TMM Real Estate Development plc

Pro-forma Consolidated Financial Statements

31 December 2006

These pro-forma consolidated financial statements contain 45 pages

Contents

(in thousands of US dollars)	*Note*	**2006**	2005
Assets			
Non-current assets			
Property and equipment	*5*	**106,787**	49,193
Intangible assets		**851**	-
Investment property	*6*	**39,437**	15,476
Investments in unconsolidated subsidiaries		**6,097**	6,975
Investments in associates		**-**	24
Long-term deposit		**119**	119
Restricted cash		**-**	184
		153,291	71,971
Current assets			
Inventories	*7*	**77,586**	50,571
Accounts and notes receivable	*9*	**26,539**	45,411
Taxes receivable	*10*	**4,328**	3,359
Advances to suppliers		**9,318**	7,644
Amounts receivable under reverse repurchase agreements	*8*	**3,960**	-
Cash and cash equivalents		**1,387**	10,059
		123,118	117,044
Total assets		**276,409**	189,015

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 8 to 45.

(in thousands of US dollars)	*Note*	**2006**	2005
Equity and liabilities			
Equity			
Share capital	*11*	**3**	3
Additional paid-in capital		**2,592**	2,592
Revaluation surplus		**40,869**	21,622
Retained earnings		**58,250**	35,264
Translation reserve		**2,585**	2,585
Total equity attributable to equity holders of the parent		**104,299**	62,066
Minority interest		**2,679**	2,325
Total equity		**106,978**	64,391
Non-current liabilities			
Long-term loans and borrowings	*12*	**25,974**	14,440
Deferred tax liability	*23*	**19,414**	5,682
		45,388	20,122
Current liabilities			
Short-term loans and borrowings	*12*	**2,673**	9,944
Current portion of long-term loans and borrowings	*12*	**6,224**	78
Accounts and notes payable	*13*	**46,926**	23,521
Taxes payable	*14*	**449**	505
Advances received from customers	*15*	**67,771**	70,454
		124,043	104,502
Total equity and liabilities		**276,409**	189,015

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 8 to 45.

(in thousands of US dollars)	*Note*	**2006**	2005
Revenues	*16*	**95,761**	39,190
Cost of revenues	*17*	**(68,002)**	(33,366)
Gross profit		**27,759**	5,824
Other income	*18*	**3,435**	1,119
General administrative expenses	*19*	**(7,917)**	(5,268)
Selling and distribution expenses	*20*	**(1,150)**	(784)
Gain on revaluation of investment property	*6*	**18,247**	10,757
Bad debt expense	*9*	**(1,741)**	(137)
Gain on acquisition of subsidiaries	*4*	**-**	56
Other expenses	*21*	**(7,332)**	(1,441)
Financial costs, net	*22*	**(1,220)**	(247)
Profit before tax		**30,081**	9,879
Income tax expense	*23*	**(7,340)**	(5,343)
Net profit		**22,741**	4,536
Attributable to:			
Participants of the parent		**22,986**	4,689
Minority interest holders		**(245)**	(153)
Net profit		**22,741**	4,536
Weighted average basic and diluted shares (in thousands of shares)	*11*	**45,000**	45,000
Basic and diluted earnings per share (in US dollars)		**0.51**	0.10

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 8 to 45.

(in thousands of US dollars)	*Note*	**2006**	2005
Operating activities			
Profit before tax		**30,081**	9,879
Adjustments for:			
Depreciation and amortisation		**1,304**	415
Impairment of property and equipment	*21*	**472**	416
Bad debt expense	*9*	**1,741**	137
Accrual for taxes	*21*	**6,214**	-
Write-off of taxes receivable	*21*	**-**	303
Gain on revaluation of investment property	*6*	**(18,247)**	(10,757)
(Gain) loss on disposal of property and equipment	*18, 21*	**(4)**	141
Share in loss (profit) of associates		**24**	(1)
Interest income	*22*	**(218)**	(110)
Interest expense	*22*	**1,099**	369
Foreign exchange loss		**760**	-
Increase in inventories		**(24,011)**	(13,209)
Decrease (increase) in accounts and notes receivables		**17,131**	(12,229)
Decrease (increase) in advances to suppliers		**(1,674)**	3,879
Increase in taxes receivable		**(969)**	(2,242)
Decrease in accounts and notes payable		**(28,120)**	(7,611)
Increase in advances received from customers		**44,250**	45,177
(Decrease) increase in taxes payable		**(138)**	327
Income taxes paid		**(142)**	(58)
Interest received		**218**	110
Interest paid		**(5,364)**	(3,749)
Cash flows provided by operating activities		**24,407**	11,187

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 8 to 45.

