

**TMM Real Estate Development plc**  
**Consolidated Financial Statements**

*As at 31 December 2012 and  
for the year then ended  
with Independent Auditors' Report*

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## **BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS**

### **BOARD OF DIRECTORS**

Maarten van den Belt  
Dominic Dreyfus  
Nikoloz Enukidze  
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"  
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 2012.

### **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 out of retained earnings. The net loss for the year is transferred to reserves.

### **MAIN RISKS AND UNCERTAINTIES**

The main risks and uncertainties faced by the Group are (i) real estate market risk in Ukraine and (ii) going concern uncertainty disclosed in notes 2 and 3.

### **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 Company "T.M.M" Ltd.

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 Company "T.M.M" Ltd.

In April 2012, the Company repurchased 300,000 of its ordinary shares for the total consideration of USD 197 thousand.

In April 2012, the Company sold 35,967 of its repurchased ordinary shares for the total consideration of USD 158 thousand.

As a result of these transactions, as at 31 December 2012 the Company's issued and paid-in share capital comprised of 51,084,235 ordinary shares with a par value of USD 0.01 each. As at 31 December 2012 the Company's total authorised share capital comprised 100,000,000 shares.

### **BRANCHES**

During the year ended 31 December 2012 the Group did not operate any branches.

## BOARD OF DIRECTORS

The members of the Board of Directors of the Company as at 31 December 2012 and at the date of this report are shown on page (a). All of them were members of the Board of Directors throughout the year.

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

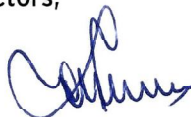
Any significant events that occurred after the end of the year are described in note 37 to the consolidated financial statements.

## 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

## 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 (together with the Company, the "Group"), which comprise the consolidated statements of financial position as at 31 December 2012, 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 in accordance with International Financial Reporting Standards as adopted by the European Union 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 1,621 thousand and USD 1,657 thousand as at 31 December 2012 and 2011, respectively, foreign currency translation reserve of USD 944 thousand and USD 965 thousand as at 31 December 2012 and 2011, respectively, cost of revenue of USD 36 thousand and USD 35 for the years ended 31 December 2012 and 2011, respectively. Our audit opinion on the consolidated financial statements for the year ended 31 December 2011 was qualified accordingly.

A handwritten signature in blue ink, appearing to be 'BZ' or similar, located at the end of the 'Basis for Qualified Opinion' section.



**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 give a true and fair view of the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 3 in the consolidated financial statements which indicates that the Group incurred a net loss of USD 22,187 thousand during the year ended 31 December 2012 (2011: USD 19,489 thousand) and a net cash outflow from its operating activities of USD 11,993 thousand (2011: USD 5,223 thousand). Therefore the Group may be unable to generate sufficient cash inflows from its operating activities in order to repay its debt when it falls due. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.


**Report on Other Legal Requirements**

Pursuant to the requirements of the 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 consolidated 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 Cyprus 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

26 June 2013

**CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME**  
**for the year ended 31 December 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

	Notes	2012	2011
Revenue	8	29,663	47,307
Cost of revenue	9	(24,721)	(41,504)
<b>Gross profit</b>		<b>4,942</b>	<b>5,803</b>
Change in fair value of investment properties	19	588	320
Other operating income	10	1,117	1,032
General and administrative expenses	11	(4,263)	(5,824)
Selling and distribution expenses	12	(837)	(611)
Other operating expenses	13	(11,794)	(5,445)
<b>Operating loss</b>		<b>(10,247)</b>	<b>(4,725)</b>
Share in losses of associates	20	(1,806)	(3,128)
Finance income		-	80
Finance costs	14	(9,011)	(12,559)
Foreign exchange (loss) / gain, net	15	(436)	1,237
<b>Loss before tax</b>		<b>(21,500)</b>	<b>(19,095)</b>
Income tax expense	17	(687)	(394)
<b>Loss for the year</b>		<b>(22,187)</b>	<b>(19,489)</b>
<b>Other comprehensive income / (loss)</b>			
Exchange differences on translation to presentation currency		(49)	(552)
Share in revaluation of buildings of an associate	20	282	19
Revaluation of buildings	18	1,591	205
Income tax effect of revaluation	17	(334)	(48)
		1,257	157
<b>Other comprehensive income / (loss) for the year, net of tax</b>		<b>1,490</b>	<b>(376)</b>
<b>Total comprehensive loss for the year, net of tax</b>		<b>(20,697)</b>	<b>(19,865)</b>
Loss attributable to:			
Equity holders of the parent		(22,172)	(19,459)
Non-controlling interest		(15)	(30)
		(22,187)	(19,489)
Total comprehensive loss attributable to:			
Equity holders of the parent		(20,689)	(19,849)
Non-controlling interest		(8)	(16)
		(20,697)	(19,865)
Weighted average basic and diluted number of shares (in thousands of shares)	27	51,078	51,263
Basic and diluted earnings per share (in US dollars)		(0.43)	(0.38)

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

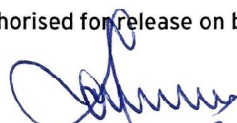



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****as at 31 December 2012***(in thousands of US dollars, unless otherwise indicated)*

	Notes	31 December 2012	31 December 2011 (Restated)	1 January 2011 (Restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	18	75,605	78,688	80,299
Intangible assets		459	481	571
Investment properties	19	53,022	54,781	53,930
Investments in associates	20	-	1,523	4,641
Property development rights	21	32,270	33,583	33,506
		<u>161,356</u>	<u>169,056</u>	<u>172,947</u>
<b>Current assets</b>				
Inventories	22	178,665	157,431	142,655
Trade and other receivables	23	9,478	7,346	10,713
Prepayments	24	9,929	9,869	9,560
Prepaid income tax		22	13	19
Taxes recoverable, other than income tax	25	1,171	875	2,654
Cash and cash equivalents	26	553	475	3,693
		<u>199,818</u>	<u>176,009</u>	<u>169,294</u>
<b>TOTAL ASSETS</b>		<u>361,174</u>	<u>345,065</u>	<u>342,241</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	27	510	513	508
Share premium	27	99,191	99,227	98,569
Additional paid-in capital	27	2,592	2,592	2,592
Revaluation reserve	27	64,596	63,219	63,198
Retained earnings		11,602	33,619	52,937
Translation reserve	27	(70,295)	(70,246)	(69,694)
<b>Equity attributable to equity holders of the parent</b>		<u>108,196</u>	<u>128,924</u>	<u>148,110</u>
Non-controlling interests		494	502	518
<b>Total equity</b>		<u>108,690</u>	<u>129,426</u>	<u>148,628</u>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	28	95,525	100,043	108,312
Finance lease liability	34	30	475	1,858
Deferred tax liability	17	13,934	12,928	12,556
		<u>109,489</u>	<u>113,446</u>	<u>122,726</u>
<b>Current liabilities</b>				
Trade and other payables	29	29,716	25,383	7,768
Interest-bearing loans and borrowings	28	60,870	30,968	11,092
Finance lease liability	34	2,955	5,782	6,671
Advances received	30	47,065	36,927	40,141
Taxes payable, other than income tax	31	1,454	1,653	1,042
Provisions	32	935	1,480	4,169
Income tax payable		-	-	4
		<u>142,995</u>	<u>102,193</u>	<u>70,887</u>
<b>TOTAL LIABILITIES</b>		<u>252,484</u>	<u>215,639</u>	<u>193,613</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>361,174</u>	<u>345,065</u>	<u>342,241</u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 26 June 2013:

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 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

