

TMM Real Estate Development plc
Consolidated Financial Statements

*As at 31 December 2010 and
for the year then ended
with Independent Auditors' Report*

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

BOARD OF DIRECTORS

Eleni Chrysostomides
Georgia Chrysostomides
Anna Rossides
Mykola Tolmachov
Larysa Chyvurina

SECRETARY

Inter Jura CY (Services) Limited

INDEPENDENT AUDITORS

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

BANKERS

Bank of Cyprus Public Company Ltd
JSC "UniCredit bank"
JSC "State savings bank of Ukraine"
JSC "Rodovid bank"
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 "the Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the construction and development of residential and business properties mainly 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 (i) real estate market risk in Ukraine, (ii) liquidity risk and other risks disclosed in notes 2 and 38.

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 totalling 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 2010 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. As at 31 December 2010 and 2009 the Company's total authorised share capital comprised 70,000,000 shares.

BRANCHES

During the year ended 31 December 2010 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2010 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 2010.

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 39 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



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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 statements of financial position as at 31 December 2010, 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 information.

Board of Directors' responsibility for the Consolidated 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, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

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 amounts of property, plant and equipment of USD 1,694 thousand and USD 1,724 thousand as at 31 December 2010 and 2009, respectively, foreign currency translation reserve of USD 967 thousand and USD 970 thousand as at 31 December 2010 and 2009, respectively, cost of revenue of USD 33 thousand and USD 6,581 for the years ended 31 December 2010 and 2009, respectively. Our audit opinion on the consolidated financial statements for the year ended 31 December 2009 was qualified accordingly.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap.113.

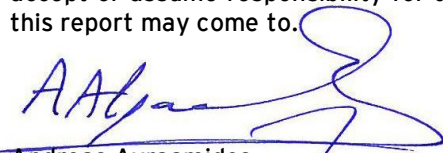
Report on Other Legal Requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.



Andreas Avraamides
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

30 August 2011

CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME
for the year ended 31 December 2010
(in thousands of US dollars, unless otherwise indicated)

	Notes	2010	2009
Revenue	8	51,268	42,217
Cost of revenue	9	(39,728)	(25,687)
Gross profit		11,540	16,530
Change in fair value of investment properties	20	1,085	(17,558)
Other operating income	10	3,462	530
General and administrative expenses	11	(5,633)	(5,126)
Selling and distribution expenses	12	(3,153)	(2,621)
Other operating expenses	13	(2,333)	(5,391)
Operating profit / (loss)		4,968	(13,636)
Share in losses of associates	21	(51)	(260)
Finance income	14	332	196
Finance costs	15	(3,734)	(2,315)
Foreign exchange gain / (loss), net	16	2,300	(705)
Profit / (loss) before tax		3,815	(16,720)
Income tax benefit	18	13,218	2,442
Profit / (loss) for the year		17,033	(14,278)
Attributable to:			
Equity holders of the parent		17,029	(14,256)
Non-controlling interest		4	(22)
		17,033	(14,278)
Weighted average basic and diluted number of shares (in thousands of shares)	29	50,754	50,773
Basic and diluted earnings per share (in US dollars)		0.34	(0.28)
Other comprehensive income / (loss)			
Exchange differences on translation to presentation currency		1,738	(6,338)
Effect of the change in income tax rate	18	2,992	-
Revaluation of buildings	19	460	(27,567)
Income tax effect of revaluation	18	(115)	6,892
		345	(20,675)
Other comprehensive income / (loss) for the year, net of tax		5,075	(27,013)
Total comprehensive income / (loss) for the year, net of tax		22,108	(41,291)
Attributable to:			
Equity holders of the parent		22,000	(40,486)
Non-controlling interest		108	(805)
		22,108	(41,291)

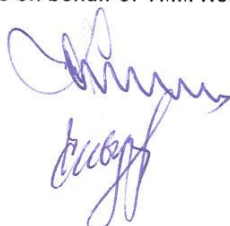
The accompanying notes form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2010
(in thousands of US dollars, unless otherwise indicated)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	19	94,933	93,553
Intangible assets		571	589
Investment properties	20	69,062	68,052
Investments in associates	21	14	4,678
Property development rights	22	35,747	34,960
		<u>200,327</u>	<u>201,832</u>
Current assets			
Inventories	24	142,655	123,968
Trade and other receivables	25	10,713	5,433
Prepayments	26	9,560	18,579
Prepaid income tax		19	20
Taxes recoverable, other than income tax	27	2,654	5,589
Cash and cash equivalents	28	3,693	1,344
		<u>169,294</u>	<u>154,933</u>
Assets classified as held for sale	23	4,627	-
		<u>173,921</u>	<u>154,933</u>
TOTAL ASSETS		<u>374,248</u>	<u>356,765</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	29	508	508
Share premium	29	98,569	98,569
Additional paid-in capital	29	2,592	2,592
Revaluation reserve	29	63,198	60,151
Retained earnings		99,582	82,366
Translation reserve	29	(86,753)	(88,490)
Equity attributable to equity holders of the parent		<u>177,696</u>	<u>155,696</u>
Non-controlling interests		518	410
Total equity		<u>178,214</u>	<u>156,106</u>
Non-current liabilities			
Interest-bearing loans and borrowings	30	108,312	62,222
Finance lease liability	36	1,858	4,228
Deferred tax liability	18	14,977	30,939
		<u>125,147</u>	<u>97,389</u>
Current liabilities			
Trade and other payables	31	7,768	18,871
Interest-bearing loans and borrowings	30	11,092	22,425
Finance lease liability	36	6,671	6,782
Advances received	32	40,141	53,782
Taxes payable, other than income tax	33	1,042	1,190
Provisions	34	4,169	220
Income tax payable		4	-
		<u>70,887</u>	<u>103,270</u>
TOTAL LIABILITIES		<u>196,034</u>	<u>200,659</u>
TOTAL EQUITY AND LIABILITIES		<u>374,248</u>	<u>356,765</u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 30 August 2011:

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 2010
(in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve		
Balance at 1 January 2009	510	98,552	2,592	80,530	96,128	(82,197)	1,267	197,382
Loss for the year	-	-	-	-	(14,256)	-	(22)	(14,278)
Other comprehensive loss	-	-	-	(19,937)	-	(6,293)	(783)	(27,013)
Total comprehensive loss for the year	-	-	-	(19,937)	(14,256)	(6,293)	(805)	(41,291)
Transfer of revaluation reserve, net of taxes	-	-	-	(442)	442	-	-	-
Purchase of treasury shares (Note 29)	(3)	(36)	-	-	-	-	-	(39)
Sale of treasury shares (Note 29)	1	53	-	-	-	-	-	54
Acquisition of non-controlling interest	-	-	-	-	52	-	(52)	-
Balance at 31 December 2009	<u>508</u>	<u>98,569</u>	<u>2,592</u>	<u>60,151</u>	<u>82,366</u>	<u>(88,490)</u>	<u>410</u>	<u>156,106</u>
Profit for the year	-	-	-	-	17,029	-	4	17,033
Other comprehensive income	-	-	-	3,234	-	1,737	104	5,075
Total comprehensive income for the year	-	-	-	3,234	17,029	1,737	108	22,108
Transfer of revaluation reserve, net of taxes	-	-	-	(187)	187	-	-	-
Balance at 31 December 2010	<u>508</u>	<u>98,569</u>	<u>2,592</u>	<u>63,198</u>	<u>99,582</u>	<u>(86,753)</u>	<u>518</u>	<u>178,214</u>