(in thousands of US dollars)	Note	**2006**	2005
Investing activities			
Purchase of property and equipment	*5*	**(39,012)**	(6,686)
Purchase of intangible assets		**(858)**	-
Proceeds from sale of property and equipment		**40**	282
Proceeds from sale of securities available-for-sale		**878**	-
Purchase of investments in unconsolidated subsidiaries		**-**	(45)
Purchase of investments in associates		**-**	(23)
Acquisition of subsidiaries net of cash acquired	*4*	**-**	(2,264)
Placement of long-term deposit		**(3,960)**	(117)
Redemption (placement) of restricted cash		**184**	(182)
Cash flows used in investing activities		**(42,728)**	(9,035)
Financing activities			
Proceeds from loans and borrowings		**39,195**	20,119
Repayments of loans and borrowings		**(29,400)**	(19,012)
Proceeds from bonds issuance		**-**	2,922
Contributions from shareholders		**-**	1,225
Cash flows provided by financing activities		**9,795**	5,254
Net (decrease) increase in cash and cash equivalents		**(8,526)**	7,406
Cash and cash equivalents as at 1 January		**10,059**	2,422
Effect of exchange rates fluctuations on cash held		**(146)**	231
Cash and cash equivalents as at 31 December		**1,387**	10,059

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 8 to 45.

	Attributable to equity holders of the parent						Minority interest	Total equity
(in thousands of Ukrainian hryvnias)	**Share capital**	**Additional paid-in capital**	**Revaluation surplus**	**Retained earnings**	**Translation reserve**	**Total**		
Balance as at 1 January 2005	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 taxes 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
Revaluation of property	**-**	**-**	**25,663**	**-**	**-**	**25,663**	**798**	**26,461**
Deferred taxes on revaluation of property	**-**	**-**	**(6,416)**	**-**	**-**	**(6,416)**	**(199)**	**(6,615)**
Net profit (loss)	**-**	**-**	**-**	**22,986**	**-**	**22,986**	**(245)**	**22,741**
Total recognised income and expenses	**-**	**-**	**19,247**	**22,986**	**-**	**42,233**	**354**	**42,587**
Balance as at 31 December 2006	**3**	**2,592**	**40,869**	**58,250**	**2,585**	**104,299**	**2,679**	**106,978**

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 Financial Statements set out on pages 8 to 45.

1 Background

(a) Organisation 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 to 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 LLC Firm TMM (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 2005 (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, Zhytomir, 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). These pro-forma consolidated financial statements are based on certain pro-forma assumptions described in the note 2(b).

(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 2005.

(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:

		2006	**2005**
Name	**Activity**	**% of ownership**	**% of ownership**
Subsidiaries:			
LLC Firm TMM	Construction and development	100.0%	100.0%
LLC Geravit	Development project	100.0%	-
LLC Palladiy	Development project	100.0%	-
LLC TMM Budkomplekt	Production of construction materials	90.0%	90.0%
CJSC Tavrida Plaza	Development project	74.9%	74.9%
LLC Adept-2005	Development project	70.0%	70.0%
OJSC Ukrstsukorteploizoliatsia	Development project	63.7%	63.7%
Associates:			
CJSC TMM Energobud	Development project	50.0%	50.0%
LLC Ekotechservice	Development project	41.0%	41.0%

The Group is primary beneficiary of the following entities:

Name	**Location**
Gambier Development Corp.	Panama
LLC DP TG Ekipazh	Kharkiv (Ukraine)
LLC Stimul+	Kharkiv (Ukraine)

LLC DP TG Ekipazh and LLC Stimul+ are special purpose entities (SPEs) established to obtain rights to perform construction on plots of land owned by these entities. Gambier Development Corp. is a special purpose entity established to facilitate the sale of one of the construction projects of the Group. The Group does not have any direct ownership in these entities. All companies are separate legal entities and individual taxpayers.

