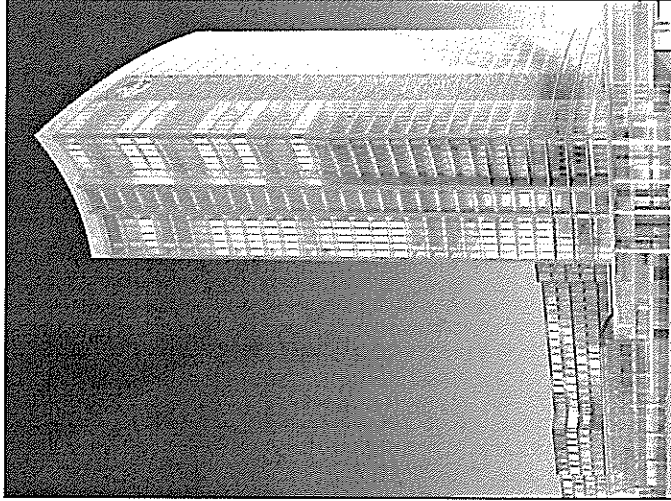
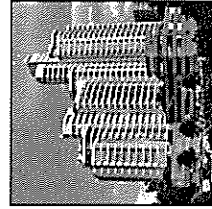
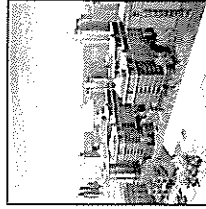
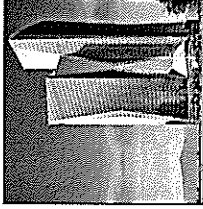




Placing and Admission to AIM  
December 2007

KDD Group N.V.

Placing and Admission to AIM  
December 2007



Slipets Petro

Director

Levin Alexander

Director

SUKALO SERSIY

Director



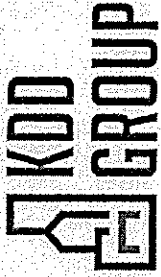
KDD Group N.V.  
Pushkinska 42/4  
Kyiv  
01004  
Ukraine

[www.kddgroup.com.ua](http://www.kddgroup.com.ua)



ING  Renaissance  
Capital

KDD Group N.V.



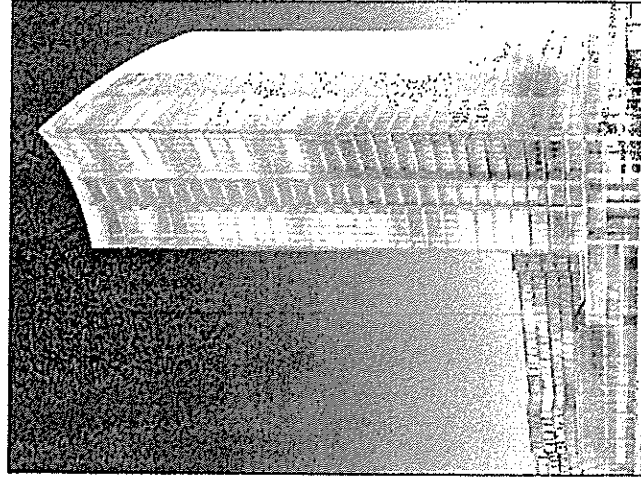
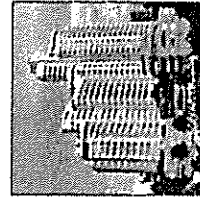
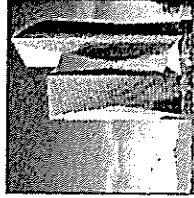
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*Rybachuk Oleh*  
Director



KDD Group N.V.  
Pushkinska 42/4  
Kyiv  
01004  
Ukraine

[www.kddgroup.com.ua](http://www.kddgroup.com.ua)



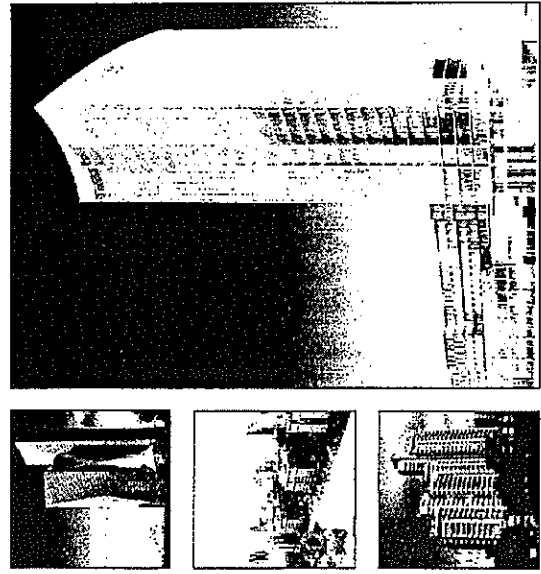
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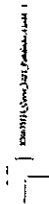
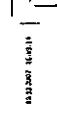
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KDD Group N.V.  
Pushkinska 42/4  
Kyiv  
01004  
Ukraine  
[www.kddigroup.com.ua](http://www.kddigroup.com.ua)

ING Renaissance

*K.D. NORDMAN*  
*Director*  
*13 november 2007*

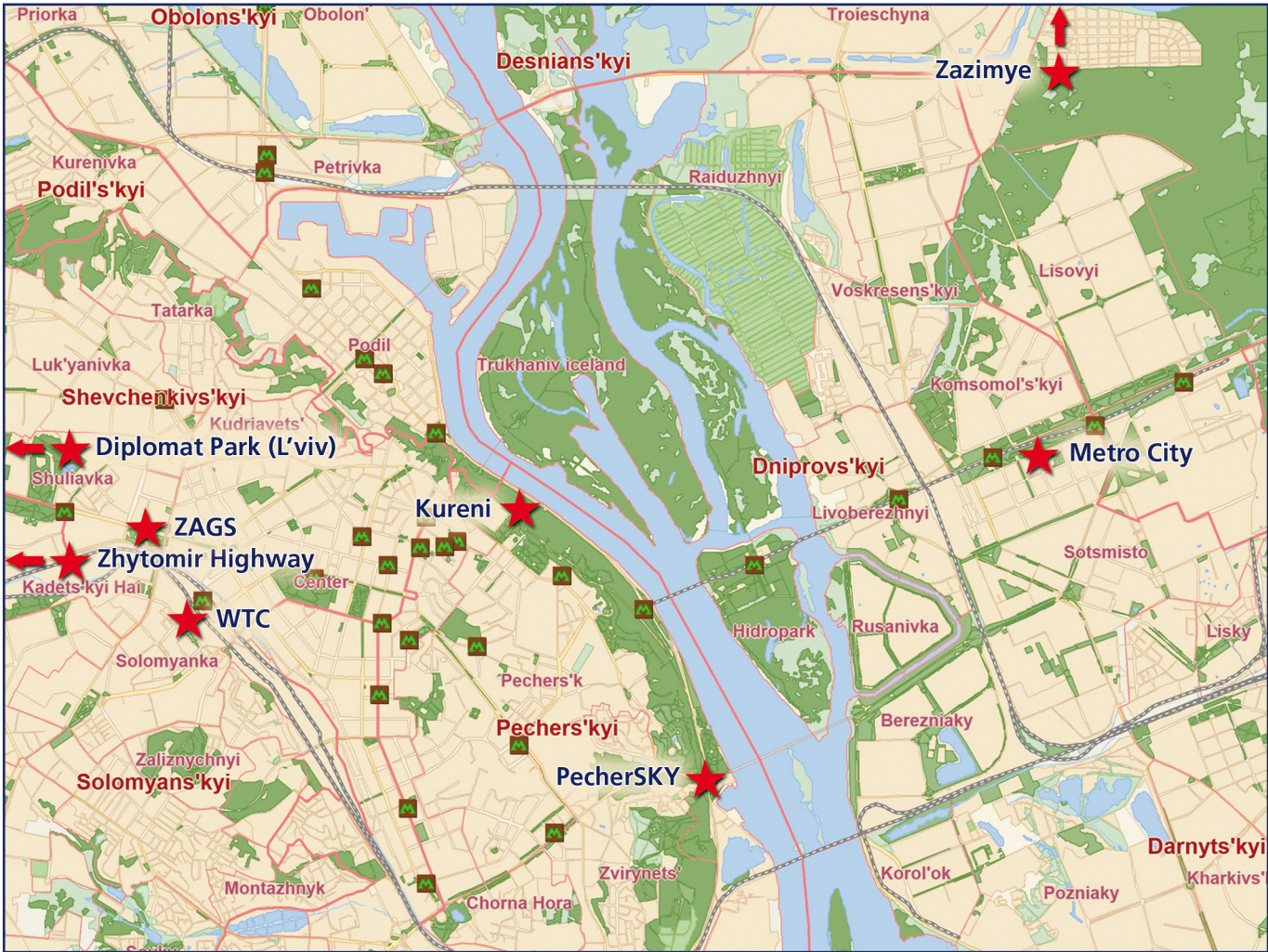




Placing and Admission to AIM  
December 2007







Map of Kyiv

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 (as amended) who specialises in advising on the acquisition of shares and other securities in the United Kingdom. You should read the whole text of this document.**

KDD Group N.V. (the “Company”), whose registered office appears on page 1 of this document, and the directors of the Company (the “Directors”), whose names appear on page 1 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is true and accurate in all material respects, is not misleading in any material respect and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange plc (the “London Stock Exchange”) for the ordinary shares (the “Shares”) of the Company (issued and to be issued) to be admitted to trading on the Alternative Investment Market, a market of the London Stock Exchange (“AIM”). The Shares are not dealt in on any other recognised investment exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority (the “UKLA”).

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Each AIM company is required pursuant to the AIM Rules for Companies (the “AIM Rules”) to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

The London Stock Exchange has not itself examined or approved the contents of this document.

This document is an admission document required by the AIM Rules. This document does not constitute a prospectus for the purposes of the prospectus rules (the “Prospectus Rules”) issued by the Financial Services Authority (the “FSA”) and has not been, and will not be, approved by or filed with the FSA.

THE AIM RULES ARE LESS DEMANDING THAN THE LISTING RULES ISSUED BY THE FSA WHICH APPLY TO SECURITIES ADMITTED TO THE OFFICIAL LIST OF THE UKLA.

PROSPECTIVE INVESTORS SHOULD BE AWARE THAT AN INVESTMENT IN THE COMPANY IS SPECULATIVE AND INVOLVES RISK.

YOUR ATTENTION IS DRAWN IN PARTICULAR TO PART II OF THIS DOCUMENT WHICH LISTS CERTAIN RISKS WHICH SHOULD BE TAKEN INTO ACCOUNT IN CONSIDERING WHETHER OR NOT TO ACQUIRE THE SHARES. THE WHOLE TEXT OF THIS DOCUMENT SHOULD BE REVIEWED IN LIGHT OF THESE RISK FACTORS.

It is expected that the admission of the Shares to trading on AIM (“Admission”) will become effective and that unconditional dealings in the Shares will commence on AIM on 19 December 2007. Conditional dealings in the Shares are expected to commence on 14 December 2007. All dealings in the Shares prior to the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place and any such dealings will be at the sole risk of the parties concerned.



## ***KDD Group N.V.***

*(a company incorporated in The Netherlands with company registration number 34285652)*

**Offer of 31,878,371 Shares of €0.01 each at a price of £2.00 per Share  
and admission to trading on AIM**

**Joint Bookrunners**



**Renaissance  
Capital**

**Nominated Adviser and Broker  
ING Bank N.V., London Branch**

**Broker  
Renaissance Capital Limited**

Expected Share Capital On Admission

<b>Authorised</b>			<b>Issued and fully paid</b>	
<b>Number</b>	<b>Amount</b>		<b>Number</b>	<b>Amount</b>
650,000,000	€6,500,000	Shares of €0.01 each	161,878,371	€1,618,784

The Shares to be issued by the Company pursuant to the Offer will, following Admission, rank *pari passu* in all respects with the existing issued shares of the Company and will rank in full for all dividends and other distributions declared, made or paid on the shares after Admission.

This document does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, Shares to any person in any jurisdiction in which such an offer is unlawful. In particular, this document is not for distribution in or to any resident of Canada, Australia or Japan. The Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “Securities Act”), or under any state securities laws and may not be offered or sold in the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The Shares are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and within the United States to “qualified institutional buyers” (“QIBs”) as defined in Rule 144A under the Securities Act.

No legal, business, tax or other advice is provided in this document. Prospective investors should consult their professional advisers as needed on potential consequences of subscribing for, purchasing, holding, or selling Shares under the laws of their country and/or state of citizenship, domicile or residence.

## IMPORTANT INFORMATION

ING Bank N.V., London Branch (“ING”) has been appointed as nominated adviser to the Company. ING’s responsibilities as the Company’s nominated adviser under the AIM Rules for Nominated Advisers are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any holder of Shares or to any other person in respect of the decision to acquire Shares in reliance on any part of this document or otherwise. No representation or warranty, express or implied, is made and no liability whatsoever is accepted by ING, as to the accuracy of any information or opinions contained in this document for which the Company and the Directors are solely responsible. Neither ING nor Renaissance Securities (Cyprus) Limited (“Renaissance”, and together with ING, the “Joint Bookrunners”) has authorised the contents of, or any part of, this document and, without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by either of the Joint Bookrunners for the accuracy of any information or opinions contained in this document or for the omission of any information, for which the Company and the Directors are solely responsible.

The Joint Bookrunners, each of which is authorised and regulated by the FSA, are each acting exclusively for the Company and no one else in connection with the Offer and they will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offer and will not be responsible for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or for any transaction or arrangement referred to in this document or in relation to the contents of this document or any other matter.

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Shares to any person in any jurisdiction in which such an offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements for the Company or either of the Joint Bookrunners. Any failure to comply with these restrictions may constitute a violation of securities laws of any such jurisdiction.

No person has been authorised to give any information or to make any representation not contained in this document and, if given or made, such information or representation should not be relied upon as having been authorised by the Company, the Selling Shareholders (as defined herein) or the Joint Bookrunners. Without prejudice to the Company’s obligations under the AIM Rules, neither the delivery of this document nor any acquisition of Shares made under it, shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information contained herein is correct at any time subsequent to its date.

This document and the Offer are only addressed to and directed at persons in member states of the European Economic Area who are “qualified investors” within the meaning of Article 2(1)(e) of the Directive of the European Parliament and the Council 2003/71/EC (the “Prospectus Directive”) (“Qualified Investors”). In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, Qualified Investors who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) or who are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Order, and to other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied upon in the United Kingdom by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only in the United Kingdom to relevant persons, and will be engaged in only with such persons.

The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In connection with the Offer, the Joint Bookrunners and any of their respective affiliates acting as an investor for its or their own account(s) may acquire Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in the Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in this document to the Shares being offered, subscribed, acquired or otherwise dealt with should be read as including any offer to, subscription, acquisition or dealing by, the Joint Bookrunners and any of their respective affiliates acting as an investor for its or their own account(s). The Joint Bookrunners do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.



## STABILISATION AND OVER-ALLOTMENT

IN CONNECTION WITH THE OFFER, ING, AS STABILISING MANAGER, OR ANY OF ITS AGENTS, MAY (BUT WILL BE UNDER NO OBLIGATION TO), TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVER-ALLOT AND EFFECT OTHER TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. ING IS NOT REQUIRED TO ENTER INTO SUCH TRANSACTIONS AND SUCH TRANSACTIONS MAY BE EFFECTED ON ANY STOCK MARKET, OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILISING MEASURES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MAY ONLY BE TAKEN DURING THE 30 DAY PERIOD FROM THE ANNOUNCEMENT OF THE OFFER PRICE FOR THE SHARES. SAVE AS REQUIRED BY LAW OR REGULATION, NEITHER ING NOR ANY OF ITS AGENTS INTENDS TO DISCLOSE THE EXTENT OF ANY OVER-ALLOTMENTS AND/OR STABILISATION TRANSACTIONS MADE OR ENTERED INTO IN CONNECTION WITH THE OFFER.

In connection with the Offer, the Selling Shareholders have granted to ING, as stabilising manager, on behalf of the Joint Bookrunners, an over-allotment option (the “Over-Allotment Option”) which is exercisable in whole or in part, upon notice by ING, for the period during the 30-day period from the announcement of the offer price for the Shares. Pursuant to the Over-Allotment Option, ING may require the Selling Shareholders to sell up to 4,781,755 additional shares at the offer price to cover over-allotments, if any, made in connection with the Offer and to cover any short positions resulting from such over-allotments and/or from sales of shares effected by it during the stabilisation period. Any Shares sold by the Selling Shareholders following the exercise of the Over-Allotment Option will be issued on the same terms and conditions as the Shares being issued in the Offer.

## NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This document has been prepared on the basis that all offers of Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the European Economic Area, or EEA, from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of the Shares should only do so in circumstances under which no obligation arises for the Company or the Joint Bookrunners to produce a prospectus for such offer. Neither the Company nor the Joint Bookrunners have authorised, or will authorise, the making of any offer of the Shares through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the Shares contemplated in this offering circular.

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer of Shares to the public may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year (2) a total balance sheet of more than €43.0 million and (3) an annual net turnover of more than €50.0 million, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Managers for any such offer; or
- (iv) in any other circumstances that do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of Shares to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the term “Prospective Directive” includes any relevant implementing measure in each Relevant Member State.

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Shares have not been and will not be registered under the Securities Act, or with any securities authority of any state of the United States. The Shares may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Shares are being offered (i) in the United States only to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, and (ii) outside the United States only in offshore transactions, as defined in, and in accordance with, Regulation S. Prospective investors are hereby notified that sellers of the Shares may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act. For certain restrictions on sales and transfers of the shares, see Part XIV “The Offer—Selling Restrictions” and “—Transfer Restrictions”.

## NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## AVAILABLE INFORMATION

So long as any Shares of the Company are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such restricted securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such person pursuant to Rule 144A(d)(4) under the Securities Act. In such cases, the Company will also furnish to each such holder or beneficial owner all notices of Shareholders’ meetings and other reports and communications that are generally available to the Shareholders of the Company.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Forward-Looking Statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “projects”, “forecast”, “continues”, “likely”, “expects”, “intends”, “plans”, “may”, “will”, “seeks” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the Company’s intentions, beliefs or current expectations concerning, amongst other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Company and its consolidated subsidiaries operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company’s actual results of operations, performance, achievements, financial condition and liquidity, and the development of the industry in which the Company and its subsidiaries (collectively, the “Group”) operate, may differ materially from those expressed or implied by the forward-looking statements contained in this document. In addition, even if the Company’s



results of operations, performance, achievements, financial condition and liquidity, and the development of the industry in which the Company and its subsidiaries operate, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

In addition to those risks, uncertainties and assumptions discussed elsewhere herein, important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the political, social, legal or economic conditions in Ukraine, including significant declines in Ukraine’s gross domestic product (“GDP”);
- changes in the policies of the government of Ukraine, including those relating to real property, foreign private investment and the environment;
- changes in the policies or leadership of the city or municipal governments of Ukraine, particularly in Kyiv, L’viv and other major cities in Ukraine;
- decreases in rental rates or sales prices of real estate;
- increased interest rates and operating costs, including the supply of and prices for building materials and subcontractor services;
- the Group’s ability to fund future operations and capital requirements through borrowing or otherwise;
- the Group’s ability to obtain necessary approvals in a timely manner;
- the Group’s ability to identify, acquire and develop projects successfully;
- increased competition in the Ukrainian real estate market;
- changes in real property or other tax rates;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the Group’s ability to implement its business strategies successfully;
- the Group’s ability to identify other risks relating to its business and successfully manage those risks; and
- the overall robustness of global economic conditions.

The foregoing list is not exhaustive. When relying on forward-looking statements, careful attention should be given to the foregoing factors and other uncertainties and events. Prospective investors are, therefore, advised to read, in particular, the parts of this document entitled Part II “Risk Factors”, Part XIII “Financial Information on the Company and the Group” and Part VIII “Operating and Financial Review” for a more complete discussion of the factors that could affect the Group’s future performance and the industry in which the Group operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

Forward-looking statements in this document speak only as of the date of this document. Other than in accordance with the Company’s obligations under the AIM Rules or applicable law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **References to Defined Terms**

Certain terms used in this document, including all capitalised terms, are defined or explained in Part XVII “Definitions”.

#### **Financial Information**

The Company was incorporated on 24 October 2007 as part of a restructuring of the Group’s assets. Consequently, limited historical financial information relating to the Company is available. See Part XIII “Financial Information on the Group”. This document includes the following combined financial

statements which were prepared by combining the historical financial information for each of the Group companies:

- annual combined financial information as at and for the year ended 31 December 2006, included in Part XIII; and
- interim combined financial information as at and for the six months ended 30 June 2006 and 2007, included in Part XIII.

The combined financial information was prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted in the EU, including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board, except for the principles of combination as disclosed in the notes to that financial information, as IFRS does not provide for combination of entities which are not part of an operating group linked by a common parent. Instead, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to Standard for Investment Reporting 2000 issued by the Auditing Practices Board have been applied.

It should be noted that the valuations included in the Valuation Report of Various Real Estate Assets in Ukraine dated 9 November 2007 issued by Colliers International Ukraine on 9 November 2007 (the “Colliers Report”) are not directly comparable to the carrying values of investment property in the financial information in Part XIII of this document. This is primarily because, as explained in Part VIII “Operating and Financial Review—Factors Affecting Results of Operations—Property Valuations”, not all of the Group’s real estate assets are carried at fair value in the special purpose combined financial information and because of additions made since 30 June 2007. For example, the following properties included in the Colliers Report are included in the special purpose combined financial information on the following bases:

- *Kureni*—this is currently an asset held for own use because the Group operates the Kureni restaurant on this property, and is carried at historical cost in the financial information within property plant and equipment;
- *PecherSKY*—this is held within inventory and carried at historical cost, to which it was transferred upon its change of use from an investment property to an asset being constructed for resale;
- *Diplomat-Park*—this is within prepayments for land plots as the lease for the property was not finalised until October 2007, at which time it was reclassified as inventory based on the intention to develop it for resale; and
- *Zazimye*—although the majority of this property is classified as investment property, the lease relating to a portion of the land is awaiting appropriate zoning approvals and is therefore classified in prepayments for land plots.

In addition, the Metro City project valued in the Colliers Report was not included in the combined financial information because it was not acquired until October 2007. The Colliers Report is as of 30 September 2007 and therefore reflects increased expenditure on projects in the period from 30 June to 30 September 2007, and additional permissions granted by various authorities in that period.

The combined financial information is included in this document in Part XIII “Financial Information on the Company and the Group”, extracts from which appear in Part VII “Selected Financial Information on the Group”, Part I “Key Information”, Part VI “Information on the Group” and Part VIII “Operating and Financial Review”. Investors should ensure that they read the whole of this document and not just rely on key information or information summarised within it.

The non-financial operating data for the Group included in this document has been extracted without material adjustment from the management records of the Group.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

All times referred to in this document are, unless otherwise stated, references to the time in London.

## Sources and Market Data

This document includes market share and industry data and forecasts that were obtained by the Company from industry publications and surveys and internal company surveys. In particular, the Company has obtained certain market data used in this document, including, without limitation, information in Part V “Market Discussion” and in Part VI “Information on the Group” from the Colliers Report. In addition, certain information in this document, including, without limitation, information in Part V “Market Discussion” has been derived from research reports and publicly available information, including official data published by the State Committee on Statistics of Ukraine; the Economist Intelligence Unit; DTZ Commercial Property Markets Overview of Ukraine, Autumn 2006 (“2006 DTZ Property Market Overview”); DTZ Commercial Property Markets Overview of Ukraine, Autumn 2007 (“2007 DTZ Property Market Overview”); www.dtz.com, “Property Market Indicators” (“DTZ Website”); Colliers International 2007 Real Estate Review of Ukraine (“2007 Colliers Review”); www.citypopulation.de (aggregation of available statistical data from a variety of publicly available sources); and the following DTZ regional property market reports: Madrid City Update Q2-2007, Commercial Property Markets Overview of Poland, Spring 2007, Prague City Update Q4-2006, Commercial Property Markets Overview of Czech Republic, Autumn 2006, Commercial Property Markets Overview of Hungary, Autumn 2006 (for retail data), Commercial Property Markets Overview of Hungary, Spring 2007 (for office data), Commercial Property Markets Overview of Russia, Spring 2007, and 2007 DTZ Property Market Overview (collectively, the “DTZ Regional Reports”). See Part II “Risk Factors—Risks Associated with Ukraine—Official economic data and third-party information”. The Company confirms that the information provided by third parties has been accurately reproduced herein. So far as the Company is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## Currencies and Exchange Rate Information

All references in this document to “hryvnia” or “UAH” are to the lawful currency of Ukraine, references to “pounds sterling”, “pence”, “£” or “p” are to the lawful currency of the United Kingdom, references to “US dollars”, “US\$”, “\$” or “cents” are to the lawful currency of the United States of America and references to “Euro” or “€” are to the lawful currency of the European Union (as adopted by certain member states). The Group prepares its financial statements in US dollars.

The table below sets forth, for the periods indicated, certain information concerning the exchange rates for hryvnia per US dollar. The National Bank of Ukraine’s (“NBU”) hryvnia/US dollar exchange rate as reported on 12 December 2007 was UAH 5.05 to the dollar.

	<u>Average<sup>(1)</sup></u>	<u>Year End</u>
2002 .....	5.32	5.33
2003 .....	5.33	5.33
2004 .....	5.32	5.31
2005 .....	5.12	5.05
2006 .....	5.05	5.05

Source: NBU

(1) The average of the exchange rates on the last day of each month during the year.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Period Average<sup>(1)</sup></u>	<u>Period End</u>
January 2007 .....	5.05	5.05	5.05	5.05
February 2007 .....	5.05	5.05	5.05	5.05
March 2007 .....	5.05	5.05	5.05	5.05
April 2007 .....	5.05	5.05	5.05	5.05
May 2007 .....	5.05	5.05	5.05	5.05
June 2007 .....	5.05	5.05	5.05	5.05
July 2007 .....	5.05	5.05	5.05	5.05
August 2007 .....	5.05	5.05	5.05	5.05
September 2007 .....	5.05	5.05	5.05	5.05
October 2007 .....	5.05	5.05	5.05	5.05
November 2007 .....	5.05	5.05	5.05	5.05
December 2007 (up to and including 12 December) .....	5.05	5.05	5.05	5.05

Source: NBU

(1) The average of the exchange rates on the first and last days of each period.

#### AVAILABILITY OF THIS DOCUMENT

Copies of this document are available for one month free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company and from Baker & McKenzie LLP at 100 New Bridge Street, London EC4V 6JA.

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## DIRECTORS, REGISTERED OFFICE AND ADVISERS

<b>Executive directors</b>	Alexander Levin ( <i>Executive Chairman</i> ) Petro Slipets ( <i>Chief Executive Officer</i> ) Sergiy Sukalo ( <i>Director</i> )
<b>Non-executive directors</b>	Oleg Rybachuk Kees D. Noorman
<b>Registered office</b>	Prins Bernhardplein 200 1097 JB Amsterdam The Netherlands
<b>Joint Bookrunners</b>	<b>ING Bank N.V., London Branch</b> 60 London Wall London EC2M 5TQ United Kingdom  <b>Renaissance Securities (Cyprus) Limited</b> 9th Floor, Capital Center 2-4 Arch. Makarios III Avenue Nicosia 1505 Cyprus
<b>Nominated adviser and broker</b>	<b>ING Bank N.V., London Branch</b> 60 London Wall London EC2M 5TQ United Kingdom
<b>Broker</b>	<b>Renaissance Capital Limited</b> One Angel Court Copthall Avenue London EC2R 7HJ United Kingdom
<b>Solicitors to the Company</b>	<i>As to English and US law</i>  <b>Baker &amp; McKenzie LLP</b> 100 New Bridge Street London EC4V 6JA United Kingdom  <i>As to Dutch Law</i>  <b>Baker &amp; McKenzie Amsterdam N.V.</b> Claude Debussylaan 54 1082 MD Amsterdam The Netherlands  <i>As to Ukrainian law</i>  <b>Baker &amp; McKenzie—CIS, Limited</b> Renaissance Business Centre 24 Vorovskoho Street Kyiv 01054 Ukraine

**Solicitors to the nominated adviser  
and the Joint Bookrunners**

*As to English and US law*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

*As to Ukrainian law*

**Sayenko Kharenko**  
10 Muzeyny Provulok  
Kyiv 01001  
Ukraine

**Reporting accountants**

**Baker Tilly Corporate Finance LLP**  
2 Bloomsbury Street  
London WC1B 3ST  
United Kingdom

**Auditors**

**Baker Tilly Ukraine**  
71 Turhenevska Street, Office 316  
Kyiv 04050  
Ukraine

**Property advisors**

**Colliers International Ukraine**  
34 Velyka Vasylkivska Street  
Kyiv 01004  
Ukraine

**Registrar**

**Computershare Investor Services (Channel Islands) Ltd**  
PO Box 83  
Ordnance House  
31 Pier Road  
St Helier  
Jersey JE4 8PW  
Channel Islands

**Depository**

**Computershare Investor Services PLC**  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
United Kingdom

## OFFER STATISTICS

Offer Price . . . . .	£2.00 per Share
Number of Shares in issue immediately prior to the Offer . . . . .	130,000,000
Number of Shares being offered in the Offer <sup>(1)</sup> . . . . .	31,878,371
Number of existing Shares subject to the Over-Allotment Option . . . . .	4,781,755
Number of Shares in issue immediately following Admission . . . . .	161,878,371
Market capitalisation of the Company on Admission at the Offer Price <sup>(2)</sup> . . . . .	£323.8 million
Percentage of issued Shares owned or controlled by the Company's principal shareholders immediately after Admission <sup>(3)</sup> . . . . .	80.4%
Estimated net proceeds of the Offer to the Company <sup>(4)</sup> . . . . .	US\$124.2 million

(1) The number of Shares being offered does not include any Shares subject to the Over-Allotment Option.

(2) Calculated by multiplying the number of Shares in issue immediately following Admission by the Offer Price. The market capitalisation of the Company at any given time will depend on the market price for Shares at that time. There can be no assurance that the market price of a Share will equal or exceed the Offer Price.

(3) Assuming no exercise of the Over-Allotment Option.

(4) The estimated net proceeds to the Company are stated after deduction of the underwriting commissions and other estimated fees and expenses of the Offer payable by the Company.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Allocation . . . . .	13 December 2007
Announcement of Offer Price and conditional dealings in Shares expected to commence . . . . .	8.00 a.m. on 14 December 2007
Admission of Shares to trading on AIM and commencement of unconditional dealings . . . . .	8.00 a.m. on 19 December 2007
Delivery of Depositary Interests into CREST . . . . .	19 December 2007
CREST accounts credited . . . . .	19 December 2007

*Each of the times and dates in the above timetable is subject to change without further notice. References to time are to London time.*

*If Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.*

## PART I: KEY INFORMATION

*The following information does not purport to be complete and is derived from, qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. The following information does not contain all the information that each investor should consider before buying Shares. Any decision to invest in Shares should be based on consideration of this document as a whole, including combined financial information on the Group and the Notes thereto appearing elsewhere in this document.*

*See the section of this document entitled “Risk Factors” beginning on page 8 for a discussion of certain factors that should be taken into account when considering whether to acquire Shares.*

### Overview

The Group is one of the leading real estate investment and development groups in Ukraine based on the net asset value of its properties, with a diversified portfolio of real estate projects comprising offices, residential complexes, retail centres and mixed-use projects. The Group currently has eight projects, with three projects at the ground works and early construction phase and five under development. These projects, which have a total planned gross area of approximately 2.7 million square metres, are located in the capital region of Kyiv with the exception of one residential project in L’viv.

As at 30 September 2007, the total estimated aggregate market value of the Group’s properties was US\$908.2 million, based upon the Colliers Report (see Part XII “The Colliers Report” for a description of valuation methodology and assumptions). The Group’s total assets, as set forth in the special purpose combined IFRS financial information, were US\$557.0 million and US\$563.6 million as of 31 December 2006 and 30 June 2007, respectively. The Group’s net profit for the year ended 31 December 2006 was US\$165.5 million (including revaluation gain of US\$166.8 million net of related deferred tax) and for the six months ended 30 June 2007 its net loss was US\$0.7 million. See “Presentation of Financial and Other Information—Financial Information” for a description of the differences between the values included in the Colliers Report and the values assigned to real estate assets included in the Group’s combined financial information.

The Group’s business developed from the operations of its current shareholders, which began in 1994. The Group’s shareholders became active in real estate in 1997 and were among the first to develop modern commercial and residential projects in Kyiv. The Group’s management team has a strong track record of implementing large-scale development projects, which include the 8,000 square metre Kiev-Donbass office centre, the 33,000 square metre Vvedensky residential and office complex in Pechersky District, the 78,000 square metre Diplomat-Hall residential and office complex on Zhylianska Street and the 38,000 square metre Botanic Towers residential and office complex, all of which are located in central Kyiv.

The Group’s current real estate activities comprise the following:

- **Office projects.** The Group currently has two office projects in the city of Kyiv. The Group recently began ground works at the site of its World Trade Centre (“WTC”) development, a Class A office centre next to Kyiv’s main railway station with a planned gross area of approximately 159,000 square metres. The project is scheduled to be completed in the fourth quarter of 2010. The Group is also planning the development of the Class A ZAGS office centre in central Kyiv with a planned gross area of approximately 215,400 square metres. The ground works for this project began in the fourth quarter of 2007 with completion scheduled for the third quarter of 2010.
- **Residential complexes.** The Group is currently developing two residential projects in central Kyiv and in the Kyiv region and one residential project in L’viv. The Group recently began ground works for its PecherSKY complex, a premium class residential complex with an expected gross area of approximately 50,500 square metres and approximately 200 units located near the Druzhby Narodiv underground station. This complex is planned to be completed in the fourth quarter of 2009. The Group is also currently planning its Diplomat-Park development on a site located in the historic district of L’viv, near its central park. Diplomat-Park is planned to have a gross area of approximately 242,000 square metres and is designed to include approximately 1,575 premium-quality apartments. Construction of Diplomat-Park is due to start in the second quarter of 2008 and this three-stage project is scheduled to be fully completed in the second quarter of 2012. In addition to its premium residential projects, the Group is planning its Zazimye residential complex, which is designed to provide quality modern housing for budget-conscious buyers. Management believes that there is significant unmet demand in this segment. The site for



the Zazimye development is located in the Kyiv region, approximately five kilometres away from the Kyiv city borders. Construction of Zazimye is due to start in the third quarter of 2008 and this two-stage project is scheduled to be fully completed in the fourth quarter of 2012.

- **Retail centre.** Management believes that high quality retail and entertainment sectors are particularly underdeveloped in Ukraine. Accordingly, the Group is planning to construct a retail and entertainment centre with a planned gross area of approximately 594,500 square metres on the Zhitomir highway, approximately 40 kilometres from the centre of Kyiv. This project is intended to contain a large retail and entertainment space, an aqua park and a hotel, and is scheduled to be completed in the first quarter of 2011.
- **Mixed-use projects.** The Group also has two mixed-use projects in Kyiv, which combine elements of two or more intended uses. The Group plans to develop the Kureni hotel and residential complex located in Kyiv's historic city centre near the Dnipro River, which is scheduled for completion in the third quarter of 2009. Kureni is expected to have a 70-room luxury boutique hotel with a gross area of approximately 5,600 square metres. The project is also designed to include six high quality apartment units having approximately 2,000 square metres of gross residential area. In addition, the Group has recently started the development of its Metro City project in the densely populated area on the left bank of the Dnipro River in the city of Kyiv. Metro City is planned to include retail space, Class B office space and a hotel, and is scheduled for completion in the second quarter of 2011.

### **The Group's Strengths**

Management believes that the Group benefits from the following strengths:

**Extensive real property development experience.** Through its managers and shareholders, the Group has extensive experience in developing real estate properties in Kyiv. These individuals have completed and successfully divested four residential and office projects in Kyiv with an aggregate gross area of 157,000 square metres. The Kiev-Donbass office centre, which was developed by the Group's shareholders and managers in 1997, was one of the first modern Class A office premises in Ukraine. In addition, management believes that the Group's shareholders were among the first to capitalise on opportunities in the Ukrainian real estate market in the late 1990s following Ukraine's transition to a market economy. Many of the Group's managers and shareholders have worked together since 1996 developing residential and commercial projects. During this period, the Group's management developed extensive contacts among local and foreign developers, contractors, architects and suppliers. The Company believes that its managers also have developed good working relationships with municipal officials in Kyiv, L'viv and in other major cities of Ukraine, which management believes is partially attributable to its policy of compliance with applicable laws and regulations. Management believes that this experience, market knowledge and network of contacts are particularly important as the process of developing property in Ukraine is complex and requires numerous approvals from multiple administrative authorities.

Management believes that projects completed by the Group's shareholders and managers have helped to establish the Group's reputation for quality and reliability and enhanced its position in the Ukrainian property market.

**Balanced real estate portfolio.** The Group's portfolio includes office, high-end and economy residential, retail and hotel developments located in Kyiv and the Kyiv region, as well as one development in L'viv. Management believes that the scale and diversified nature of the Group's portfolio will help it to capitalise on opportunities in each real estate market segment and to minimise the risks associated with any particular real estate market segment. In addition, management believes that the Group's project pipeline and its careful scheduling of project development stages will provide a balanced property portfolio, including both income-yielding projects and projects intended to be sold for capital growth. In the future, management expects that the Group's real estate portfolio will become more geographically diversified as it expands beyond Kyiv to other major cities in Ukraine.

**Access to attractive investment opportunities.** Municipalities in Ukraine generally allocate land for development through open tenders or applications for leases, which generally take into account not only the value of bids received but also an assessment of a bidder's ability to complete the proposed project and its experience in completing similar projects. Management believes that the Group's reputation, expertise and experience, as well as its network of international suppliers and subcontractors provide an advantage in tendering for land as compared to less established developers. In addition, management believes that

these factors help to attract offers from private entities that hold rights to develop land plots but do not have the resources and experience to develop those properties on their own.

***Strong management team.*** Two of the Group's most senior managers have worked together for several years on real estate projects, overseeing four developments as a team, and they continue to work together closely. Additionally, management believes that the Group's broader management team comprises qualified and motivated professionals who are experienced in adapting international real estate concepts, practices and technologies to the Group's business in the local market, as well as in implementing the best practices developed within the Ukrainian market. Management believes that the Group is well positioned to benefit from the potential of the Ukrainian real estate market and has a strong platform to pursue its strategic goals.

### **The Group's Strategy**

The Group's overall objective is to become the leading real estate developer in Ukraine. It intends to accomplish this objective by leveraging its experience in Kyiv's competitive real estate market, by adapting successful international concepts and practices to the Ukrainian real estate market and by commencing development work in major cities of Ukraine. The main elements of the Group's current strategy are the following:

***Focus on high growth real estate segments.*** As the stock of Class A and B office space available for rent in Ukraine remains limited in comparison with other Central and Eastern European countries, the Group intends to build and operate modern office centres to satisfy the unmet need for such space. The Group plans to build high-end apartments in response to increasing demand for premium accommodation in desirable locations among the growing population of middle- and upper-income buyers. The Group also intends to deliver an economy class residential development in the Kyiv region. Furthermore, the Group plans to focus on the development of large-scale, quality retail and entertainment centres capable of accommodating clothing stores, food and specialty retailers and leisure facilities, such as cinemas and food courts, which currently are in limited supply in Ukraine. Furthermore, the Group intends to develop four- and five-star hotels in cooperation with leading international operators in response to perceived increases in demand from the growing number of business and tourist visitors in Ukraine. The Group intends to carefully monitor other real estate segments and may consider expanding its portfolio to further segments, should risk and return profile of the segments become attractive.

***Focus on large scale, investment grade commercial properties.*** The Group plans to maintain its focus on the development of large scale investment grade properties within the office, residential and retail segments of the Ukrainian real estate market. Management plans to thoroughly assess each potential project before any significant investment is made to determine whether the project offers acceptable economic returns. Additional selection criteria include whether the project involves an innovative concept, whether similar schemes have been successfully completed in other developing markets and whether the project is considered to be viable in Ukraine. The Group intends to use additional efforts to test the principal commercial assumptions of a proposed project at an early stage and to thoroughly investigate exit prospects before the final acceptance of a project concept. Given that an average development requires a set of administrative and regulatory approvals often unrelated to the size of the development, management believes that the Group's focus on large scale projects creates a more optimal use of internal resources, reduces the risks of delays in the completion of projects and creates the potential for additional economies of scale.

***Maintain a balanced development portfolio.*** The Group intends to continue to focus on completing its projects on a timely basis and in accordance with international standards, and it plans to deliver a total of approximately 58,100 square metres, 494,700 square metres, 1,684,700 square metres and 454,500 square metres of gross area of real estate developments in 2009, 2010, 2011 and 2012, respectively. Based on current market conditions, management believes that the Group's developments will benefit from high consumer demand and will generate attractive investment returns. The Group plans to use a portion of the proceeds from the Offer to finance the completion of its eight current projects. The Group plans to hold its income-producing commercial and retail properties with the intention of selling them at acceptable exit yields at maturity, and it plans to sell its residential properties during the development stage or upon completion of construction. The Group's strategy is for its current properties to generate cash flows sufficient to cover the ongoing expenses of portfolio holdings, to partially fund development costs and to provide the potential for capital appreciation.

***Identification and acquisition of premium land plots in Kyiv and major cities in Ukraine.*** As part of its growth strategy, the Group intends to expand its business through identification and selective acquisitions of ownership or leasehold rights to properties and property portfolios. In particular, the Group intends to participate in tenders for attractive sites in Kyiv and other major Ukrainian cities and to acquire premium land plots on the secondary market. Management believes that the Group can capitalise on its reputation, comprehensive expertise and extensive contacts with Kyiv and regional authorities in building up its real estate development portfolio. In addition to its development in L'viv, the Group intends to further expand its portfolio geographically to other highly populated Ukrainian markets outside of Kyiv, replicating the concepts used for current portfolio projects such as WTC, Diplomat-Park and Zhitomir Highway. Management believes that additional attractive opportunities exist in L'viv, Odesa, Dnipropetrovs'k, Kharkiv, Donetsk and other Ukrainian cities with a population exceeding one million.

***Selective outsourcing of portions of the development process to leading business partners.*** The Group retains third party specialists in its property acquisitions and developments, including architects, real estate consultants, construction managers, construction companies and hotel operators. Management believes that the Ukrainian real estate market is rapidly evolving and that consumer tastes and tenant requirements are converging with those in more developed international markets. It believes that retaining specialists, particularly those Ukrainian market experts and specialists with experience in developed markets, will enable the Group to effectively anticipate and respond to changes in the Ukrainian market, enhance its internal know-how and expertise and deliver high-quality projects. The Group intends to continue outsourcing certain stages of its development activities to foreign and local partners. Management believes that this approach allows the Group to maintain a lean organisation and a focused management team concentrating on the acquisition of land plots, investment analysis, portfolio management and the marketing and sale of properties. Management intends to maintain its focus on strict compliance with construction schedules and to take reasonable actions necessary to ensure completion schedules are maintained by third party contractors.

#### **Risk Factors**

Prior to making an investment decision in respect of the Shares, prospective investors should carefully consider all the information in this document, including the risk factors, which are set out in Part II. Additional risks not presently known to the Company or that the Company currently considers to be immaterial, may also impact the Group's operations. The business, financial condition or results of operations of the Group could be materially adversely affected by any of those risks. The trading price of the Shares could decline due to any of these risks and investors could lose part or all of their investment.

#### **Additional Information**

Your attention is drawn to Parts XIV and XVI of this document, which provide further information in relation to the Company, the Group and the Offer.

## PART II: RISK FACTORS

*An investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should consider carefully the risks associated with an investment in the Shares, the business and the industry in which the Group operates, together with all other information contained in this document including, in particular, the risk factors described below. Additional risks and uncertainties relating to the Company and its subsidiaries that are not currently known to the Company, or that the Company currently deems immaterial, may also have a material adverse effect on the business of the Group or on the Group's financial condition and operating results. This, among other factors, could cause a decrease in the price of the Shares and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in light of the information in this document and their personal circumstances.*

### **Risks Relating to the Group's Business**

#### ***The Group's projects are in early stages of development and there is no guarantee of their successful completion***

All of the projects in the Group's portfolio are in the early stages of development. As of the date of this document, the Group has not commenced construction on certain high-value projects, including its Zazimye and Diplomat-Park residential projects, Zhitomir Highway retail centre, and Kureni and Metro City mixed-use developments, and construction is at early stages on the Group's WTC, ZAGS and PecherSKY projects. See also "—The development of the Group's properties is subject to a number of permits and administrative approvals and the failure to comply with these requirements could adversely affect its business" above. The failure to complete any of these projects for any reason could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***The Group will be dependent on external sources of capital for future growth***

The Group's strategy contemplates significant capital expenditures for future property developments and it intends to rely on third-party sources of capital, including investments by strategic investors, project finance from financial institutions, as bank debt and other types of financing. Such sources of financing may not be available on favourable terms or at all. The Group's access to third-party sources of financing depends on a number of factors, including the market's perception of its growth potential and its current and potential future earnings. If the Group is not able to obtain third-party sources of financing on terms acceptable to it or at all, its business, results of operations, financial condition and prospects could be materially adversely affected. Moreover, additional debt financing may substantially increase the Group's leverage.

Furthermore, the Group is exposed to interest rate fluctuation risk as it currently has outstanding debt that bears interest at variable rates, and may incur such debt in the future. In addition, to the extent the Group's finance and other costs are denominated in currencies other than the Group's operating currency, hryvnia, any depreciation of hryvnia against such currencies could materially adversely affect the Group's business, results of operations, financial condition and prospects. See Part XVI "Additional Information—Material Contracts—Loan Agreements".

#### ***The Group depends on external contractors to develop and construct the projects***

The Group relies on and in the future intends to rely on, external contractors for all of its development and construction activities. If it cannot enter into contractual arrangements with contractors on acceptable terms, then it will incur additional costs, which could have an adverse effect on the business. Competition for the services of quality contractors and subcontractors may cause delays in development and construction and may result in contractual arrangements on less favourable terms than would otherwise be available, the outcome of which may be increased development and construction costs. There can be no assurance that the Group will be able to engage and retain developers and contractors in a manner that allows the Group to meet project deadlines and budgets. Any such inability to engage and retain skilled contractors to construct and develop the Group's projects could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***The development of the Group's properties is subject to a number of permits and administrative approvals and the failure to comply with these requirements could adversely affect its business***

The planning and approval process in relation to real estate development in Ukraine is bureaucratic and involves uncertainty. A number of preliminary planning approvals are necessary to receive a land lease or

to purchase a land plot. Following the granting of the lease or the acquisition of the land plot, the approval of the local department of architecture and urban planning is required, as well as other planning, zoning and building permissions, including the confirmation of the technical conditions of the proposed project from fire, environmental protection and sanitary departments, and main utility providers. In some cases, before the Group commences the construction of a development, it must complete a complex process to ensure the proper land designation. In particular, the Group is currently in the process of obtaining final planning approvals, including in respect of ZAGS and WTC, to increase the gross areas of the buildings it plans to construct as a part of its projects and to change the zoning of land relating to the Zhitomir Highway, Zazimye and Kureni projects. These processes may be subject to delay and the outcome thereof may be uncertain. Any of these requirements may hinder, delay or increase the costs of the Group's developments, which could materially adversely affect its business, results of operations, financial condition and prospects.

***The Group may be unable to achieve growth through acquisitions***

As part of the Group's overall strategy, it is actively and selectively considering the acquisition of individual land plots and property portfolios in both Kyiv and other major cities of Ukraine for income generation and capital appreciation. Achievement of this acquisition strategy will depend on a number of conditions, including the ability to identify suitable targets, complete satisfactory due diligence and obtain corporate, governmental and shareholder approvals, if required. Certain transactions will require the Group to obtain additional debt and equity financing that will substantially increase its financial leverage as a result. If the Group were to increase its indebtedness, it would be subject to increased risks including, but not limited to: the possible inability to pay interest when due, or to comply with other covenants, which may result in foreclosure of assets or may require the Group to dispose of assets on disadvantageous terms; increased interest expense and exposure to interest rate fluctuations; and restrictive financial covenants that may reduce the Group's flexibility to conduct its operations.

In addition, there can be no assurance that any future transactions will be completed on terms acceptable to the Group or at all. Specific transactions under consideration discussed in this document are subject to a number of risks and conditions precedent. In the event that transactions under consideration are delayed or are not consummated, the Group's ability to diversify and expand its property portfolio may suffer and the Group's prospects could be materially adversely affected. In addition, acquired properties may fail to perform as expected, and the Group may underestimate the costs associated with the development and construction of such properties, either of which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***Management does not expect that the Group's portfolio will be geographically diversified outside of Ukraine***

The Group intends to continue to focus on acquiring and developing properties in Kyiv and in selected major cities within Ukraine. As the Group's portfolio will not be geographically diversified outside of Ukraine, its performance will be significantly affected by factors beyond its control that affect Ukraine, such as changes in general economic or political conditions or changes in applicable laws. See "—Risks Relating to Ukraine" below.

***The Group may not be able to secure suitable locations for development***

The choice of suitable locations for the construction of office, residential and retail developments is an important factor in the success of individual projects and in their value. Management believes that these sites should ideally be located: (i) within or near a city centre, in close proximity to well-developed transportation infrastructure; or (ii) outside of city centres where residential areas have sufficient population to support the development. In addition, the Group's competitors may identify and exploit development opportunities ahead before the Group does so. If the Group is not able to secure sites in target cities that meet these criteria, either at economical prices or at all, this may materially adversely affect its business, results of operations, financial condition and prospects.

***Competition for acquisitions or an oversupply of properties for sale could adversely affect the Group***

Other real estate investors compete with the Group for investment opportunities. These competitors include local developers and international developers or institutional investment funds. Competition is likely to increase prices for development sites and put more pressure on the Group's efforts to dispose of properties, which may result in lower sales prices. Any increases in prices for acquired sites or decreases in



prices for properties to be sold by the Group could impair its growth prospects or reduce its available financial resources and materially adversely affect its business, results of operations, financial condition and prospects.

In addition, the Group competes with other owners, operators and developers of office, residential and retail properties. Its properties, once completed, will face significant competition from similar properties in the same market segments. Such competition may affect the Group's ability to sell completed developments or, in relation to investment properties, attract and retain tenants, resulting in lower than expected rental rates. The properties operated by the Group's competitors may have higher vacancy rates, which may result in their owners being willing to make space available at lower rental rates than space in the Group's properties. In addition, the Group's retail properties will compete with other retail distribution channels in attracting customers. These circumstances, either alone or in combination, could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group leases the land underlying some of its developments from Ukrainian state and municipal authorities and these leases subject the Group to risks***

The land underlying some of the Group's properties is leased from Ukrainian state and municipal authorities. The Group's current land leases are for terms ranging from ten to 25 years. Under Ukrainian law, a lessee has a pre-emptive right to extend its lease upon expiry provided that it has duly fulfilled all its obligations under the lease. However, Ukrainian courts have held that the pre-emptive right will not apply if the lessor decides not to continue leasing the land. Accordingly, if a Ukrainian state or municipal authority decides to stop leasing the land underlying the Group's developments, the Group may lose the right to use this land upon the expiration of the current leases. In addition, several of the Group's leases contain conditions, which include requirements to complete construction of the PecherSKY (3 December 2007) and Kureni (13 April 2009) projects by specified dates, and to renovate other properties for contribution to the relevant state or municipal authorities. If the Group is unable to fulfil these conditions, the ground leases may be terminated before expiry or may not be renewed on expiry in either case without compensation from Ukrainian state or municipal authorities.

Furthermore, upon the termination of a ground lease in Ukraine, the lessee theoretically may be required, based on a court decision, to vacate the property and to remove any uncompleted buildings and developments thereon. However, once a lessee constructs and officially commissions into operation buildings or structures on land, it has certain rights in those buildings and structures separate and apart from the underlying land. The practical effect of these rights is that the owner of the buildings and structures may continue to occupy and operate the property irrespective of the absence of a ground lease. However, if the Group were ever required to vacate a property, it could materially adversely affect the Group's business, financial condition or results of operations and prospects.

***If the Group's ownership interests or lease rights in land are challenged its construction projects may be delayed or cancelled***

The Group's business includes the acquisition of ownership or lease interests in land plots and buildings in and around Kyiv and other major cities in Ukraine with a view to further development or re-development. Ukrainian land and property legislation is complicated and often ambiguous and/or contradictory. In particular, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are difficult or even impossible to comply with in practice. As a result, the Group's ownership interests and lease rights to land may be challenged by state or municipal authorities or third parties, which could result in the Group's construction projects being delayed or cancelled or the suspension of operations at completed properties in the future. Any such event could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group may not be able to manage its growth***

The Group's total assets have grown from US\$306.5 million as at 30 June 2006 to US\$563.6 million as at 30 June 2007. As part of the Group's growth strategy, it has acquired various individual land plots and property portfolios. The Group plans to continue to expand through selective acquisitions of land plots, property portfolios, property businesses or other business combinations. However, it may not be able to successfully integrate or manage such acquisitions or combinations in a timely or efficient manner. Difficulties could arise and/or material additional expenditures may be necessary in connection with such

acquisitions and such expenditure may require the Group to raise additional debt and/or equity financing. There can be no assurance that any potential acquisition or business combination will be successful or that the Group will be able to obtain debt and/or equity financing on favourable terms.

The Group's strategy contemplates the selective geographical expansion across major cities in Ukraine and the Group has appointed a new Vice-President to coordinate this expansion. Although this officer has experience in the targeted markets, the Group has no operating history in these markets, which may present new operating challenges for the Group. These cities are located, in many instances, at a great distance from the current central operations in Kyiv. In addition, as the Group has less experience and less market knowledge in these secondary cities compared to Kyiv, it may not successfully identify suitable or profitable sites or develop projects in these cities in the future. These factors may materially adversely affect the profitability of the Group's current and future operations in these cities.

The overall growth of the Group's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, the ability to integrate new acquisitions into the existing portfolio.

If the Group fails to properly manage its growth, such failure could materially adversely affect the Group's business, financial condition, results of operations and prospects.

***The Group relies on certain key personnel***

The Group's success depends to a significant degree upon the efforts and abilities of its executives and certain other key persons, many of whom have substantial experience in property development in Ukraine and extensive contacts and business relationships in Ukraine that have benefited the Group. Furthermore, the Group's growth and future success will depend on its continuing ability to attract, retain and motivate qualified management, skilled developers and financial and other personnel. Competition for this type of personnel in Ukraine is high. The loss of any of the Group's key personnel or the Group's inability to hire and retain additional qualified personnel could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***A deterioration of the Group's relationships with state and local authorities may negatively affect its business***

Historically, land in Ukraine was owned by the state. In most regions, including Kyiv, state and local authorities remain the main landowners and decide whether when and how to sell or lease land. These authorities have a high degree of discretion when selling land and allocating land plots for lease. The Group's business therefore depends on maintaining positive working relationships with the relevant state and local authorities and its business, results of operations, financial condition and prospects could be materially adversely affected if its relationships with the authorities deteriorate in the future.

***Because the Colliers' Report relies on certain assumptions and valuation models, it may not accurately reflect the actual proceeds that could be achieved upon a sale of the valued properties, and a material decline in future valuations could adversely affect the Group's financial results***

The valuations of the Group's properties in the Colliers Report were made as of 30 September 2007, and the report does not reflect any changes in the value of the properties or market conditions since that time. In addition, certain assumptions and valuation models were used in the determination of the property values, and the use of different assumptions or models would likely produce different valuation results. As a result, the report represents Colliers' best estimation of the value of Group's properties. However, there can be no assurance that it accurately reflects the actual proceeds that could be achieved upon a sale of the valued properties, particularly if, due to unforeseen circumstances, the Group were forced to sell investment properties prior to completion of their development.

The Group's financial results are significantly influenced by the revaluation of its investment properties, which the Group intends to do at least annually. See Part VIII "Operating and Financial Review—Factors Affecting Results of Operations—Property Valuations". Any gains or losses arising from changes in the fair value of these properties are required to be included in the Group's combined income statement for the period in which they arise. As a result, any material decline in the future in the value of the Group's investment properties could materially adversely affect the Group's results of operations and financial condition.

***Insurance may not cover any or all losses relating to the Group's properties***

The Group's real estate assets could suffer physical damage from fire or other causes, resulting in losses (including loss of rent) that may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, for which insurance may not be available or which the Group decides not to insure. Inflation, changes in legislation, environmental considerations and other factors may also result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Should an uninsured loss or a loss in excess of recovered claim amounts occur, the Group could lose all or a portion of the capital invested in the affected property as well as anticipated future revenue or gain from that property. In addition, the Group could be liable for the repair of any damage caused by uninsured risks. It would also remain liable for any debt or other financial obligation related to that property could be viable for and injury or loss suffered by tenants or other third parties. In addition, the Group's insurance policies may not insure the aggregate market value of its portfolio, particularly if the market value of the portfolio increases. As a result, the Group may not have sufficient coverage against all losses that it may experience. No assurance can be given that material losses in excess of insurance coverage limits will not occur in the future. Losses that are not covered by insurance could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group could be subject to liabilities if it is determined that past actions violated Ukrainian corporate laws or regulations***

Ukrainian corporate laws and regulations have developed considerably since Ukraine's transition to a market economy. Some of these laws and regulations contain ambiguities, imprecision and inconsistencies, which make compliance with them difficult. As a result, the Group's prior transactions may not have complied with all corporate formalities. In particular, the Group may not have complied or may not have fully complied with all technical requirements of Ukrainian corporate law with respect to net assets sufficiency, certain transfers of interests in the Group's subsidiaries, convocation and holding of general shareholders' meetings, reporting requirements for joint stock companies, reorganisations, and formation of charter capital.

The above instances of non-compliance with applicable laws and regulations may result in fines, warnings from governmental authorities, a request from governmental authorities to remedy the violations within a prescribed time period, inability to increase share capital of a joint stock company until the violation is remedied, requests for mandatory winding-up proceedings, or requests to unwind a previous transaction. To date, the Group has not received any notice of violation from any third party or governmental authority, and although it does not expect that any party would seek to review or modify any of the above-listed transactions or challenge the above-mentioned irregularities, there can be no assurance that this will not occur. Any successful challenge to prior transactions could materially adversely affect the Group's business results of operations, financial condition and prospects.

***The Group's accounting and reporting systems may not be as developed as those of companies with a longer history of compliance with IFRS***

The application of IFRS to a property development business can be particularly complex, requiring estimates and judgements as to the accounting treatment of relatively large, and often one-off, transactions which may significantly affect the company's financial results. Similar to many other companies in emerging markets, the Group does not have a long history of reporting under IFRS. As a result, whilst management believes that the Group's accounting and reporting systems are adequate for its current purposes, the need for expansion may present challenges in the future. In particular, the Group's planned growth may place a strain on the Group's current accounting and financial reporting resources. If the Group fails to appropriately manage these resources it may encounter difficulties in preparing its financial statements in a timely and cost effective manner.

***The Group has entered and may in the future enter into related party transactions***

The Group has entered into a number of transactions with affiliates of the Group companies and its shareholders and management, including transactions related to the issuance and trading of promissory notes, the sale and acquisition of investment property and other commercial transactions, some of which have not been on arm's-length terms. See Part XVI "Additional Information—Related Party Transactions" and Note 31 to the combined financial information included in Section B of Part XIII "Financial

Information on the Company and the Group". There can be no assurance that in the future the Group's related-party transactions will be entered into on an arm's-length basis and on fair terms. If the Group's related-party transactions are renegotiated to the Group's detriment, or new related party transactions are entered into on other than an arm's-length basis, its business, financial condition and results of operations could be materially and adversely affected.

## **Risks Relating to the Issuer**

### ***Limited operating history***

Although many members of the Group's management team have extensive real estate and business experience, the Company was incorporated on 24 October 2007 and has not had any significant operations as of the date of this document. Because special purpose combined financial information for the Group is only available for the year ended 31 December 2006 and the six months ended 30 June 2007, it is difficult to identify long-term trends and developments in the Group's business. As a result of this lack of longer-term historical financial data for the Group, prospective investors will have limited information available to them on which to evaluate the Offer. To evaluate the Group's historical performance and its prospects, potential investors should consider the risks, expenses, uncertainties and obstacles that the Group may face in implementing its strategy and in conducting its current and planned business. In addition, the financial information contained in this document may not be indicative of the Group's financial condition and its operations in the future.

### ***The Company is primarily a holding company and its ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and advance funds***

The Company currently intends to retain its future earnings to finance its development projects and expand its business, and does not intend to declare or pay dividends in the foreseeable future. Any future proposal by the Board of Directors to declare dividends, if any, will depend on the Group's consolidated results of operation, financial condition, cash requirements, future prospects and other relevant factors, including tax and other legal considerations, including the availability of distributable reserves.

Because the Company conducts business through its Ukrainian subsidiaries, its ability to pay dividends to shareholders is subject to regulatory, legal and financial restrictions and depends on the realised earnings and cash flows of these subsidiaries and their ability to distribute dividends and advance funds to the Company. Other contractual and legal restrictions applicable to the Company's subsidiaries could also limit the Company's ability to obtain cash from its subsidiaries. The Company's rights to participate in any distribution of its subsidiaries' assets upon their liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including any trade creditors or preferred shareholders.

The payment of dividends to the Company by its Ukrainian subsidiaries is also subject to a number of procedural requirements. The Company's Ukrainian subsidiaries may only pay dividends to the Company through an investment account or a broker's account in Ukraine in hryvnia. The Company, in turn, is required to submit documents evidencing its investment in shares of its Ukrainian subsidiaries in order to convert the dividends into US dollars and transfer them outside Ukraine. As a general rule, a 15% Ukrainian withholding tax is withheld at source in Ukraine on payments of dividends to the Company, unless the Company is entitled to the benefits of The Netherlands/Ukraine double taxation convention. The dividends distributed to the Company by a Ukrainian subsidiary will be exempt from the withholding tax if the Company's investment in subsidiary is at least US\$300,000 and the Company holds at least 50% of the shares of such subsidiary, otherwise dividends will be taxed at a reduced rate of 5%, if either of the above-mentioned criteria does not apply. The Company will enjoy the foregoing benefits of The Netherlands/Ukraine double taxation convention if it satisfies the procedural requirements of Ukrainian tax legislation, namely by providing Ukrainian tax authorities with a tax residency certificate attesting to the Company's tax residency in The Netherlands. There can be no assurance that further restrictions on the payment of dividends to a non-Ukrainian shareholder will not be applied in Ukraine in the future.

### ***Dilution***

The Group intends to expand its operations by acquiring additional properties for its portfolio. The Company may fund such future acquisitions, either in whole or in part, by way of issuing additional Shares on a non-pre-emptive basis, which would dilute the economic rights and voting power of existing holders of the Shares in the total issued share capital of the Company.

### ***Tax residence***

The Company is incorporated in The Netherlands and is currently considered a Dutch resident for tax purposes. Generally, in order to maintain Dutch tax residence, management and control of the Company must take place in The Netherlands. If management and control of the Company were to be conducted in a jurisdiction other than The Netherlands, the existing tax residence of the Company could be jeopardised. Consequently, the Company must meet all applicable requirements for Dutch tax residence under the tax legislation of The Netherlands and the provisions of its Articles of Association. Under these requirements, the Board of Directors should not be comprised of a majority of individuals who are resident for tax purposes in a single jurisdiction other than The Netherlands and all strategic or significant operational decisions or resolutions of the Board of Directors should be made in The Netherlands.

If the Company fails to meet these requirements or, in some cases, even if the Company does meet these requirements, the tax authorities of another jurisdiction, in which the Company's interests are managed or where strategic or significant operational decisions or resolutions are made, could conclude that the Company is resident in that jurisdiction for tax purposes or has a taxable presence there. Taxation of the Company in a jurisdiction other than The Netherlands could materially adversely affect the Company's business, financial condition and results of operations.

### ***The Group's principal shareholders may take actions that are not in line with, or may conflict with, its public shareholders' best interests***

The aggregate shareholding in the Company of Mr Alexander Levin, who is the Chairman of the Board of Directors, is approximately 28% prior to the Offer. In addition, the aggregate shareholding in the Company of Mr Oleksandr Konstantinovsky and Mr Viacheslav Konstantinovsky (collectively, the "Major Shareholders") is approximately 45% prior to the Offer.

Immediately following the Offer (assuming no exercise of the Over-Allotment Option), Mr Levin and the Major Shareholders will own approximately 23% and 36% respectively of the Company's issued and outstanding Shares. As a result, Mr Levin and the Major Shareholders collectively will have the ability to determine the outcome of all or substantially all matters to be decided by shareholder vote at a shareholders' meeting, including but not limited to actions that require the approval of a majority of shareholders such as the removal of all existing directors and the election of new directors, the determination of the Group's business strategies and policies, the amendment of the Company's Articles of Association, the payment of dividends and the approval of mergers, acquisitions, divestitures and other corporate action that may require shareholder approval. In addition, Mr Levin and the Major Shareholders will be able to prevent or cause a change of control and may discourage bids for the Shares at a premium over the market price.

