <u>(1,239)</u> |

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, there will always be sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including interest payments, as at 31 December 2013:

| | Total carrying amount | Total contractual cash flows | Within 1 year | 1-5 years | Over 5 years |
|-------------------------------------------------|--------------------------|------------------------------------|---------------|---------------|---------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | | | |
| Loans and borrowings | 70,341 | 81,943 | 3,301 | 31,869 | 46,773 |
| Trade and other accounts payable | 4,538 | 4,538 | 4,538 | - | - |
| | <u>74,879</u> | <u>86,481</u> | <u>7,839</u> | <u>31,869</u> | <u>46,773</u> |

The following are the contractual maturities of financial liabilities, including interest payments, as at 31 December 2012:

| | Total carrying amount | Total contractual cash flows | Within 1 year | 1-5 years | Over 5 years |
|-------------------------------------------------|--------------------------|------------------------------------|---------------|---------------|--------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | | | | |
| Loans and borrowings | 71,870 | 89,423 | 14,501 | 72,722 | 2,200 |
| Trade and other accounts payable | 1,417 | 1,417 | 1,417 | - | - |
| | <u>73,287</u> | <u>90,840</u> | <u>15,918</u> | <u>72,722</u> | <u>2,200</u> |

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Foreign currency risk

The Company is exposed to currency risk on purchases that are denominated in a currency other than the Ukrainian hryvnias (UAH), primarily the US Dollar (USD).

Ukrainian legislation restricts the ability of Ukrainian companies to hedge their exposure to foreign currency risk, and, accordingly, the Company does not hedge its exposure to foreign currency exchange risk.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on nominal amounts:

| | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|------------------|------------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | USD | USD |
| Loans and borrowings | (70,341) | (71,870) |
| Net short position | (70,341) | (71,870) |

Sensitivity analysis

A 10 percent weakening of the Ukrainian hryvnia against the USD would have (increased net loss) decreased net profit and decreased equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|------------------|------------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| USD | 5,698 | 5,678 |

A 10 percent strengthening of the Ukrainian hryvnia against the USD would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Refer to note 10 for information about maturity dates and effective interest rates of loans and borrowings. Re-pricing for fixed rate financial instruments occurs at the maturity of fixed rate financial instruments.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or as available for sale. Therefore, changes in interest rates at the reporting dates would not affect profit or loss and equity.

Variable rate financial liabilities as at 31 December are as follows:

| | 2013 | 2012 |
|---------------------------------------------|------|-------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Variable rate financial liabilities | - | 1,680 |

A 100 basis points increase in interest rates would have decreased net profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency

rates, remain constant and has applied to floating rate interest bearing liability based on the assumption that the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

| | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|------------------|------------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Variable rate financial liabilities | - | 13 |

A 100 basis points decrease in interest rates at 31 December 2013 would have had equal but opposite effect on net profit and equity, on the basis that all other variables remain constant.

(e) Fair values

The estimated fair values of the financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to produce the estimated fair values. Accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The estimated fair values of financial assets and liabilities are determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies, at year-end, and are not indicative of the fair value of those instruments at the date these financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realisation of the unrealised gains and losses can have an effect on fair value estimates and have not been considered.

Management believes that for all the financial assets and liabilities the carrying value is estimated to approximate the fair value.

As at 31 December 2013, market interest rate of 10.8%, was used for the determination of the fair value of loans and borrowings.

20 Commitments and contingencies

(a) Capital commitments

As at 31 December 2013 and 31 December 2012 the Company does not have any capital commitments.

(b) Litigations

The Company is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the financial condition or will result in a disruption of the operations of the Company.

(c) Taxation contingencies

The Company performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterised 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 different official agencies 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 and 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.

No provisions for potential tax assessments have been made in these financial statements.

21 Related party transactions

Related parties comprise participants, key management personnel of the Company and their close family members and companies that are controlled or significantly influenced by participants.

(a) Transactions with management

Key management received the following remuneration, which is included in general and administrative expenses, during the year ended 31 December:

| | 2013 | 2012 |
|---------------------------------------------|------|------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Salary and salary related charges | 121 | 54 |

(b) Transactions and balances with parent company

During the year ended 31 December the Company had the following transactions with its parent company:

| | 2013 | 2012 |
|---------------------------------------------|-------|--------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Loans and borrowings | - | 40,924 |
| Interest expense | 2,915 | 4,513 |

(c) Transactions and balances with entities with joint control or significant influence over the entity

During the year ended 31 December the Company had the following transactions with its related parties:

| | 2013 | 2012 |
|---------------------------------------------|--------|-------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Sales of rent services | 4,682 | 6,241 |
| Sales of financial investments | 9,500 | - |
| Financial aid given and repaid | 10,244 | 4,374 |
| Purchase of rent services | 1,597 | 1,452 |
| Purchase of other services | 5,910 | 1,323 |
| Purchase of property, plant and equipment | 2,667 | - |

The Company had the following balances with its related parties:

| | 31 December 2013 | 31 December 2012 |
|---------------------------------------------|------------------|------------------|
| <i>(in thousands of Ukrainian hryvnias)</i> | | |
| Assets | | |
| Trade and other accounts receivable | 3,466 | 13,820 |
| Advances made | - | 7 |
| | <u>3,466</u> | <u>13,827</u> |
| Liabilities | | |
| Trade and other payables | 3,539 | 1,013 |
| | <u>3,539</u> | <u>1,013</u> |

22 Subsequent events

Subsequent to 31 December 2013, corporate profit tax rate was fixed at the level of 18% starting from 1 January 2014 instead of previously established gradual transition to 16% in 2016. The effect of this change in tax rate on deferred tax position recognized by the Company as at 31 December 2013 is not significant.

Oleg Klok

General Director, LLC "Tekhnopark LZTA"



Vira Stahiv

Chief Accountant, LLC "Tekhnopark LZTA"

13 June 2014



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Independent Auditors' Report

To the management of Limited Liability Company
"Tekhnopark LZTA"

We have audited the accompanying financial statements of Limited Liability Company "Tekhnopark LZTA" (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

The Company calculated the deferred tax liabilities as at and for the year ended 31 December 2011 using improper tax rates. International Financial Reporting Standard IAS 12 *Income Tax* requires that deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Had the Company used proper income tax rates, income tax benefit for the year ended 31 December 2012 would have been decreased by UAH 10,942 thousand. Our audit opinion on the financial statements for the year ended 31 December 2012 was modified accordingly.

Our opinion on the current year's financial statements is also modified because of the effect of the matter described in the preceding paragraph on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the effect on the corresponding figures for year ended 31 December 2012 and effects on the comparability of the current year's figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1(b) to the financial statements, which describes the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 1(b) could adversely affect the Company's results and financial position in a manner not currently determinable. Our opinion is not further qualified in respect of this matter.

JSC KPMG Audit

16 June 2014
JSC KPMG Audit