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

CONSOLIDATED CASH FLOW STATEMENT**for the year ended 31 December 2010***(in thousands of US dollars, unless otherwise indicated)*

	Notes	2010	2009
Operating activities			
Profit / (loss) before tax		3,815	(16,720)
Non-cash adjustments to reconcile profit / (loss) before tax to net cash flows			
Revaluation of investment properties	20	(1,085)	17,558
Depreciation and amortisation		1,200	1,309
(Reversal of impairment) / impairment of property, plant and equipment	10, 19	(2,779)	3,325
Impairment of property development rights	13, 22	1,214	-
Loss on revaluation of freehold buildings reported in profit or loss	13, 19	222	931
(Gain) / loss on disposal of property, plant and equipment and investment properties	10	(170)	173
Gain on extinguishment of liabilities	10	(82)	(11)
Share in losses of associates	21	51	260
Finance income	14	(332)	(196)
Finance costs	15	3,734	2,315
Unrealised foreign exchange (gain) / loss		(1,064)	393
		4,724	9,337
Working capital adjustments			
Change in inventories		(4,789)	11,725
Change in trade and other receivables		(5,283)	1,696
Change in prepayments		338	(3,243)
Change in taxes recoverable, other than income tax		2,962	4,267
Change in trade and other payables and provisions		698	(9,403)
Change in advances received		(13,843)	(4,701)
Change in taxes payable, other than income tax		(146)	(113)
		(15,339)	9,565
Interest received		332	196
Interest paid		(8,941)	(14,570)
Income taxes paid		(12)	(2)
Net cash flows used in operating activities		(23,960)	(4,811)
Investing activities			
Proceeds from sale of property, plant and equipment and investment properties		2,121	1,794
Purchase of property, plant and equipment and investment properties		(2,670)	(4,322)
Purchase of intangible assets		(102)	(201)
Purchase of property development rights		(1,010)	(3,422)
Contribution into associates	21	-	(345)
Net cash flows used in investing activities		(1,661)	(6,496)
Financing activities			
Proceeds from loans		32,289	39,788
Repayment of loans		(1,525)	(5,647)
Repayment of bonds		-	(23,117)
Repayment of finance lease liabilities		(2,790)	-
Sale of treasury shares	29	-	54
Purchase of treasury shares	29	-	(39)
Net cash flows from financing activities		27,974	11,039
Net increase / (decrease) in cash and cash equivalents		2,353	(268)
Net foreign exchange difference		(4)	(49)
Cash and cash equivalents at 1 January		1,344	1,661
Cash and cash equivalents at 31 December		3,693	1,344

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2010***(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 Companies Law, Cap. 113. The address of the Company's registered office is 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is 49 A Vladimirska 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 "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.

<i>Name</i>	<i>Principal activities</i>	<i>2010</i>	<i>2009</i>
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%	98.0%
LLC TMM Vikna	Production of construction materials	91.0%	91.0%
LLC TMM Budkomplekt	Production of construction materials	90.0%	90.0%
LLC B2B	Development project	85.0%	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 issued shares in OJSC Ukrstsukorteploizoliatsia with a par value of UAH 0.25 (USD 0,03) that caused changes in non-controlling interests in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010
(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, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Real estate market risk in Ukraine

Starting from the last quarter of 2008, the Ukrainian residential and industrial property markets have suffered a significant fall in demand following the overall macroeconomic turmoil. This resulted in weak liquidity and the poor conditions prevailing in the Ukrainian property market. The market stabilised in 2010, however, it is not expected that a significant improvement in market conditions will emerge for the foreseeable future given the lack of availability of mortgage and development finance and weak consumption power in the market.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. Management steps to support the Group's liquidity in the foreseeable future are presented in Note 38.

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.

Normal operating cycle of the Group's property development segment approximates to 36 months; normal operating cycle of the Group's investment property segment equals to 12 months and classified accordingly.

Interest-bearing loans and borrowings and finance lease liability are not part of the working capital used in the Group's normal operating cycle. Interest-bearing loans and borrowings and finance lease liability are classified as current when are due to be settled within twelve months after the statement of financial position date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010
(in thousands of US dollars, unless otherwise indicated)

3. Basis of preparation *(continued)*

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

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2010.

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 when 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, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary
- ▶ Derecognises the carrying amount of any non-controlling interests
- ▶ Derecognises the cumulative translation differences, recorded in equity
- ▶ Recognises the fair value of the consideration received
- ▶ Recognises the fair value of any investment retained
- ▶ Recognises any surplus or deficit in profit or loss
- ▶ Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- ▶ Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill or as a profit.
- ▶ Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests ("NCI") and the parent shareholders.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

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4. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except as following new and amended IFRSs and IFRIC interpretations adopted as at 1 January 2010:

- ▶ *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39*
- ▶ *IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009*
- ▶ *IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective 1 July 2009*
- ▶ *IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009*
- ▶ *IFRIC 18 Transfers of Assets from Customers effective 1 July 2009*
- ▶ *IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010*
- ▶ *Improvements to IFRSs (May 2008, April 2009)*

The adoption of the standards or interpretations is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and did not have material effect on the financial position and performance of the Group.

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

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment had no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

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. IFRIC 9 did not have an impact on the financial position or performance of the Group.

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4. Changes in accounting policy and disclosures (continued)

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on either the financial position or 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 had no impact on the financial position or performance of the Group, as the Group did not receive assets from customers.

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

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group did not have an impact on the financial position or performance of the Group.

Improvements to IFRSs (May 2008, April 2009)

In May 2008 and April 2009, the IASB issued 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 amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.

Issued in April 2009

- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment did not have effect on the consolidated financial statements of the Group.
- ▶ IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have effect on the consolidated financial statements of the Group.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group.

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4. Changes in accounting policy and disclosures (continued)

Improvements to IFRSs (May 2008, April 2009) (continued)

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

Issued in April 2009

- ▶ IFRS 2 Share-based Payment
- ▶ IAS 1 Presentation of Financial Statements
- ▶ IAS 17 Leases
- ▶ IAS 34 Interim Financial Reporting
- ▶ IAS 38 Intangible Assets
- ▶ IAS 39 Financial Instruments: Recognition and Measurement
- ▶ IFRIC 16 Hedge of a Net Investment in a Foreign Operation
- ▶ IFRS 8 Operating Segments

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.

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

Assets classified as held for sale

On 31 December 2010, the Board of Directors announced its decision to dispose of 50% ownership share in CJSC TMM Energobud and therefore classified respective investment in an associate as an asset held for sale. The Board considered that the investment in an associate met the criteria to be classified as held for sale at that date for the following reasons:

- ▶ CJSC TMM Energobud is available for immediate sale and can be sold to a potential buyer in its current condition.
- ▶ The Board had a plan to sell 50% ownership share in CJSC TMM Energobud and had finalised negotiations with a potential buyer.
- ▶ The Board expects the sale to be completed by December 2011.

For more details on the assets classified as held for sale refer to Note 23.

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.

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.

