

TMM Real Estate Development plc
Consolidated Financial Statements

*As at 31 December 2008 and
for the year then ended
with Independent Auditors' Report*

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

Board of Directors

Eleni Chrysostomides
Georgia Chrysostomides
Anna Rossides
Mykola Tolmachov
Larysa Chyvurina

Secretary

Inter Jura CY (Services) Limited

Independent Auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
36 Byron Avenue
P.O. Box 21656
1511 Nicosia
Cyprus

Bankers

Bank of Cyprus Public Company Ltd
JSC "UniCredit bank"
JSC "State savings bank of Ukraine"
JSC "Rodovid bank"
JSC "Calyon Bank Ukraine"
JSC "ING Bank Ukraine"

Registered office

1, Lampousas Str.,
1095, Nicosia,
Cyprus

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of TMM Real Estate Development Plc (the "Company") presents to the shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the construction and development of residential and business properties in Kyiv, Kharkiv, Zhytomir and Crimean regions of Ukraine.

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

The Board of Directors has assessed the risks set out in this report and believes that steps taken to mitigate the risks are sufficient to prevent their material adverse effect on the financial performance and financial position of the Group. Therefore: (i) the current financial position as presented in the consolidated financial statements is considered satisfactory; (ii) The Board of Directors does not expect major changes in the principal activities of the Group in the foreseeable future.

FINANCIAL RESULTS AND DIVIDENDS

The Group's results for the year ended are set out on page 2.

The Board of Directors does not recommend the payment of a dividend and the net profit for the period is retained.

MAIN RISKS AND UNCERTAINTIES

The risks and uncertainties faced by the Group are disclosed in the notes to the consolidated financial statements, in particular the most significant comprised: (i) liquidity risk as disclosed in note 31 to the consolidated financial statements; (ii) market risk as disclosed in note 2 to the consolidated financial statements.

SHARE CAPITAL

On 7 March 2007, the Company issued 44,730,000 ordinary shares with a par value of USD 0.01 as a part of restructuring in exchange for shares in LLC Firm TMM. For the purposes of presenting earnings per share information the number of ordinary shares was adjusted as if the event occurred at the beginning of the earliest period presented.

On 14 May 2007, the Company issued further 6,792,165 ordinary shares USD 0.01 each.

On 29 May 2007, the shares of TMM Real Estate Development Ltd 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 USD 15.45. Investors subscribed for shares totaling EUR 79,129 thousand (USD 104,939 thousand). The issue proceeds less transactions costs were used to increase the share capital of LLC Firm TMM.

As a result of these transactions, the Company had 51,792,165 ordinary shares issued and paid-up as at 31 December 2008 and 2007 of nominal value of USD 0.01. As at 31 December 2008 and 2007, the total authorised share capital amounted to 70,000,000 shares.

In July, September and December of 2008, the Company repurchased 795,346 ordinary shares with a par value of USD 0.01 each for the total cash consideration of USD 2,129 thousand.

BRANCHES

During the year ended 31 December 2008 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2008 and at the date of this report are shown on page (a). All of them were members of the board throughout the period to 31 December 2008.

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

POST BALANCE SHEET EVENTS

Any significant events that occurred after the end of the year are described in note 31 to the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditors, Ernst & Young Cyprus Limited, were appointed by the shareholders in replacement of the previous auditors Messrs KPMG, and have expressed their willingness to continue in office. A resolution proposing their re-appointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the next Annual General Meeting.

By order of the Board of Directors,

Director



Mykola Tolmachov

Director



Larysa Chyvurina

INDEPENDENT AUDITORS' REPORT

To the Members of TMM Real Estate Development plc

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TMM Real Estate Development plc ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as at 31 December 2007 were audited by another auditor whose report dated 26 October 2010 expressed a qualified opinion as they were unable to satisfy themselves in respect of (i) the tax balances and tax charges related to the Group's subsidiary Gambier Development Corp. as at 31 December 2007 and for the year then ended, (ii) cost of inventory recognized in consolidated income statement and related income tax charge for the year ended 31 December 2006 and (iii) certain cash transactions incurred during the years ended 31 December 2007 and 2006.

Board of Directors' responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. Except for the matters described in the Basis for Qualified Opinion paragraphs (i)–(ii), we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

- (i) By the means of our audit procedures we were unable to satisfy ourselves as to the tax balances of the Group's subsidiary Gambier Development Corp. as at 1 January and 31 December 2007 and the respective tax charges for the years ended 31 December 2007 and 2008.

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- (ii) We were unable to obtain sufficient audit evidence in respect of certain cash transactions for the year ended 31 December 2007. As a result we were unable to satisfy ourselves as to the carrying amount of inventories of USD 6,478 thousand and USD 16,339 thousand as at 31 December 2008 and 2007, respectively, property, plant and equipment of USD 1,827 thousand and USD 2,839 thousand as at 31 December 2008 and 2007, respectively, property development rights and costs of USD 1,063 thousand as at 31 December 2007, accounts receivable of USD 2,939 thousand as at 31 December 2007, revenue of USD 1,138 thousand and general and administrative costs of USD 1,089 thousand for the year ended 31 December 2007, cost of revenue of USD 10,464 thousand and foreign currency translation reserve of USD 4,358 thousand as at 31 December 2008 and for the year then ended.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap.113.

Emphasis of matter

We draw attention to the fact that the Group has previously issued consolidated financial statements as at 31 December 2008 and for the year then ended on which we expressed a qualified opinion on 16 October 2009. The previously issued consolidated financial statements at 31 December 2008 and for the year then ended authorized for issue on 16 October 2009 have been revised as disclosed in Note 32. This opinion on these revised consolidated financial statements supersedes our previously issued opinion.

Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit, except as explained in the Basis for Qualified Opinion paragraphs.
- In our opinion, proper books of account have been kept by the Company, except as explained in the Basis for Qualified Opinion paragraphs.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required, except as explained in the Basis for Qualified Opinion paragraphs.
- In our opinion, the information given in the report of the Board of Directors on pages (b)-(c) is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

A handwritten signature in blue ink that reads 'Ernst & Young Cyprus Ltd'.

Ernst & Young Cyprus Ltd
Certified Public Accountants and Registered Auditors

Nicosia, Cyprus
27 October 2010

CONSOLIDATED BALANCE SHEET**as at 31 December 2008***(in thousands of US dollars, unless otherwise indicated)*

	Notes	31 December 2008 (revised)	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	4	151,176	158,199
Intangible assets		546	900
Investment properties	5	68,004	55,991
Investments in associates	6	4,769	360
Property development rights and costs	7	32,792	23,786
Long-term deposits		-	218
		<u>257,287</u>	<u>239,454</u>
Current assets			
Inventories	8	124,988	144,991
Trade and other receivables	9	7,350	22,786
Prepayments	10	18,169	14,721
Prepaid income tax		25	-
Taxes receivable, other than income tax	11	10,114	10,230
Short-term deposits		-	25,205
Cash and cash equivalents		1,661	17,148
		<u>162,307</u>	<u>235,081</u>
TOTAL ASSETS		<u>419,594</u>	<u>474,535</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	12	510	518
Share premium	12	98,552	100,673
Additional paid-in capital		2,592	2,592
Revaluation reserve		80,530	52,013
Retained earnings		96,128	72,644
Translation reserve		(82,197)	2,585
		<u>196,115</u>	<u>231,025</u>
Minority interest		1,267	1,441
Total equity		<u>197,382</u>	<u>232,466</u>
Non-current liabilities			
Interest-bearing loans and borrowings	13	45,933	2,542
Finance lease liability	29	5,348	1,255
Deferred tax liability	14	42,102	37,807
		<u>93,383</u>	<u>41,604</u>
Current liabilities			
Interest-bearing loans and borrowings	13	35,656	69,568
Finance lease liability	29	3,646	283
Trade and other payables	15	27,650	16,137
Advances received	16	60,529	113,738
Income tax payable		-	66
Taxes payable, other than income tax	17	1,348	673
		<u>128,829</u>	<u>200,465</u>
TOTAL LIABILITIES		<u>222,212</u>	<u>242,069</u>
TOTAL EQUITY AND LIABILITIES		<u>419,594</u>	<u>474,535</u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 27 October 2010:

Director

Mykola Tolmachov

Director

Larysa Chyvurina

CONSOLIDATED INCOME STATEMENT**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)*

	Notes	2008 (revised)	2007
Revenue	18	89,779	57,682
Cost of revenue	19	(59,633)	(39,085)
Gross profit		30,146	18,597
Change in fair value of investment properties	5	48,845	12,301
Other operating income	20	1,585	10,497
General and administrative expenses	21	(10,807)	(9,286)
Selling and distribution expenses	22	(1,867)	(1,500)
Other operating expenses	23	(15,077)	(2,419)
Operating profit		52,825	28,190
Share in (losses)/profits of associates	6	(2,361)	319
Finance income	24	258	1,652
Finance costs	25	(2,758)	(1,698)
Foreign exchange loss, net	26	(13,326)	(1,743)
Profit before tax		34,638	26,720
Income tax expense	14	(11,590)	(13,603)
Profit for the year		23,048	13,117
Attributable to:			
Equity holders of the parent		23,083	13,144
Minority interests		(35)	(27)
Profit for the year		23,048	13,117
Weighted average basic and diluted shares (in thousands of shares)		51,663	48,962
Basic and diluted earnings per share (in US dollars)		0.45	0.27