During the year ended 31 December 2006, the Group acquired subsidiaries LLC Geravit and LLC Palladiy from unrelated parties.

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 2006 and 2005.

During 2006 and 2007 the Group 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, 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). 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 of the business to TMM Real Estate Development plc, had taken place before 1 January 2005.

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:

		2006	**2005**
Name	**Activity**	**% of ownership**	**% of ownership**
Subsidiaries:			
OJSC Sevastopol meat processing plant	Production	-	70.00%
LLC Kharkiv plant of construction materials	Production	-	82.00%
CJSC Insurance Company Oriana	Insurance	58.26%	58.26%
OJSC TMM-Bank	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 the following:

- 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.

(d) Functional and presentation currency

The 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 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 these 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 and liabilities, income and expense. Actual results may differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the pro-forma consolidated financial statements are described below:

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 realisable 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 realisable 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 LLC Appraisal company DK-Expert. 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 LLC Appraisal company DK-Expert. 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.

Post-employment and other long-term employee benefit obligations. Management performs a calculation of post-employment and other long-term employee benefit obligations using the projected unit credit method based on actuarial assumptions that represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other long-term employee benefits. Post-employment and other long-term employee benefit obligations are not recognised in these pro-forma consolidated financial statements as the effect of recognising these obligations would not be material.

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 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 except for differences arising on retranslation of available-for-sale equity instruments.

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

Currency	**2006**	2005
US Dollar	**5.050**	5.050
Euro	**6.651**	5.972

As at the date of these pro-forma consolidated financial statements, 7 September 2007, the exchange rate is UAH 5.050 to USD 1.000 and UAH 6.903 to Euro 1.000.

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings.

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

Buildings were revalued as at 31 December 2006 and 2005, and 1 January 2005. To determine the fair value of buildings, management obtains appraisals 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 and equipment comprises major components having different useful lives, they are accounted for as separate items of property 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 and the carrying amount of the component replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property 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 an 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:

	Years
Buildings	50
Heavy construction equipment	20
Production, construction and research equipment	8
Vehicles	6
IT and computer equipment	4
Furniture and office equipment	4

(g) Intangible assets

Intangible assets, which are acquired by the Group and have finite useful lives, represent mainly computer software licences and are stated at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date an asset is available for use. The estimated useful life is four years.

(h) 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(s)(v).

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 2006 and 2005, and 1 January 2005. To determine the fair value of buildings, management obtains appraisals 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.

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise accounts and notes receivable, cash and cash equivalents, loans and borrowings, and accounts and notes payable.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(u).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(n)(i)) and foreign exchange gains and losses on available-for-sale monetary items (see note 3(e)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the income statement.

(j) Inventories

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

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.

(k) Prepayments made

Prepayments made are stated at cost less impairment losses.

(l) Reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the Group’s portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated income statement over the term of the repurchase agreement using the effective interest rate method.

Securities purchased under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the consolidated income statement over the term of the reverse repurchase agreement using the effective interest rate method. The receivables due under reverse repurchase agreements are recorded net of provisions for impairment.

(m) Earnings per share

Earnings per share are calculated by dividing net profit attributable to the shareholders of the Company 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

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories, investment properties, and deferred tax assets, 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(o) 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.

The Group is also obligated to make contributions to certain defined benefit plans. Neither the contributions nor obligations are significant to these pro-forma consolidated financial statements.

(p) 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.

(q) 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 realisation 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.

(r) 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.

(s) Revenues

(i) Goods sold

Revenues from the sale of apartments are recognised in the consolidated income statement when a binding agreement has been signed and the construction is complete and approved by the state commissioner.

Revenues from the sale of other goods are recognised in the consolidated 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

Construction contracts are contracts specifically negotiated with third parties when the Group is engaged in the construction of residential and business properties as a subcontractor on behalf of those parties and neither assume ownership title over the assets being constructed nor assumes risks or rewards from subsequent usage or sale of those properties.

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 in 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.

(t) 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.

(u) 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, except for borrowing costs capitalised as a part of a qualifying asset.

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.

(v) 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.

(w) 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* 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 IFRS 8 *Operating Segments* is effective for annual periods beginning on or after 1 January 2009. The standard introduces the “management approach” to segment reporting.
- International Financial Reporting Interpretation Committee IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Group’s 2007 consolidated financial statements.
- International Financial Reporting Interpretation Committee IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group’s 2007 consolidated financial statements, and will apply to investments in equity instruments and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).

