TMM Real Estate Development plc

Pro forma consolidated financial statements

31 December 2005

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(in thousands of US dollars)	*Note*	**2005**	2004
Assets			
Non-current assets			
Property and equipment	*5*	**49,193**	25,814
Investment property	*6*	**15,476**	1,558
Investments in unconsolidated subsidiaries		**6,975**	6,597
Investments in associates		**24**	-
Long-term deposit		**119**	-
Restricted cash		**184**	-
Deferred tax asset	*22*	**-**	3,828
		71,971	37,797
Current assets			
Inventories	*7*	**50,571**	30,775
Accounts and notes receivable	*8*	**45,411**	31,302
Taxes receivable	*9*	**3,359**	1,325
Advances to suppliers		**7,644**	11,022
Cash and cash equivalents		**10,059**	2,422
		117,044	76,846
Total assets		**189,015**	114,643

The pro forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial statements set out on pages 2 to 2.

(in thousands of US dollars)	*Note*	**2005**	2004
Equity and liabilities			
Equity			
Share capital	*10*	**3**	3
Additional paid-in capital		**2,592**	1,367
Revaluation reserve		**21,622**	10,767
Retained earnings		**35,264**	30,575
Translation reserve		**2,585**	172
Total equity attributable to equity holders of the parent		**62,066**	42,884
Minority interest		**2,325**	245
Total equity		**64,391**	43,129
Non-current liabilities			
Long-term loans and borrowings	*11*	**14,440**	18,149
Deferred tax liability	*22*	**5,682**	-
		20,122	18,149
Current liabilities			
Short-term loans and borrowings	*11*	**9,944**	365
Current portion of long-term loans and borrowings	*11*	**78**	832
Accounts and notes payable	*12*	**23,521**	28,596
Taxes payable	*13*	**505**	139
Advances received from customers	*14*	**70,454**	23,433
		104,502	53,365
Total equity and liabilities		**189,015**	114,643

The pro forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial statements set out on pages 2 to 2.

(in thousands of US dollars)	*Note*	**2005**	2004
Revenues	*15*	**39,190**	26,025
Cost of revenues	*16*	**(33,366)**	(20,072)
Gross profit		**5,824**	5,953
Other income	*17*	**1,119**	9,362
General administrative expenses	*18*	**(5,268)**	(3,734)
Selling and distribution expenses	*19*	**(784)**	(650)
Gain on revaluation of investment property	*6*	**10,757**	1,218
Bad debt expense	*8*	**(137)**	(52)
Gain on acquisition of subsidiaries	*4*	**56**	-
Other expenses	*20*	**(1,441)**	(298)
Financial costs, net	*21*	**(247)**	(706)
Profit before tax		**9,879**	11,093
Income tax expense	*22*	**(5,343)**	(2,876)
Net profit		**4,536**	8,217
Attributable to:			
Participants of the parent		**4,689**	8,229
Minority interest holders		**(153)**	(12)
Net profit		**4,536**	8,217
Weighted average basic and diluted shares (in thousands of shares)	*10*	**45,000**	45,000
Basic and diluted earnings per share (in US dollars)		**0.1008**	0.1826

The pro forma consolidated income statement is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial statements set out on pages 2 to 2.

(in thousands of US dollars)	*Note*	**2005**	2004
Operating activities			
Profit before tax		**9,879**	11,093
Adjustments for:			
Depreciation		**415**	265
Impairment of property and equipment		**416**	50
Provision for doubtful debts	*8*	**137**	52
Trade accounts payable write-off		**-**	(46)
Write-off of taxes receivable	*20*	**303**	-
Gain on revaluation of investment property	*6*	**(10,757)**	(1,218)
Loss (gain) on disposal of property and equipment	*20,17*	**141**	(760)
Share in profit of associates		**(1)**	-
Interest income	*21*	**(110)**	(139)
Interest expense	*21*	**369**	347
Increase in inventories		**(13,209)**	(13,214)
Increase in accounts and notes receivables		**(12,229)**	(9,647)
Decrease (increase) in advances to suppliers		**3,879**	(5,890)
(Increase) decrease in taxes receivable		**(2,242)**	386
Decrease in accounts and notes payable		**(7,611)**	(13,257)
Increase in advances received from customers		**45,177**	21,728
Increase in taxes payable		**327**	53
Income taxes paid		**(58)**	(194)
Interest received		**110**	139
Interest paid		**(3,749)**	(1,024)
Cash flows provided by (used in) operating activities		**11,187**	(11,276)

The pro forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial statements set out on pages 2 to 2.

(in thousands of US dollars)		**2005**	2004
Investing activities	*Note*		
Purchase of property and equipment	*5*	**(6,686)**	(4,585)
Proceeds from sale of property and equipment		**282**	799
Purchase of investments in unconsolidated subsidiaries		**(45)**	(3)
Purchase of investments in associates		**(23)**	-
Acquisition of subsidiaries net of cash acquired	*4*	**(2,264)**	-
Placement of long-term deposit		**(117)**	-
Placement of restricted cash		**(182)**	-
Cash flows used in investing activities		**(9,035)**	(3,789)
Financing activities			
Proceeds from loans and borrowings		**20,119**	22,164
Repayments of loans and borrowings		**(19,012)**	(12,392)
Proceeds from bonds issuance		**2,922**	5,600
Contributions from shareholders		**1,225**	1,367
Cash flows provided by financing activities		**5,254**	16,739
Net increase in cash and cash equivalents		**7,406**	1,674
Cash and cash equivalents as at 1 January		**2,422**	742
Effect of exchange rates fluctuations on cash held		**231**	6
Cash and cash equivalents as at 31 December		**10,059**	2,422

The pro forma consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the pro forma consolidated statements set out on pages 2 to 2.