Furthermore, as the Chairman of the Board of Directors, Mr Levin will have influence over all matters decided by the Board of Directors in addition to the substantial influence he already enjoys over day-to-day operations of the Group as one of its original founders. The interests of Mr Levin, the Major Shareholders and other holders of Shares may not always be aligned, which could materially adversely affect the Company's business, financial condition and results of operations.

### **Risks Relating to Investments in Real Estate**

#### ***General considerations relating to property investment***

Several factors may affect the economic performance and value of the Group's properties, including:

- cyclical fluctuations in the property market generally and changes in the national, regional and local economic and political climate in Ukraine;
- local conditions such as an oversupply of similar properties or a reduction in demand for the properties;
- the attractiveness of the properties to tenants or residential purchasers;
- decreases in the valuations of the properties;
- the ability to collect rent from tenants, on a timely basis or at all;
- the amount of rent and the terms on which lease renewals and new leases are agreed, which may be less favourable than current leases;



- changes in the availability and costs of financing, which may affect the sale or refinancing of properties;
- risks associated with construction activity at the properties, including delays, the imposition of liens and defects in workmanship;
- covenants, conditions, restrictions and easements relating to the properties;
- changes in governmental legislation and regulations, including but not limited to designated use, allocation, environmental usage, taxation and insurance;
- objections by local authorities that land is not being used properly even where another state or local authority has approved such use;
- the Group's ability to pay for adequate maintenance, insurance and other operating costs, including taxes, which could increase over time; and
- terrorism and acts of nature, such as earthquakes and floods, that may damage the properties.

The realisation of any of the above risks could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***Construction, development and investment risks***

As part of its business the Group is subject to the general risks associated with construction and development projects. The Group's development and construction activities may involve the following risks:

- the Group may be unable to proceed with the development of properties because it cannot obtain financing upon favourable terms or at all;
- construction or other costs for a development project could exceed the Group's original estimates due to increased material, labour or other costs, which could make completion of the project uneconomical because it may not be able to increase prices to compensate for the increase in such construction or other costs;
- the Group may be unable to obtain, or face delays in obtaining required zoning, land-use, building, occupancy and other governmental permits and authorisations, which could result in increased costs or abandonment of its activities entirely with respect to a project;
- the Group may face challenges by Ukrainian state or municipal authorities in connection with the current land use, re-zoning or designated use allocations that it has obtained or may obtain in the future for land previously categorised as agricultural land or designated for a use other than that for which it is being developed;
- the Group may be unable to complete construction and lease a property on schedule, resulting in increased debt service expense, construction or renovation costs, potential fines, the termination of existing investment agreements, claims by third parties for damages, and termination of the respective land leases;
- the Group may lease developed properties at below expected rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in the Group's investments not being profitable.

Any one or more of the factors listed above could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***The Group's future rental revenues will depend upon the financial stability of its tenants***

The financial stability of the Group's tenants may affect the financial performance of the office and retail properties being developed by the Group. Defaults or delays in payment by tenants could result in a significant reduction in rental revenues, which could require the Group to contribute additional capital or obtain alternative financing to meet obligations under any financing arrangements relating to such properties. In addition, the costs and time involved in enforcing rights under a lease with a defaulting tenant, including eviction and re-leasing costs, may be significant. Furthermore, the financial stability of

tenants may change over time. Any negative changes to tenants' credit ratings or adverse changes in their financial condition may negatively affect the value of property in which such tenants lease space and the amount of rental income from such property, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group may not be able to renew leases or re-lease space on favourable terms, or at all, as leases expire***

Once completed, the financial performance of the Group's office and retail properties will depend on the Group's ability to let available space. If tenants decide not to renew their leases upon expiration, the Group may not be able to re-lease their space on terms as favourable as those contained in the expired leases, if at all. If tenants do not renew their leases, the Group may need to expend significant time and money to attract replacement tenants. If the Group cannot promptly renew the leases or re-lease the relevant space, or if the rental rates upon renewal or re-leasing are significantly lower than the expected rates, then the Group's business, results of operations, financial condition and prospects may be materially adversely affected. In addition, in connection with any renewal or re-leasing, the Group may incur costs to renovate or remodel the space. Consequently, the Group's operating income could be reduced, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***Real estate developments are relatively illiquid***

Investments in real estate are relatively illiquid and are generally more difficult to realise than other investments. This may affect the Group's ability to dispose of or liquidate all or part of its projects in a timely manner and at satisfactory prices in response to changes in the economic or political environment, the real estate market or other conditions. This could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***Environmental problems are possible and can be costly***

Ukrainian national and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at or affecting property. The owner or operator may have to pay a governmental entity or third party for property damage and for investigation and clean-up costs incurred by such party in connection with the contamination. These laws typically impose clean-up responsibility and liability on the party that caused the contamination of the site. Even if more than one person may have been responsible for the contamination, each person made responsible by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. The Group carries out environmental assessments of properties that it acquires on a case-by-case basis in order to try to identify and minimise potential environmental liabilities, and the Group intends to continue this practice. However, these environmental assessments are often informal and may not reveal environmental liabilities at, or potentially affecting, these properties. The Group has not recorded any accruals for potential future environmental liabilities. Obligations imposed on the Group to remedy any environmental liabilities or defects could materially adversely affect its business, results of operations, financial condition and prospects.

Furthermore, the Group may become involved in claims, lawsuits and administrative proceedings relating to environmental matters. An adverse outcome in any of these may include the imposition of civil or criminal liability on members of the Group or their respective directors or officers and could have a significant negative impact on the Group's business, results of operations, financial condition and prospects. Furthermore, stricter environmental, health and safety laws and enforcement policies could result in substantial costs and liabilities and could subject the Group's properties to more rigorous scrutiny than is currently the case, which could materially adversely affect its business, results of operations, financial condition and prospects.

***The discovery of archaeological artefacts could result in delays to or the suspension of construction at the Group's projects***

Prior to the acquisition of any property, the Group endeavours to ensure that such property is not subject to significant archaeological restrictions, and the Group intends to continue this practice. Nonetheless, archaeological remains may be discovered, particularly during the construction phase, requiring the Group



to suspend construction, notify the respective local authorities and obtain permission to continue construction of the project. These permissions may be delayed or may not be obtained at all. Prolonged delays or inability to continue construction on a property site could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***Changes in laws could adversely affect the Group's properties***

Various laws and regulations, including fire and safety requirements, environmental regulations, land use restrictions and taxes affect the Group's properties. If such properties do not comply with the requirements of these laws and regulations, the Group may incur governmental or civil fines, or be compelled to abandon its projects or incur increased costs in completing development projects at such properties. New or amended laws, rules, regulations or ordinances could require significant unanticipated expenditures or impose restrictions on the development, construction or sale of properties. Such laws, rules, regulations or ordinances may also adversely affect the Group's ability to operate or resell properties. Any such circumstances could materially adversely affect its business, results of operations, financial condition and prospects.

#### **Risks Associated with Ukraine**

##### ***General***

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. Concurrently with this transformation, Ukraine is changing from a centrally planned to a market-based economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine.

##### ***Risks associated with emerging markets***

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Prospective investors should also note that emerging economies such as Ukraine's are subject to rapid change and that some or all of the information set out in this document may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate. Prospective investors are urged to consult their own legal and financial advisors before making an investment decision.

##### ***Political considerations***

In recent years Ukraine has undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy. However, this process of economic transition is not complete.

Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster liberalisation, privatisation and financial stability. On 2 April 2007, President Yushenko signed a decree dissolving Parliament and a period of political disruption has followed. This disruption is still ongoing. Parliament itself and various other parties challenged the President's actions. Several of these challenges have taken the form of appeals to the Constitutional Court, and certain of these appeals have not yet been concluded.

New parliamentary elections were held on 30 September 2007. A new Parliament convened on 23 November 2007, and a parliamentary coalition of Block Yulii Tymoshenko and Nasha Ukraine-Narodna Samooborona was formed on 29 November 2007. The new Government is expected to be formed by the end of 2007. As at the date of this document, however, the relationships between the President, Government and Parliament remain in a state of uncertainty and may be subject to change through the normal process of political alliance-building or, if the necessary action is taken, through constitutional amendments and decisions of the Constitutional Court.

These political developments since April 2007, in particular, have highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. There can be no assurance that the arrangements that have led to the convocation of a new Parliament on 23 November 2007 will not be challenged before the Constitutional Court or other courts, or that these arrangements will not become subject to renegotiation between the various parties.

A number of factors could adversely affect political stability in Ukraine. These could include failure to form a Government; lack of agreement within the factions that form a governing coalition; court action taken by opposition parliamentarians against decrees and other actions of the President or Government; or court action by the President against Parliamentary or Governmental resolutions or actions. If political instability continues or heightens, it could have negative effects on the Ukrainian economy and, as a result, materially adversely affect the Group's business, results of operations, financial condition and prospects.

### *Economic considerations*

Although Ukraine has made significant progress in decreasing inflation, increasing its GDP, stabilising its currency, increasing real wages, political instability in the fourth quarter of 2004 negatively affected the main economic indicators at that time. The rate of inflation in 2005 and 2006 was 10.3% and 11.6%, respectively, which is lower than the 12.3% recorded in 2004, but higher than the 8.2% and (0.6)% recorded in 2003 and 2002, respectively. Ukraine's GDP growth was 7.1% in 2006, which is higher than the GDP growth rate of 2.7% in 2005 but lower than the 12.1% recorded in 2004. In August 2006, the Government approved its forecast for Ukraine's economic and social development. This forecast estimated Ukraine's GDP growth at approximately 6.5% (the GDP growth in the nine months ended 30 September 2007 was 7.3%) and targeted an inflation rate at approximately 7.5% for 2007 (the inflation rate was 8.6% in the nine months ended 30 September 2007). Furthermore, in 2006 and the six months ended 30 June 2007, Ukraine's current account balance had a deficit of US\$1.6 billion and US\$2.0 billion, respectively.

Positive trends in the Ukrainian economy may not be sustainable over the long term and may be reversed unless Ukraine undertakes certain important economic and financial structural reforms in the near future while continuing to exercise monetary policies that have contributed to reduced inflation levels. The most critical structural reforms that need to be implemented or continued include: (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions. Failure to achieve political consensus necessary to support and implement such reforms and any resulting instability could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this document will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform, could have negative effects on the economy generally and, as a result, on the Group's business, results of operations, financial condition and prospects.

### *Dependence on external sources of financing*

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the International Monetary Fund (the "IMF"), the European Bank for Reconstruction and Development (the "EBRD"), the World Bank and the EU comprised Ukraine's only significant sources of external financing.

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the IMF) to GDP has decreased from approximately 1.7% as at 31 December 2005 to approximately 1.4% as at 31 December 2006 and is expected to further decrease to 1.1% by the end of 2007, based on official government sources. Total government external debt servicing (excluding payments to the IMF) was approximately US\$1.5 billion in each of 2005 and 2006, and is

expected to be approximately US\$ 1.3 billion and US\$ 1.0 billion in 2007 and 2008, respectively, based on official government sources.

In 2005, the World Bank and Ukraine entered into five facility agreements for the implementation of systemic and investment projects, the aggregate amount of which totalled approximately US\$716 million. Further, in June 2006, the World Bank approved a US\$150 million loan for the “Access to Financial Services Project for Ukraine” (which aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another US\$154.5 million loan for the “Second Export Development Project for Ukraine” (which aimed to support export and real sector growth in Ukraine by providing working capital and investment finance to Ukrainian private exporting enterprises and to develop financial intermediation in the Ukrainian banking sector). In August 2007, the World Bank approved two loans to Ukraine in the amounts of US\$200 million and US\$140 million aimed at the improvement of power supply and urban infrastructure in Ukraine. Currently, Ukraine is preparing to launch a Second Development Policy Loan Project.

Consequently, unless the international capital markets or syndicated loan markets are available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditioned on Ukraine’s satisfaction of certain requirements, which may include, amongst other things: implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas.

Ukraine has been able to access the international capital markets, raising new financing in 2003, 2004, 2005, 2006 and 2007 and its credit rating has been upgraded from B2 to B1 by Moody’s Investors Service, Inc (“Moody’s”) in November 2003 (in November 2006 Moody’s upgraded its outlook on Ukraine’s credit rating from stable to positive), from B+ to BB– by Standard and Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) in May 2005 and from B+ to BB– by Fitch Ratings Ltd. (“Fitch”) in January 2005 (in October 2006, Fitch revised its outlook on Ukraine’s foreign and local currency ratings from BB– (stable) to BB– (positive)). However, as a result of political instability caused by the Presidential decree to dissolve the Parliament and to convene new elections, in April 2007 S&P downgraded Ukraine’s credit rating from “stable” to “negative”. In August 2007 S&P affirmed its BB– long-term foreign, BB long-term local, and B short-term sovereign credit ratings on Ukraine. At the same time, S&P affirmed its 4 recovery rating on foreign currency debt and uaAA national scale rating. The absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future, or if such markets are only accessible on unfavourable terms. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine’s financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect the Ukrainian economy as a whole, and thus, the Company’s business, results of operations and financial condition.

If Ukraine is unable to resort to the international capital markets or syndicated loan markets in the event of an international crisis (as occurred in 1998) or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the EBRD, the World Bank and the EU to grant adequate financing could put pressure on Ukraine’s budget and foreign exchange reserves and have a material adverse effect on Ukrainian economy as a whole, and thus on the Group’s business, results of operations, financial condition and prospects.

### ***Regional relationships***

Ukraine’s economy depends heavily on its trade flows with Russia and the rest of the Commonwealth of Independent States (the “CIS”), largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine’s services receipts comprise of transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to (a) disagreements in late 2005 and early 2006 over the prices and methods of payment for gas delivered by the Russian gas monopolist OJSC Gazprom (“Gazprom”) to, or for transportation through, Ukraine; (b) unresolved issues relating to the temporary stationing of the Russian Black Sea Fleet (Chernomorskyi

Flot) in the territory of Ukraine; and (c) a Russian ban on imports of meat and milk products from Ukraine.

In October 2006, RosUkrEnergO AG and UkrGaz-EnergO, a 50-50 joint venture of NJSC Naftogas of Ukraine and RosUkrEnergO AG, reportedly agreed to increase the price for natural gas supplied for domestic consumption in Ukraine in 2007 to US\$130.00 per 1,000 cubic metres. In December 2006, Gazprom and Ukrainian government reportedly agreed to further increase the price for natural gas to US\$180.00 per 1,000 cubic metres.

Currently, more than 25% of Ukrainian exports of goods go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The increase in the price for natural gas by Russia may adversely affect the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on Russian exports of energy resources. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernisation of production facilities, there can be no assurance that these reforms will succeed.

Any major changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, could have negative effects on the Ukrainian economy as a whole and thus on the Group's business, results of operations, financial condition and prospects.

#### *Ukraine's developing legal system*

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form. These and other factors that have an impact on Ukraine's legal system make an investment in the Shares subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

#### *Official economic data and third-party information*

Although a range of government ministries, along with the NBU and the State Statistics Committee of Ukraine, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and other aggregate figures cited in this document may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this document, data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this document have not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified. The Company accepts responsibility only for the correct extraction and reproduction of such information.



### ***Relationships with western governments and institutions***

Ukraine continues to pursue the objectives of achieving a closer relationship with the North Atlantic Treaty Organisation (“NATO”) and the EU, and hopes to join the World Trade Organisation (the “WTO”) in the near to medium term. However, no specific accession date has been set by the WTO as at the date of this document. With effect from 30 December 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership for Ukraine. Any eventual accession of Ukraine to NATO may require a national referendum held after Ukraine has fulfilled all pre-accession formalities. Any major changes in Ukraine’s relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, could have negative effects on the Ukrainian economy as a whole and thus on the Group’s business, results of operations, financial condition and prospects.

### ***Fluctuations in the global economy***

Ukraine’s economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any such developments could have negative effects on the Ukrainian economy as a whole and thus on the Group’s business, results of operations, financial condition and prospects.

### ***Corruption and money laundering issues***

Independent analysts have identified corruption and money laundering as problems in Ukraine. Until February 2006, Ukraine was subject to monitoring by the Financial Action Task Force on Money Laundering and, until February 2004, was in its list of Non-Cooperative Countries and Territories. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the Ukrainian economy as a whole and thus on the Group’s business, results of operations, financial condition and prospects.

### ***Uncertainties relating to the judicial system***

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system is understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law generally have no precedential effect. For the same reason, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Furthermore, to date only a small number of judicial decisions have been publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is generally limited.

The Ukrainian judicial system has become more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system is now even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain, and court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy as a whole and thus on the Group’s business, results of operations, financial condition and prospects.

### ***Ukraine’s tax system***

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, corporate income tax (profits tax), customs duties,

payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Company and its business generally. For example, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30% to 25%, and a new flat personal income tax was introduced initially at a rate of 13% for almost all types of income, which was subsequently increased to 15% from 1 January 2007.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration or return applicable to that period, from further review.

Whilst management believes that the Group is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### ***Disclosure and reporting requirements and fiduciary duties***

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002. Ukrainian banking laws have introduced the concept of fiduciary duties owed by a bank's management to the bank and its shareholders. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's directors or shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, which could materially adversely affect the Group's business, results of operations, financial condition and prospects.

#### **Risks Relating to the Shares and the Trading Market**

***There has been no prior market for the Shares, the Offer may not result in an active or liquid market for the Shares, and their price may be highly volatile***

Prior to the Offer, there has been no public market for the Shares. The Offer Price has been agreed between the Company and the Joint Bookrunners and may not be indicative of the market price for the Shares following Admission. Although the Company has applied for the Shares to be admitted to trading on AIM, there can be no assurance that an active trading market for the Shares will develop or, if developed, that it will be maintained following the closing of the Offer, or that the Share price will not decline below the Offer Price. If an active trading market is not developed or maintained, the liquidity and market price of the Shares could be adversely affected.

***The market price of the Shares could be directly affected by subsequential sales of Shares by existing shareholders***

The Company is unable to predict whether substantial amounts of Shares will be sold in the open market following termination or waiver of the restrictions under the lock up arrangements described in paragraph 7 of Part XIV of this document. Any sales of substantial amounts of Shares in the public market, or the perception that such sales might occur, could materially adversely affect the market price of the Shares. These sales would also make it more difficult for the Company to sell equity securities in the future at a time and price that it deems appropriate. Additionally, any future issuance of Shares may reduce the percentage of holdings of existing shareholders of the Company. Newly issued shares may have rights, preferences or privileges attached to them that are senior to those attached to Shares.



***Investment in AIM listed securities carry higher risks***

Investment in shares traded on AIM tends to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the main market of the LSE. AIM has been in existence since June 1995, but its future success and liquidity in the market for the Company's securities cannot be guaranteed. In addition, AIM is an exchange regulated market and is less regulated than a listing on the Official List of the UKLA and admission to trading on the LSE. For example, there are fewer circumstances in which the Company would be required to seek shareholder approval for transactions, and ongoing disclosure and corporate governance standards may be lower.

***The rights of holders of Shares are governed by Dutch law and the Company's Articles of Association. Not all rights available to shareholders under English law or US law will be available to holders of Shares***

The Company is incorporated in The Netherlands and therefore the rights of holders of the Shares are governed by Dutch law. These rights differ from the rights of holders of ordinary shares of companies incorporated elsewhere, including in the United Kingdom and the United States. In particular, neither the City Code nor the Dutch rules for public offers of ordinary shares in listed companies apply to the Company and, accordingly, prospective investors will not benefit from the protections afforded by such rules (although certain protections afforded by the City Code have been incorporated into the Articles of Association and these will apply to the Company, for so long as the City Code does not apply to the Company), subject always to applicable Dutch law. Moreover, at annual general shareholder meeting, pursuant to the Articles of Association, and subject to certain limitations, the holders of the Shares may vote to release the members of the Board of Directors from their liability towards the Company in relation to management and administration of the Company, and the fulfilment of their other duties to the Company during the prior financial year. Such relief could limit the ability of investors to pursue claims against the Company's directors for actions or omissions attributable to them in their capacity as directors of the Company.

***Financial turmoil in emerging markets can affect the market price of offered securities***

The market price for the Shares is expected to be influenced by economic and market conditions in Ukraine, and, to a varying degree, economic and market conditions in other CIS and eastern European countries and emerging markets generally. In the past, financial turmoil in Ukraine and other emerging markets has adversely affected market prices in the world's securities markets for companies that operate in these developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in other emerging markets could materially adversely affect the market price of the Shares.

***Share price volatility***

As a result of fluctuations in the market price of the Shares, investors may not be able to sell their Shares at or above the Offer Price, or at all. Investors may therefore realise less than, or lose all of, their investment. The price at which the Shares are quoted and the price that investors may realise for their Shares will be influenced by a large number of factors, some of which are specific to the Group and its operations and some of which may affect the sector in which the Group operates or quoted companies generally and which are outside the Company's control. These factors could include the performance of the Company, its subsidiaries, large purchases or sales of the Shares, legislative changes affecting the sector in which the Group operates, general economic, political or regulatory conditions, international events such as a credit squeeze arising out of the "sub-prime" lending crisis, turmoil in international financial markets or changes in market sentiment towards the Shares. The results of the Group may fluctuate significantly as a result of a variety of factors, many of which may be outside the Company's control. The Group's results may fall below the expectations of securities analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in, or instability of, the market price of the Shares.

***US and other non-Dutch holders of the Shares may not be able to exercise pre-emption rights***

In the event of an increase in the Company's share capital, holders of the Shares will generally be entitled to certain pre-emption rights, unless these rights are limited or excluded by a resolution of the General Meeting or the Board, if so authorised by the general shareholder meeting or pursuant to Dutch law or Articles of Association.

US holders of the Shares may not be able to exercise pre-emption rights unless a registration statement under the Securities Act is declared effective with respect to the ordinary shares issuable for exercise of such rights or an exemption from the registration requirements is available. The Company intends to evaluate at the time of any rights issue the cost and potential liabilities associated with any such registration statement, as well as the indirect benefits and costs to the Company of enabling the exercise by US holders of pre-emption rights for the ordinary shares and any other factors considered appropriate at the time, and then make a decision as to whether to file such a registration statement. No assurance can be given that any registration statement would be filed or that any exemption from registration would be available to enable the exercise of a US holder's pre-emption rights.

#### *Passive foreign investment company considerations*

Based on the Group's existing operations and assets, the Company believes that it may currently be a passive foreign investment company ("PFIC") and, depending upon the future operations and assets of the Group, there is a substantial risk that the Company and certain of its subsidiaries could be treated as a PFIC in subsequent years. If the Company (or its subsidiaries) were treated as a PFIC, a US Holder would be subject to adverse US tax consequences discussed below.

In general, a corporation organised outside the United States will be treated as a PFIC in any taxable year in which either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets (measured on a quarterly basis) is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interests, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a non-US corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account.

If the Company is a PFIC in any year during which a US Holder owns the Shares, such US Holder could be liable for materially greater amounts of taxes and interest charges upon certain distributions by us or upon a sale, exchange or other disposition of the Shares at a gain, whether or not the Company continues to be a PFIC and similar rules will apply to the Company's subsidiary PFICs. The tax will be determined by allocating such distributions or gain ratably to each day of such US Holder's holding period. The amount allocated to the current taxable year and any holding period of such US Holder prior to the first taxable year for which we are a PFIC will be taxed as ordinary income (rather than capital gain) earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates applicable to ordinary income for each such taxable year, and an interest charge will also be imposed on the amount of taxes for each such taxable year.

The above results may be mitigated if a "mark-to-market" election is available and a US Holder validly makes such an election as of the beginning of such US Holder's holding period. However, there can be no certainty that a US Holder will be able to make a valid mark-to-market election for the Company or that any mark-to-market election for the Company would also apply to the Company's PFIC subsidiaries. In addition, a US Holder will not be able to make a qualified electing fund or QEF election since the Company or its subsidiaries do not expect to provide US Holders with the information necessary to make such an election.

Prospective investors should review the discussion of PFICs contained below in Part XV "Tax Considerations—United States Federal Income Tax Considerations" and are strongly advised to consult their own tax advisers regarding the US federal income tax consequences of an investment in an entity that potentially qualifies as a PFIC and the extent to which the mark-to-market election may be available.

### **PART III: USE OF PROCEEDS**

The Company will receive the net proceeds of the issue of Shares in the Offer, other than the net proceeds of the sale of shares subject to the Over-Allotment Option, all of which will be received by the Selling Shareholders. The net proceeds to the Company from the Offer are estimated to be £60.9 million (approximately US\$124.2 million) after deduction of underwriting commissions and other estimated fees and expenses of approximately £2.8 million (approximately US\$5.8 million), payable by the Company in connection with the Offer. The Company intends to use the net proceeds of the Offer and, to the extent available, other sources of capital including pre-sales and new debt financing, to finance the development of its existing projects and selective acquisitions.

For more information on the Group's investment strategy, see Part VI "Information on the Group—The Group's Strategy" and Part VIII "Operating and Financial Review—Liquidity and Capital Resources—Capital resources".

#### **PART IV: DIVIDENDS AND DIVIDEND POLICY**

The Company currently intends to retain its future earnings to finance its development projects and expand its business, and does not intend to declare or pay dividends in the foreseeable future. Any future proposal by the Board of Directors to declare dividends, if any, will depend on the Group's consolidated results of operation, financial condition, cash requirements, future prospects and other relevant factors, including tax and other legal considerations, including the availability of distributable reserves. The Group expects that the principal source for the payment of dividends, if any, will be dividends received from its current and future subsidiaries. The determination of each subsidiary's ability to pay dividends will be made independently in accordance with applicable laws of the relevant jurisdiction and any debt covenants and other contractual restrictions relevant to each subsidiary. For these reasons, the Group can provide no assurance that it will declare and pay any dividends in the future or that, if paid, the dividends will correspond to the policy described above. See also Part II "Risk Factors—Risks Relating to the Issuer—The Company is primarily a holding company and its ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and advance funds" and Part XVI "Additional Information—Articles of Association—Dividends".

## PART V: MARKET DISCUSSION

Except as otherwise stated, the information in this “Market Discussion” section is extracted from the Colliers Report. There can be no guarantee of the accuracy or completeness of this information and this information has not been independently verified by the Company or the Joint Bookrunners. Any statements regarding future trends should not be taken as a representation that such future trends will actually occur. Given that actual results may be materially different from those expected, expressed or implied by the market data, undue reliance must not be placed on this data. Unless otherwise indicated, all data are as of the year end and all prices and rates in this section are net of VAT.

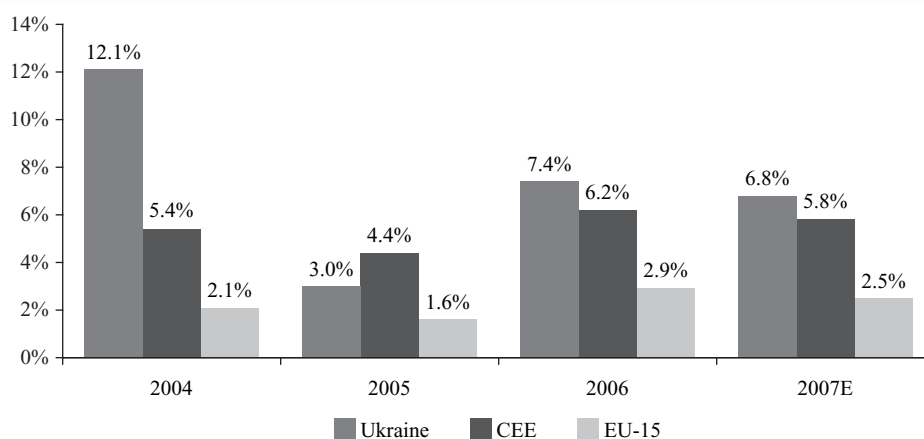
### Description of Ukraine

Ukraine occupies a land area of 603,700 square kilometres, which makes it the second largest country in Europe, after Russia. It is bordered by Russia to the east, Belarus to the north, Poland, Slovakia, Hungary, Romania and Moldova to the west and the Black Sea to the south. Ukraine is subdivided into 24 oblasts (or regions). As reported in the Colliers Report, the data published by the State Statistics Committee of Ukraine indicates that the population of Ukraine totalled approximately 46.5 million at 1 November 2007. An estimated 68% of Ukrainians live in urban areas, with approximately 2.7 million and 850,000 living in Kyiv and L’viv, respectively.

Ukraine has had strong economic performance in recent years with its GDP growing by 12.1% in 2004, 2.7% in 2005 and 7.1% in 2006. During the ten months ended 31 October 2007, Ukraine’s real GDP increased by 7.3% compared to the same period in 2006. The State Statistics Committee of Ukraine forecasts real GDP growth to reach 7.5% in 2007.

The chart below shows the growth in real GDP in Ukraine as compared to Central and Eastern Europe (“CEE”) and the 15 countries constituting the European Union as of 30 April 2004 for the years ended 31 December 2004-2006, and as forecasted for year ending 31 December 2007:

**Real GDP growth**



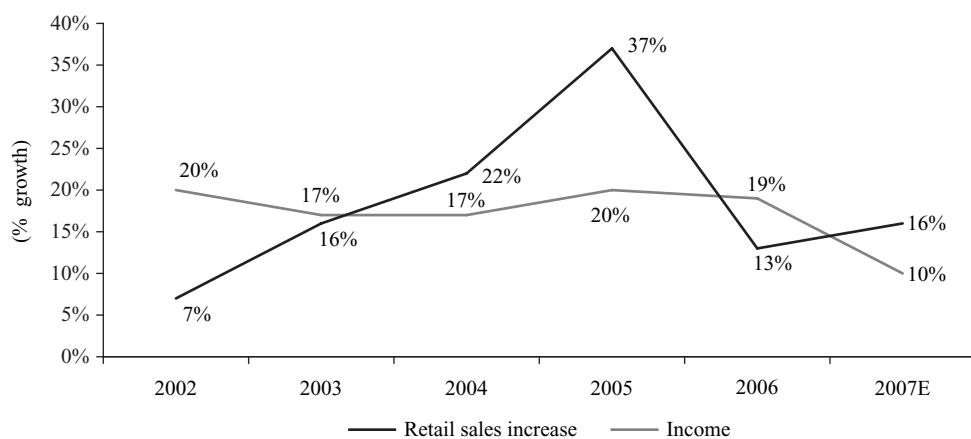
Source: Economist Intelligence Unit

Strong consumer spending is an important factor in Ukraine’s economic growth. According to the State Statistics Committee of Ukraine, in the nine months ended 30 September 2007, retail sales in Ukraine increased by 28.2% as compared to the same period in 2006.



The chart below shows the personal income and retail sales growth in Ukraine for 2002-2006 and as forecasted by Economist Intelligence Unit for 2007.

### Rising consumer income



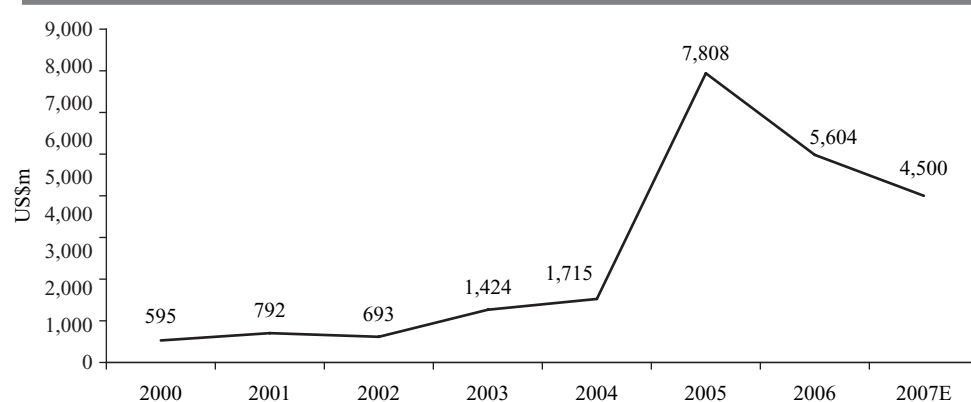
Source: Economist Intelligence Unit

For 2005 and 2006 on a combined basis, foreign direct investment (“FDI”) has more than doubled as compared to the period from 2000 to 2004. As reported by Colliers, as of year ended 31 December 2006, the State Statistics Committee of Ukraine notes that net FDI reached US\$4.5 billion, which is primarily due to higher government transparency and relaxation of entry barriers in the financing sector as Ukraine was modifying its legislation to the World Trade Organization requirements.

Kyiv attracts the most foreign capital in Ukraine with 25% share of the total FDI.

The chart below shows the FDI flow into Ukraine in 2000-2006, and as forecasted by Economist Intelligence Unit for 2007.

### Foreign direct investment flow



Source: Economist Intelligence Unit

### The Ukrainian Real Estate Market

The growth in real GDP in Ukraine, the decrease in unemployment and higher disposable incomes have contributed to greater demand for properties and higher real estate values and rental rates. The real estate market of Ukraine is in an early growth stage and demand remains high across all segments—residential, commercial and retail—while supply is limited. Kyiv, as the capital city, remains the country’s most attractive real estate market. However, developers are beginning to recognise opportunities in other regions of Ukraine.

A limited number of new projects were completed in Ukraine in 2006. Many office, retail and hotel developments planned for completion in 2006 were delayed for a variety of reasons, including lack of financing and regulatory delays. Therefore, supply in all segments of the real estate market in Ukraine lags

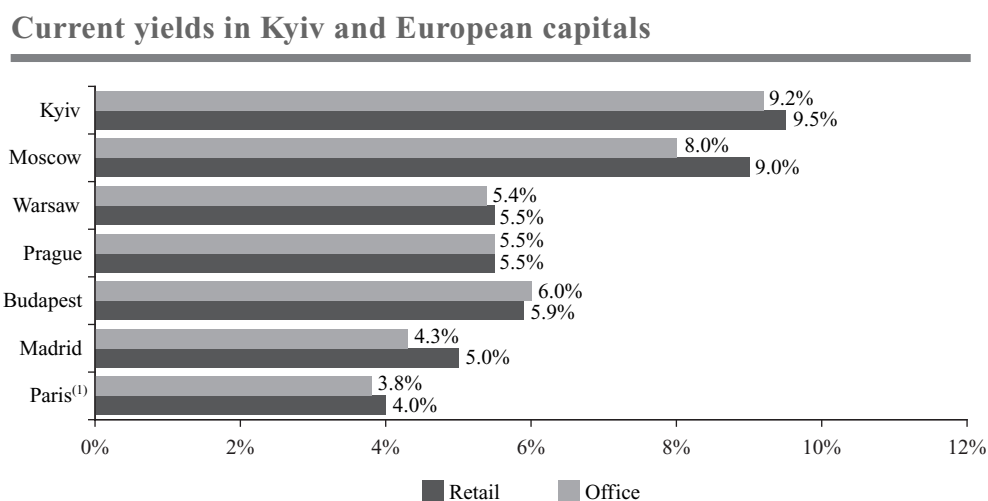
behind demand, resulting in an increasing deficit of quality space and rising rental rates or sale prices. The key trends observed in the Ukrainian real estate market in 2006-2007 were:

- annual rental rate increases in the office market, including an annual rent increase of 30% to 40% between 2005 and 2006;
- larger developments under construction or in the project development phase;
- yield compression to 9.0%-9.5% for prime office and retail developments in 2007; and
- the increasing presence of foreign development and investment companies in the Ukrainian market.

Although these trends remained largely unchanged in the six months ended 30 June 2007, the number of attractive opportunities in the market has been decreasing, particularly in Kyiv where desirable real estate properties are increasingly scarce.

High yields in comparison to other European countries are one of the main reasons behind drawing foreign investors into Ukraine.

The chart below shows the yield on prime retail and office space in Kyiv as compared to selected other European capitals for the ten months ending 31 October 2007:



Source: DTZ Website, "Property Market Indicators"

(1) Central business district only.

In response to general improvements on the market and reductions of risks, property yields have gradually decreased over the years. Although the yield compression will continue to take place, Colliers forecasts that the rate of decline will slow, maintaining a certain gap with Central European countries and reflecting a different risk profile of Ukraine.

In 2006, there was active development of regional markets in cities with a population greater than one million people and other large regional centres of Ukraine (Kharkiv, Dnipropetrovsk, Odesa, Zaporizhia, Donetsk and L'viv).

## The Ukrainian Office Space Property Market

### Overview

In 2006, the market for office premises in Kyiv continued its expansion with increasing volumes of both new supply and the purchase and rental of property (i.e. "take up"). Continued economic growth supported increased demand for office premises and the absorption of newly delivered office stock. Rental rates increased in Kyiv by up to 40% in 2006 and vacancy rates remained relatively low. Similar trends were observed in the regional office markets; however, demand remained lower than in the Kyiv market.

The Kyiv office market demonstrated the following trends in the six months ended 30 June 2007:

- increasing demand;

- increasing demand for larger spaces, with a number of transactions involving 4,000 to 5,000 square metres; and
- the commencement of large-scale office developments to accommodate rising demand and to take advantage of high rental rates.

In addition, there was increased construction activity in the office space segment in Ukrainian cities with a population exceeding one million.

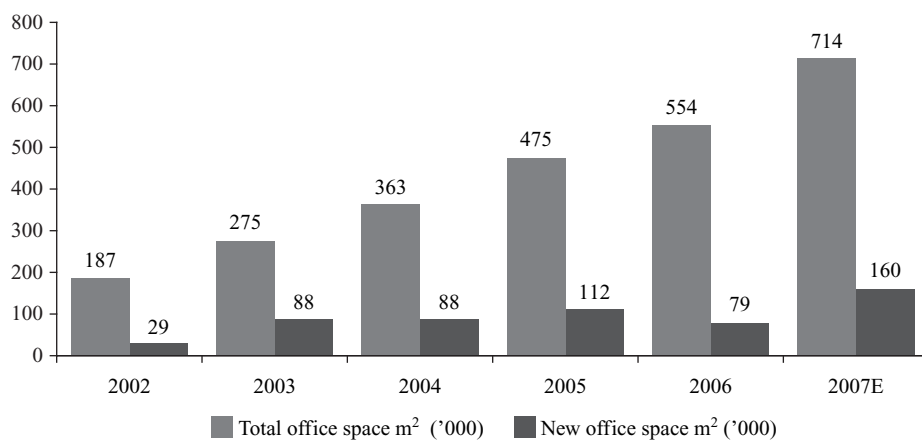
### *Supply and Demand*

As at August 2007, according to DTZ there was approximately 656,300 square metres of office space in Kyiv, including speculatively delivered space, but excluding government buildings and offices constructed for owner occupiers. This amount of office space remains far behind other major capitals in the Central and Eastern European region.

DTZ forecasts that throughout 2007 approximately 160,000 square metres of speculative office space may be delivered. Approximately 90,600 square metres of office space was delivered in Kyiv in the first half of 2007, including the Parus and Iceberg business centres. Among major schemes planned for completion by the end of 2007 are the business centres in Fizkultury Street and Mikom-Palace, as well as the second phase of the Lastivka office development.

The chart below shows total supply of office premises and new supply added in Kyiv for the years ended 31 December 2002-2006, and as forecasted for year ending 31 December 2007:

### **Cumulative Supply of Office Premises in Kyiv**

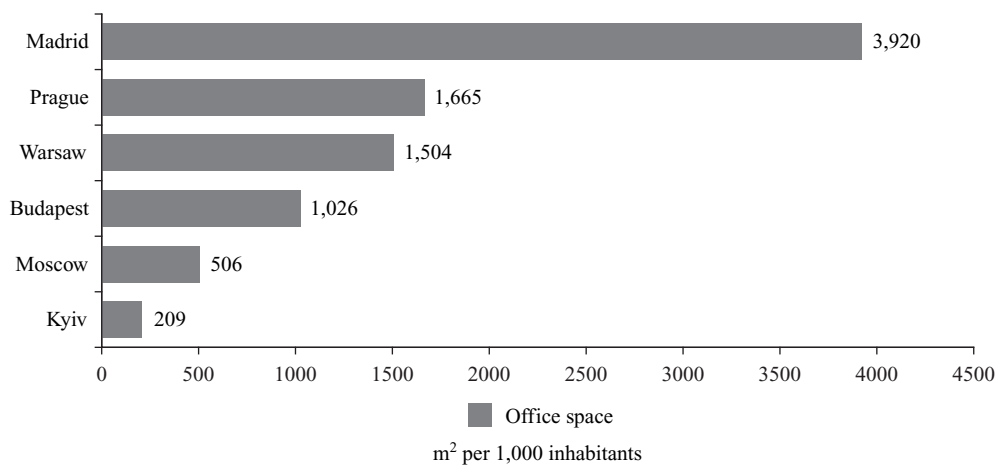


Source: 2006 DTZ Property Market Overview (for years 2003-2007) and 2007 DTZ Property Market Overview (for the year 2002)

DTZ reports that demand for quality office space in Kyiv remained high throughout 2006 and the first half of 2007. As with previous periods, the level of take-up was hindered by the lack of quality office space on the market. According to DTZ, pre-lettings comprised a considerable share of the 2006 take-up and this trend is expected to strengthen as tenants' requirements increase whilst the market remains structurally undersupplied.

The chart below shows the scarcity of office space in Kyiv in comparison to other selected European cities for 2006:

### Offices supply in Kyiv and European capitals



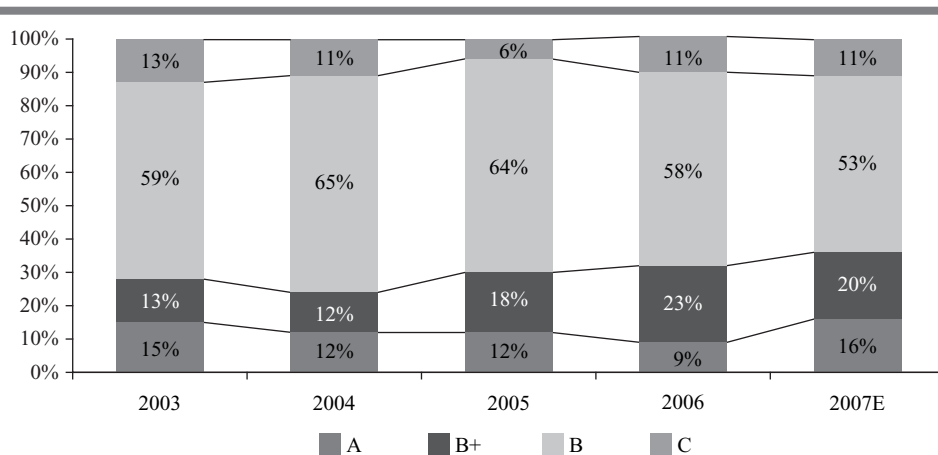
Source: DTZ Regional Reports and [www.citypopulation.de](http://www.citypopulation.de)

In Kyiv, almost 80% of newly delivered office space is Class B, the absence of Class A office supply in 2006 can be attributed to delivery delays of several large projects, which were announced for opening in 2006.

In 2007, Colliers estimates that Class A office space is expected to account for 35% of new supply, bringing the share of Class A office space to 16%.

The chart below shows the proportion of total office market stock in Kyiv as among Class A, B and C premises for the years ended 31 December 2003-2006, and as forecasted for year ending 31 December 2007:

### Kyiv Office Market Structure Dynamics (total stock)



Source: 2007 Colliers Review

In the six months ended 30 June 2007, the aggregate take up of purchased and rented space in the Kyiv office market was approximately 102,000 square metres. Class A premises accounted for more than 40% of the aggregate take up, while Class B and Class C premises accounted for approximately 45% and 10%, respectively. This distribution of take-up reflects the growing interest amongst tenants and buyers in improving the quality of their premises.

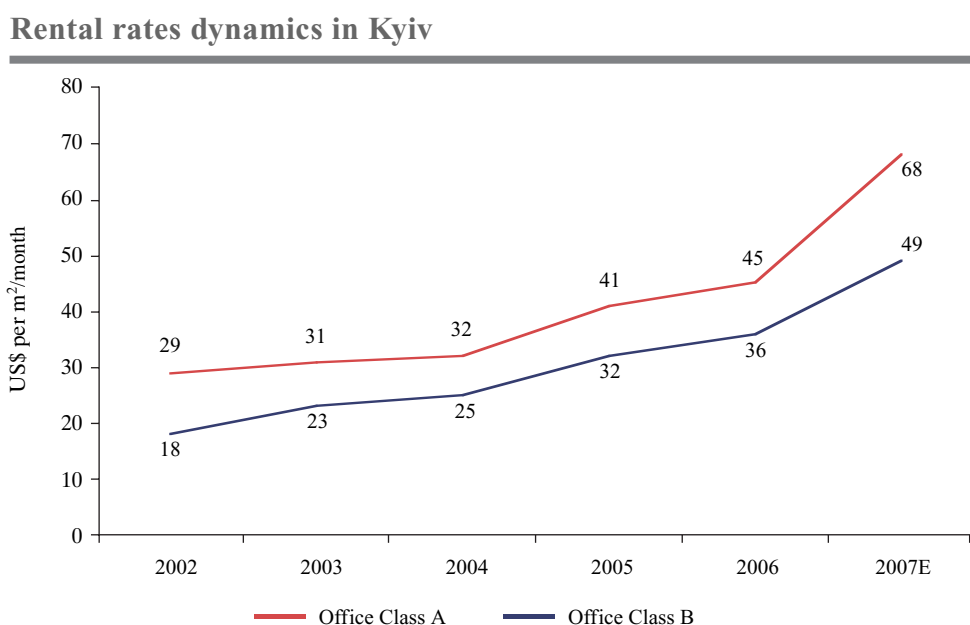
Due to limited leasing opportunities in Kyiv, Colliers reports that the volume of delayed demand has not contracted and a significant part of demand is still deferred to future years as more affordable transaction opportunities come to the market.

### **Rents and vacancy rates**

According to DTZ, steadily increasing demand combined with the continued deficit of high quality office space in Kyiv has been forcing rents upwards strengthening the market for grade A and B office space. As reported by DTZ, a number of Kyiv city centre buildings recently delivered or those close to occupancy stage are now available for leasing at rents of between US\$48-85 per square metre. As of 30 June 2007, rent for Class A office space in Kyiv was between US\$50-70 per square metre per month, while Class B office space was between US\$38-55 per square metre per month.

For the year ending 31 December 2007, DTZ forecasts a strong positive trend of existing tenants expanding their office requirements, as a result of rapid business growth and excellent prospects for the Ukrainian market. Accordingly, DTZ estimates that prime rents will remain high as the vacancy rate remains low over the course of 2007-2008.

The chart below shows information on the prime rents by class for the years ended 31 December 2002-2006, and as forecasted for the year ending 31 December 2007:



Source: 2007 DTZ Property Market Overview

### **The Ukrainian Residential Property Market**

Residential property in Ukraine is perceived as an attractive investment for personal savings because of the steady increases in residential property prices in recent years, as well as a lack of confidence in the domestic banking system and uncertainties relating to Ukraine's political situation.

The disparity between supply and demand and increasing personal incomes have contributed to residential property price increases in both the primary and secondary markets.

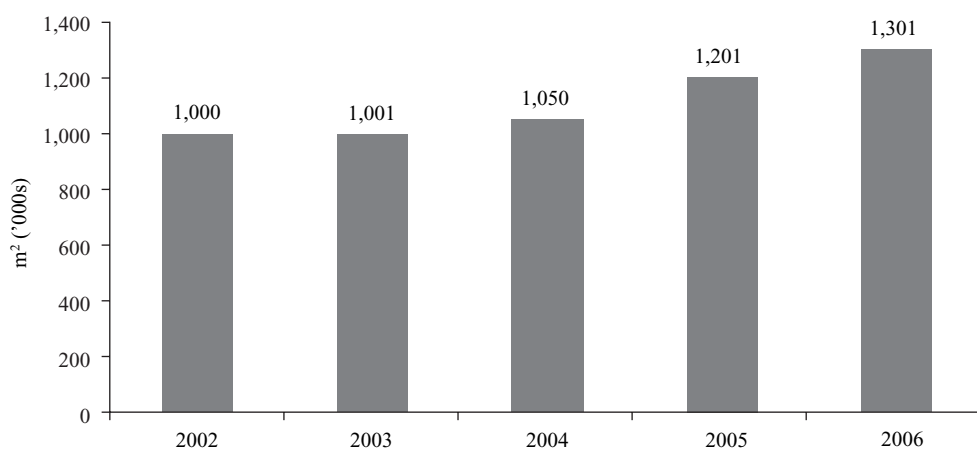


## Kyiv

### Supply and demand

Approximately 1.3 million square metres of residential premises were constructed in 2006 in approximately 130 new residential buildings. The chart below shows the number of square metres of new housing construction in Kyiv for the years ended 31 December 2002-2006:

**Kyiv new housing completion, 000m<sup>2</sup>**



Source: State Statistics Committee of Ukraine

The absence of systematic building in Kyiv caused a decrease in the amount of new residential premises constructed in the first quarter of 2007. The total area of new residential construction in Kyiv decreased 22% from 268,451 square metres in the first quarter of 2006 to 209,619 new square metres in the first quarter of 2007. The number of new apartment units constructed in Kyiv decreased 28% from 3,143 in the first quarter of 2006 to 2,251 in the first quarter of 2007.

In 2006, more than 70% of the approximately 40,000 apartments sold were sold in Kyiv in the secondary market with only 10,000 newly constructed apartments (comprising approximately 1,000,000 square metres) sold during this time. This suggests that the demand for new construction (approximately two million square metres per year) in Kyiv significantly exceeds the supply (as reflected by the 2006 apartment sales numbers).

In addition to the lack of supply of high quality new buildings, Kyiv has been experiencing a residential construction boom in the past several years. Much of the residential stock was constructed during the Soviet era and may be considered inadequate by quality standards or by living area.

The annual demand for new residential premises in Kyiv is estimated by Colliers to be two million square metres, primarily among home buyers, but also among real estate investors. In addition, the National Bank of Ukraine estimates that the total value of loans for residential real estate in Ukraine will increase from US\$4.8 billion for the year ended 31 December 2006 to US\$11 billion for the year ending 31 December 2007.

### Prices

In the first nine months of 2007, prices for residential real estate in Kyiv increased at an average rate of 1% to 1.5% per month, both in the primary and secondary real estate markets. For the nine months ended 30 September 2007, the average price increase was between 9% and 10%, depending on the location and quality of the property.

The table below shows the average price per square metre (in US\$) of residential real estate in Kyiv for the years ended 31 December 2005-2006, and as forecasted for the year ending 31 December 2007:

	2005	2006	2007E
Primary Market . . . . .	\$1,300	\$2,100	\$2,300
Secondary Market . . . . .	\$1,600	\$2,700	\$3,110

The difference in price between primary and secondary markets in the table above is mainly due to the fact that most apartments in the primary market are sold during the construction phase at a discount to the price for completed apartments.

## **L'viv**

### *Supply and demand*

There is also a lack of modern and high-end apartments in the L'viv residential market. While construction companies have begun building more of these apartments, especially within high-rise buildings, approximately 80% of the market is comprised of economy-class apartments. The majority of apartments in a newly constructed building are sold before the project is commissioned.

According to official government data, the deficit of residential housing supply in L'viv is approximately 1.7 million square metres.

As a cultural capital of Ukraine, L'viv attracts a large number of tourists which adds to the demand for second homes in L'viv, particularly in its historical district. This has further contributed to demand and price growth.

### *Prices*

In the first nine months of 2007, the average price of residential real estate in L'viv increased 3% to 4% per month for both primary and secondary sales. The overall average price increase in the first half of 2007 was approximately 20%.

At 30 June 2007, the average price per square metre in the L'viv primary residential market was approximately US\$1,400 and the average price per square metre in the L'viv secondary residential market was approximately US\$1,750. As previously noted, the difference in price between primary and secondary markets is mainly due to lower sales prices for units purchased in the development stage.

## **The Ukrainian Retail Property Market**

In 2006, for the second consecutive year, no large, quality shopping centres opened in Kyiv. This has been attributed to the difficulty faced by many developers to secure land for development. Due to the limited supply of new retail projects in Kyiv, the undersupply of quality retail space has increased, further strengthening rental rates.

The Ukraine and Kyiv retail property markets demonstrated the following trends during the six months ended 30 June 2007:

- emergence of large-scale land-banking among Ukrainian companies;
- higher levels of interest from developers and retailers in regions with more than 400,000 people;
- emergence of regional shopping centres in various cities;
- increased competition in some retail segments, such as hypermarkets/supermarkets;
- increased variety of brands in the market and the development of the franchise market;
- emergence of large scale shopping centre projects in the vicinity of the ring road in Kyiv; and
- development of retail projects as part of mixed-use complexes, on the sites of former industrial zones in Kyiv.

### *Supply and demand*

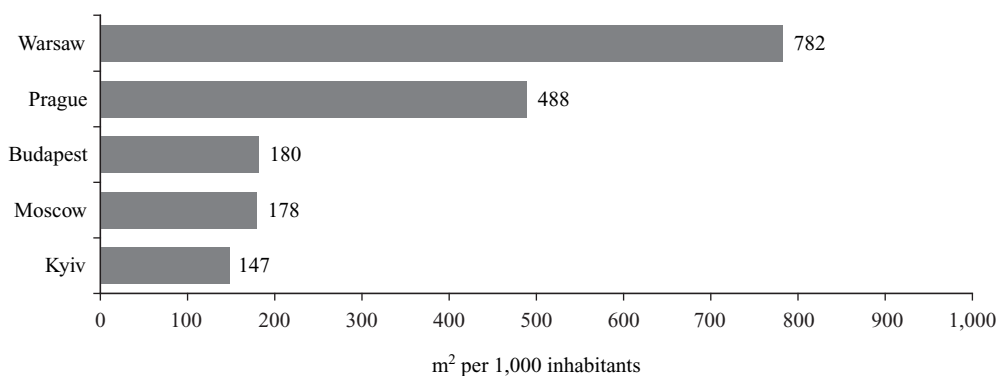
After years of rapid growth, the retail property market of Kyiv slowed somewhat during 2005 and 2006. This slowdown was primarily caused by delays in development projects due to the lack of experience on the part of developers and difficult permit procedures in Kyiv. For the year ended 31 December 2006, within the segment of shopping centres, the total gross lettable area ("GLA") in Kyiv was 303,000 square metres, which is 17% more than the 43,000 square metres of new space delivered at the year ended 31 December 2005. For the year ending 31 December 2007, Colliers estimates that, around 100,000 square metres of GLA will enter the market, while in 2008-2009 another 430,000 square metres will be delivered. Accordingly, for the year ending 31 December 2009, the total size of the market may exceed 800,000 square metres.

For 2007 and 2008, as reported in the Colliers Review, the International Center for Policy Studies (ICPS) forecasts growth of consumption spending in Kyiv may slow due to higher energy costs and an expected slow-down of income growth. However, ICPS estimates that retail turnover will grow at approximately 13%.

Due to the circumstances above, retailers have been willing to expand their operations or to enter Ukraine. Retailers have most interest in Kyiv due to higher retail turnover.

The chart below shows the per capita retail space in Kyiv as compared with other selected European cities for 2006:

### Retail properties supply in Kyiv and European capitals

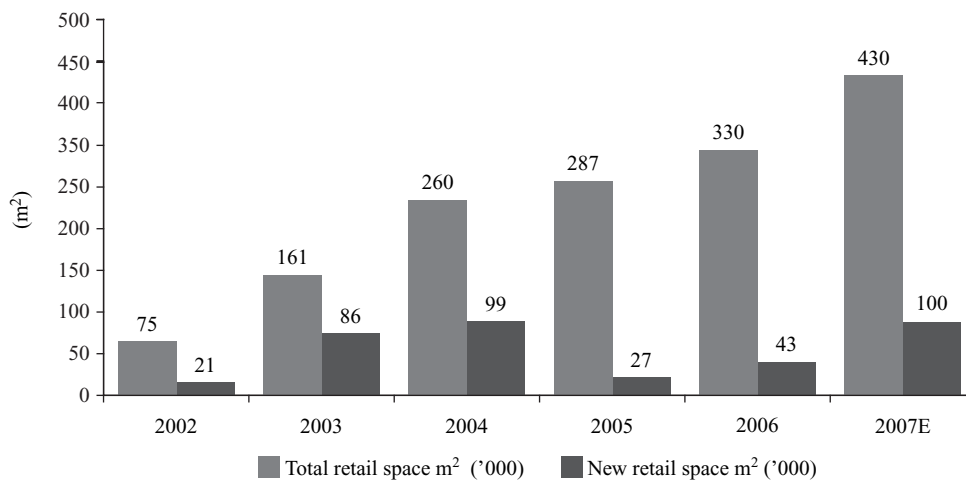


Source: DTZ Regional Reports and [www.citypopulation.de](http://www.citypopulation.de)

In the first half of 2006, the only new retail scheme to open was GlobalUA, with a total area of 7,500 square metres, which became the first new multi-tenanted retail centre in the north-east peripheral district of Troyeshchyna. In November 2006, the approximately 9,000 square metre retail centre “Plazma” opened in Petrivka within a multi-use retail, office and sports centre. In the six months ended 30 June 2007, the only additional retail centre in Kyiv was Komod, located on the left bank of the Dnipro River with a gross area of 10,000 square metres.

The chart below shows the annual supply of GLA for the years ended 31 December 2002-2006, and as forecasted for year ending 31 December 2007:

### Annual supply of GLA

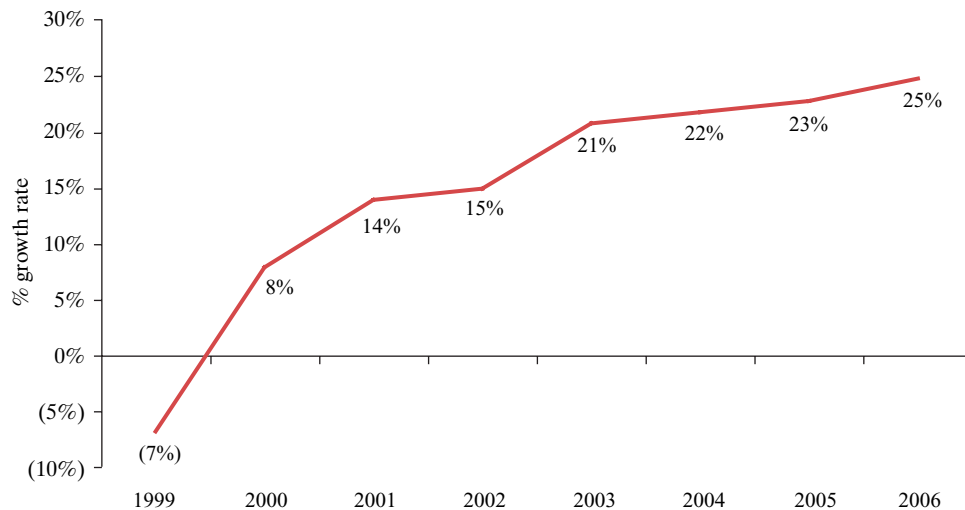


Source: 2007 Colliers Review and [www.citypopulation.de](http://www.citypopulation.de)

By the end of 2006, the total GLA within the Kyiv shopping centre segment was 303,000 square metres, representing a 17% increase compared to the end of the prior year. In 2007, developers are planning to deliver around 100,000 square metres of GLA.

As a result of increasing personal incomes, retail turnover in Ukraine grew by 25.3% in 2006. The chart below shows the turnover growth of the Ukrainian retail sector in the years ended 31 December 1999-2006:

### Retail turnover growth



Source: State Statistics Committee of Ukraine

A number of well-established international retail chains have entered or are entering Ukraine, including brands such as: Marks & Spencer, Oasis, Pimkie, Tatum, Laurel, Empik and Arbat Prestige. Other international retailers—Detskiy Mir, Mosmart, Inditex, Podium—are in the process of searching for suitable premises to lease. Furthermore, yet more top brands are in the final stages of evaluating whether to open their stores in Ukraine.

Another feature of the Ukrainian retail market is the strengthening presence of well-known hypermarket operators. In March, Auchan, the French-owned operator, signed a partnership agreement with Furshet, a local company, as part of its plan to establish a chain of its hypermarkets in the country. Meanwhile the first Russian-owned O'KEY hypermarket is expected to open by the end of the year as part of the first phase of Dniprovska Pristan. Likewise, Real has announced its plans to enter the market.

### Prices

The rental prices for retail real estate in Kyiv started to stabilise in the six months ended 30 June 2007. In Kyiv, rents during this period ranged from US\$120 to US\$300 per square metre for areas of less than 300 square metres in successful projects and from US\$50 to US\$70 in less successful centres.

### The Ukrainian Hotel Market

#### Overview

The Ukrainian hotel market is actively developing, due in large part to the increase in tourists and business people visiting Ukraine. The State Statistics Committee of Ukraine reported that, in 2006, 18.9 million tourists visited Ukraine, a 20% increase compared to 2005. Furthermore, the UEFA's decision for Poland and Ukraine to host the 2012 European football championship is expected to result in an increased number of visitors and in more rapid development of the hotel segment of the market both within and outside Kyiv.

The overall quality of many of the existing hotels in Kyiv remains below that of international four- and five-star hotels.

Accordingly, many developers have announced the construction of new hotels that will meet international standards. In the six months ended 30 June 2007, the top segment of Kyiv's hospitality market was improved through delivery of two new projects, the four-star Riviera hotel with 80 rooms and the five-star Hyatt Regency Kyiv hotel with 234 rooms.

During the six months ended 30 June 2007, demand in the Kyiv hotel market segment continued to exceed the limited level of supply, in particular at the top end of the sector. In the six months ended 30 June 2007, the average hotel occupancy rate among four- to five-star properties remained at around 70%, a level similar to that in 2006. Similarly, based on the pricing policies set in January of 2007, over the first six months of 2007, room rates remained largely unchanged.

## PART VI: INFORMATION ON THE GROUP

### Overview

The Group is one of the leading real estate investment and development groups in Ukraine based on the net asset value of its properties, with a diversified portfolio of real estate projects comprising offices, residential complexes, retail centres and mixed-use projects. The Group currently has eight projects, with three projects at the ground works and early construction phase and five under development. These projects, which have a total planned gross area of approximately 2.7 million square metres, are located in the capital region of Kyiv with the exception of one residential project in L'viv. In addition to its projects currently in development, the Group is planning a number of additional projects.

As at 30 September 2007, the total estimated aggregate market value of the Group's properties was US\$908.2 million, based upon the Colliers Report (see Part XII "The Colliers Report" for a description of valuation methodology and assumptions). The Group's total assets, as set forth in the special purpose combined IFRS financial information, were US\$557.0 million and US\$563.6 million as of 31 December 2006 and 30 June 2007, respectively. The Group's net profit for the year ended 31 December 2006 was US\$165.5 million (including revaluation gain of US\$166.8 million net of related deferred tax) and for the six months ended 30 June 2007 its net loss was US\$0.7 million. See "Presentation of Financial and Other Information—Financial Information" for a description of the differences between the values included in the Colliers Report and the values assigned to real estate assets included in the Group's combined financial information.

The Group's business developed from the operations of its current shareholders, which began in 1994. The Group's shareholders became active in real estate in 1997 and were among the first to develop modern commercial and residential projects in Kyiv. The Group's management team has a strong track record of implementing large-scale development projects, which include the 8,000 square metre Kiev-Donbass office centre, the 33,000 square metre Vvedensky residential complex in Kyiv's Pechersky District, the 78,000 square metre Diplomat-Hall residential and office complex on Zhylianska Street and the 38,000 square metre Botanic Towers residential and office complex, all of which are located in central Kyiv.

