TMM Real Estate Development plc
Consolidated Financial Statements

As at 31 December 2009 and
for the year then ended
with Independent Auditors' Report

CONTENT

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 Ukriane"
JSC "Rodovid bank"
PJSC "Bank Credit Agricole"
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 2009.

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 1.

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 main risks and uncertainties faced by the Group are disclosed in notes 3 and 35.

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.

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.

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.

In January, February of 2009, the Company repurchased 268,000 of its outstanding ordinary shares for the total cash consideration of USD 39 thousand. In October 2009 the Company sold 25,000 of its repurchased ordinary shares for the total cash consideration of USD 54 thousand.

As a result of these transactions, as at 31 December 2009 and 2008 the Company's issued and paid-in share capital comprised of 50,753,819 and 50,996,819 ordinary shares with a par value of USD 0.01 each. As at 31 December 2009 and 2008 the Company's total authorised share capital comprised 70,000,000 shares.

BRANCHES

During the year ended 31 December 2009 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2009 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 2009.

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

POST STATEMENT OF FINANCIAL POSITION EVENTS

Any significant events that occurred after the end of the year are described in note 36 to the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditors, Ernst & Young Cyprus Limited, were appointed by the shareholders 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

ERNST & YOUNG

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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 statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view 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, 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 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 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 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) We were unable to satisfy ourselves as to the tax balances of the Group's former subsidiary Gambier Development Corp. as at 31 December 2007 and the related tax charges for the year ended 31 December 2008.

(ii) By the means of our audit procedures we were unable to obtain sufficient audit evidence in respect of certain cash transactions carried prior to 1 January 2008. Since these transactions enter into the determination of the balances as of the reporting dates and results of operations for the years then ended, we were unable to satisfy ourselves as to the carrying amount of inventories of USD 6,478 thousand as at 31 December 2008, property, plant and equipment of USD 1,724 thousand and USD 1,827 thousand as at 31 December 2009 and 2008, respectively, foreign currency translation reserve of USD 970 thousand and USD 4,358 ΣΚΥ

ERNST & YOUNG

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, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial RepOorting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap.113.

Emphasis of Matter

We draw attention to Note 3 in the consolidated financial statements, which describes incomplete negotiations of the payment term of its EUR credit line with its existing lender, and deterioration in the Group's operating results in 2009, which is continuing in 2010, that may result in the Group's inability to realize its assets and discharge its liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern.

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 paragraph.
- In our opinion, proper books of account have been kept by the Company.
- 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 paragraph.
- 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.

Ernst & Young Cyprus Ltd

Ernst & Young Cyprus Ltd
Certified Public Accountants and Registered Auditors

Nicosia , Cyprus
28 October 2010

CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

	Notes	*2009*	*2008*
Revenue	8	42,217	89,779
Cost of revenue	9	(25,687)	(59,633)
Gross profit		16,530	30,146
Change in fair value of investment properties	20	(17,558)	48,845
Other operating income	10	530	1,585
General and administrative expenses	11	(5,126)	(10,807)
Selling and distribution expenses	12	(544)	(1,867)
Other operating expenses	13	(7,468)	(15,077)
Operating (loss) / profit		(13,636)	52,825
Share in losses of associates	21	(260)	(2,361)
Finance income	14	196	258
Finance costs	15	(2,315)	(2,758)
Foreign exchange loss, net	16	(705)	(13,326)
(Loss) / profit before tax		(16,720)	34,638
Income tax benefit / (expense)	18	2,442	(11,590)
(Loss) / profit for the year		(14,278)	23,048
Attributable to:			
Equity holders of the parent		(14,256)	23,083
Minority interest		(22)	(35)
		(14,278)	23,048
Weighted average basic and diluted shares (in thousands of shares)		50,773	51,663
Basic and diluted earnings per share (in US dollars)		(0.28)	0.45
Other comprehensive (loss)/income			
Exchange differences on translation to presentation currency		(6,338)	(85,277)
Revaluation of buildings	19	(27,567)	39,031
Income tax effect	18	6,892	(9,757)
		(20,675)	29,274
Other comprehensive loss for the year, net of tax		(27,013)	(56,003)
Total comprehensive loss for the year, net of tax		(41,291)	(32,955)
Attributable to:			
Equity holders of the parent		(40,486)	(32,781)
Minority interest		(805)	(174)
		(41,291)	(32,955)

The accompanying notes form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

	Notes	*31 December 2009*	*31 December 2008*
ASSETS			
Non-current assets			
Property, plant and equipment	19	93,553	151,176
Intangible assets		589	546
Investment properties	20	68,052	68,004
Investments in associates	21	4,678	4,769
Property development rights and costs	22	34,960	32,792
		201,832	257,287
Current assets			
Inventories	23	123,968	124,988
Trade and other receivables	24	5,433	7,350
Prepayments	25	18,579	18,169
Prepaid income tax		20	25
Taxes recoverable, other than income tax	26	5,589	10,114
Cash and cash equivalents		1,344	1,661
		154,933	162,307
TOTAL ASSETS		356,765	419,594
EQUITY AND LIABILITIES			
Equity			
Share capital	27	508	510
Share premium	27	98,569	98,552
Additional paid-in capital	27	2,592	2,592
Revaluation reserve	27	60,151	80,530
Retained earnings		82,366	96,128
Translation reserve	27	(88,490)	(82,197)
Equity attributable to equity holders of the parent		155,696	196,115
Minority interest		410	1,267
Total equity		156,106	197,382
Non-current liabilities			
Interest-bearing loans and borrowings	28	62,222	45,933
Finance lease liability	33	4,228	5,348
Deferred tax liability	18	30,939	42,102
		97,389	93,383
Current liabilities			
Trade and other payables	29	19,091	27,650
Interest-bearing loans and borrowings	28	22,425	35,656
Finance lease liability	33	6,782	3,646
Advances received	30	53,782	60,529
Taxes payable, other than income tax	31	1,190	1,348
		103,270	128,829
TOTAL LIABILITIES		200,659	222,212
TOTAL EQUITY AND LIABILITIES		356,765	419,594

Signed and authorised for release on behalf of TMM Real Estate Development plc on 28 October 2010:

Director Mykola Tolmachov

Director Larysa Chyvurina

The accompanying notes form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the parent								
	Share capital	*Share premium*	*Additional paid-in capital*	*Revaluation reserve*	*Retained earnings*	*Translation reserve*	*Total*	*Minority interest*	*Tota equit*
Balance at 1 January 2008	518	100,673	2,592	52,013	72,644	2,585	231,025	1,441	232,466
Profit for the year	-	-	-	-	23,083	-	23,083	(35)	23,048
Other comprehensive income/(loss)	-	-	-	28,918	-	(84,782)	(55,864)	(139)	(56,003)
Total comprehensive income/(loss) for the year	-	-	-	28,918	23,083	(84,782)	(32,781)	(174)	(32,955)
Transfer of revaluation reserve, net of taxes	-	-	-	(401)	401	-	-	-	-
Purchase of treasury shares (Note 27)	(8)	(2,121)	-	-	-	-	(2,129)	-	(2,129)
Balance at 31 December 2008	510	98,552	2,592	80,530	96,128	(82,197)	196,115	1,267	197,382
Loss for the year	-	-	-	-	(14,256)	-	(14,256)	(22)	(14,278)
Other comprehensive loss				(19,937)	-	(6,293)	(26,230)	(783)	(27,013)
Total comprehensive loss for the year	-	-	-	(19,937)	(14,256)	(6,293)	(40,486)	(805)	(41,291)
Transfer of revaluation reserve, net of taxes	-	-	-	(442)	442	-	-	-	-
Purchase of treasury shares (Note 27)	(3)	(36)	-	-	-	-	(39)	-	(39)
Sale of treasury shares (Note 27)	1	53	-	-	-	-	54	-	54
Acquisition of minority interest	-	-	-	-	52	-	52	(52)	-
Balance at 31 December 2009	508	98,569	2,592	60,151	82,366	(88,490)	155,696	410	156,106