	Attributable to equity holders of the parent						Minority interest	Total equity
(in thousands of Ukrainian hryvnias)	**Share capital**	**Additional paid-in capital**	**Revaluation reserve**	**Retained earnings**	**Translation reserve**	**Total**		
Balance as at 1 January 2004	3	-	4,242	22,346	-	26,591	229	26,820
Revaluation of property	-	-	8,700	-	-	8,700	37	8,737
Deferred tax on revaluation of property	-	-	(2,175)	-	-	(2,175)	(9)	(2,184)
Net profit (loss)	-	-	-	8,229	-	8,229	(12)	8,217
Currency translation adjustment	-	-	-	-	172	172	-	172
Total recognised income and expenses	-	-	6,525	8,229	172	14,926	16	14,942
Contributions from shareholders	-	1,367	-	-	-	1,367	-	1,367
Balance as at 31 December 2004	3	1,367	10,767	30,575	172	42,884	245	43,129
Revaluation of property	**-**	**-**	**14,473**	**-**	**-**	**14,473**	**1,156**	**15,629**
Deferred tax on revaluation of property	**-**	**-**	**(3,618)**	**-**	**-**	**(3,618)**	**(289)**	**(3,907)**
Net profit (loss)	**-**	**-**	**-**	**4,689**	**-**	**4,689**	**(153)**	**4,536**
Currency translation adjustment	**-**	**-**	**-**	**-**	**2,413**	**2,413**	**42**	**2,455**
Total recognised income and expenses	**-**	**-**	**10,855**	**4,689**	**2,413**	**17,957**	**756**	**18,713**
Contributions from shareholders	**-**	**1,225**	**-**	**-**	**-**	**1,225**	**-**	**1,225**
Minority interest acquired	**-**	**-**	**-**	**-**	**-**	**-**	**1,324**	**1,324**
Balance as at 31 December 2005	**3**	**2,592**	**21,622**	**35,264**	**2,585**	**62,066**	**2,325**	**64,391**

The pro forma consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the pro forma consolidated statements set out on pages 2 to 2.

1 Background

(a) Organization and operations

These pro forma consolidated financial statements are prepared by TMM Real Estate Development plc (the Company), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus law under the name Espina Holdings Ltd. The Company was renamed TMM Real Estate Development Ltd on 5 January 2007. The address of the Company's registered office is Lampousas 1, P.C. 1095, Nicosia, Cyprus and its principal place of business is located at Gali Timofeevoj 3, Kyiv, Ukraine 03055.

On 17 April 2007, the shareholders of Firm "TMM", LLC (Ukraine) (TMM) contributed their shares to the Cyprus based company TMM Holdings Ltd. On 17 April 2007, TMM Holdings Ltd contributed its entire shareholding in TMM to TMM Real Estate Development Ltd, which owns 99.99% of the share capital of TMM from that date. TMM in turn controls a number of subsidiaries in Ukraine. On 10 May 2007, TMM Real Estate Development Ltd changed its name to TMM Real Estate Development plc in connection with the transformation to a public company. These pro forma consolidated financial statements are prepared as if these transactions occurred before 1 January 2004 (note 2(b)).

The Company and its subsidiaries are collectively referred to as the Group.

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

The principal operations of the Group are construction and development of residential and business properties in Kyiv, Kharkiv, Zhyromir, and Yalta regions of Ukraine.

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These pro forma consolidated financial statements reflect management's current assessment of the possible 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. The impact of such differences on the operations and the financial position may be significant.

2 Basis of preparation

(a) Statement of compliance

The pro forma consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) effective as at 31 December 2005. These pro forma consolidated financial statements are based on certain pro forma assumptions described in the note 2(b).

The Group adopted IFRSs that are effective as of 31 December 2005, which is the reporting date of these pro forma consolidated financial statements.

The Group opted to apply the exemption from International Financial Reporting Standard 21 *The Effects of Changes in Foreign Exchange Rates* (IAS 21) as allowed by IFRS 1. The cumulative translation differences for all foreign operations are deemed to be zero at 1 January 2004, which is the date of transition to IFRSs, and the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRSs and includes later translation differences.

No other exemptions from other IFRSs that are allowed by IFRS 1 are used in the preparation of these pro forma consolidated IFRS financial statements.

The Group has not previously prepared pro forma consolidated financial statements. Accordingly, no reconciliation to prior financial statements prepared in accordance with Ukrainian National Accounting Standards is provided in these pro forma consolidated IFRS financial statements.

(b) Basis of preparation

The consolidated pro forma financial statements are prepared for the purpose of presenting the consolidated financial position, results of operations and cash flows of the Group as if a restructuring described in note 2(b)(ii) had taken place before 1 January 2004.

(i) Consolidated subsidiaries and associates

The listing of the subsidiaries and associates included in these pro forma financial statements as at 31 December is as follows:

Name	Activity	2005 % of ownership	2004 % of ownership
Subsidiaries:			
Firm "TMM", LLC	Construction and development	100.0%	100.0%
"TMM Budkomplekt", LLC	Production of construction materials	90.0%	90.0%
CJSC "Tavrida Plaza"	Development project	74.9%	74.9%
LLC "Adept-2004"	Development project	70.0%	-
"Ukrstsukorteploizoliatsia", OJSC	Development project	63.7%	-
Associates:			
"TMM Energobud", CJSC	Development project	50.0%	-
"Ekotechservice", LLC	Development project	41.0%	41.0%

The Group is primary beneficiary of the following entities:

Name	Location
DP TG "Ekipazh", LLC	Kharkiv
"Stimul LTD+", LLC	Kharkiv

DP TG "Ekipazh", LLC and "Stimul+", LLC are special purpose entities (SPEs) established to obtain rights to perform construction on plots of land owned by these entities. The Group does not have any direct ownership in these entities. All companies are separate legal entities and individual taxpayers.

All subsidiaries, associates and SPEs are incorporated in Ukraine.

(ii) Pro forma adjustments

Certain pro forma adjustments are made to these consolidated financial statements as at and for the years ended 31 December 2005 and 2004.

During 2006 and 2007 the Group has carried out a restructuring of its activities. As a result, interests in activities other than its primary construction and development business have been disposed of (see note 26), and the ownership of the remaining activities has been transferred to a newly established holding company, TMM Real Estate Development plc, as described in note 1(a) above. The purpose of these pro forma consolidated financial statements is to present the consolidated financial position, consolidated results of operations and consolidated cash flows of the construction and development business as if the restructuring, including the formation of and the transfer of ownership the business to TMM Real Estate Development plc, had taken place before 1 January 2004.