The Group's current real estate activities comprise the following:

- **Office projects.** The Group currently has two office projects in the city of Kyiv. The Group recently began ground works at the site of its WTC development, a Class A office centre next to Kyiv's main railway station with a planned gross area of approximately 159,000 square metres. The project is scheduled to be completed in the fourth quarter of 2010. The Group is also planning the development of the Class A ZAGS office centre in central Kyiv with a planned gross area of approximately 215,400 square metres. The ground works for this project began in the fourth quarter of 2007 with completion scheduled for the third quarter of 2010.
- **Residential complexes.** The Group is currently developing two residential projects in central Kyiv and in the Kyiv region and one residential project in L'viv. The Group recently began ground works for its PecherSKY complex, a premium class residential complex with an expected gross area of approximately 50,500 square metres and approximately 200 units located near the Druzhby Narodiv underground station. This complex is planned to be completed in the fourth quarter of 2009. The Group is also currently planning its Diplomat-Park development on a site located in the historic district of L'viv, near its central park. Diplomat-Park is planned to have a gross area of approximately 242,000 square metres and is designed to include approximately 1,575 premium-quality apartments. Construction of Diplomat-Park is due to start in the second quarter of 2008 and this three-stage project is scheduled to be fully completed in the second quarter of 2012. In addition to its premium residential projects, the Group is planning its Zazimye residential complex, which is designed to provide quality modern housing for budget-conscious buyers. Management believes that there is significant unmet demand in this segment. The site for the Zazimye development is located in the Kyiv region, approximately five kilometres away from the Kyiv city borders. Construction of Zazimye is due to start in the third quarter of 2008 and this two-stage project is scheduled to be fully completed in the fourth quarter of 2012.
- **Retail centre.** Management believes that high quality retail and entertainment sectors are particularly underdeveloped in Ukraine. Accordingly, the Group is planning to construct a retail and entertainment centre with a planned gross area of approximately 594,300 square metres on the Zhitomir highway, approximately 40 kilometres from the centre of Kyiv. This project is

intended to contain a large retail and entertainment space, an aqua park and a hotel, and is scheduled to be completed in the first quarter of 2011.

- **Mixed-use projects.** The Group also has two mixed-use projects in Kyiv, which combine elements of two or more intended uses. The Group plans to develop the Kureni hotel and residential complex located in Kyiv's historic city centre near the Dnipro River, which is scheduled for completion in the third quarter of 2009. Kureni is expected to have a 70-room luxury boutique hotel with a gross area of approximately 5,600 square metres. The project is also designed to include six high quality apartment units having approximately 2,000 square metres of gross residential area. In addition, the Group has recently started the development of its Metro City project in the densely populated area on the left bank of the Dnipro River in the city of Kyiv. Metro City is planned to include retail space, Class B office space and a hotel, and is scheduled for completion in the second quarter of 2011.

In addition, the Group plans to acquire further land plots in Ukraine and intends to target cities in Ukraine with a population in excess of 1 million for the development of office, residential and retail projects.

### Current Portfolio

The following table sets forth key information regarding the Group's current properties as at the date of this document.

	Location	Development Stage <sup>(1)</sup>	Estimated Completion <sup>(2)</sup>	Estimated Gross Area (sqm)	Estimated Useable Area (sqm)	Estimated Market Value <sup>(3)</sup> (US\$ millions)	Beneficial Ownership <sup>(4)</sup> (%)
<b>Office Properties</b>							
ZAGS Office Centre . . . . .	Kyiv	Construction	3Q 2010	215,400	170,300 <sup>(5)</sup>	226.7	100.0
WTC Office Centre . . . . .	Kyiv	Construction	4Q 2010	159,000	126,500 <sup>(6)</sup>	226.6	100.0
<b>Residential complexes</b>							
PecherSKY . . . . .	Kyiv	Construction	4Q 2009	50,500	40,000 <sup>(7)</sup>	70.9	100.0
Zazimye . . . . .	Kyiv region	Concept design	4Q 2012	788,000	628,800 <sup>(8)</sup>	82.4	100.0
Diplomat-Park . . . . .	L'viv	Schematic and detailed design	2Q 2012	242,000	175,800 <sup>(9)</sup>	50.6	100.0
<b>Retail centre</b>							
Zhitomir Highway . . . . .	Kyiv region	Concept design	1Q 2011	594,300	228,600 <sup>(10)</sup>	51.0	100.0
<b>Mixed-use developments</b>							
Kureni (hotel and residential) . . .	Kyiv	Schematic and detailed design	3Q 2009	7,600	7,600 <sup>(11)</sup>	36.7	100.0
Metro City (retail and office) . . .	Kyiv	Concept design	2Q 2011	635,350	426,100 <sup>(12)</sup>	163.3	100.0
<b>Total . . . . .</b>				<b>2,692,150</b>	<b>1,803,700</b>	<b>908.2</b>	

- (1) The development process begins with project definition, which involves acquisition or lease of a suitable land plot, followed by concept design and development, and the schematic and detailed design phase, during which the Group seeks necessary governmental and administrative approvals. Construction of the development occurs during the final project management phase. See "—Project Development Process" below for more detail.
- (2) Estimated completion dates are based on the Group's current business plan and are completely dependent on a combination of factors, including, but not limited to, acquisition of title to land plots, receipt of approvals required for the implementation of each project and completion of each development stage. It is assumed that these dates can be achieved within the times contemplated by the business plan and at the budgeted costs, and that no extraordinary events will occur that might delay land acquisitions, planning, design, construction, completion and marketing, and any other stages of implementation of the Group's projects. See Part II "Risk Factors—Risks Relating to the Group's Business—The Group's projects are in the early stages of development and there is no guarantee of their successful completion".
- (3) Estimated market value as of 30 September 2007 extracted from the Colliers Report included in Part XII of this document and calculated based on the assumptions specified therein.
- (4) See Part XVI "Additional Information—Corporate Structure" for a description of the Group's ownership of the properties.
- (5) Includes approximately 116,900 square metres of useable office space, approximately 7,100 square metres of useable retail space and approximately 46,300 square metres of income-producing parking space.
- (6) Includes approximately 67,500 square metres of useable office space, approximately 6,600 square metres of useable retail space and approximately 52,400 square metres of income-producing parking space.



- (7) Includes approximately 20,700 square metres of useable residential space, approximately 4,700 square metres of useable office space and approximately 14,700 square metres of income-producing parking space.
- (8) Includes approximately 626,100 square metres of useable residential space and approximately 2,700 square metres of useable retail space.
- (9) Includes approximately 135,900 square metres of useable residential space, approximately 6,800 square metres of useable retail space, approximately 5,800 square metres of useable office space and approximately 27,300 square metres of income-producing parking space.
- (10) Does not include approximately 252,000 square metres of gross non income-producing open-air and underground parking.
- (11) Includes approximately 5,600 square metres of useable space to be occupied by a hotel and approximately 2,000 square metres of useable space to be occupied by apartments.
- (12) Does not include approximately 124,500 square metres of non income-producing open-air parking.

The Group is currently in the process of negotiating the acquisition of additional projects and properties in Ukraine. As these projects represent future development opportunities and are currently at preliminary stages of negotiations, they have not been included in the Colliers Report. See “—Description of Properties and Projects—Pipeline projects” below.

### ***The Group’s Strengths***

Management believes that the Group benefits from the following strengths:

***Extensive real property development experience.*** Through its managers and shareholders, the Group has extensive experience in developing real estate properties in Kyiv. These individuals have completed and successfully divested four residential and office projects in Kyiv with an aggregate gross area of 157,000 square metres. The Kiev-Donbass office centre, which was developed by the Group’s shareholders and managers in 1997, was one of the first modern Class A office premises in Ukraine. In addition, management believes that the Group’s shareholders were among the first to capitalise on opportunities in the Ukrainian real estate market in the late 1990s following Ukraine’s transition to a market economy. Many of the Group’s managers and shareholders have worked together since 1996 developing residential and commercial projects. During this period, the Group’s management developed extensive contacts among local and foreign developers, contractors, architects and suppliers. The Company believes that its managers also have developed good working relationships with municipal officials in Kyiv, L’viv and in other major cities of Ukraine, which management believes is partially attributable to its policy of compliance with applicable laws and regulations. Management believes that this experience, market knowledge and network of contacts are particularly important as the process of developing property in Ukraine is complex and requires numerous approvals from multiple administrative authorities.

Management believes that projects completed by the Group’s shareholders and managers have helped to establish the Group’s reputation for quality and reliability and enhanced its position in the Ukrainian property market.

***Balanced real estate portfolio.*** The Group’s portfolio includes office, high-end and economy residential, retail and hotel developments located in Kyiv and the Kyiv region, as well as one development in L’viv. Management believes that the scale and diversified nature of the Group’s portfolio will help it to capitalise on opportunities in each real estate market segment and to minimise the risks associated with any particular real estate market segment. In addition, management believes that the Group’s project pipeline and its careful scheduling of project development stages will provide a balanced property portfolio, including both income-yielding projects and projects intended to be sold for capital growth. In the future, management expects that the Group’s real estate portfolio will become more geographically diversified as it expands beyond Kyiv to other major cities in Ukraine.

***Access to attractive investment opportunities.*** Municipalities in Ukraine generally allocate land for development through open tenders or applications for leases, which generally take into account not only the value of bids received but also an assessment of a bidder’s ability to complete the proposed project and its experience in completing similar projects. Management believes that the Group’s reputation, expertise and experience, as well as its network of international suppliers and subcontractors provide an advantage in tendering for land as compared to less established developers. In addition, management believes that these factors help to attract offers from private entities that hold rights to develop land plots but do not have the resources and experience to develop those properties on their own.

**Strong management team.** Two of the Group's most senior managers have worked together for several years on real estate projects, overseeing four developments as a team, and they continue to work together closely. Additionally, management believes that the Group's broader management team comprises qualified and motivated professionals who are experienced in adapting international real estate concepts, practices and technologies to the Group's business in the local market, as well as in implementing the best practices developed within the Ukrainian market. Management believes that the Group is well positioned to benefit from the potential of the Ukrainian real estate market and has a strong platform to pursue its strategic goals.

### ***The Group's Strategy***

The Group's overall objective is to become the leading real estate developer in Ukraine. It intends to accomplish this objective by leveraging its experience in Kyiv's competitive real estate market, by adapting successful international concepts and practices to the Ukrainian real estate market and by commencing development work in major cities of Ukraine. The main elements of the Group's current strategy are the following:

**Focus on high growth real estate segments.** As the stock of Class A and B office space available for rent in Ukraine remains limited in comparison with other Central and Eastern European countries, the Group intends to build and operate modern office centres to satisfy the unmet need for such space. The Group plans to build high-end apartments in response to increasing demand for premium accommodation in desirable locations among the growing population of middle- and upper-income buyers. The Group also intends to deliver an economy class residential development in the Kyiv region. Furthermore, the Group plans to focus on the development of large-scale, quality retail and entertainment centres capable of accommodating clothing stores, food and specialty retailers and leisure facilities, such as cinemas and food courts, which currently are in limited supply in Ukraine. Furthermore, the Group intends to develop four- and five-star hotels in cooperation with leading international operators in response to perceived increases in demand from the growing number of business and tourist visitors in Ukraine. The Group intends to carefully monitor other real estate segments and may consider expanding its portfolio to further segments, should risk and return profile of the segments become attractive.

**Focus on large scale, investment grade commercial properties.** The Group plans to maintain its focus on the development of large scale investment grade properties within the office, residential and retail segments of the Ukrainian real estate market. Management plans to thoroughly assess each potential project before any significant investment is made to determine whether the project offers acceptable economic returns. Additional selection criteria include whether the project involves an innovative concept, whether similar schemes have been successfully completed in other developing markets and whether the project is considered to be viable in Ukraine. The Group intends to use additional efforts to test the principal commercial assumptions of a proposed project at an early stage and to thoroughly investigate exit prospects before the final acceptance of a project concept. Given that an average development requires a set of administrative and regulatory approvals often unrelated to the size of the development, management believes that the Group's focus on large scale projects creates a more optimal use of internal resources, reduces the risks of delays in the completion of projects and creates the potential for additional economies of scale.

**Maintain a balanced development portfolio.** The Group intends to continue to focus on completing its projects on a timely basis and in accordance with international standards, and it plans to deliver a total of approximately 58,100 square metres, 494,700 square metres, 1,684,700 square metres and 454,500 square metres of gross area of real estate developments in 2009, 2010, 2011 and 2012, respectively. Based on current market conditions, management believes that the Group's developments will benefit from high consumer demand and will generate attractive investment returns. The Group plans to use a portion of the proceeds from the Offer to finance the completion of its eight current projects. The Group plans to hold its income-producing commercial and retail properties with the intention of selling them at acceptable exit yields at maturity, and it plans to sell its residential properties during the development stage or upon completion of construction. The Group's strategy is for its current properties to generate cash flows sufficient to cover the ongoing expenses of portfolio holdings, to partially fund development costs and to provide the potential for capital appreciation.

**Identification and acquisition of premium land plots in Kyiv and major cities in Ukraine.** As part of its growth strategy, the Group intends to expand its business through identification and selective acquisitions of ownership or leasehold rights to properties and property portfolios. In particular, the Group intends to

participate in tenders for attractive sites in Kyiv and other major Ukrainian cities and to acquire premium land plots on the secondary market. Management believes that the Group can capitalise on its reputation, comprehensive expertise and extensive contacts with Kyiv and regional authorities in building up its real estate development portfolio. In addition to its development in L'viv, the Group intends to further expand its portfolio geographically to other highly populated Ukrainian markets outside of Kyiv, replicating the concepts used for current portfolio projects such as WTC, Diplomat-Park and Zhitomir Highway. The Group believes that additional attractive opportunities exist in L'viv, Odesa, Dnipropetrovs'k, Kharkiv, Donetsk and other Ukrainian cities with a population exceeding one million.

*Selective outsourcing of portions of the development process to leading business partners.* The Group retains third party specialists in its property acquisitions and developments, including architects, real estate consultants, construction managers, construction companies and hotel operators. Management believes that the Ukrainian real estate market is rapidly evolving and that consumer tastes and tenant requirements are converging with those in more developed international markets. It believes that retaining specialists, particularly those Ukrainian market experts and specialists with experience in developed markets, will enable the Group to effectively anticipate and respond to changes in the Ukrainian market, enhance its internal know-how and expertise and deliver high-quality projects. The Group intends to continue outsourcing certain stages of its development activities to foreign and local partners. Management believes that this approach allows the Group to maintain a lean organisation and a focused management team concentrating on the acquisition of land plots, investment analysis, portfolio management and the marketing and sale of properties. Management intends to maintain its focus on strict compliance with construction schedules and to take reasonable actions necessary to ensure completion schedules are maintained by third party contractors.

### **History of the Group**

The business of the companies currently in the Group developed from the coal, electricity, and, subsequently, financial services, businesses of the Company's current shareholders, which began in 1994 with the establishment of several ventures. See Part IX "Principal Shareholders". These ventures included the L'viv Oil Facility of TM Schedriy Dar; the Refined Oil Plant of Striletsky Step; Insurance Company Nadra, and banks Nadra and Indexbank. The Group's shareholders were also involved in the development and operation of the high-end Concorde, Maroccana, Decadance and Kureni restaurants in Kyiv and the Puzata Hata chain of fast food restaurants.

In recent years, two of the Company's shareholders, Petro Slipets and Alexander Levin, along with other members of the Group's management team, directed the completion of various large-scale construction and redevelopment projects in residential and office property in Kyiv, consisting of the following:

- 1997** constructed one of the first modern office centres in Ukraine located in Lev Tolstoy Square in Kyiv, with a gross area of approximately 8,000 square metres;
- 2003** developed the Vvedensky residential complex in the Pechersky district of Kyiv, comprised of seven buildings with a gross area of approximately 33,000 square metres;
- 2005** developed Diplomat-Hall on Zhylianska Street, a residential and office property complex with modern amenities and a gross area of approximately 78,000 square metres; and
- 2006** completed the Botanic Towers residential and office property located in the centre of Kyiv on Saksaganskogo Street and comprising a 25 storey residential complex and 12 storey office centre with a gross area of approximately 38,000 square metres.

In 2006, the current shareholders and managers of the Group decided to reorganise their business with a view to improving legal and financial transparency and facilitating financial reporting. The Company was formed on 24 October 2007 to serve as the parent holding company for the Group and to hold the real estate assets of the Group through various subsidiaries.

## Description of Properties and Projects

Each of the Group's current projects is described separately below.

The following section contains Colliers' estimates as to the cost of completion of construction of the Group's projects, which costs exclude VAT. Management believes that these estimates are within the range of its budgeted costs.

### *Office properties*

#### *ZAGS*

Below is a map showing the location of the ZAGS development and the project design.



ZAGS is planned as a premium commercial development located on a 0.74 hectare site along Peremogy Avenue, one of Kyiv's most important transportation routes, with good access to public transport. The site is in a densely populated area close to the city centre and Kyiv's main railway station.

The project is designed to have three buildings, ranging from six to 47 storeys, with a gross area of approximately 215,400 square metres and approximately 170,300 square metres of useable space, which includes approximately 46,300 square metres of income-producing parking space providing approximately 935 underground parking lots and approximately 7,100 square metres of retail space. The site is also planned to contain approximately 5,700 square metres of useable retail space, a fitness centre and conference hall.

The Group received initial construction permits for this project in February 2007 and it is currently in the process of obtaining updated permits to increase the gross area of the ZAGS project. See Part II "Risk Factors—Risks Relating to the Group's Business—The development of the Group's properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business". The ground works commenced in the fourth quarter of 2007 and construction is planned to be completed in the third quarter of 2010. The cost of the project to completion as estimated by Colliers is US\$312.4 million. The concept design, and schematic and detailed design were developed by DLN, Maunsell Aecom, R.A. Heintges & Associates, ACLA, C&A and MVA Hong Kong. The Group is currently negotiating an agreement with a local company that is expected to be the construction manager for this project.

The land for the project is owned by the Company's wholly owned subsidiary, Vysoky Status.

To secure the proper performance of the obligations of its subsidiary AOC under the US\$40 million loan from Ukreximbank to finance the first stage of construction of the ZAGS project, Vysoky Status granted a first ranking mortgage over the land plot for the ZAGS project in favour of Ukreximbank. The mortgage covers all buildings to be constructed on this land plot. See Part XVI "Additional Information—Material Contracts".



## WTC

Below is a map showing the location of the WTC development and the project design.



WTC is planned to be a premium commercial development located on a 1.5 hectare site in the densely populated Shevchenko district in close proximity to Kyiv's main railway station. The site benefits from nearby public transport links, including the Vokzalna underground station, and is four kilometres away from the city centre with convenient access by car.

The project is designed to have nine buildings, ranging from two to 31 storeys, with a gross area of approximately 159,000 square metres and approximately 126,500 square metres of useable space, which includes approximately 52,400 square metres of income-producing parking space providing underground and open air parking for approximately 1,000 cars and approximately 6,600 square metres of useable retail space. The complex is also planned to include a car dealership with a useable area of approximately 4,000 square metres, approximately 1,600 square metres of retail space and a fitness centre.

The Group intends to increase the gross area of the WTC project, and is currently in the process of obtaining construction permits for the increased area. See Part II "Risk Factors—Risks Relating to the Group's Business—The development of the Group's properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business". The ground works began in the fourth quarter of 2007 and construction is planned to be completed in the fourth quarter of 2010. The cost of the project to completion as estimated by Colliers is US\$227.5 million. The concept design was developed by RKW (Germany). In connection with the WTC project, Hochtief provided certain pre-construction services, including architectural advice and advice concerning the most efficient and economic usage of the building space. The Group is currently negotiating an agreement with an international construction company that is expected to be the construction manager for this project.

The land for the project is leased from the Kyiv City Council by the Company's wholly owned subsidiary, Solomyanka, under a 25-year lease agreement, expiring in May 2028. The current annual rental payments under the lease do not account for a material portion of the Group's cost of development of this project. Under Ukrainian law, the Group has a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value.

## *Residential complexes*

### *PecherSKY*

Below is a map showing the location of the PecherSKY development and the project design.



PecherSKY is planned as a premium residential development located on a 0.81 hectare site near the Druzhby Narodiv underground station in Kyiv. The site enjoys a prestigious position in the centrally-located Pecherskyi district of Kyiv, which has a well-developed transportation and infrastructure network. PecherSKY is planned to offer scenic views to the Dnipro river and Pecherskyi Lavra monastery.

The project is designed to have three detached cascade buildings, ranging from 14 to 23 storeys, with a gross area of approximately 50,500 square metres. The PecherSKY project is planned to contain approximately 200 apartment units having a useable area of approximately 20,700 square metres. The apartment units are planned to range in size between 60 and 300 square metres. In addition to the apartments, the project is planned to include a total of approximately 4,700 square metres of useable office space and some additional retail space. It is planned to also have a four-level underground parking garage with a useable area of approximately 14,700 square metres accommodating 262 income-producing parking spaces. The PecherSKY residential complex is expected to offer a range of modern amenities.

The Group obtained the final construction permit for the PecherSKY project in August 2007. Ground works began in the fourth quarter of 2007 and completion is scheduled for the fourth quarter of 2009. See Part II “Risk Factors—Risks Related to the Group’s Business—The Group leases the land underlying some of its developments from Ukrainian state and municipal authorities and these leases subject the Group to risks”. The cost of the project to completion as estimated by Colliers is US\$45.4 million. PecherSKY was designed by a Ukrainian architectural agency, Vitaliy Vasyagin architect agency. The Group is currently negotiating an agreement with a local company that is expected to be the construction manager for this project. The Group plans to pre-sell the PecherSKY apartments as “shell-and-core” apartments (with the interior to be finished by the owner to its specifications and at its expense), and plans to start such pre-sales in the first quarter of 2008. See Part XI “Legislation of Ukraine Relating to Land and Other Real Estate Property—Construction Financing”.

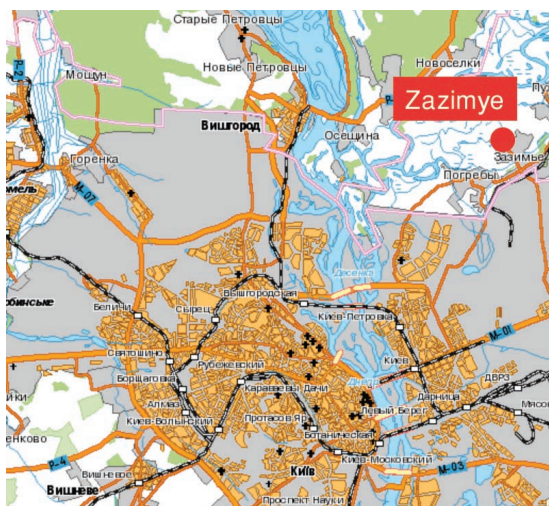
A 0.5 hectare site for the project is leased from the Kyiv City Council by the Company’s wholly owned subsidiary, Integra-Holding, under a 15-year lease agreement expiring in December 2019. The current annual rental payments under the lease do not account for a material portion of the Group’s cost of development of this project. Under Ukrainian law, the Group has a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value. The Group is also required to transfer to the municipal authorities 10% of the gross area of the property located on a leased land plot upon completion of construction, to be used by the municipality to provide state-subsidised housing. Integra-Holding also owns an adjacent 0.3 hectare site, which forms a part of the site for this project. See “—Additional Project Costs—Mandatory Fees and Contributions Under Ukrainian Law” below.

Integra-Holding granted a first ranking mortgage over all land plots it owns in favour of Diamant Bank to secure the proper performance of Integra-Holding’s obligations under its loan agreement with Diamant Bank for an aggregate amount of UAH 30.3 million. The mortgage covers all buildings to be constructed on the relevant land plots. See Part XVI “Additional Information—Material Contracts”.



## Zazimye

Below is a map showing the location of the Zazimye development and the project design.



The Zazimye development is planned as a large-scale residential development located on 110 hectares of land in Zazimye in the Brovarskiy region, approximately five kilometres from the Kyiv city border. Zazimye is considered to be a “satellite town” for the capital. The development is intended to target economy class buyers.

The Zazimye project is planned to comprise a number of five- to seven-storey buildings with a gross area of approximately 788,000 square metres. It is planned that the project will contain approximately 9,153 apartment units, with a useable area of approximately 626,100 square metres. The apartment units are planned to be smaller than in the Group’s other residential developments, with most of them ranging in size from 30 to 60 square metres. The complex is also planned to contain approximately 2,700 square metres of useable retail space.

The Company’s wholly-owned subsidiary Zanet currently owns approximately 79 hectares of land underlying the site and is in the process of finalising the acquisition of ownership rights to an additional 31 hectares of land underlying the site. The Group is currently conducting a tender to choose an architect to work on the project design. The land plot underlying the site is currently designated for agricultural use, and the Group intends to apply for re-zoning of the plot in the first quarter of 2008. See Part II “Risk Factors—Risks Relating to the Group’s Business—The development of the Group’s properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business”. Construction is planned to begin in the third quarter of 2008 following the receipt of all necessary construction permits. Zazimye is planned as a two-phase project, with the first stage scheduled for completion in 2011 and full completion planned for the fourth quarter of 2012. The cost of the project to completion as estimated by Colliers is US\$758.3 million.

The Group plans to begin pre-selling the Zazimye apartments as “shell-and-core” apartments starting in the third quarter of 2008. See Part XI “Legislation of Ukraine Relating to Land and Other Real Estate Property—Construction Financing”.

## Diplomat-Park

Below is a map showing the location of the Diplomat-Park development and the project design.



The Diplomat-Park project is planned as a premium residential development located on a 7.7 hectare site located in the historical area of L'viv in close proximity to the central park. The site has convenient transport links to the city centre located approximately one kilometre away. Diplomat-Park is intended to be a distinctive development in L'viv in terms of quality, size and variety of services.

The project is planned to comprise 12 buildings of three to 22 storeys with a gross area of approximately 242,000 square metres. The Diplomat-Park project is planned to contain approximately 1,575 apartment units having a useable area of approximately 135,900 square metres. The apartment units are planned to range in size from 50 to 200 square metres. The residential complex is designed to have a range of modern amenities. The plan for Diplomat-Park also includes approximately 27,300 square metres of income-producing parking, approximately 6,800 square metres of useable retail space and approximately 5,800 square metres of useable office space.

Construction is planned to begin in the third quarter of 2008 following the receipt of all necessary construction permits. See Part II “Risk Factors—Risks Relating to the Group’s Business—The development of the Group’s properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business”. Diplomat-Park is planned as a three-phase project, with the first and second stages scheduled for completion in 2010 and 2011, respectively, and full completion planned for the second quarter of 2012. The cost of the project to completion as estimated by Colliers is US\$236.8 million (taking into account the Group’s obligation to contribute to the local authorities 15% of the gross area of the constructed building, as described in more detail below). The concept design of Diplomat-Park was developed by John Seifert Architects Ltd. and the L'viv Projecting Institute of the Ministry of Defence of Ukraine is currently completing the schematic and detailed design for this project.

The Group plans to begin pre-selling the Diplomat-Park apartments as “shell-and-core” apartments starting in the third quarter of 2008. See Part XI “Legislation of Ukraine Relating to Land and Other Real Estate Property—Construction Financing”.

The Company’s wholly owned subsidiary Patriacom holds two land plots for this project under a ten-year lease from L'viv City Council expiring in September 2017. The current annual rental payments under the lease do not account for material portion of the Group’s cost of development of their project. Under Ukrainian law, the Group has a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value. Under the lease agreement, Patriacom is obliged to transfer to L'viv City Council 15% of the gross area of the constructed building for city-subsidised housing. See “—Additional Project Costs—Mandatory Fees and Contributions Under Ukrainian Law” below. Patriacom owns buildings and structures located at this land plot, which will have to be demolished prior to the commencement of construction. The Group plans to receive the necessary construction permits in the second quarter of 2008.

**Retail centre—Zhitomir Highway**

Below is a map showing the location of the Zhitomir Highway development and the project design.



The planned location of the Zhitomir Highway development is a 56.7 hectare site along the Zhitomir highway, which runs from Kyiv’s city centre and is one of the busiest highways in Kyiv. The site is located approximately 40 kilometres from the city centre. The Zhitomir Highway project is designed to include a large retail and entertainment area, an aqua park and a hotel. The Group intends to position this project as a shopping and entertainment centre that will appeal to consumers residing in Kyiv on the right bank of the Dnipro River.

The following table shows the planned allocated usage of space at Zhitomir Highway:

	Estimated Gross Area	Units
	sqm	
Retail .....	307,300	—
Hotel .....	18,000	300 rooms
Entertainment .....	17,000	—
Parking (non income-producing) .....	252,000	9,000 lots
<b>Total</b> .....	<b>594,300</b>	

The Group plans to receive all necessary construction permits for this project (including re-zoning of approximately 24.5 hectares of land) in the second quarter of 2008. See Part II “Risk Factors—Risks Relating to the Group’s Business—The development of the Group’s properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business”. Construction is planned to begin in the second quarter of 2008 and is to be completed in the first quarter of 2011. The cost of the project to completion as estimated by Colliers is US\$448.8 million. The Group engaged the design services of BOSE Architect, APA Wojciechowski and BIP-PM for this project.

The land for the project is owned by two of the Company’s wholly owned subsidiaries, MTC which owns approximately 26 hectares and Erial which owns approximately 31 hectares.



## Mixed-use developments

### Kureni

Below is a map showing the location of the Kureni development and the project design.



The Kureni development is planned to be a luxury boutique hotel and residential development located on a 0.52 hectare site 400 metres from the Dnipro river and close to Kyiv's historic Kyiv-Pechersky Monastery district. The site provides picturesque views of the Dnipro river and is located in close proximity to the city centre.

The project is designed as a single seven-storey building, with a gross area of approximately 7,600 square metres. The Group intends that approximately 5,600 square metres of the development will comprise a boutique luxury hotel with approximately 70 rooms. The Kureni project is also planned to contain approximately six apartment units having a useable area of approximately 2,000 square metres. The apartment units are planned to range in size between 200 and 300 square metres, and the residential complex is expected to offer a range of modern amenities.

The Group received approval for pre-project proposals for the Kureni project in October 2007 and plans to receive all necessary construction permits (including re-zoning of the land plot for the construction of hotel and residential complex) in the first quarter of 2008. See Part II "Risk Factors—Risks relating to the Group's Business—The development of the Group's properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business". The construction is planned to begin in the first quarter of 2008 and to be completed in the third quarter of 2009. See Part II "Risk Factors—Risks Related to the Group's Business—The Group leases the land underlying some of its developments from Ukrainian state and municipal authorities and these leases subject the Group to risks". The cost of the project to completion as estimated by Colliers is US\$30.6 million. The concept design of Kureni was developed by John Seifert Architects Ltd.

The Group plans to sell the Kureni apartments as "shell-and-core" apartments starting in the third quarter of 2009.

The land for the project is leased from the Kyiv City Council by the Company's wholly owned subsidiary, Kureni, under a ten-year lease agreement expiring in April 2016. However, this land plot is not currently designated for construction of residential buildings. A new lease of 25 years, which would allow the Group to commence construction, is currently under registration. The annual rental payments under the current lease do not, and under the new lease are not expected to, account for a material portion of the Group's cost of development of this project. Under Ukrainian law, the Group has a pre-emptive right to extend the term of the lease and a right of first refusal to purchase the land plot at its agreed market value.

Kureni granted a first ranking mortgage over the buildings currently located at the land plot designated for the Kureni project in favour of Index Bank under its UAH 6.7 million loan to Kureni. See Part XVI "Additional Information—Material Contracts".

*Metro City*

Below is a map showing the location of the Metro City development and the project design.



The Metro City mixed-use development is planned to be located in Kyiv on a 21.2 hectare land plot in a densely populated area on the left bank of the Dnipro river between two underground stations with heavy passenger traffic. The site is located on Brovarsky Avenue, connecting Kyiv to its satellite town of Brovary, the residents of which primarily work in Kyiv. Metro City is designed to include retail premises, office space and a hotel.

The following table shows the planned allocated usage of space at Metro City:

	<u>Estimated Gross Area</u>	<u>Units</u>
	sqm	
Retail .....	227,200	—
Office .....	144,500	—
Hotel .....	12,150	200 rooms
Parking .....	251,500	2,000 lots
<b>Total</b> .....	<b>635,350</b>	

The Group plans to receive all necessary construction permits for this project in the third quarter of 2008. See Part II “Risk Factors—Risks Relating to the Group’s Business—The development of the Group’s properties is subject to a number of permits and administrative approvals, and the failure to comply with these requirements could adversely affect its business”. Construction is planned to begin in the third quarter of 2008 and to be completed in the second quarter of 2011. The total cost of the project to completion as estimated by Colliers is US\$785.4 million. The Group has engaged the design services of BOSE Architect for this project.

On 31 October 2007, the Company’s wholly owned subsidiary Yarus entered into an investment agreement with the Main Office of Economy and Investments of the Kyiv City State Administration and the Municipal Enterprise “Kyiv Metropolitan” (the “Investment Agreement”). The Investment Agreement was signed as a result of the Kyiv municipal tender for investment projects to be implemented at the Metro City site. Under the Investment Agreement, the Group undertook to invest approximately UAH 1.3 billion (US\$257.4 million) in the development of a commercial and entertainment project at the Metro City site. The Group must commence construction by 1 August 2009 and, following completion of the project, must transfer to the Kyiv municipal authorities up to 500 square metres of service premises located on this site, as well as passages and evacuation exits. The Kyiv authorities undertook to assist the Group in entering into a lease agreement with the Kyiv City Council in respect of the Metro City site. Such lease agreement is expected to be signed in the first quarter of 2008.

### *Pipeline projects*

The Group has entered into non-binding letters of intent relating to two new properties. If the Group successfully completes the acquisitions of these properties, it envisions the following uses for them:

- a residential complex “Empire” on prestigious Staronavodnits’ka Street in Kyiv, with a planned gross area of approximately 29,000 square metres; and
- a luxury hotel planned to be developed with an international hotel group at Chervonoarmiys’ka Street in Kyiv, with a planned gross area of approximately 40,000 square metres.

### **Additional Project Costs**

#### *Mandatory fees and contributions under Ukrainian law*

Under Ukrainian law, local authorities may request developers to make payments towards the development, upgrade and modernisation of the local engineering, transport and social infrastructure (the “Infrastructure Fee”). The Infrastructure Fee may not exceed 20% of the construction costs for non-residential buildings and 10% of the construction costs for residential buildings. Infrastructure Fees are typically due no later than three months prior to the planned completion date of the construction and the payment of the Infrastructure Fee is a condition precedent to the commissioning of a constructed building. The precise amount of the Infrastructure Fee for each project is determined by the relevant municipal authorities based on the type of project and its location and is also subject to negotiation. Both the Group and Colliers have incorporated the Infrastructure Fee applicable to a particular project in the estimated total cost of each project described in this document on the basis of the actual Infrastructure Fee agreed between the Group and relevant authority or, in the absence of such agreement, based on average market estimates.

Pursuant to local regulations in certain municipalities, including Kyiv and L’viv, a developer of residential property may also be required to transfer to the municipal authorities from 7% to 20% of the developed floor plate of the property upon completion of construction, to be used by the municipality to provide state-subsidised housing. In such cases, the land lease for each property contains a clause stating the required percentage of developed gross area the Group is required to contribute. Both the Group and Colliers have incorporated such contribution in the estimated total cost of each project described in this document based on the actual contribution agreed between the Group and relevant authority or, in the absence of such agreement, based on average market estimates.

#### *Ground leases*

Municipal authorities in Ukraine allocate property for development upon application from interested developers or through auction procedures. Upon successful application or the winning of an auction, the relevant municipal authority (e.g., a local city council) enters into a land lease with that developer. The land underlying the Group’s properties is usually leased from the municipal authorities for a term ranging from ten to 25 years. Under these leases, rents are based on a percentage of the site value and can be adjusted annually to reflect new valuations of the properties.

Under Ukrainian law, land leases contain rights allowing the lessee to extend the term of the lease upon expiry, provided that the lessee has complied with the terms of the lease and the lessor desires to continue leasing the land plot. In addition, in the event that the lessor seeks to sell the leased property, the lessee has a right of first refusal under Ukrainian law to purchase the land plot at its market value.

Once construction is completed on a particular land parcel, the developer has rights in the completed building that are separate from the rights in the underlying land. The owner of the building may apply for a long-term lease of the underlying land, which is generally granted on conditions similar to the original lease, subject to the requirement to pay ground rent. In the event that the underlying land lease is terminated by the lessor, the building owner will, in practice, continue to have a right to occupy the land underlying the building.

Because land leases are effectively non-transferable, the Group holds each of its leases through a special purpose entity, which enables the Group to transfer a property by transferring the shares of the special purpose entity. See also Part II “Risk Factors—Risks Relating to the Group’s Business—The Group leases some of the land underlying its developments from Ukrainian state and municipal authorities and these leases subject the Group to additional risks” and “Part XI—Legislation of Ukraine Related to Land and Other Real Estate Property”.



## Project Development Process

The Group's development and management processes include the following:

- **Project definition.** The project definition phase typically develops in one of two ways. The first method is to start with a concept and locate an appropriate land plot thereafter, i.e., generating a business idea based on market research, analysis and a feasibility study and current market supply conditions, then searching for an appropriate land plot to suit the concept. The alternative method is to match a concept to an existing land plot, either within the Group's portfolio or a land plot that is for sale, with the advice of real estate advisers, in order to identify and implement the most beneficial use for the land plot. After the project definition phase, approval is sought from the Chief Executive Officer in deciding whether to invest in each project. The project definition phase also involves the Group securing rights to a land plot.
- **Concept development.** In the concept development stage the commercial directors expand upon each business option, the financial directors prepare financial modelling and key characteristics for each concept, and the concepts are presented to the executive directors of departments and to the Chief Executive Officer for approval. Subsequently, an architect for the particular project is selected.
- **Concept design.** In the concept design phase, the selected architect develops the project's design. The Group works with several architects, including RKW of Germany, BOSE International Group (which has offices in Poland, the United States and India), the Kyiv-based Vitaliy Vasyagin architectural office, APA Wojciechowski of Poland and international firm John Seifert Architects. The Group then further develops the concept to fully use the site, considering the site's estimated future revenue flows, gross/leased area, area of halls, passages, parking space and other factors.
- **Schematic and detailed design.** This phase comprises: developing each project's technical architecture, with the assistance of architects such as RKW and APA Wojciechowski of Poland; developing detailed plans for the technical features of the site (i.e., number of elevators, passages, entrances/exits, etc.); and matching the technical architecture of the project with Ukrainian regulatory bodies' requirements to facilitate the compliance with such requirements (which is prepared by the Ukrainian architectural agency, BIP-PM). At the end of this phase, the Group selects the construction company. The Group also obtains the necessary permits and approvals from the relevant authorities.
- **Construction management.** Generally, the contractor/construction management company is selected via a tender process. The sub-contractors are then selected based on the construction management company's advice. The final element in this phase is construction. In some of its planned future projects, the Group intends to hire local construction companies in Ukraine.
- **Sales or property management.** Prior to entering this phase, the Board of Directors will select the operator for sales or leasing of the project. For commercial projects, the Group enters the pre-leasing stage, in which lease contracts are generally signed up to 18 months prior to launching the project. Simultaneously, a cash deposit and bank guarantee are requested from prospective tenants. With respect to residential projects, pre-sales commence at this stage. In the case of economy housing, pre-sales are done at a very early stage, whereas for high-end housing properties, pre-sales may be done later, at the final construction stage. Property management will either be outsourced or conducted by a special company, which the Group plans to establish in the near future.
- **Maintenance.** In line with industry practice in Ukraine, the Group generally does not maintain insurance in respect of its land plots prior to commencement of construction works, unless such insurance is required under the Group's financing arrangements with banks. The Group expects that its future construction contracts will oblige its contractors to insure buildings under construction. See "—Insurance" below. In addition, regular financial reporting and project monitoring are carried out to allow management to follow each project's progress.

## Environmental Issues

The use and development of land in Ukraine is subject to various laws and regulations intended to protect the environment. The Law of Ukraine "On the Protection of the Natural Environment", dated 25 June 1991 (the "Environmental Protection Law") constitutes the principal environmental legislation in Ukraine,

although additional environmental protection laws are included in Ukraine's Water Code, Land Code, Forest Code, Air Code, Code on Administrative Violations, Criminal Code and various other legislative acts. The Environmental Protection Law requires review by an ecological expert of any activity that may adversely affect the natural environment, including in connection with all construction and renovation projects. It also mandates environmental payments in connection with the special usage of natural resources, such as mining activities, as well as activities that cause the contamination or deterioration of natural resources. Violation of the Environmental Protection Law may result in disciplinary, administrative, civil or criminal sanctions.

Furthermore, as required by Ukrainian law, each of the Group's projects is subject to the approval of the local department for the environment and natural resources, as well as a complex examination by state and municipal authorities of the project under construction, which includes, amongst other things, environmental, sanitary and fire safety inspections. The Ukrainian authorities review and confirm the compliance of the Group's development projects with the relevant environmental laws and regulations prior to issuing a construction permit in connection with construction at the Group's sites. The Group also performs on a case-by-case basis general environmental analyses with respect to its properties to determine whether there has been any activity carried out at the property that may have resulted in contamination. The Group is not aware of any material non-compliance with the environmental laws or regulations currently applicable to it and the Group is not currently subject to any material claim for liability with respect to contamination at any location.

### **Construction Permits**

Under Ukrainian law, the Group is required to obtain a construction permit from the local architectural control authorities in connection with construction at each of its sites. These permits specify the permitted type and scale of construction.

In order to obtain construction permits for each project, the Group must, among other things:

- receive an architectural and planning assignment from the local department for architecture and construction;
- obtain technical conditions and specifications for construction from various local authorities and utility providers;
- obtain an approval of the detailed architectural drawings and engineering plans from the local department for architecture and construction; and
- obtain a positive conclusion of the complex examination of the design and technical documentation for the construction project conducted by relevant local authorities.

Under Ukrainian law, local authorities may request developers to make payments for the development of local engineering, transport and social infrastructure. See “—Additional Project Costs—Mandatory Fees and Contributions Under Ukrainian Law” above.

### **Competition**

Management believes that competition in the Ukrainian real estate development market is highly fragmented, with relatively few national and fewer international competitors in the market. Comprehensive market information is unavailable, as most development companies are privately owned. The high density of existing buildings in central Kyiv limits new construction.

### ***Office properties***

Management believes that Kyiv and the other main cities throughout Ukraine lack sufficient high-quality office space, hotels, warehouses and logistic centres. There are currently relatively few competitors in these market segments.

In addition to the Group, there are several local developers in Kyiv, which have announced projects to be delivered to the market during the next three to four years. Other developers possess land sites for development, but the Group expects that these developers will most likely try to sell their sites in the future, being unwilling or unable to develop the sites themselves.

Among the Group's foreign competitors, only one Russian developer has recently started a project. It is believed that other foreign developers would like to become active in the market, but they have so far been unable to find desirable building sites at economic prices.

On a regional level, most office space is supplied by reconstructed Soviet administrative or other (e.g., dormitory or hotel) buildings. Local developers typically do not construct new offices.

#### ***Residential real estate***

Competition in Kyiv's high-end residential real estate segment is relatively limited, although it increases in the medium- and lower-priced, or economy, segments.

Management believes that the Group's main competitors in the high-end residential segment are HCM Property Management, St. Sofia Homes, XXI Century Group and TMM. Management believes that competition within the residential segment is based primarily on location, amenities and, to a lesser extent, price.

Management believes that the Group's main competitors in the economy segment include KyivMis'kByd, Zhytlo-Invest, PoznyuakyZhytloByd and NEST, as well as some smaller developers. These competitors tend to offer apartments that, despite having attractive per-square-metre prices, are large with total unit prices that exceed the price range of most consumers in the economy segment. Management believes that there is unmet demand in this segment.

In regional centres there are mainly small local developers with limited experience in developing projects with high-quality design and construction. As a result, supply usually targets the economy segment.

#### ***Retail centres***

According to the Colliers Report, at the end of 2006, the total aggregate useable area in Kyiv in this segment was only 303,000 square metres. There are few centres whose concepts are of sufficient quality and are developed involving professional architectural agencies.

Although there are several other developers operating in the retail shopping centre segment, none of them directly competes with the Group's proposed complexes in terms of location, scale and high-end design. Other developers usually develop one retail centre at a time, and the Group believes that only Karavan Group is currently developing multiple retail schemes, which are based outside of Kyiv (in Kharkiv, Dnipropetrovs'k, Odesa and Zaporizhya).

#### **Insurance**

The Group seeks to maintain insurance policies that management considers to be appropriate in accordance with legal requirements in Ukraine. In line with industry practice in Ukraine, the Group generally does not maintain insurance in respect of its land plots prior to commencement of construction works, unless such insurance is required under the Group's financing arrangements with banks. The Group expects that its future construction contracts will oblige its contractors to insure buildings under construction. In particular, the Group generally maintains insurance for the land plots and buildings mortgaged in favour of financial institutions to secure the Group's performance under its loan agreements. The land plot underlying ZAGS project is insured against unlawful actions of third parties and acts of God, and the buildings located at the Kureni project site are insured against fire damage, unlawful actions of third parties and acts of God.

#### **Intellectual Property**

The Group is the registered owner of "Restaurant Kureni" in Ukrainian language combined trademark, "IBP International Business Park" word mark and "IBP International Business Park" combined mark in Ukraine. The Group plans to use the IBP mark for its office projects. On 3 May 2006 the Group entered into a license agreement with World Trade Centers Association, Inc., whereby it obtained the five-year exclusive right to use the "World Trade Center" trademark on the territory of the city of Kyiv and the non-exclusive right to use the same trademark for the period of its validity. In July 2007 the Group filed for the registration of the "PecherSKY" trademark. The Group's business does not depend on any other material intellectual property.

## Employees

The Group employed 100 people as of 30 September 2007. The number of the Group's employees at the dates indicated is set forth in the table below:

	31 December 2006	30 September 2007
Head Office and Management . . . . .	8	10
Residential . . . . .	30	30
Offices and mixed-use . . . . .	30	40
Retail . . . . .	1	15
Hotels . . . . .	1	5
<b>Total</b> . . . . .	<b>70</b>	<b>100</b>

Among the Group's employees are construction specialists, including: Viktor Skliarenko, who has been with companies in the Group since 1994, studied at the Kyiv Polytechnical Institute and has almost 20 years of relevant industry experience; Alexander Bogdan, who has been with companies in the Group since 2006, has a civil and industrial engineering degree from the Kyiv State Technical University of Building and Architecture and has over 15 years of relevant industry experience; Alexander Biriukov, who studied at the Kyiv Engineering and Construction Institute, and has over 15 years of relevant industry experience; and Viktor Datsko, who is a graduate of the Kyiv Institute of Civil Aviation Engineers, and has over 20 years of relevant industry experience.

Employees receive pension benefits from the state in accordance with the laws and regulations of Ukraine. As of 30 September 2007, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement benefits to current or former employees. See also Part XVI "Additional Information—Incentive Share Plans" for the description of the Incentive Share Plans implemented by the Company.

There have not been any strikes or labour disputes since the Group's inception in 2006. The Company does not have a workers council (*ondernemingsraad*) within the meaning of the Dutch Works Council Act (*Wet op de ondernemingsraden*).

## PART VII: SELECTED FINANCIAL INFORMATION ON THE GROUP

The Company was incorporated on 24 October 2007 as part of a restructuring of the Group's assets. Consequently, limited historical financial information relating to the Company is available. Set forth below is selected information extracted from the special purpose combined financial statements as at and for the year ended 31 December 2006 and the six months ended 30 June 2006 and 2007, which were created by combining the historical financial information for each of the Group companies. The special purpose combined financial information was prepared in accordance with IFRS, except for the principles of combination discussed in Part VIII: "Operating and Financial Review—Principles of Combination", as IFRS does not provide for combinations of entities that are not part of an operating group linked by a common parent. Instead, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to Standard for Investment Reporting 2000 issued by the Auditing Practices Board have been applied.

The following selected financial information should be read together with the other information contained in this document, including Part XIII "Financial Information on the Company and the Group" and Part VIII: "Operating and Financial Review". This financial information is historical and is not necessarily indicative of results to be expected in any future periods.

	Year Ended 31 December 2006	Six Months Ended 30 June	
		2006	2007
		(US\$'000)	
<b>Income Statement Data:</b>			
Sales <sup>(1)</sup> . . . . .	334	180	38
Cost of Sales <sup>(1)</sup> . . . . .	(303)	(161)	(24)
Net rental and related income . . . . .	31	19	14
Increase in fair value of investment property <sup>(2)</sup> . . . . .	222,394	—	—
Administrative expenses . . . . .	(711)	(378)	(585)
Other income . . . . .	514	178	113
Other expenses . . . . .	(167)	(38)	(309)
Other operating income/(expenses), net . . . . .	347	140	(196)
Net operating profit before net financing costs . . . . .	222,061	(219)	(767)
Finance income . . . . .	198	58	363
Finance expenses . . . . .	(1,094)	(541)	(310)
Net finance income/(expenses) . . . . .	(896)	(483)	53
Profit/(loss) before income tax . . . . .	221,165	(702)	(714)
Income tax expense <sup>(3)</sup> . . . . .	(55,672)	(37)	(6)
Net profit/(loss) for the period . . . . .	165,493	(739)	(720)

	As at 31 December 2006	As at 30 June	
		2006	2007
		(US\$'000)	
<b>Balance Sheet Data:</b>			
Non-current Assets:			
Investment property <sup>(4)</sup>	521,700	282,505	473,972
Advances to constructors	842	440	1,970
Prepayments for land plots <sup>(5)</sup>	11,443	6,306	12,379
Property, plant and equipment <sup>(6)</sup>	1,828	1,563	1,865
Intangible assets	—	—	2
Deferred tax assets	169	199	173
<b>Total non-current assets</b>	<b>535,982</b>	<b>291,013</b>	<b>490,361</b>
Current Assets:			
Available for sale financial assets <sup>(7)</sup>	963	1,849	962
Financial assets held for trading <sup>(8)</sup>	5,096	256	6,344
Trade receivables and prepayments	239	236	838
Income tax receivable	2	2	2
Inventories <sup>(9)</sup>	4	51	55,017
Other accounts receivable	12,934	12,846	9,766
Cash and cash equivalents	1,776	270	340
<b>Total current assets</b>	<b>21,014</b>	<b>15,510</b>	<b>73,269</b>
<b>Total assets</b>	<b>556,996</b>	<b>306,523</b>	<b>563,630</b>
Equity			
Share capital	44,541	12,933	42,164
Revaluation reserve	364,637	197,841	364,637
Retained earnings	(3,695)	(3,130)	(4,415)
<b>Total equity</b>	<b>405,483</b>	<b>207,644</b>	<b>402,386</b>
Liabilities			
Non-current Liabilities:			
Loans and borrowings	880	1,454	1,233
Finance lease liabilities	595	596	594
Deferred tax liabilities	121,555	65,950	121,565
Other long-term liabilities	3,484	—	11,510
<b>Total non-current liabilities</b>	<b>126,514</b>	<b>68,000</b>	<b>134,902</b>
Current liabilities:			
Loans and borrowings	12,495	19,884	9,407
Finance lease liabilities	12	12	13
Trade and other payables	10,201	10,983	11,072
Deferred income	2,291	—	5,850
<b>Total current liabilities</b>	<b>24,999</b>	<b>30,879</b>	<b>26,342</b>
<b>Total liabilities</b>	<b>151,513</b>	<b>98,879</b>	<b>161,244</b>
<b>Total equity and liabilities</b>	<b>556,996</b>	<b>306,523</b>	<b>563,630</b>

(1) The Group's revenue comprises the invoiced value of sales of goods and services, net of value added tax, rebates and discounts after eliminating intra-Group sales. Cost of sales reflects the initial direct costs incurred specifically to earn revenue. Historical sales and cost of sales primarily relates to the sale of produce and other goods to a restaurant located on the Kureni project land. These activities will be discontinued in the future as the restaurant is to be demolished in connection with the development of that land.

(2) Represents gains or losses arising from changes in the fair value of investment property. See Part VIII "Operating and Financial Review—Factors Affecting Results of Operations—Property valuations".

(3) Income tax includes deferred tax on the revaluation gain.

(4) Property that is held for long-term rental or for capital appreciation or both, and that is not occupied by a Group company, is classified as investment property. This includes the Group's commercial and retail properties, but not residential property which is accounted for as inventory or work in progress. See note 9 below.



- (5) Prepayments for land plots represents advances for land plots for which a deed has not been received at that date.
- (6) Property, plant and equipment includes land and buildings, buildings under construction, furniture and fittings, motor vehicles and computer equipment. If the Group uses more than five per cent of the space of a property, the whole property is classified as property, plant and equipment.
- (7) Available for sale financial assets are investments intended to be held for an indefinite period of time.
- (8) A financial asset is classified in the held for trading category if acquired for the purpose of generating a profit from short-term fluctuations in price. This item primarily relates to promissory notes issued for cash management purposes. See note 3 above.
- (9) Inventories includes residential property under development for the purpose of resale, which is accounted for work in progress within inventories. Inventories, other than relating to such residential property, are stated at the lower of cost and net realisable value. Residential property accounted for as work in progress is stated at the lower of fair value at the date of transfer plus costs since that date and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Group's PecherSKY project, which was previously accounted for as an investment property, was transferred to work in progress at 30 June 2007 as a result of the receipt of permission for construction which authorised the change in use for the property to residential resulting in the assets designation as being developed for resale. In October, 2007, the Group's Diplomat-Park project, held by Patriacom, obtained a lease for the land on which the project is to be developed. As a result, the property, which was previously accounted for in prepayments for land plots, was transferred to work in progress within inventories.

## PART VIII: OPERATING AND FINANCIAL REVIEW

*The following operating and financial review should be read in conjunction with the financial information included in Part XIII of this document. Prospective investors should read the entire document and not just rely on the information set out below. The following operating and financial review contains forward-looking statements that reflect the plans, estimates and beliefs of the Company. The actual results of the Group may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this document, including in Part II “Risk Factors”. See “Presentation of Financial and Other Information—Forward-looking statements”.*

### Basis of Presentation

The Company was incorporated on 24 October 2007 as part of a restructuring of the Group’s assets. Consequently, limited historical financial information relating to the Company is available. This Admission Document includes the following special purpose combined financial statements, which were created by combining the historical financial information for each of the Group companies (other than the Company) extant as at each balance sheet date:

- annual combined financial information as at and for the year ended 31 December 2006, included in Part XIII; and
- interim combined financial information as at and for the six months ended 30 June 2006 and 2007, included in Part XIII.

The combined financial information was prepared in accordance with IFRS as adopted in the EU, including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board, except for the principles of combination, discussed below under “—Principles of Combination”, as IFRS does not provide for combinations of entities which are not part of an operating group linked by a common parent. Instead, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to Standard for Investment Reporting 2000, issued by the Auditing Practices Board have been applied. A report by Baker Tilly Corporate Finance LLP, the reporting accountants on the special purpose combined financial information, is included in this Admission Document. See Part XIII “Financial Information on the Company and the Group”.

### Principles of Combination

The special purpose combined financial statements reflect the combination of the financial statements of the following entities, all of which effectively operated, prior to their reorganisation, as an operating group under common management, although they did not comprise a statutory operating group linked by a common parent:

<u>Name</u>	<u>Project</u>
AOC . . . . .	ZAGS
Vysokyi Status . . . . .	ZAGS
Erial . . . . .	Zhitomir Highway
MTC . . . . .	Zhitomir Highway
Integra-Holding . . . . .	PecherSKY
Kureni . . . . .	Kureni
Patriacom . . . . .	Diplomat-Park
Yarus . . . . .	Metro City
Solomyanka . . . . .	WTC
Zanet . . . . .	Zazimye

These Group companies maintained their accounting records in accordance with Ukrainian regulations, and in combining their financial information adjustments were made, to the extent management considered necessary, in order to comply with IFRS.

Group companies which were formally owned by another Group company prior to the reorganisation (AOC and Erial) were consolidated to the highest level entity using the acquisition method, pursuant to which the share capital of the entity was eliminated against the investment recorded in the immediate parent undertaking. Such Group companies were deemed to have been owned from the respective dates of

their state registration, which was 29 November 2002 for AOC and 30 May 2007 for Erial. Consideration issued for the investment in these companies equalled share capital and no goodwill was recognised in connection with the combination. All other Group companies were combined in a manner similar to the pooling of interests method. Under this approach, financial statement items for each such Group company were combined as if they had been combined from the earliest period, resulting in a combination of all Group companies' share capital and reserves in addition to all assets, liabilities, revenues and expenses. All intra-Group transactions and balances were eliminated on combination.

## **Overview**

The Group is one of the leading real estate investment and development groups in Ukraine based on the net asset value of its properties, with a diversified portfolio of real estate projects comprising offices, residential complexes, retail centres and mixed-use projects. The Group currently has eight projects, with three in the ground works and early construction phase and five under development. These projects, which have a total planned gross area of approximately 2.7 million square metres, are located in the capital region of Kyiv with the exception of one residential project in L'viv. In addition to its projects currently in development, the Group is planning a number of additional projects.

As at 30 September 2007, the total estimated aggregate market value of the Group's properties was US\$908.2 million, based upon the Colliers Report (see Part XII "The Colliers Report" for a description of valuation methodology and assumptions). The Group's total assets, as set forth in the special purpose combined IFRS financial information, were US\$557.0 million and US\$563.6 million as of 31 December 2006 and 30 June 2007, respectively. The Group's net profit for the year ended 31 December 2006 was US\$165.5 million (including revaluation gain of US\$166.8 million net of related deferred tax) and for the six months ended 30 June 2007 its net loss was US\$0.7 million. See "Presentation of Financial and Other Information—Financial information" for a description of the differences between the values included in the Colliers Report and the values assigned to real estate assets included in the Group's combined financial information.

## **Factors Affecting Results of Operations**

### ***Property valuations***

The Group's commercial and retail projects are accounted for differently than its residential projects. Commercial and retail projects are classified as "investment property" where these are held for long-term rental yields or capital appreciation or both, and are not occupied by members of the Group. Investment property is measured at cost, including related transaction costs, but subsequently stated at fair value. The Group intends to annually update the fair values assigned to these projects. On the other hand, residential projects, which are to be sold to residential buyers during construction or upon completion of the project, are classified as "inventories" (within work in progress). Residential projects are recorded at the lower of cost and net realisable value (i.e., the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses). These projects are not subject to periodic revaluation.

The Group's financial results are significantly influenced by the revaluation of its investment properties. Any gains or losses arising from changes in the fair value of these properties are included in the combined income statement in the period in which they arise. The combined income statement for the year ended 31 December 2006 includes US\$222.4 million, or US\$166.8 million net of related deferred tax, from the increase in fair value of investment property related to a revaluation as of the end of the year. The directors' valuations as at 30 June 2006 and 2007 valued the properties at their valuation as at the start of each period, plus capitalised costs incurred in the period, which they believe to approximate to fair value.

In addition to revaluations, a change in the classification of a project, including as a result of a change in its intended use, between investment property, inventory or property plant and equipment, could significantly affect the Group's results. This is because changes in the fair value of investment property are recognised in the income statement, and impairments relating to the other classifications of property may also be recognised in the income statement. During 2006, the PecherSKY project was moved from investment property to property, plant and equipment due to its reclassification as a residential project, and it being held for own use due to the Group's operation of the Kureni restaurant on the site. In addition, as a result of the receipt of the lease for the Diplomat-Park land in October 2007, that project was reclassified from prepayment to inventory. Both projects were recognised at fair value as at the date of the reclassification with the addition of costs capitalised since that date.

The fair values assigned to the Group's properties have been taken from independent appraisals by Colliers International Ukraine LLC. Colliers' estimates of fair market value were determined in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual (the "Red Book"). The estimated values in the Colliers Report were prepared using a number of estimates, judgments and assumptions which are significant to understanding their basis of valuation, including the following:

- properties were valued considering systematic risks typical to the construction and real estate market, and special risks of a subjective nature which could modify the data were not considered;
- the Group's actual implementation of the projects was not considered;
- the valuations also considered each property in isolation and did not consider potential advantages or disadvantages (including potential economies of scale) relating to the simultaneous development of multiple properties;
- the properties were assumed to be developed on an unleveraged basis, using the Group's own funds, although management expects that substantial indebtedness will be incurred in connection with the development of the Group's properties;
- the assumed revenues for residential projects were proceeds from the sale of apartments and non-residential space and parking lots, and a majority of residential premises were expected to be sold during construction; commercial properties were assumed to have sales and lease revenue after the commissioning of operation of such properties;
- the valuers did not assume any increases in prices and rental rates and, instead, for commercial properties these were forecasted as of the year of each project's commissioning; for residential properties, prices were taken assuming sale at the middle of construction stage;
- development costs were also taken with consideration of future growth;
- the valuers did not examine the sites in order to determine the condition of the ground, and they did not undertake environmental, archaeological, or geo-technical surveys; the valuations assume that these aspects are satisfactory and that the sites are clear of underground mineral or other workings, methane gas, or other noxious substances;
- the valuers did not undertake legal examination of the documents provided by the Group, including documents of title;
- the valuers assumed that all required documentation will be received by the Group prior to construction, and that there are no issues that would significantly delay the issuance of the required permissions;
- where a property is held for development and at the date of valuation the plans for the project were not finalised, the valuation took into account any additional reasonable risks of delay and costs in finalising the project;
- the valuers assumed that all documents concerning allotment of land plots for development and construction permits either exist or will be obtained before the beginning of construction;
- the valuers assumed that the projects will not be subject to changes during development;
- the valuers used the Group's estimates of construction costs, subject to their critical analysis of data in accordance with market prices;
- the valuations were based upon the valuer's opinion that use of land plots, as determined by the Group, is the most effective based upon physical, legal and financial considerations;
- cash flows before income tax were used for calculations of value;
- the existing VAT rate of 20% was used in the valuations, and the valuers did not consider other taxation systems for various types of commercial activity; and
- the valuers assumed the Group pays land tax.

It should be noted that the valuations included in the Colliers Report are not directly comparable to the carrying values of investment property in the financial information in Part XIII of this document. This is primarily because, as explained above, not all of the Group's real estate assets are carried at fair value in

the special purpose combined financial statements and because of additions made since 30 June 2007. For example, the following properties included in the Colliers Report are included in the special purpose combined financial information on the following bases:

- *Kureni*—this is currently an asset held for own use because the Group operates the Kureni restaurant on this property, and is carried at historical cost in the financial statements within property plant and equipment;
- *PecherSKY*—this is held within inventory and carried at historical cost, to which it was transferred upon its change of use from an investment property to an asset being constructed for re-sale;
- *Diplomat-Park*—this is within prepayments for land plots as the lease for the property was not finalised until October 2007, at which time it was reclassified as inventory based on the intention to develop it for resale; and
- *Zazimye*—although the majority of this property is classified as investment property, the lease relating to a portion of the land is awaiting appropriate zoning approvals and is therefore classified in prepayments for land plots.

In addition, the Metro City project valued in the Colliers Report was not included in the combined financial information because it was not acquired until October 2007. The Colliers Report is as of 30 September 2007 and therefore reflects increased expenditure on projects in the period from 30 June to 30 September 2007, and additional permissions granted by various authorities in that period.

### ***Economic environment***

The results of the Group's operations and their period-to-period comparability are affected by various external factors, including the macroeconomic market conditions in Ukraine. Management believes that demand for residential, commercial and retail space generally correlates with economic conditions, including growth in the Ukrainian gross domestic product. In addition, economic conditions also affect the availability of mortgages to residential buyers and financing for commercial and retail tenants, which further influence demand for the Group's properties. Macroeconomic conditions may also have an effect on the creditworthiness of tenants and the Group's ability to collect rental payments and reimbursements for maintenance and VAT.

### ***Governmental regulations***

Governmental regulations have a significant effect on the Group's business and results of operations. The development of property in Ukraine is complex. A typical project is subject to a number of state and municipal laws, regulations and approvals. In addition, fire and safety requirements, environmental regulations, land use restrictions and VAT and transfer taxes affect the Group's properties. New or amended laws, rules, regulations or ordinances could require significant unanticipated expenditures or impose restrictions on the development, construction or sale of properties. The Group may also be subject to fines or administrative penalties for any non-compliance with these regulations.

Pursuant to local regulations in certain municipalities, including Kyiv, a developer of residential property may be required to transfer to the municipal authorities seven to 20% of the developed floor plate of the property upon completion of construction to be used by the respective municipality to provide state-subsidised housing. These regulations are expected to affect the Group's economic returns from developments and, potentially, the desirability of new developments.

### ***Leverage and availability of credit***

The Group's strategy contemplates significant capital expenditures for future property developments, and it intends to continue to rely on third-party sources of funding, including project finance from financial institutions and bank debt. As a result, the Group expects that its business will continue to be affected by the amount of indebtedness it incurs, the availability of credit and market interest rates. Such sources of financing may or may not be available on favourable terms or at all. Moreover, additional debt financing may substantially increase the Group's leverage, which will have the effect of increasing the risks relating to its indebtedness.



### Promissory notes

Prior to the reorganisation of the Group, the Group companies were not linked by a common parent company. Accordingly, as a means of managing liquidity, promissory notes were issued and traded among the companies to transfer cash from an entity with a cash surplus to an entity requiring additional funds. These transactions have no material effect on the Group's historical results, as the accounting treatment leads to equivalent income and finance costs being recognised over the life of the financial instruments, arising from the amortisation of the discount upon initial recognition. As the companies are now under a common parent entity as part of the Group, there is no longer a need to enter into such transactions, and the Group does not intend to use promissory notes as an intra-Group cash management tool in the future. However, settlement of these notes, which generally have maturities of between two and five years, will continue to occur in the future.