The accompanying notes form an integral part of the consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

	Notes	2009	2008
Operating activities			
(Loss) / profit before tax		(16,720)	34,638
Non-cash adjustments to reconcile (loss)/profit before tax to net cash flows			
Revaluation of investment properties	20	17,558	(48,845)
Depreciation and amortisation		1,309	1,226
Impairment of property, plant and equipment	13, 19	4,256	971
Loss on disposal of property, plant and equipment and investment properties	13	173	2,863
Gain on extinguishment of liabilities	10	(11)	(535)
Share in losses of associates	21	260	2,361
Finance income	14	(196)	(258)
Finance costs	15	2,315	2,758
Unrealised foreign exchange loss		393	14,902
		9,337	10,081
Working capital adjustments			
Change in inventories		11,725	(19,939)
Change in trade and other receivables		1,696	5,972
Change in prepayments		(3,243)	(13,493)
Change in taxes recoverable, other than income tax		4,267	(5,070)
Change in trade and other payables		(9,403)	25,880
Change in advances received		(4,701)	(17,904)
Change in taxes payable, other than income tax		(113)	1,325
		9,565	(13,148)
Interest received		196	258
Interest paid		(14,570)	(11,880)
Income taxes paid		(2)	(540)
Net cash flows used in operating activities		(4,811)	(25,310)
Investing activities			
Proceeds from sale of property, plant and equipment and investment properties		1,794	1,767
Purchase of property, plant and equipment and investment properties		(4,322)	(12,217)
Purchase of intangible assets		(201)	-
Purchase of property development rights		(3,422)	(27,512)
Repayment of deposits		-	25,423
Repayment of reverse repurchase agreements		-	5,349
Contribution into associates	21	(345)	(8,984)
Net cash flows used in investing activities		(6,496)	(16,174)
Financing activities			
Proceeds from loans		39,788	101,744
Repayment of loans		(5,647)	(67,392)
Repayment of bonds		(23,117)	(4,233)
Repayment of finance lease liabilities		-	(1,343)
Sale of treasury shares	27	54	-
Purchase of treasury shares	27	(39)	(2,129)
Net cash flows from financing activities		11,039	26,647
Net decrease in cash and cash equivalents		(268)	(14,837)
Net foreign exchange difference		(49)	(650)
Cash and cash equivalents at 1 January		1,661	17,148
Cash and cash equivalents at 31 December		1,344	1,661
Non-cash transactions			
Property, plant and equipment purchased under finance lease agreements		62	5,954

The accompanying notes form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009
(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.

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

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

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") are construction and development of residential and business properties in Ukraine (mainly 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	*Principal activities*	*2009*	*2008*
Subsidiaries:			
LLC Firm TMM	Construction and development	100.0%	100.0%
LLC Geravit	Development project	100.0%	100.0%
LLC Palladiy	Development project	100.0%	100.0%
LLC Tavrida Plaza	Development project	100.0%	100.0%
LLC Stimul+	Development project	100.0%	100.0%
PE Budinvestservice 2004	Development project	100.0%	100.0%
PE Greenbud	Development project	100.0%	100.0%
CJSC Victor	Development project	100.0%	100.0%
LLC Kirovograd Plant of Construction Ceramics	Production of construction materials	99.9%	99.9%
LLC TMM Pallada	Development project	99.0%	99.0%
LLC Economsystema	Development project	99.0%	99.0%
LLC Specialist	Development project	98.0%	98.0%
OJSC Ukrstsukorteploizoliatsia	Production of construction materials	98.0%	94.7%
LLC TMM Vikna	Production of construction materials	91.0%	-
LLC TMM Budkomplekt	Production of construction materials	90.0%	90.0%
LLC B2B	Development project	85.0%	-
LLC Adept-2004	Development project	70.0%	70.0%
LLC TMM-Energo	Development project	60.0%	60.0%
Associates:			
CJSC TMM Energobud	Production of power facilities	50.0%	50.0%
LLC Ukr-bud-service	Development project	50.0%	50.0%
LLC Utilservice	Development project	50.0%	50.0%

During the year ended 31 December 2009, the Group acquired 79,987,440 shares of additional issue of shares of OJSC Ukrstsukorteploizoliatsia with a par value of UAH 0.25 (USD 0,03) that caused changes in minority interest related to the subsidiary.

During the year ended 31 December 2009, the Group together with third parties established new subsidiaries LLC TMM Vikna and LLC B2B engaged in production of construction materials and development of new business activities, respectively.

All subsidiaries and associates are incorporated in Ukraine.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

2. Operating environment, risks and 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 global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within Ukraine, and significant devaluation of the Ukrainian hryvnia against major currencies. Furthermore, the downgrade of the country's credit ratings, which began in late 2008, continued in 2009. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the exchange rate and the banking sector, there continues to be uncertainty regarding exchange rates, access to capital and its cost for the Group and its counterparties. At the same time, the global economic recession has also had a significant impact on Ukraine's balance of payments resulting from a drop in exports. These factors could affect the Group's financial position, results of operations and business prospects.

3. Basis of preparation

The consolidated financial statements of the Company and all its subsidiaries (the Group) have been prepared on a historical cost basis, except for the following:

- investment property 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 consolidated financial statements are presented in US dollars and all values are rounded off to the nearest thousand except when otherwise indicated.

The Group classifies assets and liabilities as current when it expects to realise the asset within twelve months after the statement of position date or the liability due to be settled within twelve months after the statement of position date, except for the following:

- inventories are classified as current when the Group expects to realise inventories in its normal operating cycle, which varies from 12 to 36 months;
- advances received are classified as current when the Group expects to settle advances received in its normal operating cycle, which varies from 12 to 36 months.

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 and its subsidiaries as at 31 December 2009.

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 parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

3. Basis of preparation *(continued)*

Minority interest represents the portion of profit or loss and net assets that is not held by the Group and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the parent equity holders.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Going concern

As a consequence of the global crisis, demand for residential and commercial property in Ukraine has weakened sharply since the last quarter of 2008, supplemented by a substantial cut in residential and commercial property prices. This resulted in the drop of the Group's revenue by approximately 53% in 2009. No significant improvements in the property market conditions are observed in 2010. Poor property market conditions, inability of the Group to realise substantial part of its inventories within twelve months after the statement of position date due to its normal operating cycle which varies from 12 to 36 months and negative operating cash flows may affect the Group's prospective ability to generate cash flows from operating activities sufficient to repay its loans and borrowings as they fall due, as well as settle other liabilities.

Subsequent to the statement of position date the Group has extended maturity of the substantial part of its loan facilities to September 2012 – December 2015 (Note 36), while the negotiations on the extention of the payment term of the EUR denominated credit line which is equivalent to USD 24,748 thousand, including current portion of USD 16,445 thousand, were incomplete. Accordingly, the Group's ability to continue its operations on the going concern basis is dependent on its ability to renegotiate an extension of the payment term of its EUR denominated credit line with its existing lender.

