

**TMM Real Estate Development plc**  
Unaudited Interim Condensed  
Consolidated Financial Statements

*As at 30 June 2012*

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

### **BOARD OF DIRECTORS**

Maarten van den Belt (appointed 11/04/2011)

Dominic Dreyfus (appointed 11/04/2011)

Nikoloz Enukidze (appointed 11/04/2011)

Anna Rossides (resigned 11/04/2011)

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME****for the six-month period ended 30 June 2012***(in thousands of US dollars, unless otherwise indicated)*

	Notes	The six-month period ended 30 June 2012	The six-month period ended 30 June 2011
Revenue	4	14,306	22,755
Cost of revenue		(10,652)	(19,602)
<b>Gross profit</b>		<b>3,654</b>	<b>3,153</b>
Other operating income		1,707	1,393
General and administrative expenses		(1,880)	(2,711)
Selling and distribution expenses		(438)	(315)
Other operating expenses		(1,453)	(3,844)
<b>Operating profit (loss)</b>		<b>1,590</b>	<b>(2,324)</b>
Share in profits (losses) of associates		1,658	(1,439)
Finance income		-	76
Finance costs		(6,161)	(6,259)
Foreign exchange gain (loss), net		295	(1,366)
<b>Loss before tax</b>		<b>(2,618)</b>	<b>(11,312)</b>
Income tax expense	6	(575)	(234)
<b>Loss for the period</b>		<b>(3,193)</b>	<b>(11,546)</b>
<b>Other comprehensive loss:</b>			
Exchange differences on translation to presentation currency		(82)	(130)
<b>Other comprehensive loss for the period, net of tax</b>		<b>(82)</b>	<b>(130)</b>
<b>Total comprehensive loss for the period, net of tax</b>		<b>(3,275)</b>	<b>(11,676)</b>
<b>Loss attributable to:</b>			
Equity holders of the parent		(3,145)	(11,531)
Non-controlling interest		(48)	(15)
		<b>(3,193)</b>	<b>(11,546)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the parent		(3,227)	(11,661)
Non-controlling interest		(48)	(15)
		<b>(3,275)</b>	<b>(11,676)</b>
Weighted average basic and diluted number of shares (in thousands of shares)		51,361	50,958
Basic and diluted earnings per share (in US dollars)		(0.06)	(0.23)

*The accompanying notes form an integral part of the interim condensed consolidated financial statements*  
*The interim condensed consolidated financial statements were not subject to audit or review*

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****as at 30 June 2012***(in thousands of US dollars, unless otherwise indicated)*

	Notes	30 June 2012	31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	90,930	93,322
Intangible assets		449	481
Investment properties	8	68,705	69,913
Investments in associates		3,181	1,523
Property development rights	9	35,891	35,824
		<u>199,156</u>	<u>201,063</u>
<b>Current assets</b>			
Inventories	10	160,492	157,431
Trade and other receivables		9,167	7,346
Prepayments		10,053	9,869
Prepaid income tax		12	13
Taxes recoverable, other than income tax		1,876	875
Cash and cash equivalents		<u>573</u>	<u>475</u>
		<u>182,173</u>	<u>176,009</u>
<b>TOTAL ASSETS</b>		<u><b>381,329</b></u>	<u><b>377,072</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		513	513
Share premium		99,227	99,227
Additional paid-in capital		4,853	2,592
Revaluation reserve		63,219	63,219
Retained earnings		77,119	80,264
Translation reserve		<u>(87,387)</u>	<u>(87,305)</u>
<b>Equity attributable to equity holders of the parent</b>		<u>157,544</u>	<u>158,510</u>
Non-controlling interests		<u>454</u>	<u>502</u>
<b>Total equity</b>		<u><b>157,998</b></u>	<u><b>159,012</b></u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	11	95,315	100,043
Finance lease liability		69	475
Deferred tax liability		<u>15,914</u>	<u>15,349</u>
		<u>111,298</u>	<u>115,867</u>
<b>Current liabilities</b>			
Trade and other payables		27,205	25,383
Interest-bearing loans and borrowings	11	48,050	30,968
Finance lease liability		4,348	5,782
Advances received		28,115	36,927
Taxes payable, other than income tax		3,088	1,653
Provisions		<u>1,227</u>	<u>1,480</u>
		<u>112,033</u>	<u>102,193</u>
<b>TOTAL LIABILITIES</b>		<u><b>223,331</b></u>	<u><b>218,060</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>381,329</b></u>	<u><b>377,072</b></u>