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 2006**
OJSC Ukrstsukorteploizoliatsia	Ukraine	1 July 2005	63.7%

The acquisition of OJSC Ukrstsukorteploizoliatsia 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 the Group's interest in the net fair value of 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 profit 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 2006 is as follows:

(in thousands of US dollars)	Buildings	Heavy construction equipment	Production, construction and research equipment	Vehicles	IT and computer equipment	Furniture and office equipment	Construction in progress	Total
Cost or revalued amount								
1 January 2006	**39,717**	**4,225**	**1,254**	**725**	**440**	**231**	**3,712**	**50,304**
Additions	**1,326**	**935**	**3,764**	**388**	**336**	**219**	**32,044**	**39,012**
Disposals	**-**	**(5)**	**(4)**	**(60)**	**(19)**	**-**	**-**	**(88)**
Reclassifications to intangible assets	**-**	**-**	**-**	**-**	**(134)**	**-**	**-**	**(134)**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**(5,714)**	**(5,714)**
Revaluation	**25,168**	**-**	**-**	**-**	**-**	**-**	**-**	**25,168**
31 December 2006	**66,211**	**5,155**	**5,014**	**1,053**	**623**	**450**	**30,042**	**108,548**
Accumulated depreciation								
1 January 2006	**-**	**(402)**	**(260)**	**(162)**	**(209)**	**(78)**	**-**	**(1,111)**
Depreciation charge	**(821)**	**(245)**	**(258)**	**(141)**	**(86)**	**(68)**	**-**	**(1,619)**
Disposals	**-**	**-**	**1**	**45**	**6**	**-**	**-**	**52**
Reclassifications to intangible assets	**-**	**-**	**-**	**-**	**96**	**-**	**-**	**96**
Revaluation	**821**	**-**	**-**	**-**	**-**	**-**	**-**	**821**
31 December 2006	**-**	**(647)**	**(517)**	**(258)**	**(193)**	**(146)**	**-**	**(1,761)**
Net book value								
31 December 2006	**66,211**	**4,508**	**4,497**	**795**	**430**	**304**	**30,042**	**106,787**

The net revaluation result for the year ended 31 December 2006 is USD 25,989 thousand, of which USD 26,461 thousand of revaluation increase is recognised in equity, and USD 472 thousand of impairment is recognised in the consolidated income statement.

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 10,000 thousand as at 31 December 2006 (unaudited).

The total depreciation charge for the year ended 31 December 2006 is USD 1,619 thousand, of which USD 360 thousand is recorded in inventories, and USD 1,259 thousand is recorded in the income statement, of which USD 1,236 thousand is recorded in general and administrative expenses, and USD 23 thousand is recorded in other expenses.

As at 31 December 2006, property and equipment with a carrying amount of USD 54,948 thousand is pledged to secure bank loans (note 25(a)).

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

	Buildings	Heavy construction equipment	Production, construction and research equipment	Vehicles	IT and computer equipment	Furniture and office equipment	Construction in progress	Total
(in thousands of US dollars)								
Cost or revalued amount								
1 January 2005	18,951	3,194	742	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	50	-	12	4	(3,626)	(2,884)
Revaluation	15,475	-	-	-	-	-	-	15,475
Impairment losses	(416)	-	-	-	-	-	-	(416)
Translation difference	1,244	175	45	26	15	8	154	1,667
31 December 2005	39,717	4,225	1,254	725	440	231	3,712	50,304
Accumulated depreciation								
1 January 2005	-	(279)	(124)	(114)	(149)	(58)	-	(724)
Depreciation charge	(154)	(177)	(129)	(101)	(53)	(43)	-	(657)
Disposals	-	70	1	59	1	26	-	157
Revaluation	154	-	-	-	-	-	-	154
Translation difference	-	(16)	(8)	(6)	(8)	(3)	-	(41)
31 December 2005	-	(402)	(260)	(162)	(209)	(78)	-	(1,111)
Net book value								
31 December 2005	39,717	3,823	994	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 and amortisation 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 25(a)).