The Group's management believes that negotiations with its lender will be successfully completed in 2010 and the EUR denominated credit line term will be extended until 2011-2012. However, at the date of authorisation of these consolidated financial statements negotiations with its lender were incomplete. These conditions represent a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, in such case, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

4. Changes in accounting policy 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 IFRS and IFRIC interpretations as at 1 January 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 15 Agreement for the Construction of Real Estate effective 1 January 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009
(in thousands of US dollars, unless otherwise indicated)

4. Changes in accounting policy and disclosures *(continued)*

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRSs (May 2008)

The principal effects of these changes are as follows:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as at 1 January 2009. It did not have an impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement and liquidity risk disclosures are not impacted by the amendment.

IFRS 8 Operating Segments

IFRS 8 replaces IAS 14 Segment Reporting. The Group concluded that the reportable segments determined in accordance with IFRS 8 are different to the business segments previously identified under IAS 14. The revised presentation and disclosures are shown in note 17, including the related revised comparative information.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

IAS 23 Borrowing Costs (Revised)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to capitalise borrowing costs; therefore, the revision to the standard did not have any impact on the financial position or performance of the Group.

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

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

This amendment to IFRIC 9 requires 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. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract.

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4. Changes in accounting policy and disclosures *(continued)*

IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or the performance of the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group does not have customer loyalty programmes; therefore, the adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 clarifies when revenue and related expenses from a 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. IFRIC 15 determines that contracts which do not classify as construction contracts in accordance with IAS 11 can only be accounted for under the percentage of completion method if the entity continuously transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses.

The Group's previous accounting policy for all residential property sales was to recognise revenue on the completion of construction. The Group has considered the application of IFRIC 15 and concluded that its 'pre-completion' sale contracts are not, in substance, construction contracts, and their legal terms do not stipulate the continuous transfer of work in progress to the purchaser. Consequently the percentage of completion method of revenue recognition is not applied to such contracts; therefore, the adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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 adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 did not have any impact on the financial position or performance of the Group, as the Group does not receive assets from customers.

Improvements to IFRSs (May 2008)

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendment resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

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4. Changes in accounting policy and disclosures *(continued)*

IAS 40 Investment Property has been amended to bring within its scope investment property under construction. Consequently such property is measured at fair value when completed investment properties are measured at fair value. The Group has amended its policy accordingly. As at 31 December 2008 and 2009 the Group did not have investment property under construction.

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

Judgments other than estimates

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- the number of items of land and buildings owned by the subsidiary
- the extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information).

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Classification of property

The Group determines whether a property is classified as investment property or inventory property:

- Investment property comprises buildings (principally offices, commercial warehouse and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.

Operating lease contracts – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these property and so accounts for the leases as operating leases.

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5. Significant accounting judgments, estimates and assumptions *(continued)*

Estimates

Estimation of net realisable value for inventory

Inventory is stated at the lower of cost and net realisable value (NRV). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

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.

Valuations of freehold buildings and investment properties

Freehold buildings and investment properties are stated at fair value as at the statement of financial position date. The fair value of freehold buildings is determined by independent real estate valuation experts using both the cost and the market approach; the fair value of investment properties is determined by independent real estate valuation experts using the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties. Besides, in arriving at their estimates of market values as at 31 December 2009, the valuers have also used their market knowledge and professional judgement.

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. The significant reduction in transaction volumes continued this year. 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 2009.

The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of freehold buildings and investment properties in the short-term.

Impairment of non-current assets

In the circumstances of great degree of uncertainty on the future development of market conditions in the Ukrainian property market, management considers that usage of fair value less costs to sell approach to estimation of the Group's non-current assets recoverable amount is more appropriate and indicative. Accordingly, the Group's impairment test for non-current assets is based on determination of their fair value less cost to sell and is identified 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.

Whilst management believes that determined recoverable amounts of non-current assets reflect their market value, weak liquidity and the poor conditions prevailing in the Ukrainian property market, described in Note 2, may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2009.

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5. Significant accounting judgments, estimates and assumptions *(continued)*

Estimates *(continued)*

Taxes

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 2009 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 33.

Deferred tax assets recoverability

Deferred tax assets 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 statement of financial position. 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 statement of comprehensive income.

6. Summary of significant accounting policies

Business combinations and property acquisitions

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.

Where property is acquired through the acquisition of corporate interests, management has regard to the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise corporate acquisitions are accounted for as business combinations.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. 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 statement of financial position 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 neither amortised nor individually tested for impairment.

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6. Summary of significant accounting policies *(continued)*

Investment in an associate *(continued)*

The statement of comprehensive income 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 statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interest in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent 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 reporting 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 profit or loss for the period.

Functional and presentation currencies

The Group's presentation currency is the US dollar ("USD"). The functional currency of all the Company and its subsidiaries is the Ukrainian hryvnia ("UAH") as it reflects the economic substance of the underlying events and circumstances of their 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 statement of financial position 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 currency translation difference in other comprehensive income. The translation of the UAH denominated assets and liabilities into USD as at 31 December 2009 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 statement of financial position 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 profit or loss for the period.

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.

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6. Summary of significant accounting policies *(continued)*

Financial assets *(continued)*

All 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 trades) 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, short-term deposits 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 during the years ended 31 December 2009 and 2008.

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. After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. Change in allowance for doubtful debts is recognized within other operating expenses.

Derecognition

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;
- 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.

Impairment of financial assets

The Group assesses at each reporting 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.

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6. Summary of significant accounting policies *(continued)*

Financial assets *(continued)*

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has 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 credit 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 statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. 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 statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

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 Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement of loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

Derecognition

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 statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

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6. Summary of significant accounting policies *(continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate 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.

Property, plant and equipment

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of plant 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 plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statement of comprehensive income 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 plant and equipment.

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 statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss for the period, in which case the increase is recognised in profit or loss for the period. A revaluation deficit is recognised in profit or loss for the period, 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.

Freehold land

For the purpose of further constructions of owner-occupeid premisie the Group acquired certain land plots in the Kyiv region. Freehold land is measured at cost less impairment losses. 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.

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.

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6. Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

Derecognition

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 profit or loss in the period the item is derecognised.

Depreciation

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.

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 properties are properties 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 statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment property are recognised in profit or loss in the period of retirement or disposal. Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

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6. Summary of significant accounting policies *(continued)*

Investment properties *(continued)*

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

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 costs 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. The Group estimates an asset's recoverable amount based on determination of its fair value less cost to sell which is identified 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.

Impairment losses of continuing operations are recognised in profit or loss for the period 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 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 profit or loss for the period 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.

Raw materials

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

Completed and under development inventory property

Completed and under development inventory property is property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation Completed and under development inventory property are stated at cost based on the individual cost method.

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6. Summary of significant accounting policies *(continued)*

Inventories *(continued)*

Completed and under development inventory property *(continued)*

Cost includes:

- freehold and leasehold rights for land;
- planning and design costs, costs of site preparation;
- cost of raw materials;
- labour costs and amounts paid to subcontractors for construction;
- construction overheads allocated proportionately to the stage of completion of the inventory based on normal operating capacity;
- borrowing costs.

The cost of completed and under development inventory property recognised in profit or loss on disposal is determined with reference to the specific costs incurred on inventories sold and an allocation of any non-specific costs based on the relative size of the property sold.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

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 statement of comprehensive income 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 share premium.

Provisions

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 statement of comprehensive income 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.

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6. Summary of significant accounting policies *(continued)*

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.

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 Group 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 completed inventory property and other goods

Revenues from the sale of completed inventory property are recognized in profit or loss for the period 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 over the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

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

Rental income

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognised in profit or loss for the period when they arise.