Signed and authorised for release on behalf of TMM Real Estate Development plc on 14 September 2012:

Director



Mykola Tolmachov

Director



Larysa Chyvurina

The accompanying notes form an integral part of the interim condensed consolidated financial statements  
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# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2012

(in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the parent					Non-controlling interest	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total
<b>Balance at 1 January 2011</b>	508	98,569	2,592	63,198	99,582	(86,753)	177,696
Loss for the year	-	-	-	-	(11,531)	-	(11,531)
Other comprehensive loss	-	-	-	-	-	(130)	(130)
Total comprehensive loss for the year	-	-	-	-	(11,531)	(130)	(11,661)
Sale of treasury shares	5	658	-	-	-	-	663
<b>Balance at 30 June 2011</b>	513	99,227	2,592	63,198	88,051	(86,883)	166,698
<b>Balance at 1 January 2012</b>	513	99,227	2,592	63,219	80,264	(87,305)	158,510
Loss for the year	-	-	-	-	(3,145)	-	(3,145)
Other comprehensive loss	-	-	-	-	-	(82)	(82)
Total comprehensive loss for the year	-	-	-	-	(3,145)	(82)	(3,227)
Transfer of revaluation reserve, net of taxes	-	-	-	-	-	-	-
<i>Transactions with owners of the Group, recognised directly in equity</i>							
Other contributions by owners of the Group	-	-	2,261	-	-	-	2,261
Total contributions by owners of the Group	-	-	2,261	-	-	-	2,261
<b>Balance at 30 June 2012</b>	513	99,227	4,853	63,219	77,119	(87,387)	157,998

During six-month period ended 30 June 2012 the ultimate shareholder of the Group settled advances received by the Group of USD 2,260 thousand through transfer to a third party of his ownership in PJSC TMM-bank, an entity under common control.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

	Notes	The six-month period ended 30 June 2012	The six-month period ended 30 June 2011
<b>Operating activities</b>			
Loss before tax		(2,618)	(11,312)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Depreciation and amortisation		634	648
Reversal of impairment of trade and other receivables		-	(282)
Loss on disposal of property, plant and equipment and investment properties	7, 8	876	12
Share in losses of associates		(1,658)	1,439
Loss on disposal of shares		-	1
Finance income		-	(76)
Finance costs		6,161	6,259
Unrealised foreign exchange (gain) / loss		806	3,278
<b>Working capital adjustments</b>			
Change in inventories		(49)	(5,848)
Change in trade and other receivables		(1,824)	8,673
Change in prepayments		(187)	(839)
Change in taxes recoverable, other than income tax		(1,002)	328
Change in trade and other payables and provisions		1,080	16,237
Change in advances received		(6,542)	(16,626)
Change in taxes payable, other than income tax		1,436	(215)
<b>Interest paid</b>		(3,136)	(4,731)
<b>Net cash flows used in operating activities</b>		(6,023)	(3,054)
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment and investment properties	7, 8	1,876	33
Purchase of property, plant and equipment and investment properties		(462)	(1,382)
Purchase of intangible assets		(26)	-
<b>Net cash flows from / (used in) investing activities</b>		1,388	(1,349)
<b>Financing activities</b>			
Proceeds from loans	11	8,367	1,263
Repayment of loans		(2,221)	(541)
Repayment of finance lease liabilities		(1,413)	(373)
Sale of treasury shares		-	659
<b>Net cash flows from financing activities</b>		4,733	1,008
<b>Net increase / (decrease) in cash and cash equivalents</b>		98	(3,395)
<b>Net foreign exchange difference</b>		-	2
<b>Cash and cash equivalents at 1 January</b>		475	3,693
<b>Cash and cash equivalents at 30 June</b>		573	300

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

**1. Corporate information**

These interim condensed 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>30 June 2012</i>	<i>31 December 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	85.0%	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%	50.0%

All subsidiaries and associates are incorporated in Ukraine.