6 Investment property

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

(in thousands of US dollars)	**2006**	2005
Balance as at 1 January	**15,476**	1,558
Transfer from property and equipment (note 5)	**5,714**	2,884
Gain on revaluation of investment property	**18,247**	10,757
Translation difference	**-**	277
Balance as at 31 December	**39,437**	15,476

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

For the years ended 2006, rental income and direct operating expenses from investment property were USD 773 thousand and USD nil, correspondingly (2005: nil).

As at 31 December 2006 investment property with a carrying value of USD 22,682 thousand (2005: USD 2,162 thousand) is pledged to secure loans and borrowings (note 25(a)).

7 Inventories

Inventories as at 31 December are as follows:

(in thousands of US dollars)	**2006**	2005
Merchandise inventory held for resale	**652**	35
Finished goods:		
Constructed residential property	**11,493**	461
Other	**155**	136
Construction work-in-progress	**45,192**	34,078
Raw materials and consumables	**20,094**	15,861
Total inventories	**77,586**	50,571

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.

8 Amounts receivable under reverse repurchase agreements

As at 31 December 2006, amounts receivable under reverse repurchase agreements relate to corporate shares of a Ukrainian enterprise acquired by the Group and resold subsequent to 31 December 2006.

9 Accounts and notes receivable

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

(in thousands of US dollars)	**2006**	2005
Trade accounts receivable	**13,935**	8,730
Due from customers for construction work in progress	**2,914**	9,230
Notes receivable	**6,907**	7,014
Due from shareholders	**3,850**	-
Interest-free loans to employees and shareholders	**458**	1,165
Interest-free loans to third parties	**229**	236
Accrued income	**-**	21,295
Other receivables	**5,634**	3,603
Less provision for impairment	**(7,388)**	(5,862)
Total accounts and notes receivable	**26,539**	45,411

As at 31 December 2006 aggregate costs incurred under open construction contracts, net of recognised losses, amount to USD 24,055 thousand (2005: USD 22,254 thousand) and progress billings to customers under open construction contracts amount to USD 39,371 thousand (2005: USD 23,916 thousand).

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

(in thousands of US dollars)	**2006**	2005
Balance as at 1 January	**5,862**	5,616
Bad debt expense	**1,741**	137
Amounts written off	**(215)**	(174)
Translation differences	**-**	283
Balance as at 31 December	**7,388**	5,862

10 Taxes receivable

Taxes receivable as at 31 December are as follows:

(in thousands of US dollars)	**2006**	2005
VAT	**4,298**	3,135
Salary related taxes	**26**	220
Other	**4**	4
Total taxes receivable	**4,328**	3,359

11 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 2006, TMM Real Estate Development Ltd issued 44,730,000 ordinary shares on 7 March 2007 in a bonus issue (note 27). 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.

12 Loans and borrowings

This note provides information about the contractual terms of loans and borrowings. Refer to note 24 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**	**2006**	2005
Short-term loans and borrowings						
TMM-Bank	UAH	Fixed 17.0%	17.5%	June 2007	2,323	-
TMM-Bank	UAH	Fixed 17.0%	17.5%	June 2006	-	1,824
TMM-Bank	USD	Fixed 15.0%	15.0%	March 2007	350	-
Creditprombank	UAH	Fixed 36.0%	36.0%	December 2006	-	2,924
Creditprombank	EUR	Fixed 16.0%	16.0%	June 2006	-	1,117
Non-bank borrowings from local institutions	UAH	-	17.5%	Various 2006	-	4,079
Total short-term loans and borrowings					**2,673**	9,944
Current portion of long-term loans and borrowings						
Bonds issued	UAH	Fixed 15.0%	17.6%	November 2007	**2,808**	-
Bonds issued	UAH	Fixed 15.0%	17.8%	December 2007	**2,948**	-
Finance and credit	UAH	Fixed 10.0%	10.0%	August 2007	**71**	-
Suppliers credits	USD	Fixed 10.0%	10.0%	Various 2007	**397**	78
Total current portion of long-term loans and borrowings					**6,224**	78
Long-term loans and borrowings						
Savings bank	UAH	Fixed 14.0%	14.0%	April 2008	**11,287**	-
HVB Ukraine	EUR	LIBOR +7.15%	13.00%	April 2008	**11,439**	-
HVB Ukraine	USD	LIBOR +7.15%	11.00%	April 2008	**210**	-
HVB Ukraine	EUR	LIBOR + 8%	13.0%	January 2007	-	4,015
TMM-Bank	UAH	Fixed 17.0%	17.0%	April 2008	-	384
Finance and credit	UAH	Fixed 10.0%	10.0%	August 2007	-	178
HVB Ukraine	USD	LIBOR + 8.0%	11.0%	January 2007	-	148
Bonds issued	UAH	Fixed 16.0%	18.1%	November 2007	-	2,985
Bonds issued	UAH	Fixed 16.0%	18.4%	December 2007	-	2,934
Bonds issued	UAH	Fixed 15.0%	17.4%	January 2008	**3,038**	3,047
Suppliers credits	USD	Fixed 10.0%	10.0%	Various 2007	-	749
Total long-term loans and borrowings					**25,974**	14,440
Total loans and borrowings					**34,871**	24,462