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6. Summary of significant accounting policies *(continued)*

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

Cost of revenue

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

Taxes

Current income tax

Current income 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 reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the statement of financial position 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;
- 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.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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 statement of financial position 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 statement of financial position date.

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6. Summary of significant accounting policies *(continued)*

Taxes *(continued)*

Deferred income tax *(continued)*

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 statement of financial position.

Events after the statement of financial position date

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

Change in presentation of comparative information

Certain reclassifications have been made to the 2008 amounts for consistency of presentation with the 2009 amounts.

7. IFRSs and IFRIC Interpretations issued but not yet effective

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

- IFRS 3R Business Combinations (Revised) and IAS 27R Consolidated and Separate Financial Statements (Amended)
- Amendment to IAS 32 Financial instruments: Presentation: Classification of Rights Issues
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Amendments to IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions
- IFRS 9 Financial Instruments
- IAS 24 Related Party Disclosures (Revised)
- IFRS for Small and Medium Sized Entities
- Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters
- Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding RequirementIFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRS's (April 2009 and May 2010)

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7. IFRSs and IFRIC Interpretations issued but not yet effective *(continued)*

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 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a 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. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

Amendment to IAS 32 Financial instruments: Presentation: Classification of Rights Issues

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that the amended standard will not have any effect on financial position or performance of the Group as the Group did not enter into such transactions.

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.

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions

The amendments were issued in June 2009 and are effective for annual periods beginning on or after 1 January 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. Specifically, an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amended standard clarifies that in IFRS 2 a "group" has the same meaning as in IAS 27, that is, it includes only a parent and its subsidiaries. The Group expects that the amended standard will not have any effect on financial position or performance of the Group as the Group did not enter into such transactions.

IFRS 9 Financial Instruments

In November 2009 the IASB has issued IFRS 9, which provides guidance on the classification and measurement of financial assets. Publication of this IFRS represents the completion of the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard - IFRS 9 Financial Instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

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7. IFRSs and IFRIC Interpretations issued but not yet effective *(continued)*

***IFRS 9 Financial Instruments** (continued)*

The new standard also requires a single impairment method to be used, replacing many different impairment methods in IAS 39. The effective date for mandatory adoption of IFRS 9 is for annual periods beginning on or after 1 January 2013. The Group expects that the new standard may have effect on the classification and measurement of its financial assets, however, the exact amount of potential effect have not yet been quantified.

IAS 24 Related Party Disclosures (Revised)

In November 2009 the IASB replaced IAS 24 Related Party Disclosures with a new version. The IASB believes the revised standard simplifies the disclosure requirements for government-related entities by focusing disclosures on significant transactions, and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard will not result in additional disclosures as the Company is not a subsidiary of government-related entities.

IFRS for Small and Medium Sized Entities (IFRS SMEs)

IFRS for SMEs is designed to meet the needs and capabilities of small and medium-sized entities. The standard is intended to be less complex as compared to the full IFRSs as many principles are simplified and significantly fewer disclosures are required. The new standard will not result in any changes to the Group's consolidated financial statements as the Group is not small or medium-sized entity.

Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters

The amendment, which was issued in January 2010, provides relief to first-time adopters of IFRSs from providing the additional disclosures introduced by the recent amendments to IFRS 7. As a result, first-time adopters receive the same transition provisions provided to current IFRS preparers. This amendment is effective for financial years beginning on or after 1 July 2010, with early application is permitted. The amendment will not result in any changes to the consolidated financial statements as the Group is not a first-time adopter.

Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement

Amendment to IFRIC 14 IAS 19 was issued in November 2009 and becomes effective for financial years beginning on or after 1 July 2011 with early application permitted. The amendment applies in the limited circumstances when an entity is a subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment will have no impact on the financial position or performance of the Group, as the Group has no employee benefit plans.

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners.

As such it provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. IFRIC 17 will have no impact on the financial position or performance of the Group, as the Group does not distribute non-cash assets to its owners.

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7. IFRSs and IFRIC Interpretations issued but not yet effective *(continued)*

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19, which was published in November 2009, provides guidance on how to account for the extinguishment of financial liability by the issuance of equity instruments. These transactions are often referred to as debt-for-equity swaps. IFRIC 19 includes the following guidance: (i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (ii) the equity instruments issued are measured at their fair value; (ii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit and loss for the period. IFRIC 19 becomes effective for financial years beginning on or after 1 July 2010 with early application permitted.

8. Revenue

Revenue for the years ended 31 December comprised:

	2009	*2008*
Sales of completed inventory property	32,043	79,809
Rental income from investment properties	2,802	2,862
Other	7,372	7,108
	42,217	89,779

Other revenue included USD 1,843 thousand of utility services income (2008: USD 2,079 thousand) and USD 2,759 thousand of income from miscellaneous construction services rendered to third parties (2008: USD 2,430 thousand).

All revenue is generated from sales to customers in Ukraine.

9. Cost of revenue

Cost of revenue for the years ended 31 December comprised:

	2009	*2008*
Cost of completed inventory property sold	19,591	53,034
Other	6,096	6,599
	25,687	59,633

Other cost of revenue included USD 2,825 thousand of utility services cost (2008: USD 4,006 thousand) and USD 1,891 thousand of cost of miscellaneous construction services rendered to third parties (2008: USD 1,569 thousand).

Wages and salaries and social security taxes included in cost of completed inventory property sold for year ended 31 December 2009 amounted to USD 8,015 thousand and USD 2,974 thousand, respectevely (2008: USD 21,453 thousand and USD 7,961 thousand, respectevely).

10. Other operating income

Other operating income for the years ended 31 December comprised:

	2009	*2008*
Release of provision for taxes	382	-
Gain on sale of sundry goods and services	37	170
Gain on extinguishment of liabilities	11	535
Other	100	880
	530	1,585

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11. General and administrative expenses

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

	2009	2008
Wages and salaries	1,086	4,595
Depreciation and amortization	1,187	1,226
Professional services	686	619
Social security taxes	387	1,376
Taxes, other than income tax	387	532
Insurance premium	308	259
Communication costs	184	360
Audit costs	160	191
Bank charges	72	234
Materials	45	143
Other	624	1,272
	5,126	10,807

12. Selling and distribution expenses

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

	2009	2008
Advertising	291	1,216
Wages and salaries	140	313
Social security taxes	53	111
Transportation costs	29	205
Other	31	22
	544	1,867

13. Other operating expenses

Other operating expenses for the years ended 31 December comprised:

	2009	2008
Impairment of property, plant and equipment (Note 19)	4,256	971
Change in allowance of doubtful debts (Notes 24 and 25)	2,077	6,091
Inventory shortages and damages (Note 23)	504	-
Fines and penalties	179	793
Loss on disposal of property, plant and equipment and investment properties, net	173	2,863
Charity and donations	7	2,003
Provisions for tax charges and litigations	-	899
Other	272	1,457
	7,468	15,077

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14. Finance income

Finance income for the years ended 31 December comprised:

	2009	*2008*
Interest income	182	228
Other finance income	14	30
	196	258

15. Finance costs

Finance costs for the years ended 31 December comprised:

	2009	*2008*
Interest costs and finance lease charges	2,039	2,496
Other finance costs	276	262
	2,315	2,758

16. Foreign exchange loss, net

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

	2009	*2008*
Foreign exchange gains	136	12,130
Foreign exchange losses	(841)	(25,456)
	(705)	(13,326)

17. Operating segment information

Identification of reportable segments

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

- Investment property segment – leases residential and commercial property owned by the Group;
- Property development segment - builds and sells residential and commercial property.