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

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 2010, the valuers have also used their market knowledge and professional judgement.

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 2010.

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

As of 31 December 2010 and 2009 the Group's non-current assets recoverable amount was determined based on fair value less costs to sell. The fair value less costs to sell of the Group's non-current assets was 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, may impose objective limitation on the indicativeness of the market quotes used as source data for valuation as at 31 December 2010 and 2009.

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 2010 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 36.

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.

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6. Summary of significant accounting policies

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Where property is acquired through the acquisition of legal entity, management is considering 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.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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6. Summary of significant accounting policies (continued)

Investments in associates

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of associates. Goodwill relating to associates is included in the carrying amount of the investments and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of associates. Where there has been a change recognised directly in the equity of associates, 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 associates are eliminated to the extent of the interest in associates.

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 associates and therefore is profit after tax and non-controlling interest in the subsidiaries of associates.

The financial statements of associates 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 investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of associates and their carrying value and recognises the amount in profit or loss for the period.

Upon loss of significant influence over associates, the Group measures and recognises any retaining investments at their fair value. Any difference between the carrying amount of associates upon loss of significant influence and the fair value of the retaining investments and proceeds from disposal is recognised in profit or loss.

Functional and presentation currencies

The Group's presentation currency is the US dollar ("USD"). The functional currency of 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 2010, 2009 and 2008 does not indicate that the Group could realize or settle the translated values of those assets and liabilities in USD.

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6. Summary of significant accounting policies (continued)

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.

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 year ended 31 December 2010.

Subsequent measurement of 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.

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6. Summary of significant accounting policies (continued)

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.

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.

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6. Summary of significant accounting policies (continued)

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.

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-occupied premises 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.

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6. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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.

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.

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6. Summary of significant accounting policies (continued)

Investment properties (continued)

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.

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

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

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6. Summary of significant accounting policies (continued)

Inventories (continued)

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.

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.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale.

The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

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.

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6. Summary of significant accounting policies (continued)

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.

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.

The 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 commencement 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.

The 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.

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6. Summary of significant accounting policies (continued)

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. Revenue from provision of utility services under arrangements where the Group acts as an agent is recognised on a net basis.

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.

Interest income

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

Cost of revenue

Cost of revenue 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.

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6. Summary of significant accounting policies (continued)

Taxes (continued)

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.

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.

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6. Summary of significant accounting policies (continued)

Taxes (continued)

Value-added tax (continued)

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 2009 amounts for consistency of presentation with the 2010 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 9 Financial Instruments*
- ▶ *IFRS 10 Consolidated Financial Statements*
- ▶ *IFRS 11 Joint Arrangements*
- ▶ *IFRS 12 Disclosure of Interests in Other Entities*
- ▶ *IFRS 13 Fair Value Measurement*
- ▶ *IAS 24 Related Party Disclosures (Revised)*
- ▶ *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 Requirement*
- ▶ *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
- ▶ *Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues*
- ▶ *Amendments to IFRS 7 Financial Instruments: Disclosures*
- ▶ *Amendments to IAS 12 Income Taxes - Deferred tax: Recovery of underlying assets*
- ▶ *Improvements to IFRS's (May 2010)*

IFRS 9 Financial Instruments: Classification and Measurement

In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. The first phase of IFRS 9 introduces new requirements relating to the classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. Further, in October 2010, the IASB added to IFRS 9 the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. The Group is currently evaluating the impact of the adoption of new standard and is considering the initial application date.

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

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard may require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

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 Group is not a subsidiary of government-related entities.

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

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 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: Prepayments of a Minimum Funding Requirement

Amendment to IFRIC 14 was issued in November 2009 and becomes effective for financial years beginning on or after 1 January 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 is not a subject to minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19, which was issued 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. IFRIC 19 is not expected to have any material impact on the Group's consolidated financial statements.

Amendments 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 this amendment will have no impact on the Group's consolidated financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2010***(in thousands of US dollars, unless otherwise indicated)***7. IFRSs and IFRIC Interpretations issued but not yet effective (continued)*****Amendments to IAS 12 Income Taxes - Deferred tax: Recovery of underlying assets***

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects that these amendments will have no impact on the Group's financial position.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011. There are separate transitional provisions for each standard. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- ▶ IFRS 3 Business Combinations
- ▶ IFRS 7 Financial Instruments: Disclosures
- ▶ IAS 1 Presentation of Financial Statements
- ▶ IAS 27 Consolidated and Separate Financial Statements

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

8. Revenue

Revenue for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Sales of completed inventory property	39,396	32,043
Rental income from investment properties	3,215	2,802
Utility services income	3,196	1,843
Other construction services revenue	2,348	2,759
Other services	3,113	2,770
	<u>51,268</u>	<u>42,217</u>

Other services mainly comprised transportation, engineering and design services rendered to third parties.

All revenue is generated from sales to customers in Ukraine.

9. Cost of revenue

Cost of revenue for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Cost of completed inventory property sold	32,492	19,591
Utility services cost	3,610	2,825
Other construction services cost	1,932	1,891
Other services	1,694	1,380
	<u>39,728</u>	<u>25,687</u>

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9. Cost of revenue (continued)

Borrowing costs included in cost of completed inventory property sold for the year ended 31 December 2010 amounted to USD 3,346 thousand (2009: USD 81 thousand).

Depreciation included in cost of revenue for the year ended 31 December 2010 amounted to USD 1,015 thousand (2009: USD 601 thousand).

Wages and salaries and social security taxes included in cost of revenue for year ended 31 December 2010 amounted to USD 5,341 thousand and USD 1,975 thousand, respectively (2009: USD 8,015 thousand and USD 2,974 thousand, respectively).

10. Other operating income

Other operating income for the years ended 31 December comprised:

	2010	2009
Reversal of impairment of property, plant and equipment	2,779	-
Gain on disposal of property, plant and equipment and investment properties, net	170	-
Gain on extinguishment of liabilities	82	11
Gain on sale of sundry goods and services	65	37
Release of provision for taxes	-	382
Other	366	100
	<u>3,462</u>	<u>530</u>

11. General and administrative expenses

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

	2010	2009
Wages and salaries	1,267	1,086
Depreciation and amortization	1,160	1,187
Professional services	773	686
Social security taxes	397	387
Taxes, other than income tax	283	387
Audit costs	229	160
Communication costs	204	184
Insurance premium	139	308
Materials	120	45
Bank charges	44	72
Other	1,017	624
	<u>5,633</u>	<u>5,126</u>

12. Selling and distribution expenses

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

	2010	2009
Change in allowance of doubtful debts (Notes 25 and 26)	2,459	2,077
Advertising	390	291
Wages and salaries	138	140
Social security taxes	48	53
Transportation costs	19	29
Other	99	31
	<u>3,153</u>	<u>2,621</u>

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13. Other operating expenses

Other operating expenses for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Impairment of property development rights (Note 22)	1,214	-
Fines and penalties	305	179
Loss on revaluation of freehold buildings (Note 19)	222	931
Impairment of property, plant and equipment (Note 19)	-	3,325
Inventory shortages and damages (Note 24)	-	504
Loss on disposal of property, plant and equipment and investment properties, net	-	173
Charity and donations	-	7
Other	592	272
	<u>2,333</u>	<u>5,391</u>

14. Finance income

Finance income for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Interest income	332	182
Other finance income	-	14
	<u>332</u>	<u>196</u>

15. Finance costs

Finance costs for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Interest costs and finance lease charges	3,618	2,039
Other finance costs	116	276
	<u>3,734</u>	<u>2,315</u>

16. Foreign exchange gain / (loss), net

Foreign exchange gain / (loss), net for the years ended 31 December comprised:

	<u>2010</u>	<u>2009</u>
Foreign exchange gains	17,004	136
Foreign exchange losses	(14,704)	(841)
	<u>2,300</u>	<u>(705)</u>

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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 segment result, where segment result is determined as gross profit plus change in fair value of investment properties, (charge) / reversal of impairment of freehold land, heavy construction equipment and production, construction and research equipment, (charge) / reversal of property development rights, selling and distribution expenses and share in losses of associates.