CONSOLIDATED CASH FLOW STATEMENT**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)*

		2008 (revised)	2007
	Notes		
Cash flows from operating activities			
Profit before income tax		34,638	26,720
Adjustments for:			
Depreciation and amortisation		1,226	901
Impairment of property, plant and equipment	4, 23	971	-
Gain on revaluation of investment properties	5	(48,845)	(12,301)
Loss on disposal of property, plant and equipment and investment property	23	2,863	670
Excess of fair value of net assets acquired over consideration paid		-	(1,099)
Gain on extinguishment of liabilities	20	(535)	(1,028)
Share in losses/(profits) of associates	6	2,361	(319)
Finance income	24	(258)	(1,652)
Finance costs	25	2,758	1,698
Foreign exchange loss (unrealised)		14,902	1,578
Operating profit before working capital changes		10,081	15,168
Change in:			
Inventories		(19,939)	(61,851)
Trade and other receivables		5,972	7,002
Prepayments		(13,493)	(4,659)
Taxes receivable, other than income tax		(5,070)	(5,726)
Trade and other payables		25,880	(28,581)
Advances received		(17,904)	26,585
Taxes payable, other than income tax		1,325	223
Cash used in operations		(13,148)	(51,839)
Interest received		258	1,652
Interest paid		(11,880)	(3,019)
Income taxes paid		(540)	(218)
Net cash flows used in operating activities		(25,310)	(53,424)
Cash flows from investing activities			
Purchase of property, plant and equipment and investment properties		(12,217)	(22,548)
Purchase of intangible assets		-	(280)
Purchase of property development rights		(27,512)	(19,008)
Proceeds from disposal of property, plant and equipment		1,767	81
Placement of deposits		-	(24,297)
Repayment of deposits		25,423	3,960
Proceeds under reverse repurchase agreements		-	(5,000)
Repayment of reverse repurchase agreements		5,349	-
Contribution into associates	6	(8,984)	-
Acquisition of subsidiaries, net of cash acquired		-	(2,236)
Acquisition of minority interest		-	(59)
Proceeds from sales of investments		-	6,056
Net cash flows used in investing activities		(16,174)	(63,331)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*
for the year ended 31 December 2008
(in thousands of US dollars, unless otherwise indicated)

	Notes	2008 (revised)	2007
Cash flows from financing activities			
Proceeds from loans and borrowings		101,744	27,193
Repayment of loans and borrowings		(67,392)	(24,361)
Proceeds from bonds issuance		-	36,127
Repayment of bonds		(4,233)	(5,941)
Repayment of finance lease liabilities		(1,343)	(393)
Purchase of treasury shares	12	(2,129)	-
Issue of shares		-	100,741
Net cash from financing activities		26,647	133,366
Net (decrease)/increase in cash and cash equivalents		(14,837)	16,611
Cash and cash equivalents as at 1 January		17,148	1,387
Effect of foreign exchange on cash and cash equivalents		(650)	(850)
Cash and cash equivalents as at 31 December		1,661	17,148
Supplementary cash flow information:			
Non-cash transactions			
Property, plant and equipment purchased under finance lease agreements		5,954	4,328
Revaluation of property, plant and equipment		48,845	13,083

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)*

	Attributable to equity holders of the parent						Total	Minority interests	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve			
Balance at 1 January 2007	3	-	2,592	41,366	59,108	2,585	105,654	2,679	108,333
Revaluation of freehold buildings (Note 4)	-	-	-	13,709	-	-	13,709	65	13,774
Deferred taxes on revaluation of buildings (Note 14)	-	-	-	(3,427)	-	-	(3,427)	(16)	(3,443)
Transfer of revaluation reserve, net of taxes	-	-	-	(180)	180	-	-	-	-
<i>Total income and expense recognised directly in equity</i>	-	-	-	10,102	180	-	10,282	49	10,331
Net profit	-	-	-	-	13,144	-	13,144	(27)	13,117
<i>Total recognised income and expense for the year</i>	-	-	-	10,102	13,324	-	23,426	22	23,448
Issue of capital	515	100,673	-	-	(447)	-	100,741	-	100,741
Acquisition of subsidiary	-	-	-	-	-	-	-	3	3
Acquisition of minority interest ownership	-	-	-	545	659	-	1,204	(1,263)	(59)
Balance at 31 December 2007	518	100,673	2,592	52,013	72,644	2,585	231,025	1,441	232,466
Revaluation of freehold buildings (Note 4) <i>(revised)</i>	-	-	-	38,556	-	-	38,556	475	39,031
Deferred taxes on revaluation of buildings (Note 14) <i>(revised)</i>	-	-	-	(9,638)	-	-	(9,638)	(119)	(9,757)
Transfer of revaluation reserve, net of taxes	-	-	-	(401)	401	-	-	-	-
Foreign currency translation <i>(revised)</i>	-	-	-	-	-	(84,782)	(84,782)	(495)	(85,277)
<i>Total income and expense recognised directly in equity (revised)</i>	-	-	-	28,517	401	(84,782)	(55,864)	(139)	(56,003)
Net profit <i>(revised)</i>	-	-	-	-	23,083	-	23,083	(35)	23,048
<i>Total recognised income and expense for the year (revised)</i>	-	-	-	28,517	23,484	(84,782)	(32,781)	(174)	(32,955)
Purchase of treasury shares (Note 12)	(8)	(2,121)	-	-	-	-	(2,129)	-	(2,129)
Balance at 31 December 2008 <i>(revised)</i>	510	98,552	2,592	80,530	96,128	(82,197)	196,115	1,267	197,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***1. Corporate information**

These consolidated financial statements are prepared by TMM Real Estate Development plc (hereinafter referred to as the "Company"), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus 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 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is located at 49 A Vladimirskaya street, Kyiv, Ukraine 01034.

On 17 April 2007, the shareholders of LLC Firm TMM (Ukraine) (hereinafter referred to as "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 its transformation to a public company. These consolidated financial statements are prepared as if these transactions occurred before 1 January 2007.

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

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") are construction and development of residential and business properties in Kyiv, Kharkiv, Zhytomir and Crimea.

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

Name	Location	Principal activities	2008	2007
Subsidiaries:				
LLC Firm TMM (TMM)	Ukraine	Construction and development	100.0%	100.0%
LLC Geravit	Ukraine	Development project	100.0%	100.0%
LLC Palladiy	Ukraine	Development project	100.0%	100.0%
CJSC Tavrida Plaza	Ukraine	Development project	100.0%	100.0%
CJSC Victor	Ukraine	Development project	100.0%	100.0%
PE Greenbud	Ukraine	Development project	100.0%	-
LLC Kirovograd Plant of Construction Ceramics	Ukraine	Production of construction materials	99.9%	99.9%
LLC TMM Pallada	Ukraine	Development project	99.0%	99.0%
LLC Economsystema	Ukraine	Development project	99.0%	-
LLC Specialist	Ukraine	Development project	98.0%	98.0%
OJSC Ukrstsukorteploizoliatsia	Ukraine	Development project	94.7%	94.7%
LLC TMM Budkomplekt	Ukraine	Production of construction materials	90.0%	90.0%
LLC Adept-2004	Ukraine	Development project	70.0%	70.0%
LLC TMM-Energo	Ukraine	Development project	60.0%	-
Associates:				
CJSC TMM Energobud	Ukraine	Development project	50.0%	50.0%
LLC Ukr-bud-service	Ukraine	Development project	50.0%	50.0%
LLC Utilservice	Ukraine	Development project	50.0%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2008

(in thousands of US dollars, unless otherwise indicated)

1. Corporate information (continued)

The Group is the primary beneficiary of the following entities:

Name	Location	Principal activities
LLC Stimul+	Ukraine	Development project
PE Budinvestservice 2004	Ukraine	Development project

LLC Stimul+ and PE Budinvestservice 2004 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.

During the year ended 31 December 2008, the Group ceased to be primary beneficiary of LLC DP TG Ekipazh, a special purpose entity established to obtain rights to perform construction on plots of land owned by this entity, and Gambier Development Corp., established to facilitate the sale of one of the construction projects of the Group. The amount of contribution to the consolidated income statement and net assets of LLC DP TG Ekipazh and Gambier Development Corp. at the date of withdrawal are not material to these consolidated financial statements.

During the year ended 31 December 2008, the Group also acquired LLC TMM-Energo, PE Greenbud and LLC Economsystema, which were accounted for as purchase of assets since these companies do not represent separate businesses.

All subsidiaries, associates and SPEs are incorporated in Ukraine.

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

The Group is ultimately controlled by Mr. M. Tolmachov, who controls a majority of the voting rights.

2. Operating environment, risks and economic conditions

General economic conditions

The Ukrainian economy while deemed to be of market status, continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies.

Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity and supporting debt refinancing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Company and its counterparties. These factors could affect the Group's business prospects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***2. Operating environment, risks and economic conditions (continued)****Real estate market slow-down in Ukraine**

Starting from the last quarter of 2008, the Ukrainian residential and industrial property markets have suffered a significant fall in demand following the overall macroeconomic turmoil. This resulted in weak liquidity and the poor conditions prevailing in the Ukrainian property market. The market is considered to be over-supplied, and it is not expected that a significant improvement in market conditions will emerge for the foreseeable future given the weak wider Ukrainian economy and the lack of availability of mortgage and development finance.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Management steps to support the Group's liquidity in the foreseeable future are presented in Note 31.

3.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for the following:

- investment properties are stated at fair value as determined by independent appraisal;
- freehold buildings are stated at fair values as measured by independent appraisal less accumulated depreciation and impairment losses.

The financial statements are presented in US dollars thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and special purpose entities (SPEs) as at 31 December 2008.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies that may exist.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from equity attributable to the parent equity holders.

A 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 were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

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3.2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRIC interpretations during the year.

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Adoption of these interpretations did not have any effect on the financial performance or position of the Group and did not give rise to any additional disclosures.

The Group has also early adopted the following IFRS and IFRIC interpretations as of 1 January 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including revisions to accounting policies.

IFRS 8 Operating Segments

The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The Group early adopted this amendment as of 1 January 2007. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. The Group's management believes that the only reportable units of the Group are property development projects.

3.3. Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3.3. Summary of significant accounting policies (continued)

Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Functional and presentation currencies

The Group's presentation currency is the US dollar ("USD").

The functional currency of the Group is the Ukrainian hryvnia ("UAH") as it reflects the economic substance of the underlying events and circumstances of the Group's operations.

At each reporting date, the assets and liabilities of each company are translated into the Group's presentation currency at the rate of exchange at the balance sheet date. The revenues and expenses for the year or, if shorter, the period of each company participation in the Group are translated at the foreign exchange rates which approximate the date of transaction. The difference arising on retranslation from each companies' functional currencies into the Group's presentation currency is shown as a translation reserve in the consolidated statement of changes in equity and in the relevant notes to these consolidated financial statements. The translation of the UAH denominated assets and liabilities into USD as at 31 December 2008 does not indicate that the Group could realize or settle the translated values of those assets and liabilities in USD.

Foreign currency translation

Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional-currency rate of exchange in effect at the balance sheet date. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.3. Summary of significant accounting policies (continued)****Financial assets*****Initial recognition***

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

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

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

The Group's financial assets include cash and cash equivalents and trade and other receivables.

The Group has not designated any financial assets at fair value through profit or loss, as held-to-maturity or available-for-sale.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include interest bearing loans and borrowings, obligations under finance lease and trade and other payables.

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.3. Summary of significant accounting policies (continued)****Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

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3.3. Summary of significant accounting policies (continued)

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Property, plant and equipment

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the properties have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of properties.

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3.3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Freehold buildings

Freehold buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Land

For the purpose of further development projects the Group acquired numerous land plots in the Kyiv region. These land plots are stated at cost in the consolidated balance sheet. Land is not depreciated.

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. This land is the property of the state and, therefore, is not included in the consolidated financial statements.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset, as follows:

Freehold buildings	50 years
Heavy construction equipment	20 years
Production, construction and research equipment	8 years
Vehicles	6 years
IT and computer equipment	4 years
Furniture and office equipment	4 years

The useful life of an asset is defined in terms of the asset's expected utility to the Group.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Construction in progress includes cost of construction works, cost of engineering works, other direct costs and an appropriate proportion of production overheads. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.3. Summary of significant accounting policies (continued)****Intangible assets**

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Intangible assets, other than goodwill, primarily comprise computer software, which are amortised on a straight-line basis over the estimated useful life of five years.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property development rights and costs

Property development rights and costs represent the rights owned by the Group to lease land plots to be used for further development. Property development rights and are stated at cost, being expenses directly attributable to acquisition of such right, less provisions for impairment, where required. Property development rights and costs are not depreciated until the asset available for use. Upon starting of development, property development rights and costs are transferred at cost to inventories.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3.3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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, production or conversion costs, and other costs incurred in bringing them to their existing location and condition.

Work in progress and finished goods are stated at cost based on the individual cost method. Cost includes the cost of raw materials, labour and construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity.

Cash and cash equivalents

Cash in the balance sheet comprise cash at banks and in hand.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand.

Share capital

The Company's share capital is stated at the nominal amount of the issued shares. The difference between the fair value of the consideration received and the nominal value of the share capital being issued is taken to the share premium account.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.3. Summary of significant accounting policies (continued)****Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables

Trade and other payables are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, instruments with a fixed maturity are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Provisions**General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

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3.3. Summary of significant accounting policies (continued)

Leases (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of finished goods

Revenues from the sale of residential and commercial property are recognised in the consolidated income statement when three conditions are met: a binding agreement is present, the construction is complete and approved by the state commissioner.

Revenue from the sale of other goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

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 assumes 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 consolidated income statement in proportion to the stage of completion of the contract. 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 consolidated income statement.

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 by the Group. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Retentions and unpaid progress billings are included in accounts and notes receivable in these consolidated financial statements. Advances are amounts received by the Group before the related work is performed and are included in advances received from customers in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.3. Summary of significant accounting policies (continued)****Revenue recognition (continued)*****Rendering of services***

Revenue from the rendering of services is recognised when services are rendered.

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.

Cost of revenue

Cost of revenue that relates to the same transaction is recognised simultaneously with respective revenue.

Taxes***Current income tax***

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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3.3. Summary of significant accounting policies (continued)

Taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax

Revenues, expenses and assets are recognised net of the amount of value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the face of the consolidated balance sheet.

Events after the balance sheet date

Events after the balance sheet date that provide additional information on the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

Segment reporting

The Group has one operating segment in the meaning suggested by IFRS 8 and does not report any financial information disclosing operating segments neither for internal use purposes nor for the purpose of these consolidated financial statements. The only reportable units of the Group are development projects.

Change in presentation of comparative information

Certain reclassifications have been made to the 2007 amounts in order to conform to the 2008 presentation.

3.4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the date of the balance sheet. Actual results could differ from these estimates. The key judgements, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2008

(in thousands of US dollars, unless otherwise indicated)

3.4. Significant accounting judgments, estimates and assumptions (continued)

Buildings and investment properties

At each balance sheet date, buildings and investment properties are revalued to fair value based on the results of an independent appraisal. The method used to estimate fair value is combination of both the cost and the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties. As disclosed in Note 2, starting from the last quarter of 2008, Ukrainian property market has suffered a significant fall in demand following the country's macroeconomic turmoil. Accordingly, weak liquidity and the poor conditions prevailing in the Ukrainian property market may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2008.

Estimating the fair value of buildings and investment property requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors.

Impairment of property and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

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 estimated date of sale 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.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2008, allowance for doubtful accounts is USD 6,284 thousand (2007: USD 6,683 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.4. Significant accounting judgments, estimates and assumptions (continued)****Current taxes**

Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2008 the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 27.

Deferred tax assets

Deferred tax assets, including those arising on temporary differences are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the income statement.

3.5. IFRSs and IFRIC Interpretations issued but not yet effective

The Group has also not early adopted the following IFRS and IFRIC interpretations published but not yet effective. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including revisions to accounting policies.

Standards and Interpretations issued by the IASB and adopted by the EU***IFRS 2 Share-based payments (Revised)***

This amendment to IFRS 2 was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

IFRS 3R Business combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 and IAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.5. IFRSs and IFRIC Interpretations issued but not yet effective (continued)****Standards and Interpretations issued by the IASB and adopted by the EU (continued)*****Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 and Separate Financial Statements***

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively and will affect future dividends.

IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 28 Investments in Associates

IAS 28 has been consequentially amended in line with revision of IFRS 3 and IAS 27 as described above.

IAS 23 Borrowing Costs (Revised)

A revised IAS 23 was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this prospectively. The Group has concluded that the revision to the standard will have no impact on the financial position or performance of the Group, as the Group is already capitalising borrowing costs when such costs relate to a qualifying asset.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.5. IFRSs and IFRIC Interpretations issued but not yet effective (continued)****Standards and Interpretations issued by the IASB and adopted by the EU (continued)*****IFRIC 13 Customer Loyalty Programmes***

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group is currently assessing the effect of IFRIC 15 on the financial position or performance of the Group, if any.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group has concluded that IFRIC will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Group did not early adopt any amendments to the standards.

Standards and Interpretations issued by the IASB but not yet adopted by the EU***Revised IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective for annual periods beginning on or after 1 January 2009)***

This revision of IFRS 1 issued in November 2008 retains the substance of the previous version, but within a changed structure. It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 January 2009. There is no impact on the financial statements of any of the Group's entities as a result of this revision.