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

All other non-reportable segments include the Group's operations related to other construction and utility services and other operations.

An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

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17. Operating segment information *(continued)*

As at 31 December and for the year then ended the Group's segmental information was as follows:

Year ended 31 December 2009	*Investment property*	*Property development*	*Other non-reportable*	*Adjustments and eliminations*	*Consolidated*
Revenue					
External customers	2,816	32,043	7,372	(14)[1]	42,217
Inter-segment	-	-	1,394	(1,394)[2]	-
Total revenue	2,816	32,043	8,766	(1,408)	42,217
Results					
Change in fair value of investment properties	(17,558)	-	-	-	(17,558)
Impairment of property· plant and equipment	-	(2,335)	-	(1,921)	(4,256)
Selling and distribution expenses	(31)	(513)	-	-	(544)
Finance cost	-	(2,315)	-	-	(2,315)
Foreign exchange loss, net		(705)	-	-	(705)
Share in losses of associates	-	-	(260)	-	(260)
Segment (loss) / profit	(14,787)	6,583	1,142	(9,658)[3]	(16,720)
Operating assets	68,053	200,271	9,068	79,373[4]	356,765
Operating liabilities	-	153,817	2,891	43,951[5]	200,659
Other disclosures					
Capital expenditure[6]	133	3,343	-	2,095	5,571

Year ended 31 December 2008	*Investment property*	*Property development*	*Other non-reportable*	*Adjustments and eliminations*	*Consolidated*
Revenue					
External customers	2,883	79,809	7,108	(21)[1]	89,779
Inter-segment	-	-	11,581	(11,581)[2]	-
Total revenue	2,883	79,809	18,689	(11,602)	89,779
Results					
Change in fair value of investment properties	48,845	-	-	-	48,845
Impairment of property· plant and equipment	-	-	-	(971)	(971)
Selling and distribution expenses	(22)	(1,845)	-	-	(1,867)
Finance cost	-	(2,758)	-	-	(15,609)
Foreign exchange loss, net		(15,609)	-	-	(2,758)
Share in losses of associates	-	-	(2,361)	-	(2,361)
Segment profit / (loss)	51,685	8,846	(1,376)	(24,517)[3]	34,638
Operating assets	68,004	206,944	9,855	134,791[4]	419,594
Operating liabilities	-	159,401	4,314	58,497[5]	222,212
Other disclosures					
Capital expenditure[6]	1,767	12,328	-	2,355	16,450

[1] External customer's revenues are adjusted to be presented on accrual basis.

[2] Inter-segment revenues are eliminated on consolidation.

[3] Profit or loss for each operating segment does not include USD 530 thousand (2008: USD 1,585 thousand) of other operating income, USD 5,126 thousand (2008: USD 10,807 thousand) of general and administrative expenses, USD 5,133 thousand (2008: USD 15,077 thousand) of other operating expenses and USD 196 thousand (2008: USD 258 thousand) of finance income. Segment operating profit does include USD 125 thousand (2008: USD 476 thousand) of profit from inter-segment sales.

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17. Operating segment information *(continued)*

[4] Segment assets do not include USD 64,566 thousand (2008: USD 117,779 thousand) of property, plant and equipment, USD 589 thousand (2008: USD 546 thousand) of intangible assets, USD 8,765 thousand (2008: USD 9,091 thousand) of prepayments, USD 5,433 thousand (2008: USD 7,350 thousand) of trade and other receivables and USD 20 thousand (2008: USD 25 thousand) of prepaid income tax as these assets are managed on a group basis. Property, plant and equipment not reportable to the board on a segment basis comprise freehold buildings, vehicles, office and computer equipment and construction in progress.

[5] Segment liabilities do not include USD 30,939 thousand (2008: USD 42,102 thousand) of deferred tax liabilities, USD 11,822 (2008: USD 15,047 thousand) of other payables and USD 1,190 thousand (2008: USD 1,348 thousand) of taxes payable as these liabilities are managed on a group basis.

[6] Capital expenditure consists of additions property plant and equipment, investment properties and property development rights and costs.

18. Income tax

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

Profit or loss

	2009	*2008*
Current income tax charge	7	578
Deferred tax relating to reversal and origination of temporary differences	(2,449)	11,012
Income tax (benefit) / expense reported in profit or loss	(2,442)	11,590

Other comprehensive income

	2009	*2008*
Deferred tax related to items charged or credited directly to other comprehensive income during the year:		
(Loss) / gain on revaluation of freehold buildings	(6,892)	9,757
Income tax (benefit)/expense charged directly to other comprehensive income	(6,892)	9,757

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 2009 and 2008 is as follows:

	2009	*2008*
Accounting (loss)/profit before tax	(16,720)	34,638
At the Company's statutory income tax rate of 10.0%	(1,672)	3,464
Tax effect of expenses non-deductible in determining taxable profits	1,707	2,731
Effect of higher tax rates in Ukraine	(2,477)	5,395
Income tax (benefit) / expense reported in profit or loss	(2,442)	11,590

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18. Income tax *(continued)*

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2009, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2008: 25%).

In 2009, Cyprus income tax rate was 10% (2008: 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.

Deferred tax assets and liabilities relate to the following items in 2009:

	31 December 2009	*Charged to profit or loss*	*Charged to other compre-hensive income*	*Foreign currency translation*	*31 December 2008*
Tax effect of taxable temporary differences:					
Property, plant and equipment and investment properties (i)	(24,810)	4,088	6,892	1,615	(37,405)
Inventories (ii)	(16,526)	(3,610)	-	688	(13,604)
Prepayments made (iii)	(1,585)	(479)	-	53	(1,159)
Interest-bearing loans and borrowings (v)	(26)	(27)	-	1	-
Gross deferred tax liabilities	(42,947)	(28)	6,892	2,357	(52,168)
Less: Offsetting with deferred tax assets	12,008				10,066
Recognised deferred tax liabilities	(30,939)				(42,102)
Tax effect of deductible temporary differences:					
Prepayments received (iii)	1,371	455	-	(46)	962
Investments (iv)	1,829	(487)	-	(73)	2,389
Inventories (ii)	1,592	1,631	-	(158)	119
Trade and other receivables (vi)	1,623	(1,051)	-	(72)	2,746
Interest-bearing loans and borrowings (v)	2,442	(721)	-	(99)	3,262
Property, plant and equipment and investment properties (i)	1,847	1,883	-	(46)	10
Trade and other payables (vii)	1,304	767	-	(41)	578
	12,008	2,477	-	(535)	10,066
Less: Offsetting with deferred tax liabilities	(12,008)				(10,066)
Net deferred tax liability	(30,939)	2,449	6,892	1,823	(42,102)

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18. Income tax *(continued)*

	31 December 2008	*Charged to profit or loss*	*Charged to other compre-hensive income*	*Foreign currency translation*	*1 January 2008*
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
	10,066	3,544	-	(5,128)	11,650
Less: Offsetting with deferred tax liabilities	(10,066)				(11,650)
Net deferred tax liability	(42,102)	(11,012)	(9,757)	16,474	(37,807)

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, including capitalisation of borrowing costs, wages and salaries and depreciation ;

(iii) Prepayments made and received – for tax purposes income and expenses are recognized at the earlier of cash payment or act of acceptance sign off;

(iv) Investments – differences in valuation, including impairment recognition;

(v) Interest-bearing loans and borrowings – differences in valuation and in the period of recognition, including recognition of finance lease liability;

(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.