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

Year ended 31 December 2010	<i>Investment property</i>	<i>Property development</i>	<i>Other non-reportable</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
Revenue						
External customers	2,968	39,396	8,658	51,022	246	51,268
Inter-segment	-	-	845	845	(845)	-
Total revenue	2,968	39,396	9,503	51,867	(599)	51,268
Results						
Change in fair value of investment properties	1,085	-	-	1,085	-	1,085
Reversal of impairment of property, plant and equipment	-	2,779	-	2,779	-	2,779
Impairment of property development rights	-	(1,214)	-	(1,214)	-	(1,214)
Selling and distribution expenses	(99)	(595)	-	(694)	-	(694)
Share in losses of associates	-	-	(51)	(51)	-	(51)
Segment results	3,954	7,875	1,630	13,459	(9,644)	3,815
Segment assets	69,062	220,784	6,944	296,790	77,458	374,248
Segment liabilities	-	44,999	4,142	49,141	146,893	196,034
Other disclosures						
Capital expenditure	86	68	-	154	2,516	2,670

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17. Operating segment information (continued)

Year ended 31 December 2009	<i>Investment property</i>	<i>Property development</i>	<i>Other non-reportable</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
Revenue						
External customers	2,816	32,043	7,372	42,231	(14)	42,217
Inter-segment	-	-	1,394	1,394	(1,394)	-
Total revenue	2,816	32,043	8,766	43,625	(1,408)	42,217
Results						
Change in fair value of investment properties	(17,558)	-	-	(17,558)	-	(17,558)
Impairment of property, plant and equipment	-	(3,325)	-	(3,325)	-	(3,325)
Selling and distribution expenses	(31)	(513)	-	(544)	-	(544)
Share in losses of associates	-	-	(260)	(260)	-	(260)
Segment results	(14,787)	8,612	1,142	(5,033)	(11,687)	(16,720)
Segment assets	68,053	200,271	9,068	277,392	79,373	356,765
Segment liabilities	-	58,161	2,891	61,052	139,607	200,659
Other disclosures						
Capital expenditure	133	3,343	-	3,476	2,095	5,571

External customer's revenues are adjusted for differences in the period of recognition.

Inter-segment revenues are eliminated on consolidation.

Capital expenditure consists of additions to property plant and equipment, investment properties and property development rights. Capital expenditure not reportable to the board on a segment basis comprises additions to freehold buildings, vehicles, office and computer equipment and construction in progress.

Reconciliation of profit

	<u>2010</u>	<u>2009</u>
Segment results	13,459	(5,033)
General and administrative expenses	(5,633)	(5,126)
Other operating expenses	(3,578)	(4,143)
Other operating income	683	530
Finance income	332	196
Finance costs	(3,734)	(2,315)
Foreign exchange gain / (loss)	2,300	(705)
Inter-segment sales (eliminations)	(14)	(124)
Consolidated profit / (loss) before tax	3,815	(16,720)

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17. Operating segment information (continued)

Reconciliation of assets

	2010	2009
Segment assets	296,790	277,392
Property, plant and equipment	66,155	64,565
Trade and other receivables	10,713	5,433
Intangible assets	571	589
Prepayments for shares	-	8,766
Prepaid income tax	19	20
Consolidated assets	374,248	356,765

Reconciliation of liabilities

	2010	2009
Segment liabilities	49,141	61,052
Interest bearing loans and borrowings	119,404	84,647
Deferred tax liability	14,977	30,939
Finance lease liability	8,529	11,010
Provisions	221	220
Other payables	2,716	11,601
Taxes payable, other than income tax	1,042	1,190
Income tax payable	4	-
Consolidated liabilities	196,034	200,659

Other operating income, general and administrative expenses, other operating expenses, finance income, finance costs and foreign exchange gain / (loss), net are not allocated to individual segments as they are managed on a group basis.

Property, plant and equipment, intangible assets, prepayments, trade and other receivables, prepaid income tax are not allocated to individual segments as they 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.

Deferred tax liabilities, provisions, other payables, taxes payable, finance lease liability and interest bearing loans and borrowings are not allocated to individual segments as they are managed on a group basis.

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18. Income tax

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

Profit or loss

	<u>2010</u>	<u>2009</u>
Current income tax charge	11	7
Deferred tax relating to reversal and origination of temporary differences	(13,229)	(2,449)
Income tax benefit reported in profit or loss	<u>(13,218)</u>	<u>(2,442)</u>

Other comprehensive income

	<u>2010</u>	<u>2009</u>
Deferred tax related to items charged or credited directly to other comprehensive income during the year:		
Effect of changes in income tax rate	(2,992)	-
Gain / (loss) on revaluation of freehold buildings	115	(6,892)
Income tax benefit charged directly to other comprehensive income	<u>(2,877)</u>	<u>(6,892)</u>

A reconciliation between the income tax benefit reported in the consolidated financial statements and the profit / (loss) before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Accounting profit / (loss) before tax	3,815	(16,720)
At the Company's statutory income tax rate of 10.0%	382	(1,672)
Effect of the change in tax base for property, plant and equipment	(8,138)	-
Effect of the change in income tax rate	(8,375)	-
Tax effect of expenses non-deductible in determining taxable profits	2,341	1,707
Effect of higher tax rates in Ukraine	572	(2,477)
Income tax benefit reported in profit or loss	<u>(13,218)</u>	<u>(2,442)</u>

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%).

In December 2010, the Ukrainian Parliament adopted a new Tax Code, which became effective on 1 January 2011. According to the new Tax Code, a tax rate of 23% shall be applied starting from 1 April 2011, 21% - from 1 January 2012, 19% - from 1 January 2013 and 16% - from 1 January 2014. When estimating deferred taxes as at 31 December 2010, the Group accounted for the decrease in the income tax rate and other implications of the new Tax Code.