The Group is ultimately controlled by Mr. Mykola Tolmachov.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

**2. Basis of preparation and accounting policies**

**Statement of compliance**

These interim condensed consolidated financial statements for the six-month period ended 30 June 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011, which are available on the corporate web-site of the Group.

These interim condensed consolidated financial statements are presented in US dollars thousand and all values are rounded off to the nearest thousand except when otherwise indicated.

**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.

**Judgements and estimates**

Preparing the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2011.

**Significant accounting policy**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

**3. Seasonality of operations**

The Group's business is not materially exposed to the seasonal fluctuations.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

**4. Revenue**

Revenue for the six-month period ended 30 June comprised:

	<u>2012</u>	<u>2011</u>
Sales of completed inventory property	5,532	17,433
Construction contracts revenue	3,749	-
Utility services income	2,031	1,671
Rental income from investment properties	1,570	1,723
Other construction services revenue	213	659
Other services	1,211	1,269
	<u>14,306</u>	<u>22,755</u>

Other services mainly comprised transportation, engineering and design services rendered to third parties. All revenue is generated from sales to customers in Ukraine.

**5. Operating segment information**

**Identification of reportable segments**

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

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

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

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

An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result, where segment result is determined as gross profit plus change in fair value of investment properties, (charge) / reversal of impairment of freehold land, heavy construction equipment and production, construction and research equipment, (charge) / reversal of property development rights, selling and distribution expenses and share in losses of associates.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

**5. Operating segment information (continued)**

As at 30 June and for the six-month period then ended the Group's segmental information was as follows:

	<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>2012</b>						
<b>Revenue</b>						
External customers	1,570	5,532	7,204	14,306	-	14,306
Inter-segment	-	-	731	731	(731)	-
<b>Total revenue</b>	<b>1,570</b>	<b>5,532</b>	<b>7,935</b>	<b>15,037</b>	<b>(731)</b>	<b>14,306</b>
<b>Results</b>						
Depreciation	-	(634)	-	(634)	-	(634)
Selling and distribution expenses	(19)	(419)	-	(438)	-	(438)
Share in losses of associates			1,658	1,658		1,658
<b>Segment results (including cost of sales)</b>	<b>1,551</b>	<b>(806)</b>	<b>4,860</b>	<b>5,605</b>	<b>(731)</b>	<b>4,874</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>2011</b>						
<b>Revenue</b>						
External customers	1,495	17,128	4,055	22,678	77	22,755
Inter-segment	-	-	273	273	(273)	-
<b>Total revenue</b>	<b>1,495</b>	<b>17,128</b>	<b>4,328</b>	<b>22,951</b>	<b>(196)</b>	<b>22,755</b>
<b>Results</b>						
Depreciation	-	(648)	-	(648)	-	(648)
Selling and distribution expenses	(24)	(291)	-	(315)	-	(315)
Share in losses of associates	-	-	(1,439)	-	-	-
<b>Segment results (including cost of sales)</b>	<b>1,47</b>	<b>1,321</b>	<b>(1,197)</b>	<b>1,595</b>	<b>(196)</b>	<b>1,399</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at and for the six-month period ended 30 June 2012**  
*(in thousands of US dollars, unless otherwise indicated)*

**5. Operating segment information** *(continued)*

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

Inter-segment revenues are eliminated on consolidation.