### Recent Developments

Recent developments relevant to the Group's results of operations and financial condition subsequent to 30 June 2007 are described in note 36 to the special purpose combined financial statements included in this Admission Document.

### Results of Operations

The following table sets forth the Group's combined income statement for the year ended 31 December 2006 and for the six months ended 30 June 2006 and 2007.

	<u>Year Ended</u> <u>31 December</u>	<u>Six Months Ended 30 June</u>	
	<u>2006</u>	<u>2006</u>	<u>2007</u>
		(US\$'000)	
<b>Continuing operations</b>			
Sales . . . . .	334	180	38
Cost of sales . . . . .	(303)	(161)	(24)
Gross profit . . . . .	<u>31</u>	<u>19</u>	<u>14</u>
Increase in fair value of investment property . . . . .	222,394	—	—
Administrative expenses . . . . .	(711)	(378)	(585)
Other income . . . . .	514	178	113
Other expenses . . . . .	(167)	(38)	(309)
Other operating income/(expenses), net . . . . .	<u>347</u>	<u>140</u>	<u>(196)</u>
Net operating profit/(loss) before net financing costs . . . . .	222,061	(219)	(767)
Finance income . . . . .	198	58	363
Finance expenses . . . . .	(1,094)	(541)	(310)
Net finance income/(expenses) . . . . .	<u>(896)</u>	<u>(483)</u>	<u>53</u>
Profit/(loss) before income tax . . . . .	221,165	(702)	(714)
Income tax expense . . . . .	(55,672)	(37)	(6)
Net profit/(loss) for the period . . . . .	<u><u>165,493</u></u>	<u><u>(739)</u></u>	<u><u>(720)</u></u>

### Year ended 31 December 2006

**Sales.** Sales amounted to US\$334,000 in the year ended 31 December 2006. Prior to the reorganisation and contribution of real estate assets to the Group companies, some of the Group members engaged in non-real estate related activities. In the year ended 31 December 2006, income from the sale of goods primarily related to sales of produce and other goods by Kureni to a restaurant located on the land to be used for the Kureni project. The restaurant is to be demolished in connection with the development of the property and such sales are expected to be discontinued although no formal decision has yet been taken in that respect. It should be noted that, although the only revenues are derived from this source, the Directors consider that the Group's primary operating segment is real estate and this activity is not a material reportable segment under IFRS.

**Cost of sales.** This item reflects the initial direct costs incurred specifically to earn revenue. Cost of sales was US\$303,000 in the year ended 31 December 2006. In the year ended 31 December 2006 cost of sales comprised the cost of goods for sale to the Kureni restaurant.

**Gross profit.** As a result of the foregoing, gross profit was US\$31,000 in the year ended 31 December 2006.

**Increase in fair value of investment property.** Property held for long-term rental or for capital appreciation or both, and not occupied by a Group company is classified as investment property. Investment property is measured at cost, including transaction costs, and gains or losses arising from changes in the fair value of the property are included in the income statement, under increase/(decrease) in fair value of investment property, in the period in which they arise. See sections 10 and 11 of Part XII “The Colliers Report”.

Increase in fair value of investment property was US\$222.4 million in the year ended 31 December 2006 (or US\$166.8 million net of related deferred tax). This amount represents the difference between the aggregate value from a valuation as of 31 December 2006 compared to the prior valuation as of 1 January 2006 and attributable costs capitalised in the year.

**Administrative expenses.** These expenses were primarily incurred in connection with the Group’s real estate development activities. These expenses included payroll and payroll-related taxes of US\$118,000, rent of \$103,000, audit fees of \$100,000 and other general administrative expenses. Depreciation and amortisation amounted to US\$33,000.

**Other income.** In the year ended 31 December 2006 this item principally comprised income from the repayment of accounts receivable previously deemed irrecoverable as well as gains on disposal of property, plant and equipment. Other income was US\$514,000 in the year ended 31 December 2006. Of this amount, approximately US\$320,000 related to the recovery of accounts receivable from past non-real estate activities of Group companies previously thought to be irrecoverable. It also included approximately US\$190,000 of gains from the sale of a property by AOC to a related party for US\$3.1 million.

**Other expenses.** In the year ended 31 December 2006 this item primarily comprised provisions for impairment of trade and other receivables, primarily related to past non-real estate activities of Group companies. Other expenses were US\$167,000 in the year ended 31 December 2006. This amount consisted of US\$117,000 of provisions for the impairment of trade receivables and US\$50,000 of other expenses.

**Other operating income/(expenses), net.** As a result of the foregoing, other operating income/(expenses), net, was US\$347,000 in the year ended 31 December 2006.

**Net operating profit before net financing costs.** As a result of the foregoing, primarily the increase in fair value of investment property, net operating profit before net financing costs were US\$222.1 million.

**Net finance income/(expenses).** This item comprises interest payable on borrowings, the net result of transactions with financial assets other than loans and receivables, foreign exchange gains and losses, bank charges and commissions and accrued finance lease expenses and interest income on deposits and loans extended. Net finance expenses were US\$896,000 in the year ended 31 December 2006. This item included US\$198,000 in income, offset by US\$1.1 million of expense, largely relating to interest on loans.

**Profit before income tax.** As a result of the foregoing, profit before income tax was US\$221.2 million for the year ended 31 December 2006.

**Income tax expense.** Income tax on the profit or loss for the year comprises current and deferred tax. Current tax expense is the expected tax payable on the taxable income for the year, using the applicable 25% tax rate for 2006. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities predominantly arise in relation to the land and buildings assets (within investment property and work in progress). The liabilities arise as a result of the difference between the cost for tax purposes and the carrying value within the financial statements i.e. any sale of the land and buildings would not yield a significant accounting profit (assuming valuations are accurate), but would lead to a significant taxable profit (difference between sales proceeds and historical cost), which would be taxable at Ukrainian income/corporate tax rates. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Income tax expense was US\$55.7 million for the year ended 31 December 2006 which mainly relates to the deferred tax on the investment property revaluation gain.

**Net profit for the period.** As a result of the foregoing net profit for the period was US\$165.5 million for the year ended 31 December 2006.

#### **Six months ended 30 June 2007 compared to six months ended 30 June 2006**

**Sales.** Sales decreased US\$142,000, from US\$180,000 for the six months ended 30 June 2006 to US\$38,000 for the six months ended 30 June 2007. For the six months ended 30 June 2006 and 2007 income from the sale of goods related to retail sales by the Company's subsidiary Kureni to the Kureni restaurant.

**Cost of sales.** Cost of sales decreased US\$137,000, from US\$161,000 for the six months ended 30 June 2006 to US\$24,000 for the six months ended 30 June 2007. In both the six months ended 30 June 2006 and 2007 cost of sales comprised the cost of goods for sale to the Kureni restaurant.

**Increase in fair value of investment property.** There was no increase in fair value of investment property recorded for the six months ended 30 June 2006 and 2007. No revaluation of investment property was applied to either period.

**Administrative expenses.** Administrative expenses increased by US\$207,000, from US\$378,000 for the six months ended 30 June 2006 to US\$585,000 for the six months ended 30 June 2007.

The increase in administrative expenses was mainly attributable to the increases in payroll and payroll-related taxes and rent, which reflected the Group's increasing project pipeline.

**Other income.** Other income decreased US\$65,000, from US\$178,000 for the six months ended 30 June 2006 to US\$113,000 for the six months ended 30 June 2007. Income from repayment of accounts receivable previously deemed irrecoverable decreased US\$169,000 from period to period. These repayments relate to accounts receivable from past non-real estate activities of Group companies which were previously written-off as uncollectible. As the Group is winding up its non-real estate activities other income from such debt recoveries is expected to decline. The decrease was partially offset by US\$57,000 of gain from the sublease of assets for the six months ended 30 June 2007.

**Other expenses.** Other expenses increased US\$271,000, from US\$38,000 for the six months ended 30 June 2006 to US\$309,000 for the six months ended 30 June 2007. The increase was primarily attributable to a US\$45,000 increase in provisions for impairment of trade receivables from period to period.

**Net operating loss before net financing costs.** This item increased US\$548,000, from a loss of US\$219,000 for the six months ended 30 June 2006 to a loss of US\$767,000 for the six months ended 30 June 2007, as a result of the foregoing.

**Net finance income/(expenses).** This item was an expense of US\$483,000 in the six months ended 30 June 2006 and income of US\$53,000 in the six months ended 30 June 2007. Finance income was \$58,000 for the six months ended 30 June 2006, mainly reflecting gains on sale of financial assets held for trading, and US\$364,000 for the six months ended 30 June 2007, primarily relating to the issuance of promissory notes by Group companies. Finance expenses were US\$541,000 for the six months ended 30 June 2006 and US\$311,000 for the six months ended 30 June 2007. The expenses for the six months ended 30 June 2006 primarily related to interest expense on borrowings.

**Loss before income tax.** Loss before income tax was roughly similar at US\$702,000 for the six months ended 30 June 2006 and US\$714,000 for the six months ended 30 June 2007 as a result of the foregoing.

**Income tax expense.** This item decreased from US\$37,000 in the six months ended 30 June 2006 to US\$6,000 in the six months ended 30 June 2007.

**Net loss for the period.** Net loss for the period was also similar, being US\$739,000 for the six months ended 30 June 2006 and US\$720,000 for the six months ended 30 June 2007 as a result of the foregoing.

## Liquidity and Capital Resources

The Company's liquidity needs arise primarily from the need to finance existing operations and capital expenditures. For the periods discussed herein, the Company has met most of its liquidity needs from increases in share capital, cash flows from operating activities and bank and non-bank loans.

### Cash flow

The table below summarises our cash flows for the periods indicated.

	Year Ended 31 December	Six Months Ended 30 June	
	2006	2006	2007
		(US\$'000)	
Net cash provided by operating activities . . . . .	2,620	3,868	465
Net cash used in investing activities . . . . .	(32,075)	(5,731)	(10,605)
Net cash provided by financing activities . . . . .	31,158	2,060	8,704
Cash and cash equivalents at the beginning of the period . . . .	73	73	1,776
Cash and cash equivalents at the end of the period . . . . .	1,776	270	340

Net cash provided by operating activities was US\$465,000 for the six months ended 30 June 2007, compared to US\$3.9 million for the six months ended 30 June 2006 and US\$2.6 million for the year ended 31 December 2006. The Group had net profit before taxation in the amount of US\$221.2 million for the year ended 31 December 2006; however, this was primarily due to the valuation gains on investment property during the period, and no cash flow arose from this gain. For the six months ended 30 June 2006 and 2007, it had net losses before taxation of US\$702,000 and US\$714,000, respectively. After adjustments, including the elimination of valuation gains and the effects of promissory notes and reversal of impairments in connection with the recovery of accounts receivable which had been deemed irrecoverable, the Group had operating losses before working capital adjustments for the year ended 31 December 2006 and for the six months ended 30 June 2006 and 2007 of US\$736,000, US\$401,000 and US\$527,000, respectively. Despite these losses, net cash provided by operating activities was a positive figure over the subject periods, primarily as a result of increases in trade and other payables, in the amount of US\$6.1 million, US\$7.2 million and US\$1.5 million for the year ended 31 December 2006 and the six months ended 31 December 2006 and 2007, respectively.

Net cash used in investing activities was US\$10.6 million for the six months ended 30 June 2007, compared to US\$5.7 million for the six months ended 30 June 2006 and US\$32.1 million for the year ended 31 December 2006. The Group amassed the majority of its assets during the year ended 31 December 2006. This accounted for the large outflow in that period related to development of investment property, which totalled US\$9.1 million and US\$8.3 million for the six months ended 30 June 2007 and 2006, respectively, and US\$34.0 million for the year ended 31 December 2006. Of the US\$34.0 million, US\$14.8 million was attributable to the acquisition of land from the state through a series of connected transactions with related parties, which included the prior sale of this property to a related party for US\$3.1 million. There were also significant cash inflows and outflows relating to financial assets held for trading, which, in view of their short term nature, are effectively netted off within cash outflows from investing activities, although the gross amount is disclosed. Net cash outflows from purchases and sales of such assets were US\$3.4 million for the year ended 31 December 2006 and US\$1.4 million for the six months ended 30 June 2007 (inflow of US\$1.4 million for the six months ended 30 June 2006).

Net cash provided by financing activities was US\$8.7 million for the six months ended 30 June 2007, compared to US\$2.1 million for the six months ended 30 June 2006 and US\$31.2 million for the year ended 31 December 2006. Significant funds were raised through the issue of charter capital within the individual entities during the year ended 31 December 2006 (US\$31.6 million). Further significant funds were raised through the issue of short- and long-term notes (during the six months ended 30 June 2007, US\$11.3 million and during the year ended 31 December 2006, US\$6.8 million). Proceeds of bank loans were US\$3.4 million in the six months ended 30 June 2006. Bank loans amounting to US\$3.2 million were repaid in the year ended 31 December 2006, and bank loans in the amount of US\$1.8 million were repaid in the six months ended 30 June 2007. In addition, non-bank loans amounting to US\$4.0 million were repaid during the year ended 31 December 2006, and non-bank loans in the amount of US\$1.3 million were repaid during the period ended 30 June 2007 (during the six months ended 30 June 2006, US\$2.6 million).

### ***Borrowings***

The following table sets forth the Group's borrowings and finance lease liabilities, excluding non-bank loans, and their maturity as at 30 June 2007. See Notes 26, 27 and 28 of the combined financial information included in this document for additional information about the Group's loans, borrowings and finance lease liabilities.

	<u>Less than one year</u>	<u>One to two years</u>	<u>From two to five years</u>	<u>More than five years</u>	<u>Total</u>
			(US\$'000)		
Bank loans . . . . .	131	1,211	21	2	1,365
Finance leases . . . . .	125	125	377	1,979	2,606
Long-term notes . . . . .	—	6,346	5,164	—	11,510
Total borrowings . . . . .	<u>256</u>	<u>7,682</u>	<u>5,562</u>	<u>1,981</u>	<u>15,481</u>

Finance lease liabilities represent the liabilities for the relevant period on land lease agreements, including future interest payments. Land held under a lease is classified and accounted for as investment property. Finance lease liabilities in the amount of US\$2.6 million relate to the lease agreements in connection with the following projects: PecherSKY, Kureni and WTC.

### ***Capital Expenditures***

In the six months ended 30 June 2007 and 2006 the Group incurred capital expenditures of US\$89,000 and US\$1.1 million, respectively, in relation to property plant and equipment. For the year ended 31 December 2006, the Group incurred capital expenditures of US\$1.4 million, principally in relation to property plant and equipment.

Additions to investment property, including development costs capitalised amounted to US\$12.2 million and US\$4.7 million for the respective six months ended 30 June 2007 and 2006. In the year ended 31 December 2006, such expenditure amounted to US\$21.5 million.

The total estimated cost of the Group's eight current projects is US\$2.8 billion, and over the next two years, the Group has budgeted US\$1.1 billion of aggregate capital expenditure. Committed expenditures are shown below.

The Group intends to fund its anticipated capital expenditures with the net proceeds of the Offer, substantial leverage, principally in the form of project finance, and sales of residential units. However, the Group's financing plans are subject to change depending upon unanticipated changes to its constructions plans and schedules, actual cash flows from residential sales, the availability of debt financing, market conditions and other factors. As a result, the Group's future financing may be significantly different from its expectations.

### ***Contractual obligations and commitments***

The following table summarises the financial payments that the Group will be obligated to make under its financial obligations (other than loans, borrowings and finance lease liabilities, which are discussed under "—Borrowings" above) as of 30 June 2007.

#### **Commitments on 30 June 2007**

	<u>Repayment due within</u>				
	<u>1 Year</u>	<u>1-2 Years</u>	<u>2-5 Years</u>	<u>5 or more Years</u>	<u>Total</u>
			(US\$'000s)		
Construction . . . . .	39,840	41,673	—	—	81,513
Capital expenditure . . . . .	690	—	10,767	—	11,457
Pre-project works . . . . .	1,302	—	—	—	1,302
Total . . . . .	<u>41,832</u>	<u>41,673</u>	<u>10,767</u>	<u>—</u>	<u>94,272</u>

Since 30 June 2007, the Group has entered into further commitments totalling US\$41,217,238. However on 30 November 2007, the construction agreement with the contractors of the office centre WTC, which resulted in capital commitments amounting to US\$80,804,279 was cancelled with no penalty to the Group



after incurring expenditure up to this date of approximately US\$758,654. Total commitments as at 30 November 2007 amounted to US\$54,685,357 after the cancellation of this commitment.

Currently the Group does not have any off-balance sheet arrangements.

### ***Capital resources***

The Directors (having made due and careful enquiry) are of the opinion that taking into account the proceeds of the Offer, existing cash, bank and other facilities available to the Company and the Group the working capital available to the Company and the Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

The Group's liquidity requirements primarily relate to the construction of its developments. In the event that the Group's future cash flows from operations and other capital resources are significantly less than the amounts budgeted by the Group, management anticipates that the primary effect will be a reduction in capital expenditures for construction and a longer construction schedule for its portfolio. In the event the Group is forced to reduce its total budgeted capital expenditures, management expects that priority will be given to the development of the following projects: PecherSKY, followed by ZAGS and WTC.

### **Quantitative and Qualitative Disclosures about Market Risk**

#### ***Financial risk management***

The Group's activities expose it to a variety of financial risks, including market risk (foreign exchange risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to identify and mitigate potential adverse effects on the Group's financial performance.

Risk management is carried out by the Internal Audit Department ("IAD"), an independent department that reports to the Board of Directors. The IAD comprises a department head and several internal auditors. The IAD specifies and evaluates financial risks in close co-operation with the Group's operating units. It also establishes broad risk management guidance and operating principles, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

#### ***Market risk***

The companies of the Group are exposed to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group's management sets risk tolerance limits, which are monitored on a daily basis. However, this approach does not guarantee that there will not be losses outside of these limits in the event of significant market changes.

#### ***Foreign exchange risk***

The Group generally receives revenue in hryvnia, but it makes certain purchases from foreign suppliers and it borrows funds in foreign currencies. Therefore, the Group is exposed to foreign exchange risk, primarily with respect to the U.S. dollar, UAH and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. As at 30 June 2007 the Group had US\$2.3 million of debt denominated in US dollars and US\$1.4 million of trade payables denominated in Euro.

#### ***Price risk***

The Group is exposed to property rentals and capitalisation yield risk.

- *Commercial property (investment property)*. Assuming the rental price of commercial property decreased/increased by 5%, it could result in a decrease/increase of the carrying value of investment property of 11.96%, or US\$56.7 million, as at 30 June 2007. The decrease/increase of the capitalisation yield by 1% could result in an increase/decrease of the carrying value of investment property of 10.07%, or US\$47.7 million, as at 30 June 2007.
- *Residential property (inventory)*. Assuming the sales price of residential property decreased by 5%, it could result in a decrease of the carrying value of investment property of 8.89%, or

US\$4.9 million as at 30 June 2007. An equivalent increase would not change the carrying value as residential property held as inventory is not measured at fair value. See note 4(v)(iii) to the special purpose combined financial statements.

***Fair value and cash flow interest rate risk***

As at 30 June 2007, all of the Group's borrowings had fixed interest rates and these borrowings were denominated in U.S. dollars and UAH. These fixed-rate borrowings expose the Group to fair value interest rate risk, which is the risk that the Group may pay interest at a rate that is higher than the currently prevailing market rate.

To the extent that the Group borrows debt at variable rates in the future it will be exposed to the effects of fluctuations in market interest rates, which may increase its interest expense and reduce the cash flow available to operate its business.

The Group regularly analyses its interest rate exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

***Credit risk***

Credit risk, or the risk of counterparties defaulting, is managed on a Group basis. This risk relates to the Group's cash and cash equivalents, deposits with banks and credit exposure to contractors. The Group seeks to control its credit risk by applying credit approvals, limits and monitoring procedures.

***Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Group's liquidity position is monitored on a daily basis by its management and is reviewed quarterly by the Board of Directors. A summary table with maturity of financial assets and liabilities presented below is

used by key management personnel to manage liquidity risks and is derived from managerial reports at the entity level.

	<u>30 June 2007</u>	<u>31 December 2006</u>
<b>Financial assets—current</b>		
Total receivables—maturity within one year . . . . .	838	239
Other accounts receivable—maturity within one year . . . . .	9,766	12,934
Cash and cash equivalents—maturity within one year . . . . .	340	1,776
	<u>10,944</u>	<u>14,949</u>
<b>Financial liabilities—non current</b>		
less than one year . . . . .	4	—
Between one and five years . . . . .	1,231	880
later than five years . . . . .	2	—
	<u>1,237</u>	<u>880</u>
<b>Financial lease liabilities—non current</b>		
Between one and five years . . . . .	13	12
later than five years . . . . .	581	583
	<u>594</u>	<u>595</u>
<b>Other financial liabilities—non current</b>		
Between one and five years . . . . .	11,510	3,484
later than five years . . . . .	—	—
	<u>11,510</u>	<u>3,484</u>
<b>Financial liabilities—current</b>		
Trade and other payables—maturity within one year . . . . .	11,073	10,201
Loans and borrowings . . . . .	9,407	12,495
Finance lease liabilities—maturity within one year . . . . .	13	13
	<u>20,493</u>	<u>22,709</u>

**Capital risk management**

The objectives of the Group when managing capital are to support the Group’s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group’s gearing as at 30 June 2007 and 31 December 2006 were as follows:

	<u>30 June 2007</u>	<u>31 December 2006</u>
	(US\$’000)	
Total borrowings (excluding promissory notes) . . . . .	10,640	13,375
Less: cash and cash equivalents . . . . .	(340)	(1,776)
Net debt . . . . .	<u>10,300</u>	<u>11,599</u>
Total equity . . . . .	<u>402,386</u>	<u>405,483</u>
Gearing . . . . .	<u>2.56%</u>	<u>2.86%</u>

**Accounting Policies**

The significant accounting policies of the Group used in preparing the financial information referred to in this Section are included in the “Financial Information on the Company and the Group” in Part XIII of this document.

## PART IX: PRINCIPAL SHAREHOLDERS

The Company's shareholders of record as at the date of this document are listed in the table below. In connection with the Offer, Parsel Investments Limited, Yorania Investments Limited, Arpanet Holdings Limited, Yankline Holdings Limited and Kenways Trading Limited (collectively, the "Selling Shareholders"), have granted the Over-Allotment Option to the Stabilising Manager, as described in more detail in Part XIV "The Offer".

	Share capital as at the date of this document		Percentage of fully diluted share capital following Admission <sup>(1)</sup>	Percentage of fully diluted share capital following Admission <sup>(2)</sup>
	Number of Shares	Percentage of share capital		
Alexander Levin . . . . .	36,816,000	28.32%	22.63%	22.63%
Parsel Investments Limited (Cyprus) <sup>(3)</sup> . . . .	29,250,000	22.50%	17.98%	16.88%
Yorania Investments Limited (Cyprus) <sup>(4)</sup> . . .	29,250,000	22.50%	17.98%	16.88%
Arpanet Holdings Limited (Cyprus) <sup>(5)</sup> . . . .	14,625,000	11.25%	8.99%	8.44%
Welstock Consultants Limited <sup>(6)</sup> . . . . .	14,300,000	11.00%	8.79%	8.79%
Yankline Holdings Limited <sup>(7)</sup> . . . . .	4,602,000	3.54%	2.83%	2.66%
Kenways Trading Limited <sup>(8)</sup> . . . . .	1,157,000	0.89%	0.71%	0.67%
Lindestra Consulting Limited <sup>(9)</sup> . . . . .	—	—	0.50%	0.50%
<b>Total:</b> . . . . .	<b>130,000,000</b>	<b>100.00%</b>	<b>80.41%</b>	<b>77.45%</b>

(1) Assuming no exercise of the Over-Allotment Option.

(2) Assuming the Over-Allotment Option is exercised in full.

(3) Viacheslav Konstantinovsky, a Ukrainian citizen, beneficially owns 100% of the shares of Parsel Investments Limited.

(4) Oleksandr Konstantinovsky, a Ukrainian citizen, beneficially owns 100% of the shares of Yorania Investments Limited.

(5) Olena Topolova, a Ukrainian citizen, beneficially owns 100% of the shares of Arpanet Holdings Limited.

(6) Petro Slipets, a Ukrainian citizen and the Company's Chief Executive Officer, beneficially owns 100% of the shares of Welstock Consultants Limited.

(7) Valentin Muzhchuk, a Ukrainian citizen, beneficially owns 100% of the shares of Yankline Holdings Limited.

(8) Viktor Kaminskiy, a Ukrainian citizen, beneficially owns 100% of the shares of Kenways Trading Limited.

(9) Lindestra Consulting Limited intends to acquire 0.5% of the fully diluted share capital of the Company at nominal value shortly after Admission. Lindestra Consulting Limited will be 100% beneficially owned by Sergiy Sukalo, a Ukrainian citizen and a member of the Company's Board of Directors. For further details see Part XVI "Additional Information—Directors' Interests in Shares".

For descriptions of Mr Levin's, Mr Slipets' and Mr Sukalo's roles in the management of the Company, see Part X "Directors, Key Employees and Corporate Governance".

## PART X: DIRECTORS, KEY EMPLOYEES AND CORPORATE GOVERNANCE

### Directors

The Company's directors (together, the "Board") are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Alexander Levin <sup>(1)</sup> . . . . .	39	Executive Chairman of the Board of Directors
Petro Slipets <sup>(1)</sup> . . . . .	34	Chief Executive Officer, Director
Sergiy Sukalo . . . . .	38	Director
Oleg Rybachuk . . . . .	49	Non-Executive Director
Kees D. Noorman . . . . .	43	Non-Executive Director

(1) For information regarding Alexander Levin's, Sergiy Sukalo's and Petro Slipets' interest in ordinary shares, see Part IX of this document.

The Board was elected on 30 November 2007.

#### *Alexander Levin—Chairman of the Board of Directors (age 39)*

Mr Levin was appointed the Company's Executive Chairman in November 2007. He was one of co-founders of the Group's business in 1994. Mr Levin emigrated to the United States of America in 1988 and was involved in a private business providing transport services. He became a US citizen in 1993 and returned to Ukraine in 1994. Mr Levin has extensive experience in international trade and in the energy sector. During the last ten years he has been focusing primarily on real estate development projects in Ukraine. Mr Levin was one of a small group of people who initiated the creation of the Ukrainian Construction Association and became its Board Member.

#### *Petro Slipets—Chief Executive Officer, Director (age 34)*

Mr Slipets was appointed the Company's Chief Executive Officer in November 2007. He joined the Group in 1994. He has been responsible for trade operations and has been actively involved in various projects conducted by the Group, including: the L'viv Edible Oil Plant, the chain of fast-food restaurants Puzata Hata and the two residential construction projects of Vvedensky and Diplomat-Hall. He initiated the WTC Kyiv and PecherSKY projects. Mr Slipets obtained a Master's degree from Kyiv Institute of Food Technologies and a Specialist's degree in Law from Kyiv Academy of Labour and Social Relations.

#### *Sergiy Sukalo—Director (age 38)*

Mr Sukalo joined the Group in April 2007 and is responsible for business development. He was appointed a member of the Board in November 2007. Mr Sukalo graduated from Kyiv Radiotechnical University of Air Defence Force with a Master's degree in electronic engineering in 1992 and from Kyiv National Economic University with a Master's degree in finance in 1996. Prior to joining the Group, Mr Sukalo worked as First Vice President of "Brinkford", a large Ukrainian industrial and financial group and was a Member of the Supervisory Boards of OJSC "Zaporizhya Abrazyvnyi Kombinat", "Diamantbank" and Luhansk Cartridge Factory.

#### *Oleg Rybachuk—Non-Executive Director (age 49)*

Mr Rybachuk was appointed as a Non-Executive Director in November 2007. Since September 2006, he has been the Advisor to the President of Ukraine. From September 2005 through September 2006 he worked as a Chief of Staff to the President of Ukraine and he was a Deputy Prime Minister of Ukraine in charge of European Integration Policy from February 2005 through September 2005. From 2002 through 2004 he served as a member of Ukrainian Parliament. Mr Rybachuk obtained a diploma in economics from Kyiv National Economics University in 1996 and a diploma in English and French from Taras Shevchenko Kyiv National University in 1980.

#### *Kees D. Noorman—Non-Executive Director (age 43)*

Mr Noorman was appointed as a Non-Executive Director in November 2007. He served as Managing Director of the World Trade Center in Amsterdam from 2004 through 2007. Prior to his position at the World Trade Center, Mr Noorman was a Manager, Commercial Unit Real Estate, at the Port of Amsterdam. Prior to that, he has held positions at Ernst & Young, Utrecht Mortgage Bank, N.V. (part of



the ING Group) and ABN AMRO Bank. Mr Noorman holds Master's degree in Business Administration and Business Informatics from the Rotterdam School of Management at Erasmus University.

### **Key Employees**

Petro Radchuk is currently the Group's acting Chief Financial Officer. Mr Radchuk holds an economics degree from the National University of "Kyiv-Mohyla Academy". Mr Radchuk has previously held investment and finance positions with US venture capital fund "Western NIS Enterprise Fund," Credit Suisse, Raiffeisen and EBRD, from which he has obtained broad banking and finance experience. Mr Radchuk joined the Group five years ago, and has been involved in the origination of the Diplomat-Park and Metro City projects.

The Company is currently seeking to fill the position of Chief Financial Officer. Mr Radchuk will continue to be responsible for work with financial institutions as a Vice President of the Group responsible for Corporate Finance.

### **Corporate Governance**

On Admission, the Company will have its shares traded on AIM and will not therefore be required to comply with the UK combined code on corporate governance issued by the Financial Reporting Council in June 2006 ("Combined Code"), nor will it be required to comply with the Dutch Code on Corporate Governance. Nonetheless, the Board recognises that it is in the best interests of the Company and its Shareholders to comply with those principles of corporate governance contained in the Combined Code which are appropriate for a company of its size—taking account of the guidance for AIM companies issued by the Quoted Companies Alliance in July 2005 and the fact that it is incorporated in The Netherlands—and to support high standards of corporate governance. The Company intends to include a statement in its annual report about how it applies the principles of the Combined Code and an explanation of any non-compliance with the provisions of the Combined Code to the extent that these are appropriate to the Company.

### **Composition of the Board**

In The Netherlands, it is possible for public limited companies ("*naamloze vennootschappen*" or "N.V.") (other than public limited companies governed by the Dutch Large Company Regime ("*structuurregime*"), as a result of which such companies must operate a two-tier structure) to operate under either a one-tier governance structure or two-tier governance structure. The Company operates a one-tier governance structure in which a single board contains both Executive and Non-Executive Directors. The composition and functioning of a management board comprising both members having responsibility for the day-to-day running of the company (Executive Directors) and members not having such responsibility (Non-Executive Directors) shall be such that proper and independent supervision by the latter category of members is assured. As such, the Executive Directors of the Company are authorised to represent the Company whilst the Non-Executive Directors are not authorised independently to represent the Company.

The Combined Code recommends that the Board should include a balance of executive and non-executive directors and (in particular, independent non-executive directors), such that no individual or small group of individuals can dominate the Board's decision-taking. The Combined Code further recommends that at least half of the board, excluding the Chairman, comprise non-executive directors determined by the Board to be independent. The Combined Code recommends that a small company (below the FTSE 350) should have at least two independent non-executive directors.

The Company currently has two Executive Directors, an Executive Chairman and two Non-Executive Directors, of whom Mr Rybachuk and Mr Noorman have been determined by the Board to be independent for the purposes of the Combined Code.

As a result, the Directors consider that there is a satisfactory balance of decision-making power on the Board and the Company satisfies the requirements of the Combined Code, as it relates to small companies, in relation to board composition.

### ***Division of responsibilities between Chairman and Chief Executive***

The Combined Code recommends that the roles of chairman and chief executive should not be exercised by the same individual and that the division of their responsibilities should be set out in writing and agreed

by the Board. The Board has adopted a schedule which confirms the division of responsibilities between the Chairman of the Board and the Chief Executive.

#### ***Senior independent director***

The Combined Code recommends that one independent non-executive director should be nominated as the senior independent director. Mr Rybachuk was appointed as the Company's senior independent director.

#### ***Board practices***

The Board will meet regularly throughout the year. To enable the Board to perform its duties, each Director will have full access to all relevant information. If necessary, the Non-Executive Directors may take independent professional advice at the Company's expense.

In line with the Combined Code, the Company has established three committees: a remuneration committee, a nomination committee and an audit committee. The terms of reference of the committees have been supplemented with additional provisions from the Combined Code as applicable to AIM companies (taking into account the guidance for AIM companies issued by the Quoted Companies Alliance in July 2005).

#### ***Remuneration committee***

The remuneration committee comprises Mr Noorman, Mr Rybachuk and Mr Levin, and will meet (following Admission) at least two times each year. The remuneration committee is chaired by Mr Noorman.

Dutch law requires that Shareholders approve the Company's remuneration policy in respect of the remuneration of directors. The Company has adopted a framework remuneration policy, within which the remuneration committee is responsible for determining and reviewing, amongst other matters, the remuneration of Executive Directors and any incentive share plans of the Company. The remuneration committee is also responsible for making recommendations and monitoring the remuneration of other senior executives below Board level.

The Combined Code requires that upper limits should be set on bonuses and that only basic salary should be pensionable.

The remuneration of Non-Executive Directors is a matter for the Board.

No Director may be involved in any decisions as to his/her own remuneration.

As a Dutch company whose securities are admitted to trading on AIM, the Company is not required to publish a Directors' Remuneration Report in accordance with UK company law. However, the remuneration committee intends to include a statement about its remuneration policy in the Company's annual report.

#### ***Nomination committee***

Pursuant to the terms of reference governing the nomination committee, it is comprised of Mr Noorman and Mr Rybachuk and is chaired by Mr Noorman.

The committee will prepare selection criteria and appointment procedures for members of the Board and will review, on a regular basis, the structure, size and composition of the Board. In undertaking this role, the committee should refer to the skills, knowledge and experience required of the Board given the Company's stage of development and make recommendations to the Board as to any changes. The committee should also consider future appointments in respect of the Board's composition as well as make recommendations regarding the membership of the audit and remuneration committees.

#### ***Audit committee***

The audit committee comprises Mr Rybachuk and Mr Noorman and is chaired by Mr Rybachuk. The Board has determined that Mr Rybachuk has recent and relevant financial experience for the purpose of the Combined Code. The audit committee will meet (following Admission) at least three times each year.

The audit committee must consider, amongst other matters: (i) the integrity of the financial statements of the Company, including its annual and interim accounts, the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues.

### **Share Dealing Code**

The Company has adopted, with effect from Admission, a share dealing code for the members of the Board and certain employees which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealings during close periods in accordance with Rule 21 of the AIM Rules for Companies) and the Company will take all reasonable steps to ensure compliance with such code by the members of the Board and any relevant employees.

### **Controlling Shareholders**

The Company is satisfied that it is capable of carrying on its business independently of its principal shareholders listed in Part IX of this document, and that all transactions and relationships between the Company and these shareholders are and will continue to be at arm's length and on a normal commercial basis.

## **PART XI:**

### **LEGISLATION OF UKRAINE RELATED TO LAND AND OTHER REAL ESTATE PROPERTY**

Set forth below is a summary of material Ukrainian legislation relating to real estate.

#### **General**

Ukraine recognises private ownership of real estate. The Constitution of Ukraine, together with the Civil Code of Ukraine, dated 16 January 2003 (the “Civil Code”), the Commercial Code of Ukraine dated 16 January 2003 (the “Commercial Code”), the Land Code of Ukraine, dated 25 October 2001 (the “Land Code”) and other laws, recognise and protect the right to own private property. Currently the majority of land in Ukraine is not privately owned, but is still held by state or local authorities. See “Part II: Risk Factors—Risks Relating to Group’s Business—Any deterioration of the Group’s relationships with state and local authorities may negatively affect its business”.

Ukrainian legislation specifically permits the use of privately owned property for commercial purposes, including leasing of such property, and permits the retention of revenues, profits and production derived from the commercial use of property. According to the applicable Ukrainian legislation, private ownership is judicially protected.

Upon the transfer of ownership rights relating to a building, the ownership or leasehold rights in respect of the underlying land also transfer to the new owner.

#### **Legal Developments Affecting Real Estate**

On 25 October 2001, the Parliament of Ukraine adopted a new Land Code which came into effect on 1 January 2002. The Land Code introduced the general right to own land. Under prior law, only Ukrainian citizens were permitted to own land in Ukraine and land sale transactions were permitted only under very limited circumstances. The Land Code also permitted the mortgage of privately owned land, provided, however, that only banks may hold mortgages of agricultural land.

The Land Code provides for the following basic rights with respect to land: (i) ownership; (ii) permanent use; (iii) lease; and (iv) servitudes (i.e., easements). It also classifies land ownership among private and municipal and state ownership. The right of permanent use is only available to enterprises and organisations which are under state or municipal ownership and to social organisations for the benefit of disabled persons. Accordingly, all individuals and legal entities, who possessed permanent use rights as of 1 January 2002, were required to re-register their right of permanent use as either ownership or lease rights by 1 January 2008. However, this requirement was invalidated by the Constitutional Court of Ukraine due to the absence of implementing legislation for such reregistration. The Parliament of Ukraine is expected to adopt such legislation in the future.

Land is divided into various categories based upon its designated purpose (e.g., residential, industrial and agricultural). Residential land includes land plots used for residential buildings or buildings designated for public use. Industrial land is used for industrial, mining, transportation and other commercial enterprises. Agricultural land is to be used for farming and other agricultural purposes. Moreover, land in Ukraine is subdivided into the different kinds of the designated use within each category, which is indicated in the relevant documentation for a land plot. Under Ukrainian law, land must be used in accordance with its categorised purpose and the approved designated use.

A land site can be purchased or leased only when it is duly allocated. Allocation is also required in the event of a change of categorised purpose of designated use of the land site or change of area of the land site. Allocation of a land site in general is provided under the Land Code. Allocation of a land site is a rather long and complicated procedure and is requested by a potential owner and is at his or her own risk. Appropriate state and local authorities may refuse to sell a land site already allocated. In such case, the costs expended in connection with the allocation request are not reimbursed.

The general procedure for the allocation of a land site is the following:

- submission of an application and other relevant documents to the appropriate governmental or local authority;
- examination of the application and other submitted documents and issuance of official permission by the appropriate governmental or local authority;

- preparation of the project of allocation of the land site by specialised companies maintaining a license for such kind of activity;
- approval of the project of allocation of the land site by the environmental, sanitary, architectural and other relevant authorities;
- submission of the project of allocation of the land site to the appropriate governmental or local authority; and
- decision of the appropriate governmental or local authority on approval of the project of allocation of the land site.

When the project of allocation of the land site is prepared, it should be approved by the appropriate governmental or local authority. From the date of such approval the land site de jure becomes an object of land relationships and can be purchased or leased.

The Land Code contains a number of transitional provisions which postpone or limit the application of certain provisions of the Land Code until a future date (the “Transitional Provisions”). One of the most important of these Transitional Provisions states that, before 1 January 2008 and until the laws “On the Land Market” and “On the State Land Cadastre” are adopted, certain agricultural land (e.g., land shares, land sites for agricultural production, land sites allocated to owners of land shares for individual agricultural activities) may not be re-sold, alienated, or otherwise disposed of unless such alienation results from inheritance or withdrawal of land for public purposes. From 1 January 2007, the change of the designation of such land is prohibited. In addition, individuals or legal entities may not contribute the right to a land share to the charter capital of a legal entity. The Land Code does not contain any similar restrictions with respect to non-agricultural land.

### **Purchasing Land in Ukraine**

Generally, Ukrainian individuals and legal entities are permitted to purchase ownership rights in private, state and municipal land in Ukraine.

Foreign individuals, legal entities and foreign states are allowed to own, use and dispose of certain non-agricultural land in Ukraine, but are explicitly prohibited from owning agricultural land. Foreign legal entities may own only non-agricultural land: (i) within the city limits, such land to be used for construction purposes and if they purchase buildings or structures located on such land; and (ii) beyond the city limits, if they purchase buildings or structures located on such land. State or municipal land may, however, be sold to a foreign legal entity if it establishes and registers its permanent establishment in the form of a commercial representative office in Ukraine. Therefore, it has become common practice to use two-tiered structures, whereby the foreign parent company establishes a Ukrainian subsidiary, which, in turn, creates a second-tier Ukrainian subsidiary to hold the property.

The Land Code does not grant the right to own any land in Ukraine to Ukrainian companies with 100% foreign ownership. Only those Ukrainian legal entities which have been established by Ukrainian individuals or legal entities, or joint ventures may own land in Ukraine, subject to the above restrictions. Joint ventures established by foreign and Ukrainian individuals or legal entities may purchase non-agricultural land owned by the state or by a municipality from the Cabinet of Ministers of Ukraine with the approval of the Parliament of Ukraine, or from the relevant municipal council, with the approval of the Cabinet of Ministers of Ukraine, respectively.

The detailed procedures for the acquisition of land are determined by local municipal authorities. For instance, under the local regulations in Kyiv, in order to purchase land with buildings or structures located thereon or that is leased to a third party, the purchaser must file an application, which includes a copy of the land lease agreement and other supporting documentation, with Kyiv City Council. In the absence of any serious objections from its departments reviewing the application, Kyiv City Council must approve the sale. Once such resolution is adopted, Kyiv City Council will instruct the Kyiv City Main Department for Land Resources (the “KyivZem”) to prepare a sale and purchase agreement. The sale and purchase agreement must be executed in a notarial form (i.e., a notarial deed). Once the purchaser pays the purchase price for the property, KyivZem will register the property under the State Act of Private Ownership (the “State Act”) and the certificate of registration will constitute the title document for the property. An individual or a legal entity is deemed to have acquired the ownership rights to the land plot only after obtaining the State Act.



If the local authorities (e.g., the Kyiv City Council) resolve to sell the land plot, its value will be determined by a licensed appraiser engaged by the local authorities. This mandatory valuation is carried out using the following valuation methods:

- capitalisation of the net operational (rental) income from the use of the land plot;
- comparing the purchase prices of similar land plots; and
- accounting for the expenses for land improvement.

Under Ukrainian law, land improvements are defined as changes to the characteristics of the land from the erection of buildings, structures and other infrastructure or from the commercial activities or works conducted on the site, including soil improvements and changes to the topography of the land. The purchase price for the land should reflect the degree of land improvements performed by the lessee.

### **Leasing of Land in Ukraine**

All Ukrainian and foreign individuals, legal entities and states may lease land in Ukraine. The new Land Code establishes two types of land leases: short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law). This used to have practical meaning before certain amendments were introduced to the Law of Ukraine “On Land Lease”: for short-term leased agreement the notarisation was optional for long-term lease-mandatory. It also allows subleasing arrangements, subject to the lessor’s consent. Land lease relations are regulated in more detail by the Law of Ukraine “On the Lease of Land”, dated 6 October 1998, as amended (the “Land Lease Law”).

According to the Land Lease Law, land lease agreements must be in writing and must contain the following essential conditions:

- the subject matter of the lease (i.e., the property’s location and size);
- the term of the agreement;
- the amount of the rent and the terms and means of payment;
- the terms of use and designated purpose of the leased land plot;
- the terms of maintenance of the leased property;
- the terms for transfer of the land plot by the lessor to the lessee;
- the terms for return of the land plot by the lessee to the lessor;
- a description of all existing restrictions and encumbrances;
- provisions allocating the risk of damage or loss; and
- liability of the parties.

The absence in the land lease agreement of one of the mentioned conditions can result in refusal to perform the state registration of the agreement and its invalidation.

Every land lease agreement shall be made in writing and is required to be registered with the state authorities.

Only upon the state registration the land lease agreement is deemed to be effective and a tenant has lease rights to the land plot. Any amendments to the land lease agreement also require the state registration.

The lease agreement shall have the following integral parts:

- plan or scheme of land plot being leased;
- cadastral plan of a land plot indicating encumbrances of a land plot use and established land servitudes;
- certificate of determination of land plot boundaries afield;
- delivery-acceptance certificate; and
- lease allocation project.

The original lease term may be extended as many times as the parties desire, provided that they re-execute the lease agreement upon each extension and register the re-executed agreement with the land registration authorities.

According to the Land Code of Ukraine, an individual or legal entity may acquire the lease rights to the land of the municipal and state ownership by applying to the state authorities. The transfer of the land plot under the lease must be approved by the resolution of the relevant authorities.

If foreseen by a land lease agreement or upon written consent of a landlord, a land plot or its part can be subleased provided that its designated purpose remains unchanged. Sublease agreement shall comply with lease agreement. Sublease term shall not exceed lease term. Sublease expires upon lease expiration. Sublease agreement shall be notarised and state registered.

Under the newly adopted local regulations in Kyiv, the right to lease land plots in Kyiv must be sold through auction if the relevant land plot has no immovable property (i.e., buildings or structures) on it. It is expected that the auction procedure will apply to land leases throughout Ukraine, once the draft Law No. 2520 “On Amendment of Certain Legislative Acts to Implement Transparent Mechanisms for Land Sale and Acquisition of Lease Rights to Land Plots”, which provides that lease rights to vacant state or municipal lands may only be acquired through auction, is adopted.

The ownership of leased land may not automatically pass to the lessee under the terms of a lease agreement. However, under the Land Lease Law, the lessee has a pre-emption right in the event that the lessor seeks to sell the leased property. In order to exercise such right, the lessee must pay the price at which the land is offered for sale, or, if a property is auctioned by the lessor, the lessee’s offered price must be equal to the highest bid.

Under the Land Code, leased property must be sold by auction if it has no immovable property (i.e., buildings or structures) on it. Leased property, owned by the state or a municipality with completed buildings or structures, may, however, be sold without going to a public land auction and the parties may agree on a market value at which the right of first refusal may be exercised. Under Ukrainian law, the lessee has a pre-emptive right to extend the lease, provided it has duly fulfilled all of its obligations under the original lease. However, the Ukrainian courts have held that a lessee has no right to extend the lease in the event that the lessor decides to no longer lease the subject property.

According to existing practice in Ukraine, land plots may be leased to private entities for specific purposes, such as residential use or the construction of a shopping centre. If the purpose of the land use is changed, the lessee must apply to the State or local authority that granted the original land lease for a change of the designated land use. This requires the lessee to go through the regular land allocation process by filing for the required approvals from the architectural, fire, sanitary, environmental and other authorities.

Under the Land Lease Law, the parties to a lease are generally free to determine the amount and timing of the land rent under the lease. However, the rent relating to land held in state or municipal ownership must be paid in cash and may not be lower than the land tax for the same land plot, as calculated in accordance with the Law of Ukraine “On the Land Tax”, dated 3 July 1992, as amended (the “Land Tax Law”). In addition, for such properties, the annual land rent may not exceed 10% of the normative monetary appraised value of the particular land plot.

Under Ukrainian law, the amount of land rent may be revised by the mutual consent of the parties to the lease. As a matter of practice, the Kyiv authorities determine the land rent rates for municipal land plots depending on the category of use of the land. Rent for land within the city limits of Kyiv is calculated as a percentage of the market value of the land. In Kyiv, the land rent rates vary from 0.03% for residential use to up to 6% for commercial use by banks and other financial institutions. However, the absolute amount of the land rent fluctuates annually based on the updated market values ascribed to the land. Lessees in Kyiv currently are required to pay land rent in arrears on a monthly basis in equal parts by the 15th day of the month following the month in which the land rent accrued.

### **Leasing of Real Property Other Than Land (Buildings and Structures)**

The Civil Code contains general provisions governing the leasing of movable and immovable property. In particular, according to the Civil Code, the lease of a building (or other capital structure) or part thereof must be concluded in writing and must be notarised and registered with the State if entered into for a period of three years or longer.

Under Ukrainian law, the lessee is required to pay a state duty for the notarisation of a sublease agreement with respect to land or buildings if the agreement is notarised by a public notary, or, if the agreement is notarised by a private notary, a notarial fee. In the latter case, the notarial fee of a private notary may not be less than the state duty established by the Decree of the Cabinet of Ministers of Ukraine “On State Duty”, dated 21 January 2003, as amended (the “State Duty Decree”). In practice, the notarial fee of a private notary does not significantly exceed the amount of state duty. As of 1 January 2007, under the State Duty Decree, the lessee must pay a state duty for notarisation of a sublease agreement in the amount of 0.01% of the land appraisal in respect of land and 0.01% of the contract price in respect of a building or other capital structure (instead of the formerly applied 1%). The amount of the state duty should not exceed fifty times the minimum non-taxable income of an individual, which is currently approximately US\$170. In addition to state duty, the lessee normally pays additional notarial dues, which are generally insignificant.

### **State Registration of Rights to Immovable Property and Certain Transactions**

Sale and purchase agreements, gift agreements or other types of agreement which address ownership rights to real property must be notarised and registered with the State Register of Transactions. In addition to registration of the agreement with the State Register of Transactions, the property rights must also be registered: in relation to a building, with the local Bureau of Technical Inventory and in relation to a land plot, with the local Department for Land Resources.

Information concerning encumbrances on real property is contained in the following State registers:

- the Uniform Register of Prohibitions on the Alienation of Real Estate;
- the State Register of Mortgages;
- the Register of Encumbrances of Movable Property (in respect of tax liens); and
- the Land Cadastre.

In the near future, the State Register of Rights to Immovable Property and Their Limitations is expected to come into existence. It will contain consolidated information on all property rights to real estate as well as the limitations of such rights and, as such, replace those respective registers currently in existence.

In case of any dispute over particular real estate object, registered rights to that real estate object should prevail over non-registered rights. Furthermore, the real estate owner may enter into an agreement in respect of real estate only after the ownership title is duly registered. Thus, the real estate, title to which is not duly registered, may not be legally sold.

### **Obtaining Land Plots for Construction Purposes**

The principal legislative acts relating to construction include the Law of Ukraine “On the Planning and Development of Territories”, dated 20 April 2000, the Law of Ukraine “On Architectural Activity”, dated 20 May 1999, as amended, and the Law of Ukraine “On City Construction”, dated 16 November 1992, as amended. In addition, construction activities are governed by resolutions of the Cabinet of Ministers of Ukraine and the rules developed by the Ministry of Construction, Architecture and Housing of Ukraine (the former Construction and Architecture Committee of Ukraine). At the same time, the municipal authorities are authorised to develop and approve construction rules setting forth specific procedural requirements regarding construction on the territory of the respective municipality.

Construction on an allocated land plot may only be carried out after obtaining a construction permit. The construction permit must be obtained either by the owner or by the lessee of the land. Obtaining a construction permit is a multi-stage process, which includes approvals and registrations of the project documentation by a number of governmental bodies, including architectural and urban development agencies, environmental management and protection agencies and governmental bodies for public health supervision. The construction permit is issued for the expected term of construction, but it may be periodically extended for consecutive periods, each not exceeding one additional year.

Before the commencement of construction, the owner or lessee should: (i) obtain design input data; (ii) conduct any required pre-project work; (iii) develop and obtain the approval of the relevant state authorities with respect to the proposed architectural design and the construction project documentation; and (iv) prepare working documentation for the construction. Construction project documentation

includes “pre-project documentation” (i.e., economic studies and assessments of the cost of construction) and “project and assessment documentation” (i.e., projects, working projects and working documentation).

The comprehensive state examination of project documentation includes: (i) an investment examination; (ii) a sanitary examination; (iii) an environmental examination; (iv) a fire control examination; (v) a labour protection examination; and (vi) an energy control examination.

After construction, the completed building must be finally approved by the special state acceptance committee, consisting of representatives of the investor, general contractor, executive authorities, contractors, construction designers, operating organisation, governmental bodies for public health supervision, state fire supervision service, architecture and urban development agencies, environmental management and protection agencies and other state agencies responsible for monitoring the property. Following such approval, the prospective owner may obtain an ownership certificate and register its rights to the completed building with the State. The owner should not use the property until the date of the issuance of the commissioning approval and the date of obtaining and registering the ownership certificate.

### **Licensing of Construction Activities in Ukraine**

Under the Law of Ukraine “On the Licensing of Certain Entrepreneurial Activities”, dated 1 June 2000, as amended (the “Licensing Law”), construction activities are subject to mandatory licensing. A foreign company seeking to engage in construction work should establish a wholly-owned Ukrainian subsidiary or a joint venture eligible for the receipt of a construction licence. Construction licences are issued for a term of five years. The term of the licence may be extended pursuant to procedures established by the Licensing Law. A comprehensive list of construction activities subject to licensing is contained in the Order of the State Committee of Construction, Architecture and Housing Policy of Ukraine on Approval of Licensing Conditions of Construction Activities No. 112/182, dated 13 September 2001 (the “Order on Licensing Conditions”).

A company may apply and obtain the Licence subject to meeting the licence criteria (i.e. organisational qualification and technological requirements fixed in the Order on Licensing Conditions).

### **Liabilities of Owners**

Owners of land plots and buildings must comply with various environmental, public health, fire, residential, urban planning and other requirements of Ukrainian law. The owner of a building generally bears all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land in accordance with its intended use, not to cause harm to the environment, assume the liability and financial costs relating to compliance with the various land use standards and not to allow the pollution of, littering on or degradation of the land.

### **Land and Real Property Taxation**

Owners of land and those with permanent rights to use land must pay a land tax and lessees must pay the land rent as set forth in the lease agreement. Currently, the general land tax for the land plots located within city limits, subject to certain exceptions established by the Land Tax Law, is 1% per year of the appraised value of the land, which is updated periodically. Tax is paid on a monthly basis at one-twelfth of the annual tax amount.

The appraisal of the land is carried out by authorised licensing organisations in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine. This methodology accounts for various factors, including, but not limited to, the location of the land and the purpose for which the land is to be used. The valuation of a particular land plot is carried out at least once every five years with respect to agricultural land and at least once every seven years with respect to non-agricultural land.

With each new valuation, the original valuation is to be adjusted pursuant to a formula adopted by the Cabinet of Ministers of Ukraine. The market value of land is not uniform across Ukraine and may vary greatly from place to place depending on the factors affecting the valuation. Furthermore, the valuation of land, which is the basis for the computation of the land tax, fluctuates from year to year.

### **Construction Financing**

At the end of December 2005, the Parliament of Ukraine introduced amendments to the Law of Ukraine “On Investment Activities”, dated 18 September 1991 (the “Investment Activities Law”), with respect to

the financing of residential construction. As of 1 January 2006, under the Investment Activities Law, investing into, and financing of, residential construction by individuals and private legal entities may be carried out exclusively through construction financing funds, real property operations funds, mutual investment institutions and private pension funds, which have been established and operate in accordance with Ukrainian legislation. In addition, residential construction financing may be carried out by issuing interest-free (targeted) bonds, in which a unit of such real property (e.g., a square metre) is a basic commodity.

Issuing bonds is the most popular structure for financing residential construction in Ukraine for two main reasons: (i) targeted bonds may be issued and sold directly by the developer and do not require the involvement of financial institutions, unlike other methods of residential construction financing; and (ii) by implementing the bonds structure, developers may optimise their tax position, since operations including the securities are not subject to VAT under Ukrainian law.

With respect to non-residential construction financing, developers are permitted to use other structures, such as investment agreements, in addition to the above described methods of financing.



## Colliers International Ukraine

*International Property Consultants*

34 Velyka Vasylkivska st.,

Kyiv 01004, Ukraine

Tel.: +380 44 490-5700

Fax: +380 44 490-5799

E-mail: [colliers@colliers.com.ua](mailto:colliers@colliers.com.ua)

[www.colliers.com](http://www.colliers.com)



Date of value: September 30<sup>th</sup>, 2007.

Date of report completion: November 9<sup>th</sup>, 2007.

Confirmed:  
Director

A handwritten signature in black ink, appearing to read "Yuriy D. Nartov".

Yuriy Nartov

# Valuation Report of Various Real Estate Assets in Ukraine



PREPARED FOR  
**KDD Group N.V.**

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## INFORMATION ABOUT COLLIERS INTERNATIONAL

Colliers International is an international corporation that provides a full range of advisory and agency services in commercial real estate. Annual revenues of the company exceed USD 1 billion and it employs over 9,000 employees in over 250 offices, located in 55 countries worldwide. The firm has operated in the Commonwealth of Independent States since 1994 and is one of the market leaders with offices in Moscow and St. Petersburg (Russian Federation), Kyiv (Ukraine), and Almaty (Kazakhstan). Recently Colliers International started its operations in the Baltic States by opening regional offices in Riga, Vilnius and Tallinn.

Established in the Ukrainian market in 1997, Colliers International is now the leading property advisor with a dedicated team of professionals. Over the time, we have participated in a majority of high profile commercial real estate projects in Kyiv and count many international and local organizations as our clients.

### **Colliers International competitive advantage:**

- A world famous brand in commercial real estate
- Involvement with commercial real estate projects in Kyiv, Ukraine
- Reputation of high quality services specialized in consulting, marketing, and agency work for office and retail premises in Kyiv, Ukraine
- Most square meters leased and sold in commercial real estate in Kyiv, Ukraine
- Significant project experience in the regions of Ukraine
- Capability to utilize expertise and experience of offices in Moscow, the Baltic States, and in Central and Western Europe
- A track record of valuation assignments on a global and local scale
- Appraisal experience according to International and European Valuation Standards
- A valuer certified by the generally accepted system of certification of European valuers in accordance with EN 45 013 TEGoVA, The European Group of Valuers' Associations is employed by the company.
- Colliers International was awarded the Central & Eastern European Real Estate Agency of the Year for 2004, as determined by the jury of the CEE Real Estate Quality Awards.

In Central and East Europe, Colliers International has performed valuations, feasibility studies, investment and risk analysis on behalf of various major international firms, such as PWC, Ernst & Young, GE Capital, AIG, EBRD, HVB, Deutsche Bank, Raiffeisen, Volksbank, ING Nederlanden, and others. Colliers also has extensive experience in valuing large portfolios of properties owned by various funds and institutions. Valuation of real estate portfolios located in 11 countries of a prominent developer in Central and Eastern Europe in May 2006 was one of the latest large-scale projects.

For additional information about Colliers International, please visit our web site at [www.colliers.com](http://www.colliers.com)

KDD Group N.V.  
Prins Bernhardplein 200  
1097 JB  
Amsterdam  
The Netherlands

Dear Sirs,

In accordance with your instructions we, Colliers International Ltd, Ukraine (“Colliers”) have undertaken a Valuation of Market Value for each of the investment properties as set out below. The subjects of each Valuation are as described herein.

## 1. SCOPE OF INSTRUCTIONS:

### SUBJECTS OF VALUATION

The Subject Matters of this valuation are as follows:

<u>Property</u>	<u>Address</u>	<u>Land Plot Area</u>	<u>End Use</u>
<b>PecherSKY</b>	2, Sergiya Strutynskogo Street, Kyiv	0.81 ha	Residential complex
<b>WTC</b>	Polzunova street, opposite Pivdennyi (Southern) entrance to central railway station, Kyiv	1.52 ha	Office center with infrastructure
<b>Kureni</b>	4, Parkova Doroga Street, Kyiv	0.52 ha	Hotel and restaurant complex with residential premises
<b>ZAGS</b>	Sholudenska Street/Peremogy Avenue/Borshchagivska Street, Kyiv	0.74 ha	Office center with infrastructure
<b>Zazimye</b>	Zazimye village, Kyiv region	110 ha	Residential complex with infrastructure
<b>Zhitomir Highway</b>	Zhytomyr highway, Makarov district, Kyiv region	57 ha	Mixed-use
<b>Diplomat-Park</b>	60, Shevchenka Street, Lviv	7.74 ha	Residential complex with infrastructure
<b>Metro City</b>	Between Darnytsya and Chernigivska metro stations, Kyiv	21.16 ha	Mixed-use

## 2. DECLARATION

We have been instructed to conduct a Valuation of Real Estate Assets on behalf of *KDD Group N.V.* (“Client Company”) for the purpose of inclusion into an Admission Document in respect of the proposal to offer ordinary shares of the Client Company on the Alternative Investment Market of the London Stock Exchange; for the purpose of audit and IFRS financial statements preparation.

Colliers can confirm that no valuation has been made on the basis of any Special Assumptions or Departures from the Practice Statements contained in the IVS (International Valuation Standards) or EVS (European Valuation Standards).

We confirm that the valuation has been made in accordance with the relevant professional guidelines and statements issued under the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual (the “Red Book”).

Market value is a type of value to be determined.

The effective date of each valuation is September 30, 2007.

We confirm that the Valuers performing the presented work are various certified specialists. The report is prepared and signed by Valuers with the following professional qualifications.

- a. Certified in accordance with the common system of European certification of Valuers according to EN 45 013 TEGoVA, The European Group of Valuers' Associations.
- b. Membership of the Royal Institution of Chartered Surveyors of the United Kingdom.

We confirm that Colliers has operated as External and Independent Valuer in the preparation of this report.

We disclose that Colliers International Ukraine has been previously involved in projects implemented by the Client Company. However, those involvements were restricted exclusively by provision of our professional services to the Client Company and we consider that those involvements do not have any impact on this assignment.

### **3. MARKET VALUE DEFINITION**

#### **Definition**

*'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'* (RICS Appraisal and Valuation Standard, 5th Edition).

#### **'The estimated amount . . .'**

Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

#### **' . . . a property should exchange . . .'**

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

#### **' . . . on the date of valuation . . .'**

Requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

#### **' . . . between a willing buyer . . .'**

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute "the market". A valuer must not make unrealistic Assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.

#### **' . . . a willing seller . . .'**

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price



may be. The factual circumstances of the actual property owner are not a part of this consideration because the “willing seller” is a hypothetical owner.

**‘ . . . in an arm’s-length transaction . . . ’**

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value (see IVS 2, paragraph 3.8). The Market Value transaction is presumed to be between unrelated parties each acting independently.

**‘ . . . after proper marketing . . . ’**

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

**‘ . . . wherein the parties had each acted knowledgeably, prudently . . . ’**

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

**‘ . . . and without compulsion.’**

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

#### **4. PLANNING**

We have not performed a precise survey, but instead relied upon information provided under the general plans of development, information provided by the Client Company and the project documentation.

Under Ukrainian law, the construction of buildings may only be carried out based upon an approved project, and after all the corresponding permissions are obtained. The scope of necessary approvals and documentation required depends on the type and volume of the works to be carried out. The planning and approval process in Ukraine is not always transparent or the outcome certain.

We assume that all required documentation will be received by the Client Company within a normal acceptable timescale and that there are no issues which would significantly delay the issuance of the required permission.

Where a property is held for development and at the date of this valuation the terms of the project are not finalized, our valuation takes into account any additional reasonable risks of delay and cost in receiving the project. We have assumed that there are no unforeseen circumstances that would cause additional cost or delay in excess of those generally experienced.

#### **5. TENURE AND TENANCIES**

The Client Company has provided to us copies of the title deeds of land and our valuation has been based on the assumptions that all the provided documents are valid.

Detailed description of each property’s title is given below in “Brief Property Summary” section.

According to Ukrainian law, there are three types of land ownership in Ukraine:

- Freehold
- Leasehold (most common for developers)
- Perpetual use (most common for old industrial buildings)

In the case of freehold, a person or an entity owns land and is required to pay land tax. Land tax is equal to 1% of a normative monetary land value, which is defined as a capitalised rent income received from a land plot, and calculated by the appropriate governmental authority. In most cases this value is less than the market value of land. Ownership possesses no risk for its holder. A holder has a right to use the land for development according to the land's designated use (commercial, industrial, residential) and the right to apply to the city/district/village authorities to change designated use.

In the case of leasehold, land is subject to a lease with a maximum term of 50 years. A leaseholder is required to pay land rent to the owners of the land plot. According to Ukrainian law the annual rent for the land which belongs either to the state or to the municipal property should not be lower than the land tax and cannot exceed 10% of the normative monetary value of the land plot. Typically, rent is 1.5 to 2 times more than land tax. A normative monetary value for each land plot as well as land rent is usually indicated in land lease agreements. Leasehold possesses relatively low risk for its holder. In case the landlord is willing to extend the land lease agreement upon its expiry or to sell the land, the lessee has the preemptive rights compared to the other potential holders / buyers to extend the lease term on the same terms and conditions or to purchase the land during the term of the lease. This is typically welcomed by the local authorities. As such, many developers do not acquire the freehold, but prefer to extend the lease term, especially if the property has already been developed on the plot. If the building is developed, the developer becomes its owner even if the land lease agreement is not extended (which in this case is highly unlikely), it is of no use to other parties, as they cannot use the plot for re-development. However, each case should be reviewed individually. For example, when a sale of commercial property to a foreign investor is envisaged, the land is often privatized (freehold) in order to give more comfort to the investor.