As a result, investments in subsidiaries and associates that legally formed part of TMM but were disposed of in the restructuring are not consolidated or accounted for under the equity method. The investments, which are accounted for at cost in these pro forma consolidated financial statements, are as follows:

Name	Activity	2005 % of ownership	2004 % of ownership
Subsidiaries:			
“Sevastopol meat processing plant”, CJSC	Production	70.00%	70.00%
“Kharkiv plant of construction materials”, LLC	Production	82.00%	82.00%
Insurance Company “Oriana”, CJSC	Insurance	58.26%	58.26%
“TMM-Bank”, OJSC	Banking	48.79%	48.79%

All subsidiaries and associates disposed of as part of the restructuring are incorporated in Ukraine.

(c) Basis of measurement

The pro forma consolidated financial statements are prepared on the historical cost basis except for buildings and investment property.

Buildings are stated at revalued cost as measured by independent appraisal less accumulated depreciation and impairment losses.

Investment property is stated at fair value as determined by independent appraisal.

Following International Financial Reporting Standard IAS 29 *Financial reporting in hyperinflationary economies,* non-monetary assets and restated through 31 December 2000 by applying general price indices from the dates they were contributed or otherwise arose, to reflect the effect of the hyperinflationary conditions, which existed in Ukraine from 1 January 1991 to 1 January 2001.

(d) Functional and presentation currency

Ukrainian hryvnia (UAH) is the functional currency of TMM Real Estate Development plc and the operating subsidiaries and associates in Ukraine.

Management chose to present pro forma consolidated financial statements in United States Dollars (USD). The financial data of the Group are converted from UAH to USD and are rounded to the nearest thousand.

For the purposes of presenting pro forma consolidated financial statements, assets and liabilities are translated for companies operating in Ukraine from UAH to USD using the closing rates at each balance sheet date, and income and expenses are translated at the average rates for each respective period. The rates are obtained from the National Bank of Ukraine.

The translation of the hryvnia denominated assets and liabilities into USD as at 31 December 2005 is not intended to imply that the Group could realise or settle the translated values of those assets and liabilities in USD.

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

(e) Critical accounting estimates and judgments in applying accounting policies

The preparation of the pro forma consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions are as follows:

- ***Accounts and notes receivable and advances to suppliers***. Management estimates the likelihood of the collection of accounts and notes receivable and advances to suppliers based on an analysis of individual accounts. Factors taken into consideration include an ageing analysis of trade receivables in comparison with the credit terms allowed to customers, and the financial position and collection history with the customer. Should actual collections be less than management estimates, the Group would be required to record additional impairment expense.

- ***Inventories.*** Management estimates the necessity of write down of inventories to their net realizable value taking into consideration the prices at which inventories may be sold at the balance sheet date and the purpose for which inventory is held. Should the cost of inventories not be fully recoverable, the Group would be required to record expenses to adjust inventory to net realizable value.

- ***Buildings.*** At each balance sheet date, buildings are revalued to fair value based on the results of an independent appraisal performed by the consulting company "International Legal Company Solomon-Group", LLC. The method used to estimate fair value is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar properties. Estimating the fair value of buildings requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors.

- ***Investment property.*** At each balance sheet date, investment property is revalued to fair value based on the results of an independent appraisal performed by the consulting company "International Legal Company Solomon-Group", LLC. The method used to estimate fair value is the market approach. The market approach is based upon an

analysis of the results of comparable sales of similar properties. Estimating the fair value requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors.

- ***Determination of percentage of completion on construction contracts.*** Management estimates the percentage of completion on construction contracts by reference to the actual costs incurred compared to the total anticipated costs of the project. When the total anticipated costs can not be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

- ***Accruals for tax risks.*** Management estimates the amount of potential taxes and penalties by assessing the likelihood of payment of such taxes and penalties and applying effective rules of the tax authorities. The accruals are retained until the right of the tax authorities to carry out tax inspections expires (being generally three years) or earlier, if a tax inspection is concluded without any issues being raised. Actual payments of additional taxes depend on the ability of the tax authorities to challenge the existing arrangements and interpretations of the applicable tax legislation as well as changes in the tax legislation. If the interpretations of the tax authorities are different from management's interpretation, the Group would be required to record additional taxes and penalties.

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the pro forma consolidated financial statements.

(a) Subsidiaries and associates

Subsidiaries are those enterprises controlled separately by an entity. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the pro forma consolidated financial statements of the Group from the date that control effectively commences until the date that control effectively ceases.

Associates are those enterprises in which the Company has significant influence, but not control, over their financial and operating policies. The pro forma consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group are established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets.

(b) Business combinations

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with IFRS 3 *Business Combination* exceeds the cost of the business combination, the Group reassesses the identification and measurement of the acquired company's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and recognises immediately in profit or loss any excess remaining after that reassessment.

(c) Acquisition and disposal of minority interests

Any difference between the consideration paid to acquire a minority interest or any difference between the consideration received upon disposal of a minority interest and the carrying amount of that portion of the Group's interest in the subsidiary, is recognised as equity increases (or decreases) in equity, so long as the parent controls the subsidiary. The presentation of minority interest within equity supports the recognition of increases and decreases in ownership interests in subsidiaries without a change in control. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from (or sales of equity instruments to) minority interests is recognised directly in equity.

(d) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the pro forma consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate

ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The principal UAH exchange rates used in the preparation of the pro forma consolidated financial statements as at 31 December are as follows:

Currency	2005	2004
US Dollar	**5.050**	**5.305**
Euro	**5.972**	**7.217**

As at the date of these pro forma consolidated financial statements, 11 May 2007, the exchange rate is UAH 5.05 to USD 1.00 and UAH 6.831 to Euro 1.00.

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost (as restated in accordance with IAS 29) less accumulated depreciation and impairment losses, except for buildings.

The cost of self-constructed assets includes the cost of materials, direct labour and appropriate proportion of production overheads, and capitalised interest for qualifying assets.

Buildings were revalued as at 31 December 2005 and 2004 and 1 January 2004. To determine the fair value of buildings, management obtains appraisal from an independent professionally qualified appraiser. The method used to determine fair value is comparison to similar properties.

Revaluations of property and equipment will be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Land

Certain companies of the Group have the right to permanent use of the land on which they are located or are leasing land under long-term lease agreements from local state authorities. Land is the property of the state and, therefore, is not included in the pro forma consolidated financial statements.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, is capitalised with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Construction in progress

Construction in progress is stated at cost less impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and appropriate proportion of production overheads, and capitalised interest for qualifying assets.