In 2010 Cyprus income tax rate was 10% (2009: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2010***(in thousands of US dollars, unless otherwise indicated)***18. Income tax (continued)**

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 2010:

	31 December 2010	Charged to profit or loss	Charged to other compre- hensive income	Foreign currency translation	31 December 2009
Tax effect of taxable temporary differences:					
Property, plant and equipment and investment properties (i)	(12,149)	9,899	2,877	(115)	(24,810)
Inventories (ii)	(17,050)	(478)	-	(46)	(16,526)
Prepayments made (iii)	(1,022)	569	-	(6)	(1,585)
Interest-bearing loans and borrowings (v)	(26)	-	-	-	(26)
Gross deferred tax liabilities	(30,247)	9,990	2,877	(167)	(42,947)
Less: Offsetting with deferred tax assets	15,270				12,008
Recognised deferred tax liabilities	(14,977)				(30,939)
Tax effect of deductible temporary differences:					
Prepayments received (iii)	4,615	3,250	-	(6)	1,371
Investments (iv)	2,026	192	-	5	1,829
Inventories (ii)	4,278	2,692	-	(6)	1,592
Trade and other receivables (vi)	546	(1,086)	-	9	1,623
Interest-bearing loans and borrowings (v)	2,408	(41)	-	7	2,442
Property, plant and equipment and investment properties (i)	101	(1,758)	-	12	1,847
Trade and other payables (vii)	1,296	(11)	-	3	1,304
	15,270	3,238	-	24	12,008
Less: Offsetting with deferred tax liabilities	(15,270)				(12,008)
Net deferred tax liability	(14,977)	13,228	2,877	(143)	(30,939)

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18. Income tax (continued)

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	1 January 2009
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)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2010***(in thousands of US dollars, unless otherwise indicated)***19. Property, plant and equipment**

	<i>Freehold land</i>	<i>Freehold buildings</i>	<i>Heavy construction equipment</i>	<i>Production, construction and research equipment</i>	<i>Vehicles</i>	<i>Office and computer equipment</i>	<i>Construction in progress</i>	<i>Total</i>
<i>Cost or fair value:</i>								
At 31 December 2009	21,250	46,078	8,788	4,485	2,972	1,988	16,482	102,043
Additions	-	-	-	68	-	74	2,442	2,584
Disposals	-	(237)	(1,288)	(305)	(68)	(133)	(206)	(2,237)
Transfers	-	179	-	3	-	5	(187)	-
Revaluations	-	(716)	-	-	-	-	-	(716)
Translation difference	62	130	30	14	10	8	51	305
At 31 December 2010	<u>21,312</u>	<u>45,434</u>	<u>7,530</u>	<u>4,265</u>	<u>2,914</u>	<u>1,942</u>	<u>18,582</u>	<u>101,979</u>
<i>Accumulated depreciation and impairment:</i>								
At 31 December 2009	(1,794)	-	(1,733)	(2,009)	(968)	(1,019)	(967)	(8,490)
Depreciation charge for the year	-	(957)	(389)	(684)	(485)	(404)	-	(2,919)
Impairment reversal	1,806	-	-	-	-	-	973	2,779
Disposals	-	2	346	148	49	114	-	659
Revaluations	-	954	-	-	-	-	-	954
Translation difference	(12)	1	(4)	(4)	(2)	(2)	(6)	(29)
At 31 December 2010	<u>-</u>	<u>-</u>	<u>(1,780)</u>	<u>(2,549)</u>	<u>(1,406)</u>	<u>(1,311)</u>	<u>-</u>	<u>(7,046)</u>
<i>Net book value</i>								
At 31 December 2009	19,456	46,078	7,055	2,476	2,004	969	15,515	93,553
At 31 December 2010	<u>21,312</u>	<u>45,434</u>	<u>5,750</u>	<u>1,716</u>	<u>1,508</u>	<u>631</u>	<u>18,582</u>	<u>94,933</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Property, plant and equipment *(continued)*

	<i>Freehold land</i>	<i>Freehold buildings</i>	<i>Heavy construction equipment</i>	<i>Production, construction and research equipment</i>	<i>Vehicles</i>	<i>Office and computer equipment</i>	<i>Construction in progress</i>	<i>Total</i>
<i>Cost or fair value:</i>								
At 1 January 2009	22,037	97,989	9,267	4,468	3,134	1,849	15,986	154,730
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	-	(30,025)	-	-	-	-	-	(30,025)
Translation difference	(787)	(3,458)	(327)	(174)	(110)	(72)	(630)	(5,558)
At 31 December 2009	<u>21,250</u>	<u>46,078</u>	<u>8,788</u>	<u>4,485</u>	<u>2,972</u>	<u>1,988</u>	<u>16,482</u>	<u>102,043</u>
<i>Accumulated depreciation and impairment:</i>								
At 1 January 2009	-	-	(943)	(1,433)	(506)	(672)	-	(3,554)
Depreciation charge for the year	-	(1,565)	(452)	(649)	(508)	(419)	-	(3,593)
Impairment charge	(1,839)	-	(486)	(9)	-	-	(991)	(3,325)
Disposals	-	-	91	13	16	38	-	158
Revaluations	-	1,527	-	-	-	-	-	1,527
Translation difference	45	38	57	69	30	34	24	297
At 31 December 2009	<u>(1,794)</u>	<u>-</u>	<u>(1,733)</u>	<u>(2,009)</u>	<u>(968)</u>	<u>(1,019)</u>	<u>(967)</u>	<u>(8,490)</u>
<i>Net book value</i>								
At 1 January 2009	<u>22,037</u>	<u>97,989</u>	<u>8,324</u>	<u>3,035</u>	<u>2,628</u>	<u>1,177</u>	<u>15,986</u>	<u>151,176</u>
At 31 December 2009	<u>19,456</u>	<u>46,078</u>	<u>7,055</u>	<u>2,476</u>	<u>2,004</u>	<u>969</u>	<u>15,515</u>	<u>93,553</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2010

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19. Property, plant and equipment (continued)

In 2010, the Group recognised reversal of impairment losses in respect of freehold land and construction in progress in the amount of USD 1,806 thousand and USD 973 thousand, respectively as a result of changes in the fair value less cost to sell. This has been recognised in the consolidated statement of comprehensive income in 'Other operating income'.

In 2009, the Group recognised impairment charge in respect of freehold land and construction in progress in the amount of USD 1,839 thousand, and USD 991 thousand, respectively as a result of changes in the fair value less cost to sell. This has been recognised in the consolidated statement of comprehensive income in 'Other operating expenses'.

Fair value 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 2010 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 2010 construction in progress included workshops and offices under construction to be used by the Group for own purposes in the amount of USD 13,921 thousand (2009: USD 11,523 thousand) and recreational property under construction to be operated by the Group in the amount of USD 2,518 thousand (2009: USD 2,409 thousand).

Depreciation

The total depreciation charge for the years ended 31 December 2010 and 2009 was as follows:

	2010	2009
Inventories	1,842	2,423
General and administrative expenses	1,052	1,132
Other expenses	25	38
Total depreciation charge	2,919	3,593

Finance leases

The carrying value of heavy construction equipment held under finance leases at 31 December 2010 was USD 3,389 thousand (2009: USD 4,511 thousand). Leased assets under finance lease contracts are pledged as security for the related finance lease liabilities.

Pledged assets

As at 31 December 2010 freehold land and buildings with a carrying value of USD 55,571 thousand (2009: USD 50,940 thousand) were pledged as collateral for interest-bearing borrowings (Note 30).

Fully depreciated assets

Included in property, plant and equipment as at 31 December 2010 are equipment recorded at a cost of USD 861 thousand (2009: USD 406 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 dates of the revaluation were 31 December 2010 and 2009.