Leasehold is the property right to land which is practiced most commonly by the developers in Ukraine. A leaseholder has the right to use the land for development according to the land's designated use (commercial, industrial, residential), which is indicated in a lease agreement. A leaseholder also has the right to apply to the city/district/village authorities to change the designated use. In most cases change of use is quite feasible provided there is an existing project concept and the developer has a good reputation. The rights and obligations of the leaseholders are stipulated by law. The lessee's rights include, in particular, the rights to perform its commercial activity in accordance with the terms and conditions of the lease agreement, to receive income from the land plot, to perform construction of the residential, industrial, cultural premises and other construction as set out in the lease agreement, make the long-term planting upon landlord's written consent, and to build water and ameliorative constructions upon written consent of landlord and pursuant to the legislation. Typical lease terms for development land in Kyiv are between 5 and 25 years the recent average being between 5 and 10 years. Leasehold is quite popular for residential development for the following reasons. It provides an extensive range of the land use rights without the need to pay full price for the freehold title. Land freehold is neither required for residential construction nor adds any value to the apartments, since the end owners fully and legally own their apartments without land rights. The lease term is usually sufficient to construct, complete and sell the apartments however prolongation is normally granted if construction has started.

Perpetual use is the least common property right to land. In accordance with the law, only a limited number of legal entities, including the state and municipal enterprises and organizations, and some public associations can be perpetual holders of the land plots. The other legal entities, which may historically possess the right to perpetual use of land, are normally required to change this type of ownership to leasehold before granting permission for the development or allowing a change of designated use. At the stage of changing the designated use and receiving the permission for development the holder has the pre-emptive right to either register the land as leasehold or to privatize it (to buy it from the authorized governmental body). A holder of perpetual use is required to pay land tax.

## **6. SITE AND CONTAMINATION**

We did not undertake an examination of the site in order to determine the condition of the ground nor did we undertake environmental, archaeological, or geo-technical surveys. The valuations assume that these aspects are satisfactory and that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.

## **7. INTEGRAL PARTS OF THE PROPERTIES**

Engineering services and pipe lines have been considered as an integral part of the Sites and are included within the property value.

### **7.1 INSPECTIONS AND CONDITIONS**

We have inspected each site on dates between September 30, 2007 and October 5, 2007. We are unable to comment on the structural integrity of any of the sites in relation to the project proposals for developing the site. Also, no special structural survey has been conducted, nor did we inspect any parts of the sites, that were covered, unexposed or inaccessible. Our valuation has been prepared on the basic and critical assumption that the subject sites are free of physical or potentially inherent structural defects or soil contamination, which would adversely affect their value.

### **7.2 AREAS AND DIMENSIONS**

No measurements have been carried out by Colliers and we have relied entirely on dimensions provided by the Client Company.

### **7.3 SOURCES OF INFORMATION**

Information used in the process of analysis and valuation was obtained from the Client Company, personal data of Colliers, data received in the course of examination of open sources of information. We accepted this information as being correct and complete and that there have been no undisclosed matters which would adversely affect the valuations.

## **8. GENERAL PRINCIPLES**

Technological and economic characteristics were considered according to the data provided by the Client Company. We executed an analysis of data in comparison with the market figures. In the case of divergences market figures prevailed.

We have diligently analyzed the projects of the Client Company and came to the conclusion that use of land plots, determined by the Client Company is the most effective i.e. physically possible, legally allowable, financially feasible and results in the maximum market value.

In accordance with market practice, we have performed calculations in compliance with the discounted cash flow method within the Income Approach. We have not used the Comparison Approach in its pure form.

Each property was valued as a separate Investment Entity. We did not consider any benefits, grants or discounts concerning the management of the Client Company's whole projects' portfolio.

The estimate of the value of the subject properties is effective only on the date of the Valuation. On the date of publication of this report in the Admission Document the value may differ due to, among other things, unforeseen circumstances that could change the cash flow estimates. Value can be stated only on the fixed date.

The valuation of each property has been undertaken by Mr S. Ivanov, certified "Approved by TEGoVA", The European Group of Valuers' Associations in conjunction with Mr Paul Blackman, M.R.I.C.S. a Member of the Royal Institution of Chartered Surveyors.

## 9. BRIEF PROPERTY SUMMARY

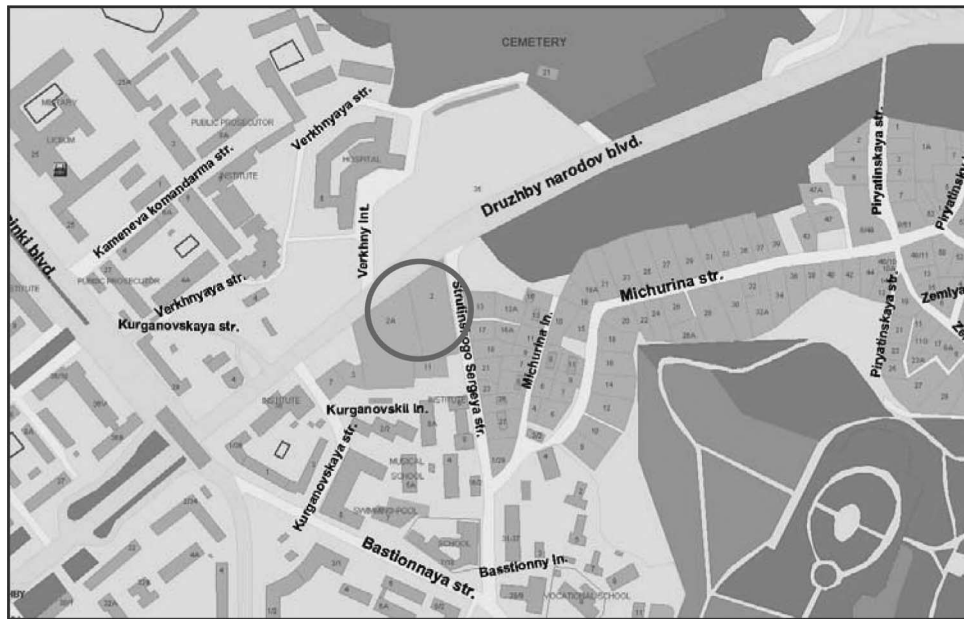
### 9.1 PECHERSKY—2 SERGIYA STRUTYNSKOGO STREET, PECHERSKYI DISTRICT, KYIV

*Current Use:*

Vacant land plot.

*Location:*

The property is located in the Pecherskyi administrative district of Kyiv in a rather quiet area near Druzhby Narodiv metro station. The distance to the metro is about 0.6 km. Another metro station—Pecherska—is approximately 1.4 km away. The distance to the Dnieper River is about 1.3 km, to Maidan Nezalezhnosti (Independence square)—approximately 4.5 km. The site fronts Druzhby Narodiv Boulevard, which is one of the main transport arteries in this part of city. The area is considered prestigious for living. The immediate surrounding area comprises of both high-rise residential buildings and private cottages.



*Plot Size:*

The land plot consists of 4 sites with a total area of about 0.81 ha. A feature of the site is considerable height drop in different parts

Please find below the photographs of the subject site as of the valuation date:



*The subject site*



*The subject site*



*The subject site and exit road to Druzhby Narodiv Boulevard*



*The subject site*

*Permitted Land Use:*

Development of residential complex with office premises, ground and underground parking.

*Future Project details:*

We understand that it is intended to construct a residential complex with a total area of 50,519 sqm with some office space and 4 levels of underground parking. The parameters of the complex are as follows:

Residential Saleable Area, sqm . . . . .	20,648.3
Non-Residential Saleable Area, sqm . . . . .	4,676.5
Number of Floors . . . . .	14-23
Number of Parking Spaces . . . . .	262
Number of Apartments . . . . .	198

The upper floors will possess a panoramic view of the Dnieper River.

*Land Title:*

The 0.5086 ha site is subject to a 15-year lease commencing from November 17<sup>th</sup>, 2004. Zoning—construction of office and residential complex.

Full land title (freehold) for 0,1017 ha site according to the State land title act KB 124368;

Full land title (freehold) for 0,1018 ha site according to the State land title act KB 124369;

Full land title (freehold) for 0,1004 ha site according to the State land title act KB 124370 all issued by the Kyiv City Council on August 6<sup>th</sup>, 2004 and zoned for servicing of residential buildings and household structures.



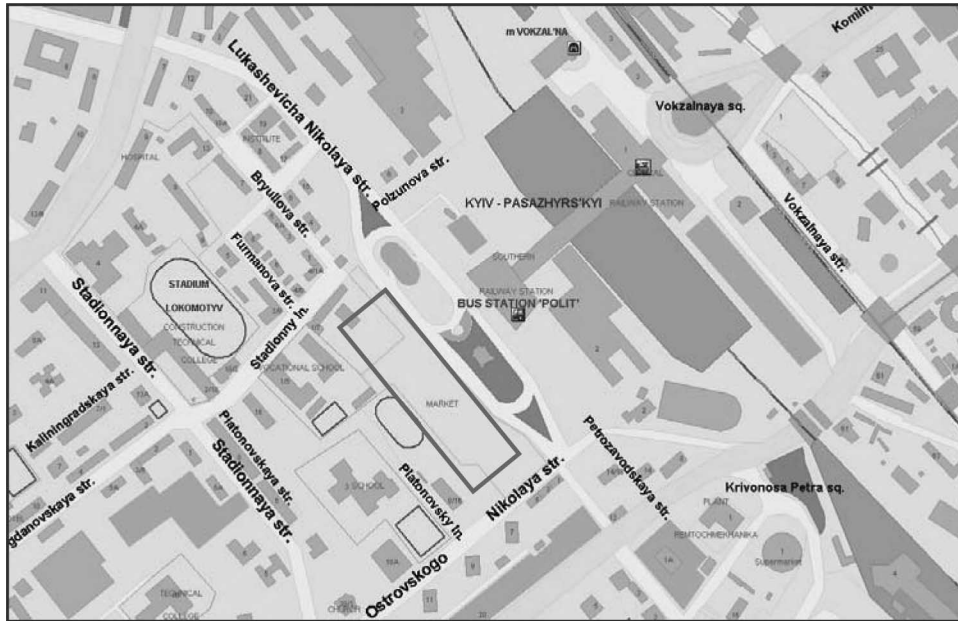
## 9.2 WTC KYIV—POLZUNOVA STREET, SOLOMYANSKYI DISTRICT, KYIV

### *Current Use:*

Vacant land plot being prepared for future construction.

### *Location:*

Exceptional location opposite Pivdennyi (Southern) entrance to central railway station. The site will benefit from excellent transport and pedestrian flows and good visual accessibility. The nearest Vokzalna metro station is about 400 meters away and the distance to the center of Kyiv (Maidan Nezalezhnosti) is approximately 4 km. The location is considered favorable for business activity due to the proximity to the center of Kyiv.



### *Plot Size:*

1.52 ha of irregular shape close to rectangle with longer side along the street.

Please find below the photographs of the subject site as of the valuation date:



*Panoramic view of the subject site*



*Pivdennyi entrance to railway station*



*The subject site*

*Permitted Land Use:*

Construction and utilization of mixed-use complex.

*Future Project details:*

We have been informed that the property to be valued is intended to be used for the construction of a high rise A-class office building with a total of 159,000 square meters, comprising also retail space, a fitness center and underground and open air parking. The income generating areas are split in the following way:

Office Leasable Area, sqm . . . . .	67,518
Car Dealership Leasable Area, sqm . . . . .	4,049
Retail Leasable Area, sqm . . . . .	1,602
Fitness Center Leasable Area, sqm . . . . .	940
Underground Parking, lots . . . . .	802
Open Air Parking, lots . . . . .	200

The project will be presented under World Trade Center (WTC) internationally-recognized brand.

*Land Title:*

The land is subject to a twenty five year lease commencing from March 29<sup>th</sup>, 2003.

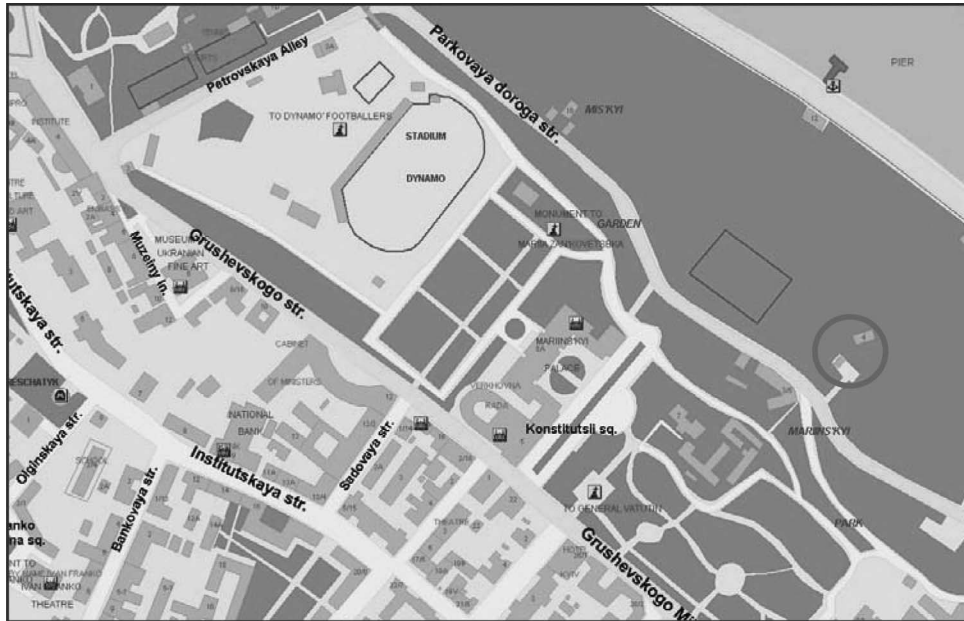
### 9.3 KURENI—4 PARKOVA DOROGA STREET, PECHERSKYI DISTRICT, KYIV

#### *Current Use:*

The operating Kureni restaurant complex is currently located on the site.

#### *Location:*

The site is located in a historical area of the city on a picturesque hill near the Dnieper River. The distance to the center of Kyiv is about 1.7 km and the nearest metro stations are Arsenalna and Maidan Nezalezhnosti. The site is surrounded by City Park and has a beautiful view of the river. One of the best advantages of the district is its location in a quiet green area together with proximity to Khreshchatyk, which is a main street of Kyiv. Along with this, the drawback of the area is the virtual absence of infrastructure in immediate proximity, and the narrowness of Parkova Doroga Street which is 2-lane only.



#### *Plot Size:*

0.52 ha.

The photographs of the subject site as of the valuation date are set out below:



*Kureni restaurant*



*Kureni restaurant*



*The observation ground on the subject site*



*The park road near the subject site*

*Permitted Land Use:*

Reconstruction, utilization and maintenance of restaurant and visitor parking.

*Future Project Details:*

It is intended to develop a boutique hotel and restaurant complex on the subject site. The complex is planned to have the following characteristics: Gross Building Area (GBA) 7,605 square meters. Out of this, a hotel with total 70 suites will occupy 5,605 sqm, including 225 sqm for a restaurant, 190 sqm for administrative premises, 530 sqm for service rooms, 340 sqm for technical premises and 445 sqm for underground parking. The rest of the area (2,000 sqm) will be occupied by apartments. Project details are taken from data received from the Client Company.

*Land Title:*

0.4862 ha land plot is subject to a 10-year lease commencing from April 13<sup>th</sup>, 2006 according to Lease agreement No. 82-6-00354 issued by the Kyiv City Council. Zoning: for reconstruction, utilization and maintenance of restaurant.

0.0351 ha land plot is subject to a 10-year lease commencing from April 13<sup>th</sup>, 2006, according to Lease agreement No. 82-6-00353 issued by the Kyiv City Council. Zoning: for utilization and maintenance of visitor parking.

We have not been presented with the documents permitting the change of zoning into hotel and restaurant complex with residential premises. In our report we proceed from the assumption that such documents will be duly obtained.



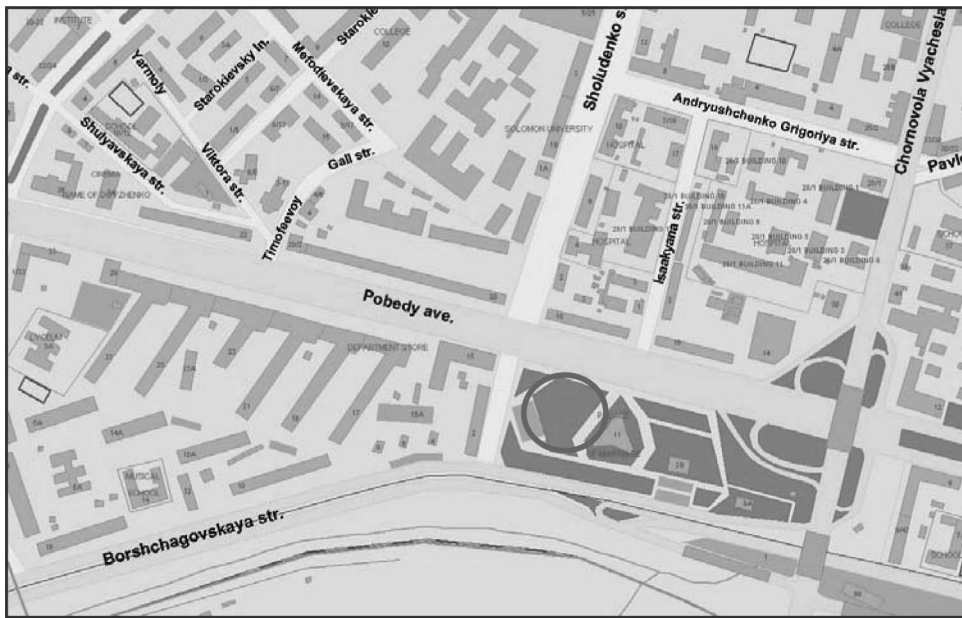
#### 9.4 ZAGS—SHOLUDENKA STREET, SHEVCHENKIVSKYI DISTRICT, KYIV

*Current Use:*

Vacant land plot.

*Location:*

Situated along Peremogy Avenue, which is one of the city-forming routes, between University and KPI metro stations in mid-zone of the city. The distance to University metro station is about 2 km and to KPI station is approximately 0.8 km. The distance to the center (Maidan Nezalezhnosti) is about 4 km. The main city Civil Registry Office is located nearby. McDonald's café and gas station are also in close proximity. The immediate area is mainly represented by high-rise residential buildings. Also there is a building of the Ministry of Transport nearby which currently is one of the highest buildings in Kyiv. The area is considered a promising location for developing a business center since it is only several kilometers away from the center of Kyiv.



*Plot Size:*

0.74 ha.

Below are the photographs of the subject land plot as of the valuation date:



*The panoramic view of the subject site*





*The view from Sholudenka Street*



*Peremogy Avenue near the subject property*

*Permitted Use:*

Construction of non-residential building (officially called a public center).

*Future Project Details:*

We understand that the plan is to construct a mixed-use center with a total area of 215,368 sqm, including office premises (116,944 sqm—rentable), retail space (2,353 sqm—rentable), a fitness center (1,389 sqm—rentable), a conference hall (982 sqm), a bank (508 sqm—rentable), restaurants and cafes (2,818 sqm—rentable) and 935 underground parking lots which however will not be sufficient for a project of such scale.

*Land Title:*

The land plot is owned by Vysokyi Status LLC which is a subsidiary of the Client Company. Also the land plot is a subject to a three year lease by another Client Company's subsidiary commencing from April 2nd, 2007 to June 1st, 2010. In our valuation we assume that the lease term will be extended upon lease expiry on the same terms and conditions as the original lease.

## 9.5 ZAZIMYE—ZAZIMYE VILLAGE, KYIV REGION

*Current Use:*

Vacant land plot.

*Location:*

Subject land plot is located in the south-western part of Zazimye village which is situated in the Brovary district of Kyiv region. The distance to the Kyiv border is approximately 2 km and to nearest residential block where public infrastructure objects and transport stops are located, is about 4 km. The site is surrounded by lands of Pogreby village council. The Desna River is close to the land plot and that results in partial swamping of the territory.



*Plot Size:*

110 ha.

Please find below the pictures of the subject site as of the valuation date:



*The subject site*



*The subject site*



*The subject site*



*The road to the subject site*

*Permitted Use:*

51,9393 ha—for private farming, 27,0589 ha—for private agricultural use.

*Future Project Proposals:*

The Client Company’s plan is to develop a residential complex with retail premises with a total area of 787,950 square meters together with objects of social infrastructure, such as schools, kindergartens, entertainment and shopping complex, café and restaurant, sport complex, hospital and polyclinic, fire station, church, stadium and summer movie theatre. Basic parameters are the following:

Total Build Area Residential, sqm . . . . .	782,570
Residential Net Area, sqm . . . . .	626,056
Total Retail Area, sqm . . . . .	2,690
Total Technical Area, sqm . . . . .	2,700
Number of Apartments . . . . .	9,153
Average Apartment Area, sqm . . . . .	85.5

*Land title:*

Currently Zanet CJSC owns 78,9982 ha out of projected 110 ha with following zoning: 51,9393 ha—for private farming, 27,0589 ha—for private agricultural use. The rest of the land plot (zoned for private agricultural use and farm-market agriculture) is planned to be transferred into ownership by February 2008. In this valuation report we proceed from the assumption that all property rights and necessary permissions regarding rezoning, building license will be duly obtained.

## 9.6 ZHITOMIR HIGHWAY—ZHITOMIR HIGHWAY, MAKAROV DISTRICT, KYIV REGION

### *Current Use:*

Vacant land plot

### *Location:*

The subject land plot is situated on Zhitomir highway about 40 km from the center of Kyiv. Subject site has a frontage along Zhitomir highway. The proposed development will feature great visibility and transport accessibility.

### *Plot Size:*

56.7 ha.

Please find below the pictures of the land plot under valuation:



*Zhitomir highway near the subject site*



*The panoramic view of the subject site*

### *Permitted Use:*

24.5 ha—for construction and utilization of film studio

32.2 ha—for construction and utilization of residential buildings, utility structures, objects of public use

*Future Project Proposals:*

We are advised that the intention is to construct a 594,317 square meters complex, comprising retail space, above- and underground parking, a hotel and entertainment facilities:

Underground parking . . . . .	84,000 sqm
Parking . . . . .	168,000 sqm
Retail premises . . . . .	307,317 sqm
Hotel . . . . .	18,000 sqm
Entertainment . . . . .	17,000 sqm
<b>Total . . . . .</b>	<b><u>594,317 sqm</u></b>

*Land Title:*

The Client Company possesses full land title (freehold) according to the State land title acts for 8 land plots:

State Property Act for 24.51 ha land plot issued on December 29th, 2006;

State Property Act for 0.5671 ha land plot issued on June 26th, 2007;

State Property Act for 0.4249 ha land plot issued on June 26th, 2007;

State Property Act for 11.56 ha land plot issued on August 29th, 2007;

State Property Act for 4.7453 ha land plot issued on August 29th, 2007;

State Property Act for 3.3467 ha land plot issued on August 29th, 2007;

State Property Act for 4.9414 ha land plot issued on August 29th, 2007;

State Property Act for 6.6178 ha land plot issued on August 29th, 2007.

However, to start the construction the rezoning should be made and building license should be received. In this valuation report we proceed from the assumption that all necessary permissions regarding rezoning and building license will be duly obtained.



## 9.7 DIPLOMAT-PARK—60 SHEVCHENKA STREET, GALYTSKYI DISTRICT, L'VIV

### *Current Use:*

The territory of former glass plant with obsolete buildings on it. Currently is getting prepared for future construction.

### *Location:*

The property is located in the quarter between Shevchenko and Zolota streets in close proximity to the central area of the city. Shevchenko Street is one of the city-forming routes connecting the densely populated north-western part of L'viv with the center. The distance to the main street Svobody Avenue is about 1 km. The immediate surrounding is represented by old low-rise (3-floors) and more up-to-date middle-rise (up to 9 floors) residential buildings, usually of poor quality. Opposite the subject site there is a military unit which in future may be resettled to another location. Another military unit is nearby. There are no big retail schemes in direct proximity to the site. However, XXI Century (one of the biggest Ukrainian developers) announced its plans to build Quadrat shopping center of approximately 65,000 GBA in 2009 not far from the land plot under consideration.



### *Plot Size:*

7.7 ha

Please find below the pictures of the site



*The subject site*



*The subject site*



*Shevchenka Avenue*



*The subject site*

*Permitted Use:*

Construction of residential quarter with infrastructure objects.

*Future Project Proposals:*

We understand that it is planned to construct a residential complex with social infrastructure and underground parking on the subject site. The items and precise parameters of public infrastructure are not determined on the valuation date. According to the verbal information received from the Client Company, social infrastructure will include a school, a kindergarten, a movie theatre and landscape design. The total area of the complex is planned to be approximately 242,000 square meters, including residential area, office and retail space and underground parking. The income generating areas are split in the following way:

	<u>GBA</u>	<u>For sale</u>
Residential, sqm . . . . .	188,533	135,891
Offices, sqm . . . . .	6,352	5,778
Retail, sqm . . . . .	6,787	6,787
Underground parking, sqm/lots . . . . .	40,952	1,457

The complex will offer Business class apartments.

*Land Title:*

No title documents as of the valuation date, but there is Resolution # 1126 on allocation of the land plots issued by L'viv city administration on September 20th, 2007. A land lease agreement is to be executed by the end of October 2007 (in the course of composing this report the Client Company received the lease agreements of two land plots (5.9 ha + 1.8 ha), subject to a 10-year lease commencing from 24th October 2007 and expiring on 20th September 2017. Zoning—construction of residential district with public infrastructure).

However, Client Company is the owner of the real estate (the buildings of the former factory) located on the subject land plot. The assumption is made that all legal issues as to the land title will be properly settled in the near future and will not affect the schedule of development.

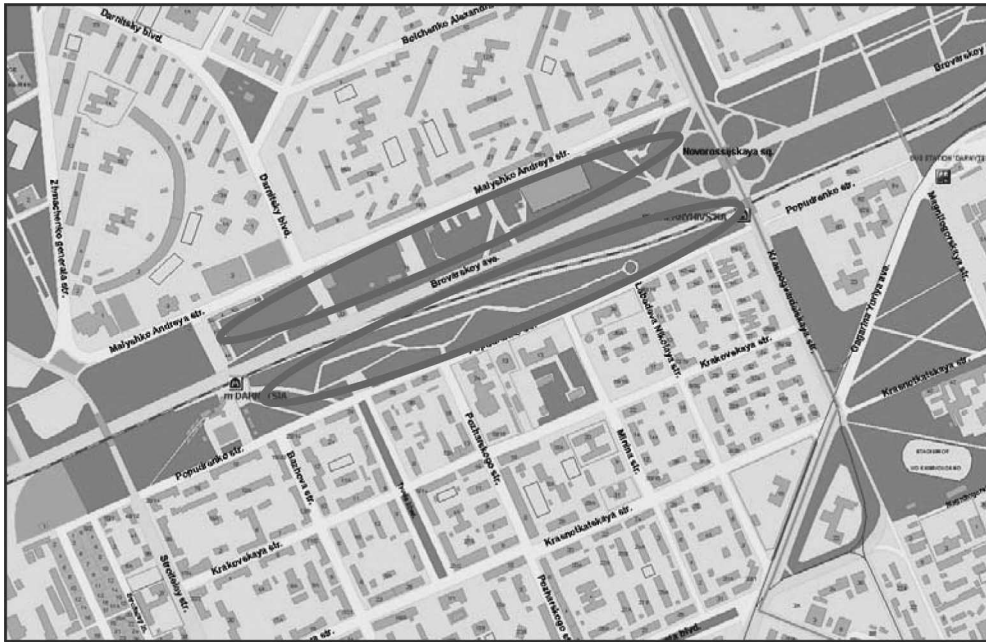
## 9.8 METRO CITY—BROVARSKYI AVENUE, FROM DARNYTSYA TO CHERNIGIVSKA METRO STATIONS, DNIPROVSKYI DISTRICT, KYIV

*Current Use:*

Vacant land plot.

*Location:*

The property will be situated on the Left Bank of Kyiv and will enjoy a great location between two metro stations with heavy passenger flows. The subject property consists of land plots located on both sides of Brovarsky Avenue from Darnytsya to Chernigivska metro stations. The avenue is one of the main city routes connecting the densely populated left bank of Kyiv with the right bank. This route also serves as an exit from Kyiv and a link to Brovary town, most of the residents of which work in Kyiv. The immediate surroundings of the property are represented by residential districts Sotsmisto and Komsomolskyi. Komod shopping center is about 1 km away.



*Plot Size:*

21.16 ha

Below are the pictures of the subject property:



*The subject site, view from Brovarsky Avenue*



*The subject site, view from Brovarsky Avenue*



*The subject site, part between Brovarsky Avenue and Malyshka Street*



*The subject site, view from Popudrenko Street*

*Permitted Use:*

Construction of shopping, office and entertainment facilities.

*Future Project Proposals:*

We understand that the intention is to construct a mixed-use complex comprising of retail, office and hotel components. Basic parameters will be as follows (according to the Client Company):

Land Area, sqm . . . . .	211,600
GBA, sqm . . . . .	635,268
Useable Area, sqm . . . . .	550,591
Underground Parking Area, sqm . . . . .	127,006
Ground Parking Area, sqm . . . . .	124,451
Retail Gross Area, sqm . . . . .	227,169
Retail Net Area, sqm . . . . .	164,165
Offices Gross Area, sqm . . . . .	144,490
Offices Net Area, sqm . . . . .	122,817
Hotel Net Area, sqm . . . . .	12,152
Number of Shopping Center Parking Spaces . . . . .	6,158
Number of Rentable Parking Spaces . . . . .	2,000
Number of Rooms in the Hotel . . . . .	200

*Land Title:*

Currently no title documents (in the course of composing this report the Client Company received the Investment Agreement on building a metro covering between Darnytsya and Chernigivska metro stations and construction of shopping, office and entertainment facilities, signed by Project Company Yarus LLC, Kyiv Metro public utility company and Head Department of Economics and Investments of Kyiv State Administration on 31st October 2007).

However, Project Company Yarus LLC which is a subsidiary to KDD Group N.V. has won a tender on building a metro covering between Darnytsya and Chernigivska metro stations and construction of shopping, office and entertainment facilities, confirmed by the Order #1116 issued by Kyiv State Administration dated 28th August 2007. According to the Client Company, a lease agreement is expected to be executed by the end of year 2007.

The valuation is based upon the assumption that land title will be obtained by the Client Company in the short-term.



## 10. VALUATION

### 10.1 METHODOLOGY

Traditionally, there are three accepted methods of valuing real property:

- Cost Approach;
- Direct Comparison Approach; and
- Income Approach

The selection of a relevant methodology depends upon the nature and characteristics of the real estate under consideration.

The Cost Approach to value is not typically used by market participants in valuing properties such as the ones under consideration and has not been used for valuation purposes, mainly because of its inability to value certain important characteristics such as location, tenant mix, property concept, etc.

The Direct Comparison Approach (or market approach) is based upon direct comparison of the subject property with other comparable properties, which have been recently sold or are currently offered for sale. The sales comparison approach to value is based on the principle of substitution, which affirms that a prudent purchaser will not pay more for a property than the price of an equally desirable substitute property under similar conditions. This approach provides a reliable indication of value particularly in an active market, given a reasonable availability of market data comparable to the subject property. However, the Ukrainian market of real estate is underdeveloped (especially in case of such large-scale properties as the ones under valuation) and tangled. Its characteristic features, such as immaturity of the land market (mainly due to the intricate legislation and moratorium on sale of farming land), inconsistent range of prices which directly comes from the previous, poor transparency and lack of comparable sales transactions as many deals are done beyond the open market, give low credibility to the Direct Comparison Approach. Moreover, our opinion is that the usage of this approach will be incorrect and may mislead us in our estimations giving inadequate results.

The income approach is based on the premise that a correlation exists between the income a property produces and its value. The income approach attempts to pattern the thinking of an investor, the most likely purchaser of an income producing property. Within the income approach two methods are widely used to determine value based on income: Direct Capitalization Method and Discounted Cash Flow Method. Direct capitalization is a process of converting a one-year Net Operating Income (NOI) into a market value of the property. This method can be used for properties with stable NOI in the developed markets. The properties expected to generate an uneven cash flow and on developing markets require a discounted cash flow analysis.

We consider the Income Approach to be the most appropriate method of valuation in the given circumstances. Under the Income Approach the Discounted Cash Flow Method has been applied in order to understand how the costs and revenues associated with the subject properties will be distributed in time.

There are several steps that have to be followed in order to determine the market value of the subject properties according to the chosen method:

1. Estimation of the development costs, with all their components:

- Hard costs;
- Soft costs;
- Financing costs;

Hard costs include demolition costs (if applicable), construction costs, engineering works and landscaping. Besides hard costs, developing a real estate project involves a series of additional costs (soft costs) consisting of:

- Design fees, which vary depending on the size and type of the project. These costs occur in the first year of construction;
- City share payment. These costs occur according to the agreement with a City administration and may vary in different cases usually between 1-20% of hard costs. We have included actual city share payment into our calculations if provided by the Client Company, in other cases we accepted the average figures existing on the market;



- Brokerage fees and sale expenses. First are percentage of a property's NOI and occur during the initial leasing process. Sale expenses are percentage of reversion value and occur upon sale of a property. In case of residential properties sale expenses were not considered since typically in Ukraine these costs are paid by customers;
- Marketing fees. These costs are percentage of hard costs and occur during construction period;
- Contingency: represent additional, unforeseen costs that might appear during the development period. These costs are percentage of total costs;
- Other costs represent the costs which do not refer to any of above items.

In this valuation report we proceed from the assumption that all valued properties are financed with own funds, therefore financing costs are not considered. The costs which developer had incurred prior to the valuation date are not considered as well.

2. Estimation of the annual revenues from sales (for residential properties, from the start of construction to 1st quarter after commissioning);
3. Estimation of NOI (for commercial properties). For this, first we have defined the types of properties' leasable areas, their respective sizes and their potential achievable market rental rates and calculated annual rent income. To calculate NOI the annual rent income is multiplied by occupancy rate.
4. Estimation of sales reversion (for commercial properties) at the end of the holding period (our opinion is that the sale of investment properties upon commissioning gives the highest value for a developer) with the help of reversion rate (or terminal capitalization rate). Reversion rate used to convert income into an indication of the anticipated value of the property at the end of the holding period or property resale value. In case of mixed-use properties the reversion rate was determined for each of the components.
5. Estimation of the present value of the development costs and revenues. In other words, with the help of discount rate we have estimated the present value of the future cash flows of the project. The discount rate represents the cost of money in the local economy, also taking into consideration the risk attributed to investments in this particular real estate segment. In selecting a proper discount rate we add the following risks to a risk-free rate (credit rate of reliable Ukrainian banks): risks associated with investment into real estate, liquidity loss comparing to cash and overall political risks of the country. The following risks associated with real estate investments are added to the discount rate taken at 10% (considering the stages of the particular property development): the properties on the mid or final stage of construction +2% premium; the properties on the initial construction stage +2%; the properties having construction license or which passed City Planning Council +2%, and the properties with no title/with title problems and which require rezoning +2% (this is taking into account the strong reasons to anticipate the obtaining of such documents by the Client Company).

Based on the above, we classified the subject properties as follows:

- Projects without title documents (Diplomat-Park<sup>(1)</sup>, Metro City<sup>(2)</sup>); projects with partial title documents (Zazimye) and projects with title documents but without proper zoning (Zhitomir Highway, Kureni)—18% discount rate due to the additional title and rezoning risks;
- Projects with construction license (PecherSKY) and projects which passed City Planning Council (WTC Kyiv)—16% discount rate.

An exception was made only for ZAGS. Although this project has a construction license, it received an 18% discount rate due to the somewhat higher risks associated with this investment: a) possible complications with the construction—it is the first project of such scale and height, with 42 levels above ground and 8 levels underground; and b) there is a drawback of the project's concept—insufficient number of parking lots, which might influence property's attractiveness in the long-term competitive environment.

The present value calculated according to the above scheme is the market value of the properties being appraised, using the income approach/discounted cash flow method.

(1) In the course of composing this report the Client Company received the lease agreements of two land plots (5.9 ha + 1.8 ha), subject to a 10-year lease commencing from 24th October 2007 and expiring on 20th September 2017. Zoning ● construction of residential district with public infrastructure.

(2) In the course of composing this report the Client Company received the Investment Agreement on building a metro covering between Darnytsya and Chernigivska metro stations and construction of shopping, office and entertainment facilities, signed by Project Company Yarus LLC, Kyiv Metro public utility company and Head Department of Economics and Investments of Kyiv State Administration on 31st October 2007.

## 11. OPINION OF MARKET VALUE

### RESULTS OF VALUATION

Based on all the information at our disposal including assumptions pertaining to current market factors and conditions, in our opinion the Aggregate Market Value of each subject property referred to as The Stated Investment Assets of the Client Company referred to in this Valuation Report is the total sum of:

**US\$908,200,000**

**(NINE HUNDRED EIGHT MILLION, TWO HUNDRED THOUSAND DOLLARS)**

The given value is determined on the valuation date. The valuation figure stated above represents our opinion of the aggregate of the current value attributable to each individual property and should not be regarded as a valuation of the portfolio as a whole in the context of a single transaction.

As a result, the description of each of the projects and the accompanying valuations reflect our reasonable expectations of the property value based on projected use as well as the amount a developer is likely to pay for the property in its current state.

The value can be distributed as follows (values are rounded to the nearest hundred thousand):

<b>Zhitomir Highway</b> .....	\$ 51,000,000
<b>WTC Kyiv</b> .....	\$ 226,600,000
<b>PecherSKY</b> .....	\$ 70,900,000
<b>ZAGS</b> .....	\$ 226,700,000
<b>Kureni</b> .....	\$ 36,700,000
<b>Diplomat-Park</b> .....	\$ 50,600,000
<b>Zazimye</b> .....	\$ 82,400,000
<b>Metro City</b> .....	\$ 163,300,000

We have reviewed copies of the lease agreements and ownership titles for 5 of these properties, only partial title documents were presented to us for the Zazimye project and we have not seen title documents on the Metro City<sup>(1)</sup> and Diplomat-Park<sup>(2)</sup> projects. We submit that the Value of all properties is based upon the Client Company's project conceptions. It is always possible that construction on any or all of these projects may never take place due to, among others, the following reasons: change of political, juridical or economic situation, or by the decision of the Client Company.

### SPECIAL ASSUMPTIONS, RESERVATIONS AND DEPARTURES

Colliers can confirm that no valuation has been made on the basis of any Special Assumptions or Departures from the Practice Statements contained in the IVS or EVS. The Valuation is not subject to any specific reservations in respect of any restrictions on the information provided or in the case of denied or limited access for the purposes of property inspection.

**Stanislav Ivanov**

**Paul Blackman, M.R.I.C.S.**

### NOTE ABOUT THE VALUERS

Stanislav Ivanov, a senior valuer at Colliers International is certified by generally accepted standards of European valuers certification in accordance with EN 45 013 TEGoVA, The European Group of Valuers' Association.

Paul Blackman, a Regional Director at Colliers International is a Member of the Royal Institution of Chartered Surveyors.

(1) In the course of composing this report the Client Company received the Investment Agreement on building a metro covering between Darnytsya and Chernigivska metro stations and construction of shopping, office and entertainment facilities, signed by Project Company Yarus LLC, Kyiv Metro public utility company and Head Department of Economics and Investments of Kyiv State Administration on 31st October 2007.

(2) In the course of composing this report the Client Company received the lease agreements of two land plots (5.9 ha + 1.8 ha), subject to a 10-year lease commencing from 24th October 2007 and expiring on 20th September 2017. Zoning ● construction of residential district with public infrastructure.

## APPENDIX 1. GLOBAL ASSUMPTIONS

1. All valued projects are classified as investment properties. They were valued considering systematic risks typical to the construction and real estate market. We didn't consider special risks that have subjective nature and can possibly modify the raw data. Client Company's actual implementation of the projects is not considered.
2. Each property was valued as a separate Investment Entity. We did not consider any benefits, grants or discounts concerning the management of the Client Company's whole projects' portfolio.
3. The estimate of the value of the subject properties is effective only on the dates of valuation.
4. Calculations are carried out on the assumption that all the valued properties are financed with own funds.
5. In terms of end use, valued projects are classified as follows:
  - office center—2 projects
  - residential complex with infrastructure—3 projects
  - mixed-use—2 projects
  - hotel and restaurant complex with residential premises—1 project

Sale of majority of residential premises on the stage of construction is typical for Ukrainian market. Therefore the revenues of the residential complex projects are receipts for sale of apartments, non-residential premises and parking lots. Commercial properties are sold/leased on the stage of a property commissioning or after the property's operation.

6. In our calculations we have not assumed growth of prices and rental rates. Instead they are taken as forecasted figures as of the year of each project's commissioning for commercial properties. For residential properties prices are taken assuming the mid of construction stage. Development costs are also taken with consideration of future growth.
7. We did not examine the site in order to determine the condition of the ground nor did we undertake environmental, archaeological, or geo-technical surveys. Our valuation assumes that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.
8. We did not execute legal examination of the documents provided by the Client Company, including documents of title. Any inexactitudes, discrepancies, lack of convergence are not considered.
9. We proceeded from the assumption that all the documents concerning allotment of land plots for development of valued projects and construction permits either exist or will be obtained before the beginning of construction.
10. Technical and economic characteristics and terms of construction of the subject properties are determined according to information provided by the Client Company which we have carefully studied. We proceeded from the assumption that these figures will not be subject to change in the process of projects implementation.
11. Construction costs were accepted according to Client Company's data. We executed a critical analysis of data in correspondence with the market prices. In case of divergences market figures were considered.
12. We have diligently analyzed the projects of the Client Company and came to the conclusion that use of land plots, determined by the company is the most effective i.e. physically possible, legally allowable, financially feasible and results in the maximum market value.
13. Cash flows before income tax were used for calculations.
14. The value expressed herein is in USA dollars net of VAT.
15. The VAT rate has been taken at the current rate of 20%. Other taxation systems for various types of subjects of commercial activity exist as well. Company pays the land tax, property tax does not exist on the date of valuation. Land payments are not significant; however we included them in the cash flow. In case if information regarding land payments was not received, such expenses are included in "other expenses" in DCF model.

## APPENDIX 2. BASIC ASSUMPTIONS

All costs, sale prices and rental rates stated in the tables below are given net of VAT.

- **PECHERSKY, 2 Sergiya Strutynskogo Street, Kyiv**

Apartments sale, per sqm . . . . .	\$5,000
Parking sale, per lot . . . . .	\$42,000
Non-Residential Premises sale, per sqm . . . . .	\$5,500
Construction duration . . . . .	Q1 2008 – Q4 2009
Total Estimated Construction Costs . . . . .	\$45,439,805
Discount Rate . . . . .	16%
Contingency . . . . .	5% of total costs
Other Expenses . . . . .	2% of hard costs
Marketing . . . . .	1.5% of hard costs
City Share (according to the Client Company) . . . . .	19% of hard costs

- **KURENI, 4 Parkova Doroga Street, Kyiv**

Apartments sale, per sqm . . . . .	\$15 000
Sale price per parking lot . . . . .	\$70 000

**HOTEL**

Number of Rooms in the Hotel . . . . .	70
Average Payment for Room per Night . . . . .	\$500
Occupancy . . . . .	65%
Level of Profitability . . . . .	30%
Hotel Infrastructure Income . . . . .	30%
Construction duration . . . . .	Q1 2008 – Q4 2009
Total Estimated Construction Costs . . . . .	\$30,593,553
Discount Rate . . . . .	18%
Hotel Reversion Rate . . . . .	10%
Contingency . . . . .	5% of total costs
Other Expenses . . . . .	2% of hard costs
Marketing . . . . .	1% of hard costs
City Share . . . . .	10% of hard costs

In case of hotels valuation the terms “level of profitability” and “hotel infrastructure income” were used. Level of profitability is a break even point, which means that occupancy below this point results in hotel operation at a loss; on contrary, if occupancy rate is exceeding a level of profitability, it means that hotel is income-generating. Level of profitability is expressed in percentage and according to Colliers experience equals 30%.

As usual, suites are not the only source of generating income when speaking about hotels. Apart from them, a hotel receives income from its infrastructure, such as restaurants, SPA centers, beauty salons and other services provided. According to our experience, hotel infrastructure income comprises 30% on average in the total structure of hotel income in high class hotels.

● **DIPLOMAT-PARK, 60 Shevchenka Street, L'viv**

Apartments sale, per sqm . . . . .	\$2,000
Parking sale, per lot . . . . .	\$25,000
Offices sale, per sqm . . . . .	\$2,500
Retail premises sale, per sqm . . . . .	\$3,000
Construction duration . . . . .	Q3 2008 – Q4 2011
Total Estimated Construction Costs . . . . .	\$236,794,813
Discount Rate . . . . .	18%
Contingency . . . . .	5% of total costs
Marketing . . . . .	1% of hard costs
Infrastructure Construction Costs . . . . .	5% of hard costs
City Share . . . . .	10% of hard costs

● **WTC KYIV, Polzunova Street, Kyiv**

	Average rental rate, \$/sqm per month
Offices . . . . .	\$60
Car Dealership . . . . .	\$40
Retail . . . . .	\$70
Fitness . . . . .	\$35

	Average rental rate, \$/Lot per month
Underground Parking . . . . .	\$300
Open Air Parking . . . . .	\$150
Construction duration . . . . .	Q4 2007 – Q2 2010
Total Estimated Construction Costs . . . . .	\$227,516,373
Discount Rate . . . . .	16%
Reversion Rate . . . . .	8%
Occupancy . . . . .	90%
Brokerage Fee . . . . .	8% of NOI
Contingency . . . . .	5% of total costs
Sale Expenses . . . . .	2% of reversion value
Marketing . . . . .	1% of hard costs
Other Expenses . . . . .	2% of hard costs
City Share (according to the Client Company) . . . . .	6% of hard costs

● **ZAGS, Sholudenka Street, Kyiv**

	Average Rental Rate, \$/sqm per Month
Offices and Bank . . . . .	\$50
Conference Hall . . . . .	\$0
Retail . . . . .	\$60
Restaurants . . . . .	\$50
Fitness . . . . .	\$35



	<u>Average rental rate, \$/Lot per Month</u>
Underground Parking .....	\$300
Construction duration .....	Q1 2008 – Q3 2010
Total Estimated Construction Costs .....	\$312,447,584
Discount Rate .....	18%
Reversion Rate .....	8%
Occupancy .....	90%
Brokerage Fee .....	8% of NOI
Contingency .....	10% of total costs
Sale Expenses .....	2% of reversion value
Marketing .....	1% of hard costs
Other Expenses .....	2% of hard costs
City Share (according to the Client Company) .....	7% of hard costs

● **ZAZIMYE, Zazimye village, Kyiv region**

Apartments sale, per sqm .....	\$1,500
Non-residential premises sale, per sqm .....	\$2,500
Saleable infrastructure, sale per sqm .....	\$2,500
Construction duration .....	Q2 2008 – Q1 2012
Total Estimated Construction Costs .....	\$758,346,196
Discount Rate .....	18%
Contingency .....	5% of total costs
Alluviation, Soil Consolidation .....	10% of hard costs
Infrastructure Construction Costs .....	4% of total costs
City Share .....	5% of hard costs

● **ZHITOMIR HIGHWAY, Zhitomir highway, Makarov district, Kyiv region**

Average rental rate for retail, \$/sqm per month .....	\$20
Average rental rate for entertainment, \$/sqm per month .....	\$10
Average Payment for Hotel Room .....	\$100
Construction duration .....	Q2 2008 – Q4 2010
Total Estimated Construction Costs .....	\$448,803,099
Discount Rate .....	18%
Reversion Rate for Retail & Entertainment .....	7.5%
Reversion Rate for Hotel .....	11%
Brokerage Fee .....	8% of NOI
Contingency .....	5% of total costs
Sale Expenses .....	1% of reversion value
Marketing .....	1.5% of hard costs
Other Expenses .....	2% of hard costs
City Share (according to the Client Company) .....	0.02% of total costs

● **METRO CITY, between Darnytsya and Chernigivska metro stations**

	<u>Average Rental Rate, \$/sqm per month net VAT</u>
Retail .....	\$35
Offices .....	\$25

	Average Rental Rate, \$/Lot per Month net VAT
Underground for Offices .....	\$200
<b>HOTEL</b>	
Number of Rooms in the Hotel .....	200
Average Payment for Room per Night .....	\$125
Occupancy .....	65%
Level of Profitability .....	30%
Construction duration .....	Q3 2008 – Q2 2011
Total Estimated Construction Costs .....	\$785,355,256
Discount Rate .....	18%
Reversion Rate for Retail and Offices .....	8%
Reversion Rate for Hotel .....	11%
Brokerage Fee .....	8% of NOI
Sale Expenses .....	2% of reversion value
Contingency .....	5% of total costs
Marketing .....	1% of hard costs
Other Expenses .....	1% of hard costs
City Share .....	7% of hard costs

**APPENDIX 3. MARKET REPORTS**

*(intentionally omitted)*

#### APPENDIX 4. CONTINGENT AND LIMITING CONDITIONS

1. This report has been prepared at the request of **KDD Group N.V.** for the purpose stated in the main body of the certificate for providing an estimate of the open market value of the subject properties for the reasons as stated. It is not reasonable for any person other than the person or those to whom this report is addressed to rely upon this appraisal without first obtaining written authorization from the author of this report. The valuers are liable only to KDD Group N.V. for this report.
2. This report has been prepared at the request of **KDD Group N.V.** and for their exclusive (and confidential) use of, the recipient as named herein and for the specific purpose and function as stated herein. All copyright is reserved to the author and this report is considered confidential by the author and Colliers. Possession of this report, or a copy thereof, does not carry with it the right of reproduction or publication in any manner, in whole or in part, nor may it be disclosed, quoted from or referred to in any manner, in whole or in part, without the prior written consent and approval of the author as to the purpose, form and content of any such disclosure, quotation or reference. Without limiting the generality of the foregoing, neither all nor any part of the contents of this report shall be disseminated or otherwise conveyed to the public in any manner whatsoever or through any media whatsoever or disclosed, quoted from or referred to in any report, financial statement, prospectus, or offering memorandum of the client, or in any documents filed with any governmental agency without the prior written consent and approval of the author as to the purpose, form and content of such dissemination, disclosure, quotation or reference. Special consent is given to use this report for the purpose of inclusion into an Admission Document in respect of the proposal to offer ordinary shares of the company on the Alternative Investment Market of the London Stock Exchange.
3. The concept of market value presumes reasonable exposure. The exposure period is the estimated length of time the asset being valued would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of valuation. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. The reasonable exposure period is a function not only of time and effort, but will depend on the type of asset being valued, the state of the market at the date of valuation and the level at which the asset is priced.
4. The estimate of value contained in this report is founded upon a thorough and diligent examination and analysis of information gathered and obtained from numerous sources. Certain information has been accepted at face value; especially if there was no reason to doubt its accuracy. Other empirical data required interpretative analysis pursuant to the objective of this appraisal. Certain inquiries were outside the scope of this mandate. For these reasons, the analyses, opinions and conclusions contained in this report are subject to the following Contingent and Limiting Conditions.
5. The properties have been valued on the basis that title to the real estate herein valued is good and marketable.
6. The author of this report cannot accept responsibility for legal matters, questions of survey, opinions of title, hidden or unapparent conditions of the properties, toxic wastes or contaminated materials, soil or sub-soil conditions, environmental, engineering or other technical matters, which might render this property more or less valuable than as stated herein. If it came to our attention as the result of our investigation and analysis that certain problems may exist, a cautionary note has been entered in the body of the report.
7. The properties have been valued on the basis that the real estate is free and clear of all value influencing encumbrances, encroachments, restrictions or covenants except as may be noted in this report and that there are no pledges, charges, liens or special assessments outstanding against the properties other than as stated and described herein.
8. The properties have been valued on the basis that there are no outstanding liabilities except those expressly noted in Appendix 2 herein, pursuant to any agreement with a municipal or other government authority, pursuant to any contract or agreement pertaining to the ownership and operation of the real estate or pursuant to any lease or agreement to lease, which may affect the stated value or saleability of the subject properties or any portion thereof.
9. The interpretation of the leases and other contractual agreements, pertaining to the operation and ownership of the properties, as expressed herein, is solely the opinion of the author and should not be construed as a legal interpretation.

10. The properties have been valued on the basis that the real estate complies in all material respects with any restrictive covenants affecting the site, in all material respects, in full compliance with all requirements of law, including all zoning, land use classification, building, planning, fire and health by-laws, rules, regulations, orders and codes of all federal, provincial, regional and municipal governmental authorities having jurisdiction with respect thereto except of expressly noted in section 9 of this report.
11. No inquiries have been placed with the fire department, the building inspector, the health department or any other government regulatory agency, unless such investigations are expressly represented to have been made in this report. The subject properties must comply with such regulations and, if they do not comply, such non-compliance may affect the market value of these properties. To be certain of such compliance, further investigations may be necessary.
12. The properties have been valued on the basis that there is no action, suit, proceeding or investigation pending or threatened against the real estate or affecting the titular owners of the properties, at law or in equity or before or by any federal, provincial or municipal department, commission, board, bureau, agency or instrumentality which may adversely influence the value of the real estate herein valued.
13. The author of this report does not take responsibility for the accuracy of the information submitted by the client. The data and statistical information contained herein were gathered from reliable sources and are believed to be correct. However, these data are not guaranteed for accuracy, even though every attempt has been made to verify the authenticity of this information as much as possible.
14. The estimated market value does not include consideration of any extraordinary financing, rental or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary market value of the properties, unless the effects of such special conditions, and the extent of any special value that may arise there from, have been described and measured in this report.
15. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without notice or warning, the estimate of market value expressed herein, as of the effective date of this appraisal, cannot necessarily be relied upon as of any other date without subsequent advice from the author of this report.



### **PART XIII: FINANCIAL INFORMATION ON THE COMPANY AND THE GROUP**

The Directors are required to prepare the financial information in a form consistent with that adopted in the Company's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the International Financial Reporting Standards ("IFRS"), the financial information is required to give a true and fair view of the state of affairs of the Company for that period. In preparing that financial information the Directors are required to:

- (a) select suitable accounting policies and apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent; and
- (c) prepare the financial information on the going concern basis unless it is not appropriate to presume that the Company will continue in business.

The historical financial information for the Company and its subsidiaries is as set out below.

**Section A(i)** comprises the financial information on the Company from incorporation on 24 October 2007 to 31 October 2007. The Company has not traded between incorporation and 31 October 2007, and the subsidiaries of the Company were acquired after 31 October 2007. Accordingly consolidated financial information is not available, and combined financial information has been prepared for the Group as set out in Section B.

**Section A(ii)** sets out a report on that combined financial information from Baker Tilly Corporate Finance LLP, the Reporting Accountants, required by Paragraph 20.1 of Annex I of the Prospectus Rules as if those rules applied to this document and is given for the purpose of complying with that paragraph and for no other purpose.

**Section B(i)** comprises the combined financial information of the Group for the year ended 31 December 2006, and the six months ended 30 June 2006 and 2007. Although the entities existed for periods prior to that ending 31 December 2006, derogation has been sought and granted from the requirement to include three years of audited financial information on the grounds that the principal assets that form the current principal activity of the Group were only acquired towards the end of 2005 and early 2006, and a number of entities included business activities that have been discontinued and so are not relevant to the current activities of the Group.

**Section B(ii)** comprises a report on that combined financial information from Baker Tilly Corporate Finance LLP, the Reporting Accountants, required by Paragraph 20.1 of Annex I of the Prospectus Rules as if those rules applied to this document and is given for the purpose of complying with that paragraph and for no other purpose.

**SECTION A(i)—FINANCIAL INFORMATION ON THE COMPANY FOR  
THE PERIOD ENDED 31 OCTOBER 2007**

**BALANCE SHEET**

	<u>Notes</u>	<u>As at 31 October 2007</u> US\$
<b>Current assets</b>		
Cash and cash equivalents . . . . .	2	<u>65,114</u>
<b>Capital and reserves</b>		
Share capital . . . . .	3	<u>65,114</u>

**INCOME STATEMENT**

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss, and has neither declared nor paid dividends or made any other distributions between the date of incorporation on 24 October and 31 October 2007. Accordingly, no income statement information is presented.

**STATEMENT OF CHANGES IN EQUITY**

	<u>Share capital</u> US\$
Balance at 24 October 2007 . . . . .	—
Share issue . . . . .	<u>65,114</u>
<b>Balance at 31 October 2007 . . . . .</b>	<u>65,114</u>

**CASH FLOW STATEMENT**

	<u>From incorporation to 31 October 2007</u> US\$
<b>Financing</b>	
Proceeds of share issue . . . . .	<u>65,114</u>
Net cash inflow from financing . . . . .	<u>65,114</u>
Increase in cash in period . . . . .	<u>65,114</u>
<b>Reconciliation of net cash flow to movement in net funds</b>	
Increase in cash in period . . . . .	<u>65,114</u>
	<u>65,114</u>
Opening net cash and cash equivalents . . . . .	—
Closing net cash and cash equivalents . . . . .	<u>65,114</u>

The notes on pages 119 to 120 form part of this financial information.

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting policies

The principal accounting policies, which have been consistently applied in the Company's consolidated financial information throughout the period under review, are as follows:

#### *Basis of accounting*

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

#### *Functional and presentational currency*

On incorporation, the Company's functional currency was the Euro. The presentational currency is the US dollar. The exchange rate between the Euro and the US dollar at 31 October 2007 was 1 US\$:0.6911 Euro ([www.bloomberg.com](http://www.bloomberg.com)).

#### *Adoption of new or revised standards and interpretations*

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. There is no current intention to early adopt this standard.

#### *Other new standards or interpretations*

The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).
- IAS 23 Revised, Borrowing Costs. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.
- IAS 1 (revised 2007), Presentation of Financial Statements The revised standard is effective for annual periods beginning on or after 1 January 2009.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's results or financial position.

## 2. Cash and cash equivalents

These are represented by bank balances comprising cash and short-term deposits held by the Company.

## 3. Share capital

	As at 31 October 2006
Authorised	
4,500,000 ordinary shares of €0.01 each . . . . .	65,114
Issued and fully paid	
4,500,000 ordinary shares of €0.01 each . . . . .	65,114

The Company was incorporated with an authorised share capital of €45,000 represented by 4,500,000 ordinary shares of €0.01 each, all of which were issued, fully paid to the subscriber for cash.

## 4. Post balance sheet events

A share issue for cash contribution and non-cash contribution was approved on 16 November 2007. The Company issued 125,500,000 ordinary shares of €0.01 each. A participatory interest representing 64.19% in the charter capital of the Vysokyi Status LLC, a company incorporated in Ukraine, in amount of €323,160 was contributed to the Company. As a result of the share issue the Company received cash in amount €976,840.

On 19 November 2007 the Company acquired further shares of Vysokyi Status LLC for €405,372 (amount is not paid in) to bring its aggregate holding in that company to 99.999%, by way of acquisition of participatory interest in charter capital.

On 22 November 2007 the Company acquired KDD Group LLC, an intermediate holding company incorporated in Ukraine on 15 August 2007, for €206,456 (amount is not paid in). Statutory fund of KDD Group LLC in amount €206,456 has been fully paid by cash.

On 22 November 2007 the Company acquired 99% of interests in the share capital of Patriacom LLC for €4,395 (amount is not paid in); 99.999% interests in the share capital of Modern Technologies of Construction LLC for €13,505,165 (amount is not paid in); 50% interests in the share capital of Centre of Public Catering and Service "Lisova" LLC for 2,808 Euro (amount is not paid in).

On 23 November 2007 the Company acquired 99% of interests in the share capital of Integra-Holding LLC for €1,853 (amount is not paid in).

As a result of the reorganisation of the Group in preparation for the Offer, the Company incurred US\$21.0 million in additional short term liabilities, representing deferred payment obligations in respect of shares of Group companies purchased from third parties in connection with such reorganisation. The Company is currently seeking to extend the payment date of these liabilities.

Agency Of Office Construction LLC is 100% owned by Vysokyi Status LLC. Erial LLC is a subsidiary company of Modern Technologies of Construction LLC.

The fair values of the assets and liabilities have not been assessed for the purposes of this financial information, as it has not been practicable to do so in the time available.

**SECTION A(ii)—ACCOUNTANTS' REPORT ON THE FINANCIAL INFORMATION  
OF THE COMPANY**

The following is the full text of a report on KDD Group N.V. from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of the Company.



KDD Group N.V.  
Prins Bernhardplein 200  
1097 JB  
Amsterdam  
The Netherlands

13 December 2007

Dear Sirs

**KDD Group N.V. (“the Company”)**

We report on the historical financial information set out in Section A(i). This financial information has been prepared for inclusion in the Admission Document dated 13 December 2007 (“Admission Document”) of the Company on the basis of the accounting policies set out in paragraph 1.

This report is required by paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the Historical Financial Information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view of the group, for the purposes of the Admission Document, and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.



**Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at the dates stated and of its income statement, balance sheet, cash flows and changes in equity as of and for the periods then ended in accordance with the basis of preparation set out in note 1.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdictions other than the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those other standards and practices.

**Declaration**

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

**Baker Tilly Corporate Finance LLP**

Regulated by the Institute of Chartered Accountants in England and Wales.

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street, London WC1B 3ST.

**SECTION B(i)—FINANCIAL INFORMATION ON THE GROUP FOR THE YEAR ENDED  
31 DECEMBER 2006 AND THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 2007**

*COMBINED INCOME STATEMENT*

	Note	For the period ended 30 June 2007	For the period ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
<b>Continuing operations</b>				
Sales . . . . .	5	38	180	334
Cost of sales . . . . .	6	(24)	(161)	(303)
<b>Net rental and related income</b> . . . . .		<u>14</u>	<u>19</u>	<u>31</u>
<b>Increase in fair value of investment property</b> . . . . .	14	—	—	222,394
Administrative expenses . . . . .	7	(585)	(378)	(711)
Other income . . . . .	8	113	178	514
Other expenses . . . . .	9	(309)	(38)	(167)
<b>Other operating income/(expenses), net</b> . . . . .		<u>(196)</u>	<u>140</u>	<u>347</u>
<b>Net operating profit before net financing costs</b> . . . . .		<u>(767)</u>	<u>(219)</u>	<u>222,061</u>
Finance income . . . . .	10	363	58	198
Finance expenses . . . . .	10	(310)	(541)	(1,094)
<b>Net finance income/(expenses)</b> . . . . .		<u>53</u>	<u>(483)</u>	<u>(896)</u>
<b>Profit/(loss) before income tax</b> . . . . .		<u>(714)</u>	<u>(702)</u>	<u>221,165</u>
Income tax expense . . . . .	13	(6)	(37)	(55,672)
<b>Net profit for the period</b> . . . . .		<u>(720)</u>	<u>(739)</u>	<u>165,493</u>

The notes on pages 128 to 170 form part of this financial information.

COMBINED BALANCE SHEET

	Note	As at 30 June 2007	As at 30 June 2006 (US\$'000s)	As at 31 December 2006
<b>Assets</b>				
<b>Non-current assets</b>				
Investment property . . . . .	14	473,972	282,505	521,700
Advances to constructors . . . . .		1,970	440	842
Prepayments for land plots . . . . .	15	12,379	6,306	11,443
Property, plant and equipment . . . . .	16	1,865	1,563	1,828
Intangible assets . . . . .	17	2	—	—
Deferred tax assets . . . . .	18	173	199	169
<b>Total non-current assets</b> . . . . .		<u>490,361</u>	<u>291,013</u>	<u>535,982</u>
<b>Current assets</b>				
Available for sale financial assets . . . . .	19	962	1,849	963
Financial assets held for trading . . . . .	20	6,344	256	5,096
Trade receivables and prepayments . . . . .	21	838	236	239
Income tax receivable . . . . .		2	2	2
Inventories . . . . .	22	55,017	51	4
Other accounts receivable . . . . .	23	9,766	12,846	12,934
Cash and cash equivalents . . . . .	24	340	270	1,776
<b>Total current assets</b> . . . . .		<u>73,269</u>	<u>15,510</u>	<u>21,014</u>
<b>Total assets</b> . . . . .		<u>563,630</u>	<u>306,523</u>	<u>556,996</u>
<b>Equity</b>				
Share capital . . . . .	25	42,164	12,933	44,541
Revaluation reserve . . . . .		364,637	197,841	364,637
Retained earnings . . . . .		(4,415)	(3,130)	(3,695)
<b>Total equity</b> . . . . .		<u>402,386</u>	<u>207,644</u>	<u>405,483</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Loans and borrowings . . . . .	26	1,233	1,454	880
Finance lease liabilities . . . . .	27	594	596	595
Deferred tax liabilities . . . . .	18	121,565	65,950	121,555
Other long-term liabilities . . . . .	28	11,510	—	3,484
<b>Total non-current liabilities</b> . . . . .		<u>134,902</u>	<u>68,000</u>	<u>126,514</u>
<b>Current liabilities</b>				
Loans and borrowings . . . . .	29	9,407	19,884	12,495
Finance lease liabilities . . . . .	27	13	12	12
Trade and other payables . . . . .	30	11,072	10,983	10,201
Deferred Income . . . . .		5,850	—	2,291
<b>Total current liabilities</b> . . . . .		<u>26,342</u>	<u>30,879</u>	<u>24,999</u>
<b>Total liabilities</b> . . . . .		<u>161,244</u>	<u>98,879</u>	<u>151,513</u>
<b>Total equity and liabilities</b> . . . . .		<u>563,630</u>	<u>306,523</u>	<u>556,996</u>

The notes on pages 128 to 170 form part of this financial information.