Bonds issued include UAH denominated general obligation bonds issued by TMM. The par value of each bond is USD 198 (UAH 1,000). The bonds pay fixed interest of 15.0% as at 31 December 2006 (31 December 2005: 16.0%), 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 10 January 2007.

The Group has no subordinated debt.

At the date of this report, 7 September 2007, the LIBOR six months rate for USD denominated loans is 5.57% and for EUR denominated loans the LIBOR rate is 4.77%.

For a description of assets pledged by the Group in connection with loans and borrowings refer to note 25(a).

13 Accounts and notes payable

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

(in thousands of US dollars)	**2006**	2005
Billings in excess of costs incurred	**18,619**	10,892
Trade accounts payable	**7,952**	5,915
Accrual for taxes	**6,214**	-
Prepayment received for investments in unconsolidated subsidiaries	**6,097**	-
Prepayments received for securities	**2,470**	-
Accrual for unused vacation	**870**	383
Notes payable	**593**	610
Salaries payable	**467**	271
Interest payable	**97**	1,718
Deferred income	**19**	641
Due to shareholders	**-**	2,095
Other	**3,528**	996
Total accounts and notes payable	**46,926**	23,521

Prepayment received for investments in unconsolidated subsidiaries relates to the advances made by LLC TMM-Holding for investments in unconsolidated subsidiaries (note 27).

14 Taxes payable

Taxes payable as at 31 December are as follows:

(in thousands of US dollars)	**2006**	2005
Salary related taxes	**295**	337
VAT	**18**	98
Income tax	**109**	28
Other	**27**	42
Total taxes payable	**449**	505

15 Advances received from customers

As at 31 December, 2006 and 2005, advances received from customers include USD 46,541 thousand and USD 66,826 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.

16 Revenues

Revenues for the year ended 31 December are as follows:

(in thousands of US dollars)	**2006**	2005
Revenues on construction contracts	**58,516**	30,322
Sales of apartments	**37,055**	8,518
Other	**190**	350
Total revenues	**95,761**	39,190

All revenue is generated from sales to customers in Ukraine.

17 Cost of revenues

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

(in thousands of US dollars)	**2006**	2005
Costs under construction contracts	**38,161**	26,422
Cost of apartments sold	**29,671**	6,749
Other	**170**	195
Total cost of revenues	**68,002**	33,366

Total salaries and related charges paid to employees and included in production costs for the year ended 31 December 2006 amount to USD 3,212 thousand (2005: USD 1,576 thousand).

18 Other income

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

(in thousands of US dollars)	**2006**	2005
Gain on sale of other goods and services	**2,470**	602
Rental income	**773**	-
Gain on disposal of property and equipment	**4**	-
Other income	**188**	517
Total other income	**3,435**	1,119

19 General administrative expenses

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

(in thousands of US dollars)	**2006**	2005
Salary and related charges	**4,069**	2,051
Depreciation and amortisation	**1,281**	393
Bank and similar charges	**913**	586
Professional services	**499**	342
Communication	**264**	214
Security	**234**	568
Obligatory charges on purchase of foreign currency	**207**	78
Taxes other than on income	**163**	94
Insurance	**131**	72
Materials	**56**	82
Maintenance	**35**	38
Transaction costs	**-**	199
Other	**65**	551
Total general and administrative expenses	**7,917**	5,268

20 Selling and distribution expenses

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

(in thousands of US dollars)	**2006**	2005
Transportation	**454**	421
Advertising	**566**	190
Professional services	**33**	151
Other	**97**	22
Total selling and distribution expenses	**1,150**	784