	Attributable to equity holders of the parent								
	Share Capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings (Restated)	Translation reserve (Restated)	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	508	98,569	2,592	63,198	99,582	(86,753)	177,696	518	178,214
Effect of restatement (Note 3)	-	-	-	-	(46,645)	17,059	(29,586)	-	(29,586)
Balance at 1 January 2011 (Restated)	508	98,569	2,592	63,198	52,937	(69,694)	148,110	518	148,628
Loss for the year	-	-	-	-	(19,459)	-	(19,459)	(30)	(19,489)
Other comprehensive loss	-	-	-	162	-	(552)	(390)	14	(376)
Total comprehensive loss for the year	-	-	-	162	(19,459)	(552)	(19,849)	(16)	(19,865)
Transfer of revaluation reserve, net of taxes	-	-	-	(141)	141	-	-	-	-
Sale of treasury shares ( Note 27)	5	658	-	-	-	-	663	-	663
Balance at 31 December 2011	513	99,227	2,592	63,219	33,619	(70,246)	128,924	502	129,426
Loss for the year	-	-	-	-	(22,172)	-	(22,172)	(15)	(22,187)
Other comprehensive income	-	-	-	1,532	-	(49)	1,483	7	1,490
Total comprehensive loss for the year	-	-	-	1,532	(22,172)	(49)	(20,689)	(8)	(20,697)
Transfer of revaluation reserve, net of taxes	-	-	-	(155)	155	-	-	-	-
Purchase of treasury shares (Note 27)	(3)	(194)	-	-	-	-	(197)	-	(197)
Sale of treasury shares ( Note 27)	-	158	-	-	-	-	158	-	158
Balance at 31 December 2012	510	99,191	2,592	64,596	11,602	(70,295)	108,196	494	108,690

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

**CONSOLIDATED CASH FLOW STATEMENT**  
**for the year ended 31 December 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

	Notes	2012	2011
<b>Operating activities</b>			
Loss profit before tax		(21,500)	(19,095)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Revaluation of investment properties	19	(588)	(320)
Depreciation and amortisation		1,459	2,388
Impairment of investments	13	268	441
Gain on revaluation of freehold buildings reported in profit or loss	10, 18	(83)	(139)
Loss on disposal of property, plant and equipment and investment properties	13	3,256	769
Gain on extinguishment of liabilities	10	(108)	(379)
Share in losses of associates	20	1,806	3,128
Finance income		-	(80)
Finance costs	14	9,011	12,559
Unrealised foreign exchange gain		(610)	(1,112)
		(7,089)	(1,840)
<b>Working capital adjustments</b>			
Change in inventories		(10,901)	(10,750)
Change in trade and other receivables		(726)	2,902
Change in prepayments		(64)	(343)
Change in taxes recoverable, other than income tax		(296)	1,775
Change in trade and other payables and provisions		3,588	14,153
Change in advances received		10,155	(3,083)
Change in taxes payable, other than income tax		(190)	621
		(5,523)	3,435
Interest received		-	80
Interest paid		(6,607)	(8,735)
Income taxes paid		(18)	(3)
<b>Net cash flows used in operating activities</b>		(12,148)	(5,223)
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment and investment properties		2,339	1,092
Purchase of property, plant and equipment and investment properties		(2,270)	(3,784)
Purchase of intangible assets		(94)	(29)
Purchase of property development rights		(84)	(77)
<b>Net cash flows used in investing activities</b>		(109)	(2,798)
<b>Financing activities</b>			
Proceeds from loans		21,601	6,934
Repayment of loans		(7,275)	(1,836)
Repayment of finance lease liabilities		(1,991)	(954)
Sale of treasury shares		-	663
<b>Net cash flows from financing activities</b>		12,335	4,807
Net increase / (decrease) in cash and cash equivalents		78	(3,214)
Net foreign exchange difference		-	(4)
Cash and cash equivalents at 1 January		475	3,693
<b>Cash and cash equivalents at 31 December</b>		553	475

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2012

(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 Vladimirskaya street, Kyiv, Ukraine 01034.

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

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

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") is the 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>2012</i>	<i>2011</i>
<b>Subsidiaries:</b>			
Company "T.M.M." Ltd	Construction and development	100.0%	100.0%
"Geravit" Ltd	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 LTD +"	Development project	100.0%	100.0%
PE "Budinvestservice 2004"	Development project	100.0%	100.0%
PE "GREENBUD"	Development project	100.0%	100.0%
PJSC "Company "Viktor"	Development project	100.0%	100.0%
LLC "Kirovograd Plant of Construction Ceramics"	Production of construction materials	99.9%	99.9%
Ltd "TMM PALLADA"	Development project	99.0%	99.0%
LLC "Economsystema"	Development project	99.0%	99.0%
LLC "Specialist"	Development project	98.0%	98.0%
JSC "Ukrucukorteploizolyaciya"	Production of construction materials	98.0%	98.0%
Ltd "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	99.8%	85.0%
LLC "ADEPT-2004"	Development project	70.0%	70.0%
Ltd "TMM-Energo"	Development project	60.0%	60.0%
<b>Associates:</b>			
PJSC "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%

All subsidiaries and associates are incorporated in Ukraine.

In September 2012 the Group increased its shareholdings in LLC "B2B" through the input of the land plots into subsidiary's share capital amounting to USD 1,501 thousand. As result of the operation the Group increased its effective shareholding over the subsidiary from 85% to 99.8%. The effect of non-controlling interest acquisition is minor.

In December 2012 the Group disposed its associate LLC "Utilservice". As result of the transaction there was recognised loss on disposal in amount of USD 14 thousand which is equal to the carrying value of the investment at the date of disposal (Note 20). The loss was included in other operating expenses (Note 13).

The Group is ultimately controlled by Mr. Mykola Tolmachov.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2012**  
*(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 prices stabilised in 2010-2012, 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. Please refer to Note 3 "Going concern" for further details.

**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 2012

(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.

#### Going concern

During the year ended 31 December 2012 the Group reported a net loss of USD 22,187 thousand (2011: USD 19,489 thousand) and a net cash outflow from its operating activities of USD 11,993 thousand (2011: USD 5,223 thousand). The deterioration in financial results is mainly caused by weakened demand for residential and commercial property in Ukraine. The decline in market liquidity may affect the Group's ability to generate cash flows from operating activities sufficient to repay its debt when it falls due.

The Group needs to repay USD 41,494 thousand of interest-bearing loans and borrowings which fall due in 2013. The Group commenced negotiation with one of the lenders seeking to extend repayment of USD 20,531 thousand of debt due in 2013. As of the date of authorisation of these consolidated financial statements the results of these negotiations are uncertain.

The Group's financial plan for 2013 anticipates growth in cash inflows from property sales as compared to 2012. To sustain the increase in cash inflow from its operations in 2013 the Group plans the following:

- to sell completed property with a cost of USD 45,415 thousand which is already completed and property under development which is expected to cost USD 112,611 thousand which may be sold to buyers on a pre-payment basis;
- participated in tenders for rendering of construction services;
- extended repayment of the principal and interest due to one of the lenders in 2013 to 2014;
- to sell investment properties;
- enhanced an advertising campaign seeking to attract new customers.

Should the Group fail to achieve the planned cash inflows from property sales and rendering construction services the resulting deficit may be partially compensated by suspension of certain construction projects in 2013.

The Group's ability to continue its operations on a going concern basis depends on (i) its ability to extend the payment terms of its interest-bearing loan which falls due in 2013, and (ii) generation of sufficient cash flows from its operating activities.

The actual outcome of the debt restructuring negotiations and the success of the management plan to ensure planned growth in cash inflows from property sales are uncertain. These conditions represent a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. The Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

#### Restatement

In the process of preparation of these consolidated financial statement the Group's management determined that incorrect market prices were used when measuring the fair value of certain items of investment property and the fair value less costs to sell of certain land and property development rights as at 31 December 2011 and 31 December 2010.