COMBINED STATEMENT OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Revaluation reserve</u>	<u>Total</u>
	(US\$'000s)			
<b>Balance as at 1 January 2006</b> . . . . .	9,561	(2,392)	197,841	205,010
Issue of Share capital . . . . .	3,372	—	—	3,372
Net (loss) for the period, being total recognised income and expense for the period . . . . .	—	(739)	—	(739)
<b>Balance as at 30 June 2006</b> . . . . .	<u>12,933</u>	<u>(3,131)</u>	<u>197,841</u>	<u>207,644</u>
<b>Balance as at 1 January 2006</b> . . . . .	9,561	(2,392)	197,841	205,010
Issue of Share capital . . . . .	34,980	—	—	34,980
Net profit for the period, being total recognised income and expense for the period . . . . .	—	165,493	—	165,493
Transfer of unrealised surplus on revaluation of investment property . . . . .	—	(166,796)	166,796	—
<b>Balance as at 31 December 2006</b> . . . . .	<u>44,541</u>	<u>(3,695)</u>	<u>364,637</u>	<u>405,483</u>
Elimination of share capital connected with acquisition of subsidiaries . . . . .	(2,378)	—	—	(2,378)
Net (loss) for the period, being total recognised income and expense for the period . . . . .	—	(720)	—	(720)
<b>Balance as at 30 June 2007</b> . . . . .	<u><u>42,164</u></u>	<u><u>(4,415)</u></u>	<u><u>364,637</u></u>	<u><u>402,386</u></u>

The notes on pages 128 to 170 form part of this financial information.

COMBINED CASH FLOW STATEMENT

Notes	For the period ended 30 June 2007	For the period ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
<b>Cash flows from operating activities</b>			
Net (loss)/profit before taxation	(714)	(702)	221,165
<b>Adjusted for:</b>			
Depreciation of non-current assets	28	9	33
Loss/(income) from exchange differences	5	—	(9)
Interest income	(268)	(8)	(35)
Interest expense	497	457	945
Income from discounting	(363)	—	—
Increase in fair value of investment property	—	—	(222,394)
Provisions for impairment of trade receivables	249	15	117
Income from repayment of doubtful debts	(9)	(177)	(320)
Profit from sale of investment property	—	—	(190)
Profit from sale of property plant and equipment	(16)	—	—
Profit from sale of available for sale financial assets	—	—	(79)
Profit from sale of financial assets held for trading	—	(54)	(105)
Finance lease interest expenses	64	64	140
Other income	—	(5)	(4)
<b>Operating profit/(loss) before working capital changes</b>	<u>(527)</u>	<u>(401)</u>	<u>(736)</u>
(Increase)/decrease in inventories	(39)	(46)	1
(Increase)/decrease in trade receivables and prepayments	(644)	140	72
(Decrease) in finance lease liabilities	(1)	(33)	(34)
(Decrease)/increase in other accounts receivable	650	(2,502)	(1,739)
Increase in trade and other payables	1,524	7,241	6,076
<b>Cash generated from operations</b>	<u>963</u>	<u>4,399</u>	<u>3,640</u>
Interest paid	(498)	(531)	(1,020)
Income taxes paid	—	—	—
<b>Net cash provided by operating activities</b>	<u>465</u>	<u>3,868</u>	<u>2,620</u>
<b>Cash flows from investing activities</b>			
Acquisition of property plant and equipment	(89)	(1,135)	(1,425)
Acquisition of intangible assets	(2)	—	—
Development of investment property	(9,121)	(8,349)	(33,952)
Proceeds from sale of available for sale financial assets	—	—	1,208
Purchase of financial assets held for trading	(19,816)	(15,637)	(42,223)
Proceeds from sale of financial assets held for trading	18,384	17,004	38,801
Proceeds from sale of other financial assets	—	2,386	2,387
Proceeds from sale of investment property	—	—	3,129
Proceeds from sale of property plant and equipment	41	—	—
<b>Net cash used in investing activities</b>	<u>(10,605)</u>	<u>(5,731)</u>	<u>(32,075)</u>

The notes on pages 128 to 170 form part of this financial information.



COMBINED CASH FLOW STATEMENT (continued)

Notes	For the period ended 30 June 2007	For the period ended 30 June 2006 (US\$'000s)	For the period ended 31 December 2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bank loans . . . . .	357	3,419	—
Repayment of bank loans . . . . .	(1,779)	—	(3,209)
Repayment of non-bank loans . . . . .	(1,312)	(2,642)	(3,979)
Increase in notes issued . . . . .	11,295	594	6,752
Increase in share capital . . . . .	143	689	31,594
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>8,704</u>	<u>2,060</u>	<u>31,158</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>	<u>(1,436)</u>	<u>197</u>	<u>1,703</u>
<b>Cash and cash equivalents at the beginning of the period/year . . . . .</b>	<u>1,776</u>	<u>73</u>	<u>73</u>
<b>Cash and cash equivalents at the end of the period/year . . . . .</b>	<u><u>340</u></u>	<u><u>270</u></u>	<u><u>1,776</u></u>

The notes on pages 128 to 170 form part of this financial information.

## NOTES TO THE COMBINED FINANCIAL INFORMATION

### 1. Background

#### (a) Operating Group and principal activities

For the purposes of these special purpose combined financial statements the term the “Operating group” (or the “Group”) has been taken to indicate the companies listed in note 3. All of these companies are under the control of the same beneficial owner (KDD Group N.V., which is not included in these special purpose combined financial statements) and have effectively operated as an operating group under common management although they did not comprise a statutory operating group as they had not been linked by a common parent.

The Group is one of the leading real estate investment and development operations in Ukraine with a diversified portfolio of real estate projects comprising residential complexes, commercial properties, retail centres and mixed-use projects. The Group currently has eight projects, with two of them being under construction and six—under development, in the capital region of Kyiv and in L’viv city, with a total planned gross area of around 2.7 million square metres. There are also three additional projects where the Group is trying to acquire land rights or control over a legal entity with land rights.

The Group’s current real estate activities comprise the following:

- **Residential complexes**—The Group is currently developing three residential projects: two in Kyiv and one in L’viv. The Group has begun construction of the PecherSKY building, a premium class residential complex with approximately 197 units located near the Druzhby Narodiv underground station. The construction is expected to be completed in the fourth quarter of 2009. The Group is also currently planning its Diplomat-Park development on a site located in the historic district of L’viv city near its central park which is designed to include approximately 1,576 premium-quality apartments. Construction of Diplomat-Park is due to start in April 2008 and is scheduled to be completed by the fourth quarter of 2011. In addition to its premium residential projects, the Group is planning its Zazimye residential complex, to be targeted at wide range of buyers looking for small-size apartments, a segment that the Company believes is currently underserved. The site for the Zazimye development is located in the Brovarskiy region, 4.5 km away of the city’s edge.
- **Hotel/residential**—The Group owns Kureni restaurant located in Kyiv’s historic city centre near the Dnipro River. According to the approved plan, the Group will construct a 70-room luxury boutique five-star hotel and 6 premium quality apartments.
- **Offices**—The Group has two office projects in Kyiv. It has recently begun construction of the World Trade Centre—a 158,900 square metre Class A business park in front of the new entrance to the railway station. The project is expected to be completed by the fourth quarter of 2010. The Company is also planning the development of 215,400 square metre Class A ZAGS office centre on Sholudenko street. Construction of the centre is scheduled to commence in the first quarter of 2008 with expected completion in the third quarter of 2010.
- **Retail centres**—The Company believes that the retail and entertainment sectors are particularly underdeveloped in Ukraine. To meet this demand the Group is planning to construct a 594,000 square metre retail and entertainment centre on the Zhitomir highway, approximately 40 kilometres from Kyiv’s centre. It is intended to be a unique project, which will contain a large retail space, an aqua park, a business centre and a hotel. The project is expected to be completed in the first quarter of 2011. In addition the Group strengthened its retail project portfolio with Metro City project which will include a large retail and office area on Kyiv’s left bank between two underground stations. The project is scheduled for completion in the second quarter of 2011.

In addition, the Group plans to acquire land plots for further developments in cities with over a million inhabitants for replication of a smaller version of Zhitomir Highway, Diplomat-Park and WTC projects.

#### (b) Ukrainian business environment

The main activities of the Group are concentrated in Ukraine, a country which continues to display characteristics of an emerging market.

The prospects for future economic stability in Ukraine are largely dependent upon the effectiveness of the economic measures and reforms undertaken by the government, together with legal, regulatory and political developments, which are beyond the control of the Group,

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state. Concurrently with this transformation, Ukraine is progressively changing to a market economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms.

Emerging economies such as Ukraine's are subject to rapid change and the information set out in these special purpose combined financial statements may become outdated relatively quickly.

Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene. The various State authorities, and the relations with them, as well as the Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Whereas the Ukrainian economy has improved in a number of areas since 1999, there has historically been no clear consensus between the President and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current reform policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will continue to improve.

Ukrainian tax laws have not been in force for significant periods of time, compared to more developed market economies, often resulting in unclear or nonexistent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments. Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict.

The land underlying most of the Group's properties is acquired or leased from City of Kyiv authorities. A number of the Group's land leases have relatively short terms. Under Ukrainian law, a lessee has a pre-emptive right to extend its lease upon expiry provided it has fulfilled all obligations under the lease. However, Ukrainian courts have held that the pre-emptive right will not apply if the lessor decides not to continue leasing the land. Accordingly, if the City of Kyiv decides in the future to stop leasing the properties underlying the Group developments, then the Group may lose its right to use these properties upon the expiration of the current lease.

Companies of the Group enter into contracts of participation in investments with third parties with the purpose of financing of property construction. According to these contracts companies finance construction of property conducted by third parties in order to transfer these assets upon completion of construction to companies within the Group. In connection with the introduction of amendments into the Ukrainian legislation in previous years, there exists a risk of these contracts of participation in investments will be invalid, in such case Parties should return to each other everything received conducted under these contracts.

The Group strategy contemplates significant capital expenditure for future property developments and the Group intends to rely on third-party sources of capital, primarily investments by strategic investors. Such sources of capital may or may not be available on favourable terms or at all. The Group's access to third-party sources of capital depends on a number of things, including the market's perception of our growth potential and current and potential future earnings. If the Group is not able to obtain third-party sources of capital on favourable terms, the Group's business, financial condition and results of operations could be adversely affected.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These special purpose combined financial statements are prepared by combining the historical financial information for each of the companies that comprise the Operating Group from the accounting records of those companies. The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations

issued by the International Accounting Standards Board, except for the principles of combination specified in note 3 to the special purpose combined financial statements.

All companies comprising the Group maintain their accounting records in accordance with Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as management considers necessary in order to comply with IFRS.

**(b) Basis of measurement**

The combined financial statements are prepared on the historical cost basis except for the following:

- investment properties are measured at fair value;
- long-term notes issued are measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs.

**(c) Foreign currency translation**

**(i) Functional and presentation currency**

All items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The national currency of Ukraine, Ukrainian Hryvnia (“UAH”) is the functional currency for all the Group’s entities.

These combined financial statements are presented in the United States Dollars (“US\$”), unless otherwise indicated.

**(ii) Foreign currency transactions and balances**

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates are recognised in the combined income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to functional currencies at the foreign exchange rate ruling at the date of the transaction giving rise to these assets and liabilities.

The principal UAH exchange rates used in the preparation of the combined financial statements are as follows:

Currency	30 June 2007	1 January 2007	30 June 2006	1 January 2006
US\$ . . . . .	5.05	5.05	5.05	5.05
Euro . . . . .	6.80	6.65	6.33	5.97

At the date of these combined financial statements, the exchange rate is UAH 5.05 to US\$ 1.00.

Foreign currency can be readily converted within Ukraine at a rate close to the rate of National Bank of Ukraine. At present, the UAH is not a freely convertible currency outside of Ukraine.

The results and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arise from the translation of the net investment in each entity, and of borrowings. When an entity is disposed of via sale, liquidation, repayment of share capital or

abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to the combined income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of an entity are treated as assets and liabilities of an entity and translated at the closing rate.

**(d) Use of estimates**

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of contingent assets and liabilities to prepare these combined financial statements in conformity with IFRSs. Actual results could differ from those estimates.

The assumptions and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in note 4.

**(e) Adoption of IFRS**

IFRS 1 “First-time Adoption of International Financial Reporting Standards” sets out the rules for adopting IFRS. It requires that the IFRS accounting policies to be applied for the first statutory accounts for the six months ended 30 June 2006 and the twelve month period ended 31 December 2006 are determined and then applied retrospectively to the opening balance sheet at 1 January 2006. IFRS contains certain optional exemptions to assist in the transition to IFRS. The Group elected to use certain of these exemptions.

Although these combined financial statements under IFRS are based on management’s best knowledge of applicable standards and interpretations, and current facts and circumstances, this may change. For example, amended or additional standards or Interpretations may be issued by The International Accounting Standards Board (IASB). Therefore, until Company prepares its first full IFRS financial statements and establishes its transition date as defined by IFRS 1, the possibility cannot be excluded that the accompanying preliminary IFRS financial information may have to be adjusted.

No reconciliations to financial statements prepared under Ukrainian GAAP for the purposes of the financial information in the Admission Document have been included in this financial information on the grounds that the Ukrainian GAAP financial statements have not previously been published.

No prior period comparative figures are presented in the accompanying combined financial information for the six months ended 30 June 2006 and the twelve month period ended 31 December 2006.

Earnings per share is not presented as there is no meaningful basis of measurement on combined invested capital.

**(f) Going concern**

These combined financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of Group’s assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. Management believes that Group has reliable access to sources of financing capable to support appropriate operating activity of Group entities. The combined financial statements do not include any adjustments should the Group be unable to continue as a going concern.

**(g) Adoption of new or revised standards and interpretations**

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial

Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. There is no current intention to early adopt this standard.

#### *Other new standards or interpretations*

The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).
- IAS 23 Revised, Borrowing Costs. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.
- IAS 1 (revised 2007), Presentation of Financial Statements The revised standard is effective for annual periods beginning on or after 1 January 2009.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's results or financial position.

### **3. Principles of combination and consolidation**

This special purpose combined financial information includes the results of the companies set out in the table below. As described in note 1 the Group is comprised of a number of companies under common management and ultimate ownership but not linked by a formal ownership structure or a single common parent. The special purpose combined financial information has been prepared in order to present the combined results and balances that would have been shown had the Group been under the control of a single common parent. This has been achieved by adding together equity (including share capital), assets, liabilities, revenues and expenses of the companies under common control.

The combination of companies under common ownership but not linked by a formal ownership structure has been based on the pooling of interests method. In applying the method, financial statement items for each group company are combined as if they had been combined from the earliest period. The result being a combination of all group companies' share capital and reserves in addition to all assets and liabilities. All intra-Operating Group transactions and balances are eliminated on combination. Business combinations of entities under common control are outside the scope of IFRS 3.

Where group companies are formally owned by another group company, they have been consolidated to the highest possible level using the acquisition method, in which share capital of the entity is eliminated against the investment recorded in the parent. Given the Operating Group companies have been owned



from the date of their formation and consideration issued for the investment equalled share capital, goodwill does not arise on acquisition other than incidentally. Necessary disclosures for all companies that have been acquired or incorporated by the Group companies during reporting periods are specified in note 32.

The results and balances of the following entities have been combined:

<u>Entity of the Group</u>	<u>Project</u>	<u>Country of incorporation</u>	<u>Method of combination</u>
Agency of Office Construction LLC	ZAGS	Ukraine	pooling of interest method as at 31 December 2005, 30 June 2006, 31 December 2006, acquisition method as at 30 June 2007
Erial LLC	Zhitomir highway	Ukraine	acquisition method—the company has been incorporated by Modern Technologies of Construction LLC
Integra-Holding LLC	PecherSKY	Ukraine	pooling of interest method
Vysokyi Status LLC	ZAGS	Ukraine	pooling of interest method
Kureni Subsidiary Company	Kyreni	Ukraine	pooling of interest method
Modern Technologies of Construction LLC	Zhitomir highway	Ukraine	pooling of interest method
Patriacom LLC	Diplomat-Park	Ukraine	pooling of interest method
Project Company Yarus LLC		Ukraine	pooling of interest method
Solomyanka LLC	WTC	Ukraine	pooling of interest method
Zanet Firm CJSC	Zazimye	Ukraine	pooling of interest method

#### (a) Subsidiaries

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are included in the combined financial statements from the date that control effectively commences (acquisition date) until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. Necessary disclosures for all companies that have been acquired or incorporated by the Group companies during reporting periods are specified in note 32.

#### (b) Transactions eliminated on consolidation and combination

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. All Group entities use uniform accounting policies consistent with the Group's policies.

### 4. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the combined financial statements. The accounting policies have been consistently applied.

#### (a) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies of the Group, is classified as investment property.

Investment property principally comprises freehold land, leasehold land and investment properties held for future development.

Investment property includes land held under operating lease when the rest of the above definition is met. In such cases the operating lease is accounted for as if it were a finance lease in accordance with IAS 40.

**(i) Initial measurement and recognition**

Investment property is measured initially at its cost, including related transaction costs. Investment properties are derecognised either when the intended use of properties is changed so that it no longer meets the definition of investment property, or they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the combined income statement in the period of retirement or disposal.

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

**(ii) Subsequent measurement**

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair value of investment property are included in the combined income statement in the period in which they arise. The valuations are prepared by considering the aggregate of the estimated net annual rents receivable from the properties and where relevant, associated costs, a yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness, the allocation of maintenance and insurance responsibilities between lessor and lessee, and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Where the Group uses only part of a property it owns and retains the remainder to generate rental income or capital appreciation the extent of the Group utilisation is considered to determine the classification of the property. If the Group's utilisation is less than five per cent this is regarded as immaterial such that the whole property is classified as an investment property and stated at fair value. If the Group uses more than five per cent of the space, the whole property is classified as property, plant and equipment and recorded at cost less accumulated depreciation and impairment losses.

When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at the date of its transfer to investment property and its previous carrying amount is recognised in the income statement.

**(b) Investment property under development**

Property that is being constructed or developed for future use as investment property is classified as investment property under development (development projects) and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

Investment property under development is accounted for in accordance with IAS 16 "Property, plant and equipment".

The cost of investment property under development comprise the cost of leasing the land and the development costs of the building, which includes raw materials, direct labour cost, and other indirect costs of construction.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditures for the development qualifying as acquisition costs and are capitalised.

For a transfer from investment property to investment property under development, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

**(c) Fair value model**

The fair values reflect market conditions at the balance sheet date. These valuations are reviewed periodically by Colliers International Ukraine LLC, registered independent appraiser. Valuations have been prepared in accordance with the relevant professional guidelines and statements issued under the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual (the “Red Book”).

To determine the fair value of investment property, management obtained appraisals from an independent and professionally qualified appraiser. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

*Basis of valuation*

The fair values as at 1 January 2006 and 31 December 2006 reflect market conditions at these dates, and have been determined by Colliers International Ukraine LLC. The fair values as at 30 June 2006 and 30 June 2007 reflect market conditions at these dates, and have been determined by management of the Group.

*Assumptions and Sources of Information*

In the course of valuation the following specific assumptions were used by Colliers International Ukraine LLC:

- Properties have been valued considering system risks typical to the construction and real estate market. Special risks that have subjective nature and can possibly modify the raw data have not been considered.
- Each property has been valued as a separate object of investment property. All administrative works concerning properties management and development for abating prime cost and tax burden were not considered.
- The estimate of the value of the properties is effective only as at the dates of valuation.
- Calculations are carried out on the assumption that all the valued properties are financed with own funds.
- The sale of majority of residential premises at the stage of construction is typical for the Ukrainian market. Therefore the revenues of the residential complex projects are receipts for sale of apartments, non-residential premises and parking lots. Commercial properties are sold/leased on the stage of a property commissioning or after the property’s operation.
- In calculations appraisers have not assumed growth of prices and rental rates. Instead they are taken as forecasted figures as of the year of each project’s commissioning for commercial properties. For residential properties prices are taken assuming the mid of construction stage. Development costs are also taken with consideration of future growth.
- Appraisers did not examine the site in order to determine the condition of the ground nor did appraisers undertake environmental, archaeological, or geo-technical surveys. Valuations assume that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.
- Appraisers did not execute legal examination of the documents provided by the Group Companies, including documents of title.
- Appraisers base their opinion on the grounds that all required documentation will be received by the Group Companies within a normal acceptable timescale, and that there are no issues which would significantly delay the issuance of the required permission.
- Where a property is held for development and at the date of the valuation the items of the project are not finalised, the valuation takes into account any additional reasonable risks of delay

and costs in receiving the project. Appraisers assumed that there are no unforeseen circumstances that would cause additional cost or delay of those generally experienced.

- Appraisers proceeded from the assumption that all the documents concerning allotment of land plots for development of valued projects and construction permits either exist or will be obtained before the beginning of construction.
- Technical and economic characteristics and terms of construction of the subject properties are determined according to information provided by the Group Companies which we have carefully studied. Appraisers proceeded from the assumption that these figures will not be subject to change in the process of projects implementation.
- Construction costs were accepted according to Group Companies' data. Appraisers executed a critical analysis of data in correspondence with the market prices. In case of significant divergences, market figures were considered.
- Appraisers analysed the projects of the Group Company and came to the conclusion that use of land plots, determined by the company is the most effective i.e. physically possible, legally allowable, financially feasible and results in the maximum market value.
- Cash flows before income tax were used for calculations.
- The VAT rate has been taken at the current rate of 20%. Other taxation systems for various types of subjects of commercial activity exist as well. Company pays the land tax, property tax does not exist on the date of valuation. Land payments are not significant; however appraisers included them in the cash flow. In case if information regarding land payments was not received, such expenses are included in "other expenses" in Discounted Cash Flow Model.

#### *Valuation Approach*

The approach which was adopted in valuing properties is Income Approach. The Income Approach is considered to be the most appropriate method of valuation in the given circumstances. Under Income Approach the Discounted Cash Flow Method has been applied in order to understand how the costs and revenues will be distributed in time. In other words, with the help of discount rate appraisers have estimated the present value of the future cash flows of the project. The discount rate represents the cost of money in the local economy, taking also into consideration the risk attributed to investments in this particular real estate segment. In selecting a proper discount rate appraisers add following risks to a risk-free rate (the credit rate of Ukrainian banks): risks associated with investment into real estate considering the stages of property development, liquidity loss comparing to cash and overall political risks of the country.

Subject properties have been classified as follows:

- Projects with partial title documents (Zazimye)/with title documents but without proper zoning (Zhitomir Highway)—18% discount rate;
- Projects with construction license (PecherSKY)/projects which passed City Planning Council (WTC Kyiv)—16% discount rate.

The exception was made only for ZAGS. Despite having a construction license, this project received 18% discount rate due to the somewhat higher risks associated with this investment:

- (a) possible complications with the construction—it is the first project of such scale and height, with 42 levels above ground and 8 levels underground;
- (b) There is considerable drawback of the project's concept—insufficient number of parking lots, which might influence property's attractiveness in the long-term competition.

The above-mentioned discount rates were used in the valuation as at 30 September 2007 (see note 36). Appraisers employed higher discount rates for the earlier valuation dates due to higher risks and uncertainties of the projects development in those periods.

#### **(d) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written

off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure including repairs and maintenance expenditure, is recognised in the combined income statement as an expense as incurred.

**(e) Depreciation**

Depreciation is charged to the combined income statement using a depreciation method required for tax purposes according to the Ukrainian Law “On Corporation Tax”. While this method is inconsistent with IFRS management believes that its application does not have a material impact on the financial statements. The depreciation is charged on the carrying value of an item of property, plant and equipment by rates established by the Law for defined groups of assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. No depreciation is charged on investment property under development. The approximate estimated useful lives are as follows:

Buildings . . . . .	25 years
Machinery . . . . .	10 years
Vehicles . . . . .	5–7 years
Computers and office equipment . . . . .	2–5 years
Furniture and fittings . . . . .	3–5 years
Freehold land is not depreciated	

**(f) Intangible assets**

All of the Group’s intangible assets have definite lives and primarily include capitalised computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives, estimated at 3 years.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

**(g) Financial Instruments**

**(i) Classification**

The Group classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available for-sale financial assets, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every balance sheet date.

*Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in the held for trading category if acquired principally for the purpose of generating a profit from short-term fluctuations in price. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

*Held-to-maturity investments*

Investments with fixed or determinate payments and fixed maturity that management has the positive intent and ability to hold to maturity, other than loan and receivables originated by the Group, are classified as held-to-maturity investments. Such investments are included in non-current assets, except for maturities within twelve months from the balance sheet date, which are classified as current assets.

*Available-for-sale financial assets*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than

12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade and other receivables as well as advances to customers.

#### *Financial liability*

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

#### (ii) Initial recognition

Financial assets at fair value through profit and loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in the combined income statement for trading investments; and recognised in equity for assets classified as available-for-sale.

#### (iii) Subsequent measurement

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### (iv) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

#### (v) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs.

If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.



(vi) Originated loans

Loans originated by the Group are financial assets that are carried by the Group by providing funding to a borrower. Originated loans are carried at amortised cost, less any provision for impairment losses.

(vii) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 consolidated income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

(viii) Prepayments

Prepayments are stated at their amortised cost less impairment losses.

**(h) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

**(i) Impairment**

The carrying amounts of the Group's assets, other than investment property (see accounting policy 4 (a)) and deferred tax assets (see accounting policy 4 (o)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the combined income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis.

**(j) Value added tax**

VAT is levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine. VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

**(k) Share capital**

Share capital is classified as equity. The nominal values of share capital of the Group companies are presented in Note 25 Share Capital. As the Entities are registered as limited liability companies (except for Subsidiary Kureni and Zanet Firm CJSC), their authorised capital is not divided by shares with par values. The share capital is not freely traded and is not quoted on any stock exchanges.

**(l) Trade and other payables**

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest rate method.

**(m) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest rate method.

**(n) Leases**

Leases in terms of which the Group assumes substantially all the risks and rewards of the ownership are classified as finance lease. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the combined income statement on a straight-line basis over the period of the lease. The treatment of land held under operating lease classified and accounted for as investment property is specified in 4 (a).

**(o) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the combined income statement.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates (25% in 2007 and 2006 years) enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting, nor taxable profit and investments in subsidiaries.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

**(p) Revenue from operations**

Revenue from operations is recognised in the combined income statement when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably.

**(q) Revenue and expense recognition**

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Group. Revenues and expenses are recognised on an accruals basis.

**(r) Pension costs**

The Group contributed to the Ukrainian state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred. The contributions are included in staff costs. The Group has no other liabilities in respect of pensions or employee retirement benefits.

**(s) Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, net result from transactions with financial assets other than loans and receivables, foreign exchange gains and losses, and bank charges and commission and accrued finance lease expenses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is recognised in the combined income statement as it accrues, taking into account the effective yield on the asset. Interest expense is recognised in the combined income statement on an effective interest rate basis. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed,

#### **(t) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group operates in a single segment of property investment and development.

Unallocated income and costs represent corporate income and expenses. Segment assets consist primarily of investment property and prepayments for land plots. Segment liabilities comprise borrowings, finance lease liabilities and other liabilities.

#### **(u) Related party transactions**

For the purpose of this combined financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS24 “Related Party disclosures” and in considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

#### **(v) Financial risk factors**

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and tends to reflect potential adverse effects on the Group’s financial performance.

Risk management is carried out by the Internal Audit Department—an independent division governed by the Board of Directors, and operating under instructions of the latter. The Internal Audit Department comprises Head of the department and internal auditors. The Internal Audit Department specifies and evaluates financial risks in close co-operation with the Group’s operating units. The Department establishes broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

##### **(i) Market risk**

The companies of the Group face an exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However the use of this approach does not prevent losses outside of these limits in the event of more significant movements.

##### **(ii) Foreign exchange risk**

The activities of the Group take place in Ukraine. The Group has certain purchases from foreign suppliers; it also attracts borrowing funds in foreign currencies.

Therefore, the Group is exposed to foreign exchange risk, primarily with respect to the US dollar, UAH and EURO. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The table below summaries the Group's exposure to foreign currency risk as expressed in US dollars as at 30 June 2007.

As at 30 June 2007	(US\$'000s)			
	UAH	US\$	EURO	Total
Trade receivables and prepayments . . . . .	838	—	—	838
Other accounts receivable (excl. VAT) . . . . .	8,446	—	—	8,446
VAT receivable . . . . .	1,319	—	—	1,319
Cash and cash equivalents . . . . .	340	—	—	340
Trade and other payables . . . . .	9,700	—	1,373	11,073
Loan and bank borrowings . . . . .	8,370	2,263	7	10,640
Other long-term liabilities . . . . .	11,510	—	—	11,510

(iii) Price risk

The Group is exposed to property rentals and capitalisation yield risk.

As at 30 June 2007, if the rental price had changed by 5% or the capitalisation yield had increased/decreased by 1%, with all other variables held constant, the fair value of the projects would have been as follows:

(US\$000s) Project	Rental price		Capitalisation yield		Carrying value as at 30 June 2007
	-5%	5%	-1%	1%	
	ZAGS . . . . .	174,007	224,262	219,444	
Zhytomir highway . . . . .	29,585	38,486	38,105	29,966	34,035
WTC . . . . .	161,568	197,714	193,408	165,874	179,641
Zazimye . . . . .	52,142	70,180	70,754	51,568	61,161
	<u>417,302</u>	<u>530,642</u>	<u>521,711</u>	<u>426,233</u>	<u>473,972</u>

Provided that rental price of commercial property decrease/increase by 5%, that may lead to decrease/increase of carrying value of investment property at 30 June 2007 by 11.96% or US\$ 56,670,466.

The decrease/increase of capitalisation yield by 1% may result into increase/decrease of carrying value of investment property at 30 June 2007 by 10.07% or US\$ 47,739,056.

For residential projects, if the sales price had changed by 5% with all other variables held constant, the fair value of the projects at 30 June 2007 would have been as follows:

(US\$000s) Project	Sales price		Carrying value as at 30 June 2007
	-5%	5%	
	PecherSKY . . . . .	50,082	
	<u>50,082</u>	<u>59,85</u>	<u><b>54,973</b></u>

If the sales price of residential property decreased/increased by 5%, it may lead to a decrease/increase of carrying value of investment property at 30 June 2007 by 8.89% or US\$ 4,891,725

(iv) Cash flow and fair value interest rate risk

The companies of the Group take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group's interest rate risk arises from long-term and short term borrowings. Borrowings received at variable rates expose the Group to cash flow interest rate risk. Borrowings received at fixed rates expose the Group to fair value interest rate risk. During 2006 and six months to 30 June 2007, the Group's borrowings at fixed rate were denominated in US dollar and UAH.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. At 30 June 2007 the Group's borrowings were under fixed interest rates thus the sensitivity analysis is not relevant.

Trade and other payables are interest-free and have settlement dates within one year.

(v) Credit risk

Credit risk is managed on a Group basis. Credit risk stems from cash and cash equivalents, deposits with banks, as well as credit exposures to contractors, including outstanding receivables and committed transactions.

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. The extent of the credit exposure of the companies of the Group is represented by aggregate of amounts receivable reduced by the effects of any netting arrangements with counterparties.

(vi) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Group's liquidity position is monitored on a daily basis by the management and is reviewed quarterly by the Board of Directors. A summary table with maturity of financial assets and liabilities presented below is used by key management personnel to manage liquidity risks and is derived from managerial reports at entity level.

	30 June 2007	31 December 2006
	(US\$'000s)	
<b>Financial assets—current</b>		
Trade receivables—maturity within one year . . . . .	838	239
Other accounts receivable—maturity within one year . . . . .	9,766	12,934
Cash and cash equivalents—maturity within one year . . . . .	340	1,776
	<u>10,944</u>	<u>14,949</u>
<b>Financial liabilities—non current</b>		
Less than one year . . . . .	4	—
Between one and five years . . . . .	1,231	880
Later than five years . . . . .	2	—
	<u>1,237</u>	<u>880</u>
<b>Financial lease liabilities—non current</b>		
Between one and five years . . . . .	13	12
Later than five years . . . . .	581	583
	<u>594</u>	<u>595</u>
<b>Other financial liabilities—non current</b>		
Between one and five years . . . . .	11,510	3,484
Later than five years . . . . .	—	—
	<u>11,510</u>	<u>3,484</u>
<b>Financial liabilities—current</b>		
Trade and other payables—maturity within one year . . . . .	11,073	10,201
Loans and borrowings . . . . .	9,407	12,495
Finance lease liabilities—maturity within one year . . . . .	13	13
	<u>20,493</u>	<u>22,709</u>

(vii) Capital risk management

The objectives of the Group when managing capital are to support the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing as at 30 June 2007 and 31 December 2006 were as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
		(US\$'000s)	
Total borrowings (excluding promissory notes) . . . . .	10,640	21,338	13,375
Less: cash and cash equivalents . . . . .	(340)	(270)	(1,776)
<b>Net debt</b> . . . . .	<u>10,300</u>	<u>21,068</u>	<u>11,599</u>
Total equity . . . . .	<u>402,386</u>	<u>207,644</u>	<u>405,483</u>
Gearing . . . . .	2.56%	10.14%	2.86%

(viii) Fair value estimation

The fair value of financial instruments traded in active markets (such as available for sale financial assets and financial assets for trading) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

**5. Sales**

	<u>For the six months ended 30 June 2007</u>	<u>For the six months ended 30 June 2006</u>	<u>For the year ended 31 December 2006</u>
		(US\$'000s)	
Income from sale of goods . . . . .	38	180	334
	<u>38</u>	<u>180</u>	<u>334</u>

Income from sale of goods stemmed from sale of retail goods by Kureni.

**6. Cost of sales**

	<u>For the six months ended 30 June 2007</u>	<u>For the six months ended 30 June 2006</u>	<u>For the year ended 31 December 2006</u>
		(US\$'000s)	
Cost of goods sold . . . . .	(24)	(161)	(303)
	<u>(24)</u>	<u>(161)</u>	<u>(303)</u>



## 7. Administrative expenses

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Administrative expenses include:			
Payroll and payroll related taxes . . . . .	(152)	(47)	(118)
Rent . . . . .	(161)	(39)	(103)
Audit fees . . . . .	(50)	(50)	(100)
Depreciation . . . . .	(28)	(9)	(33)

## 8. Other income

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Gain on disposal of property plant and equipment . . . . .	16	—	—
Gain on disposal of investment property . . . . .	—	—	190
Gain from sublease of assets . . . . .	57	—	—
Gain from sale of other current assets . . . . .	6	—	—
Income from recovery of impaired debts . . . . .	9	178	321
Other income . . . . .	25	—	3
	<u>113</u>	<u>178</u>	<u>514</u>

## 9. Other expenses

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Provisions on impairment of trade receivables/other receivables . . . . .	(60)	(16)	(117)
Other expenses . . . . .	(249)	(22)	(50)
	<u>(309)</u>	<u>(38)</u>	<u>(167)</u>

## 10. Net finance income/costs

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Exchange gains . . . . .	—	—	10
Gain from sale of financial assets held for trading . . . . .	—	54	105
Gain from sale of available for sale financial assets . . . . .	—	—	79
Income from discounting of notes . . . . .	364	—	—
Other financial income . . . . .	—	4	4
<b>Finance income</b> . . . . .	<u>364</u>	<u>58</u>	<u>198</u>
Exchange losses . . . . .	(5)	—	—
Interest expense . . . . .	(230)	(448)	(910)
Bank charges . . . . .	(12)	(29)	(43)
Finance lease interest expense . . . . .	(64)	(64)	(141)
<b>Finance expenses</b> . . . . .	<u>(311)</u>	<u>(541)</u>	<u>(1,094)</u>
<b>Net finance income/(costs)</b> . . . . .	<u>53</u>	<u>(483)</u>	<u>(896)</u>

## 11. Depreciation and Amortisation Expenses

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Depreciation			
General and administrative . . . . .	(28)	(9)	(33)

## 12. Employee benefits and related compulsory contributions

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
Wages and salaries . . . . .	(112)	(35)	(86)
Compulsory pension and social security contributions . . . . .	(40)	(12)	(32)
	(152)	(47)	(118)
Director's fees . . . . .	(52)	17	(42)
Executive fees . . . . .	—	—	—
	(52)	17	(42)
	No.	No.	No.
The average number of employees . . . . .	82	35	49

## 13. Income tax expense

	For the six months ended 30 June 2007	For the six months ended 30 June 2006 (US\$'000s)	For the year ended 31 December 2006
<b>Income tax expense is as follows:</b>			
Current income tax . . . . .	—	—	—
Adjustment of prior years . . . . .	—	—	—
Deferred tax charge . . . . .	6	37	55,672
Total income tax expense in consolidated income statement . . .	6	37	55,672
<b>Income tax receivable as at beginning of period/year . . . . .</b>	(2)	(2)	(2)
Charge for the period/year . . . . .	—	—	—
Charge for prior years . . . . .	—	—	—
Amount paid . . . . .	—	—	—
As at end of period/year . . . . .	(2)	(2)	(2)
<b>Reconciliation of effective tax rate:</b>			
(Loss)/profit before tax . . . . .	(714)	(702)	221,165
Income tax at applicable tax rate at 25% . . . . .	(178)	(175)	55,291
Non-deductible expenses tax-exempt . . . . .	380	368	577
Tax-exempt income . . . . .	—	—	—
Income Effect of tax losses of prior years . . . . .	(196)	(156)	(196)
Income tax expenses . . . . .	6	37	55,672

#### 14. Investment property

Investment property comprises land parcels in preliminary preparation stage for future development of residential and commercial property as well as offices and hotels.

Investment property presented by companies of the Group is as follows:

<u>Entity</u>	<u>As at 1 January 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfer</u>	<u>Revaluation</u>	<u>As at 30 June 2006</u>
	(US\$'000s)					
Agency of Office						
Construction LLC . . . . .	129,300	3,007	—	—	—	132,307
Integra-Holding LLC . . . . .	36,600	143	—	—	—	36,743
Modern Technologies of						
Construction LLC . . . . .	—	44	—	9,369	—	9,413
Solomyanka LLC . . . . .	102,500	458	—	—	—	102,958
Zanet Firm CJSC . . . . .	—	1,084	—	—	—	1,084
	<u>268,400</u>	<u>4,736</u>	<u>—</u>	<u>9,369</u>	<u>—</u>	<u>282,505</u>

As at 30 June 2006 investment property with a book value of US\$ 10,498,138 is reflected under the cost model in the absence of valuation data as at 30 June 2006. Total amount of investment property reflected at historical cost comprises US\$ 9,413,696 in Modern Technologies of Construction LLC and US\$ 1,084,443 in Zanet Firm CJSC.

As at 1 January 2006 investment property of Integra-Holding LLC fair value of which amounts to US\$ 13,688,400 was pledged as collateral under the credit contract (see note 26). As at 30 June 2006 investment property of Integra-Holding LLC fair value of which amounts to US\$ 13,741,710 and investment property of Zanet Firm CJSC book value of which amounts to US\$ 85,020 are pledged as collateral under the credit contract (see note 26).

<u>Entity</u>	<u>As at 1 January 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfer</u>	<u>Revaluation</u>	<u>As at 31 December 2006</u>
	(US\$'000s)					
Agency of Office						
Construction LLC . . . . .	129,300	3,007	(130,360)	—	—	1,947
Integra-Holding LLC . . . . .	36,600	250	—	—	17,850	54,700
Vysokyi Status LLC . . . . .	—	142,232	—	—	54,721	196,953
Modern Technologies of						
Construction LLC . . . . .	—	220	—	9,369	23,711	33,300
Solomyanka LLC . . . . .	102,500	1,825	—	—	69,575	173,900
Zanet Firm CJSC . . . . .	—	4,362	—	—	56,538	60,900
	<u>268,400</u>	<u>151,896</u>	<u>(130,360)</u>	<u>9,369</u>	<u>222,395</u>	<u>521,700</u>

As at 31 December 2006 investment property of Integra-Holding LLC fair value of which amounts to US\$ 20,457,800 and investment property of Zanet Firm CJSC fair value of which amounts to US\$ 4,774,560 are pledged as collateral under the credit contract (see note 26).

<u>Entity</u>	<u>As at 1 January 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfer</u>	<u>Revaluation</u>	<u>As at 30 June 2007</u>
	(US\$'000s)					
Agency of Office						
Construction LLC . . . . .	1,947	233	—	—	—	2,180
Erial LLC . . . . .	—	5,252	—	13,071	—	18,323
Integra-Holding LLC . . . . .	54,700	—	—	(54,700)	—	—
Vysokyi Status LLC . . . . .	196,953	2	—	—	—	196,955
Modern Technologies of						
Construction LLC . . . . .	33,300	735	(5,252)	(13,071)	—	15,712
Solomyanka LLC . . . . .	173,900	5,741	—	—	—	179,641
Zanet Firm CJSC . . . . .	60,900	261	—	—	—	61,161
	<u>521,700</u>	<u>12,224</u>	<u>(5,252)</u>	<u>(54,700)</u>	<u>—</u>	<u>473,972</u>

The fair value of the property was determined by Colliers International Ukraine LLC, registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued as at 1 January 2006, 31 December 2006 and 30 September 2007. No revaluation of investment property has been performed as at 30 June 2006 and as at 30 June 2007. Management believes the carrying amounts of investment property as at 30 June 2006 and as at 30 June 2007 do not materially differ from the values had it been revalued at the above dates.

As at 1 January 2006 the historical cost of investment property of the company Agency of Office Construction LLC includes fair value of liabilities for lease of land plot equal to US\$ 33,035. This land plot has been received under contract for lease of land plot, area of which amounts to 0.74 hectares and which is located on Sholudenska Str, crossing of Peremogy Ave. and Borschagivska Str. Under the titles of ownership for land Agency of Office Construction LLC owns this land plot as at 30 June 2006. As at this reporting date historical cost of investment property of the company Agency of Office Construction LLC includes fair value of paid liabilities in relation to lease of land plot equal to US\$ 146 and also cost of land under contract of sale-acquisition amounting to US\$ 2,938,872 (see note 31).

When reflecting revaluation in the financial information management of the Group applies the prudence concept and considers that key events adding new qualities to projects are the basis for adding value to the project. According to management's opinion, in the first halves of years 2006 and 2007 there has been no substantial events regarding projects, and all such events took place in second halves of the relevant years.

Regarding ZAGS project as at 30 June 2006, ownership rights for land plot designated for the construction of property object belonged to Agency of Office Construction, when under management concept of this project's development the land plot should belong to Vysokyi Status LLC. The latter received documents for this land plot in November 2006. As at 30 June 2007 Kyiv City authorities has not approved of a concept for project stipulated by management of the Company yet. The approval has been received in November 2007, due to this fact project has received a new quality. Thus, management believes that conducting revaluation as at 30 June 2006 and 30 June 2007 is not reasonable.

Regarding PecherSKY project as at 30 June 2006, the project for the construction of property object stipulated by the concept of the Group's management has not been approved by the Kyiv City authorities yet. Thus, management believes that conducting revaluation as at 30 June 2006 is not reasonable.

Regarding WTC project as at 30 June 2006, the project for the construction of property object stipulated by the concept of the Group's management has not been approved by the Kyiv City authorities yet. The project stipulated by management of the Company at that date has been approved by the Kyiv City authorities in December 2006. In first half of 2007 management accepted slight amendments in the project concept, which have not been approved by the Kyiv City authorities as at 30 June 2007. Thus, management believes that conducting revaluation as at 30 June 2006 and 30 June 2007 is not reasonable.

Regarding Zhitomir highway project as at 30 June 2006, Modern Technologies of Construction LLC received deeds for land plots in December 2006, which was the beginning date for the elaboration of the project documentation for these land plots. As at 30 June 2007 management has not accepted final concept

for the project. The latter has been approved by the management in August 2007. Thus, management believes that conducting revaluation as at 30 June 2006 and 30 June 2007 is not reasonable.

Regarding Zazimie project as at 30 June 2006, Zanet Firm CJSC received deeds for land plots in December 2006, which was the beginning date for the elaboration of the project documentation for these land plots. As at 30 June 2007 management has not accepted final concept for the project. The latter has been approved by the management in August 2007. Thus, management believes that conducting revaluation as at 30 June 2006 and 30 June 2007 is not reasonable.

In the half year ended 30 June 2007 PecherSKY development project was transferred to work-in-progress. The group entity engaged in the project development, Integra-Holding LLC, received general permission for construction, which is considered to be grounds for the commencement of the construction works. The value of investment property transferred to work-in-progress comprised US\$ 54,700,000.

In the half year ended 30 June 2007 land plots fair value of which amounts to US\$ 13,071,137 have been transferred by Modern Technologies of Construction LLC to Erial LLC as contribution into Statutory fund.

Investment property presented by development projects of the Group is as follows:

Project	Entity	As at 1 January 2006	Additions	Disposals	Transfer from non-current prepayments	Revaluation	As at 30 June 2006
(US\$'000s)							
ZAGS	Agency of Office Construction LLC Vysokyi Status LLC Erial LLC	129,300	3,007	—	—	—	132,307
Zhitomir highway	Modern Technologies of Construction LLC	—	44	—	9,369	—	9,413
PecherSKY	Integra-Holding LLC	36,600	143	—	—	—	36,743
WTC	Solomyanka LLC	102,500	458	—	—	—	102,958
Zazimye	Zanet Firm CJSC	—	1,084	—	—	—	1,084
		<u>268,400</u>	<u>4,736</u>	<u>—</u>	<u>9,369</u>	<u>—</u>	<u>282,505</u>

Project	Entity	As at 1 January 2006	Additions	Disposals	Transfer from non-current prepayments	Revaluation	As at 31 December 2006
(US\$'000s)							
ZAGS	Agency of Office Construction LLC Vysokyi Status LLC Erial LLC	129,300	145,239	(130,360)	—	54,721	198,900
Zhitomir highway	Modern Technologies of Construction LLC	—	220	—	9,369	23,711	33,300
PecherSKY	Integra-Holding LLC	36,600	250	—	—	17,850	54,700
WTC	Solomyanka LLC	102,500	1,825	—	—	69,575	173,900
Zazimye	Zanet Firm CJSC	—	4,362	—	—	56,538	60,900
		<u>268,400</u>	<u>151,896</u>	<u>(130,360)</u>	<u>9,369</u>	<u>222,395</u>	<u>521,700</u>

Project	Entity	As at 1 January 2007	Additions	Disposals	Transfer into Work-in- Progress	Revaluation	As at 30 June 2007
(US\$'000s)							
ZAGS	Agency of Office Construction LLC Vysokyi Status LLC Erial LLC	198,900	235	—	—	—	199,135
Zhitomir highway	Modern Technologies of Construction LLC	33,300	5,987	(5,252)	—	—	34,035
PecherSKY	Integra-Holding LLC	54,700	—	—	(54,700)	—	—
WTC	Solomyanka LLC	173,900	5,741	—	—	—	179,641
Zazimye	Zanet Firm CJSC	60,900	261	—	—	—	61,161
		<u>521,700</u>	<u>12,224</u>	<u>(5,252)</u>	<u>(54,700)</u>	<u>—</u>	<u>473,972</u>

## 15. Prepayments for land plots

Group company	Project	30 June 2007	30 June 2006	31 December 2006
(US\$'000s)				
Patriacom LLC . . . . .	Diplomat-Park	11,819	3,542	10,926
Zanet Firm CJSC . . . . .	Zazimye	560	2,764	517
		<u>12,379</u>	<u>6,306</u>	<u>11,443</u>

Prepayments for land plots represent advances for land plots deeds for which have not been received at that date.

Prepayments for land plots by Patriacom LLC include advances conducted in the course of management's activity aimed at processing of documents supporting Company's right for land plot located in L'viv city, Shevdienko Str., 60. As at 30 June 2007 the Company has not received any documents supporting its rights for ownership or use of this land plot. Upon obtaining of the documents for land the Company will commence activity as to development of Diplomat project.

Prepayments for land plots by Zanet Firm CJSC include advances for land plots located in Kyiv region and acquired from individuals. These prepayments have been conducted in process of increase of project Zazimye area.

Prepayments for land plots by Modern Technologies of Construction LLC amounting to US\$ 9,369,417 as at 31 December 2005 comprise advances for acquisition of land plots conducted with the purpose to increase area of project Zhitomir highway located in Kyiv region.

Prepayments for land plots by Agency of Office Construction LLC amounting to US\$ 234,287 as at 31 December 2005 comprise advances for acquisition of land plots conducted in the course of management's activity aimed at processing of documents supporting Company's right for land plot located in Kyiv city, Sholudenka Str., crossing of Peremogy Ave. and Borschagivska Str. As at 31 December 2006 the Company leases this land plot from the State.



## 16. Property, plant and equipment

	Land and buildings	Building under construction	Furniture and fitting	Motor vehicles	Computer equipment	TOTAL
	(US\$'000s)					
<b>Cost</b>						
As at 1 January 2006 . . . . .	385	20	61	—	12	478
Additions . . . . .	819	36	5	269	6	1,135
As at 31 December 2006 . . . . .	1,204	56	66	269	18	1,613
<b>Accumulated Depreciation</b>						
As at 1 January 2006 . . . . .	16	—	23	—	2	41
Depreciation . . . . .	3	—	4	—	2	9
As at 31 December 2006 . . . . .	19	—	27	—	4	50
<b>Net book value</b>						
As at 31 December 2006 . . . . .	1,185	56	39	269	14	1,563
As at 1 January 2006 . . . . .	369	20	38	—	10	437

As at 1 January 2006 and as at 30 June 2006 property, plant and equipment book value of which amounts to US\$ 35,776 are pledged as collateral under the credit contract (see note 26).

	Land and buildings	Building under construction	Furniture and fitting	Motor vehicles	Computer equipment	TOTAL
	(US\$'000s)					
<b>Cost</b>						
As at 1 January 2007 . . . . .	1,355	73	177	270	27	1,902
Additions . . . . .	15	11	14	42	7	89
Disposals . . . . .	—	(7)	(38)	—	—	(45)
Transfer . . . . .	—	(69)	69	—	—	—
As at 30 June 2007 . . . . .	1,370	8	222	312	34	1,946
<b>Accumulated depreciations</b>						
As at 1 January 2007 . . . . .	22	—	32	14	6	74
Depreciation . . . . .	15	—	6	3	3	27
Disposals . . . . .	—	—	(20)	—	—	(20)
As at 30 June 2007 . . . . .	37	—	18	17	9	81
<b>Net book value</b>						
As at 30 June 2007 . . . . .	1,333	8	204	295	25	1,865
As at 1 January 2007 . . . . .	1,333	73	145	256	21	1,828

As at 1 January 2007 and as at 30 June 2007 property, plant and equipment book value of which amounts to US\$ 35,776 are pledged as collateral under the credit contract (see note 26).

## 17. Intangible assets

	Computer software (US\$'000s)
<b>Cost</b>	
As at 1 January 2007	—
Additions	2
Disposals	—
Transfer	—
As at 30 June 2007	<u>2</u>
<b>Accumulated amortisation</b>	
As at 1 January 2007	—
Amortisation	—
Disposals	—
As at 30 June 2007	<u>—</u>
<b>Net book value</b>	
As at 30 June 2007	<u>2</u>
As at 1 January 2007	<u>—</u>

Intangible assets prior to 31 December 2007 amounted to less than US\$1,000.

## 18. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	30 June 2006	1 January 2006	30 June 2006	1 January 2006	30 June 2006	1 January 2006
	(US\$'000s)					
Property, plant and equipment	16	15	(2)	—	14	15
Investment property	—	—	(65,947)	(65,947)	(65,947)	(65,947)
Trade payables and advances from clients	19	—	—	—	19	—
Other (Reserves and Accrued Interest)	164	219	—	—	164	219
	<u>199</u>	<u>234</u>	<u>(65,949)</u>	<u>(65,947)</u>	<u>(65,750)</u>	<u>(65,713)</u>

### Movement in temporary differences during the year

	1 January 2006	Recognised in profit and loss	30 June 2006
	(US\$'000s)		
Property, plant and equipment	15	(1)	14
Investment property	(65,947)	—	(65,947)
Trade payables and advances from clients	—	19	19
Other (Reserves and Accrued Interest)	219	(55)	164
	<u>(65,713)</u>	<u>(37)</u>	<u>(65,750)</u>

## Unrecognised deferred tax assets

	30 June 2006
	(US\$'000s)
Deductible temporary differences . . . . .	—
Tax losses . . . . .	156
	<u>156</u>

## Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2006	1 January 2006	31 December 2006	1 January 2006	31 December 2006	1 January 2006
	(US\$'000s)					
Property, plant and equipment . . . . .	18	15	(9)	—	9	15
Investment property . . . . .	—	—	(121,546)	(65,947)	(121,546)	(65,947)
Trade payables and advances from clients . . . . .	5	—	—	—	5	—
Other (Reserves and Accrued Interest) . . . . .	146	219	—	—	146	219
	<u>169</u>	<u>234</u>	<u>(121,555)</u>	<u>(65,947)</u>	<u>(121,386)</u>	<u>(65,713)</u>

## Movement in temporary differences during the year

	1 January 2006	Recognised in profit & loss	31 December 2006
	(US\$'000s)		
Property, plant and equipment . . . . .	15	(6)	9
Investment property . . . . .	(65,947)	(55,599)	(121,546)
Trade payables and advances from clients . . . . .	—	5	5
Other (Reserves and Accrued Interest) . . . . .	219	(73)	146
	<u>(65,713)</u>	<u>(55,672)</u>	<u>(121,386)</u>

## Unrecognised deferred tax assets

	31 December 2006
	(US\$'000s)
Deductible temporary differences . . . . .	—
Tax losses . . . . .	155
	<u>155</u>

## Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	30 June 2007	1 January 2006	30 June 2007	1 January 2006	30 June 2007	1 January 2006
	(US\$'000s)					
Property, plant and equipment . . . . .	19	18	(19)	(9)	—	9
Investment property . . . . .	—	—	(108,346)	(121,546)	(108,346)	(121,546)
Valuation of inventory, work in progress . . . . .	—	—	(13,200)	—	(13,200)	—
Trade payables and advances from clients . . . . .	—	5	—	—	—	5
Other (Reserves and Accrued Interest) . . . . .	154	146	—	—	154	146
	<u>173</u>	<u>169</u>	<u>(121,565)</u>	<u>(121,555)</u>	<u>(121,392)</u>	<u>(121,386)</u>

## Movement in temporary differences during the year

	30 June 2006	Recognised in profit and loss	31 December 2006
	(US\$'000s)		
Property, plant & equipment . . . . .	—	(9)	9
Investment property . . . . .	(108,346)	13,200	(121,546)
Valuation of inventory, work in progress . . . . .	(13,200)	(13,200)	—
Trade payables and advances from clients . . . . .	—	(5)	5
Other (Reserves & Accrued Interest) . . . . .	154	8	146
	<u>(121,392)</u>	<u>(6)</u>	<u>(121,386)</u>

## Unrecognised deferred tax assets

	30 June 2007
	(US\$'000s)
Deductible temporary differences . . . . .	—
Tax losses . . . . .	196
	<u>196</u>

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## 19. Available for sale financial assets

Available for sale financial assets	30 June 2007	30 June 2006	31 December 2006
	(US\$'000s)		
Investments in non quoted entities . . . . .	962	1,849	963
	<u>962</u>	<u>1,849</u>	<u>963</u>

<u>Investor</u>	<u>Investee</u>	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
			(Share %)	
Integra-Holding LL . . . . .	Konservny zavod Kodymskiy CJSC	50.00%	50.00%	50.00%
Paritet CJSC . . . . .	TSN ASC	9.90%	—	9.90%
Solomyanka LLC . . . . .	Solomyanka Parking LCC Solomyanka Construction LCC	91.00% 100.00%	91.00%	91.00% 100.00%
Zanet Firm CJSC . . . . .	Technokonsalting LLC CharkovJitio Invest OSC HK Kiev-Donbass CJSC	— 0.94%	35.00% 7.00% 0.94%	— — 0.94%

<u>Investor</u>	<u>Investee</u>	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
			(US\$'000s)	
Integra-Holding LLC . . . . .	Konservny zavod Kodymskiy CJSC Paritet CJSC TSN GSC	20 — 236	20 1,055 —	20 — 236
Solomyanka LLC . . . . .	Solomyanka Parking LCC Solomyanka Construction LCC	6 7	6 —	6 7
	Kharkiv Jitlo Invest CJSC FAVOR CJSC	— 693	70 5 693	— — 693
		962	1,849	962

Investments into the above share instruments are accounted at cost. They do not have market quotations in active markets, and their fair value is not yielded to reliable valuation.

Management decided to classify the investment in Konservny zavod Kodymskiy CJSC and in HK Kiev-Donbass CJSC as current asset available for sale even though it was not sold within 1 year. It has been a committed plan to sell the investment. The transaction was delayed as a result of negotiations with prospective purchaser. Nevertheless, management has an intention and concrete plan to sell it in an arms length transaction.

## 20. Financial asset held for trading

<u>Financial assets held for trading as at 30 June 2007</u>	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
Notes for trading . . . . .	6,344	256	5,096
	6,344	256	5,096

The carrying amounts of financial assets held for trading approximate their fair value. Notes for trading are interest free.

Transactions with financial assets held for trading allow conduct financing of the Group companies and to redistribute profit with them.

## 21. Trade accounts receivables

	<u>For the six months ended 30 June 2007</u>	<u>For the six months ended 30 June 2006</u>	<u>For the year ended 31 December 2006</u>
		(US\$'000s)	
Trade receivables . . . . .	44	28	71
(Provisions on impairment of trade receivables) . . . . .	(11)	—	(5)
Other payments . . . . .	905	208	233
(Provisions on impairment of other prepayments) . . . . .	(100)	—	(60)
	838	236	239

## 22. Inventories

	30 June 2007	30 June 2006	31 December 2006
		(US\$'000s)	
Raw materials and consumables . . . . .	16	3	4
Work in progress . . . . .	54,973	—	—
Merchandise . . . . .	28	48	—
	<u>55,017</u>	<u>51</u>	<u>4</u>

As the group entity engaged in PecherSKY development project received permission for construction and commenced construction works, the assets previously accounted as investment property by the project were transferred to work in progress at 30 June 2007.

Project	Entity	As at 1 January 2007	Additions as at June 2007	Transfer	As at 30 June 2007
			(US\$'000s)		
PecherSKY . . . . .	Integra-Holding LLC	—	273	54,700	54,973

As at 30 June 2007 work-in-progress book value of which amounts to US\$ 20,560,046 is pledged as collateral under the credit contract (see note 26).

## 23. Other accounts receivable

	30 June 2007	30 June 2006	31 December 2006
		(US\$'000s)	
Settlements as to claims . . . . .	463	524	463
Provisions on impairment of settlements as to claims . . . . .	(463)	(524)	(463)
Non trade receivables . . . . .	16	2,440	269
Provisions on impairment of non trade receivables . . . . .	(15)	(52)	(15)
Accounts receivable for financial instruments . . . . .	670	293	1,547
Provisions on impairment of accounts receivable for financial instrument . . . . .	(10)	(60)	(11)
Amounts due from directors/shareholders . . . . .	7,777	9,595	10,298
VAT receivable . . . . .	1,319	626	834
Other taxes receivable . . . . .	3	—	—
Other accounts receivable . . . . .	6	4	12
	<u>9,766</u>	<u>12,846</u>	<u>12,934</u>

On 31 January 2003 Zanet Firm CJSC had accounts receivable amounting to US\$ 696,132 which stemmed from sale of sunflower seeds to the company “L’viv System Energy”. On 24 December 2004 Court in L’viv region started proceedings on the company “L’viv System Energy” to declare the company bankrupt. Under the Court decision Zanet Firm CJSC has been included into the list of creditors of the company “L’viv System Energy”. It brought about classification of US\$ 613,465,350 as settlements as to claims.

On 3 August 2006, a mutual agreement was concluded, under which the amount of US\$ 495,175,260 should be repaid on 1 August 2007. From the date of signing of the amicable agreement to the 30 June 2006 amount equalling to US\$ 31,820,550 has been repaid to Zanet Firm CJSC. On the rest of the accounts receivable, US\$ 463,354,700 regarding the counterparty a provision has been accrued owing to the possibility of non-repayment of this amount.



## 24. Cash and cash equivalents

	30 June 2007	30 June 2006	31 December 2006
		(US\$000's)	
Bank balances . . . . .	21	29	21
Deposits at call . . . . .	311	241	1,755
Cash . . . . .	8	—	—
	<u>340</u>	<u>270</u>	<u>1,776</u>

Deposits as at 30 June 2006 comprises:

- funds amounting to US\$ 240,990,10 deposited by Modern Technologies of Construction LLC to JSC “Index Bank”

Deposits as at 31 December 2006 comprises:

- funds amounting to US\$ 144,554 deposited by Patriacom LLC to CJSC Petrokomerts-Ukraine Bank under the contract on opening of deposit account in UAH. Annual interest rate equals to 16%. Maturity date is on 3 December 2007.
- funds amounting to US\$ 1,000,000 deposited by Vysokyi Status LLC to JSB “TAS-Komertsbank” under the contract on opening of deposit account in UAH. Annual interest rate equals to 13.50%.
- funds amounting to US\$ 495,445 deposited by Solomyanka LLC to JSCB Ukrsotsbank under the contract on opening of deposit account in UAH, Annual interest rate is established by supplementary agreements and equals to 6%-9%. Maturity date is on 12 November 2007,
- funds amounting to US\$ 114,851 deposited by Modern Technologies of Construction LLC to JSC “Index Bank”.

Deposits as at 30 June 2007 comprises:

- funds amounting to US\$ 144,554 deposited by Patriacom LLC to CJSC Petrokomerts-Ukraine Bank under the contract on opening of deposit account in UAH. Annual interest rate equals to 16%. Maturity date is on 3 December 2007.
- funds amounting to US\$ 39,603 deposited by Patriacom LLC to JSC Index Bank under the contract on opening of deposit account in UAH. Annual interest rate equals to 12.60% (0.1% from 05 February 2008). Maturity date is on 27 October 2008.
- funds amounting to US\$ 102,970 deposited by Patriacom LLC to JSB TAS-Komertsbank under the contract on opening of deposit account in UAH. Annual interest rate equals to 12.20%. Maturity date is on 03 April 2008.
- funds amounting to US\$ 14,851 deposited by Vysokyi Status LLC to JSB TAS-Komertsbank under the contract on opening of deposit account in UAH. Annual interest rate equals to 13.50%.
- funds amounting to US\$ 792 deposited by Solomyanka LLC to JSCB Ukrsotsbank under the contract on opening of deposit account in UAH. Annual interest rate is established by supplementary agreements and equals to 6%–9%. Maturity date is on 12 November 2007.
- funds amounting to US\$ 8,713 deposited by Solomyanka LLC to JSB TAS-Komertsbank under the contract on opening of deposit account in UAH. Annual interest rate equals to 12.50%. Maturity date is on 23 April 2008.

## 25. Share capital

	30 June 2007	30 June 2006	31 December 2006
		(US\$'000s)	
Agency of Office Construction LLC . . . . .	—	2,385	2,385
Integra-Holding LLC . . . . .	3	3	3
Vysokyi Status LLC . . . . .	21,223	—	21,223
Kureni Subsidiary Company . . . . .	891	119	891
Modern Technologies of Construction LLC . . . . .	20,000	10,387	20,000
Patriacom LLC . . . . .	7	7	7
Solomyanka LLC . . . . .	3	3	3
Zanet Firm CJSC . . . . .	29	29	29
Projekt Company Yarus LLC . . . . .	8	—	—
	<u>42,164</u>	<u>12,933</u>	<u>44,541</u>

As at 14 March 2007 Agency of Office Construction LLC has been acquired by Vysokyi Status LLC from the related parties. Since this date Agency of Office Construction LLC is consolidated to the highest possible level using the acquisition method (see note 29). Thus, share capital of Agency of Office Construction LLC has been eliminated against the investment recorded in Vysokyi Status LLC.

Company Vysokyi Status LLC has been incorporated on 28 August 2006. Share capital of the company equals to US\$ 21 223 525.

On 25 January 2006 a decision was accepted to increase share capital of Modern Technologies of Construction LLC via contribution of funds amounting to US\$ 990,099. On 22 December 2006 share capital of Modern Technologies of Construction LLC has been increased via contribution of funds by each shareholder proportionally to their shares in share capital.