21 Other expenses

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

(in thousands of US dollars)	**2006**	2005
Accrual for taxes (note (25(f))	**6,214**	-
Impairment of property and equipment	**472**	416
Research and development	**47**	45
Charity	**22**	105
Penalties	**4**	14
Write-off of taxes receivable	**-**	303
Loss on disposal of property and equipment	**-**	141
Other expenses	**573**	417
Total other expenses	**7,332**	1,441

22 Financial costs, net

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

(in thousands of US dollars)	**2006**	2005
Interest income	**218**	110
Foreign exchange loss	**(704)**	(49)
Interest expense	**(1,099)**	(369)
Net result from dealing with securities	**365**	61
Total financial costs, net	**(1,220)**	(247)

During the year ended 31 December 2006, the Group capitalised USD 2,644 thousand (2005: USD 4,425 thousand) of borrowing costs.

23 Income tax expense

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

(in thousands of US dollars)	**2006**	2005
Current	**223**	84
Deferred	**7,117**	5,259
Total income tax expense	**7,340**	5,343

The corporate income tax rate is 25% in 2006 and 2005.

(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 is as follows:

(in thousands of US dollars)

	2006	**%**	2005	%
Profit before tax	**30,081**	**100%**	9,879	100%
Income tax expense at statutory rate	**7,520**	**25%**	2,470	25%
Non-deductible (non-taxable) items, net	**(180)**	**(1%)**	2,873	29%
Effective income tax expense	**7,340**	**24%**	5,343	54%

Non-table income relates to proceeds from the sale of construction projects that do not qualify as taxable income.

(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 2006**	**Recognised in equity**	**Recognised in income statement**	**31 December 2006**
Property and equipment and investment property	**(12,035)**	**(6,615)**	**(215)**	**(18,865)**
Investments	**5,647**	**-**	**2,265**	**7,912**
Inventories	**7,776**	**-**	**(17,052)**	**(9,276)**
Accounts and notes receivable	**(6,696)**	**-**	**8,451**	**1,755**
Taxes receivable	**-**	**-**	**350**	**350**
Advances to suppliers	**(1,487)**	**-**	**146**	**(1,341)**
Accounts and notes payable	**3,591**	**-**	**1,665**	**5,256**
Loans and borrowings	**771**	**-**	**(6,626)**	**(5,855)**
Advances received from customers	**(3,249)**	**-**	**3,899**	**650**
Net deferred tax asset (liability)	**(5,682)**	**(6,615)**	**(7,117)**	**(19,414)**

(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)

24 Financial instruments

Exposure to credit, interest rate and foreign currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

(a) Credit risk

The Group does not require collateral in respect of financial assets, other than long-term trade receivables. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

As at 31 December 2006 and 2005, 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 pro-forma 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.

Refer to note 12 for information about maturity dates and effective interest rates of fixed rate and floating rate financial instruments. Repricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Repricing for floating rate financial instruments occurs quarterly.

(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 UAH. The currencies giving rise to this risk are primarily USD and EUR. Ukrainian legislation restricts the Group's ability to hedge its exposure to foreign currency risk, and, accordingly, the Group 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 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.

For all financial assets and liabilities, the carrying value is estimated to approximate the fair value as at 31 December 2006 and 2005.

25 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)	**2006**	2005
Property and equipment (note 5)	**54,948**	28,146
Investment property (note 6)	**22,682**	2,162
Restricted cash	**-**	184
Total pledged assets	**77,630**	30,492

(b) Purchase commitments

As at 31 December 2006, the Group entered into contracts to purchase property and equipment and sub-constructor services for USD 14,517 thousand (2005: USD 3,061 thousand).

(c) Operating lease commitments

As at 31 December 2006, 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 of 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 minimise 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.

As at 31 December 2006, management provided USD 6,214 thousand for potential tax liabilities (note 21). 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 differ from management's estimate.

Accounting for corporate profit tax and VAT liability

According to the current Ukrainian legislation, received advances from customers should be immediately included into taxable income (rule of first event). Construction companies qualify for certain exemptions to the rule of first event, under which the amount received for construction purposes under investment agreements are not subject to VAT and CPT liabilities. These amounts are included into VAT liability and taxable income only upon transfer of ownership in accordance with the signed agreement (rule of second event).