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**3. Basis of preparation (continued)**

As a result:

- property plant and equipment were overstated by USD 14,634 thousand at 31 December 2011 and 1 January 2011;
- investment properties were overstated by USD 15,132 thousand at 31 December 2011 and 1 January 2011;
- land and property development rights were overstated by USD 2,241 thousand at 31 December 2011 and 1 January 2011.

The Group corrected the error by restating the corresponding figures in these consolidated financial statements as at the earliest period presented (being 1 January 2011). The following is a summary of the line items impacted by restatement for the consolidated statements of financial position as at 31 December 2011 and 1 January 2011:

	<i>As previously reported</i>	<i>Effect of adjustments</i>	<i>As restated</i>
	<i>USD 000</i>	<i>USD 000</i>	<i>USD 000</i>
<b>Consolidated statement of financial position as at 1 January 2011</b>			
Property, plant and equipment	94,933	(14,634)	80,299
Investment property	69,062	(15,132)	53,930
Property development rights and costs	35,747	(2,241)	33,506
Retained earnings	99,582	(46,645)	52,937
Translation reserve	(86,753)	17,059	(69,694)
Deferred tax liabilities	14,977	(2,421)	12,556
<b>Consolidated statement of financial position as at 31 December 2011</b>			
Property, plant and equipment	93,322	(14,634)	78,688
Investment property	69,913	(15,132)	54,781
Property development rights and costs	35,824	(2,241)	33,583
Retained earnings	80,264	(46,645)	33,619
Translation reserve	(87,305)	17,059	(70,246)
Deferred tax liabilities	15,349	(2,421)	12,928

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012. 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.



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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 for the following amendments to IFRS effective as at 1 January 2012:

- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The adoption of the amendments to the standards is described below:

*IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

*IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

*IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. Significant accounting judgments, estimates and assumptions *(continued)***

More specifically, the following criteria are considered:

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

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

***Classification of property***

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

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

***Operating lease contracts - Group as lessor***

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

**Estimates**

***Estimation of net realisable value for inventory***

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

***Allowance for doubtful accounts***

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

***Valuations of freehold buildings and investment properties***

Freehold buildings and investment properties are stated at fair value as at the statement of financial position date. The fair value of freehold buildings is determined by independent real estate valuation experts using both the cost and the market approach; the fair value of investment properties is determined by independent real estate valuation experts using the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties. Besides, in arriving at their estimates of market values as at 31 December 2012, the valuers have also used their market knowledge and professional judgement.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

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

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 2012.

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 2012 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 2012.

#### ***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 2012 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 34.

##### ***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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. Summary of significant accounting policies**

**Business combinations**

***Business combinations***

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.

**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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

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

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 of the 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 2012 does not indicate that the Group could realize or settle the translated values of those assets and liabilities in USD.

#### **Foreign currency translation**

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

#### **Financial assets**

##### ***Initial recognition***

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

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 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2012

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

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

#### ***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.

#### **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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

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

##### **Financial liabilities**

###### ***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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

###### ***Subsequent measurement of loans and borrowings***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

###### ***Derecognition***

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

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

##### **Offsetting of financial instruments**

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

##### **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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2012

(in thousands of US dollars, unless otherwise indicated)

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

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.

#### **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.

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

**Intangible assets**

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

**Borrowing costs**

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

**Investment properties**

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

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

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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss for the period unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### **Inventories**

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

##### **Raw materials**

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

##### **Completed and under development inventory property**

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

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.

#### **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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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 fulfilment 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.

**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:

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

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

##### ***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.

###### ***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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2012

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

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

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.

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 2011 amounts for consistency of presentation with the 2012 amounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's consolidated financial statements after becoming effective.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

*IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

*IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will assess the effect on its financial statements when the final standard including all phases is issued.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **for the year ended 31 December 2012**

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

#### **7. Standards issued but not yet effective (continued)**

##### *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

##### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

##### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*The following new and amended standards and interpretations will not influence the Group's financial statements:*

- IAS 19 Employee Benefits (Revised)
- IFRS 1 Government Loans – Amendments to IFRS 1
- IFRS 11 Joint Arrangements
- IFRIC 20 Stripping Costs in the Production

##### *Annual Improvements May 2012*

These improvements will not have an impact on the Group, but include:

##### *IFRS 1 First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

##### *IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

##### *IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

##### *IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***7. Standards issued but not yet effective (continued)***IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after 1 January 2013.

**8. Revenue**

Revenue comprised:

	<u>2012</u>	<u>2011</u>
Sales of completed inventory property	11,765	35,608
Other construction services revenue	7,747	1,813
Utility services income	4,453	3,671
Rental income from investment properties	3,485	3,270
Other services	2,213	2,945
	<u>29,663</u>	<u>47,307</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 comprised:

	<u>2012</u>	<u>2012</u>
Cost of completed inventory property sold	9,995	32,557
Other construction services cost	6,538	1,659
Utility services cost	5,315	4,488
Other services	2,873	2,800
	<u>24,721</u>	<u>41,504</u>

Borrowing costs included in cost of completed inventory property sold for the year ended 31 December 2012 amounted to USD 1,104 thousand (2011: USD 3,596 thousand).

Depreciation included in cost of revenue for the year ended 31 December 2012 amounted to USD 403 thousand (2011: USD 1,312 thousand).

Wages and salaries and social security taxes included in cost of revenue for year ended 31 December 2012 amounted to USD 1,099 thousand and USD 400 thousand, respectively (2011: USD 3,690 thousand and USD 1,365 thousand, respectively).

**10. Other operating income**

Other operating income comprised:

	<u>2012</u>	<u>2011</u>
Gain on sale of sundry goods and services	607	70
Gain on provisions reversal (Note 32)	214	-
Gain on extinguishment of liabilities	108	379
Gain on revaluation of freehold buildings (Note 18)	83	139
Gain on securities sold	46	-
Release of allowance for doubtful debts (Notes 23 and 24)	-	423
Other	59	21
	<u>1,117</u>	<u>1,032</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2012**  
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**11. General and administrative expenses**

General and administrative expenses comprised:

	<u>2012</u>	<u>2011</u>
Wages and salaries	1,663	1,417
Depreciation and amortization	907	1,073
Professional services	517	1,320
Social security taxes	453	417
Bank charges	151	53
Insurance premium	132	173
Communication costs	127	161
Materials	94	133
Taxes, other than income tax	75	249
Auditor's remuneration in relation to statutory audit	71	155
Other	73	673
	<u>4,263</u>	<u>5,824</u>

**12. Selling and distribution expenses**

Selling and distribution expenses comprised:

	<u>2012</u>	<u>2011</u>
Advertising	411	321
Wages and salaries	267	173
Social security taxes	60	59
Transportation costs	-	10
Other	99	48
	<u>837</u>	<u>611</u>

**13. Other operating expenses**

Other operating expenses comprised:

	<u>2012</u>	<u>2011</u>
Loss on disposal of property, plant and equipment and investment properties, net	3,256	769
Change in allowance of doubtful debts (Notes 23 and 24)	2,720	-
Post-construction costs on sold inventory property	2,564	1,308
Inventory shortages and damages (Note 22)	2,312	1,377
Fines and penalties	286	942
Impairment of investments	268	441
Charity and donations	-	25
Other	388	583
	<u>11,794</u>	<u>5,445</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**14. Finance costs**

Finance costs comprised:

	<u>2012</u>	<u>2011</u>
Interest costs and finance lease charges	8,888	12,471
Other finance costs	123	88
	<u>9,011</u>	<u>12,559</u>