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19. Property, plant and equipment (continued)

Revaluation of freehold buildings (continued)

Net revaluation result for the year ended 31 December 2010 was USD 238 thousand of which USD 460 thousand of gain on revaluation was recognised in other comprehensive income, and USD 222 thousand of loss on revaluation was recognised in profit or loss.

Net revaluation result for the year ended 31 December 2009 was USD 28,498 thousand of which USD 27,567 thousand of loss on revaluation was recognised in other comprehensive income, and USD 931 thousand of loss on revaluation 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.

20. Investment properties

	2010	2009
At 1 January	68,052	68,004
Additions	86	110
Transfers from property, plant and equipment	-	19,644
Transfers from inventories	-	239
Transfers to property, plant and equipment	-	(212)
Disposals	(373)	(179)
Change in fair value of investment properties	1,085	(17,558)
Translation difference	212	(1,996)
At 31 December	69,062	68,052

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 2010 and 2009. 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 2010 investment properties with a carrying value of USD 35,915 thousand (2009: USD 32,437 thousand) were pledged as collateral for interest-bearing borrowings (Note 30).

21. Investments in associates

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

Entity	Activity	%	Carrying value	%	Carrying value
			2010		2009
CJSC TMM Energobud	Production of power facilities	-	-	50.0%	4,674
Other minor associates			14		4
			14		4,678

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21. Investments in associates (continued)

The summarised financial information of CJSC TMM Energobud is follows:

	2010	2009
Total assets	64,805	70,386
Total liabilities	(55,524)	(61,038)
Revenue	9,028	4,653
Net loss	(122)	(520)

The reconciliation of carrying value of investment in CJSC TMM Energobud is as follows:

	2010	2009
Carrying value at 1 January	4,678	4,769
Contribution into associate	-	345
Share in losses in associates	(51)	(260)
Foreign currency translation	14	(176)
Transfer to assets classified as held for sale (Note 23)	(4,627)	-
Carrying value at 31 December	14	4,678

In 2009, the Group acquired 1,344 shares of additional issue of shares of CJSC TMM Energobud with a par value of USD 257 (UAH 2,000) each.

No change in the Group's ownership share in CJSC TMM Energobud resulted from acquisitions of additional issues of shares.

In 2010, the Group transferred investment in CJSC TMM Energobud to assets classified as held for sale (Note 23).

22. Property development rights

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

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	2010	2009
Lisya bukhta	Crimea	Recreational	5,258	5,243
Satellite Town	Kyiv	Residential	4,277	5,265
Arabatska strilka	Kherson	Recreational	4,008	3,996
Palladium Centre	Kyiv	Commercial	2,743	2,735
Utilservice	Kyiv	Commercial	2,411	2,340
Moskovskyj	Kharkiv	Residential	2,287	2,278
Parkove	Yalta	Recreational	2,149	2,142
Bereznevyj	Kyiv	Residential	1,461	1,445
Korchagintsiv	Kharkiv	Residential	1,392	485
Tankova	Kyiv	Residential	1,249	784
Pivdenny	Kyiv	Residential	948	882
Uborevicha	Kyiv	Commercial	547	398
Tisa	Carpathians	Recreational	317	316
Parkova Chernomorsk	Crimea	Recreational	263	262
Dytyachoi Komuny	Zhytomyr	Residential	224	192
Lubyanka	Kyiv	Residential	150	150
Other	Various	Various	6,063	6,047
			35,747	34,960

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22. Property development rights (continued)

In 2010, the Group recognised impairment charge in respect of "Satellite Town" project in the amount of USD 1,214 thousand (Note 13) based on the fair value less cost to sell which 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. This has been recognised in the consolidated statement of comprehensive income in the line item 'Other operating expenses'.

23. Assets classified as held for sale

On 31 December 2010, the Group publicly announced the decision of its Board of Directors to dispose of 50% ownership share in CJSC TMM Energobud and, accordingly, classified respective investment in an associate as an asset held for sale. CJSC TMM Energobud has been operating in a segment different from property development and investment property segments. As at 31 December 2010 the Board had finalised negotiations with a potential buyer and the sale is due to be completed by December 2011.

24. Inventories

Inventories consisted of the following as at 31 December:

	2010	2009
Completed inventory property	74,598	7,635
Inventory property under development	56,939	102,634
Raw materials	8,815	9,309
Other inventories	2,303	4,390
	<u>142,655</u>	<u>123,968</u>

The amount of write-down of inventories recognised as an expense during 2009 is USD 2,893 thousand of which 2,389 thousand is recognised in cost of revenue and USD 504 thousand in other operating expenses.

As at 31 December 2010 raw materials with a carrying value of USD 540 thousand (2009: USD 298 thousand) were pledged as collateral for interest-bearing borrowings (Note 30).

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	2010	2009
Sonyachna brama	Kyiv	Residential	44,775	60,351
Green Town	Kharkiv	Residential	8,155	8,388
Laborotornyj provulok	Kyiv	Residential	2,481	1,036
Aviator	Kyiv	Residential	-	19,203
Edelweiss	Kharkiv	Residential	-	6,417
Karat	Kharkiv	Residential	-	3,338
Kaskad	Kharkiv	Residential	-	3,100
Other	Various	Residential	1,528	801
			<u>56,939</u>	<u>102,634</u>

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24. Inventories (continued)

Inventory property under development (continued)

As at 31 December 2010 inventory property under development with a carrying value of USD 16,425 thousand (2009: USD 23,407 thousand) was pledged as collateral for interest-bearing borrowings (Note 30).

During 2010, borrowing costs in the amount of USD 12,653 thousand (2009: USD 13,066 thousand) were capitalised into inventory property under development. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 13% (2009: 16%), which is the weighted average of effective interest rates of the specific borrowings.

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	2010	2009
Sonyachna brama	Kyiv	Residential	44,338	-
Ultra	Kharkiv	Residential	14,293	-
Aviator	Kyiv	Residential	3,797	-
Edelweiss	Kharkiv	Residential	3,583	-
Kaskad	Kharkiv	Residential	2,760	-
Karat	Kharkiv	Residential	2,058	-
Triumph	Kyiv	Residential	1,933	5,621
Flamingo	Kharkiv	Residential	897	1,191
Green Town	Kharkiv	Residential	618	-
Atoll	Kharkiv	Residential	147	433
Chaadaeva 2	Kyiv	Residential	101	253
Demchenka	Kharkiv	Residential	64	128
Other	Various	Residential	9	9
			<u>74,598</u>	<u>7,635</u>

As at 31 December 2010 completed inventory property with a carrying value of USD 45,465 thousand (2009: USD 3,681 thousand) were pledged as collateral for interest-bearing borrowings (Note 30).

25. Trade and other receivables

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

	2010	2009
Trade receivables	9,278	6,011
Notes receivable	2,480	3,419
Other	4,608	2,799
	<u>16,366</u>	<u>12,229</u>
Less: Allowance for impairment	<u>(5,653)</u>	<u>(6,796)</u>
	<u>10,713</u>	<u>5,433</u>

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

As at 31 December 2010 trade receivables and notes receivable at initial value of USD 4,082 thousand and USD 1,571 thousand, respectively, (2009: USD 3,965 thousand and USD 2,831 thousand, respectively) were impaired and fully provided for.