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19. Property, plant and equipment

	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 2008	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)
Other 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
Additions	-	93	156	846	4	274	2,901	4,274
Disposals	-	(813)	(308)	(239)	(56)	(84)	(446)	(1,946)
Transfers from investment properties	-	212	-	-	-	-	-	212
Transfers to investment properties	-	(19,225)	-	(419)	-	-	-	(19,644)
Other transfers	-	1,305	-	3	-	21	(1,329)	-
Revaluations	-	(29,094)	-	-	-	-	-	(29,094)
Translation difference	(787)	(3,504)	(327)	(174)	(110)	(72)	(630)	(5,604)
At 31 December 2009	21,250	47,629	8,788	4,485	2,972	1,988	16,482	103,594
Accumulated depreciation and impairment:								
At 1 January 2008	-	-	(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)
Depreciation charge for the year	-	(1,565)	(452)	(649)	(508)	(419)	-	(3,593)
Impairment	(1,839)	(931)	(486)	(9)	-	-	(991)	(4,256)
Disposals	-	-	91	13	16	38	-	158
Revaluations	-	1,527	-	-	-	-	-	1,527
Translation difference	45	84	57	69	30	34	24	343
At 31 December 2009	(1,794)	(1,551)	(1,733)	(2,009)	(968)	(1,019)	(967)	(10,041)
Net book value								
At 1 January 2008	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
At 31 December 2009	19,456	46,078	7,055	2,476	2,004	969	15,515	93,553

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19. Property, plant and equipment *(continued)*

In 2009, USD 3,325 thousand (2008: nil) impairment loss represented the write down of freehold land, heavy construction equipment, production, construction and research equipment and construction in progress to the recoverable amount. This has been recognised in the consolidated statement of comprehensive income in the line item 'Other operating expenses'. The recoverable amount was based on fair value less cost to sell and was determined 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.

As at 31 December 2009 freehold land comprised the land to be used for the construction of owner-occupied premises; freehold buildings included apartments, parking places and workshops used by the Group for own purposes.

As at 31 December 2009 construction in progress included workshops and offices under construction to be used by the Group for own purposes in the amount of USD 11,523 thousand (2008: 8,144 thousand) and recreational property under construction to be operated by the Group in the amount of USD 2,409 thousand (2008: USD 2,324 thousand).

Depreciation

The total depreciation charge for the years ended 31 December 2009, 2008 was as follows:

	2009	*2008*
Inventories	2,423	2,464
General and administrative expenses (Note 11)	1,132	1,171
Other expenses	38	37
Total depreciation charge	3,593	3,672

Finance leases

The carrying value of plant and equipment held under finance leases at 31 December 2009 was USD 4,511 thousand (2008: USD 5,200 thousand). Leased assets under finance lease contracts are pledged as security for the related finance lease liabilities.

Pledged assets

As at 31 December 2009 freehold land and buildings with a carrying value of USD 50,940 thousand (2008: USD 80,316 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

Fully depreciated assets

Included in property, plant and equipment as at 31 December 2009 are equipment recorded at a cost of USD 406 thousand (2008: USD 125 thousand) which are fully depreciated but remain in use.

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 2009 and 2008.

Net revaluation result for the year ended 31 December 2009 was USD 28,498 thousand of which USD 27,567 thousand of revaluation decrease was recognised in other comprehensive income, and USD 931 thousand of impairment was recognised in profit or loss (2008: USD 39,031 thousand of revaluation increase was recognised in other comprehensive income, and USD 971 thousand of impairment was recognised in profit or loss). 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.

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20. Investment properties

	2009	*2008*
At 1 January	68,004	55,992
Additions	110	-
Transfers from property, plant and equipment	19,644	678
Transfers from inventories	239	1,767
Transfers to property, plant and equipment	(212)	(2,975)
Disposals	(179)	(2,368)
Change in fair value of investment properties	(17,558)	48,845
Translation difference	(1,996)	(33,935)
At 31 December	68,052	68,004

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 2009 and 2008. 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 2009 investment properties with a carrying value of USD 32,437 thousand (2008: USD 36,907 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

21. Investments in associates

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

Entity	*Activity*	*%*	*Carrying value*	*%*	*Carrying value*
		2009		*2008*	
CJSC TMM Energobud	Production of power facilities	50.00%	4,674	50.00%	4,767
Other minor associates			4		2
			4,678		4,769

The summarised financial information of CJSC TMM Energobud is follows:

	2009	*2008*
Total assets	70,386	49,408
Total liabilities	(61,038)	(39,874)
Revenue	4,653	2,846
Net loss	(520)	(4,714)

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21. Investments in associates *(continued)*

The reconciliation of carrying value of investment is as follows:

	2009	*2008*
Carrying value at 1 January	4,769	360
Contribution into associate	345	8,984
Share in losses in associates	(260)	(2,361)
Foreign currency translation	(176)	(2,214)
Carrying value at 31 December	4,678	4,769

In 2009, the Group acquired 1,344 shares of additional issue of shares of OJSC TMM Energobud with a par value of USD 257 (UAH 2,000) each (2008: 23,656 shares with a par value of USD 380 (UAH 2000)). No change in the Group's ownership share in OJSC TMM Energobud resulted from acquisition of additional issue of shares.

22. Property development rights and costs

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

Name of the project	*Location of the project*	*Type of the project*	*2009*	*2008*
Satellite Town	Kyiv	Residential	5,265	5,294
Lisya bukhta	Crimea	Recreational	5,243	5,185
Arabatska strilka	Kherson	Recreational	3,996	3,964
Palladium Centre	Kyiv	Commercial	2,735	2,921
Utilservice	Kyiv	Commercial	2,340	2,427
Moskovskyj	Kharkiv	Residential	2,278	2,359
Parkove	Yalta	Recreational	2,142	2,222
Bereznevyj	Kyiv	Residential	1,445	1,130
Pivdenny	Kyiv	Residential	882	237
Tankova	Kyiv	Residential	784	397
Korchagintsiv	Kharkiv	Residential	485	419
Uborevicha	Kyiv	Commercial	398	325
Tisa	Carpathians	Recreational	316	326
Parkova Chernomorsk	Crimea	Recreational	262	252
Dytyachoi Komuny	Zhytomyr	Residential	192	104
Lubyanka	Kyiv	Residential	150	155

Other	Various	Various	6,047	5,075
			34,960	32,792

Impairment testing of property development rights and costs was performed at 31 December 2009 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.

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24. Inventories

Inventories consisted of the following as at 31 December:

	2009	*2008*
Inventory property under development	102,634	88,810
Raw materials	9,309	17,438
Completed inventory property	7,635	13,654
Other inventories	4,390	5,086
	123,968	124,988

The amount of write-down of inventories recognised as an expense is USD 2,893 thousand of which 2,389 thousand is recognised in cost of revenue and USD 504 thousand in other operating expenses (2008: USD 1,573 thousand, all of which is recognised in cost of revenue).

As at 31 December 2009 raw materials with a carrying value of USD 298 thousand (2008: USD 285 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

Inventory property under development

Inventory property under development as at 31 December was as follows (by projects):

Name of the project	*Location of the project*	*Type of the project*	*2009*	*2008*
Sonyachna brama	Kyiv	Residential	60,351	48,406
Aviator	Kyiv	Residential	19,203	15,597
Green Town	Kharkiv	Residential	8,388	5,665
Edelweiss	Kharkiv	Residential	6,417	5,712
Karat	Kharkiv	Residential	3,338	2,449
Kaskad	Kharkiv	Residential	3,100	3,016
Laborotornyj provulok	Kyiv	Residential	1,036	833
Topaz	Zhytomyr	Residential	-	2,654
Flamingo	Kharkiv	Residential	-	2,333
Triumph	Kyiv	Residential	-	-
Other	Various	Residential	801	2,145
			102,634	88,810

As at 31 December 2009 inventory property under development with a carrying value of USD 23,407 thousand (2008: USD 7,426 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

During 2009, borrowing costs in the amount of USD 13,066 thousand were capitalised into inventory property under development (2008: USD 8,335 thousand). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 16% (2008: 11%), which is the effective interest rate of the specific borrowings.