(v) Revaluation

A revaluation increase on a building is recognised directly in equity, except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on a building is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(vi) Depreciation

Depreciation is charged to the pro forma consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

Buildings	50 years
Heavy construction equipment	20 years
Production and construction equipment	8 years
Research equipment	8 years
Vehicles	6 years
IT and computer equipment	4 years
Furniture and office equipment	4 years

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy 3(u).

Property that is being constructed for future use as investment property is accounted for as property and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

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

Investment property is revalued as at 31 December 2005 and 2004 and 1 January 2004. To determine the fair value of buildings, management obtains appraisal from an independent professionally qualified appraiser. The method used to determine fair value is comparison to similar properties.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(h) Financial instruments

(i) Classification

Financial assets at fair value through profit or loss are financial assets held for trading and those designed at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, is a derivative, or if so designated by management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade accounts receivable and other receivables.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

(ii) Recognition

The Group recognises regular way purchases/sales of financial instruments on the settlement date. All other financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument.

(iii) Measurement

All financial assets at fair value through profit or loss are initially measured at fair value and any transaction costs are recognised directly in the income statement. Subsequent to initial recognition all financial assets at fair value through profit or loss are measured at fair value.

All other financial instruments are measured initially at their fair value including transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets at fair value through profit or loss are included in the determination of net profit.

(vi) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of raw materials is based on the weighted average method principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Work in progress and finished goods are stated at cost. Cost includes the cost of raw materials, labour and manufacturing overheads allocated proportionately to the stage of completion of the inventory.

(j) Accounts and notes receivable

Accounts and notes receivable are stated at amortised cost less impairment losses. Balances due in less than one year are not discounted.

(k) Prepayments made

Prepayments made are stated at cost less impairment losses.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with an original maturity date of three months or less.

(m) Earnings per share

Earnings per share are calculated by dividing total net profit by the weighted average number of shares outstanding during the period adjusted for any bonus issues of shares subsequent to the balance sheet date. There are no potentially dilutive shares.

(n) Impairment

The carrying amounts of assets, other than inventories, investment property and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a loan or receivable or debt instrument classified as available-for-sale is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The reversals are recognised in the income statement.

In respect of other assets, an impairment loss is reversed only if there is an indication that the impairment loss may no longer exist and 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.

(o) Loans and borrowings

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

(p) Accounts and notes payable

Accounts and notes payable are stated at amortised cost. Balances due in less than one year are not discounted.

(q) Employee benefits

The Group makes contributions for the benefit of employees to Ukrainian's State pension fund, social security fund, security against injury fund, and unemployment fund. These amounts are expensed as incurred.

(r) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(s) Income tax

Income tax on profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Accruals for tax risks

Accruals for taxes and related interest and penalties are recognised when they become payable according to the laws enacted or substantively enacted at the balance sheet date. The accruals are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax authorities, being three years from the date of filing. The accruals are released upon expiry of the review period or earlier, if a tax inspection had concluded without any issues being raised.

(u) Revenues

(i) Goods sold

Revenues from the sale of goods are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contact. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Retentions and progress billings are included in accounts and notes receivable in these pro forma consolidated financial statements. Advances are amounts received by the contractor before the related work is performed and

are included in advances received from customers these pro forma consolidated financial statements.

(iv) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned.

(v) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(v) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(w) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, dividend income, foreign exchange gains and losses, gains and losses on the revaluation and disposal of financial instruments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses and are calculated using the effective interest rate method.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate. For investments in other companies, dividend income is recognised on the date that the Group becomes entitled to the dividend.

(x) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(y) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing the pro forma consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the consolidated financial statements:

- International Financial Reporting Standard IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of financial instruments.
- Amendment to International Financial Reporting Standard IAS 1 *Presentation of Financial Statements – Capital Disclosures* is effective for annual periods beginning on or after 1 January 2007. This amendment will require increased disclosure regarding capital and how it is measured.
- International Financial Reporting Standard IFRIC 4 *Determining whether an Arrangement Contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.
- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the “management approach” to segment reporting.
- IFRIC 12 *Service Concession Arrangements*, which is effective for annual periods beginning on or after 1 January 2008. The Interpretation addresses how service concession operators should account for the obligations they undertake and rights they receive in service concession arrangements.

Management has not yet analyzed the likely impact of these new standards on its consolidated financial statements.

4 Acquisition of subsidiary

During 2005 the Group acquired the following company involved in the construction and development business:

Name	Country of incorporation	Date of acquisition	% of ownership by TMM as at 31 December 2005
"Ukrstsukorteploizoliatsia", OJSC	Ukraine	1 July 2005	63.7%

The acquisition of this company had the following effect on assets and liabilities as at the date they were acquired:

(in thousands of US dollars)	Recognised fair value at acquisition date
Non-current assets	
Property and equipment	**3,874**
Current assets	
Inventories	**40**
Accounts and notes receivable	**256**
Cash and cash equivalents	**3**
Non-current liabilities	
Deferred tax liabilities	**(399)**
Current liabilities	
Accounts and notes payable	**(127)**
Minority interests acquired	**(1,324)**
Net identifiable assets, liabilities and contingent liabilities	**2,323**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	**56**
Consideration paid	**2,267**
Cash acquired	**(3)**
Net cash outflow	**2,264**

The amount of loss of OJSC "Ukrstsukorteploizoliatsia" since the acquisition date included in the Group's profit or loss for the year ended 31 December 2005 is USD 63 thousand.

It is not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately prior to the date of acquisition because the acquired company's financial statements were prepared only in accordance with Ukrainian National Accounting Standards, which are significantly different from IFRSs.

For the same reason it is not practicable to determine what would be the total revenue and net profit for the year ended 31 December 2005 had the acquisitions occurred on 1 January 2005.