*Reconciliation of profit*

	<i>The six-month period ended 30 June 2012</i>	<i>The six-month period ended 30 June 2011</i>
<b>Segment results</b>	5,605	1,595
General and administrative expenses	(1,880)	(2,711)
Other operating expenses	(1,453)	(3,844)
Other operating income	1,707	1,393
Finance income	-	76
Finance costs	(6,161)	(6,259)
Foreign exchange gain	295	(1,366)
Inter-segment sales (eliminations)	(731)	(196)
<b>Consolidated (loss) / profit before tax</b>	<b>(2,618)</b>	<b>(11,312)</b>

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

**6. Income tax**

The major components of income tax expense for the six-month period ended 30 June are:

*Profit or loss*

	<i>2012</i>	<i>2011</i>
Current income tax charge	-	-
Deferred tax relating to reversal and origination of temporary differences	575	234
<b>Income tax expense reported in profit or loss</b>	<b>575</b>	<b>234</b>

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus).

The most of the Group's operations are performed in Ukraine. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual.

According to the Tax Code, introduced in Ukraine in December 2010, the income tax rates will decrease gradually starting from the second quarter of 2011 (from 25% in the first quarter of 2011 to 16% in 2014). As at 30 June 2012, income tax rate in Ukraine is 21% (30 June 2011: 23%)

During six months ended 31 June 2012 Cyprus income tax rate was 10% (the six-month period ended 30 June 2011: 10%). A 10% Defence Fund contribution is also levied on interest income received from sources either in Cyprus or abroad whenever such income is earned from passive activities (15% as of 30 June 2011). There is no withholding tax on payments of dividends by the Company to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividend to shareholders who are individuals resident in Cyprus were subject to a 15% withholding tax (17% as of 30 June 2011).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2012***(in thousands of US dollars, unless otherwise indicated)***7. Property, plant and equipment**

During the six months ended 30 June 2012, the Group purchased property and equipment with a cost of USD 462 thousand (six months ended 30 June 2011: USD 649 thousand).

Property and equipment with a carrying amount of USD 1,567 thousand were disposed during six months ended 30 June 2011, resulting in a loss on disposal of USD 50 thousand (six months ended 30 June 2011: USD 45 thousand and USD 12 thousand, respectively).

**8. Investment properties**

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

During the six months ended 30 June 2012, the Group did not purchase investment properties (six months ended 30 June 2011: USD 733 thousand).

Investment properties with a carrying amount of USD 1,185 thousand were disposed during six months ended 30 June 2012, resulting in a loss on disposal of USD 826 thousand (six months ended 30 June 2011: nil).

**9. 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>30 June 2012</i>	<i>31 December 2011</i>
Lisya bukhta	Crimea	Recreational	5,252	5,252
Arabatska strilka	Kherson	Recreational	3,994	3,994
Satellite Town	Kyiv	Residential	3,903	3,899
Palladium Centre	Kyiv	Commercial	2,734	2,734
Utilservice	Kyiv	Commercial	2,402	2,402
Moskovskyj	Kharkiv	Residential	2,279	2,279
Parkove	Yalta	Recreational	2,144	2,144
Tankova	Kyiv	Residential	1,740	1,705
Bereznevyj	Kyiv	Residential	1,501	1,479
Korchagintsiv	Kharkiv	Residential	1,388	1,388
Pivdenny	Kyiv	Residential	961	959
Uborevicha	Kyiv	Commercial	564	564
Tisa	Carpathians	Recreational	316	316
Parkova Chernomorsk	Crimea	Recreational	262	262
Dytyachoi Komuny	Zhytomyr	Residential	256	246
Lubyanka	Kyiv	Residential	150	150
Other	Various	Various	6,045	6,051
			<u>35,891</u>	<u>35,824</u>

On 26 July 2012 the Group signed additional agreement with Kyiv City Council, according to which the Group transfers all its rights and obligations connected with construction of premises on Tankova Street in Kyiv to a third party. The Group will receive 1,400 square meters of premises as a compensation of costs incurred prior to 26 July 2012 (note 15).