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23. Inventories *(continued)*

Completed inventory property

Completed inventory property as at 31 December was as follows (by projects):

Name of the project	*Location of the project*	*Type of the project*	*2009*	*2008*
Triumph	Kyiv	Residential	5,621	11,302
Bakulina	Kharkiv	Residential	1,191	-
Atoll	Kharkiv	Residential	433	1,654
Chaadaeva 2	Kyiv	Residential	253	418
Demchenka	Kharkiv	Residential	128	200
Druzhba	Kharkiv	Residential	-	-
Chaadaeva 2b	Kyiv	Residential	-	-
Other	Various	Residential	9	80
			7,635	13,654

As at 31 December 2009 completed inventory property with a carrying value of USD 3,681 thousand (2008: USD 521 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

25. Trade and other receivables

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

	2009	*2008*
Trade receivables	6,011	4,618
Notes receivable	3,419	4,562
Other	2,799	4,454
	12,229	13,634
Less: Allowance for impairment	(6,796)	(6,284)
	5,433	7,350

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

As at 31 December 2009, trade receivables and notes receivable at initial value of USD 3,965 thousand and USD 2,831 thousand, respectively, (2008: USD 2,555 thousand and USD 3,729 thousand , respectively) were impaired and fully provided for. Movements in the allowance for impairment of trade receivables and notes receivable were as follows:

	2009	*2008*
At 1 January	6,284	6,683
Charge for the year	2,108	3,808
Unused amounts reversed	(1,226)	-
Utilised	(127)	(1,106)
Translation difference	(243)	(3,101)
At 31 December	6,796	6,284

As at 31 December 2009 trade and other receivables past due 365 days, but not impaired equaled to USD 1,214 thousand (2008: USD 2,183 thousands).

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26. Prepayments

Prepayments consisted of the following as at 31 December:

	2009	*2008*
Prepayments for shares	10,968	11,374
Prepayments for construction materials and services	11,008	9,078
	21,976	20,452
Less: Allowance for impairment of prepayments for shares	(2,202)	(2,283)
Less: Allowance for impairment of prepayments for construction materials and services	(1,195)	-
	18,579	18,169

27. Taxes recoverable, other than income tax

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

	2009	*2008*
VAT recoverable	5,560	10,019
Other taxes recoverable	29	95
	5,589	10,114

28. Issued capital and reserves

Share premium

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 and related transaction costs amounted to EUR 79,129 thousand (USD 104,939 thousand) and EUR 3,165 thousand (USD 4,198 thousand), respectively. Surplus of the issue proceeds less transactions costs over par value of issued additional ordinary shares represents share premium.

Treasury 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.

In January, February of 2009, the Company repurchased 268,000 of its outstanding ordinary shares for the total cash consideration of USD 39 thousand. In October 2009, the Company sold 25,000 of its repurchased ordinary shares for the total cash consideration of USD 54 thousand.

As a result of these transactions, as at 31 December 2009 the Company's repurchased ordinary shares amounted to USD 2,114 thousand (2008: 2,129 thousand) and comprised 1,038,346 ordinary shares with a par value of USD 0,01 each (2008: 795,346 ordinary shares with a par value of USD 0,01 each).

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27. Share capital *(continued)*

As at 31 December 2009 the Company's issued and paid-in share capital comprised of 50,753,819 ordinary shares with a par value of USD 0.01 each (2008: 50,996,819 ordinary shares with a par value USD 0.01; 2007: 51,792,165 ordinary shares with a par value USD 0.01). As at 31 December 2009 and 2008 the Company's total authorised share capital comprised 70,000,000 shares.

Additional paid-in capital

Additional paid-in capital is used to record additional contributions in kind made by the Company's shareholders.

Revaluation reserve

Revaluation reserve is used to record increases in the fair value of freehold buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Translation reserve

Translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements to presentation currency.

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.

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

Earnings per share

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

(in shares)	*2009*	*2008*
Issued shares as at 1 January	50,996,819	51,792,165
Effect of shares repurchase	(223,860)	(129,299)
Effect of shares issued	-	-
Weighted average number of shares for the year	50,772,959	51,662,866

29. Interest-bearing loans and borrowings

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

	2009	*2008*
Current		
Bank loans	22,094	10,276
Supplier credits	331	1,287
Bonds issued	-	24,093
	22,425	35,656
Non-current		
Bank loans	60,771	44,468
Supplier credits	1,451	1,465
	62,222	45,933
	84,647	81,589

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28. Interest-bearing loans and borrowings *(continued)*

Non-current interest bearing loans and borrowings are repayable as follows:

	2009	*2008*
1 to 2 years	56,655	16,959
2 to 3 years	4,808	28,008
3 to 4 years	361	186
4 to 5 years	398	780
over 5 years	-	-
	62,222	45,933

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

	Effective interest rate	*2009*	*2008*
Secured			
UAH Credit line with Ukrainian bank	22.14%	38,063	-
EUR Credit line with Ukrainian bank	LIBOR + 10.00%	24,748	24,428
UAH Credit line with Ukrainian bank	19.43%	18,786	19,460
EUR Supplier credits	9,62% - 9,89%	1,782	2,751
UAH Credit line with Ukrainian bank	10.80%	745	4,991
USD loan with Ukrainian bank	LIBOR + 3.00%	523	825
UAH loan with Ukrainian bank	24.40%	-	4,695
UAH Credit line with Ukrainian bank	15.10%	-	346
		84,647	57,496
Unsecured			
UAH bonds issued, D series	13.9%	-	24,093
		-	24,093
		84,647	81,589

Subsequent to the statement of position date the Group entered into additional agreements with a Ukrainian bank extending repayment of certain credit lines (Note 36).

As at 31 December 2009 and 2008 the Group had no available un-drawn borrowing facilities.

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

Type of collateral	*2009*	*2008*
Property, plant and equipment (Note 19)	50,940	80,316
Investment properties (Note 20)	32,437	36,907
Inventories (Note 23)	27,386	8,232
	110,762	125,455

30. Trade and other payables

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

	2009	*2008*
Trade accounts payable	7,269	12,603
Payables for shares	8,766	9,091
Due to employees	1,224	3,900
Accrual for tax charges and litigations	220	899
Promissory notes issued	103	-
Other	1,509	1,157
	19,091	27,650

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31. Advances received

As at 31 December 2009 advances received included USD 50,891 thousand of advances received for inventory property under development that management estimates will be realised in its normal operating cycle (2008: USD 107,683 thousand).

32. Taxes payable, other than income tax

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

	2009	*2008*
Value added tax payable	630	30
Payroll related taxes	401	1,194
Miscellaneous taxes	159	124
	1,190	1,348

33. Related party disclosure

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

	Revenue	*Other operating income*	*Purchases*	*General and administrative expenses*	*Other operating expenses*
2009					
Associate	562	20	2,204	-	-
Entities under common control	465	22	1,601	298	-
	1,027	42	3,805	298	-
2008					
Associate	1,737	-	1,006	-	443
Entities under common control	1,723	4	2,311	275	-
	3,460	4	3,317	275	443

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

	Trade and other receivables	*Prepayments*	*Cash*	*Trade and other payables*	*Advances received*
2009					
Associate	124	3,835	-	149	704
Entities under common control	1,001	285	221	1,962	5,343
	1,125	4,120	221	2,111	6,047
2008					
Associate	300	483	-	42	255
Entities under common control	206	1,252	1,203	254	4,244
	506	1,735	1,203	296	4,499

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32. Related party disclosure *(continued)*

Revenue from associate and entities under common control in 2009 comprised: a) revenue from sale of completed inventory property amounting to USD 574 thousand (2008: USD 2,776 thousand); b) rental income amounting to USD 339 thousand (2008: USD 250 thousand); c) other revenue amounting USD 114 thousand (2008: USD 434 thousand).