5 Property and equipment

A summary of activity in property and equipment for the year ended 31 December 2005 is as follows:

(in thousands of US dollars)	Buildings	Heavy construction equipment	Production and construction equipment	Research equip-ment	Vehicles	IT and computer equipment	Furniture and office equipment	Construction in progress	Total
Cost or revalued amount									
1 January 2005	18,951	3,194	568	174	442	257	147	2,805	26,538
Additions	601	972	294	-	367	153	98	4,145	6,630
Additions from acquisition of subsidiaries	3,463	5	133	-	34	4	1	234	3,874
Disposals	-	(398)	(10)	-	(144)	(1)	(27)	-	(580)
Transfers	399	277	49	1	-	12	4	(3,626)	(2,884)
Revaluation	15,475	-	-	-	-	-	-	-	15,475
Impairment losses	(416)	-	-	-	-	-	-	-	(416)
Translation difference	1,244	175	36	9	26	15	8	154	1,667
31 December 2005	39,717	4,225	1,070	184	725	440	231	3,712	50,304
Accumulated depreciation									
1 January 2005	-	(279)	(102)	(22)	(114)	(149)	(58)	-	(724)
Depreciation charge	(154)	(177)	(106)	(23)	(101)	(53)	(43)	-	(657)
Disposals	-	70	1	-	59	1	26	-	157
Revaluation	154	-	-	-	-	-	-	-	154
Translation difference	-	(16)	(7)	(1)	(6)	(8)	(3)	-	(41)
31 December 2005	-	(402)	(214)	(46)	(162)	(209)	(78)	-	(1,111)
Net book value 31 December 2005	39,717	3,823	856	138	563	231	153	3,712	49,193

The carrying amount of buildings that would have been included in these financial statements had the assets been carried at historical cost less accumulated depreciation and impairment losses is USD 8,632 thousand as at 31 December 2005 (unaudited).

The total depreciation charge for the year ended 31 December 2005 is USD 657 thousand, of which USD 242 thousand is recorded in inventories, USD 393 thousand is recorded in general and administrative expenses, and USD 22 thousand is recorded in other expenses.

As at 31 December 2005 property and equipment with a carrying amount of USD 28,146 thousand is pledged to secure bank loans (note 24(a)).

A summary of activity in property and equipment for the year ended 31 December 2004 is as follows:

(in thousands	Buildings	Heavy construction equipment	Production and construction equipment	Research equipment	Vehicles	It and computer equipment	Furniture and office equipment	Construction in progress	Total
Cost or revalued amount									
1 January 2004	9,070	1,984	329	171	252	154	74	1,616	13,650
Additions	1,190	1,080	138	3	202	83	54	1,837	4,587
Disposals	-	(15)	(11)	-	(17)	-	(1)	-	(44)
Transfers	39	133	109	-	4	19	20	(660)	(336)
Revaluation	8,630	-	-	-	-	-	-	-	8,630
Impairment losses	(50)	-	-	-	-	-	-	-	(50)
Translation difference	72	12	3	-	1	1	-	12	101
31 December 2004	18,951	3,194	568	174	442	257	147	2,805	26,538
Accumulated depreciation									
1 January 2004	-	(157)	(50)	-	(69)	(119)	(32)	-	(427)
Depreciation charge	(107)	(121)	(53)	(22)	(47)	(29)	(27)	-	(406)
Disposals	-	-	1	-	3	-	1	-	5
Revaluation	107	-	-	-	-	-	-	-	107
Translation difference	-	(1)	-	-	(1)	(1)	-	-	(3)
31 December 2004	-	(279)	(102)	(22)	(114)	(149)	(58)	-	(724)
Net book value									
31 December 2004	18,951	2,915	466	152	328	108	89	2,805	25,814

The carrying amount of buildings that would have been included in these financial statements had the assets been carried at historical cost less accumulated depreciation and impairment losses is USD 4,013 thousand as at 31 December 2004 (unaudited).

The total depreciation charge for the year ended 31 December 2004 was USD 406 thousand, of which USD 141 thousand was recorded in inventories, USD 244 thousand was recorded in general and administrative expenses, and USD 21 thousand was recorded in other expenses.

As at 31 December 2004, property and equipment with a carrying value of USD 17,002 thousand was pledged to secure bank loans (note 24(a)).

6 Investment property

A summary of activity in investment property for the year ended 31 December is as follows:

(in thousands of USD)	**2005**	2004
Balance as at 1 January	**1,558**	-
Transfer from property and equipment (note 5)	**2,884**	336
Gain on revaluation of investment property	**10,757**	1,218
Translation difference	**277**	4
Balance as at 31 December	**15,476**	1,558

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

For the years ended 2005 and 2004, rental income and direct operating expenses from investment property were nil.

As at 31 December 2005 investment property with a carrying value of USD 2,162 thousand (2004: USD 1,558 thousand) is pledged to secure loans and borrowings (note 24(a)).

7 Inventories

Inventories as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Merchandise inventory held for resale	**35**	3,245
Finished goods:		
Constructed residential property	**461**	3,503
Other	**136**	56
Construction work-in-progress	**34,078**	11,406
Raw materials and consumables	**15,861**	12,565
Total inventories	**50,571**	30,775

Construction work-in-progress includes residential and business property under development that management estimates will be realised in the ordinary operating cycle, which may be more than twelve months after the balance sheet date.

As at 31 December 2004, inventory with a carrying amount of USD 763 thousand is pledged to secure loans and borrowings (note 24(a)).

8 Accounts and notes receivable

Accounts and notes receivable as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Trade accounts receivable	**8,730**	16,775
Due from customers for construction work in progress	**9,230**	1,102
Notes receivable	**7,014**	9,588
Accrued income	**21,295**	6,091
Interest-free loans to employees and shareholders	**1,165**	514
Interest-free loans to third parties	**236**	207
Other receivables	**3,603**	2,641
Less provision for impairment	**(5,862)**	(5,616)
Total accounts and notes receivable	**45,411**	31,302

As at 31 December 2005 aggregate costs incurred under open construction contracts, net of recognised losses, amount to USD 22,254 thousand (2004: USD 11,835 thousand) and progress billings to customers under open construction contracts amount to USD 23,916 thousand (2004: USD 19,858 thousand).

As at 31 December 2004 accounts and notes receivable with a carrying amount of USD 936 thousand were pledged to secure loans and borrowings (note 24(a)).