IFRIC 17 'Distribution of Non cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009)

IFRIC 17 applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of receiving non-cash assets or cash, provided that all owners of the same class of equity instruments are treated equally and the non-cash assets are not ultimately controlled by the same parties both before and after the distribution, and as such, excluding transactions under common control. The Group does not expect that this Interpretation will have any impact on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***3.5. IFRSs and IFRIC Interpretations issued but not yet effective (continued)****Standards and Interpretations issued by the IASB but not yet adopted by the EU***(continued)****IFRIC 18 'Transfer of Assets from Customers' (effective for annual periods beginning on or after 1 July 2009)***

IFRIC 18 applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. The asset must then be used to provide ongoing access to a supply of goods, services or both. The Interpretation provides guidance on how and when an entity should recognise such assets and related revenue. The Interpretation is not relevant to the Group's operations.

Amendment to IFRS 7, Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009)

The amendments are intended to enhance the disclosures for fair value measurement and liquidity risk. Entities will be required to use a 3-level hierarchy of disclosures for financial instruments recorded at fair value. The Group will make the necessary changes to the presentation of its financial statements in 2009.

Amendments to IFRIC 9 and IAS 39, Embedded Derivatives (effective for annual periods ending on or after 30 June 2009)

The Amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The Group does not expect that these amendments will have any impact on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Property, plant and equipment

The movement of property, plant and equipment is as follows:

	Freehold land	Freehold buildings	Heavy construction equipment	Production, construction and research equipment	Vehicles	Office and computer equipment	Construction in progress	Total
Cost or fair value:								
At 1 January 2007	-	66,963	5,155	5,014	1,053	1,073	41,219	120,477
Additions	9,943	-	6,014	1,319	868	700	8,291	27,135
Acquired through business combinations	-	4,744	-	33	-	2	813	5,592
Disposals	-	(654)	(51)	(35)	(67)	(3)	-	(810)
Transfers	22,299	1,977	-	-	-	-	(24,276)	-
Transfers to investment properties	-	-	-	-	-	-	(3,300)	(3,300)
Revaluations	-	12,440	-	-	-	-	-	12,440
At 31 December 2007	32,242	85,470	11,118	6,331	1,854	1,772	22,747	161,534
Additions	-	228	3,756	599	2,809	1,060	9,719	18,171
Disposals	-	(930)	(869)	(138)	(6)	(57)	(372)	(2,372)
Transfers from investment properties	-	2,975	-	-	-	-	-	2,975
Transfers to investment properties	-	(678)	-	-	-	-	-	(678)
Transfers	891	2,787	-	-	-	-	(5,445)	(1,767)
Revaluations	-	37,994	-	-	-	-	-	37,994
Translation difference	(11,096)	(29,191)	(4,738)	(2,324)	(1,523)	(926)	(10,663)	(60,461)
At 31 December 2008	22,037	98,655	9,267	4,468	3,134	1,849	15,986	155,396
Accumulated depreciation and impairment:								
At 1 January 2007	-	-	(647)	(517)	(258)	(339)	-	(1,761)
Depreciation charge for the year	-	(1,338)	(348)	(714)	(235)	(331)	-	(2,966)
Disposals	-	4	15	8	29	2	-	58
Revaluations	-	1,334	-	-	-	-	-	1,334
At 31 December 2007	-	-	(980)	(1,223)	(464)	(668)	-	(3,335)
Depreciation charge for the year	-	(1,566)	(496)	(940)	(300)	(370)	-	(3,672)
Impairment	-	(971)	-	-	-	-	-	(971)
Disposals	-	34	39	14	4	19	-	110
Revaluations	-	1,037	-	-	-	-	-	1,037
Translation difference	-	800	494	716	254	347	-	2,611
At 31 December 2008	-	(666)	(943)	(1,433)	(506)	(672)	-	(4,220)
Net book value								
At 31 December 2007	32,242	85,470	10,138	5,108	1,390	1,104	22,747	158,199
At 31 December 2008	22,037	97,989	8,324	3,035	2,628	1,177	15,986	151,176

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***4. Property, plant and equipment (continued)**

As at 31 December 2008 construction in progress includes production facilities under construction in the amount of USD 4,631 thousand (2007: 1,630 thousand), investment properties under construction in the amount of USD 3,513 thousand (2007: USD 11,760 thousand), recreational property under construction in the amount of USD 2,324 thousand (2007: 1,141 thousand).

Depreciation

The total depreciation charge for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Inventories	2,464	2,077
General and administrative expenses (Note 21)	1,171	864
Other operating expenses	37	25
Total depreciation charge	<u>3,672</u>	<u>2,966</u>

Pledged assets

As at 31 December 2008 property, plant and equipment with a carrying value of USD 80,316 thousand (2007: USD 48,260 thousand) was pledged as collateral for interest-bearing borrowings (Note 13).

Fully depreciated assets

Included in property, plant and equipment as at 31 December 2008 are equipment recorded at a cost of USD 125 thousand (2007: USD 180 thousand) which are fully depreciated but remain in use.

Finance lease

The carrying value of heavy construction equipment, production and construction equipment and vehicles held under finance leases as at 31 December 2008 amounted to USD 5,200 thousand (2007: USD 1,885 thousand).

Revaluation of freehold buildings

The Group engaged an accredited independent valuer to determine the fair value of its freehold buildings. The method used to estimate fair value is combination of both the cost and the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property. The date of the revaluation was 31 December 2008 and 2007.

Net revaluation result for the year ended 31 December 2008 is USD 38,060 thousand, of which USD 39,031 thousand of revaluation increase is recognised in equity, and USD 971 thousand of impairment is recognised in the consolidated income statement (2007: USD 13,774 thousand, all of which is recognised in equity).

It's impracticable to provide information about the carrying amounts of freehold buildings if they were measured using the cost model without undue cost and efforts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Investment properties

The movement of investment properties is as follows:

	2008	2007
At 1 January	55,991	40,390
Additions	1,767	-
Transfers from property, plant and equipment	678	3,300
Transfer to property, plant and equipment	(2,975)	-
Disposals	(2,368)	-
Change in fair value of investment properties	48,845	12,301
Translation difference	(33,934)	-
At 31 December	68,004	55,991

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

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent valuer, as at 31 December 2008 and 31 December 2007. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market quotes, adjusted for any difference in the nature, location or condition of the specific property.

As at 31 December 2008 investment properties with a carrying value of USD 36,907 thousand (2007: USD 16,546 thousand) were pledged as collateral for interest-bearing borrowings (Note 13).

6. Investments in associates

Investments in associates consisted of the following as at 31 December:

<i>Entity</i>	<i>Activity</i>	<i>% interest</i>	<i>Carrying value</i>	<i>% interest</i>	<i>Carrying value</i>
		2008		2007	
CJSC TMM Energobud	Development project	50.00%	4,767	50.00%	360
Other minor associates			2		-
			<u>4,769</u>		<u>360</u>

The reconciliation of carrying value of investments is as follows:

	000' USD
Carrying value at 31 December 2006	41
Share in profits	319
Carrying value at 31 December 2007	360
Contribution into CJSC TMM Energobud	8,978
Acquisition of other minor associates	6
Share in losses in CJSC TMM Energobud	(2,357)
Share in losses in other minor associates	(4)
Foreign currency translation	(2,214)
Carrying value at 31 December 2008	<u>4,769</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***6. Investments in associates (continued)**

In 2008, the Group acquired 23,656 shares of additional issue of shares of OJSC TMM Energobud with a par value of USD 380 (UAH 2,000) each.

The summarised financial information of CJSC TMM Energobud is as follows:

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Revenue</u>	<u>Net Profit</u>
	<u>31 December 2008</u>		<u>2008</u>	
CJSC TMM Energobud	49,408	41,362	2,846	(4,714)
	<u>31 December 2007</u>		<u>2007</u>	
CJSC TMM Energobud	9,028	5,697	2,970	640

7. Property development rights and costs

Property development rights and costs as at 31 December were as follows (by projects):

<u>Name of the project</u>	<u>Location of the project</u>	<u>Type of the project</u>	<u>2008</u>	<u>2007</u>
Satellite Town	Kyiv	Residential	5,294	5,080
Lisya bukhta	Crimea	Recreational	5,185	2,247
Arbatska strilka	Kherson	Recreational	3,964	4,310
Palladium Centre	Kyiv	Commercial	2,921	4,432
Utilservice	Kyiv	Commercial	2,427	-
Moskovskyj	Kharkiv	Residential	2,359	327
Parkove	Yalta	Recreational	2,222	3,379
Bereznevyj	Kyiv	Residential	1,130	1,231
Korchagintsiv	Kharkiv	Residential	419	693
Tankova	Kyiv	Residential	397	156
Tisa	Carpathians	Recreational	326	479
Uborevicha	Kyiv	Commercial	325	-
Parkova Chernomorsk	Crimea	Recreational	252	201
Pivdenny Residential Microdistrict	Kyiv	Residential	237	911
Lubyanka	Kyiv	Residential	155	237
Dytyachoi Komuny	Zhytomyr	Residential	104	62
Other	Kyiv, Kharkiv	Various	5,075	41
			<u>32,792</u>	<u>23,786</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Inventories

Inventories at cost consisted of the following as at 31 December:

	<u>2008</u>	<u>2007</u>
Construction work in progress	88,810	101,955
Raw materials	17,438	29,196
Finished goods (residential property)	13,654	12,219
Other inventories	5,086	1,621
	<u>124,988</u>	<u>144,991</u>

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.