**15. Foreign exchange (loss) / gain, net**

Foreign exchange (loss) / gain, net comprised:

	<u>2012</u>	<u>2011</u>
Foreign exchange gains	2,942	16,179
Foreign exchange losses	(3,378)	(14,942)
	<u>(436)</u>	<u>1,237</u>

**16. 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, selling and distribution expenses and share in losses of associates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16. Operating segment information (continued)**

The Group's segmental information was as follows:

<b>As at 31 December 2012</b>	<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>
<b>Revenue</b>						
External customers	3,485	11,765	14,002	29,252	411	29,663
Inter-segment	-	-	4,135	4,135	(4,135)	-
<b>Total revenue</b>	<b>3,485</b>	<b>11,765</b>	<b>18,137</b>	<b>33,387</b>	<b>(3,724)</b>	<b>29,663</b>
<b>Results</b>						
Depreciation	-	403	-	403	-	403
Change in fair value of investment properties	588	-	-	588	-	588
Selling and distribution expenses	(99)	(738)	-	(837)	-	(837)
Share in losses of associates	-	-	(1,806)	(1,806)	-	(1,806)
<b>Segment results</b>	<b>3,974</b>	<b>1,032</b>	<b>(676)</b>	<b>4,330</b>	<b>(25,830)</b>	<b>(21,500)</b>
<b>Segment assets</b>	<b>53,022</b>	<b>235,436</b>	<b>1,035</b>	<b>289,493</b>	<b>71,681</b>	<b>361,174</b>
<b>Segment liabilities</b>	<b>-</b>	<b>49,385</b>	<b>4,436</b>	<b>53,821</b>	<b>198,663</b>	<b>252,484</b>
<b>Other disclosures</b>						
Capital expenditure	-	581	-	581	1,632	2,213
<b>As at 31 December 2011</b>						
<b>Revenue</b>						
External customers	3,270	35,608	8,269	47,147	160	47,307
Inter-segment	-	-	683	683	(683)	-
<b>Total revenue</b>	<b>3,270</b>	<b>35,608</b>	<b>8,952</b>	<b>47,830</b>	<b>(523)</b>	<b>47,307</b>
<b>Results</b>						
Depreciation	-	1,312	-	1,312	-	1,312
Change in fair value of investment properties	320	-	-	320	-	320
Selling and distribution expenses	(47)	(564)	-	(611)	-	(611)
Share in losses of associates	-	-	(3,128)	(3,128)	-	(3,128)
<b>Segment results</b>	<b>3,543</b>	<b>2,487</b>	<b>(3,611)</b>	<b>2,419</b>	<b>(21,514)</b>	<b>(19,095)</b>
<b>Segment assets (Restated)</b>	<b>54,781</b>	<b>214,572</b>	<b>2,550</b>	<b>271,903</b>	<b>73,162</b>	<b>345,065</b>
<b>Segment liabilities (Restated)</b>	<b>-</b>	<b>38,947</b>	<b>2,483</b>	<b>41,430</b>	<b>174,209</b>	<b>215,639</b>
<b>Other disclosures</b>						
Capital expenditure	289	1,382	-	1,671	2,190	3,861
<b>As at 1 January 2011 (Restated)</b>						
<b>Segment assets (Restated)</b>	<b>53,930</b>	<b>203,909</b>	<b>6,944</b>	<b>264,783</b>	<b>77,458</b>	<b>342,241</b>
<b>Segment liabilities (Restated)</b>	<b>-</b>	<b>41,052</b>	<b>8,093</b>	<b>49,145</b>	<b>144,468</b>	<b>193,613</b>

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

Inter-segment revenues are eliminated on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the year ended 31 December 2012

(in thousands of US dollars, unless otherwise indicated)

### 16. Operating segment information (continued)

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

	2012	2011
<b>Segment results</b>	4,330	2,419
General and administrative expenses	(4,263)	(5,824)
Other operating expenses	(11,794)	(5,445)
Other operating income	1,117	1,032
Finance income	-	80
Finance costs	(9,011)	(12,559)
Foreign exchange (loss) / gain, net	(436)	1,237
Inter-segment sales (eliminations)	(1,443)	(35)
<b>Consolidated loss before tax</b>	<b>(21,500)</b>	<b>(19,095)</b>

#### Reconciliation of assets

	31 December 2012	31 December 2011 (Restated)	1 January 2011 (Restated)
<b>Segment assets</b>	289,493	271,903	264,783
Property, plant and equipment	61,722	65,322	66,155
Trade and other receivables	9,478	7,346	10,713
Intangible assets	459	481	571
Prepaid income tax	22	13	19
<b>Consolidated assets</b>	<b>361,174</b>	<b>345,065</b>	<b>342,241</b>

#### Reconciliation of liabilities

	31 December 2012	31 December 2011 (Restated)	1 January 2011 (Restated)
<b>Segment liabilities</b>	53,821	41,430	49,145
Interest bearing loans and borrowings	156,395	131,011	119,404
Deferred tax liability	13,934	12,928	12,556
Finance lease liability	2,985	6,257	8,529
Provisions	935	1,480	221
Other payables	22,960	20,880	2,716
Taxes payable, other than income tax	1,454	1,653	1,042
<b>Consolidated liabilities</b>	<b>252,484</b>	<b>215,639</b>	<b>193,613</b>

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

Property, plant and equipment, intangible assets, 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 (including payables for goods for resale), 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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**17. Income tax**

The major components of income tax expense are:

***Profit or loss***

	<u>2012</u>	<u>2011</u>
Current income tax charge	9	5
Deferred tax relating to reversal and origination of temporary differences	678	389
<b>Income tax expense reported in profit or loss</b>	<u>687</u>	<u>394</u>

***Other comprehensive income***

	<u>2012</u>	<u>2011</u>
Deferred tax related to items charged or credited directly to other comprehensive income during the year:		
Gain on revaluation of freehold buildings	334	48
<b>Income tax expense charged directly to other comprehensive income</b>	<u>334</u>	<u>48</u>

A reconciliation between the income tax expense reported in the consolidated financial statements and the loss before taxes multiplied by the applicable domestic tax rates for the years ended 31 December 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Accounting loss before tax	(21,500)	(19,095)
At the Company's statutory income tax rate of 10.0%	(2,150)	(1,910)
Effect of the change in income tax rate	3,559	3,060
Tax effect of expenses non-deductible in determining taxable profits	1,643	1,822
Effect of higher tax rates in Ukraine	(2,365)	(2,578)
<b>Income tax expense reported in profit or loss</b>	<u>687</u>	<u>394</u>

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 25% in the first quarter and 23% in the last three quarters).

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 21% shall be applied starting from 1 January 2012, 19% - from 1 January 2013 and 16% - from 1 January 2014. When estimating deferred taxes as at 31 December 2012, the Group accounted for the decrease in the income tax rate and other implications of the new Tax Code. The tax rate in Cyprus is 10% (12.5% from 1 January 2013).