Changes in provisions for impairment of accounts and notes receivable during the year ended 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Balance as at 1 January	**5,616**	6,636
Provision for doubtful debts	**137**	52
Amounts written off	**(174)**	(1,102)
Translation differences	**283**	30
Balance as at 31 December	**5,862**	5,616

9 Taxes receivable

Taxes receivable as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
VAT	**3,135**	1,321
Salary related taxes	**220**	-
Other	**4**	4
Total taxes receivable	**3,359**	1,325

10 Share capital

Share capital of TMM Real Estate Development plc amounts to USD 2,700 as of the date of its registration, 30 November 2006 and comprise 270,000 ordinary shares with a par value of USD 0.01 each. TMM Real Estate Development plc is 99.99% owned by TMM Holdings Ltd.

Subsequent to 31 December 2005, TMM Real Estate Development Ltd issued 44,730,000 ordinary shares on 7 March 2007 in a bonus issue (note 26). As there are no proceeds from this bonus issue, the number of ordinary shares for the purposes of presenting earnings per share information is adjusted as if the event occurred at the beginning of the earliest period presented

11 Loans and borrowings

This note provides information about the contractual terms of loans and borrowings. Refer to note 23 for more information about exposure to interest rate and foreign currency risk.

Loans and borrowings as at 31 December are as follows:

Bank *(in thousands of US dollars)*	**Currency**	**Nominal interest rate**	**Effective interest rate**	**Maturity**	**2005**	2004
Short-term loans and borrowings						
Creditprombank	UAH	Fixed 36.0%	36.0%	December 2006	**2,924**	-
Creditprombank	EUR	Fixed 16.0%	16.0%	June 2006	**1,117**	-
Creditprombank	EUR	Fixed 16.0%	16.0%	June 2005	**-**	365
TMM-Bank	UAH	Fixed 17.0%	17.5%	June 2006	**1,824**	-
Non-bank borrowings from local institutions	UAH	-	17.5%	Various 2006	**4,079**	-
Total short-term loans and borrowings					**9,944**	365
Current portion of long-term loans and borrowings						
Suppliers credits	USD	Fixed 10.0%	10.0%	Various 2006	**78**	-
Creditprombank	UAH	Fixed 36.0%	36.0%	Various 2006	**-**	832
Total current portion of long-term loans and borrowings					**78**	832
Long-term loans and borrowings						
Non-bank borrowings from local institutions	UAH	-	17.5%	Various 2006	**-**	3,791
Creditprombank	UAH	Fixed 36.0%	36.0%	December 2006	**-**	2,930
HVB Ukraine	EUR	LIBOR + 8%	13.0%	January 2007	**4,015**	1,051
TMM-Bank	UAH	Fixed 17.0%	17.0%	April 2008	**384**	371
TMM-Bank	UAH	Fixed 17.0%	17.5%	July 2006	**-**	1,792
Finance and credit	UAH	Fixed 10.0%	10.0%	August 2007	**178**	-
HVB Ukraine	USD	LIBOR + 8%	11.0%	January 2007	**148**	2,519
Bonds issued	UAH	Fixed 16.0%	18.1%	November 2007	**2,985**	2,874
Bonds issued	UAH	Fixed 16.0%	18.4%	December 2007	**2,934**	2,821
Bonds issued	UAH	Fixed 16.0%	18.0%	January 2008	**3,047**	-
Suppliers credits	USD	Fixed 10.0%	10.0%	Various 2007	**749**	-
Total long-term loans and borrowings					**14,440**	**18,149**
Total loans and borrowings					**24,462**	**19,346**

Bonds issued include UAH denominated general obligation bonds issued by TMM. The par value of each bond is USD 198 (UAH 1,000 thousand). The bonds pay fixed interest of 16.0% as of December 31, 2005 and 18.0% as of December 31, 2004, which is payable in quarterly installments. The interest rate can be modified at the discretion of TMM but cannot be below 5.0%. The bonds are subject to early redemption at the request of the bond holders at par value on November 15, 2006, December 13, 2006 and January 10, 2007. Subsequent to the balance sheet date, the Group lowered the interest rate on bonds payable to 15.0%.

The Group has no subordinated debt.

At the date of this report, 11 May 2007, the LIBOR rate for USD denominated loans is 5.36% and for EUR denominated loans the LIBOR rate is 4.06%.

For a description of assets pledged by the Group in connection with loans and borrowings refer to note 24(a).

12 Accounts and notes payable

Accounts and notes payable as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Trade accounts payable	**5,915**	7,260
Billings in excess of costs incurred	**10,892**	9,124
Due to shareholders	**2,095**	993
Interest payable	**1,718**	611
Deferred income	**641**	267
Notes payable	**610**	8,745
Salaries payable	**271**	98
Other	**1,379**	1,498
Total accounts and notes payable	**23,521**	28,596

13 Taxes payable

Taxes payable as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Salary related taxes	**337**	47
VAT	**98**	79
Income tax	**28**	0
Other	**42**	13
Total taxes payable	**505**	139

14 Advances received from customers

As at 31 December, 2005 and 2004, advances received from customers include USD 66,826 thousand and USD 22,907 thousand, respectively, of advances received for residential and business property that management estimates will be realised in the ordinary operating cycle, which may be more than twelve months after the balance sheet date.

15 Revenues

Revenues for the year ended 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Revenues on construction contracts	**30,322**	20,568
Sales of apartments	**8,518**	4,943
Other	**350**	514
Total	**39,190**	26,025

All revenue is generated from sales to customers in Ukraine.

16 Cost of revenues

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

(in thousands of US dollars)	**2005**	2004
Costs under construction contracts	**26,422**	16,795
Cost of apartments sold	**6,749**	2,974
Other	**195**	303
Total	**33,366**	20,072

Total salaries and related charges paid to employees and included in production costs for the year ended 31 December 2005 amount to USD 1,576 thousand (2004: USD 644 thousand).