The amount of write-down of inventories recognised as an expense is USD 1,573 thousand (2007: USD 171 thousand) which is recognised in cost of revenue.

As at 31 December 2008 raw materials with a carrying value of USD 285 thousand (2007: USD nil) were pledged as collateral for interest-bearing borrowings (Note 13).

Construction work in progress as at 31 December was as follows (by projects):

<u>Name of the project</u>	<u>Location of the project</u>	<u>Type of the project</u>	<u>2008</u>	<u>2007</u>
		Mainly		
Sonyachna brama	Kyiv	residential	48,406	35,235
Aviator	Kyiv	Residential	15,597	15,004
Edelweiss	Kharkiv	Residential	5,712	5,456
Green Town	Kharkiv	Residential	5,665	1,958
Kaskad	Kharkiv	Residential	3,016	2,926
Topaz	Zhytomyr	Residential	2,654	1,564
Karat	Kharkiv	Residential	2,449	1,131
Flamingo	Kharkiv	Residential	2,333	2,146
Laborotornyj provulok	Kyiv	Residential	833	1,331
Triumph	Kyiv	Residential	-	31,667
Other	Various	Various	2,145	3,537
			<u>88,810</u>	<u>101,955</u>

As at 31 December 2008 construction work in progress with a carrying value of USD 7,426 thousand (2007: USD nil) was pledged as collateral for interest-bearing borrowings (Note 13).

In 2008, borrowing costs in the amount of USD 8,335 thousand were capitalised into construction work in progress (2007: USD 2,680 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Inventories (continued)

Finished goods (apartments) as at 31 December was as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>2008</i>	<i>2007</i>
Triumph	Kyiv	Residential	11,302	-
Atoll	Kharkiv	Residential	1,654	8,220
Chaadaeva 2	Kyiv	Residential	418	3,231
Demchenka	Kharkiv	Residential	200	246
Chaadaeva 2b	Kyiv	Residential	-	149
Druzhba	Kharkiv	Residential	-	369
Other	Various	Various	80	4
			<u>13,654</u>	<u>12,219</u>

As at 31 December 2008 finished goods (apartments) with a carrying value of USD 521 thousand (2007: USD nil) were pledged as collateral for interest-bearing borrowings (Note 13).

9. Trade and other receivables

Trade and other receivables consisted of the following as at 31 December:

	<i>2008</i>	<i>2007</i>
Trade receivables	4,618	5,847
Notes receivable	4,562	6,907
Receivables under reverse repurchase agreements	-	5,349
Other	4,454	11,366
	<u>13,634</u>	<u>29,469</u>
Less: Allowance for impairment	<u>(6,284)</u>	<u>(6,683)</u>
	<u>7,350</u>	<u>22,786</u>

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

As at 31 December 2008, trade receivables and notes receivable at initial value of USD 2,555 thousand and USD 3,729 thousand, respectively, (2007: USD 2,326 thousand and USD 4,357 thousand, respectively) were impaired and fully provided for. Movements in the allowance for impairment of trade receivables and notes receivable were as follows:

	<i>2008</i>	<i>2007</i>
At 1 January	6,683	7,388
Charge for the year (Note 23)	3,808	-
Unused amounts reversed	-	(427)
Utilised	(1,106)	(278)
Translation difference	(3,101)	-
At 31 December	<u>6,284</u>	<u>6,683</u>

As at 31 December 2008 and 2007 trade and other receivables past due 365 days, but not impaired equaled to USD 2,183 thousand (2007: USD 5,607 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***10. Prepayments**

Prepayments consisted of the following as at 31 December:

	2008	2007
Prepayments for shares	11,374	-
Prepayments for construction materials and services	9,078	14,721
	<u>20,452</u>	<u>14,271</u>
Less: Allowance for impairment of prepayments for shares (Note 23)	(2,283)	-
	<u>18,169</u>	<u>14,271</u>

Prepayments for shares comprised amounts prepaid to an entity under common control with the Group's creditor for shares acquired (Note 15).

11. Taxes receivable, other than income tax

Taxes receivable other than income tax consisted of the following as at 31 December:

	2008	2007
VAT receivable	10,019	10,211
Other taxes receivable	95	19
	<u>10,114</u>	<u>10,230</u>

12. Share capital

As of the date of incorporation, 30 November 2006, share capital of TMM Real Estate Development plc amounted to USD 2,700 and comprised 270,000 ordinary shares with a par value of USD 0.01 each.

On 7 March 2007, TMM Real Estate Development Ltd issued 44,730,000 ordinary shares with a par value of USD 0.01 as a part of restructuring in exchange for shares in LLC Firm TMM. For the purposes of presenting earnings per share information the number of ordinary shares was adjusted as if the event occurred at the beginning of the earliest period presented.

On 14 May 2007, the Company issued additional 6,792,165 ordinary shares of USD 0.01 each.

On 29 May 2007, the shares of TMM Real Estate Development plc were admitted for trading on the Frankfurt Stock Exchange. As a result of the offering, 6,792,165 shares were sold. The issue price was EUR 11.65 (USD 15.45). Total proceeds for sold shares amounted to EUR 79,129 thousand (USD 104,939 thousand). The issue proceeds less transactions costs were used to increase the share capital of LLC Firm TMM.

As a result of these transactions, as at 31 December 2008 the Company's issued and paid-in share capital comprised of 51,792,165 ordinary shares with a par value of USD 0.01 each (2007: the issued and paid-in capital comprised 51,792,165 ordinary shares with a par value of USD 0.01 each). As at 31 December 2008 the Company's total authorized share capital comprised 70,000,000 shares (2007: 70,000,000 shares).

In July, September and December of 2008, the Company repurchased 795,346 of its outstanding ordinary shares for the total cash consideration of USD 2,129 thousand.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***12. Share capital (continued)**

The share premium, revaluation reserve and translation reserve are not distributable reserves by way of dividend.

The weighted average number of ordinary shares outstanding during the year is calculated as shown below. The Company has no potential dilutive shares.

<i>(in shares)</i>	2008	2007
Issued shares as at 1 January	51,792,165	45,000,000
Effect of shares repurchase	(129,299)	-
Effect of shares issued	-	3,962,096
Weighted average number of shares for the year	<u>51,662,866</u>	<u>48,962,096</u>

13. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following as at 31 December:

	2008	2007
<i>Current</i>		
Bonds issued	24,093	40,083
Bank loans	10,276	28,471
Supplier credits	<u>1,287</u>	<u>1,014</u>
	<u>35,656</u>	<u>69,568</u>
<i>Non-current</i>		
Bank loans	44,468	-
Supplier credits	<u>1,465</u>	<u>2,542</u>
	<u>45,933</u>	<u>2,542</u>
Total interest-bearing loans and borrowings	<u>81,589</u>	<u>72,110</u>

As at 31 December 2008 nominal and effective interest rate, maturity and currency split for interest-bearing loans and borrowings were as follows:

<i>Loan facility type</i>	<i>Currency</i>	<i>Maturity</i>	<i>Nominal interest rate</i>	<i>Effective interest rate</i>	<i>Carrying amount</i>
<i>Secured</i>					
Credit line with a Ukrainian bank	EUR	November 2011	LIBOR + 5.7% - 10.0%	13.1%	24,428
Credit line with a Ukrainian bank	UAH	May 2011	16.0%	17.8%	19,460
Credit line with a Ukrainian bank	EUR	August 2009	EURIBOR + 4.0%	8.2%	4,991
Loan with a Ukrainian bank	UAH	November 2009	22.0%	24.4%	4,695
Supplier credits	EUR, USD	Various 2009 - 2012	9.7% - 11.4%	10.4% - 15.0%	2,751
Loan with a Ukrainian bank	USD	November 2011	LIBOR + 3.0%	5.3%	825
Credit line with a Ukrainian bank	UAH	August 2009	15.10%	15.10%	346
					<u>57,496</u>
<i>Unsecured</i>					
D series bonds issued	UAH	October 2009	13.0%	13.9%	24,093
					<u>24,093</u>
Total					<u>81,589</u>

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for the year ended 31 December 2008

(in thousands of US dollars, unless otherwise indicated)

13. Interest bearing loans and borrowings (continued)

As at 31 December 2007 nominal and effective interest rate, maturity and currency split for interest-bearing loans and borrowings were as follows:

<i>Loan facility type</i>	<i>Currency</i>	<i>Maturity</i>	<i>Nominal interest rate</i>	<i>Effective interest rate</i>	<i>Carrying amount</i>
<i>Secured</i>					
Credit line with a Ukrainian bank	EUR	April 2008	LIBOR + 5.3% - 6.2%	11.6%	14,883
Credit line with a Ukrainian bank	UAH	April 2008	14.0%	15.1%	12,769
Suppliers credits	EUR, USD	Various 2008 - 2012	9.7% - 11.4%	10.0% - 15.0%	3,556
Loan with a Ukrainian bank	UAH	January 2008	15.5%	15.5%	423
Loan with a Ukrainian bank	UAH	Various 2008	17.0%	19.0%	396
					<u>32,027</u>
<i>Unsecured</i>					
D series bonds issued	UAH	October 2008	13.0%	13.9%	37,011
C series bonds issued	UAH	January 2008	15.0%	17.4%	3,072
					<u>40,083</u>
Total					<u>72,110</u>

D series bonds issued comprise UAH denominated general obligation bonds issued by TMM on 4 October 2007. The par value of each bond is UAH 1,000 (USD 130 at the foreign exchange rate as at 31 December 2008). The bonds pay fixed interest of 13.0% as at 31 December 2008, payable quarterly. The interest rate can be modified at the discretion of TMM but cannot be below 3.0%. The bonds are subject to early half-year redemption at the request of the bond holders at par value starting from 2 October 2008. The ultimate maturity is 1 October 2009.