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

Deferred tax assets and liabilities relate to the following items in 2012:

	31 December 2012	Charged to profit or loss	Charged to other compre- hensive income	Foreign currency translation	31 December 2011 (Restated)
<b>Tax effect of taxable temporary differences:</b>					
Property, plant and equipment and investment properties (i)	(10,679)	(484)	(334)	(93)	(9,768)
Inventories (ii)	(9,926)	(104)	-	4	(9,826)
Prepayments made (iii)	87	987	-	-	(900)
Interest-bearing loans and borrowings (v)	(21)	2	-	-	(23)
Gross deferred tax liabilities	(20,539)	401	(334)	(89)	(20,517)
Less: Offsetting with deferred tax assets	6,605				7,589
Recognised deferred tax liabilities	(13,934)				(12,928)
<b>Tax effect of deductible temporary differences:</b>					
Prepayments received (iii)	734	(111)	-	-	845
Investments (iv)	237	31	-	-	206
Inventories (ii)	2,504	(862)	-	(1)	3,367
Trade and other receivables (vi)	314	(73)	-	(1)	388
Interest-bearing loans and borrowings (v)	1,813	(145)	-	(1)	1,959
Property, plant and equipment and investment properties (i)	514	287	-	99	128
Trade and other payables (vii)	489	(206)	-	(1)	696
	6,605	(1,079)	-	95	7,589
Less: Offsetting with deferred tax liabilities	(6,605)				(7,589)
<b>Net deferred tax liability</b>	<b>(13,934)</b>	<b>(678)</b>	<b>(334)</b>	<b>6</b>	<b>(12,928)</b>

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**17. Income tax (continued)**

Deferred tax assets and liabilities relate to the following items in 2011:

	31 December 2011 (Restated)	Charged to profit or loss	Charged to other compre- hensive income	Foreign currency translation	1 January 2011 (Restated)
<b>Tax effect of taxable temporary differences:</b>					
Property, plant and equipment and investment properties (i)	(9,768)	(36)	(48)	44	(9,728)
Inventories (ii)	(9,826)	7,164	-	60	(17,050)
Prepayments made (iii)	(900)	118	-	4	(1,022)
Interest-bearing loans and borrowings (v)	(23)	3	-	-	(26)
Gross deferred tax liabilities	(20,517)	7,249	(48)	108	(27,826)
Less: Offsetting with deferred tax assets	7,589				15,270
Recognised deferred tax liabilities	(12,928)				(12,556)
<b>Tax effect of deductible temporary differences:</b>					
Prepayments received (iii)	845	(3,753)	-	(17)	4,615
Investments (iv)	206	(1,813)	-	(7)	2,026
Inventories (ii)	3,367	(898)	-	(13)	4,278
Trade and other receivables (vi)	388	(166)	-	8	546
Interest-bearing loans and borrowings (v)	1,959	(440)	-	(9)	2,408
Property, plant and equipment and investment properties (i)	128	28	-	(1)	101
Trade and other payables (vii)	696	(596)	-	(4)	1,296
	7,589	(7,638)	-	(43)	15,270
Less: Offsetting with deferred tax liabilities	(7,589)				(15,270)
<b>Net deferred tax liability</b>	<b>(12,928)</b>	<b>(389)</b>	<b>(48)</b>	<b>65</b>	<b>(12,556)</b>

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 - difference in period of recognition and valuation principles;
- (iv) Investments - differences in valuation, including impairment recognition;
- (v) Interest-bearing loans and borrowings - differences in valuation and in the period of recognition, 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 2012***(in thousands of US dollars, unless otherwise indicated)***18. Property, plant and equipment**

	<i>Freehold land (Restated)</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 (Restated)</i>
<i>Cost or fair value:</i>								
<b>At 31 December 2011</b>	6,603	48,324	6,137	5,555	2,927	1,886	15,449	86,881
Additions	1,501	318	-	179	46	29	56	2,129
Disposals	-	(2,507)	(158)	(183)	(737)	(7)	(567)	(4,159)
Transfers to inventories	-	-	-	-	-	-	(1,236)	(1,236)
Revaluations	-	1,164	-	-	-	-	-	1,164
Translation difference	(9)	(18)	(1)	(1)	(1)	(1)	(5)	(36)
<b>At 31 December 2012</b>	<u>8,095</u>	<u>47,281</u>	<u>5,978</u>	<u>5,550</u>	<u>2,235</u>	<u>1,907</u>	<u>13,697</u>	<u>84,743</u>
<i>Accumulated depreciation and impairment:</i>								
<b>At 31 December 2011</b>	-	-	(1,727)	(3,202)	(1,782)	(1,482)	-	(8,193)
Depreciation charge for the year	-	(955)	(300)	(632)	(324)	(271)	-	(2,482)
Disposals	-	445	53	69	450	12	-	1,029
Revaluations	-	510	-	-	-	-	-	510
Translation difference	-	-	(2)	1	(2)	1	-	(2)
<b>At 31 December 2012</b>	<u>-</u>	<u>-</u>	<u>(1,976)</u>	<u>(3,764)</u>	<u>(1,658)</u>	<u>(1,740)</u>	<u>-</u>	<u>(9,138)</u>
<i>Net book value</i>								
<b>At 31 December 2011</b>	<u>6,603</u>	<u>48,324</u>	<u>4,410</u>	<u>2,353</u>	<u>1,145</u>	<u>404</u>	<u>15,449</u>	<u>78,688</u>
<b>At 31 December 2012</b>	<u>8,095</u>	<u>47,281</u>	<u>4,002</u>	<u>1,786</u>	<u>577</u>	<u>167</u>	<u>13,697</u>	<u>75,605</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***18. Property, plant and equipment (continued)**

	<i>Freehold land (Restated)</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 (Restated)</i>
<i>Cost or fair value:</i>								
<b>At 31 December 2010</b>	6,678	45,434	7,530	4,265	2,914	1,942	18,582	87,345
Additions	-	5	-	1,300	122	97	1,971	3,495
Disposals	-	(766)	(1,370)	(42)	(98)	(155)	(26)	(2,457)
Transfers to investment property	-	-	-	-	-	-	(559)	(559)
Other transfers	-	4,407	-	51	-	9	(4,467)	-
Revaluations	-	(591)	-	-	-	-	-	(591)
Translation difference	(75)	(165)	(23)	(19)	(11)	(7)	(52)	(352)
<b>At 31 December 2011</b>	<u>6,603</u>	<u>48,324</u>	<u>6,137</u>	<u>5,555</u>	<u>2,927</u>	<u>1,886</u>	<u>15,449</u>	<u>86,881</u>
<i>Accumulated depreciation and impairment:</i>								
<b>At 31 December 2010</b>	-	-	(1,780)	(2,549)	(1,406)	(1,311)	-	(7,046)
Depreciation charge for the year	-	(953)	(366)	(689)	(464)	(311)	-	(2,783)
Disposals	-	15	412	25	82	135	-	669
Revaluations	-	935	-	-	-	-	-	935
Translation difference	-	3	7	11	6	5	-	32
<b>At 31 December 2011</b>	<u>-</u>	<u>-</u>	<u>(1,727)</u>	<u>(3,202)</u>	<u>(1,782)</u>	<u>(1,482)</u>	<u>-</u>	<u>(8,193)</u>
<i>Net book value</i>								
<b>At 31 December 2010</b>	<u>6,678</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>80,299</u>
<b>At 31 December 2011</b>	<u>6,603</u>	<u>48,324</u>	<u>4,410</u>	<u>2,353</u>	<u>1,145</u>	<u>404</u>	<u>15,449</u>	<u>78,688</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2012

(in thousands of US dollars, unless otherwise indicated)

### 18. Property, plant and equipment (continued)

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 2012 and 2011 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 2012 construction in progress included workshops and offices under construction to be used by the Group for own purposes.

#### Depreciation

The total depreciation charge for the years ended 31 December 2012 and 2011 was as follows:

	2012	2011
Inventories	1,542	1,822
General and administrative expenses	769	956
Other expenses	171	5
Total depreciation charge	<u>2,482</u>	<u>2,783</u>

#### Finance leases

The carrying value of heavy construction equipment held under finance leases at 31 December 2012 was USD 1,309 thousand (31 December 2011: USD 2,061 thousand; 1 January 2011: USD 3,389 thousand). Leased assets under finance lease contracts are pledged as security for the related finance lease liabilities.