Company Project Company Yarus LLC was incorporated on 26 January 2007. Share capital of the company comprises contributions of shareholders amounting to US\$ 7,921.

## 26. Long term loans and borrowings

	30 June 2007	30 June 2006	31 December 2006
		(US\$'000s)	
<b>Bank loans</b> . . . . .	1,236	1,454	880
Current portion of long-term loans payable . . . . .	(3)	—	—
	<u>1,233</u>	<u>1,454</u>	<u>880</u>

By the terms of repayment of loans the Group has the following structure:

Period	30 June 2007	30 June 2006	31 December 2006
		(US\$'000s)	
within 1 year . . . . .	3	—	—
within 2 year . . . . .	1,211	127	880
within 3 year . . . . .	7	1,327	—
within 4 year . . . . .	7	—	—
within 5 year . . . . .	7	—	—
Thereafter . . . . .	2	—	—
	<u>1,237</u>	<u>1,454</u>	<u>880</u>

The amount of long-term borrowings as at 31 December 2006 comprises:

Loans received from Index Bank JSC:

- loan amounting to US\$ 752,004 (US\$ 939,925 as at 1 January 2006), received by Kureni SE in UAH according to the contract on credit line with credit limit equalling to US\$ 1,326,733. Annual interest rate is established by supplementary agreements and equals to 20.5%–25%. Under pledge agreement

as of 24 March 2003 obligations under credit contract are guaranteed by restaurant complex and determined properties of this restaurant complex total book value of which amounts to US\$ 60,846 are pledged as collateral. Maturity date is on 21 December 2008.

- loan amounting to US\$ 44,179 (US\$ 43,565 as at 1 January 2006), received by Integra-Holding LLC in US\$ and Euro according to the contract on credit line with credit limit equalling to US\$ 3,960,396. Annual interest rate is established by supplementary agreements and for amounts issued in US\$ equals to 16%, and for amounts issued in Euro equals to 15,50%. Obligations under credit contract are guaranteed by land plots total area of which is 0,3039 hectares. Fair value of these land plots amounts to US\$ 13,741,710. As at 30 June 2007 loan is short-term.
- loan amounting to US\$ 83,810 (US\$ 83,810 as at 1 January 2006), received by Solomyanka LLC in US\$ according to the contract on credit line with credit limit equalling to US\$ 2,574,257. Annual interest rate is established by supplementary agreements and equals to 16%. Under pledge agreement obligations under credit contract are guaranteed by corporate rights in share capital Solomyanka LLC. As at 31 December 2006 net assets of Solomyanka LLC amount to US\$ 128,195,480. As at 30 June 2007 loan is short term.

The amount of long-term borrowings as at 30 June 2007 comprises following loans:

Loans received from Index Bank JSC:

- loan amounting to US\$ 752,004 (US\$ 1,326,733 as at 30 June 2006), received by Kureni SE in UAH according to the contract on credit line with credit limit equalling to US\$ 1,326,733. Annual interest rate is established by supplementary agreements and equals to 20.5%–25%. Under pledge agreement as of 24 March 2003 obligations under credit contract are guaranteed by restaurant complex and determined properties of this restaurant complex total book value of which amounts to US\$ 60,846 are pledged as collateral. The maturity date is on 21 December 2008.
- loan amounting US\$ 33,057,130 to received by Patriacom LLC in UAH. Annual interest rate equals to 15%. Obligations under credit contract are guaranteed by motor vehicle, book value of which amounts to US\$ 42,746 and property rights on deposit amounting to US\$ 39 603 granted to Patriacom LLC till 04 February 2008 under contract on bank deposit of legal person “Strokoviy” concluded with JSC Index Bank. Repayment of credit is conducted in equal instalments from 31 May 2007 till 27 April 2012.

Loans received from Ukreksimbank JSC:

- loan amounting to US\$ 451,781 received by Agency of Office Construction LLC under contract on issue of credit line with credit limit equalling to US\$ 40,000,000. Annual interest rate equals to 12%. Under pledge agreement obligations under credit contract are guaranteed by right on lease of land plot, area of which is 0.74 hectare and which is leased from Vysokyi Status LLC according to contract on lease of this land plot. Repayment of credit is conducted in equal instalments from 1 October 2008 till 25 May 2009.

## 27. Finance lease commitments

	Minimum lease payments 30 June 2006	Interest 30 June 2006	Principal 30 June 2006
	(US\$'000s)		
Less than one year . . . . .	126	124	12
Between one and five years . . . . .	502	491	11
Later than five years . . . . .	2,104	1,519	585
	2,732	2,134	608

	Minimum lease payments 30 June 2007	Interest 30 June 2007	Principal 30 June 2007	Minimum lease payments 31 December 2006	Interest 31 December 2006	Principal 31 December 2006
						(US\$'000s)
Less than one year . . . . .	125	123	13	126	124	13
Between one and five years . .	502	489	13	502	490	12
Later than five years . . . . .	1,979	1,398	581	2,041	1,458	583
	<u>2,606</u>	<u>2,010</u>	<u>607</u>	<u>2,669</u>	<u>2,072</u>	<u>608</u>

## 28. Other long-term liabilities

	30 June 2007	30 June 2006	31 December 2006
			(US\$'000s)
Long-term notes issued . . . . .	11,510	—	3,484
	<u>11,510</u>	<u>—</u>	<u>3,484</u>

Repayments of long-term notes issued are scheduled as follows:

Period	30 June 2007	30 June 2006	31 December 2006
			(US\$'000s)
within 1 year . . . . .	—	—	—
within 2 year . . . . .	6,346	—	1,191
within 3 year . . . . .	4,430	—	2,293
within 4 year . . . . .	244	—	—
within 5 year . . . . .	490	—	—
Thereafter . . . . .	—	—	—
	<u>11,510</u>	<u>—</u>	<u>3,484</u>

Long-term notes issued are interest-free and are repayable over five years.

On origination, long-term notes issued were re-measured at fair value, being the future cash flows discounted at average capitalisation rate of 20.30% for Integra-Holding LLC, 20.80% for Solomyanka LLC, 19.73% for Zanet Firm CJSC, 14.67% for Patriacom LLC.

Transactions with long-term notes issued arise from financing of the Group Companies.

## 29. Loans and borrowings

	30 June 2007	30 June 2006	31 December 2006
			(US\$'000s)
Short-term bank loans . . . . .	128	7,960	1,907
Short-term non-bank loans . . . . .	1,672	—	1,672
Interest payable . . . . .	19	—	19
Current portion of long-term loans payable . . . . .	3	—	—
Short-term non-bank accommodation . . . . .	7,585	11,924	8,897
	<u>9,407</u>	<u>19,884</u>	<u>12,495</u>

The amount of short-term borrowings as at 31 December 2006 comprises:

Loans received from Index Bank JSC:

- loan amounting to US\$ 906,732 (US\$ 2,723,762 as at 1 January 2006, received by Zanet Firm LLC in UAH according to the contract on credit line equalling to US\$ 1,920,792 (US\$ 5,940,594 at 1 January 2006). Annual interest rate equals to 18%–22%. Obligations under credit contract are guaranteed by the right of claim for money or land plots with the total area of 6.19 hectares.

Fair value of these land plots amounts of US\$ 4,774,560

Maturity date is on 1 January 2010.

The amount of short-term borrowings as at 30 June 2007 comprises following loans: loans received from Index Bank JSC:

- loan amounting to US\$ 44,324 received by Integra-Holding LLC US\$ and Euro according to the contract on credit line with credit limit equalling to US\$ 3,960,396.

Annual interest rate is established by supplementary agreements and for amounts issued in US\$ equals to 16%, and for amounts issued in Euro equals to 15,50%. Obligations under credit contract are guaranteed by land plots total area of which is 0.3039 hectares. Fair value of these land plots amounts to US\$ 13,741,710.

- loan amounting to US\$ 83,810 received in US\$ by Solomyanka LLC in US\$ according to the contract on credit line with credit limit equalling to US\$ 2,574,257

Annual interest rate is established by supplementary agreements and equals to 16%. Obligations under credit contract are guaranteed by corporate rights in share capital Solomyanka LLC. Book value of corporate rights as at 30 June 2007 equals to US\$ 10,902,778.

The amount of short-term borrowings as at 31 December 2006 comprises non-bank accommodations amounting to US\$ 8,897,564 (US\$ 14,566,832 as at 31 December 2006) received in UAH from related parties. All non-bank accommodations are short-term and interest free (see note 31).

The amount of short-term borrowings as at 30 June 2007 comprises non-bank accommodations amounting to US\$ 7,585,326 (US\$ 11,924,040 as at 30 June 2006) received in UAH from related parties. All non-bank accommodations are short-term and interest free (see note 31).

### 30. Trade and other payables

	30 June 2007	30 June 2006 (US\$'000s)	31 December 2006
Trade accounts payable . . . . .	1,651	97	98
Accounts payable for property, plant and equipment . . . . .	132	—	132
Short-term notes issued . . . . .	2,358	2,627	3,010
Accounts payable for financial instruments . . . . .	6,591	8,162	6,784
Other taxes payable . . . . .	54	2	4
Wages and salaries payable . . . . .	23	4	8
Other accounts payables . . . . .	264	91	165
	<u>11,073</u>	<u>10,983</u>	<u>10,201</u>

The carrying amounts of notes at call due to related parties approximate their fair value. Short-term notes issued are interest-free. (See note 31)

As at 30 June 2006 accounts payable for financial instruments comprise amounts for notes payable to related parties. As at 31 December 2006 and 30 June 2007 accounts payable for financial instruments comprise accounts for acquired corporate rights and shares payable to related parties, and settlements for notes due to related parties. (See note 31)

### 31. Balances and transactions with related parties

- (a) Interest income from notes amounting to US\$ 164,409 as at 30 June 2007 arose due to two interest-bearing notes received by Zanet Firm CJSC from related party in May 2007. Nominal value of these notes equals to US\$ 3,969,307 and US\$ 1,128,713. Interest rate for notes amounts to 24% and 23% correspondently. In the end of July 2007 notes have been called for payment.

- (b) Under the contract on sale-acquisition of land plot BCP NQ937354 as of 12 April 2006 Agency of Office Construction LLC has acquired a land plot area which amounts to 0,74 hectares and which is located on Sholudenka Str., crossing of Peremogy Ave. and Borschagivska Str. Book value of this land plot is included into historical value of investment property as at 30 June 2006 and equals US\$2,938,872.

Under contract on sale-acquisition of land plot BEA NQ922884 as of 3 August 2006 Agency of Office Construction LLC has sold land plot, area which is 0,74 hectares, located at the address Sholudenko Str., crossing of Peremogy Ave. and Borschagivska Str., which belongs to the company on the basis of State Act on Ownership KB No. 140946, to 2 related parties: Igor Miroshnichenko and Andriy Smirnov for US\$3,128,712.

Gain on disposal of investment property amounting to US\$189,888 received in the year ended 31 December 2006 represents gain from disposal of land plot by Agency of Office Construction LLC to related parties on 3 August 2006 (see part (c) below).

**Assets:**

	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
		(US\$'000s)	
Investment property . . . . .	14,800	—	14,800
Advances to constructors . . . . .	257	93	177
Available for sale financial assets . . . . .	962	1,849	963
Financial assets held for trading . . . . .	5,200	247	3,694
Trade receivables and prepayments, net to . . . . .	5	17	58
Non trade accounts receivable, net to . . . . .	—	2,387	253
Accounts receivable for financial instruments . . . . .	661	205	1,535
Amounts due from directors/shareholders . . . . .	7,777	9,595	10,298
	<u>29,662</u>	<u>14,393</u>	<u>31,778</u>

- (c) Under contract on acquisition—sale of land plot BEB N9910942 as of 21 September 2006, Igor Miroshnichenko and Andriy Smirnov have sold land plot area which amounts to 0,74 hectares and which is located on Sholudenka Str., crossing of Peremogy Ave. and Borschagivska Str., which belongs to these related parties on the basis of State Act on Ownership KB No. 136940 and State Act on Ownership KB No. 136941 correspondently, to the company Vysokyi Status LLC. Book value of this land plot is included into historical value of investment property as at 31 December 2006 and as at 30 June 2007 and equals US\$14,800,000.
- (d) Advances to contractors amounting to US\$233,411 as at 30 June 2007, and US\$175,058 as at 31 December 2006 (US\$93,364 and US\$35,012 as at 30 June 2006 and 1 January 2006 correspondently) represent prepayments by Integra-Holding LLC for design works being conducted by IC Kyiv-Jhytlo.
- (e) See note 19.
- (f) See note 20.
- (g) Non trade accounts receivable, net amounting to US\$253,248 as at 31 December 2006 and US\$2,386,766 as at 30 June 2006 represent sale of 98% of corporate rights of Agency of Office Construction LLC by Patriacom LLC to the related parties. As at 30 June 2007 debt has been redeemed.
- (h) Accounts receivable for financial instruments amounting to US\$138,193 as at 1 January 2006 comprise US\$13,762 representing outstanding debt of Integra-Holding LLC for notes due from T.E. Consulting LLC, US\$115,446 representing outstanding debt of Zanet Firm CJSC for acquired shares due from Intertradeenergo LLC, and US\$8,985 representing other outstanding debt for notes due from related parties. All debts are reflected net of provisions.

Accounts receivable for financial instruments amounting to US\$204,588 as at 30 June 2006 comprise US\$131,485 representing outstanding debt of Agency of Office Construction LLC for notes due from Shelf CJSC, US\$58,337 representing outstanding debt of Patriacom LLC for notes due from Shelf



CJSC, and US\$14,766 representing other outstanding debt for notes due from related parties. All debts are reflected net of provisions.

Accounts receivable for financial instruments amounting to US\$1,535,289 as at 31 December 2006 comprise US\$466,978 representing outstanding debt of Integra-Holding LLC for notes due from East-Force LLC, US\$532,178 representing outstanding debt of Patriacom LLC for notes due from Techninvest LLC, US\$427,943 representing outstanding debt of Zanet Firm CJSC for notes due from Techninvest LLC, US\$90,079 representing outstanding debt of Agency of Office Construction LLC for notes due from Shelf CJSC, and US\$18,111 representing other outstanding debt for notes due from related parties. All debts are reflected net of provisions.

- (i) Accounts receivable for financial instruments amounting to US\$660,899 as at 30 June 2007 comprise US\$411,422 representing outstanding debt of Patriacom LLC for notes due from Techninvest LLC, US\$135,248 representing outstanding debt of Agency of Office Construction LLC for notes due from Shelf CJSC, and US\$61,267 representing outstanding debt of Vysokiy Status LLC for notes due from Shelf CJSC, and US\$52,962 representing other outstanding debt for notes due from related parties. All debts are reflected net of provisions.
- (j) Amounts due from directors/shareholders are presented in the table below.

<u>Company of group</u>	<u>Shareholders</u>	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
			(US\$'000s)	
Patriacom LLC . . . . .	Derevesnikov V.V.	—	—	—
	Chorny O.S.	—	—	—
Modern Technologies of Construction LLC . . . . .	East Force LLC	7,745	9,595	10,270
	Konstantinovskiy O.L.	1	—	1
	Minakov O.A.	2	—	2
Kureni Subsidiary Company . . . . .	Firma Kyiv-Donbass Joint Venture	25	—	25
Project Company Yarus LLC . . . . .	Kyiv-Jilo-Invest LLC	4	—	—
		<u>7,777</u>	<u>9,595</u>	<u>10,298</u>

The debt for contributions into share capital of Modern Technologies of Construction LLC is connected with the decision of the company's shareholders to increase share capital of Modern Technologies of Construction LLC (see note 25).

**Liabilities:**

		<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
			(US\$'000s)	
Long-term notes issued . . . . .	(a)	11,510	—	3,484
Short-term loans and borrowings . . . . .	(b)	1,691	—	1,690
Short-term non-bank accommodation . . . . .	(c)	7,585	11,924	8,898
Trade accounts payable . . . . .		42	—	—
Accounts payable for to property, plant and equipment . . . . .	(d)	132	—	131
Short-term notes issued . . . . .	(e)	2,358	2,627	3,010
Accounts payable for financial instruments . . . . .	(f)	6,591	8,162	6,784
Other accounts payable . . . . .		78	13	32
		<u>29,987</u>	<u>22,726</u>	<u>24,029</u>

(a) See note 28.

(b) The amount of short-term loans and borrowings as at 31 December 2006 and as at 30 June 2007 comprises debt for loan amounting to US\$1,690,503 received by Patriacom LLC under the contract on credit line concluded with Index Bank JSC. On 23 November 2006 outstanding debt for this loan comprising principal and interest equaling to US\$1,671,650 and

US\$18,853 correspondingly, has been transferred under contract on transfer of loan from Index Bank JSC to Noviy Chas Ukraine PE. Maturity date is on 23 November 2007. As at 1 January 2006 and 30 June 2006 debt for this loan was included into short-term bank loans.

The amount of short-term non-bank accommodation as at 30 June 2006 amounting to US\$11,924,040 comprises US\$9,295,050 representing outstanding debt of Modern Technologies of Construction LLC due to Est Force LLC, US\$2,628,990 representing outstanding debt of Patriacom LLC due to Intertradeenergo LLC. (See note 26)

The amount of short-term non-bank accommodation as at 31 December 2006 amounting to US\$8,897,564 comprises US\$243,960 representing outstanding debt of Zanet Firm CJSC due to Est Force LLC, US\$798,376 representing outstanding debt of Modern Technologies of Construction LLC due to Est Force LLC, US\$2,560,673 representing outstanding debt of Patriacom LLC due to Intertradeenergo LLC, US\$5,294,555 representing outstanding debt of Patriacom LLC due to Univermag Darnitca JSC. (See note 26)

The amount of short-term non-bank accommodation as at 30 June 2007 amounting to US\$7,585,327 comprises US\$2,560,673 representing outstanding debt of Patriacom LLC due to Intertradeenergo LLC, US\$4,953,961 representing outstanding debt of Patriacom LLC due to Univermag Darnitca JSC, US\$16,832 representing outstanding debt of Kureni Subsidiary Company due to Afortunado LLC, US\$53,861 representing outstanding debt of Kureni Subsidiary Company due to restaurant "Concord". (See note 26)

- (c) The amount of accounts payable for property, plant and equipment as at 31 December 2006 and as at 30 June 2007 amounting to US\$131,347 represents debt of Patriacom LLC due to Petroshop LLC for the acquired office equipment. (See note 30)
- (d) The amount of accounts payable for financial instruments as at 1 January 2006 comprises US\$872,356 representing outstanding debt of Zanet Firm CJSC for notes due to the related parties.

The amount of accounts payable for financial instruments as at 30 June 2006 comprises US\$2,351,129 representing outstanding debt of Zanet Firm CJSC for notes due to the related parties, US\$3,136,832 representing outstanding debt of Agency of Office Construction LLC for notes due to the related parties, US\$2,561,783 representing outstanding debt of Patriacom LLC for notes due to the related parties, US\$77,723 representing outstanding debt of Integra-Holding LLC for notes due to the related parties, US\$34,653 representing outstanding debt of Solomyanka LLC for notes due to the related parties.

The amount of accounts payable for financial instruments as at 31 December 2006 comprises US\$6,548,100 representing debt regarding settlements for notes and US\$235,644 representing debt of Integra-Holding LLC for the acquired shares of the company TSN due to Oliv LLC.

- (e) The amount of accounts payable for financial instruments as at 30 June 2007 comprises US\$4,079,684 representing debt regarding settlements for notes, US\$227,723 representing debt of Integra-Holding LLC for the acquired shares of the company TSN due to Oliv LLC and US\$2,283,267 representing debt of Vysokyi Status LLC for the acquired corporate rights in the company Agency of Office Construction LLC.

The loan notes payable and receivable with related parties arise as it is unlawful for a company in Ukraine to directly lend to another company, unless the lender is a financial institution. Consequently, it is common companies exchange tradeable loan notes of third parties for cash, and in relation to the Group, this has resulted in a significant number of related party transactions to use cash in companies owned by the shareholders to finance development costs to date.

Such financial assets and liabilities are initially measured at fair value, and in view of the period over which they are payable, there is a discount to face value. Such assets are treated as held to maturity, and the liabilities are amounts due on fixed repayment dates. As such both are effectively accounted for under the amortised cost basis, with the related income and expense charged to profit and loss through the income statement.

### 32. Business Combinations

The Operating Group comprises a number of companies under common management and ultimate ownership but not linked by a formal ownership structure or a single common parent. Companies of the Group are indicated in the table presented in "Principles of combination and consolidation" in note 4, except for two companies:

- Erial LLC, which was incorporated by Modern Technologies of Construction LLC on 22 May 2007 and is accounted under all principles of consolidation. As this company has been owned from the date of its formation, and consideration issued for the investment amounting to US\$5,260,231 equals to share capital of Erial LLC, goodwill does not arise.
- Agency of Office Construction LLC, controlling interest of which was acquired by Vysokyi Status LLC on 14 March 2007. (As at 31 December 2005 the company was included into the Group as the company was under common control and was accounted under pooling of interests method.)

The following table summarises the fair values of net assets acquired at the date of acquisition of control, and cost of investment.

<u>Entity acquired</u> <u>Acquisition date for control</u>	Agency of Office Construction LLC 30 June 2007 (US\$'000s)
Investment property . . . . .	2,356
Advances to constructors . . . . .	1,200
Trade and other accounts receivable . . . . .	320
Cash and cash equivalents . . . . .	2
Long-term loans and borrowings . . . . .	(452)
Trade and other payables . . . . .	(50)
Share of fair value of net assets . . . . .	<u>3,376</u>

Agency of Office Construction LLC is the managing company supporting project ZAGS, therefore cost of project works is capitalised as investment property. Management believes that cost of non-current assets and relevant liabilities represents fair value of identifiable assets and liabilities at the date of acquisition. Thus the consideration for which management has acquired Agency of Office Construction LLC equals to fair value of identifiable assets and liabilities of Agency of Office Construction LLC as at this date, therefore goodwill does not arise.

### 33. Provisions

The management of the Group believes that as at the reporting dates the Group has not liabilities of uncertain timing or amount for which the entities of the Group have present obligations, legal or constructive, as a result of past events; there is no probability that an outflow of resources embodying economic benefits will be required to settle the obligations.

### 34. Commitments

#### Operating commitments

The Group has entered into a construction agreement with constructors of an electrical substation and gas pipe near Zhitomir Highway. These agreements resulted in capital commitments amounting to US\$708,283 as at 30 June 2007.

The Group has also entered into an agreement with Kyiv City Authorities aimed at obtaining permission documentation for the construction of office centre WTC, which resulted in the capital commitments amounting to US\$11,457,832 as at 30 June 2007, agreement on preparation of pre-project works regarding future office centre WTC, which resulted in the capital commitments amounting to US\$1,301,986 as at 30 June 2007, and into construction agreement with the constructors of the office centre WTC, which resulted in the capital commitments amounting to US\$80,804,279.

#### Commitments on 30 June 2007

	Repayment due within				Total
	1 Year	1-2 Years	2-5 Years	5 or more Years	
			(US\$'000s)		
Construction . . . . .	39,840	41,673	—	—	81,513
Capital expenditure . . . . .	690	—	10,767	—	11,457
Pre-project works . . . . .	1,302	—	—	—	1,302
Total . . . . .	<u>41,832</u>	<u>41,673</u>	<u>10,767</u>	<u>—</u>	<u>94,272</u>

Since 30 June 2007, the Group has entered into further commitments totalling US\$41,217,238. However on 30 November 2007, the contractors agreement with the contractors of the office centre, WTC, which resulted in capital commitments amounting to US\$80,804,279 was cancelled with no penalty to the Group after incurring expenditure up to this date of approximately US\$758,654. Total commitments as at 30 November 2007 amounted to US\$54,685,357 after the cancellation of this commitment.

## **Social commitments**

The entities of the Group make contributions to mandatory social programs. The Group's social programs benefit the community at large and are not restricted to the Group's employees. Management expects the Group to continue funding social programs in the foreseeable future. The costs are recorded in the period they are incurred.

## **Litigation**

The Group is involved in legal proceedings in the ordinary course of its business.

Management does not believe the result of any legal proceedings will have a substantial impact on the Group's financial position or results of operations.

The Group performs its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system may be characterised by numerous taxes and frequently changing legislation which may be applied retroactively. Tax laws in Ukraine are subject to frequent changes and amendments. Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict. Tax regulations are open to wide interpretation and in some cases are conflicting. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose fines and penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, but under certain circumstances a tax year may remain open longer. These facts create tax risks which are more significant than typical ones found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. The interpretations of the relevant authorities could differ and the effect on these combined financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these financial statements.

## **Operational risk**

Operational risk is the risk that stems from the drawbacks relating to the Group's information technology and control systems, the risk of human error and natural disasters. The Group's systems are evaluated, maintained and improved continuously.

## **Compliance risk**

Compliance risk is the risk of financial loss, including fines and other penalties, which arise from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the monitoring controls applied by the Group.

## **35. Contingencies**

### **Litigation risk**

Litigation risk is the risk of financial loss, interruption of the Group's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Group to execute its operations.

### **Share ownership risk**

The risk of share ownership arises from the investment in shares/participation of the Group and is a combination of credit, price and operational risk as well as the risk of ownership. The Group applies procedures of analysis, measurement and evaluation of this risk in order to minimise it.

### **Other risks**

The general economic environment prevailing in Ukraine may affect the Group's operations too substantially. Inflation, unemployment, and development of the gross domestic product are directly linked

to the economic system of every country and any variation in these and the economic environment in general may influence activity of the Group.

The Group's real estate assets could suffer physical damage from fire or other causes, resulting in losses (including loss of rent) that may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, for which insurance may not be available or which the Group decides not to insure. Inflation, changes in legislation, environmental considerations and other factors may also result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Should an uninsured loss or a loss in excess of recovered claim amounts occur, the Group could lose all or a portion of the capital invested in the affected property as well as anticipated future revenue or gain from that property. In addition, the Group could be liable for the repair of any damage caused by uninsured risks. It would also remain liable for any debt or other financial obligation related to that property could be viable for and injury or loss suffered by tenants or other third parties. In addition, the Group's insurance policies may not insure the aggregate market value of its portfolio, particularly if the market value of the portfolio increases. As a result, the Group may not have sufficient coverage against all losses that it may experience. No assurance can be given that material losses in excess of insurance coverage limits will not occur in the future. Losses that are not covered by insurance may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Ukrainian corporate law has developed considerably since Ukraine's transition to a market economy. Some of these laws contain ambiguities, imprecision and inconsistencies, which make compliance with these laws difficult. As a result, the Group's prior transactions may not have complied with all corporate formalities. In particular, the Group may not have complied or may not have fully complied with all technical requirements of Ukrainian corporate law with respect to net assets sufficiency, certain transfers of interests in the Group's subsidiaries, convocation and holding of general shareholders' meetings, reporting requirements for joint stock companies, reorganisations, and formation of charter capital.

The above instances of non-compliance with applicable laws and regulations may result in fines, warnings from governmental authorities, a request from governmental authorities to remedy the violations within a prescribed time period, inability to increase share capital of a joint stock company until the violation is remedied, requests for mandatory winding-up proceedings, or requests to unwind a previous transaction. To date, the Group has not received any notice of violation from any third party or governmental authority, and although it does not expect that any party would seek to review or modify any of the above-listed transactions or challenge the above-mentioned irregularities, there can be no assurance that this will not occur. Any successful challenge to prior transactions could have a material adverse effect on the Group's business results of operations, financial condition and prospects.

### **36. Subsequent events**

#### **Changes in structure of the Group**

For the purposes of IPO in cooperation with legal company Baker & McKenzie—CIS, Limited, management has approved the corporate structure of the Group comprising Vysokyi Status LLC, Agency of Office Construction LLC, Zanet Firm CJSC, Solomyanka LLC, Integra-Holding LLC, Patriacom LLC, Modern Technologies of Construction LLC, Kureni Subsidiary Company, Erial LLC, Project Company Yarus LLC, and also Centre of Public Servicing and Catering Lisova LLC and KDD GROUP LLC, which have been incorporated on 11 June 2007, and on 15 August 2007 respectively. Financial statements of Centre of Public Servicing and Catering Lisova LLC and KDD GROUP LLC have not been audited. These changes in the corporate structure of the Group were completed in November 2007.

A new holding company, KDD Group N.V., was incorporated in The Netherlands on 24 October 2007.

Under strategy of the Group's management shareholders V. Kaminskiy, Y. Topolova, P. Slipets, V. Konstantinovskiy, V. Muzhchuk and O. Konstantinovskiy being citizens of Ukraine have submitted applications to the National Bank of Ukraine in order to receive licenses for the purposes of investing abroad.

The licenses were obtained on 13 November 2007.

In order to obtain permission for acquisition of corporate rights of project companies in Ukraine holding company KDD Group N.V. submitted relevant applications to the Antimonopoly Committee of Ukraine.

The approvals of Antimonopoly Committee of Ukraine were obtained on 20 November 2007.



As at 6 November 2007 following transactions not requiring preliminary permission of Antimonopoly Committee of Ukraine regarding acquisition of corporate rights have been completed:

- KDD GROUP LLC has acquired 99% of corporate rights in Solomyanka LLC;
- KDD GROUP LLC has acquired 99% of corporate rights in Zanet Firm CJSC;
- KDD GROUP LLC has acquired 100% of corporate rights in Kureni Subsidiary Company;
- KDD GROUP LLC has acquired 50% of corporate rights in Project Company Yarus LLC;
- Vysokyi Status LLC has acquired 1% of corporate rights in Solomyanka LLC;
- Vysokyi Status LLC has acquired 1% of corporate rights in Zanet Firm CJSC.

### Investment property

In October 2007 “Project Company “Yarus” LLC has concluded the investment contract with Kyiv City Administration on investments for construction of mixed-use property complex comprising commercial, office, entertainment and parking premises in Kyiv City. Under the contract Group Company should invest into the construction of mentioned above property complex. The designation of investment activity complies with the concept of the Group’s management for Metro City project. This investment contract may be considered to be the evidence of the fact that the Project Company “Yarus” LLC will receive the rights for ownership or use of the land plot, on which the Metro City project is planned to be developed.

For the purposes of disclosure of the most updated information regarding projects in these financial statements official valuation of projects classified as investment property has been prepared by Colliers International, independent appraisers as at 30 September 2007.

Name of the project	Name of the Company	Fair value as at 30 September 2007 (US\$'000s)
ZAGS	Agency of Office Construction LLC Vysokyi Status LLC	226,700
WTC	Solomyanka LLC	226,600
Zhitomir highway	Erial LLC Modern Technologies of Construction LLC	51,000
Zazimie	Zanet Firm CJSC	82,400

Management believes that increase of fair value of projects during the period of three months ended 30 September 2007 took place due to the fact that all projects reflected as investment property were held in portfolio as properties for development and any substantial changes in value relating to development cycle progress realized just during the second half of 2007. These realized stages of development cycle progress are as follows:

- In November 2007 Kyiv City authorities approved of a concept for project ZAGS.
- In November 2007 Kyiv City authorities approved of a concept for project WTC.
- In July 2007 management of the Group approved of the final concept for project Zhitomir highway.
- In August 2007 management of the Group approved of the final concept for project Zazimie.

### Inventories

In September 2007 Agency of Office Construction LLC has acquired a flat located in Kyiv city for US\$3,267,327. The cost of the flat will increase assets held for sale due to the management’s intention and plan to sell this flat in an arms length transaction.

### Prepayments for land plots

In October 2007 Patriacom LLC has obtained from the State a contract for lease of the land plot located in L’viv City, Schevchenka Str., 60, on which the Diplomat-Park project is planned to be developed. Area of this land plot equals to 5.9 hectares. The lease term according to the lease agreement is 10 years from the date of the lease state registration. Designation of land plot is construction of residential complex with



infrastructure. The designation of land complies with the concept of the Group's management for Diplomat-Park project. Annual minimum lease payments amount to US\$143,541.

Thus, prepayments for land plots by Patriacom LLC equaling to US\$11,818,897 as of 30 June 2007 will increase historical cost of the investment property (Diplomat-Park project) in October 2007.

#### **Regarding sale of shares/available for sale financial assets**

In September 2007 Integra-Holding LLC has sold to Tarasenko I.V. 103 125 shares issued by Konservniy Zavod Kodymskiy LLC for US\$20,421. Par value of 1 share is US\$0.20. Payment was received on 1 November 2007.

In November 2007 Integra-Holding LLC has sold 17,335 shares issued by TSN CJSC for US\$1,980. Par value of 1 share is US\$0.20. Payment was received on 2 November 2007.

In September 2007 Solomyanka LLC has transferred to the Ukrainian citizen Datsko V.P. 1% in share capital of Solomyanka-Construction LLC for US\$74. Payment was received on 7 November 2007.

In September 2007 Solomyanka LLC has transferred to Post-Impax LLC 99% in share capital of Solomyanka-Construction LLC for US\$7,351. Payment was received on 2 November 2007.

In September 2007 Solomyanka LLC has transferred to the Ukrainian citizen Datsko V.P. 91% in share capital of Solomyanka-Parking LLC for US\$5,983. Payment was received on 5 November 2007.

In August 2007 Zanet Firm CJSC has sold to Oliv LLC 426,700 shares issued by F.A.V.O.R. CJSC for US\$595,690. Par value of 1 share is US\$0.20. Payment amounting to US\$3,960 has been received in account on 28 September 2007, and payment amounting to US\$591,730 was received on 2 November 2007.

Total amount of funds received as a result of sale of available for sale financial assets equals to US\$631,499.

#### **Financial assets held for trading**

After the balance-sheet date of 30 June 2007 the total value of sold financial assets held for trading equals to US\$6,280,103, including US\$5,087,093 received in cash funds and US\$1,193,010 settled by way of mutual offset of accounts payable regarding settlements for notes with the company Shelf LLC.

#### **Amounts due from directors/shareholders**

In August 2007 Joint Venture Kyiv-Donbas has repaid its debt for the contribution into the share capital of Kureni Subsidiary Company amounting to US\$24,951.

In November 2007 Konstantinovskiy A.V. and Minakov A.A. have repaid their debts for the contribution into the share capital of Modern Technologies of Construction LLC amounting to US\$1,517 and US\$1,551 correspondently.

In the period from July till October 2007 East-Force LLC has repaid its debt for the contribution into the share capital of Modern Technologies of Construction LLC amounting to US\$7,745,506.

In October 2007 Investment Company Kyiv Jytlo-Invest LLC has repaid its debt for the contribution into the share capital of Project Company Yarus LLC amounting to US\$3,882.

Total amount of funds received as a result of repayment of amounts due from directors/shareholders equals to US\$7,777,407.

#### **Other accounts receivable**

After balance-sheet date 30 June 2007 accounts receivable for financial instruments have been repaid by funds equalling to US\$337,300.

#### **Notes issued**

After balance-sheet date 30 June 2007 Vysokyi Status LLC and Modern Technologies of Construction LLC have acquired from the related parties notes issued by the Group Companies. This transaction took place for the account of funds received owing to sale of the financial assets held for trading and due to repayment of accounts receivable regarding contributions into the share capital, and brought about decrease of the Group's liabilities on US\$5,131,119.

### Short-term non-bank loans

In October 2007 Patriacom LLC has repaid debt for short-term non-bank loans amounting to US\$1,690,503.

### Trade and other payables

After balance-sheet date 30 June 2007 Zanet Firm CJSC has repaid accounts payable amounting to US\$231,499 for the account of funds received from sale of available for sale financial assets.

### Accounts payable for financial instruments

After balance-sheet date 30 June 2007 debt for accounts payable for financial instruments has been repaid in total amount of US\$3,510,858, including including US\$2,317,848 received in cash funds and US\$1,193,010 received due to the mutual offset.

<u>Transaction</u>	<u>Cash flow</u>	<u>Amount of debt repayment</u>
	(US\$'000s)	
Sale of investments . . . . .	628	—
Repayment of accounts payable . . . . .	(231)	231
Sale of notes . . . . .	5,087	—
Repayment of non-bank loans . . . . .	(1,691)	1,691
Offset of accounts payable . . . . .	—	1,193
Acquisition of notes issued by the Group Companies . . . . .	(795)	795
Repayment of shareholders' debt . . . . .	7,777	—
Acquisition of notes issued by the Group Companies . . . . .	(4,336)	4,336
Repayment of accounts receivable as to settlements for notes . . . . .	337	—
Repayment of non-bank loans . . . . .	(1,690)	1,690
Repayment of accounts payable for the financial instruments . . . . .	(2,318)	2,318
<b>Total</b> . . . . .	<u>2,768</u>	<u>12,254</u>

Thus as a result of transactions which took place after balance-sheet date the Group Companies decreased debt on US\$12,254,110 due to sale of current assets of the Group Companies, and increased amount of cash funds on US\$2,768,238.

**SECTION B(ii)—ACCOUNTANTS' REPORT ON THE COMBINED FINANCIAL  
INFORMATION ON THE GROUP**

The following is the full text of a report on the Group from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of KDD Group N.V.



2 Bloomsbury Street  
London WC1B 3ST  
www.bakertilly.co.uk

KDD Group N.V.  
Prins Bernhardplein 200  
1097 JB  
Amsterdam  
The Netherlands

13 December 2007

Dear Sirs

**Vysokyi Status LLC, Agency of Office Construction LLC, Erial LLC, Integra-Holding LLC, Kureni Subsidiary Company, Modern Technologies of Construction LLC, Patriacom LLC, Project Company Yarus LLC, Solomyanka LLC and Zanet Firm CJSC (together, the “Group”).**

We report on the combined financial information set out Section B(i) of Part XIII of the admission document dated 13 December 2007 of KDD Group N.V. (“the Admission Document”). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in notes 2 to 4 of the financial information.

This report is required by paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of International Financial Reporting Standards as adopted by the European Union except, as described at notes 2 to 3 to the Historical Financial Information, that certain accounting conventions, commonly used for the preparation of historical financial information for inclusion in investment circulars, as described in the Annexure to Standard for Investment Reporting 2000 issued by the Auditing Practices Board in the United Kingdom, have been applied.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed. We planned and performed our work so as to obtain all the information and

explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses and changes in equity as of and for the periods then ended in accordance with the basis of preparation set out in note 2.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdictions other than the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those other standards and practices.

### **Declaration**

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

### **Baker Tilly Corporate Finance LLP**

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street, London WC1B 3ST

## **PART XIV: THE OFFER**

### **1. Summary of the Offer**

The Offer comprises an offer by the Company of 31,878,371 Shares (the “Offer Shares”). The Offer is conditional on Admission becoming effective and on the Underwriting Agreement (certain terms of which are described below) becoming unconditional and not having been terminated by 28 December 2007 or such other later time and/or date as ING, Renaissance and the Company may agree.

The Offer Shares represent approximately 19.6% of the expected issued ordinary shares of the Company immediately following Admission. In addition, a further 15% of the total number of the Offer Shares are being made available by the Selling Shareholders to ING, as Stabilising Manager, on behalf of the Joint Bookrunners, pursuant to the Over-Allotment Option described below.

Under the Offer, all Shares will be sold at the Offer Price to certain institutional and professional investors in the United Kingdom and elsewhere.

Certain restrictions that apply to the distribution of this document and the sale and transfer of the Shares being made available under the Offer in certain jurisdictions are described in paragraphs 8 and 9 of this Part XIV.

Allocations of the Shares under the Offer will be determined by ING and Renaissance, following consultation with the Company, after indications of interest from prospective investors have been received.

Admission is expected to take place and unconditional dealings in the Shares are expected to commence on AIM on 19 December 2007.

### **2. Reasons for the Offer and Use of Proceeds**

The Company will receive the net proceeds of the Offer, other than the proceeds from the sale of Shares subject to the Over-Allotment Option which will be received by the Selling Shareholders. The net proceeds to the Company from the Offer are estimated to be £60.9 million after deduction of underwriting commissions and other estimated fees and expenses of approximately £2.8 million payable by the Company in connection with the Offer.

The Company intends to use these net proceeds and, to the extent available, other sources of capital including pre-sales and new debt financing, to finance development of its existing projects and selective acquisitions. For more information on the Group’s intended use of proceeds, see Part III “Use of Proceeds”, and for additional information on the Group’s investment strategy, see Part VI “Information on the Group—The Group’s Strategy” and Part VIII “Operating and Financial Review—Liquidity and Capital Resources—Capital resources”.

Payable to the Selling Shareholders in connection with the sale of Shares by them pursuant to any exercise of the Over-Allotment Option.

### **3. Over-Allotment and Stabilisation**

In connection with the Offer, the Stabilising Manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Shares up to a maximum of 15% of the total number of Offer Shares (being 4,781,755 Shares) or effect other stabilisation transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Such transactions may be effected on AIM, the over-the counter market or otherwise. There is no assurance that such transactions will be undertaken and, if commenced, they may be discontinued at any time and in any event may only be undertaken up to the thirtieth day after the commencement of conditional trading. Save as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer.

In connection with the Offer, the Selling Shareholders have granted the Stabilising Manager the Over-Allotment Option which will require the Selling Shareholders to make available up to 4,781,755 additional Shares at the Offer Price to cover any over-allotments made in connection with the Offer and to cover short positions resulting from stabilisation transactions. The number of Shares that are the subject of the Over-Allotment Option, in aggregate, equals approximately 15% of the total number of Offer Shares. The Over-Allotment Option may be exercised from the date of the commencement of conditional trading

for a period of 30 calendar days thereafter, provided that it may only be exercised to the extent Shares have been over-allotted.

In connection with the Over-Allotment Option, ING and Renaissance, each acting as principal, have entered into a stock lending agreement (the “Stock Lending Agreement”) with the Selling Shareholders, pursuant to which ING and Renaissance are able to borrow up to 4,781,755 Shares for the purposes, among other things, of allowing the Stabilising Manager to settle over-allotments, if any, made in connection with the Offer. If ING or Renaissance borrow any Shares pursuant to the Stock Lending Agreement, they are required to return equivalent securities to the lenders by the Redelivery Date (as defined in the Stock Lending Agreement).

#### **4. Underwriting Agreement**

Pursuant to an agreement dated 13 December 2007 between and among the Company, the Selling Shareholders, Renaissance Capital Limited (as a Broker) and the Joint Bookrunners (the “Underwriting Agreement”):

- (a) The Company has agreed, subject to certain conditions, to issue and sell, as the case may be, the Shares to be issued and sold under the Offer at the Offer Price.
- (b) The Joint Bookrunners have severally and not jointly agreed, subject to certain conditions that are typical for an agreement of this nature, to procure subscribers and purchasers for or, failing which, to subscribe for and purchase themselves the Shares to be issued and sold under the Offer at the Offer Price.
- (c) The Company has agreed to pay the Joint Bookrunners a commission of 3% of the amount equal to the Offer Price multiplied by (i) the number of shares which ING and Renaissance have agreed to procure subscribers and purchasers for or, failing which subscribe and purchase themselves, pursuant to the terms of the Underwriting Agreement (the “Offer Proceeds”) and (ii) the number of shares (if any) for which ING and Renaissance procure subscribers or subscribe themselves pursuant to the exercise of the Over-Allotment Option (the “Over-Allotment Proceeds”). Furthermore, the Company may pay for the benefit of one or more of the Joint Bookrunners a further commission of up to 1% of the Offer Proceeds and the Over-Allotment Proceeds if the Company, in its absolute discretion, determines that such commission should be paid (as more fully set out in the Underwriting Agreement).
- (d) The obligation of the Company to issue Shares and the obligations of ING and Renaissance to procure subscribers and/or purchasers for, or failing which themselves subscribe for or purchase, the Shares to be issued and sold under the Offer are subject to certain conditions including, among others, Admission occurring by not later than 8 a.m. on 19 December 2007 or such later time and/or date as ING and Renaissance may agree with the Company. ING and Renaissance may terminate the Underwriting Agreement in certain circumstances that are typical for an agreement of this nature prior to Admission. These circumstances include the occurrence of a material adverse change in the condition (financial or otherwise), earnings, business affairs or prospects of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement).
- (e) The Company has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to the Offer, Admission and other arrangements contemplated by the Underwriting Agreement.
- (f) The Company has given certain representations, warranties, undertakings and indemnities to ING and Renaissance. These include an undertaking to take various actions to enable the Depositary Interests to be settled through CREST.
- (g) Subject to Admission taking place, the Company has undertaken to the Joint-Bookrunners that it will not, except with the prior written consent of ING and Renaissance, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or any securities convertible into or exercisable or exchangeable for Shares or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares during the period



of 180 days from the date of Admission except pursuant to certain exceptions set out in the Underwriting Agreement.

## **5. Dealing Arrangements**

Admission is expected to take place and unconditional dealings in the Shares are expected to commence on AIM at 8 a.m. on 19 December 2007. The earliest date for settlement will be on that date. Dealings on AIM before Admission will only be settled if Admission takes place. All dealings in the Shares prior to commencement of unconditional dealings will be at the sole risk of the parties concerned.

It is expected that the Shares allocated to investors pursuant to the Offer will be delivered in dematerialised form represented by Depositary Interests and settlement will take place through CREST on Admission. Shareholders may instead elect to receive the Shares in registered uncertificated form. In neither case will share certificates be issued. Investors in the Offer will pay the Offer Price in respect of the Shares to be transferred to them in such a manner as shall be directed to them by or on behalf of the Underwriters.

When admitted to trading on AIM, the Shares, and any Depositary Interests representing them, will be registered with ISIN NL0006146185 and SEDOL B29Q6D7 and the Company's stock exchange symbol will be KDDG. The Shares will be in registered form. The primary share register will be maintained in The Netherlands at the Company's registered office. The Depositary Interest register will be maintained in the United Kingdom by Computershare Investor Services (Channel Islands) Ltd on behalf of the Depositary.

## **6. Crest and Depositary Interests**

CREST is a computerised paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as the Company, cannot be held or transferred in the CREST system. Under arrangements put in place by the Company, a depositary will hold the Shares and issue dematerialised Depositary Interests representing the underlying Shares which will be held on trust for the holders of the Depositary Interests.

Computershare Investor Services PLC (the "Depositary"), will issue the Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system.

The Depositary Interests will be created pursuant to and issued on the terms of a deed poll executed by the Depositary in favour of the holders of Depositary Interests from time to time (the "Deed Poll"), the terms of which are summarised in Part XVI "Additional Information—CREST and Depositary Interests and the Deed Poll". Prospective holders of Depositary Interests should note that they will have no rights in respect of the underlying Shares or the Depositary Interests representing them against Euroclear or its subsidiaries.

The Shares will be transferred to an account of the Depositary or its nominated custodian (the "Custodian") and the Depositary will issue Depositary Interests to participating members.

Each Depositary Interest will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends.

Stamp duty or stamp duty reserve tax considerations in relation to Depositary Interests are set out in Part XV "Tax Considerations—Certain UK Tax Considerations—UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")".

It is anticipated that permission will be given for the holding and settling of Depositary Interests through CREST with effect from the date of Admission. Depositary Interests will have the same ISIN as the underlying Shares and will not require a separate application for admission to trading on AIM.

## **7. Lock-up Arrangements**

Lock-up deeds have been entered into by each of the related parties and applicable employees (all as defined in the AIM Rules) being Alexander Levin, Lindestra Consulting Limited (Cyprus), Parsel Investments Limited (Cyprus), Yorania Investments Limited (Cyprus), Arpanet Holdings Limited (Cyprus), Welstock Consultants Limited, Yankline Holdings Limited and Kenways Trading Limited (together referred to as the "Lock-up Parties"). The Lock-up Parties (excluding Lindestra Consulting

Limited (Cyprus), which will acquire Shares in the Company following Admission) hold 130,000,000 Shares representing all of the pre-admission share capital of the Company.

The Lock-up Parties have agreed (subject to certain limited exceptions), for the period up to and including the date 365 days after Admission (the “Lock-up Period”) not to: (i) offer, lend, sell, deposit, contract to sell, mortgage, pledge, create liens over, charge, assign, create any other security interest or equity over, issue options, warrants or other derivative instruments in respect of, or grant any option to purchase, or otherwise dispose of, directly or indirectly, any Shares held by them at any time during the Lock-up Period (or any other securities convertible into or exchangeable for Shares or which carry rights to subscribe for or purchase Shares or any interest therein or in respect thereof, including any warrants in issue from time to time); (ii) enter into any swap or other arrangement which transfers to another, in whole or in part, the economic consequences of ownership of any Share or any interest therein; or (iii) announce any intention to do, or agree to do, any of the foregoing in each case without the prior written consent of ING and Renaissance.

## **8. Selling Restrictions**

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. This document does not constitute an offer of, or the solicitation of any offer to subscribe for or purchase, Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### ***European Economic Area***

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive the Shares are being and will only be offered in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million; and (iii) an annual turnover of more than €50 million as shown in its last annual or consolidated accounts;
- (c) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3(2) of the Prospectus Directive, provided that no such offer of the Shares shall result in a requirement for the publication by the Company or any of the Joint Bookrunners of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person who initially acquires any Shares or to whom any offer is made under the Offer located in a relevant member state will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investor”).

The expression “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Shares, as the expression may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed to and with ING, Renaissance and the Company that the Shares acquired by it in the Offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than Qualified Investors or in circumstances in which the prior

consent of ING and Renaissance has been obtained to each such proposed offer or resale. The Company, ING, Renaissance and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a Qualified Investor and who has notified ING and Renaissance of such fact in writing may, with the consent of ING and Renaissance, be permitted to purchase or subscribe for Shares in the Offer.

### ***United Kingdom***

This document is being distributed only to, and is directed only at, persons that are Qualified Investors that are also (i) investment professional falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) or (ii) high net worth entities or other persons falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. Any investment or investment activity to which this document relates is available in the United Kingdom only to relevant persons, and will be engaged in only with such persons.

### ***United States***

The Shares have not been and will not be registered under the Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The Shares are being offered (i) to investors outside the United States in accordance with Regulation S under the Securities Act, and (ii) to qualified institutional buyers, or QIBs, in the United States as defined under and in accordance with Rule 144A under the Securities Act, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereof. Each of the Joint Bookrunners has agreed that, except as permitted in the underwriting agreement, it will not offer, sell or deliver Shares into or within the United States.

In addition, until 40 days after the commencement of the Offer, any offer or sale of Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise in accordance with Rule 144A.

### ***Australia***

This document has not been and will not be lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange and is not a disclosure document for purposes of Australian law. This document (whether in preliminary or definitive form) may not be issued or distributed in Australia and no offer or invitation may be made in relation to the issue, sale or purchase of any Shares in Australia (including an offer or invitation received by a person in Australia) and no Shares may be sold in Australia, unless the offer or invitation does not need disclosure to investors under Part 7 D.2 or Division 2 or Part 9.9 of the Corporations Act 2001 (Cth).

### ***Italy***

No prospectus has been nor will be published in Italy in connection with the offering of the Shares and the Offer has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa*) (“CONSOB”) pursuant to Italian securities legislation and, accordingly, the Shares may not and will not be offered, sold or delivered, nor may or will copies of this document or any other documents relating to the Shares be distributed in Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended, (the “Regulation No. 11522”), or (ii) in other circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “Italian Finance Law”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Shares or distribution of copies of this document or any other document relating to the Shares in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Finance Law, Legislative Decree No. 385 of 1 September 1993, as amended (the “Italian Banking Law”), Regulation No. 11522, and any other applicable laws and regulations; and (ii) in

compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

### ***Russian Federation***

Each of the Joint Bookrunners has represented and agreed that the Shares will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Underwriters may distribute the admission document to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of the Shares and may sell the Shares to Russian persons in a manner that does not constitute “placement” or “public circulation” of the Shares in the Russian Federation (as defined in Russian law).

### ***Dubai International Financial Center***

The Shares may not be, are not and will not be sold, subscribed for, transferred or delivered, to any person in the Dubai International Financial Center who is not a client within the meaning of the Conduct of Business Module of the Rules of the Dubai Financial Services Authority unless in accordance with the offered Securities Rules of the Dubai Financial Services Authority.

### ***UAE***

The Shares may not be, have not been and are not being sold, subscribed for, transferred or delivered in the UAE other than in compliance with the laws of the UAE governing the sale, subscription for, transfer and delivery of securities.

## **9. Transfer Restrictions**

Each purchaser in the United States of the Shares offered hereby, will be deemed to have represented, agreed and acknowledged as follows:

- 9.1 The purchaser (i) is a qualified institutional buyer, or QIB, as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Shares has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements thereof, (iii) is acquiring such Shares for its own account or for the account of one or more QIBs and (iv) if it is acquiring such Shares for the account of one or more QIBs, it has sole investment discretion with respect to each such account and it has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
- 9.2 The purchaser is aware that the Shares have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements thereof in transactions not involving any public offering in the United States and are “restricted securities” within the meaning of the Securities Act.
- 9.3 In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the Shares, such Shares may be offered, sold, pledged or otherwise transferred only (a)(i) pursuant to an effective registration statement under the Securities Act, (ii) to a person whom the holder and any person acting on its behalf reasonably believes is a QIB purchasing for its account or for the account of a QIB in a transaction meeting the requirement of Rule 144A, (iii) outside the United States in an “offshore transaction” in accordance with Rule 903 or Rule 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such Shares into the United States, or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder, if available, and (b) in accordance with applicable securities law of any state or territory of the United States and any other jurisdiction. Such person understands that no representation is made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Shares.
- 9.4 The purchaser has received a copy of this document and has had access to such financial and other information concerning the Group as it has deemed necessary in connection with making its own investment decision to purchase the Shares. It has made its own independent investigation and

appraisal of, without limitation, the business, financial condition, prospects, creditworthiness, status and affairs of the Group and the Shares. It understands that there may be certain consequences under U.S. and other tax laws resulting from an investment in the Shares and it has made such investigation and has consulted such tax and other advisors with respect thereto as it deems appropriate. It acknowledges that neither the Group nor the Joint Bookrunners nor any person representing the Group or the Joint Bookrunners has made any representation, express or implied, to it with respect to the Group or the offering or sale of the Shares other than as set forth in this document. It acknowledges that it has read, understood and agreed to the matters stated in “—Selling Restrictions” and “—Transfer Restrictions” of this Part XIV.

9.5 The purchaser and each other QIB, if any, for whose account it is acquiring the Shares, in the normal course of business, invests in and purchases securities similar to the Shares, has such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of purchasing Shares and is aware that it may be required to bear the economic risk of an investment in the Shares for an indefinite period of time and is able to bear such risk and to sustain the complete loss of its investment in the Shares.

9.6 The purchaser undertakes to promptly notify the Company and the Joint Bookrunners if, at any time prior to the delivery to it of any Shares, any of the foregoing ceases to be true.

Each purchaser in the United States will also be deemed to have agreed to give any subsequent purchaser of the Shares notice of any restrictions the transfer thereof.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above stated restrictions shall not be recognised by the Group or the Joint Bookrunners.

The Group, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

**Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**



## PART XV: TAX CONSIDERATIONS

### UK Tax Considerations

The comments below are of a general nature and are based on current UK law and published HM Revenue and Customs (“HMRC”) practice at the date of this document, both of which are subject to change, possibly with retrospective effect. The summary covers the principal UK tax consequences of holding Shares for individuals and companies who are absolute beneficial holders and resident (and, in the case of individuals only, ordinarily resident) in the UK for UK tax purposes and for the purposes of The Netherlands/UK double tax treaty (“UK Holders”). In addition, the summary: (i) only addresses the tax consequences for UK Holders who hold the Shares as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers; (ii) does not address the tax consequences for UK Holders that are insurance companies, collective investment schemes or persons connected with the Company; (iii) assumes that the UK Holder is not interested in or deemed to be interested in, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the share capital or the voting power or the profits of the Company; (iv) assumes that there will be no register in the UK in respect of the Shares and (v) assumes that the Shares will not be paired with shares issued by a company incorporated in the UK.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including the consequences under UK law and HMRC practice, of acquisition, ownership and disposition of Shares in their own particular circumstances by consulting their own tax advisers.

#### *Taxation of chargeable gains*

##### *Individuals*

A disposal (or deemed disposal) of Shares by an individual UK Holder may give rise to a chargeable gain or allowable loss for the purposes of UK tax on capital gains depending on the individual circumstances of the UK Holder and subject to any available exemption or relief. In addition, an individual UK Holder who ceases to be resident or ordinarily resident in the UK for a period of less than five complete tax years and who disposes of the Shares held prior to departure during that period of temporary non-residence may, under anti-avoidance legislation, be liable to capital gains tax on his or her return to the UK (subject to available exemptions or reliefs).

An individual UK Holder who is not domiciled or not ordinarily resident in the UK is entitled to pay tax on income and gains arising outside the UK on the “remittance” basis. This means that such UK Holders will be liable to UK capital gains tax only to the extent that gains in respect of the Shares (if any) are remitted or deemed to be remitted in the UK. However, the pre-budget report issued on 9 October 2007 (the “Pre-Budget Report”) proposes to make certain changes to the remittance basis of tax (subject to consultation) with effect from 6 April 2008.

Taper relief can be used to reduce a chargeable gain for the purposes of capital gains tax for UK Holders who are individuals (but not corporate UK Holders), depending on the period for which the Shares are held prior to disposal, but not to create or increase an allowable loss. However, the Pre-Budget Report issued on 9 October 2007 announced the proposed introduction of new legislation in the Finance Bill 2008 which, if implemented, will withdraw the availability of taper relief and indexation allowance in respect of disposals made on or after 6 April 2008 (even in relation to assets held before that date), and apply a single rate of capital gains tax at 18%. These proposals are not yet law and may be subject to change.

##### *Companies*

A disposal or deemed disposal of Shares by a corporate UK Holder which is resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax. Indexation allowance may be available to corporate UK Holders to reduce or eliminate a chargeable gain, but not to create or increase an allowable loss. The changes to the taxation of capital gains announced in the Pre-Budget Report issued on 9 October 2007 do not affect holders that are companies.



## ***Taxation of dividends***

### ***Individuals***

An individual UK Holder who is subject to UK income tax on dividends paid by the Company will be liable to such tax at either the dividend ordinary rate (for lower or basic rate taxpayers) or the dividend upper rate (for higher rate taxpayers) on the gross amount of any dividends paid by the Company. Currently, the dividend ordinary rate is 10% and the dividend upper rate is 32.5%.

An individual UK Holder who is not domiciled in the UK will be liable to UK income tax only to the extent that dividends paid by the Company are remitted or deemed to be remitted in the UK.

A UK Holder who is liable to UK income tax on the gross amount of dividends paid by the Company is generally entitled to a credit against such tax for any Dutch tax charged directly or deducted at source, where such Dutch tax may not be reduced under The Netherlands/UK double tax treaty.

It was announced in the budget of 21 March 2007, that individual holders of Shares may, in the future and subject to certain conditions, be entitled to receive a UK tax credit in respect of any dividends received from the Company. If these proposals were adopted, an individual would qualify for a tax credit under the proposed rules if they hold less than a 10% shareholding in the Company and received dividends of less than £5,000 per annum; however, it is by no means certain that this would be the case.

### ***Companies***

A corporate UK Holder will be liable for corporation tax on the receipt of the gross dividend with credit for any Dutch tax charged directly or deducted at source (where such Dutch tax may not be reduced under The Netherlands/UK double tax treaty), but with no credit for Dutch tax payable by the Company in respect of the profits out of which the dividend is paid unless such UK Holder controls directly or indirectly at least 10% of the voting power in the Company.

HMRC released a discussion paper on the taxation of the foreign profits of companies in June 2007; while portfolio dividends (being dividends received from less than 10% shareholdings in non-UK resident companies) were not part of the discussion, HMRC proposed to discuss the future taxation of portfolio dividends with business. While some options were mentioned, no proposals were made.

### ***UK stamp duty and stamp duty reserve tax (“SDRT”)***

The following comments are intended as a guide to the general stamp duty and SDRT position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with voluntary arrangements or clearance services, to whom special rules apply.

There is no liability to UK stamp duty or stamp duty reserve tax on the issue of Shares by the Company.

No charge to UK stamp duty will arise in relation to the transfer of the Shares provided that all instruments effecting or evidencing the transfer (or all matters or things done in relation to the transfer) are executed and retained outside the UK and do not relate to any property situate, or any matter or thing done or to be done, in the UK.

No charge to UK SDRT will arise in respect of an agreement to transfer Shares, provided that the Shares are not registered in any register kept in the UK by or on behalf of the Company.

SDRT will be payable on an agreement to transfer Depositary Interests within CREST on the basis that not all of the requirements set out in the Stamp Duty Reserve Tax (UK Depositary Interests in Foreign Securities) Regulations 1999 (SI 1999/2383) will be satisfied in relation to the Depositary Interests. The general rate of SDRT applicable to a transfer of UK securities is 0.5% of the amount or value of the consideration paid.

### ***Inheritance tax***

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift of the Shares by, the owner of Shares where the owner is an individual who is domiciled or is deemed to be domiciled in the UK for inheritance tax purposes.

## Dutch tax considerations

The following summary outlines certain Dutch tax consequences in connection with the acquisition, ownership and disposal of Shares. The summary does not purport to present any comprehensive or complete picture of all Dutch tax aspects that could be of relevance to a holder of Shares of the Company, who may be subject to special tax treatment under any applicable law. It does not address the tax consequences of a holder of Shares who is an individual and who together with his partner and/or certain other close relatives, holds, alone or together, directly or indirectly (x) the ownership of, (y) certain other rights, such as usufruct, over, or (z) rights to acquire (whether or not already issued), Shares of the Company representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of Shares) of the Company. It also does not address the tax consequences of any other shareholder holding alone or together with certain related entities an interest of at least 5% in the issued and paid up nominal share capital of the Company. It furthermore does not address the tax consequences of a holder of Shares receiving income or realising capital gains in their capacity as (former) employer, (former) director or (former) supervisory director. The summary is based on the current law and practice of The Netherlands, which is subject to changes that could prospectively or retrospectively affect the stated tax consequences. **Prospective holders of Shares who may be in any doubt as to their respective tax positions should consult their own professional advisors regarding the tax consequences of any acquisition, ownership or disposal of the Shares.**

### *Withholding tax*

Dividends distributed by the Company in respect of the Shares are generally subject to a withholding tax imposed by The Netherlands at a rate of 15%. The expression “dividends distributed by the Company” as used herein includes, but is not limited to:

- (i) distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital (*gestort kapitaal*) not recognised for The Netherlands dividend withholding tax purposes;
- (ii) liquidation proceeds, proceeds of redemption of Shares or, as a rule, consideration for the repurchase of Shares by the Company in excess of the average paid-in capital recognised for Dutch dividend withholding tax purposes;
- (iii) the par value of Shares issued to a holder of Shares or an increase of the par value of Shares, as the case may be, to the extent that it does not appear that a contribution, recognised for Dutch dividend withholding tax purposes, has been made or will be made; and
- (iv) partial repayment of paid-in capital, recognised for Dutch dividend withholding tax purposes, if and to the extent that there are net profits, unless (a) the general meeting of shareholders of the Company has resolved in advance to make such repayment and (b) the par value of the Shares concerned has been reduced by an equal amount by way of an amendment of the articles of association of the Company.

A holder of Shares that is resident or deemed to be resident in The Netherlands or, if he is an individual, who has elected to be taxed as resident in The Netherlands for Dutch income tax purposes, is generally entitled, subject to the anti-dividend stripping rules described below, to a full credit against its (corporate) income tax liability, or a full refund, of Dutch dividend withholding tax.

A holder of Shares that is resident in a country other than The Netherlands and if a double taxation convention is in effect between The Netherlands and such country, may, depending on the terms of such double taxation convention and subject to the anti-dividend stripping rules described below, be eligible for a full or partial exemption from, or refund of, Dutch dividend withholding tax on dividends received.

According to the anti-dividend stripping rules, no exemption, reduction, credit or refund of Dutch dividend withholding tax will be granted if the recipient of the dividend paid by the Company is not considered the beneficial owner (*uiteindelijk gerechtigde*) of the dividend as defined in these rules. A recipient of a dividend is not considered the beneficial owner of the dividend if such recipient:

- (a) paid consideration (in cash or in kind) in connection with the dividend distribution; and
- (b) such payment forms part of a sequence of transactions, whereby it is likely that (i) an individual or legal entity benefited in whole or in part from the dividend, and such individual or legal entity is entitled to a less favourable exemption, refund or credit of dividend withholding tax than the recipient of the dividend distribution; and (ii) this individual or legal entity directly or indirectly retains or

acquires a position in Shares that is comparable with its position in the Shares that it had before the sequence of transactions commenced.

The term “sequence of transactions” includes transactions that have been entered into on a regulated stock market and transactions with respect to the sole acquisition of one or more dividend rights or of the establishment of short-term rights of enjoyment on the Shares (e.g. usufruct).