The Group applies the rule of second event in accounting for advances received for construction projects. Tax authorities may challenge non-inclusion of such receipts and may assess additional corporate profit tax liability, VAT liabilities, and related penalties of approximately USD 14,942 thousand. No provision for these potential taxes is recorded in the consolidated financial statements.

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.

26 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 is ultimately controlled by Mr. Tolmachov M.G., who controls majority of the voting rights.

(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 19):

(in thousands of US dollars)	**2006**	2005
Short-term employee benefits:		
Salaries and bonuses	**155**	613

(ii) Other transactions with key management personnel

As at 31 December 2006 loans to key management amounting to USD 20 thousand (2005: USD 258 thousand) are included in accounts and notes receivable (note 9). 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 31 December 2006 and 2005.

(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)	**2006**	2005
Unconsolidated subsidiaries	**197**	1,563
Associates	**744**	-
Entities under common control with the Company or significantly influenced by related parties of the Group	**5**	-
Total revenues	**946**	1,563

(ii) Financial costs, net

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

(in thousands of US dollars)	**2006**	2005
Unconsolidated subsidiaries	**405**	369

(iii) Balances with related parties

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

(in thousands of US dollars)	**2006**	2005
Accounts and notes receivable:		
Unconsolidated subsidiaries	**-**	341
Associates	**893**	-
Entities under common control with the Company or significantly influenced by related parties of the Group	**10,442**	9,351
Cash and cash equivalents:		
Unconsolidated subsidiaries	**26**	6,573

(in thousands of US dollars)	**2006**	2005
Accounts and notes payable:		
Unconsolidated subsidiaries	**56**	180
Associates	**24**	-
Entities under common control with the Company or significantly influenced by related parties of the Group	**10,643**	260
Loans and borrowings:		
Unconsolidated subsidiaries	**2,673**	2,208
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. Refer to note 12 about the contractual terms of loans and borrowings.

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.

27 Events subsequent to the balance sheet date

During the year ended 31 December 2006, Group shareholders established a Ukrainian holding company named LLC TMM-Holding. As a result of a series of transactions, subsequent to the balance sheet date, 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. All of these unconsolidated subsidiaries were sold at their carrying values.

Subsequent to 31 December 2006, TMM Real Estate Development Ltd issued 44,730,000 ordinary shares on 7 March 2007 in a bonus issue (note 11). No proceeds were received as a result of this share issue.

On 29 May 2007, the Company's shares were admitted for trading on the Frankfurt Stock Exchange. As a result of the offering, 6,792,165 shares were sold. The issue price was EUR 11.65 (USD 15.45). Investors subscribed for shares totaling EUR 79,129 thousand (USD 104,939 thousand). The issue proceeds were used to increase the share capital of LLC Firm TMM.

Tolmachev M.G.
General Director

Chivurina L.F.
Finance Director

7 September 2007

Basis for Qualified Opinion

We did not observe the counting of inventories stated at USD 50,571 thousand as at 31 December 2005 because we were engaged as auditors of the Group only after that date. 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 2006 and 2005.

The Group has insufficient supporting documents for certain cash receipts and certain cash disbursements. It was impracticable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of revenues stated at USD 1,238 thousand and USD 1,249 thousand, gain on acquisition of subsidiaries stated at USD nil thousand and USD 55 thousand, general and administrative expenses stated at USD 1,360 thousand and USD 1,355 thousand, cost of revenues stated at USD 3,499 thousand and USD 6,744 thousand, interest expense stated at USD 686 thousand and USD nil thousand, inventories stated at USD 10,275 thousand and USD 6,738 thousand, property and equipment stated at USD 2,897 thousand and USD 1,816 thousand, accounts receivable due from shareholders stated at USD 3,850 thousand and USD nil thousand, accounts payable due to shareholders stated at USD nil thousand and USD 2,095 thousand, advances received from customers stated at USD 141 thousand and USD 676 thousand as at and for the years ended 31 December 2006 and 2005, respectively, and any related effect on taxation.

The Group has not disclosed segment information as at and for the years ended 31 December 2006 and 2005, 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 2006, 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 2005, 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 2006 had the restructuring described above taken place before 1 January 2005. The restructuring and the basis of preparation are described in note 2.

CJSC KPMG Audit

CJSC KPMG Audit
7 September 2007