#### Pledged assets

As at 31 December 2012 freehold land and buildings with a carrying value of USD 57,092 thousand (31 December 2011: USD 57,252 thousand, 1 January 2011: USD 55,571 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

#### Fully depreciated assets

Included in property, plant and equipment as at 31 December 2012 are equipment recorded at a cost of USD 3,040 thousand (31 December 2011: USD 1,425 thousand; 1 January 2011: USD 861 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 2012 and 2011.

Net revaluation result for the year ended 31 December 2012 was gain of USD 1,674 thousand of which USD 1,591 thousand of gain on revaluation was recognised in other comprehensive income, and USD 83 thousand of gain on revaluation was recognised in profit or loss.

Net revaluation result for the year ended 31 December 2011 was USD 344 thousand of which USD 205 thousand of gain on revaluation was recognised in other comprehensive income, and USD 139 thousand of loss on revaluation was recognised in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***19. Investment properties**

	2012	2011 (Restated)
At 1 January	54,781	53,930
Additions	-	289
Transfers from inventories	141	-
Transfers from property, plant and equipment	-	559
Disposals	(2,465)	(73)
Change in fair value of investment properties	588	320
Translation difference	(23)	(244)
At 31 December	<u>53,022</u>	<u>54,781</u>

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 2012 and 2011. 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 2012 investment properties with a carrying value of USD 38,412 thousand (31 December 2011: USD 38,973 thousand; 1 January 2011: USD 35,915 thousand) were pledged as collateral for interest-bearing borrowings (Note 28).

**20. Investments in associates**

Investments in associates consisted of the following:

<i>Entity</i>	<i>Activity</i>	<i>Carrying value</i>		<i>Carrying value</i>		<i>Carrying value</i>	
		<i>%</i>	<i>2012</i>	<i>%</i>	<i>2011</i>	<i>%</i>	<i>2010</i>
PJSC "TMM - Energobud"	Production of power facilities	50.0%	-	50.0%	1,509	50.0%	4,627
Other minor associates			-		14		14
			<u>-</u>		<u>1,523</u>		<u>4,641</u>

The summarised financial information of PJSC "TMM - Energobud" is follows:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2010</i>
Total assets	89,042	89,913	64,777
Total liabilities	<u>(91,569)</u>	<u>(86,896)</u>	<u>(55,524)</u>
	<u>2012</u>	<u>2011</u>	
Revenue	42,006	18,326	
Net loss	<u>(4,673)</u>	<u>(6,257)</u>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**20. Investments in associates (continued)**

The reconciliation of carrying value of investment in PJSC "TMM - Energobud" is as follows:

	2012	2011
Carrying value at 1 January	1,509	4,627
Share in revaluation of buildings of an associate	282	19
Share in losses of an associate	(1,806)	(3,128)
Foreign currency translation	15	(9)
Carrying value at 31 December	-	1,509

As at 31 December 2012, the Group's unrecognised share in losses of the associate amounted to USD 531 thousand (31 December 2011: nil; 1 January 2011: nil).

As at 31 December 2012, the Group's 50% ownership share in PJSC "TMM - Energobud", 25,105 ordinary shares, at a nominal value of USD 6,282 thousand was pledged as collateral for interest-bearing borrowings (Note 28).

In December 2012 the Group disposed one of its minor associates. The loss on disposal of USD 14 thousand was included in other operating expenses (Note 13).

**21. Property development rights**

Property development rights were as follows (by projects):

<i>Name of the project</i>	<i>Location of the project</i>	<i>Type of the project</i>	<i>31 December 2012</i>	<i>31 December 2011 (Restated)</i>	<i>1 January 2011 (Restated)</i>
Lisya bukhta	Crimea	Recreational	5,272	5,252	5,258
Arabatska strilka	Kherson	Recreational	4,065	3,994	4,008
Satellite Town	Kyiv	Residential	3,924	3,899	4,277
Palladium Centre	Kyiv	Commercial	2,733	2,734	2,743
Utilservice	Kyiv	Commercial	-	2,402	2,411
Parkove	Yalta	Recreational	2,144	2,144	2,149
Tankova	Kyiv	Residential	1,704	1,705	1,249
Moskovskyj	Kharkiv	Residential	1,334	1,334	1,342
Bereznevyj	Kyiv	Residential	1,190	1,190	1,172
Pivdennyj	Kyiv	Residential	964	959	948
Uborevicha	Kyiv	Commercial	594	564	547
Korchagintsiv	Kharkiv	Residential	417	381	385
Tisa	Carpathians	Recreational	316	316	317
Dytyachoi Komuny	Zhytomyr	Residential	267	246	224
Parkova Chernomorsk	Crimea	Recreational	262	262	263
Lubyanka	Kyiv	Residential	150	150	150
Other	Various	Various	6,934	6,051	6,063
			<u>32,270</u>	<u>33,583</u>	<u>33,506</u>

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**22. Inventories**

Inventories consisted of the following:

	31 December 2012	31 December 2011	1 January 2011
Inventory property under development	112,611	78,812	56,939
Completed inventory property	45,415	55,088	74,598
Goods for resale	13,309	13,528	-
Raw materials	6,295	8,975	8,815
Other inventories	1,035	1,028	2,303
	<u>178,665</u>	<u>157,431</u>	<u>142,655</u>

The amount of write-down of inventories recognised as other operating expenses in 2012 is USD 2,312 thousand (2011: USD 1,377 thousand).

As at 31 December 2012 no raw materials were pledged as collateral for interest-bearing borrowings (31 December 2011: USD 292 thousand; 1 January 2011: USD 540 thousand) (Note 28).

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	31 December 2012	31 December 2011	1 January 2011
Sonyachna brama	Kyiv	Residential	87,473	61,664	44,775
Green Town	Kharkiv	Residential	11,926	10,099	8,155
Laborotornyj provulok	Kyiv	Residential	6,814	5,690	2,481
Other	Various	Residential	6,398	1,359	1,528
			<u>112,611</u>	<u>78,812</u>	<u>56,939</u>

As at 31 December 2012 inventory property under development with a carrying value of USD 79,168 thousand (31 December 2011: USD 26,784 thousand; 1 January 2011: USD 16,425 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).

During 2012 borrowing costs of USD 13,058 thousand (2011: USD 4,180 thousand) were capitalised into inventory property under development.

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

Name of the project	Location of the project	Type of the project	31 December 2012	31 December 2011	1 January 2011
Sonyachna brama	Kyiv	Residential	21,613	28,152	44,338
Ultra	Kharkiv	Residential	14,634	16,036	14,293
Kaskad	Kharkiv	Residential	2,818	2,820	2,760
Edelweiss	Kharkiv	Residential	1,880	2,560	3,583
Karat	Kharkiv	Residential	1,229	1,241	2,058
Triumph	Kyiv	Residential	1,227	1,596	1,933
Flamingo	Kharkiv	Residential	654	655	897
Green Town	Kharkiv	Residential	632	675	618
Aviator	Kyiv	Residential	607	1,187	3,797
Atoll	Kharkiv	Residential	33	59	147
Chaadaeva 2	Kyiv	Residential	50	101	101
Demchenka	Kharkiv	Residential	-	-	64
Other	Various	Various	38	6	9
			<u>45,415</u>	<u>55,088</u>	<u>74,598</u>

As at 31 December 2012 completed inventory property with a carrying value of USD 18,141 thousand (31 December 2011: USD 33,887 thousand; 1 January 2011: USD 45,465 thousand) was pledged as collateral for interest-bearing borrowings (Note 28).