As at 31 December 2008 and 2007 the Group had no available un-drawn borrowing facilities.

As at 31 December interest-bearing loans and borrowings were secured as follows:

<i>Type of collateral</i>	<i>2008</i>	<i>2007</i>
Property, plant and equipment (Note 4)	80,316	48,260
Investment properties (Note 5)	36,907	16,546
Inventories (Note 8)	8,232	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***14. Income tax**

The major components of income tax expense for the years ended 31 December 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Current income tax charge	578	175
Deferred tax related to origination and reversal of temporary differences	<u>11,012</u>	<u>13,428</u>
Income tax expense	<u>11,590</u>	<u>13,603</u>

A reconciliation between the income tax expense reported in the consolidated financial statements and the income before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Profit before tax	34,638	26,720
Income tax at the Company's statutory rate of 10.0% (Cyprus operations)	(133)	95
Income tax at statutory rate of 25.0% (Ukrainian operations)	8,992	6,585
Tax effect of non-tax deductible expenses and non-taxable income	<u>2,731</u>	<u>6,923</u>
Income tax expense	<u>11,590</u>	<u>13,603</u>

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2008, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2007: 25%).

In 2008, Cyprus income tax rate was 10% (2007: 10%). A 10% Defence Fund contribution is also levied on interest income received from sources either in Cyprus or abroad whenever such income is earned from passive activities. There is no withholding tax on payments of dividends by the Company to non-resident shareholders. Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***14. Income tax (continued)**

Deferred tax assets and liabilities relate to the following items in 2008:

	31 December 2008	Charged to Income Statement	Charged to equity	Foreign currency translation	31 December 2007
Tax effect of taxable temporary differences:					
Property, plant and equipment and investment properties (i)	(37,405)	(9,077)	(9,757)	14,094	(32,665)
Inventories (ii)	(13,604)	(5,863)	-	6,883	(14,624)
Prepayments made (iii)	(1,159)	384	-	625	(2,168)
Gross deferred tax liabilities	(52,168)	(14,556)	(9,757)	21,602	(49,457)
Less: Offsetting with deferred tax assets	10,066				11,650
Recognised deferred tax liabilities	(42,102)				(37,807)
Tax effect of deductible temporary differences:					
Prepayments received (iii)	962	(169)	-	(512)	1,643
Investments (iv)	2,389	(3,959)	-	(1,426)	7,774
Inventories (ii)	119	172	-	(56)	3
Trade and other receivables (vi)	2,746	2,676	-	(1,325)	1,395
Interest-bearing loans and borrowings (v)	3,262	4,340	-	(1,522)	444
Property, plant and equipment and investment properties (i)	10	15	-	(5)	-
Trade and other payables (vii)	578	469	-	(282)	391
Less: Offsetting with deferred tax liabilities	(10,066)	3,544	-	(5,128)	11,650
Net deferred tax liability	(42,102)	(11,012)	(9,757)	16,474	(37,807)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. Income tax (continued)

Deferred tax assets and liabilities relate to the following items in 2007:

	31 December 2007	Charged to Income Statement	Charged to equity	Foreign currency translation	31 December 2006
Tax effect of taxable temporary differences:					
Property, plant and equipment and investment properties (i)	(32,665)	(2,417)	(3,443)	(1,172)	(25,633)
Inventories (ii)	(14,624)	(5,888)	-	-	(8,736)
Prepayments made (iii)	(2,168)	(827)	-	-	(1,341)
Gross deferred tax liabilities	(49,457)	(9,132)	(3,443)	(1,172)	(35,710)
Less Offsetting with deferred tax assets	11,650				15,946
Recognised deferred tax liabilities	(37,807)				(19,764)
Tax effect of deductible temporary differences:					
Prepayments received (iii)	1,643	993	-	-	650
Investments (iv)	7,774	(138)	-	-	7,912
Inventories (ii)	3	3	-	-	-
Trade and other receivables (vi)	1,395	(710)	-	-	2,105
Interest-bearing loans and borrowings (v)	444	421	-	-	23
Trade and other payables (vii)	391	(4,865)	-	-	5,256
	11,650	(4,296)			15,946
Less: Offsetting with deferred tax liabilities	(11,650)				(15,946)
Net deferred tax liability	(37,807)	(13,428)	(3,443)	(1,172)	(19,764)

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment and investment properties - differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis (fair value, revalued cost and fair value at acquisitions vs. historical cost).
- (ii) Inventories - differences in inventories valuation models and the periods of recognition.
- (iii) Prepayments made and received - differences in period of recognition and valuation principles;
- (iv) Investments - differences in valuation, including impairment recognition;
- (v) Interest-bearing loans and borrowings - differences in valuation and in the period of recognition;
- (vi) Trade and other receivables - differences in valuation, including allowances for doubtful receivables, differences in the period of recognition.
- (vii) Trade and other payables - differences in the period of recognition and valuation principles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008
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15. Trade and other payables

Trade and other payables consisted of the following as at 31 December:

	<u>2008</u>	<u>2007</u>
Trade accounts payable	12,603	11,221
Payables for shares acquired	9,091	-
Due to employees	3,900	1,967
Provision for tax charges and litigations (Note 23)	899	333
Promissory notes issued	-	331
Other	1,157	2,285
	<u>27,650</u>	<u>16,137</u>

16. Advances received

As at 31 December 2008 and 2007 advances received include USD 56,215 thousand and USD 107,683 thousand, respectively, of advances received for residential and commercial property that management estimates will be realised in the ordinary operating cycle, which may be more than twelve months after the balance sheet date.

17. Taxes payable, other than income tax

Taxes payable, other than income tax consisted of the following as at 31 December:

	<u>2008</u>	<u>2007</u>
Payroll related taxes	1,194	613
Value added tax payable	30	33
Miscellaneous taxes	124	27
	<u>1,348</u>	<u>673</u>

18. Revenue

Revenue for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Sales of property	79,809	27,322
Revenue on construction contracts	-	16,467
Rental income	2,862	1,464
Other	7,108	12,429
	<u>89,779</u>	<u>57,682</u>

All revenue is generated from sales to customers in Ukraine.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***19. Cost of revenue**

Cost of revenue for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Cost of property sold	53,034	24,615
Cost under construction contracts	-	4,183
Other	6,599	10,287
	<u>59,633</u>	<u>39,085</u>

20. Other operating income

Other operating income for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Gain on extinguishment of liabilities	535	1,028
Gain on sale of other goods and services	170	-
Release of provision for taxes	-	6,214
Excess of fair value of net assets acquired over consideration paid (Note 27)	-	1,099
Other	880	2,156
	<u>1,585</u>	<u>10,497</u>

21. General and administrative expenses

General and administrative expenses for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Staff costs	5,971	4,757
Depreciation and amortisation	1,226	901
Professional services	619	497
Taxes, other than income tax	532	232
Communication costs	360	325
Insurance premium	259	266
Bank charges	234	275
Audit costs	191	976
Materials	143	116
Other	1,272	941
	<u>10,807</u>	<u>9,286</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***22. Selling and distribution expenses**

Selling and distribution expenses for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Advertising	1,216	946
Staff costs	424	68
Transportation costs	205	402
Other	22	84
	<u>1,867</u>	<u>1,500</u>

23. Other operating expenses

Other operating expenses for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Change in allowance for doubtful debts (Notes 9 and 10)	6,091	-
Loss on disposal of property, plant and equipment, net	2,863	670
Charity and donations	2,003	160
Impairment of property, plant and equipment (Note 4)	971	-
Provision for tax charges and litigations (Note 15)	899	-
Fines and penalties	793	82
Loss on sale of other goods and services	-	131
Other	1,457	1,376
	<u>15,077</u>	<u>2,419</u>

24. Finance income

Finance income for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Interest income	228	1,652
Other finance costs	30	-
	<u>258</u>	<u>1,652</u>

25. Finance costs

Finance costs for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Interest costs and finance lease charges	2,496	1,533
Other finance costs	262	165
	<u>2,758</u>	<u>1,698</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***26. Foreign exchange loss, net**

Foreign exchange loss, net for the years ended 31 December comprised:

	<u>2008</u>	<u>2007</u>
Foreign exchange gains	12,130	-
Foreign exchange losses	<u>(25,456)</u>	<u>(1,743)</u>
	<u>(13,326)</u>	<u>(1,743)</u>

In 2008, net foreign exchange loss of USD 10,262 thousand and USD 3,863 thousand is attributable to interest-bearing loans and borrowings and finance lease liabilities, respectively, denominated in foreign currencies (2007: net loss of USD 1,249 thousand and USD 46 thousand, respectively).