17 Other income

Other income for the year ended 31 December is as follows:

(in thousands of US dollars)	**2005**	2004
Gain on sale of other goods and services	**602**	8,474
Gain on disposal of property and equipment	**-**	760
Other income	**517**	128
	1,119	9,362

18 General administrative expenses

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

(in thousands of US dollars)	**2005**	2004
Salary and related charges	**2,051**	1,252
Bank and similar charges	**586**	384
Security	**568**	243
Professional services	**342**	98
Depreciation	**393**	244
Communication	**214**	212
Transaction costs	**199**	645
Taxes other than on income	**94**	28
Materials	**82**	20
Obligatory charges on purchase of foreign currency	**78**	69
Insurance	**72**	67
Maintenance	**38**	236
Other	**551**	236
	5,268	3,734

19 Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Transportation	**421**	379
Advertising	**190**	38
Professional services	**151**	218
Other	**22**	15
	784	650

20 Other expenses

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

(in thousands of US dollars)	**2005**	2004
Impairment of property and equipment	**416**	50
Write-off of taxes receivable	**303**	-
Loss on disposal of property and equipment	**141**	-
Charity	**105**	64
Research and development	**45**	55
Penalties	**14**	17
Other expenses	**417**	112
	1,441	298

21 Financial costs, net

Financial costs, net for the year ended 31 December is as follows:

(in thousands of US dollars)	**2005**	2004
Interest income	**110**	139
Foreign exchange (loss) gain	**(49)**	7
Interest expense	**(369)**	(347)
Net result from dealing with securities	**61**	(505)
	(247)	(706)

During the year ended 31 December 2005, the Group capitalised USD 4,425 thousand (2004: USD 1,423 thousand) of borrowing costs.

22 Income tax expense

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

(in thousands of US dollars)	**2005**	2004
Current	**84**	191
Deferred	**5,259**	2,685
Total income tax expense	**5,343**	2,876

The corporate income tax rate is 25% in 2005 and 2004.

(a) Reconciliation of effective tax rate

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported tax expense (benefit) is as follows:

(in thousands of US dollars)

	2005	**%**	2004	%
Profit before tax	**9,879**	**100%**	11,093	100%
Income tax expense at statutory rate	**2,470**	**25%**	2,773	25%
Non-deductible (non-taxable) items, net	**2,873**	**29%**	103	1%
Effective income tax expense	**5,343**	**54%**	2,876	26%

(b) Movements in temporary differences

Movements in temporary differences during the year ended 31 December are as follows:

(in thousands of US dollars)	**1 January 2005**	**Recognised in equity**	**Recognised in income statement**	**Recognised on business combination**	**Currency translation difference**	**31 December 2005**
Property and equipment and investment property	**(4,567)**	**(3,907)**	**(2,827)**	**(399)**	**(335)**	**(12,035)**
Investments	**4,383**	**-**	**1,027**	**-**	**237**	**5,647**
Inventories	**2,602**	**-**	**4,969**	**-**	**205**	**7,776**
Accounts and notes receivable	**4,463**	**-**	**(11,221)**	**-**	**62**	**(6,696)**
Advances to suppliers	**(2,286)**	**-**	**901**	**-**	**(102)**	**(1,487)**
Accounts and notes payable	**(272)**	**-**	**3,821**	**-**	**42**	**3,591**
Loans and borrowings	**961**	**-**	**(235)**	**-**	**45**	**771**
Advances received from customers	**(1,456)**	**-**	**(1,694)**	**-**	**(99)**	**(3,249)**
Net deferred tax asset (liability)	**3,828**	**(3,907)**	**(5,259)**	**(399)**	**55**	**(5,682)**

(in thousands of US dollars)	1 January 2004	Recognised in equity	Recognised in income statement	Currency translation difference	31 December 2004
Property and equipment and investment property	(2,132)	(2,184)	(234)	(17)	(4,567)
Investments	9,233	-	(4,883)	33	4,383
Inventories	905	-	1,689	8	2,602
Accounts and notes receivable	423	-	4,028	12	4,463
Advances to suppliers	(1,293)	-	(984)	(9)	(2,286)
Accounts and notes payable	1,826	-	(2,101)	3	(272)
Loans and borrowings	-	-	958	3	961
Advances received from customers	(294)	-	(1,158)	(4)	(1,456)
Net deferred tax asset	8,668	(2,184)	(2,685)	29	3,828

23 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of business.

(a) Credit risk

As at 31 December, 2005 and 2004, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(b) Interest rate risk

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

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases, loans and borrowings and cash and cash equivalents that are denominated in a currency other than measurement currency of the entities. The currencies giving rise to this risk are primarily USD and EUR. Management does not hedge its exposure to foreign currency risk.

(d) Fair values

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 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 pro forma consolidated 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 Group'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 realization of the unrealised gains and losses can have an effect on fair value estimates and have not been considered.

For all financial assets and liabilities, the carrying value is estimated to approximate the fair value as at 31 December 2005 and 2004.

24 Commitments and contingencies

(a) Pledged assets

As at 31 December, in connection with loans and borrowings, the Group pledged the following assets:

(in thousands of US dollars)	**2005**	2004
Property and equipment (note 5)	**28,146**	17,002
Investment property (note 6)	**2,162**	1,558
Restricted cash	**184**	-
Accounts and notes receivable (note 8)	**-**	936
Inventories (note 7)	**-**	763
Total pledged assets	**30,492**	20,259

(b) Purchase commitments

As at 31 December 2005 the Group entered into contracts to purchase plant and equipment and sub-constructor services for USD 3,061 thousand (2004: USD 12,238 thousand).

(c) Operating lease commitments

As at 31 December 2005, there are no significant non-cancellable operating leases.

(d) Insurance

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has obtained insurance over certain its facilities. However, it does not have full coverage for business interruption, damage of third party property, third party liability for any damages arising from accidents on property, or environmental damage. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(e) Litigation

The Group 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 results of operations.

(f) Taxation contingencies

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 characterised by numerous taxes and frequently changing legislation that may be applied retroactively, are open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance 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 in Ukraine substantially more significant than typically found in countries with more developed tax systems.

The Group undertakes transactions, including in cash and through intermediaries, with employees and, upon request, with clients and suppliers in order to provide for financial flexibility and to minimize taxes. These transactions may be challenged by the tax authorities. Management of the individual companies within the Group is responsible for the correctness and timeliness of the tax payments by group companies.

All of the Group's companies have been audited covering various periods of operation by local tax authorities. As of the date of this report, no significant claims or assessments against any member of the Group have been made by the tax authorities. No accrual for any potential tax liabilities is made in these pro forma consolidated financial statements. However, should the tax authorities determine that the transactions are subject to taxation, and apply this assessment to one or more of the companies of the Group, the resulting taxes and penalties could have a material adverse effect on the financial position and results of operations.

25 Related party transactions

The Group performs transactions with related parties in the ordinary course of business. Related parties comprise the associate, the controlling shareholder group, companies under common control of the Group's controlling owners, key management personnel and their close family members, and companies that are controlled or significantly influenced by shareholders. Prices for related party transactions are determined on an ongoing basis. The terms of some related party transactions may differ from market terms.