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25. Trade and other receivables (continued)

Movements in the allowance for impairment of trade receivables and notes receivable were as follows:

	2010	2009
At 1 January	6,796	6,284
Charge for the year	2,536	2,108
Unused amounts reversed	(548)	(1,226)
Utilised	(3,163)	(127)
Translation difference	32	(243)
At 31 December	<u>5,653</u>	<u>6,796</u>

As at 31 December 2010 trade and other receivables past due 365 days, but not impaired equalled to USD 2,105 thousand (2009: USD 1,214 thousand).

26. Prepayments

Prepayments consisted of the following as at 31 December:

	2010	2009
Prepayments for shares	-	10,968
Prepayments for construction materials and services	<u>11,227</u>	<u>11,008</u>
	11,228	21,976
Less: Allowance for impairment of prepayments for shares	-	(2,202)
Less: Allowance for impairment of prepayments for construction materials and services	<u>(1,667)</u>	<u>(1,195)</u>
	<u>9,560</u>	<u>18,579</u>

As at 31 December 2009 prepayments for shares and payables for shares in the amount of USD 8,766 thousand (Note 31) were due from / to entities within the same group of companies. In 2010 the Group settled them simultaneously.

Movements in the allowance for impairment of prepayments were as follows:

	2010	2009
At 1 January	3,397	2,283
Charge for the year	973	1,195
Unused amounts reversed	(502)	-
Utilised	(2,202)	-
Translation difference	1	(81)
At 31 December	<u>1,667</u>	<u>3,397</u>

27. Taxes recoverable, other than income tax

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

	2010	2009
VAT recoverable	2,641	5,560
Other taxes recoverable	<u>13</u>	<u>29</u>
	<u>2,654</u>	<u>5,589</u>

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As at 31 December 2010 cash and cash equivalents mainly comprised cash at banks. Cash at banks earn interest at floating rates based on daily bank deposit rates.

29. 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 2010 and 2009 the Company's repurchased ordinary shares amounted to USD 2,114 thousand and comprised 1,038,346 ordinary shares with a par value of USD 0.01 each.

As at 31 December 2010 and 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. As at 31 December 2010 and 2009 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.

<i>(in shares)</i>	<i>2010</i>	<i>2009</i>
Issued shares as at 1 January	50,753,819	50,996,819
Effect of shares repurchase	-	(223,860)
Weighted average number of shares for the year	<u>50,753,819</u>	<u>50,772,959</u>

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30. Interest-bearing loans and borrowings

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

	2010	2009
<i>Current</i>		
Bank loans	10,428	22,094
Supplier credits	664	331
	<u>11,092</u>	<u>22,425</u>
<i>Non-current</i>		
Bank loans	107,274	60,771
Supplier credits	1,038	1,451
	<u>108,312</u>	<u>62,222</u>
	<u>119,404</u>	<u>84,647</u>

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

	2010	2009
1 to 2 years	20,502	56,655
2 to 3 years	28,803	4,808
3 to 4 years	28,855	361
4 to 5 years	30,152	398
	<u>108,312</u>	<u>62,222</u>

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

	<i>Effective interest rate</i>	2010	2009
<i>Secured</i>			
UAH Credit line with Ukrainian bank	19.43% - 22.14%	95,483	56,849
EUR Credit line with Ukrainian bank	LIBOR + 10.00%	21,771	24,748
EUR Supplier credits	9.62% - 9.89%	1,702	1,782
USD loan with Ukrainian bank	LIBOR + 3.00%	448	523
UAH Credit line with Ukrainian bank	10.80%	-	745
		<u>119,404</u>	<u>84,647</u>

In 2010, the Group entered into an agreement with a Ukrainian bank for a new UAH credit line of USD 18,745 thousand maturing in September 2012 - December 2015 and bearing an interest at 15.5% - 19.0% per annum.

In 2010, the Group entered into an agreement with a Ukrainian bank for a new loan facility of USD 16,870 thousand maturing on September 2012 - December 2015 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.

In 2010, the Group entered into an additional agreement with a Ukrainian bank extending repayment of a credit line principal in the amount of USD 38,063 thousand from November 2010 - February 2012 to September 2012 - December 2015.

In 2010, the Group 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.

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30. Interest-bearing loans and borrowings (continued)

In 2010, the Group entered additional agreement with Ukrainian bank extending repayment of a EUR denominated credit line of USD 21,260 thousand from October 2010 - November 2011 to March 2011 - December 2012.

In 2010, the Group 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 2012 - December 2015; an interest accrued during January 2012 - December 2015 is repaid by equal monthly instalments at 17.00% per annum during the respective period.

As at 31 December 2010 the Group had available un-drawn borrowing facilities of USD 3,504 thousand (2009: nil).

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

Type of collateral	2010	2009
Inventories (Note 24)	62,430	27,386
Property, plant and equipment (Note 19)	55,571	50,940
Investment properties (Note 20)	35,915	32,437
	<u>153,916</u>	<u>110,763</u>

31. Trade and other payables

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

	2010	2009
Trade accounts payable	5,052	7,269
Due to employees	1,093	1,224
Promissory notes issued	45	103
Payables for shares (Note 26)	-	8,766
Other	1,578	1,509
	<u>7,768</u>	<u>18,871</u>

32. Advances received

As at 31 December 2010 advances received included USD 36,000 thousand (2009: USD 50,891 thousand) of advances received for inventory property under development that management estimates will be realised in the Group's normal operating cycle.

33. Taxes payable, other than income tax

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

	2010	2009
Value added tax payable	573	630
Payroll related taxes	402	401
Miscellaneous taxes	67	159
	<u>1,042</u>	<u>1,190</u>

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34. Provisions

Movements in provisions were as follows:

	<i>Provision for construction expenses</i>	<i>Provision for tax charges and litigations</i>	<i>Total</i>
At 1 January 2009	-	899	899
Utilised	-	(647)	(647)
Translation difference	-	(32)	(32)
At 31 December 2009	-	220	220
Arising during the year	3,961	-	3,961
Translation difference	(13)	1	(12)
At 31 December 2010	<u>3,948</u>	<u>221</u>	<u>4,169</u>

Provision for construction expenses

A provision has been recognised for construction expenses associated with completed in 2010 inventory property. The Group is committed to incur in 2011 additional construction costs related to minor refurbishments of the completed inventory property.

35. Related party disclosure

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

	<i>Revenue</i>	<i>Other operating income</i>	<i>Purchases</i>	<i>General and administrative expenses</i>	<i>Other operating expenses</i>
2010					
Associate	502	76	443	-	-
Entities under common control	<u>512</u>	<u>817</u>	<u>471</u>	<u>-</u>	<u>129</u>
	<u>1,014</u>	<u>893</u>	<u>914</u>	<u>-</u>	<u>129</u>
2009					
Associate	562	20	2,204	-	-
Entities under common control	<u>465</u>	<u>22</u>	<u>1,601</u>	<u>298</u>	<u>-</u>
	<u>1,027</u>	<u>42</u>	<u>3,805</u>	<u>298</u>	<u>-</u>

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

	<i>Trade and other receivables</i>	<i>Prepayments</i>	<i>Cash</i>	<i>Trade and other payables</i>	<i>Advances received</i>
2010					
Entities under common control	<u>2,122</u>	<u>289</u>	<u>55</u>	<u>552</u>	<u>5,383</u>
	<u>2,122</u>	<u>289</u>	<u>55</u>	<u>552</u>	<u>5,383</u>
2009					
Associate	124	3,835	-	149	704
Entities under common control	<u>1,001</u>	<u>285</u>	<u>221</u>	<u>1,962</u>	<u>5,343</u>
	<u>1,125</u>	<u>4,120</u>	<u>221</u>	<u>2,111</u>	<u>6,047</u>

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35. Related party disclosure (continued)

Revenue from associate and entities under common control in 2010 comprised: a) rental income amounting to USD 150 thousand (2009: USD 339 thousand); b) revenue from sale of completed inventory property amounting to nil (2009: USD 574 thousand); c) other revenue amounting to USD 864 thousand (2009: USD 114 thousand).