27. Business combination

On 1 September 2007 the Group acquired 99.9% share in net assets of LLC Kirovograd Plant of Construction Ceramics involved in the production of construction materials.

The acquisition of LLC Kirovograd Plant of Construction Ceramics had the following effect on the Group's assets and liabilities as at the date they were acquired:

	<i>Recognised fair value at acquisition date</i>
Non-current assets	
Property, plant and equipment	5,592
Current assets	
Inventories	60
Taxes receivable	176
Cash and cash equivalents	-
Assets	<u>5,828</u>
Non-current liabilities	
Deferred tax liability	1,172
Current liabilities	
Interest-bearing loans and borrowings	693
Trade accounts payable	625
Liabilities	<u>2,490</u>
Net assets	3,338
Group's interest in net assets acquired (99.9%)	3,335
Minority interests in net assets acquired	3
Excess of the Group's interest in net assets over cost	<u>1,099</u>
Consideration paid	(2,236)
Net cash acquired with the subsidiary	-
Net cash outflow	<u>(2,236)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***27. Business combination (continued)**

The amount of loss of LLC Kirovograd Plant of Construction Ceramics since the acquisition date included in profit for the year ended 31 December 2007 was USD 95 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 Accounting Standards.

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 2007 had the acquisitions occurred on 1 January 2007.

28. Related party disclosure

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

		<i>Other operating income</i>	<i>Administrati ve expenses</i>	<i>Other operating expenses</i>	<i>Finance costs</i>
2008	<u>Revenue</u>				
Associates	1,737	-	-	443	-
Entities under common control	1,723	4	275	-	-
	<u>3,460</u>	<u>4</u>	<u>275</u>	<u>443</u>	<u>-</u>
2007	<u>Revenue</u>	<i>Other operating income</i>	<i>Administrati ve expenses</i>	<i>Other operating expenses</i>	<i>Finance costs</i>
Associates	-	-	-	230	-
Entities under common control	312	8	175	-	234
	<u>312</u>	<u>8</u>	<u>175</u>	<u>230</u>	<u>234</u>

The outstanding balances due from related parties as at 31 December were as follows:

	<i>Trade and other receivables</i>	<i>Prepayments</i>	<i>Cash</i>	<i>Trade and other payables</i>	<i>Advances received</i>
2008					
Associates	300	483	-	42	255
Entities under common control	206	1,252	1,203	254	4,244
	<u>506</u>	<u>1,735</u>	<u>1,203</u>	<u>296</u>	<u>4,499</u>
2007	<i>Trade and other receivables</i>	<i>Prepayments</i>	<i>Cash</i>	<i>Trade and other payables</i>	<i>Advances received</i>
Associates	3,159	-	-	230	-
Entities under common control	7,384	-	2,995	539	93
	<u>10,543</u>	<u>-</u>	<u>2,995</u>	<u>769</u>	<u>93</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. Related party disclosure (continued)

Other related parties included entities under common control.

Revenue from associates and other related parties in 2008 comprised mainly sales of office premises.

Prepayments made to associates and other related parties as at 31 December 2008 comprised mainly prepayments for construction-assembly works.

Cash with other related parties as at 31 December 2008 and 2007 comprised cash placed at the current account of OJSC TMM-Bank.

Advances received from associates and other related parties as at 31 December 2008 and 2007 comprised mainly advances received for office premises.

Compensation to key management personnel

Key management personnel consist of seven top executives of the Group. In 2008 total compensation to key management personnel was included in general and administrative expenses amounting to USD 651 thousand (2007: USD 808 thousand).

29. Contingencies and commitments

Tax matters

As discussed in Note 1, the Group conducts majority of its operations in Ukraine. The Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

In the course of its commercial activities the Group carried out transactions, including in cash and through intermediaries, with employees and, upon request, with clients and suppliers in order to provide for financial flexibility. Such transactions may be challenged by regulators and treated for tax purposes in a different way. Consequently, tax authorities may assess additional income and other taxes and penalties against the Group, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group's financial position, results of operations and cash flows.

The Group management believes that the Group has sufficient basis to support its compliance with all regulations, and it is not likely that any significant settlement will arise from its interpretation and application of tax legislation and regulations.

Legal matters

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***29. Contingencies and commitments (continued)****Purchase commitments**

As at 31 December 2008 the Group had outstanding commitments in respect of purchasing construction materials and sub-contractors services in the amount of USD 5,797 thousand (2007: USD 15,473 thousand).

Lease commitments*Finance lease*

The Group leases a number of heavy construction equipment, production and construction equipment and vehicles under a number of finance lease agreements. The lease payments are pegged to EUR and USD; the average lease term is 5 years. As at 31 December 2008 the interest rates implicit in the lease are within the range of 15% -20% per annum (2007: within the range of 14% -19% per annum).

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments were as follows:

<i>as at 31 December 2008</i>	<u>Minimal payments</u>	<u>Present value of minimal payments</u>
Within one year	3,797	3,646
After one year but not more than five years	7,782	5,348
	11,579	
Less: Amounts representing finance charges	(2,585)	
Present value	<u>8,994</u>	<u>8,994</u>
 <i>as at 31 December 2007</i>	 <u>Minimal payments</u>	 <u>Present value of minimal payments</u>
Within one year	494	283
After one year but not more than five years	1,760	1,255
	2,254	
Less: Amounts representing finance charges	(716)	
Present value	<u>1,538</u>	<u>1,538</u>

Operating lease - group as a lessor

As at 31 December 2008 and 2007 there were no non-cancellable operating lease arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***30. Fair value of financial instruments**

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated balance sheet:

	Carrying amount		Fair value	
	2008	2007	2008	2007
<i>Financial assets</i>				
Trade and other receivables	7,350	22,786	7,350	22,786
Prepayments for shares	9,091	-	9,091	-
Short and long-term deposits	-	25,423	-	25,423
Cash and cash equivalents	1,661	17,148	1,661	17,148
<i>Financial liabilities</i>				
Interest-bearing loans and borrowings	81,589	72,110	80,379	72,110
Finance lease liability	8,994	1,538	8,994	1,538
Trade and other payables	27,650	16,137	27,650	16,137

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for long-term debt. To determine the fair value of the remaining long-term financial instruments, the discounted values of future cash flows are used.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

31. Financial risk management objectives and policies***Financial risk management objectives and policies***

The Group's principal financial instruments comprise loans and borrowings and cash in bank. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's financial department. The main risks arising from the Group's financial instruments are foreign liquidity risk, currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarized below.

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and customers and bank loans and borrowings.

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among Group entities to achieve optimal financing of the business needs of each entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***31. Financial risk management objectives and policies (continued)*****Liquidity risk (continued)***

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007.

<i>Year ended 31 December 2008</i>	<i>Less than one year</i>	<i>1 to 5 years</i>	<i>Total</i>
Interest bearing loans and borrowings	46,759	57,570	104,329
Finance lease liability	3,797	7,782	11,579
Trade and other payables	27,650	-	27,650
	<u>78,206</u>	<u>65,352</u>	<u>143,558</u>
<i>Year ended 31 December 2007</i>	<i>Less than one year</i>	<i>1 to 5 years</i>	<i>Total</i>
Interest bearing loans and borrowings	74,873	3,646	78,519
Finance lease liability	494	1,760	2,254
Trade and other payables	16,137	-	16,137
	<u>91,504</u>	<u>5,406</u>	<u>96,910</u>

As at 31 December 2008 the substantial part of the Group's financial liabilities, including debt, are due within twelve month from the balance sheet date. The Group anticipates being able to settle its debt as well as settle its other current liabilities from the cash flows generated by its operations. At the same time, the demand for real estate property in Ukraine has weakened substantially since the last quarter of 2008. Therefore, the Group has undertaken the following measures to sustain its liquidity position in 2009:

- Subsequent to the balance sheet date, the Group has postponed some of its construction projects seeking to minimise its operating expenses, including staff costs;
- On 24 February 2009 the Group has entered into an agreement with a Ukrainian bank for a new credit line of UAH 310,000 thousand (USD 40,260 thousand at the foreign exchange rate as at 24 February 2009) with the maturity term on 23 February 2012 bearing an interest at 19.0% per annum;
- Subsequent to the balance sheet date the Group has re-paid bonds of USD 24,093 thousand;
- Subsequent to 31 December 2008 the Group has repaid to a Ukrainian banks a credit line of USD 4,960 thousand and a loan of USD 4,675 thousand, respectively.

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD") and the Euro ("EUR") play a significant role in the underlying economics of the Group's business transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***31. Financial risk management objectives and policies (continued)****Foreign currency risk (continued)**

The exchange rates for foreign currencies, in which the Group's financial assets and liabilities were denominated, against the Ukrainian hryvnia ("UAH"), as declared by the National Bank of Ukraine ("NBU") as at the dates stated, were as follows:

	<u>USD</u>	<u>EUR</u>
1 January 2007	5.0500	6.6508
Average for 2007	5.0500	6.9179
31 December 2007	5.0500	7.4195
Average for 2008	5.2672	7.7080
31 December 2008	7.7000	10.8555
16 October 2009	7.9800	11.8614

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange markets. Such exposure arises from sales or purchases by the Group in currencies other than its measurement currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity .