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**23. Trade and other receivables**

Trade and other receivables consisted of the following:

	31 December 2012	31 December 2011	1 January 2011
Trade receivables	6,882	6,092	9,278
Notes receivable	820	1,512	2,480
Other	6,173	4,614	4,608
	<u>13,875</u>	<u>12,218</u>	<u>16,366</u>
Less: Allowance for impairment	(4,397)	(4,872)	(5,653)
	<u>9,478</u>	<u>7,346</u>	<u>10,713</u>

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

As at 31 December 2012 trade receivables and notes receivable at initial value of USD 3,577 thousand and USD 820 thousand, respectively, (31 December 2011: USD 3,583 thousand and USD 1,289 thousand; 1 January 2011: USD 4,082 thousand and USD 1,571 thousand, respectively) were impaired and fully provided for.

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

	2012	2011
At 1 January	4,872	5,653
Charge for the year	3,224	424
Unused amounts reversed	(534)	(793)
Utilised	(3,163)	(393)
Translation difference	(2)	(19)
At 31 December	<u>4,397</u>	<u>4,872</u>

As at 31 December 2012 trade and other receivables past due 365 days, but not impaired equalled to USD 1,576 thousand (31 December 2011: USD 1,180 thousand; 1 January 2011: USD 2,105 thousand).

**24. Prepayments**

Prepayments consisted of the following:

	31 December 2012	31 December 2011	1 January 2011
Prepayments for construction materials and services	11,246	11,224	11,227
	<u>11,246</u>	<u>11,224</u>	<u>11,227</u>
Less: Allowance for impairment	(1,317)	(1,355)	(1,667)
	<u>9,929</u>	<u>9,869</u>	<u>9,560</u>

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

	2012	2011
At 1 January	1,355	1,667
Charge for the year	30	262
Unused amounts reversed	-	(316)
Utilised	(68)	(253)
Translation difference	-	(5)
At 31 December	<u>1,317</u>	<u>1,355</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**25. Taxes recoverable, other than income tax**

Taxes recoverable other than income tax consisted of the following:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
VAT recoverable	1,132	854	2,641
Other taxes recoverable	39	21	13
	<u>1,171</u>	<u>875</u>	<u>2,654</u>

**26. Cash and cash equivalents**

As at 31 December 2012 cash and cash equivalents mainly comprised cash at banks. Cash at banks earn interest at floating rates based on daily bank deposit rates.

**27. 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 April 2012, the Company repurchased 300,000 of its ordinary shares for the total consideration of USD 197 thousand.

In April 2012, the Company sold 35,967 of its repurchased ordinary shares for the total consideration of USD 158 thousand.

As a result of these transactions, as at 31 December 2012 the Company's repurchased ordinary shares amounted USD 1,494 thousand and comprised ordinary 707,930 shares with a par value of USD 0,01 each.

As at 31 December 2012 the company's issued and paid-in share capital comprised of 51,084,235 ordinary shares with a par value of USD 0,01 each (31 December 2011: 51,348,268 ordinary shares; 1 January 2010: 50,753,819 ordinary shares). As at 31 December 2012 the Company's total authorised share capital comprised 100,000,000 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.

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### 27. Issued capital and reserves (continued)

#### Earnings per share

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

(in shares)	31 December 2012	31 December 2011	1 January 2011
Issued shares as at 1 January	51,262,803	50,753,819	50,753,819
Effect of shares repurchase	(184,461)	-	-
Effect of shares sale	-	508,984	-
Weighted average number of shares for the year	<u>51,078,342</u>	<u>51,262,803</u>	<u>50,753,819</u>

### 28. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following:

	31 December 2012	31 December 2011	1 January 2011
<i>Current</i>			
Bank loans	59,962	29,904	10,428
Supplier credits	908	1,064	664
	<u>60,870</u>	<u>30,968</u>	<u>11,092</u>
<i>Non-current</i>			
Bank loans	95,024	99,357	107,274
Supplier credits	501	686	1,038
	<u>95,525</u>	<u>100,043</u>	<u>108,312</u>
	<u>156,395</u>	<u>131,011</u>	<u>119,404</u>

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

	31 December 2012	31 December 2011	1 January 2011
1 to 2 years	38,320	33,053	20,502
2 to 3 years	38,984	33,354	28,803
3 to 4 years	18,221	33,039	28,855
4 to 5 years	-	597	30,152
	<u>95,525</u>	<u>100,043</u>	<u>108,312</u>

Effective interest rate, maturity and currency split for interest-bearing loans and borrowings were as follows:

	Effective interest rate	31 December 2012	31 December 2011	1 January 2011
<i>Secured</i>				
UAH Credit line from a Ukrainian bank	15.55%	134,310	108,221	95,483
EUR Credit line from a Ukrainian bank	Euribor 1m + 8.00%	20,531	20,772	21,771
EUR Supplier credits	9.72%	1,554	1,750	1,702
USD loan from a Ukrainian bank	LIBOR + 4.27%	-	268	448
		<u>156,395</u>	<u>131,011</u>	<u>119,404</u>

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

As at 31 December 2012 the Group had available un-drawn borrowing facilities of USD 2,500 thousand.

Interest-bearing loans and borrowings were secured as follows:

<i>Type of collateral</i>	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Inventories (Note 22)	97,309	60,963	62,430
Property, plant and equipment (Note 18)	57,092	57,252	55,571
Investment properties (Note 19)	38,412	38,973	35,915
Investments (at nominal) (Note 20)	6,282	6,284	-
	<u>199,095</u>	<u>163,472</u>	<u>153,916</u>

**29. Trade and other payables**

Trade and other payables consisted of the following:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Payables for goods purchased for resale	16,428	17,212	-
Trade accounts payable	6,756	4,503	5,052
Due to employees	1,619	1,376	1,093
Other	4,913	2,292	1,623
	<u>29,716</u>	<u>25,383</u>	<u>7,768</u>

**30. Advances received**

As at 31 December 2012 advances received included USD 42,629 thousand (31 December 2011: USD 34,444 thousand; 1 January 2011: USD 36,000 thousand) of advances received for inventory property under development that management estimates will be realised in the Group's normal operating cycle.

**31. Taxes payable, other than income tax**

Taxes payable, other than income tax consisted of the following:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Value added tax payable	634	1,110	573
Payroll related taxes	565	426	402
Miscellaneous taxes	255	117	67
	<u>1,454</u>	<u>1,653</u>	<u>1,042</u>

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**32. 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 2011	3,948	221	4,169
Arising during the year	602	662	1,264
Utilised	(3,945)	-	(3,945)
Translation difference	(10)	2	(8)
At 31 December 2011	595	885	1,480
Arising during the year	-	152	152
Utilised	(386)	(97)	(483)
Reversed	(214)	-	(214)
Translation difference	5	(5)	-
At 31 December 2012	-	935	935

**33. 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>Other operating expenses</i>
<b>2012</b>				
Associate	51	-	1,032	-
Entities under common control	276	13	289	8
	<u>327</u>	<u>13</u>	<u>1,321</u>	<u>8</u>
<b>2011</b>				
Associate	86	5	383	-
Entities under common control	250	44	295	77
	<u>336</u>	<u>49</u>	<u>678</u>	<u>77</u>

The outstanding balances due from / to related parties 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>
<b>31 December 2012</b>					
Associate	257	6,149	-	790	-
Entities under common control	1,719	255	-	497	128
	<u>1,976</u>	<u>6,404</u>	<u>-</u>	<u>1,287</u>	<u>128</u>
<b>31 December 2011</b>					
Associate	38	4,547	-	372	7
Entities under common control	1,448	257	170	575	3,848
	<u>1,486</u>	<u>4,804</u>	<u>170</u>	<u>947</u>	<u>3,855</u>

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**33. Related party disclosure (continued)**

	<i>Trade and other receivables</i>	<i>Prepayments</i>	<i>Cash</i>	<i>Trade and other payables</i>	<i>Advances received</i>
<i>1 January 2011</i>					
Associate	651	3,367	-	112	660
Entities under common control	2,122	289	55	552	5,383
	<u>2,773</u>	<u>3,656</u>	<u>55</u>	<u>664</u>	<u>6,043</u>

Revenue from associate and entities under common control in 2012 comprised: a) rental income amounting to USD 202 thousand (2011: USD 178 thousand); b) other revenue amounting to USD 125 thousand (2011: USD 158 thousand).