(a) Control relationships

The Group has a controlling relationship with all of its subsidiaries and associates (see note 2(b) for a list of subsidiaries and associates).

The Group is ultimately controlled by Mr. Tolmachov M.G., who controls 81% of the share capital of the parent company.

(b) Transactions with management and close family members

(i) Management remuneration

Key management are those having the authority and responsibility for planning, directing and controlling the activities of the Group.

Key management and their close family members received the following remuneration during the year, which is included in general administrative expense costs (see note 18):

(in thousands of US dollars)	**2005**	2004
Short-term employee benefits:		
Salaries and bonuses	**613**	421

(ii) Other transactions with key management personnel

As at 31 December 2005 loans to key management amounting to USD 258 thousand (2004: USD 293 thousand) are included in accounts and notes receivable (note 8). These short-term loans are interest free and have no maturity date.

From time to time, management is entitled to receive non-cash compensation, namely, the right of ownership of apartments constructed by the Group and cars. No such compensation was granted during the years ended December 31, 2005 and 2004.

(c) Transactions and balances with other related parties

(i) Revenues

Sales of goods and services to related parties for the year ended 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Unconsolidated subsidiaries	**1,563**	458

(ii) Financial costs, net

Financial costs, net for the years ended 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Unconsolidated subsidiaries	**369**	347

(iii) Balances with related parties

Balances with related parties as at 31 December are as follows:

(in thousands of US dollars)	**2005**	2004
Accounts and notes receivable:		
Unconsolidated subsidiaries	**341**	246
Associates	**-**	15
Entities under common control with the Company or significantly influenced by related parties of the Group	**9,351**	11,754
Cash and cash equivalents:	**-**	-
Unconsolidated subsidiaries	**6,573**	309
Accounts and notes payable:	**-**	-
Unconsolidated subsidiaries	**180**	209
Entities under common control with the Company or significantly influenced by related parties of the Group	**260**	1,060
Loans and borrowings:	**-**	-
Unconsolidated subsidiaries	**2,208**	2,164
Advances received from customers:	**-**	-
Unconsolidated subsidiaries	**192**	-

All of these balances, except for loans and borrowings, are non-interest bearing and due in the short term.

Certain transactions with third parties are conducted through intermediaries who are related parties to the Group. These transactions are not disclosed as related party transactions since they are ultimately settled with third parties.

26 Events subsequent to the balance sheet date

Subsequent to 31 December 2005, Group shareholders established a Ukrainian holding company named LLC "TMM-Holding". As a result of a series of transactions, the holding company acquired from TMM a 58.26% ownership in CJSC "Insurance company "Oriana", an 82.00% ownership in LLC "Kharkiv plant of construction mixtures", and a 48.79% ownership in OJSC "TMM-Bank". Subsequent to 31 December 2005, the Group also disposed of its entire interest of 70.00% in CJSC "Sevastopol meat processing plant" to a former related party. All of these unconsolidated subsidiaries were sold at their carrying values.

Subsequent to 31 December 2005, TMM Real Estate Development Ltd issued 44,730,000 ordinary shares on 7 March 2007 in a bonus issue (note 10). No proceeds were received as a result of this share issue.

Tolmachev M.G.	Chivurina L.F.
General Director	Finance Director

11 May 2007

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Independent auditors' report

To the Board of Directors

TMM Real Estate Development plc

Report on the Pro forma Consolidated Financial Statements

We have audited the accompanying pro forma consolidated balance sheet of TMM Real Estate Development plc (the Company) and its subsidiaries (the Group) which comprise the pro forma consolidated balance sheet as at 31 December 2005 and the pro forma consolidated income statement, pro forma consolidated cash flow statement and pro forma consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these pro forma consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these pro forma consolidated financial statements based on our audit. Except as described in the first two paragraphs of the Basis for the Qualified Opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 principles 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 opinion.

CJSC KPMG Audit, a company registered under the Laws of Ukraine, is a member firm of KPMG International, a Swiss cooperative.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at USD 50,571 thousand as at 31 December 2005 and USD 30,775 thousand as at 31 December 2004 because we were engaged as auditors of the Group only after those dates. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories, cost of revenues, taxation expense, net profit and retained earnings as at and for the years ended 31 December 2005 and 2004.

The Group has insufficient supporting documents for certain cash receipts totaling USD 2,070 thousand and USD 3,664 thousand, and certain cash disbursements totaling USD 13,023 thousand and USD 6,651 thousand for the years ended 31 December 2005 and 2004, respectively. It was impracticable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of revenues stated at USD 1,249 thousand and USD 6,801 thousand, gain on acquisition of subsidiaries stated at USD 55 thousand and USD nil thousand, general and administrative expenses stated at USD 1,355 thousand and USD 878 thousand, cost of revenues stated at USD 6,744 thousand and USD 2,828 thousand, inventories stated at USD 6,738 thousand and USD 3,938 thousand, property and equipment stated at USD 1,816 thousand and USD 879 thousand, accounts payable due to shareholders stated at USD 2,095 thousand and USD 993 thousand, advances received from customers stated at USD 676 thousand and USD 1,021 thousand as at and for the years ended 31 December 2005 and 2004, respectively, and any related effect on taxation.

The Group has not disclosed segment information as at and for the years ended 31 December 2005 and 2004, which is required by International Financial Reporting Standard IAS 14 *Segment Reporting*.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the first two paragraphs of the Basis for Qualified Opinion, and except for the omission of segment information as described in the third paragraph of the Basis for Qualified Opinion, the pro forma consolidated financial statements present fairly, in all material respects, the pro forma financial position of the Group as at 31 December 2005, and the pro forma results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that the consolidated pro forma financial statements, which have been prepared for the purpose of presenting the consolidated financial position, financial performance and cash flows of the Group as if a restructuring that is completed in 2007 had taken place before 1 January 2004, are not necessarily indicative of the consolidated financial position, consolidated financial performance and consolidated cash flows that would have been achieved as at and for the year ended 31 December 2005 had the restructuring described above taken place before 1 January 2004. The restructuring and the basis of preparation are described in note 2.

CJSC KPMG Audit

CJSC KPMG Audit
11 May 2007