Purchases from associate and entities under common control in 2009 comprised: a) purchase of construction materials amounting to USD 988 thousand (2008: USD 46 thousand); b) purchase of construction services amounting to USD 2,817 thousand (2008: USD 3,271 thousand).

Prepayments made to associate and entities under common control as at 31 December comprised mainly prepayments for construction-assembly works.

Cash with entities under common control as at 31 December comprised cash placed at the current account of OJSC TMM-Bank.

Advances received from associate and entities under common control as at 31 December comprised mainly advances received for inventory property under development.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: USD Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation to key management personnel

Key management personnel consist of seven top executives of the Group. In 2009 the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 229 thousand and USD 126 thousand, respectively (2008: USD 456 thousand and USD 195 thousand, respectively) and was included in general and administrative expenses.

34. 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. In general, legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities. Instances of inconsistent interpretations are not unusual. 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.

In particular the Group is exposed to inconsistent interpretations related to revenue recognition for tax purposes in real-estate sector. In addition, certain other transactions carried out by the Group with clients and suppliers in order to provide for both parties with a financial flexibility, may be challenged by regulators and treated for tax purposes in a different way. Consequently, it is possible that tax authorities may assess additional income and other taxes as well as penalties against the Group. Although this risk significantly diminishes with passage of time, the unfavorable outcome, which likelihood and amount cannot be presently determined with sufficient reliability, may 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 probable that any significant settlement will arise from its interpretation and application of tax legislation and regulations.

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33. Contingencies and commitments *(continued)*

Tax matters *(continued)*

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.

Purchase commitments

As at 31 December 2009 the Group had outstanding commitments in respect of purchasing construction materials and sub-contractors services in the amount of USD 2,966 thousand (2008: USD 5,797 thousand).

Lease commitments

Finance lease

The Group leases a number of plant and equipment under a finance lease agreements. The lease payments are pegged to EUR and USD; the average lease term is 5 years. As at 31 December 2009 the interest rates implicit in the lease are within the range of 15% -20% per annum (2008: 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:

	Minimum lease payments	*Present value of minimum lease payments*
at 31 December 2009		
Within one year	7,535	6,782
After one year but not more than five years	4,894	4,228
Total minimum lease payments	12,429	
Less amounts representing finance charges	(1,419)	
	11,010	11,010
at 31 December 2008		
Within one year	3,797	3,646
After one year but not more than five years	7,782	5,348
Total minimum lease payments	11,579	
Less amounts representing finance charges	(2,585)	
	8,994	8,994

Operating lease – Group as a lessor

During the year ended as at 31 December 2009 the Group has entered into a commercial property lease on certain investment property. This non-cancellable lease has remaining term of ten years. Lease includes a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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33. Contingencies and commitments *(continued)*

Lease commitments *(continued)*

Operating lease – Group as a lessor (continued)

Future minimum rentals receivable under a non-cancellable operating lease as at 31 December 2009 were as follows:

	2009
Within one year	600
After one year but not more than five years	2,400
More than five years	5,700
	8,700

35. 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 statement of financial position:

	Carrying amount		*Fair value*	
	2009	*2008*	*2009*	*2008*
Financial assets				
Trade and other receivables	5,433	7,350	5,433	7,350
Prepayments for shares	8,766	9,091	8,766	9,091
Cash and cash equivalents	1,344	1,661	1,344	1,661
Financial liabilities				
Interest-bearing loans and borrowings	84,647	81,589	82,355	80,379
Finance lease liability	11,010	8,994	11,010	8,994
Trade and other payables	19,091	27,650	19,091	27,650

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 statement of financial position 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.

36. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for the development of the Group's property portfolio. The Group has trade and other receivables and cash and short-term deposits that 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.

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35. Financial risk management objectives and policies *(continued)*

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 2009 and 2008, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate ("LIBOR").

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.

	Increase / (decrease) in basis points	*Effect on profit before tax*
2009		*USD ' 000*
LIBOR	100	(178)
LIBOR	(25)	44
2008		
LIBOR	50	(125)
LIBOR	(50)	125

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

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade and other receivables) and from its financing activities, including cash in bank.

The Group's maximum credit risk exposure at 31 December comprised:

	2009	*2008*
Cash and cash equivalents	1,344	1,661
Trade and other receivables	5,433	7,350
	6,777	9,011

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.

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35. Financial risk management objectives and policies *(continued)*

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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

2009	*Less than one year*	*1 to 5 years*	*Total*
Interest bearing loans and borrowings	31,732	72,960	104,692
Finance lease liability	7,535	4,894	12,429
Trade and other payables	19,091	-	19,091
	58,358	77,854	136,212
2008			
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
	78,206	65,352	143,558

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.

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:

	USD	*EUR*
Average for 2008	5.2672	7.7080
31 December 2008	7.7000	10.8555
Average for 2009	7.7913	10.8736
31 December 2009	7.9850	11.4489

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 functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

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35. Financial risk management objectives and policies *(continued)*

Foreign currency risk *(continued)*

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). The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in foreign currency exchange rates	*Effect on profit before tax*
2009		
Increase in USD exchange rate	31.30%	(1,616)
Increase in EUR exchange rate	33.10%	(10,875)
Decrease in USD exchange rate	-31.30%	1,616
Decrease in EUR exchange rate	-33.10%	10,875
2008		
Increase in USD exchange rate	30.10%	(1,405)
Increase in EUR exchange rate	39.70%	(14,225)
Decrease in USD exchange rate	-30.10%	1,405
Decrease in EUR exchange rate	-39.70%	14,225

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.

	2009	*2008*
Long-term borrowings	62,222	45,933
Short-term borrowings	22,425	35,656
Finance lease liability	11,010	8,994
Advances received from customers	50,891	56,215
Less cash and cash equivalents	(1,344)	(1,661)
Net debt	145,204	143,137
Total equity attributable to equity holders of the parent	155,696	196,115
Total capital and net debt	300,900	341,252

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.

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37. Subsequent events

Subsequent to the statement of position date the Group:

- 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 maturiting 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 credit line monthly equal principal instalments in the total amount of USD 38,063 thousand (including current portion of a credit line principal in the amount of USD 4,485 thousand) from November 2010 – February 2012 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.
- Entered into additional agreements with a Ukrainian bank setting for two credit lines in the total amount of USD 56,849 thousand an interest at 15.5% per annum during July 2010 – December 2011 and at 17.00% per annum during January 2012 – December 2015. In accordance with additional agreements, an interest accrued during July 2010 – December 2011 is repaid by equal monthly instalments at 5.00% per annum during July 2010 – December 2011 and at 10.50% per annum during January 2013 – December 2015; an interest accrued during January 2012 – December 2015 is repaid by equal monthly instalments at 17.00% per annum during January 2012 – December 2015.
- Started negotiations with one of its lenders to extend the payment term of its EUR denominated credit line of USD 24,748 thousand, including current portion of USD 16,445 thousand.