**10. Inventories**

During the six months ended 30 June 2011, the Group wrote down its goods for resale to net realisable value by USD 357 thousand. The write-down is included in 'other operating expenses' in the condensed consolidated statement of comprehensive income. There were no inventory write-downs recognised during the six months ended 30 June 2012.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2012***(in thousands of US dollars, unless otherwise indicated)***11. Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings were as follows:

	<u>30 June 2012</u>	<u>31 December 2011</u>
<i>Current</i>		
Bank loans	47,227	29,904
Supplier credits	<u>823</u>	<u>1,064</u>
	<u>48,050</u>	<u>30,968</u>
<i>Non-current</i>		
Bank loans	94,805	99,357
Supplier credits	<u>510</u>	<u>686</u>
	<u>95,315</u>	<u>100,043</u>
	<u>143,365</u>	<u>131,011</u>

During six-month period ended 30 June 2012, the Group obtained additional debt financing within the limits of credit line provided by a Ukrainian bank amounting to USD 8,367 thousand (six-month period ended 30 June 2011: USD 1,263 thousand).

**12. Related party disclosure**

The Group's transactions with its related parties for the six-month period ended 30 June were as follows:

	<u>Revenue</u>	<u>Other operating income</u>	<u>Purchases</u>	<u>Other operating expenses</u>
<b>2012</b>				
Associate	29	-	186	-
Entities under common control	<u>153</u>	<u>73</u>	<u>38</u>	<u>1</u>
	<u>182</u>	<u>73</u>	<u>224</u>	<u>1</u>
<b>2011</b>				
Associate	43	2	192	-
Entities under common control	<u>125</u>	<u>22</u>	<u>147</u>	<u>39</u>
	<u>168</u>	<u>25</u>	<u>339</u>	<u>39</u>

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

	<u>Trade and other receivables</u>	<u>Prepayments</u>	<u>Cash</u>	<u>Trade and other payables</u>	<u>Advances received</u>
<b>30 June 2012</b>					
Associate	549	4,498	-	499	-
Entities under common control	<u>1,412</u>	<u>204</u>	<u>-</u>	<u>498</u>	<u>-</u>
	<u>1,961</u>	<u>4,702</u>	<u>-</u>	<u>997</u>	<u>-</u>
<b>31 December 2011</b>					
Associate	38	4,547	-	372	7
Entities under common control	<u>1,448</u>	<u>257</u>	<u>170</u>	<u>575</u>	<u>3,848</u>
	<u>1,486</u>	<u>4,804</u>	<u>170</u>	<u>947</u>	<u>3,855</u>

**Terms and conditions of transactions with related parties**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2012***(in thousands of US dollars, unless otherwise indicated)*

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. As at and for the six-month period ended 30 June 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.

During six months ended 30 June 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 200 thousand and USD 36 thousand, respectively, and were included in general and administrative expenses (30 June 2011: USD 126 thousand and USD 70 thousand, respectively).

**13. 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 30 June 2012 and 31 December 2011 the Group's management estimated that maximum cumulated tax exposure amounted to USD 4,809 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.

**Operating lease – the Group as a lessor**

During the year ended 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:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Within one year	600	600
After one year but not more than five years	3,000	3,000
More than five years	3,600	3,900
	<u>7,200</u>	<u>7,500</u>

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

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2011.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****as at and for the six-month period ended 30 June 2012***(in thousands of US dollars, unless otherwise indicated)***15. Subsequent events**

Subsequent to the reporting date, in July 2012, the Group signed additional agreement with Kyiv City Council, according to which the Group transfers all its rights and obligations connected with construction of premises on Tankova Street in Kyiv to a third party (accounted for as property development rights as at 30 June 2012, refer to note 9). The Group will receive 1,400 square meters of premises as a compensation of costs incurred prior to 26 July 2012.