Purchases from associate and entities under common control in 2012 mainly comprised: a) purchase of construction materials amounting to USD 289 thousand (2011: USD 381 thousand); b) purchase of construction services amounting to USD 1,032 thousand (2011: USD 297 thousand).

Trade and other receivables from associate and entities under common control in 2012 mainly comprised: a) receivables for construction services amounting USD 942 thousand (31 December 2011: USD 935 thousand; 1 January 2011: USD 1,950 thousand); b) receivables for other goods and services of USD 916 thousand (31 December 2011: USD 551 thousand; 1 January 2011: USD 823 thousand).

Prepayments made to associate and entities under common control as at 31 December 2012, 31 December 2011 and 1 January 2011 comprised mainly prepayments for construction-assembly works.

Trade and other payables from associate and entities under common control in 2012 comprised: a) payables for construction materials amounting USD 142 thousand (31 December 2011: USD 520 thousand; 1 January 2011: USD 262 thousand); b) payables for other goods and services USD 1,065 thousand (31 December 2011: USD 427 thousand; 1 January 2011: USD 402 thousand).

Advances received from associate and entities under common control as at 31 December 2012, 31 December 2011 and 1 January 2011 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 2012 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 2012, the total short-term employee benefits to key management personnel comprised wages and salaries and respective social security taxes in the amount of USD 371 thousand (2011: USD 391 thousand) and were included in general and administrative expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***34. Contingencies and commitments****Tax matters**

As discussed in Note 1, the Group conducts majority of its operations in Ukraine. The Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. In general, legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities. Instances of inconsistent interpretations are not unusual. The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect. As at 31 December 2012 the Group's management estimated that maximum cumulated tax exposure amounted to USD 4,803 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 unfavourable outcome, which likelihood and amount cannot be presently determined with sufficient reliability, may have a material effect on the Group's financial position, results of operations and cash flows.

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

**Purchase commitments**

As at 31 December 2012 the Group had no contractual purchase commitments (31 December 2011: USD 4,229 thousand; 1 January 2011: USD 4,014 thousand of contractual commitments for acquisition of construction materials and sub-contractors services).

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**34. Contingencies and commitments (continued)**

**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 2012 and 2011 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 2012</i>		
Within one year	2,994	2,955
After one year but not more than five years	32	30
Total minimum lease payments	3,026	
Less amounts representing finance charges	(41)	
	<u>2,985</u>	<u>2,985</u>
<i>at 31 December 2011</i>		
Within one year	5,905	5,782
After one year but not more than five years	503	475
Total minimum lease payments	6,408	
Less amounts representing finance charges	(151)	
	<u>6,257</u>	<u>6,257</u>
<i>at 1 January 2011</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>

*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 were as follows:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Within one year	600	600	600
After one year but not more than five years	3,000	3,000	3,000
More than five years	3,300	3,900	4,500
	<u>6,900</u>	<u>7,500</u>	<u>8,100</u>

In April 2013 the respective investment property was sold.



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**35. Fair value of financial instruments**

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

	<i>Carrying amount</i>			<i>Fair value</i>		
	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
<b>Financial assets</b>						
Trade and other receivables	9,478	7,346	10,713	9,478	7,346	10,713
Cash and cash equivalents	553	475	3,693	553	475	3,693
<b>Financial liabilities</b>						
Interest-bearing loans and borrowings	156,395	131,011	119,404	155,153	128,898	114,695
Finance lease liability	2,985	6,257	8,529	2,985	6,257	8,529
Trade and other payables	29,716	25,383	7,768	29,716	25,383	7,768

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the statement of financial position date. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for long-term debt. To determine the fair value of the remaining long-term financial instruments, the discounted values of future cash flows are used. The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

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

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

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

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

**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 2012 and 2011, the Group primarily borrowed at both fixed and floating rate pegged to the European Interbank Offering Rate ("EURIBOR").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### for the year ended 31 December 2012

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#### 36. Financial risk management objectives and policies (continued)

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>
<b>2012</b>		
EURIBOR	16	(33)
EURIBOR	(16)	33
<b>2011</b>		
EURIBOR	15	(32)
EURIBOR	(15)	32

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 comprised:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Cash and cash equivalents	553	475	3,693
Trade and other receivables	9,478	7,346	10,713
	<u>10,031</u>	<u>7,821</u>	<u>14,406</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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***36. Financial risk management objectives and policies (continued)****Liquidity risk**

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

In the next twelve months the Group expects to finance its operating and investing activities with cash generated from operations.

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

	<i>Less than one year</i>	<i>1 to 5 years</i>	<i>Total</i>
<b>31 December 2012</b>			
Interest bearing loans and borrowings	67,432	116,739	184,171
Finance lease liability	2,994	32	3,026
Trade and other payables	29,716	-	29,716
	<u>100,142</u>	<u>116,771</u>	<u>216,913</u>
<b>31 December 2011</b>			
Interest bearing loans and borrowings	37,700	161,203	198,903
Finance lease liability	5,905	503	6,408
Trade and other payables	25,383	-	25,383
	<u>68,988</u>	<u>161,706</u>	<u>230,694</u>
<b>1 January 2011</b>			
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>

**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:

	<i>USD</i>	<i>EUR</i>
1 January 2011	7.9617	10.5731
Average for 2011	7.9678	11.0911
31 December 2011	7.9898	10.2980
Average for 2012	7.9910	10.2706
31 December 2012	7.9930	10.4848

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****for the year ended 31 December 2012***(in thousands of US dollars, unless otherwise indicated)***36. Financial risk management objectives and policies (continued)****Foreign currency risk (continued)**

	<i>Change in foreign currency exchange rates</i>	<i>Effect on profit before tax</i>
<b>2012</b>		
Increase in USD exchange rate	7.10%	-
Increase in EUR exchange rate	12.67%	(2,601)
Decrease in USD exchange rate	-7.10%	-
Decrease in EUR exchange rate	-12.67%	2,601
<b>2011</b>		
Increase in USD exchange rate	23.22%	(455)
Increase in EUR exchange rate	27.20%	(7,374)
Decrease in USD exchange rate	-23.22%	455
Decrease in EUR exchange rate	-27.20%	7,374

**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.

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>1 January 2011</i>
Long-term borrowings	95,525	100,043	108,312
Short-term borrowings	60,870	30,968	11,092
Finance lease liability	2,985	6,257	8,529
Advances received from customers	42,629	34,444	36,000
Less cash and cash equivalents	(553)	(475)	(3,693)
Net debt	201,456	171,237	160,240
Total equity attributable to equity holders of the parent ( <i>Restated</i> )	108,196	128,924	148,110
Total capital and net debt ( <i>Restated</i> )	309,652	300,161	308,350
Gearing ratio	65%	57%	52%

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.

**37. Subsequent events**

Subsequent to the statement of financial position date:

- The Group completed construction works and put into operation the second stage of Sonyachna brama project and the second stage of Green Town project;
- The Group acquired an additional 30% of its associate PJSC "Energobud" for cash consideration of USD 3,878 thousand with the objective of their further resale in 2013.
- The Group entered into additional agreement with a Ukrainian bank extending repayment of UAH credit line current principal and interest in the amount of USD 31,059 thousand and USD 8,431 thousand respectively, from 2013 to 2014.