Purchases from associate and entities under common control in 2010 comprised: a) purchase of construction materials amounting to USD 156 thousand (2009: USD 988 thousand); b) purchase of construction services amounting to USD 758 thousand (2009: USD 2,817 thousand).

Prepayments made to associate and entities under common control as at 31 December 2010 and 2009 comprised mainly prepayments for construction-assembly works.

Cash with entities under common control as at 31 December 2010 and 2009 comprised cash placed at the current account of OJSC TMM-Bank.

Advances received from associate and entities under common control as at 31 December 2010 and 2009 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 2010 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. 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 2010 the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 225 thousand and USD 126 thousand, respectively, (2009: USD 229 thousand and USD 126 thousand, respectively) and were included in general and administrative expenses.

36. 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. As at 31 December 2010 the Group's management estimated that maximum cumulated tax exposure amounted to USD 1,075 thousand.

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.

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36. Contingencies and commitments *(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.

Dispute with the Ministry of Education and Science of Ukraine

In August 2010 the Ministry of Education and Science of Ukraine (the "Ministry") filed a claim with Kyiv Economic Court against three respondents - the Kyiv City Council, Kyiv National Taras Shevchenko University (the "University") and LLC Firm TMM. The subject of the claim was nullification of the Kyiv City Council's resolution on changing the purpose of use of a land plot related to the construction of the Sonyachna brama residential complex. The Ministry also filed a claim to nullify the investment agreement signed between the University and LLC Firm TMM in 2003 regarding their mutual investments into the construction of the Sonyachna brama residential complex. In December 2010, Kyiv Economic Court ruled in favour of the Ministry. Management plans to file appeals to Kyiv Economic Court of Appeals. Management believes that no accruals are required, because it expects positive court rulings for the lawsuit (Note 39).

Purchase commitments

As at 31 December 2010 the Group's contractual commitments for acquisition of construction materials and sub-contractors services amounted to USD 4,014 thousand (2009: USD 2,966 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 2010 and 2009 the interest rates implicit in the lease are within the range of 15% -20% per annum.

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

	<i>Minimum lease payments</i>	<i>Present value of minimum lease payments</i>
<i>at 31 December 2010</i>		
Within one year	7,049	6,671
After one year but not more than five years	2,047	1,858
Total minimum lease payments	9,096	
Less amounts representing finance charges	(567)	
	<u>8,529</u>	<u>8,529</u>
<i>at 31 December 2009</i>		
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)	
	<u>11,010</u>	<u>11,010</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2010***(in thousands of US dollars, unless otherwise indicated)***36. Contingencies and commitments (continued)***Operating lease - the 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 initial 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.

Future minimum rentals receivable under a non-cancellable operating lease as at 31 December 2010 were as follows:

	2010	2009
Within one year	600	600
After one year but not more than five years	3,000	2,400
More than five years	4,500	5,700
	<u>8,100</u>	<u>8,700</u>

37. 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:

	<i>Carrying amount</i>		<i>Fair value</i>	
	2010	2009	2010	2009
Financial assets				
Trade and other receivables	10,713	5,433	10,713	5,433
Prepayments for shares	-	8,766	-	8,766
Cash and cash equivalents	3,693	1,344	3,693	1,344
Financial liabilities				
Interest-bearing loans and borrowings	119,404	84,647	114,695	82,355
Finance lease liability	8,529	11,010	8,529	11,010
Trade and other payables	7,768	18,871	7,768	18,871

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.

38. 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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38. 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 2010 and 2009, 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.

	<i>Increase / (decrease) in basis points</i>	<i>Effect on profit before tax</i>
		<u>USD ' 000</u>
2010		
LIBOR	100	(222)
LIBOR	(25)	56
2009		
LIBOR	100	(178)
LIBOR	(25)	44

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:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	3,693	1,344
Trade and other receivables	10,713	5,433
	<u>14,406</u>	<u>6,777</u>

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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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.

In the next twelve months the Group expects to finance its operating and investing activities primarily with cash generated from operations. The Group reported operating cash outflow of USD 23,960 thousand for the year ended 31 December 2010. However, the management believes that Group will be able to generate sufficient cash inflow from its operations to repay debts as they become due and finance the construction projects at the level deemed necessary to sustain the longer term operations of the Group.

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

	2010	Less than one year	1 to 5 years	Total
Interest bearing loans and borrowings		18,893	142,337	161,230
Finance lease liability		7,049	2,047	9,096
Trade and other payables		7,768	-	7,768
		<u>33,710</u>	<u>144,384</u>	<u>178,094</u>
	2009			
Interest bearing loans and borrowings		31,732	72,960	104,692
Finance lease liability		7,535	4,894	12,429
Trade and other payables		18,871	-	18,871
		<u>58,138</u>	<u>77,854</u>	<u>135,992</u>

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
1 January 2009	7.7000	10.8555
Average for 2009	7.7913	10.8736
31 December 2009	7.9850	11.4489
Average for 2010	7.9354	10.5338
31 December 2010	7.9617	10.5731
30 August 2011	7.9707	11.5471

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.

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.

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	<i>Change in foreign currency exchange rates</i>	<i>Effect on profit before tax</i>
2010		
Increase in USD exchange rate	29.50%	(1,168)
Increase in EUR exchange rate	27.90%	(7,951)
Decrease in USD exchange rate	-29.50%	1,168
Decrease in EUR exchange rate	-27.90%	7,951
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

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.

	2010	2009
Long-term borrowings	108,312	62,222
Short-term borrowings	11,092	22,425
Finance lease liability	8,529	11,010
Advances received from customers	36,000	50,891
Less cash and cash equivalents	(3,693)	(1,344)
Net debt	160,240	145,204
Total equity attributable to equity holders of the parent	177,696	155,696
Total capital and net debt	337,936	300,900
Gearing ratio	47%	48%

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.

39. Subsequent events

In July 2011, the Higher Economic Court of Ukraine resolved the dispute, which had been initiated by the Ministry of Education and Science of Ukraine, in favour of the Kyiv City Council, Kyiv Taras Shevchenko National University and LLC Firm TMM. The Higher Economic Court of Ukraine annulled the rulings of the preceding courts - Kyiv Economic Court and Kyiv Economic Court of Appeals, both in favour of the Ministry. Furthermore, the Higher Economic Court dismissed a claim of the Ministry against the Kyiv City Council, the University and LLC Firm TMM. Thus, the Higher Economic Court of Ukraine confirmed legitimacy of the construction process on the land plot, where the Group constructs its Sonyachna brama residential complex.