<i>31 December 2008</i>	<i>Increase/decrease in foreign currency exchange rates</i>	<i>Effect on profit before tax, USD '000</i>	<i>Effect on equity, USD '000</i>
UAH/EUR	39.70%	(14,225)	-
UAH/EUR	-39.70%	14,225	-
UAH/USD	30.10%	(1,405)	(63,961)
UAH/USD	-30.10%	1,405	63,961

<i>31 December 2007</i>	<i>Increase/decrease in foreign currency exchange rates</i>	<i>Effect on profit before tax, UAH '000</i>	<i>Effect on equity, USD '000</i>
UAH/EUR	9.20%	(1,598)	-
UAH/EUR	-9.20%	1,598	-
UAH/USD	3.00%	(735)	(6,904)
UAH/USD	-3.00%	735	6,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***31. Financial risk management objectives and policies (continued)*****Credit risk***

Financial instruments, which potentially expose the Group to significant concentrations of credit risk, consist principally of cash in bank, trade and other receivables and prepayments made. The Group's maximum credit risk exposure at 31 December 2008 comprised USD 20,385 thousand (2007: USD 65,357 thousand).

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

The credit risk of the Group attached to the outstanding balance of receivables is limited due to constant monitoring carried out by the Group's management of the creditworthiness of corporate customers, and because the Group generally requires a prepayment from non-corporate customers. The Group's credit risk is associated with the default of the customers on their obligations and is limited to the carrying amount of the accounts receivable. Management believes that the Group's exposure to the credit risk is not material to the overall business of the Group. Other exposures are monitored and analyzed on a case-by-case basis and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognized against assets.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

In 2008 and 2007, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate ("LIBOR") and European Interbank Offering Rate ("EURIBOR").

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit before tax, USD '000</i>
2008		
EURIBOR	+0.3	(15)
EURIBOR	-0.3	15
LIBOR	+0.5	(125)
LIBOR	-0.5	125
	<i>Increase/ decrease in basis points</i>	<i>Effect on profit before tax, USD '000</i>
2007		
LIBOR	+0.7	(104)
LIBOR	-1.2	179

The Group has not entered into transactions designed to hedge against the interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***31. Financial risk management objectives and policies (continued)****Capital risk management**

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

	<u>2008</u>	<u>2007</u>
Long-term borrowings	45,933	2,542
Short-term borrowings	35,656	69,568
Finance lease liability	8,994	1,538
Advances received from customers	56,215	107,683
Cash and deposits	<u>(1,661)</u>	<u>(42,571)</u>
Net debt	145,137	138,760
 Total equity attributable to equity holders of the parent	 <u>196,115</u>	 <u>231,025</u>
Total capital and net debt	<u>341,252</u>	<u>369,785</u>

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)***32. Revision of the previously issued consolidated financial statements**

The previously issued consolidated financial statements of the Group for the year ended 31 December 2008 authorized for issue on 16 October 2009 have been revised as follows:

	Correction of errors							
	As previously reported	1	2	3	4	5	Reclas- sifications ⁶	As revised
Consolidated statement of financial position								
ASSETS								
Non-current assets								
Property, plant and equipment	149,348	(936)	2,764	-	-	-	-	151,176
Investment properties	60,020	-	7,984	-	-	-	-	68,004
Property development rights and costs	32,554	2,497	-	(2,259)	-	-	-	32,792
Current assets								
Inventories	115,202	-	536	(3,480)	12,730	-	-	124,988
Prepayments	20,452	-	-	-	-	(2,283)	-	18,169
	377,576	1,561	11,284	(5,739)	12,730	(2,283)	-	395,129
EQUITY AND LIABILITIES								
Equity								
Revaluation reserve	60,934	-	1,696	-	-	-	17,900	80,530
Retained earnings	81,039	2,280	9,165	-	-	-	3,644	96,128
Translation reserve	(55,609)	(719)	(2,042)	-	-	(2,283)	(21,544)	(82,197)
	86,364	1,561	8,819	-	-	(2,283)	-	94,461
Non-current liabilities								
Deferred tax liabilities	39,638	-	2,464	-	-	-	-	42,102
Current liabilities								
Advances received	53,537	-	-	(5,738)	12,730	-	-	60,529
	93,175	-	2,464	(5,738)	12,730	-	-	102,631
Profit or loss								
Cost of revenue	(61,913)	2,280	-	-	-	-	-	(59,633)
General and administrative expenses	(11,471)	-	(82)	-	-	-	746	(10,807)
Selling and distribution expenses	(5,675)	-	-	-	-	-	3,808	(1,867)
Change in fair value of investment properties	37,758	-	11,087	-	-	-	-	48,845
Other operating expenses	(8,836)	-	596	-	-	(2,283)	(4,554)	(15,077)
Foreign exchange loss, net	(15,609)	-	-	-	-	2,283	-	(13,326)
Income tax expense	(9,154)	-	(2,436)	-	-	-	-	(11,590)
	(74,900)	2,280	9,165	-	-	-	-	(63,455)
Earnings per share								
Basic and diluted earnings per share (in US dollars)	0.23	0.04	0.18	-	-	-	-	0.45
Consolidated statement of cash flows								
Net cash flows used in operating activities	(24,757)	-	-	-	-	-	553	(25,310)
Net cash flows used in investing activities	(16,727)	-	-	-	-	-	(553)	(16,174)
	(41,484)	-	-	-	-	-	-	(41,484)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2008***(in thousands of US dollars, unless otherwise indicated)*

The following errors were identified the management of the Group:

1. Certain expenditures related to the acquisition of property development rights have been incorrectly allocated to property, plant and equipment (construction in progress). As a result, the Group's property, plant and equipment (construction in progress) as at 31 December 2008 and cost of revenue for 2008 were overstated while property development rights and costs as at 31 December 2008 were understated.
2. Some of the Group's freehold buildings used for own needs and leased out properties, which should have been classified as property, plant and equipment and investment properties respectively and accounted for at fair value in accordance with the Group's accounting policies were classified as inventories in 2008 and vice versa. As a result of this misclassification, the Group's property, plant and equipment and investment properties as at 31 December 2008 and change in fair value of investment properties for 2008 were understated.
3. The Group's intercompany balances were incorrectly eliminated. As a result of this error, the Group's property development rights and costs, inventories (construction work in progress) and advances received were overstated.
4. The land lease rights, received by the Group in exchange for the Group's constructed apartments, which were not previously recognised should have been recognised as inventories (construction work in progress) and accounted initially at the fair value of the constructed apartments given up. As a result of this error, the Group's inventories (construction work in progress) and advances received as at 31 December 2008 were understated.
5. The foreign exchange gain related to revaluation of USD denominated balance of prepayments for shares which was previously recognized in translation reserve should have been recognized as foreign exchange gain in profit or loss. Since a certain part of these prepayments was not recoverable as at 31 December 2008, impairment loss should have been recognised. As a result of this error, the Group's prepayments and translation reserve were overstated. At the same time, the Group's other operating expenses were understated and foreign exchange loss, net was overstated.
6. In addition, certain reclassification were made by the management of the Group in the consolidated financial statements for the year ended 31 December 2008 to conform to the presentation of the consolidated financial statements of the Group for the year ended 31 December 2009.

33. Subsequent events

Subsequent to the balance sheet date the Group:

- Entered into an agreement with a Ukrainian bank for a new credit line of USD 40,260 thousand maturing on 23 February 2012 and bearing an interest at 19.0% per annum. Subsequently, the maturity term was extended to September 2012 - December 2015.
- Entered into an agreement with a Ukrainian bank for a new credit line of USD 18,745 thousand maturing on 27 January 2013 and bearing an interest at 15.5% - 19.0% per annum. Subsequently, the maturity term was extended to September 2012 - December 2015.
- Entered into an agreement with a Ukrainian bank for a new loan facility of USD 16,870 thousand maturing on 27 January 2011 and bearing an interest at 15.5% per annum. The loan facility was provided towards acquisition of residential complex "Ultra" in Kharkiv, acquired for a purpose of subsequent re-sale. Subsequently, the maturity term was extended to September 2012 - December 2015.
- Entered into an additional agreement with a Ukrainian bank extending repayment of a credit line principal in the amount of USD 18,786 thousand from May 2011 to September 2012 - December 2015 by monthly equal principal instalments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008**

(in thousands of US dollars, unless otherwise indicated)

33. Subsequent events *(continued)*

- Repaid to Ukrainian banks a credit line of USD 4,960 thousand and a loan of USD 4,675 thousand, respectively.
- Repaid bonds D series of USD 24,093 thousand.

Subsequent development of property market in Ukraine

During the period from 1 January 2009 until the date of authorisation of these consolidated financial statements the average market quotes for residential and commercial property in Kiev, where the substantial part of Group's operations are concentrated, have dropped by 25% and 30% accordingly, in US dollar terms. There are no sufficient corresponding data systemised for the Ukrainian market taken as a whole.