### ***Taxes on income and capital gains***

#### *Holders of Shares resident in The Netherlands: individuals*

A holder of Shares, who is an individual, resident or deemed to be resident in The Netherlands, or who has elected to be taxed as resident in The Netherlands for Dutch income tax purposes, will be subject to regular Dutch income tax on the income derived from the Shares and the gains realised upon the acquisition, redemption and/or disposal of the Shares, if:

- (i) such holder of Shares has an enterprise or an interest in an enterprise, to which enterprise the Shares are attributable; and/or
- (ii) such income or capital gain forms “a benefit from miscellaneous activities” (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the activities with respect to the Shares exceed “normal active asset management” (*normaal, actief vermogensbeheer*).

If either of the above-mentioned conditions (i) or (ii) applies, income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares will in general be subject to Dutch income tax at the progressive rates.

If the above-mentioned conditions (i) and (ii) do not apply, the holder of Shares who is an individual, resident or deemed to be resident in The Netherlands, or who has elected to be taxed as a resident of The Netherlands, will not be subject to taxes on income and capital gains in The Netherlands. Instead, the individual is taxed at a flat rate of 30% on deemed income from “savings and investments” (*sparen en beleggen*). This deemed income amounts to 4% of the average of the individual’s “yield basis” (*rendementsgrondslag*), generally, at the beginning of the calendar year and the individual’s “yield basis” at the end of the calendar year (minus a tax-free threshold). The yield basis would include the fair market value of the Shares.

A holder of Shares who is an individual resident or deemed to be resident in The Netherlands for Dutch income tax purposes, is entitled to a credit in respect of the Dutch dividend withholding tax that is withheld on dividends received from the Company.

#### *Holders of Shares resident in The Netherlands: corporate entities*

A holder of Shares that is resident or deemed to be resident in The Netherlands for corporate income tax purposes, and that is:

- (i) a corporation;
- (ii) another entity with a capital divided into shares;
- (iii) a cooperative (association); or
- (iv) another legal entity that has an enterprise or an interest in an enterprise to which the Shares are attributable,

but which is not:

- (v) a qualifying pension fund;
- (vi) a qualifying investment fund; or
- (vii) another entity exempt from corporate income tax,

will in general be subject to regular corporate income tax, currently generally levied at a rate of 25.5% (20% over profits up to €25,000 and 23.5% over profits between €25,000 and €60,000) over income derived from the Shares and gains realised upon acquisition, redemption and disposal of the Shares. With effect from 1 January 2008, Dutch corporate income tax is expected to be generally levied at a rate of 20% over profits up to €40,000, 23% over profits between €40,001 to €200,000 and 25.5% over profits in excess of €200,000 over income derived from the Shares and gains realised upon acquisition, redemption and disposal of the Shares.

*Holders of Shares resident outside The Netherlands: individuals*

A holder of Shares, who is an individual, not resident or deemed to be resident of The Netherlands, and who has not elected to be taxed as resident of The Netherlands for Dutch income tax purposes, will not be subject to any Dutch taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of the Shares (other than the withholding tax described under “—Withholding Tax” above), unless:

- (i) such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares are attributable; and/or
- (ii) such dividend or capital gain forms a “benefit from miscellaneous activities in The Netherlands which would for instance be the case if the activities in The Netherlands with respect to the Shares exceed “normal active asset management””.

If either of the above-mentioned conditions (i) or (ii) applies, income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of the Shares will in general be subject to Dutch income tax at the progressive rates.

*Holders of Shares resident outside The Netherlands: legal and other entities*

A holder of Shares, that is a legal entity, another entity with a capital divided into shares, an association, a foundation or a fund or trust, not resident or deemed to be resident in The Netherlands, will not be subject to any Dutch taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares (other than the withholding tax described under “—Withholding Tax” above), unless such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares are attributable. If the above-mentioned condition applies, income derived from the Shares and gains realised on the Shares will, in general, be subject to regular corporate income tax, generally levied at a rate of 25.5% (20% over profits up to €25,000 and 23.5% over profits between €25,000 and €60,000). With effect from 1 January 2008, Dutch corporate income tax is expected to be generally levied at a rate of 20% over profits up to €40,000, 23% over profits between €40,001 to €200,000 and 25.5% over profits in excess of €200,000 over income derived from the Shares and gains realised upon acquisition, redemption and disposal of the Shares.

**Gift, estate and inheritance taxes**

*Holders of Shares resident in The Netherlands*

Inheritance tax may be due in The Netherlands with respect to an acquisition or deemed acquisition of the Shares by way of an inheritance or bequest on the death of a holder of the Shares who is resident or deemed to be resident of The Netherlands, or by way of a gift within 180 days before his death by a holder of the Shares who is resident or deemed to be resident in The Netherlands at the time of his death.

For purposes of Dutch gift and inheritance tax, an individual with Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident of The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

*Holders of Shares resident outside The Netherlands*

No gift, estate or inheritance taxes will arise in The Netherlands with respect to an acquisition of Shares by way of a gift by, or on the death of, a holder of Shares who is neither resident nor deemed to be resident in The Netherlands for Dutch inheritance, estate and gift tax purposes, unless:

- (i) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares are or were attributable; or

- (ii) in the case of a gift of the Shares by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

There are some other deeming provisions relating to the residence of a person in the Dutch inheritance tax law that may be or become relevant.

### **United States Federal Income Tax Considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS ADMISSION DOCUMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING US FEDERAL TAX PENALTIES; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE SHARES; AND (C) EACH INVESTOR SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES BASED ON ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE SHARES.

The following is a description of certain material US federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of the Shares. This description addresses only the US federal income tax considerations of US Holders (as defined below) that are initial purchasers of the Shares pursuant to the Offering and that will hold such Shares as capital assets. This description does not purport to address all material tax consequences of the ownership of the Shares and does not address aspects of US federal income taxation that may be applicable to investors that are subject to special tax rules, including without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities;
- individual retirement accounts and other tax deferred accounts;
- persons that receive the Shares as compensation for the performance of services;
- persons that will hold the Shares as part of a “hedging”, “conversion” or constructive sale transaction or as a position in a “straddle” for US federal income tax purposes;
- certain US expatriates;
- “dual resident” corporations;
- persons that have a “functional currency” other than the US Dollar; or
- holders that own or are deemed to own 10% or more, by voting power or value, of the equity interests of the Company.

Further, this description does not address the alternative minimum tax or the US federal gift and estate tax consequences of the acquisition, holding or disposition of the Shares. This description, furthermore, does not address the tax consequences of owning options or warrants or similar instruments on the Shares, or any tax consequences applicable to the holder of an equity interest in a holder of the Shares.

**Based on the Company’s existing operations and assets, the Company believes that it may currently be a “passive foreign investment company” or PFIC and, depending upon the future operations and assets of the Company, there is a substantial risk that the Company could be treated as a PFIC in subsequent years. This status has a number of adverse US tax consequences for US Holders (as defined below) that are not tax-exempt entities. These adverse tax consequences are discussed in “—Passive Foreign Investment Company Considerations” below and the remainder of the disclosure under this section “United States Federal Income Tax Considerations” is subject to that discussion. Prospective investors are urged to consult their own tax advisers concerning the US federal, state, local and foreign tax consequences of the purchase, ownership and disposition of the Shares.**



This description is based on the US Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, in each case as in effect on the date of this document, all of which are subject to change (or to changes in interpretation), possibly with retroactive effect.

### *US Holders*

For the purposes of this summary, a “US Holder” is a beneficial owner of a Share that is for US federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States or any political subdivision thereof, including the District of Columbia;
- an estate, the income of which is subject to US federal income tax regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration, and one or more US persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a United States person for US federal income tax purposes.

A “Non-US Holder” is a beneficial owner of the Shares that is not a US Holder.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds the Shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax adviser as to the US federal income tax consequences of acquiring, holding, or disposing of the Shares.

### *Distributions*

#### *US Holders*

Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, US Holders of the Shares will include in gross income as foreign-source dividend income, when actually or constructively received by the US Holder, the gross amount of any cash or the fair market value of any property distributed by the Company (before reduction for the Dutch withholding taxes, if any) in respect of the Shares to the extent such distribution is paid out of the Company’s current or accumulated earnings and profits (as determined for US federal income tax purposes). The Company does not intend to compute (or to provide US Holders with information necessary to compute) earnings and profits under US federal income tax principles. Accordingly, US Holders generally will be required to treat all distributions as taxable dividends.

Dividends will not be eligible for the dividends received deduction allowed to US corporate shareholders in respect of dividends received from other US corporations. In addition, dividends paid to non-corporate US Holders will not be treated as “qualified dividends” (and taxed at a maximum rate of 15%) if the Company was, in the year prior to the year in which a dividend is paid, or was, in the year in which the dividend is paid, a PFIC. As discussed in “—Passive Foreign Investment Company Considerations”, the Company believes that it may currently be a PFIC and, depending upon the future operations and assets of the Company, there is a substantial risk that the Company could be treated as a PFIC in subsequent years. Therefore, US Holders should assume that distributions on the Shares that are treated as dividends for US federal income tax purposes will not constitute qualified dividends.

If the Company pays a dividend in a currency other than the US Dollar, any such dividend will be included in the gross income of the US Holder in an amount equal to the US Dollar value of the currency on the date of receipt, determined at the spot foreign currency/US Dollar exchange rate on the date such dividend distribution is includible in the income of the US Holder, regardless of whether the payment is in fact converted into US Dollars at that time. US Holders will have a tax basis in the currency received equal to its US Dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible to the date such payment is converted into US Dollars will be treated as ordinary income or loss from US sources.

Dividends will be treated as foreign source income for US foreign tax credit purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this



purpose, dividends will generally constitute either “passive category income” or “general category income” with respect to taxable years beginning after 31 December 2006. Currency exchange gain or loss will generally be income to a US Holder from sources within the United States for foreign tax credit limitation purposes.

#### *Non-US Holders*

Subject to the discussion of US backup withholding tax below (see “—Backup Withholding and Information Reporting”), dividends paid to a Non-US Holder in respect of the Shares will not be subject to US federal income tax unless such dividends are effectively connected with the conduct of a trade or business within the United States by such Non-US Holder (and are attributable to a permanent establishment maintained in the United States by such Non-US Holder if an applicable income tax treaty so requires as a condition for such Non-US Holder to be subject to US taxation on a net income basis in respect of income from the Shares), in which case the Non-US Holder generally will be subject to tax in respect of such dividends in the same manner as a US Holder. In addition, if such Non-US Holder is a foreign corporation for US federal income tax purposes, it may be subject to a US branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, as adjusted for certain items, unless a lower rate applies under an applicable income tax treaty.

#### *Sale or exchange of Shares*

##### *US Holders*

Subject to the discussion below under “—Passive foreign investment company considerations”, upon a sale or other disposition of the Shares, a US Holder will recognise gain or loss for US federal income tax purposes in an amount equal to the difference between the US Dollar value of the amount realised and the US Holder’s adjusted tax basis (determined in US Dollars) in such Shares. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if the US Holder’s holding period for such Shares exceeds one year, and will be income or loss from sources within the United States for foreign tax credit limitation purposes. For non-corporate US Holders, the United States income tax rate applicable to net long-term capital gain currently will not exceed 15%. The deductibility of capital losses is subject to significant limitations. Capital gains of a US Holder will generally constitute US source income and as a result of the US foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of the Shares may not be currently creditable. Subject to certain conditions, a capital loss recognised by a US Holder will generally be allocated against US source income for foreign tax credit purposes.

With respect to the sale or exchange of the Shares, the amount realised generally will be the US Dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis US Holder and (ii) the date of disposition in the case of an accrual basis US Holder. A US Holder will have a tax basis in the foreign currency received equal to the US Dollar amount realised. Any currency exchange gain or loss realised on a subsequent conversion of the foreign currency into US Dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States.

##### *Non-US Holders*

Subject to the discussion of US backup withholding tax below (see “—Backup Withholding and Information Reporting”), a Non-US Holder will not be subject to US federal income tax in respect of gain recognised on a sale or other disposition of the Shares unless (i) the gain is effectively connected with the conduct of a trade or business in the United States by such Non-US Holder (and is attributable to a permanent establishment maintained in the United States by such Non-US Holder if an applicable income tax treaty so requires as a condition for such Non-US Holder to be subject to US taxation on a net income basis in respect of gain from a sale or other disposition of the Shares), or (ii) in the case of a Non-US Holder who is an individual, such holder is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions apply. In addition, if such Non-US Holder is a foreign corporation for US federal income tax purposes, it may be subject to a US branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, as adjusted for certain items, unless a lower rate applies under an applicable income tax treaty.

### *Passive foreign investment company considerations*

A Non-US corporation will be classified as a “passive foreign investment company,” or a PFIC, for US federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

- at least 75% of its gross income is “passive income” (generally, dividends, interest, royalties, rents and gains from the sale of assets that give rise to such income); or
- at least 50% of the quarterly average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of passive income.

Based on the Company’s existing operations and assets, the Company believes that it may currently be a PFIC and, depending upon the future operations and assets of the Company, there is a substantial risk that the Company could be treated as a PFIC in subsequent years. If the Company were treated as a PFIC, a US Holder would be subject to special rules with respect to (i) any gain realised on the sale or other disposition of the Shares and (ii) any “excess distribution” by the Company to the US Holder in respect of the Shares (generally, any distributions to the US Holder in respect of the Shares during a single taxable year that total more than 125% of the average annual distributions received by the US Holder in respect of the Shares during the three preceding taxable years or, if shorter, the US Holder’s holding period for the Shares). Under these rules, (a) the gain or excess distribution would be allocated rateably over the US Holder’s holding period for the Shares, (b) the amount allocated to the taxable year in which the gain or excess distribution was realised or to any year before the Company became a PFIC would be taxable as ordinary income, (c) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for that year and (d) an interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such prior year. If the Company were a PFIC in any year during a US Holder’s holding period, it would generally be treated as a PFIC for each subsequent year.

The above results may be mitigated if a “mark-to-market” election is available and a US Holder validly makes such an election as of the beginning of such US Holder’s holding period. If such election is made, such US Holder generally will be required to take into account (whether or not Shares are actually sold) the difference, if any, between the fair market value of, and its adjusted tax basis in, the Shares at the end of each taxable year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis of such Shares. In addition, any gain from a sale, exchange or other disposition of the Shares will be treated as ordinary income, and any loss will be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss.

A mark-to-market election is available to a US Holder only if the Shares are considered “marketable stock”. Generally, stock will be considered marketable stock if it is “regularly traded” on a “qualified exchange” within the meaning of applicable US Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. A qualified exchange includes a non-US securities exchange that is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in US Treasury regulations. Pursuant to this Offering, the Shares will be listed on the London AIM exchange. It is uncertain whether the London AIM exchange will be considered to be a “qualified exchange” for purposes of the applicable US Treasury Regulations and there can be no certainty that the Shares will be traded in sufficient volume so as to be treated as “regularly traded”. If the Company’s stock qualifies as “marketable stock”, a US Holder who wishes to elect mark-to-market treatment will be forced to recognise in such year gain on the difference between the fair market value of the Shares and the US Holder’s adjusted basis in such Shares.

The above results may also be eliminated if a US Holder is eligible for and timely makes a valid “QEF election”. If a QEF election were made, such US Holder generally would be required to include in income on a current basis its *pro rata* share of our ordinary income and net capital gains. In order for a US Holder to be able to make a QEF election, we would be required to provide such US Holder with certain information. As the Company does not expect to provide US Holders with the required information, prospective investors should assume that a QEF election will not be available.

### *Subsidiary PFICs*

In addition, based on certain estimates of gross income and gross assets of the Company's subsidiaries and the nature of their businesses, the Company believes that there is a risk that its direct and indirect subsidiaries and certain other entities in which it directly or indirectly owns an equity investment that are treated as corporations for US federal income tax purposes may currently be classified as PFICs for their current taxable years and for future taxable years (the "Subsidiary PFICs"). A US Holder will be treated as owning its *pro rata* share of the stock of each Subsidiary PFIC and will be subject to the PFIC rules with respect to each such Subsidiary PFIC. A US Holder's holding period for the stock of a Subsidiary PFIC generally will begin on the first day that such holder is considered to own stock of the Subsidiary PFIC.

US Holders will be treated as actually receiving their *pro rata* share of any distribution made by a Subsidiary PFIC (an "indirect distribution") and such holders will be subject to the rules generally applicable to shareholders of PFICs discussed above (even though such holders may not have received the proceeds of such distribution). Any disposition of an interest in a Subsidiary PFIC (an "indirect disposition") will result in the recognition of such holder's *pro rata* share of the gain, if any, and will be taxable under the PFIC regime as previously described. A US Holder's adjusted basis in the Shares will be increased by the amount of the indirect distribution taxed to such holder or by any gain recognised by such holder as a result of an indirect disposition.

Even if a US Holder should be eligible to make a mark-to-market election with respect to the Shares, it is possible that no election can be made with respect to the stock of any Subsidiary PFIC that such US Holder is treated as owning because such stock is not marketable stock. Hence, there is a risk that the mark-to-market election will not be effective to eliminate the adverse US tax consequences described above with respect to a distribution on, or disposition of, the stock of a Subsidiary PFIC.

US Holders should consult their tax advisers concerning the US federal income tax consequences of holding the Shares and of making the mark-to-market election, if the Company were considered to be a PFIC. A US Holder that owns the Shares during any year that a Company is a PFIC must file IRS Form 8621.

### ***Backup withholding and information reporting***

Payments of dividends and other proceeds made by a US paying agent or other United States intermediary broker in respect of the Shares may be subject to information reporting to the IRS and to 28% backup withholding. Backup withholding will not apply, however, (i) to a holder who furnishes a correct taxpayer identification number and makes any other required certification or (ii) to a holder who is otherwise exempt from backup withholding. Non-US Holders generally are not subject to information reporting or backup withholding. However, a non-US Holder may be required to provide a certification to its non-US status in connection with payments received within the United States or through certain US related financial institutions.

Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder's US federal income tax, provided that the required information is furnished to the US Internal Revenue Service.

## PART XVI: ADDITIONAL INFORMATION

### 1. Responsibility

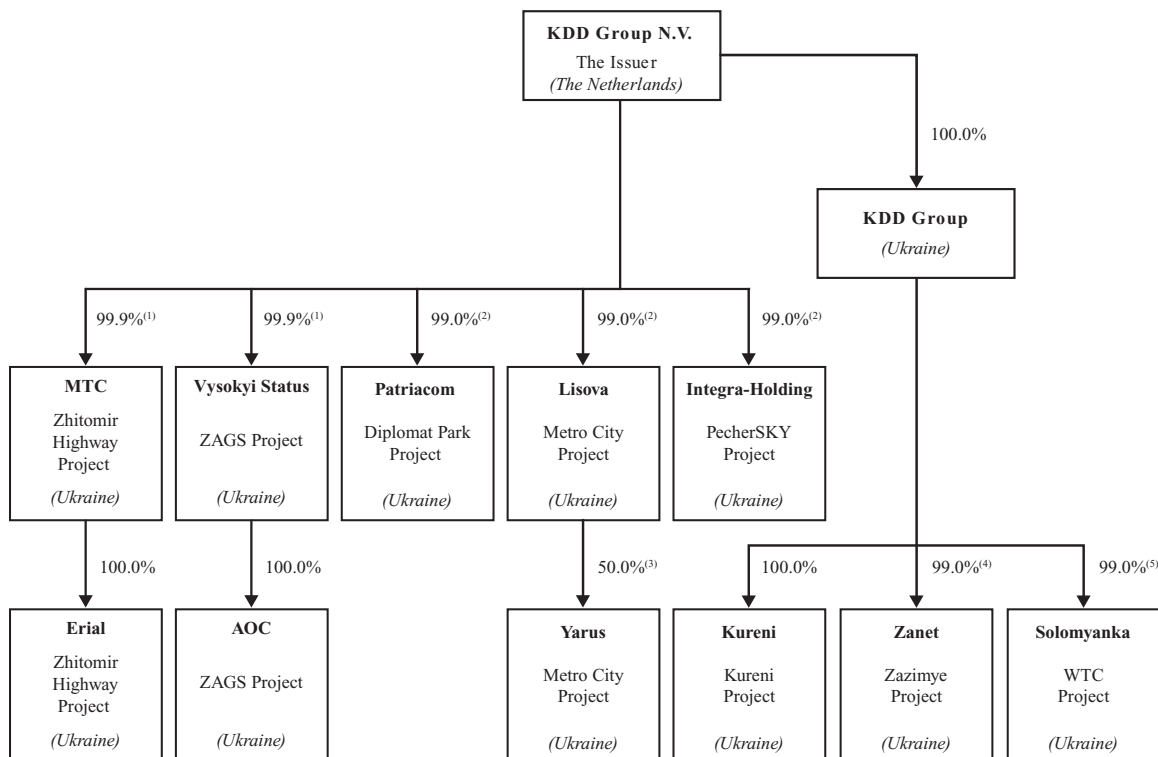
The Company, whose registered office appears on page 1 of this document, and the Directors, whose names and functions also appear on page 1 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) and the Company, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. Incorporation

- 2.1 The Company was incorporated in The Netherlands on 24 October 2007 by a notarial deed of incorporation as a company with limited liability (*naamloze vennootschap*), under Book 2 of the Dutch Civil Code, with the legal and commercial name “KDD Group N.V.” and currently registered at the Chamber of Commerce under number 34285652.
- 2.2 The Company’s registered office is at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands, with telephone number +31 20 521 4777.
- 2.3 Under Dutch law, the liability of each Shareholder is in principle limited. A Shareholder is obliged to pay up the nominal value of the shares issued to such Shareholder and, in addition, if the shares are subscribed for a higher amount, the difference between such amounts.
- 2.4 The principal legislation under which the Shares have been created and under which the Company was formed and now operates is Book 2 of the Dutch Civil Code.

### 3. Corporate Structure

The following diagram illustrates the corporate structure of the Group.



- (1) KDD Group holds the remaining 0.1% of the participatory interests in these entities.
- (2) KDD Group holds the remaining 1% of the participatory interests in these entities.
- (3) KDD Group holds the remaining 50% of the participatory interests in this entity.
- (4) Vysokyi Status holds the remaining 1% of the shares in this entity.
- (5) Yarus holds the remaining 1% of the participatory interests in this entity.

#### 4. Major Subsidiaries

The Company conducts business in Ukraine through a number of subsidiaries. Information regarding these subsidiaries is set forth below.

- **Closed Joint-Stock Company “Firm ‘Zanet’ ”**

Full name	Closed Joint-Stock Company “Firm ‘Zanet’ ”
Short name	CJSC “Firm ‘Zanet’ ”
Date of registration	13 February 2001
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 105 0002 006728
Identification code	16397152
Taxpayer’s identification number	29763
Registered address	41 Zhylyanska Street, Kyiv, 01033, Ukraine
Mailing address	41 Zhylyanska Street, Kyiv, 01033, Ukraine
Charter capital	UAH 147,500.00
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 99% of the shares through KDD Group and 1% of the shares through Vysokyi Status
General Director Appointed by the Shareholders’ Meeting	O.L. Marin

- **Limited Liability Company “Agency of Office Construction”**

Full name	Limited Liability Company “Agency of Office Construction”
Short name	LLC “Agency of Office Construction”
Date of registration	29 November 2002
Registration authority	Solomyanska District State Administration in Kyiv
State registration number	1 073 120 0000 001446
Identification code	32243850
Taxpayer’s identification number	5027
Registered address	7-A Mykola Vasylenko Street, Kyiv, 03124, Ukraine
Mailing address	7-A Mykola Vasylenko Street, Kyiv, 03124, Ukraine
Charter capital	UAH 17,047,000.00
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 100% of the participatory interests through Vysokyi Status
Director Appointed by the Participants’ Assembly	F.O. Tkachenko

- **Limited Liability Company “Project Company ‘Yarus’ ”**

Full name	Limited Liability Company “Project Company ‘Yarus’ ”
Short name	LLC “PC ‘Yarus’ ”
Date of registration	14 February 2007
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 102 0000 026255
Identification code	34937363
Taxpayer’s identification number	43907
Registered address	9 Druzhby Narodiv Blvd, Kyiv, 01042, Ukraine
Mailing address	9 Druzhby Narodiv Blvd, Kyiv, 01042, Ukraine
Charter capital	UAH 40,000.00
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 50% of the participatory interests through Lisova and 50% of the participatory interests through KDD Group
General Director Appointed by the Participants’ Assembly	N.F. Pustoviyt

- **Subsidiary Enterprise “Kureni”**

Full name	Subsidiary Enterprise “Kureni”
Short name	SE “Kureni”
Date of registration	25 March 2003
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 120 0000 004632
Identification code	32311019
Taxpayer’s identification number	32266
Registered address	4 Parkova Road, Kyiv, 01021, Ukraine
Mailing address	4 Parkova Road, Kyiv, 01021, Ukraine
Charter capital	UAH 5,000,000.00
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 100% of the corporate rights through KDD Group
Director Appointed by the Participants’ Assembly	I.O. Hvozdeva

- **Limited Liability Company “Solomyanka”**

Full name	Limited Liability Company “Solomyanka”
Short name	LLC “Solomyanka”
Date of registration	23 April 2002
Registration authority	Holosiyivska District State Administration in Kyiv
State registration number	1 068 120 0000 003541
Identification code	31984181
Taxpayer’s identification number	12465
Registered address	41 Zhylyanska Street, Kyiv, 01033, Ukraine
Mailing address	41 Zhylyanska Street, Kyiv, 01033, Ukraine
Charter capital	UAH 14,000.00
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 99% of the participatory interests through KDD Group and 1% of the participatory interests through Yarus
Director Appointed by the Participants’ Assembly	V.P. Datsko

- **Limited Liability Company “Vysokyi Status”**

Full name	Limited Liability Company “Vysokyi Status”
Short name	LLC “Vysokyi Status”
Date of registration	30 August 2006
Registration authority	Shevchenkivska District State Administration in Kyiv
State registration number	1 074 102 0000 019287
Identification code	34531786
Taxpayer’s identification number	26229
Registered address	12 Melnykova Street, Kyiv, 04050, Ukraine
Mailing address	12 Melnykova Street, Kyiv, 04050, Ukraine
Charter capital	UAH 107,178,800
Ownership by the Company (shareholder/direct/indirect)	Holds directly 99.999% of the participatory interests and 0.001% of the participatory interests indirectly through KDD Group
Director Appointed by the Participants’ Assembly	T.V. Dmitriyeva



- **Limited Liability Company “Center of Public Service and Catering ‘Lisova’ ”**

Full name	Limited Liability Company “Center of Public Service and Catering ‘Lisova’ ”
Short name	LLC “CPSC ‘Lisova’ ”
Date of registration	11 June 2007
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 102 0000 028513
Identification code	35196531
Taxpayer’s identification number	44971
Registered address	25 Chervonoarmiyska Street, Kyiv, 01004, Ukraine
Mailing address	25 Chervonoarmiyska Street, Kyiv, 01004, Ukraine
Charter capital	UAH 42,000.00
Ownership by the Company (shareholder/direct/indirect)	Holds directly 99% of the participatory interests and 1% of the participatory interests indirectly through KDD Group
Director Appointed by the Participants’ Assembly	O.M. Ovcharenko

- **Limited Liability Company “KDD GROUP”**

Full name	Limited Liability Company “KDD GROUP”
Short name	LLC “KDD GROUP”
Date of registration	15 August 2007
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 102 0000 029432
Identification code	35369962
Taxpayer’s identification number	45837
Registered address	5 Dymytrova Street, Kyiv, 03150, Ukraine
Mailing address	5 Dymytrova Street, Kyiv, 03150, Ukraine
Charter capital	UAH 1,544,000.00
Ownership by the Company (shareholder/direct/indirect)	Holds directly 100% of the participatory interests
Director Appointed by the Participants’ Assembly	P.P. Slipets

- **Limited Liability Company “Erial”**

Full name	Limited Liability Company “Erial”
Short name	LLC “Erial”
Date of registration	30 May 2007
Registration authority	Shevchenkivska District State Administration in Kyiv
State registration number	1 074 102 0000 025450
Identification code	35137004
Taxpayer’s identification number	29322
Registered address	12 Melnikova Street, Kyiv, 04050, Ukraine
Mailing address	12 Melnikova Street, Kyiv, 04050, Ukraine
Charter capital	UAH 26,564,166.45
Ownership by the Company (shareholder/direct/indirect)	Indirect ownership: holds 100% of the participatory interests through MTC
Director Appointed by the Participants’ Assembly	T.P. Poshyvanyuk

- **Limited Liability Company “Patriacom”**

Full name	Limited Liability Company “Patriacom”
Short name	LLC “Patriacom”
Date of registration	22 November 2005
Registration authority	Golosiyivska District State Administration in Kyiv
State registration number	1 068 105 0003 008303
Identification code	33880611
Taxpayer’s identification number	10455
Registered address	60 Shevchenka Street, L’viv, 79039, Ukraine
Mailing address	60 Shevchenka Street, L’viv, 79039, Ukraine
Charter capital	UAH 33,200.00
Ownership by the Company (shareholder/direct/indirect)	Holds directly 99% of the participatory interests and 1% of the participatory interests indirectly through KDD Group
Director Appointed by the Participants’ Assembly	D.I. Sobkiv

- **Limited Liability Company “Integra-Holding”**

Full name	Limited Liability Company “Integra-Holding”
Short name	LLC “Integra-Holding”
Date of registration	19 April 2002
Registration authority	Pecherska District State Administration in Kyiv
State registration number	1 070 120 0000 002657
Identification code	31992061
Taxpayer’s identification number	29307
Registered address	15 Pecherskyi Uzviz, Kyiv, 01011, Ukraine
Mailing address	15 Pecherskyi Uzviz, Kyiv, 01011, Ukraine
Charter capital	UAH 14,000.00
Ownership by the Company (shareholder/direct/indirect)	Holds directly 99% of the participatory interests and 1% of the participatory interests indirectly through KDD Group
Director Appointed by the Participants’ Assembly	T.V. Teslenko

- **Limited Liability Company “Modern Technologies of Construction”**

Full name	Limited Liability Company “Modern Technologies of Construction”
Short name	LLC “MTC”
Date of registration	26 November 2002
Registration authority	Shevchenkivska District State Administration in Kyiv
State registration number	1 074 120 0000 000764
Identification code	32254155
Taxpayer’s identification number	16244/10762
Registered address	12 Melnykova Street, Kyiv, 04050, Ukraine
Mailing address	12 Melnykova Street, Kyiv, 04050, Ukraine
Charter capital	UAH 101,000,000.00
Ownership by the Company (shareholder/direct/indirect)	Holds directly 99.999% of the participatory interests and 0.001% of the participatory interests indirectly through KDD Group
Directorate Appointed by the Participants’ Assembly	O.A. Minakov—General Director O.L. Konstantinovsky—President

## 5. Share Capital

- 5.1 As at 24 October 2007, the Company’s authorised share capital was €225,000 divided into 22,500,000 ordinary shares with nominal value of €0.01 each, and its issued and fully paid up share capital was €45,000 divided into 4,500,000 ordinary shares with nominal value of €0.01 each.

5.2 Since 24 October 2007, the following changes have taken place to the Company's issued and fully paid up share capital:

5.2.1 By a resolution of the Shareholders passed on 16 November 2007 it was resolved to:

- (a) issue 125,500,000 ordinary shares in connection with the contribution of 64.19% of the participatory interests in Vysokyi Status to the share capital of the Company and the issuance of shares to Welstock Consultants Limited, Kenways Trading Limited, Arpanet Holdings Limited, Yorania Investments Limited, Yankline Investments Limited and Parsel Investments Limited, so that the Company's issued capital amounts to €1,300,000 and comprises of 130,000,000 ordinary shares of nominal value €0.01 each;
- (b) increase the authorised capital to €6,500,000 divided into 650,000,000 shares of nominal value €0.01 each.

The issue of the 125,500,000 ordinary registered shares and the increase of the Company's authorised capital to €6,500,000 were effected on 16 November 2007 through the execution of a notarial deed of issue of shares followed by the execution of a notarial deed of amendment of the Articles of Association.

5.3 All of the Company's issued share capital as at the date of this document is fully paid. At the date of this document, the authorised and issued fully paid share capital of the Company is:

Class of shares	Authorised		Issued (fully paid)	
	Nominal value	Number	Nominal value	Number
Ordinary shares . . . . .	€6,500,000	650,000,000	€1,300,000	130,000,000

The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

Class of shares	Authorised		Issued (fully paid)	
	Nominal value	Number	Nominal value	Number
Ordinary shares . . . . .	€6,500,000	650,000,000	€1,618,784	161,878,371

Information on the Company's current controlling and principal shareholders is set out in Part IX.

- 5.4 Other than the contribution in kind made by Alexander Levin in connection with the contribution of 64.19% of the participatory interests in Vysokyi Status to the share capital of the Company, none of the capital of the Company has been paid for with assets other than cash within the period covered by the historical financial information contained herein.
- 5.5 The authorised but unissued share capital of the Company immediately following Admission will be 488,121,629 Shares representing approximately 75.1% of the authorised share capital of the Company.
- 5.6 Other than the issue of the Shares pursuant to the Offer and to satisfy share awards granted under the Company's Incentive Share Plans (as described in "—Incentive Share Plans" below) and the issue of Shares to Lindestra Consulting Limited, Mr Radchuk and Mr Bogdan (as described in "—Interests of Directors and others and Related Party Transactions"), the Company has no present intention of issuing any of the authorised but unissued share capital of the Company.
- 5.7 The Company does not have in issue any securities not representing share capital.
- 5.8 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- 5.9 Save as disclosed in this paragraph 5, there has been no issue of share or loan capital of the Company in the period covered by the financial information set out in Part XIII of this document and no such issues are proposed.
- 5.10 Other than pursuant to the Underwriting Agreement referred to in Part XIV "The Offer—Underwriting Agreement", and the Nomad and Broker Agreement referred to in paragraph 8.2 of this Part XVI, no commissions, discounts, brokerages or other special terms have been granted by

the Company in connection with the issue or sale of any share or loan capital of the Company in the three years immediately preceding the date of this document.

- 5.11 Save as disclosed in paragraphs 7 and 9 this Part XVI, on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be put under option.
- 5.12 Other than pursuant to the Offer, none of the Shares has been made available or is available in whole or in part to the public in connection with the application for the Shares to be admitted to AIM.
- 5.13 The Shares will be in registered form. No temporary documents of title or definitive certificates will be issued and transfers will be certified against the register. Shares to be held as Depositary Interests through CREST will be credited to CREST accounts on Admission. The Articles permit the holding of Depositary Interests.

## **6. Articles of Association**

The Company's by-laws are contained in its Articles. Under Dutch law there is no requirement for a separate document containing the memorandum of association. The Articles were adopted on 13 December 2007 and contain, amongst others, provisions to the following effect:

### **Objects**

6.1 The Company's objects are:

- (a) to incorporate, participate in, conduct the management of and take any other financial interest in other companies and enterprises;
- (b) to render administrative, technical, financial, economic or managerial services to other companies, persons or enterprises;
- (c) to acquire, dispose of, manage and exploit real and personal property, including patents, marks, licenses, permits and other industrial property rights; and
- (d) to borrow and/or lend moneys, act as surety or guarantor in any other manner, and bind itself jointly and severally or otherwise in addition to or on behalf of others,

the foregoing whether or not in collaboration with third parties and inclusive of the performance and promotion of all activities which directly and indirectly relate to those objects, all in the broadest sense.

### **Rights Attaching to Shares**

6.2 Issue of shares

The shareholders in general meeting are authorised to resolve to issue new shares and to determine the issue price and other conditions relating thereto. The shareholders may assign this authority to a corporate body for a specified period not exceeding five years (which period can be extended from time to time for further periods not exceeding five years) so long as the number of shares which may be issued is specified. The resolution of the shareholders in general meeting to issue shares or to designate a corporate body to do so may only be taken on the proposal of and at the price and on the conditions determined by the Board. The issue of new shares requires a deed executed before a Dutch law notary and such shares may not be issued below their par value.

6.3 Pre-emption rights

On an issue of shares, each shareholder has a right of pre-emption to subscribe for shares (apart from shares issued for a non-cash consideration or issued to employees of the Company or a member of the Group) in cash in proportion to the aggregate amount of his/her shareholding. If the shareholders do not fully exercise their pre-emption rights, the corporate body authorised to issue shares in the Company will be free to decide, with regard to the remaining rights, to whom the shares in the Company will be issued and at what price.

Provided that the Board has been granted the authority by shareholders to resolve to issue shares in the Company, the pre-emption rights in the Company described above may be restricted or

excluded by resolution of the Board. By resolution of the shareholders dated 30 November 2007, the Board has been granted such authority.

Pre-emption rights may be limited or excluded by a resolution of the shareholders with a majority of at least two-thirds of the votes cast, in case less than 50% of the issued share capital is represented. If 50% or more of the issued share capital is represented, then a simple majority would be sufficient.

#### 6.4 Voting rights

Each ordinary share confers the right on the holder to cast one vote at the general meeting. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of The Netherlands or non-Dutch to hold or vote the shares, other than those also imposed on residents of The Netherlands. Resolutions are passed by an absolute majority of the votes cast unless Dutch law or the Articles prescribe otherwise. The Company's principal shareholders do not have any special voting rights.

#### 6.5 Dividends

The shareholders in general meeting may declare a distribution of profits to shareholders if the annual accounts demonstrate that this is permissible under the Articles and Dutch law. The Board may resolve to pay an interim dividend pursuant to an interim statement of assets and liabilities.

Holders of ordinary shares are entitled to dividends pro rata according to the number of shares held.

The Articles provide that an entitlement to a dividend lapses after five years if it remains unclaimed.

#### 6.6 Variation of rights

The Articles do not impose further constraints or restrictions on shareholders other than provided by Dutch law and the Articles do not contain provisions regarding actions that may be necessary to change the rights of shareholders.

#### 6.7 Alteration of capital

The Company may by special resolution of the general meeting of shareholders and, if necessary, by amending and restating the articles of association (subject to any Dutch Civil Code provisions):

- 6.7.1 increase its authorised share capital by creating new shares of such amount as it thinks expedient, with due observance of the powers of the Board as set out above;
- 6.7.2 consolidate and divide all or any of its shares (whether issued or not) into shares of a larger or smaller amount than its existing shares;
- 6.7.3 decrease its share capital by either cancellation of shares or a reduction of share capital; and
- 6.7.4 purchase its own shares.

### **Form and Transfer of Shares**

6.8 The ordinary shares are in registered form. They are only available in the form of an entry in the share register of the Company without the issuance of a share certificate. Share certificates shall not be issued.

6.9 Subject to Dutch law and the Articles, the Company shall maintain a shareholders' register. The shareholders' register must be kept up-to-date. Parts of the shareholders' register may be kept outside The Netherlands, provided that it is necessary to do so to comply with local law or applicable stock exchange regulations. The register records the names, addresses and all other information of all shareholders that the law requires to be kept and such other information as is desirable in the view of the Board. The requirement applies similarly to holders of a right of pledge over shares and holders of a right of usufruct over shares.

Shareholders, holders of a right of pledge over shares and holders of a right of usufruct over shares will at their request be provided free of charge with a written statement of the record in the register with respect to shares entered in their name, which statement may be signed on behalf of the Company by a special representative designated by the Board.

- 6.10 Shares must be transferred by a deed of transfer executed before a Dutch civil law notary acknowledged in writing by the Company.

#### **Financial Assistance**

- 6.11 In relation to the subscription or acquisition of shares in the capital of the Company (other than by employees of the Company or a Group company) the Company may not grant loans, give security or guarantees or otherwise warrant the performance of or bind itself either jointly or severally with another party.

#### **Depositary Interests**

- 6.12 The Board is authorised to make such arrangements as it may think fit in order to enable shares in the Company to be represented by and exchanged for Depositary Interests that are eligible to be held and transferred in dematerialised form in a computer-based system whether located in The Netherlands or in any other country.

#### **Directors**

- 6.13 Number of directors

The minimum number of directors is five (including at least three executive and two non-executive directors) and the maximum number is nine (including five executive and four non-executive directors).

- 6.14 Appointment of directors

The shareholders in general meeting are entitled to appoint, suspend and dismiss members of the Board.

- 6.15 Conflict of interest

In the event of a conflict of interest between the Company and a member of the Board, the Company may nevertheless be represented by that member subject to the authorisation of the Board where such authorisation is effective only if any requirement as to the quorum of the Board meeting at which the matter is considered is met without counting the director in question or any other interested director, and the matter was agreed to without their voting or would have been agreed to if their votes had not been counted. The general meeting of shareholders shall at all times be competent to designate one or more persons for this purpose. In the event of a conflict of interest between the Company and all members of the Board, the Company shall be represented by such person as the general meeting of shareholders shall designate for the purpose.

- 6.16 Remuneration of directors

The shareholders in general meeting determine the Company's remuneration policy. Within the framework of the remuneration policy, the remuneration committee (a committee established by the Board) shall make a proposal in respect thereto.

#### **Board of Directors**

- 6.17 The quorum for a Board meeting is 50% of the Directors, with at least one Executive Director and one Non-executive Director present. In any meeting of the Board, each member shall be entitled to one vote and a simple majority is required to pass a resolution. In the event of an equality of votes the Chairman shall have the right to exercise an additional vote. A resolution can be passed without a meeting if all the Directors have agreed thereto in writing. Subject to Dutch law, the Articles and any regulation determined by the Board, the Board may delegate its powers to one or more of its members or a committee made up of some of its members.

#### **Directors' Powers**

- 6.18 Subject to Dutch law, the Articles and any regulation determined by the Board, the Board is in charge of the management of the Company. If one or more members of the Board is/are absent or unable to act, the remaining members or sole member of the Board will be temporarily charged with the management of the Company. If all members of the Board are absent or unable to act, the Shareholders in general meeting will temporarily be charged with the management of the Company.



- 6.19 Resolutions of the Board having an important impact on the identity or nature of the Company or its business shall be subject to the prior approval of the general meeting. Such resolutions include in any event resolutions:
- (a) to transfer the entire business of the company or substantially the entire business of the company to a third party;
  - (b) to enter into or to terminate a lasting cooperation by the Company or a subsidiary with another legal entity or partnership or as general partner with full liability in a limited partnership or general partnership, if such cooperation or the termination thereof is of far-reaching significance to the Company; and
  - (c) to acquire or alienate a participation by the Company or by a subsidiary of the Company in the capital of another company, the value of which equals at least one-third of the assets as shown in its balance sheet with explanatory notes, or, if the Company draws up a consolidated balance sheet, as shown in the consolidated balance sheet with explanatory notes according to the most recently adopted annual accounts.

### **Meetings of Shareholders**

- 6.20 The annual general meeting must be held within six months of the end of the Company's financial year. Extraordinary general meetings will be held if requested by the Board or by the written request of one or more shareholders representing one-tenth of the issued share capital of the Company. General meetings will be held in Amsterdam or Haarlemmermeer (Schiphol Airport). If a meeting is held elsewhere, valid resolutions can only be adopted if the entire issued share capital is represented.
- 6.21 General meetings can be convened by the Board by a notice, specifying the matters to be discussed, issued at least 15 days before the meeting. If the Company has not issued depositary receipts or securities of a similar kind or no shares have been encumbered with a right of pledge or usufruct, a general meeting can be convened by a notice issued less than 15 days before the meeting provided that any resolution at such meeting can only be passed by a unanimous vote where the entire issued share capital is represented. If the purpose of the meeting is to amend the Articles, the convening notice must be deposited at the Company's registered office for inspection until the end of the meeting. A notice convening a general meeting must be sent to each of the Shareholders and must be announced in a Dutch daily newspaper.
- 6.22 Unless contrary to the interests of the Company, the agenda for a general meeting may contain the items requested by one or more shareholders or other persons entitled to attend general meetings, alone or together representing at least 1% of the issued share capital. Requests must be filed with the Board at least 60 days before the day of the meeting. Resolutions cannot be proposed unless they were set out in the relevant agenda.
- 6.23 All shareholders are entitled to attend a general meeting or be represented by a proxy authorised in writing. In a general meeting every share gives the holder the right to cast one vote. Resolutions shall be adopted by an absolute majority of the votes cast. In the event of an equality of votes the proposal will be considered to have been rejected. If the Company has not issued depositary receipts or securities of a similar kind or no shares have been encumbered with a right of pledge or usufruct, the general meeting can adopt resolutions without convening a meeting if adopted in writing unanimously by all shareholders entitled to vote.

### **Distribution of Assets on Liquidation**

- 6.24 In the case of a dissolution and subsequent liquidation of the Company, the surplus remaining after payment of debts will be paid to the shareholders in proportion to their individual shareholdings.

### **Indemnity of Officers**

- 6.25 To the maximum extent allowed by Dutch law, the Company may indemnify and keep indemnified the members of the Board, the Company's officers and members of the committees of the Board from any liabilities, obligations, losses, damage, fines, proceedings, judgments, legal actions, costs, expenses or disbursements of whatever kind or nature to which any such person may be liable on

the basis of his position or on the basis of any action taken or omitted within the scope of his obligations, except for those that have arisen from wilful failing or fraud.

### **Notification of Interest of Shares**

6.26 For so long as the Company has Depositary Interests admitted to trading on AIM, a person will be required to notify the Company of the percentage of his voting rights if the percentage of voting rights which he holds as a shareholder or through his direct or indirect holding of financial instruments reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100%.

Such notification must be effected as soon as possible but in any event within two trading days, the first of which is the day after the date on which the relevant person (a) learns of the acquisition or disposal or of the possibility of exercising voting rights (or, in any event, having regard to the circumstances, should have learned of it); or (b) is informed about the event, and must include, amongst other things, the resulting situation in terms of voting rights; the chain of controlled undertakings through which voting rights are effectively held, if applicable; the date on which the threshold was reached or crossed; and the identity of the shareholder or holder.

If it comes to the notice of the Board that any shareholder has not within the requisite period, made, or as the case may be, procured the making of, a notification required by these Articles, the Company may (at the absolute discretion of the directors) at any time thereafter by notice (a "Restriction Notice") to such shareholder direct that, in respect of the shares in relation to which the default has occurred (the "Default Shares", which expression shall include any further shares which are issued to that shareholder on or following the date of the Restriction Notice in respect of any Default Shares), the member shall not be entitled to be present or to vote on any question, either in person or by proxy, at any general meeting of the Company or separate general meeting of Shareholders of the Company, or to be reckoned in a quorum.

Where the Default Shares represent at least 0.25% (in nominal value) of the issued shares of the same class as the Default Shares, then the Restriction Notice may also direct that in respect of Default Shares: (a) any dividend (or any part of a dividend) or other amount payable in respect of the Default Shares shall be withheld by the Company, which has no obligation to pay interest on such withheld sum; and shall be payable (when the Restriction Notice ceases to have effect) to the person who would but for the Restriction Notice have been entitled to them; and/or (b) where an offer of the right to elect to receive Shares of the Company instead of cash in respect of any dividend or part thereof is or has been made by the Company, any election made thereunder by such member in respect of such Default Shares shall not be effective.

A person, other than the shareholder of the shares concerned, shall be treated as appearing to be interested in that Share if the shareholder has informed the Company that the person is or may be interested, or if the Company knows or has reasonable cause to believe that the person is or may be so interested.

The Articles relating to the notification requirements above are subject to any relevant restrictions of Dutch law in force from time to time.

### **Takeover Regime**

6.27 The Articles adopt certain of the provisions of the City Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the General Principles of the City Code (including "equal treatment"), which are to be administered by the Board. The articles adopting certain provisions of the City Code are to have effect only during such times as the City Code does not apply to the Company, and if the articles do have effect, the relevant articles will be subject to applicable Dutch law. Pursuant to the Articles, a person must not: (a) acting by himself or with persons determined by the Board to be acting in concert, seek to acquire shares in the Company, which carry 30% or more of the voting rights attributable to the Shares in the Company; or (b) acting with persons determined by the Board to be acting in concert, hold not less than 30% but no more than 50% of the voting rights, and seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the person determined by the Board to be acting in concert with him, increase his voting rights, except in either case as a result of a "permitted acquisition" (meaning

amongst other things, an acquisition consented to by the Board; an acquisition made in circumstances in which the City Code, if it applied to the Company, would require an offer to be made as a consequence and such offer is made, and not subsequently withdrawn, in accordance with Rule 9 of the City Code; or an acquisition arising from repayment of stock borrowing arrangements); or (c) effect or purport to effect an acquisition which would breach or not comply with Rules 4, 5, 6, 8 or any part of Rule 9 of the City Code, if the Company were subject to the City Code.

Subject to applicable Dutch law, where the Board has reason to believe that an acquisition that may not be a permitted acquisition has taken place, then it may take all or any of certain measures: (a) require the person(s) appearing to be interested in the Shares of the Company to provide such information as the Board considers appropriate; (b) have regard to such public filings as may be necessary to determine any of the matters under the articles relating to the City Code; (c) make any determination under those articles as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any; (d) determine that the voting rights attached to such shares in breach of the Articles (the “Excess Shares”) are from a particular time incapable of being exercised for a definite period; (e) determine that all of the Excess Shares are to be sold; (f) determine that some or all of the Excess Shares will not carry any right to any dividends or other distributions from a particular time for a definite period; or (g) take such actions as it thinks fit for the purposes of the Articles, including prescribing rules not inconsistent with the articles relating to the City Code, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determinations or interim determinations, executing documents on behalf of a Shareholder, converting any Excess Shares held in uncertificated form into shares in certificated form, and paying costs and expenses out of proceeds of sale, and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of the relevant articles, including the deemed application of the whole or any part of the City Code, and such authority shall include all the discretion that the UK Panel on Takeovers and Mergers would exercise if the whole or part of the City Code applied. Any resolution or determination made by the Board, any director or the chairman of any meeting acting in good faith is final and conclusive and is not open to challenge as to its validity or as to any other ground. The Board is not required to give any reason for any decision or determination it makes.

## **7. Interests of the Directors and Others and Related Party Transactions**

### **7.1 Service contracts**

The terms of the letters of appointment entered into between the Company and each of the Directors on 13 December 2007 are set out below. The aggregate compensation to be paid by the Group to its Executive Directors, including compensation under the Directors’ letters of appointment with the Company, is expected to be approximately €500,000 per annum.

- an agreement between the Company and Alexander Levin pursuant to which Mr Levin was appointed as an Executive Director of the Company for an initial period of three years, subject to the shareholders’ meeting’s right to remove him from the Board at any time, the appointment being terminable by either party on three months’ written notice, at an annual fee of €40,000. Mr Levin is also entitled to be reimbursed for all reasonable expenses incurred in the performance of his appointment;
- an agreement between the Company and Petro Slipets pursuant to which Mr Slipets was appointed an Executive Director of the Company for an initial period of three years, subject to the shareholders’ meeting’s right to remove him from the Board at any time, the appointment being terminable by either party on three months’ written notice, at an annual fee of €40,000. Mr Slipets is also entitled to be reimbursed for all reasonable expenses incurred in the performance of his appointment.
- an agreement between the Company and Sergiy Sukalo pursuant to which Mr Sukalo was appointed as an Executive Director of the Company for an initial period of three years, subject to the shareholders’ meeting’s right to remove him from the Board at any time, the appointment being terminable by either party on three months’ written notice, at an annual fee

of €40,000. Mr Sukalo is also entitled to be reimbursed for all reasonable expenses incurred in the performance of his appointment.

- an agreement between the Company and Oleg Rybachuk pursuant to which Mr Rybachuk was appointed as a Non-Executive Director of the Company for an initial period of three years, subject to the shareholders' meeting's right to remove him from the Board at any time, the appointment being terminable by either party on three months' written notice, at an annual fee of €40,000. Mr Rybachuk is also entitled to be reimbursed for all reasonable expenses incurred in the performance of his appointment; and
- an agreement between the Company and Kees D. Noorman pursuant to which Mr Noorman was appointed as a Non-Executive Director of the Company for an initial period of three years, subject to the shareholders' meeting's right to remove him from the Board at any time, the appointment being terminable by either party on three months' written notice, at an annual fee of €40,000. Mr Noorman is also entitled to be reimbursed for all reasonable expenses incurred in the performance of his appointment.

The letters of appointment do not provide for any benefits upon termination.

The Directors will serve for three years after their appointment.

## 7.2 Directors' interests in Shares

The following Executive Directors hold prior to the Offer or will hold, following the Offer, Shares in the Company:

<u>Name</u>	<u>Number of Shares</u>	<u>Percentage of Share Capital prior to the Offer</u>	<u>Percentage of Fully Diluted Share Capital following the Offer<sup>(1)</sup></u>
Alexander Levin . . . . .	36,816,000	28.32%	22.63%
Petro Slipets <sup>(2)</sup> . . . . .	14,300,000	11.0%	8.79%
Sergiy Sukalo <sup>(3)</sup> . . . . .	—	0%	0.50%

(1) Assuming that no Over-Allotment Shares are acquired pursuant to the Over-Allotment Option.

(2) Mr Slipets holds his Shares indirectly through Welstock Consultants Limited.

(3) Mr Sukalo will hold his Shares indirectly through Lindestra Consulting Limited.

Shortly after Admission, Lindestra Consulting Limited, which will be 100% beneficially owned by Mr Sukalo will subscribe for 809,392 Shares (which represents 0.5% of the fully diluted share capital following the Offer) at their nominal value. Lindestra Consulting Limited has entered into a lock-up deed described in Part XIV "The Offer—Lock-up Arrangements." In addition, under the terms of the relevant subscription agreement, Lindestra Consulting Limited will be prohibited from divesting its Shares for two years following the expiration of the Lock-up Period without the consent of the Board of Directors, provided that it will be permitted to sell its Shares in circumstances in which Mr Levin or Mr Slipets cease to be members of the Board of Directors.

Immediately upon the issue of the Shares to Lindestra Consulting Limited, the Group will incur an accounting charge in its income statement equal to the difference between the fair value, by reference to market value, of the Shares issued and the nominal amount paid by Lindestra Consulting Limited for those Shares.

It is also intended that shortly after Admission, Mr Petro Radchuk, the Group's acting Chief Financial Officer, and Mr Olexandr Bogdan, the Group's director of office development, will be granted certain awards (the "IPO Awards") under the Company's Share Option Plan (details of which are set out in "—Incentive Share Plans" below). Mr Radchuk and Mr Bogdan will collectively hold share options in respect of 1% of fully diluted share capital of the Company following the Offer.

The Group will incur an accounting charge in its income statement equal to the difference between the fair value, by reference to market value, of the Shares represented by the IPO Awards and the strike price applicable to the exercise of those Awards. Under IFRS, the charge will be taken over the period of any vesting, which under the Incentive Share Plans will normally be three years.

### 7.3 Past Directorships

The Directorships held by each of the Directors as at the date of this document, over the five years prior to the date of this document and the partnerships in which they have been partners in the five years prior to the dates of this document are as follows:

<u>Name</u>	<u>Current Directorships</u>	<u>Previous Directorships/Partnerships</u>
Alexander Levin . . . . .	Ukrainian Non-for-Profit Construction Association	Group of Companies “Kiev Donbass” “Kyiv ZhitloInvest Management” LLC
Petro Slipets . . . . .		JSC “Index Bank” JV “Kyiv-Donbas”
Sergiy Sukalo . . . . .		CJSC “Brinkford” Ukrainian State Unity “Radon” Solomyanka LLC
Oleg Rybachuk . . . . .	—	—
Kees Diederik Noorman .	Beheermaatschappij W.T.C. Amsterdam	World Trade Center—Amsterdam AFBP CV

### 7.4 Related party transactions

In the ordinary course of business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The transactions below include transactions not conducted on an arm’s length basis. See Part II “Risk Factors—The Group has entered into a number of related-party transactions”.

Significant transactions with related parties during the year ended 31 December 2006 and the six months ended 30 June 2007, are set out below. Except as set forth below, the Group has had no significant related party transactions from 30 June 2007 to the date of this Offering Memorandum other than continuations of the trading relationships described below. See Notes 31 and 36 to the combined financial statements.

#### *Formation of the Group*

The Group entered into share purchase transactions with related parties, including shareholders of the Group, in connection with the restructuring of the Group’s assets. See Part VIII “Operating and Financial Review—Principles of Combination”.

#### *Promissory notes*

The Group had outstanding interest free promissory notes issued to a number of related parties in the aggregate amounts of US\$13.9 million, US\$6.5 million and US\$2.6 million as at 30 June 2007, 31 December 2006 and 30 June 2006, respectively.

The Group held promissory notes issued by a number of related parties in the aggregate amounts of US\$5.2 million, US\$3.7 million and US\$247,000 as at 30 June 2007, 31 December 2006 and 30 June 2006, respectively. While most of these promissory notes are interest free, the promissory notes from related parties TMK LLC and East-Force LLC are interest bearing at prevailing market interest rates of between 23% and 24%.

See Notes 25, 26, 31 and 36 to the combined financial statements for additional information regarding the promissory notes. As discussed further in Part VIII “Operating and Financial Review—Factors Affecting Results of Operations”, the issuance and receipt of promissory notes among related companies was primarily a means of transferring funds to manage liquidity as the Group companies were not linked by a common parent company during the relevant periods.



### *Sale and acquisition of investment property*

On 3 August 2006, AOC, a member of the Group, sold the land plot underlying the ZAGS project to related parties Igor Miroshnichenko and Andriy Smirnov, who are former directors of a Group member, for a purchase price of US\$3.1 million. On 21 September 2006, Vysokyi Status, a member of the Group, acquired the land plot underlying the ZAGS project from Igor Miroshnichenko and Andriy Smirnov, for a purchase price of US\$14.8 million. These connected transactions were part of the Group's acquisition of the ZAGS property from the state through a third-party agent.

### *Other commercial transactions*

In the year ended 31 December 2006 and in the six months ended 30 June 2007, the Group entered into the following commercial transactions with related parties:

- On 22 May 2006, Patriacom, a member of the Group, sold 99% of the corporate rights of AOC to related parties Invest Union LLC, Trade Team LLC, Respect Group LLC, Aspect Company LLC and Benefit LLC, entities over which the Group has control of management, in exchange for US\$2.4 million.
- On 10 October 2006, Solomyanka, a member of the Group, entered into a construction agreement with related party Company of Projects Developments "PH Engineering" LLC ("COPD"), pursuant to which COPD has agreed to provide general contractor and construction services for the WTC Kyiv project in exchange for approximately US\$81 million. Solomyanka paid approximately US\$758,154 to COPD for services provided under this agreement. The agreement was terminated pursuant to a subsequent agreement of the parties dated on 30 November 2007.
- On 4 December 2006, Patriacom purchased office equipment from related party Petroshop LLC, an entity over which the Group has control of management, amounting to US\$131,000.
- On 14 March 2007, Vysokyi Status, a member of the Group, acquired 100% of the corporate rights of AOC from related parties Invest Union LLC, Trade Team LLC, Respect Group LLC, Aspect Company LLC, Benefit LLC, Torginformservice LLC and Ivan Kushinskiy, in exchange for US\$2.4 million.

From 30 June 2007 to the date of this document, the Group entered into the following commercial transactions with related parties:

- On 24 July 2007, Integra-Holding entered into a construction agreement with COPD, pursuant to which COPD has agreed to provide general contractor and construction services for the PecherSKY project in exchange for fees to be agreed upon later. Integra-Holding has not made any payments under this agreement and the agreement was terminated pursuant to a subsequent agreement of the parties dated on 30 November 2007.
- In September 2007, Integra-Holding, a member of the Group, sold all of its interest in Konservny zavod Kodymskiy LLC to related party Tarasenko I.V., a former shareholder of a member of the Group, in exchange for US\$20,000.
- In November 2007, Integra-Holding sold 17,335 ordinary shares of TSN CJSC to related party Oliv LLC, an entity over which the Group has control of management, in exchange for US\$2,000.
- In September 2007, Solomyanka, a member of the Group, sold all of its interest in Solomyanka Parking LLC to related party Datsko V.P., a director of Integra-Holding, in exchange for US\$6,000.
- In September 2007, Solomyanka sold all of its interest in Solomyanka Construction LLC to related parties Post-Impax LLC, an entity over which the Group has control of management, and Datsko V.P., in exchange for US\$7,500.
- In August 2007, Zanet, a member of the Group, sold 426,700 ordinary shares of F.A.V.O.R. CJSC to Oliv LLC, in exchange for US\$600,000.
- In October 2007, Patriacom LLC repaid a short term non-bank loan to related party Novij Chas PC, an entity which the Group has consolidated, in the amount of US\$1.7 million.

See Notes 31 and 36 to the combined financial statements.



## 8. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this document or contain provisions under which the Company or another member of the Group has an obligation or entitlement that is material to the Group.

### 8.1 Underwriting Agreement

Please see Part XIV “The Offer—Underwriting Agreement”.

### 8.2 Nomad and Broker Agreement

On 13 December 2007, the Company entered into an agreement with ING as its nominated adviser and broker, and Renaissance Capital Limited as its broker, under which ING will provide (i) certain services and advice to the Company to facilitate its compliance on an ongoing basis with the AIM Rules and, (ii) together with Renaissance Capital Limited, such other advice as the Directors may from time to time request. This agreement is conditional on the Company’s Admission to AIM. In consideration for such services, the Company has agreed to pay for the duration of the agreement, conditional upon Admission, (i) to ING an annual fee of £100,000, and (ii) to Renaissance Capital Limited an annual fee of £10,000 (as more fully described in the Nomad and Broker Agreement).

### 8.3 Stock Lending Agreement

Please see Part XIV “The Offer—Over-Allotment and Stabilisation”.

### 8.4 Administration and Domiciliation Agreement with Fortis Intertrust (Netherlands) B.V.

On 11 November 2007, the Company entered into an administration and domiciliation agreement with Fortis Intertrust (Netherlands) B.V. This agreement regulates the provision of administration, control and domiciliation services to the Company. The agreement continues to be effective until either party gives the other party 30-days’ prior written termination notice.

### 8.5 Loan Agreements

- In September 2007, Integra-Holding entered into a loan facility agreement with Diamant Bank for an aggregate amount of UAH 30.3 million maturing in September 2008 and bearing interest at a rate of 18.5% per annum plus 0.2% for each credit line made available under this facility. The facility was provided for financing of working capital requirements. Obligations of Integra-Holding under this loan facility agreement are secured by first-ranking mortgages in favour of Diamant Bank over the three land plots with a total area of 0.3 hectares located in Kyiv and owned by Integra-Holding. The estimated value of these land plots under the loan agreement is UAH 34.4 million.
- In May 2007, AOC entered into a revolving loan facility agreement with Ukreximbank for an aggregate amount of US\$40 million maturing in May 2009. Interest is payable on the amount outstanding under this facility during each interest period at a semi-annual rate of LIBOR plus 6.63% per annum, but not less than 12% per annum. The facility was provided to finance the construction of the ZAGS project. Obligations of the borrower under this agreement are secured by first-ranking mortgage in favour of Urkeximbank over the land plot with a total area of 0.74 hectares owned by Vysoky Status and leased by AOC. The estimated value of this land plot under the loan agreement is UAH 92.0 million.
- In December 2003, Kureni entered into a loan agreement with Index Bank for an aggregate amount of UAH 6.7 million maturing in December 2008 and bearing an interest rate of 20%-25% per annum (determined by the parties on a case-by-case basis). The loan was provided for the renovation of the Kureni restaurant and financing of new equipment. Obligations of the borrower under this loan agreement are secured by a first-ranking mortgage in favour of Index Bank over a non-residential building located at the Kureni site and owned by Kureni. The estimated value of this building under the loan agreement is UAH 13.3 million.

## 8.6 Investment Agreement

See Part VI “Information on the Group—Description of Properties and Projects—Mixed-Use Developments—Metro City” for the description of an investment agreement entered into by the Group in connection with its development of the Metro City project.

## 9. Incentive Share Plans

The Group has established two Incentive Share Plans: (i) a Share Option Plan, which, for avoidance of doubt, includes IPO Awards (“SOP”) and (ii) a Performance Share Plan (“PSP”).

The Incentive Share Plans are designed to retain, motivate and incentivise Executive Directors and other key employees of the Group. It is intended that the SOP will be the primary incentive plan going forward and there is no current intention to grant awards under the PSP.

The limits set out below apply in respect of the SOP, the PSP and any other employees’ share plans adopted by the Company:

- In any ten year period, no more than 10% of the issued share capital of the Company, from time to time, may be issued.
- In the first five years following Admission, no more than 5% of the issued share capital of the Company, from time to time, may be issued.

In respect of the SOP, up to 2.5% of the issued share capital of the Company may be issued to satisfy options granted in the six months period following Admission. These options will have an exercise price that is equal to the market value of the Shares at the date on which the options are granted for individuals who were not employed by the Group prior to Admission or the Offer Price for individuals who were employed by the Group prior to Admission.

Details of individual awards that are to be granted to certain members of the Group’s management team are set out in Section 7.2 above.

The principal features of the Incentive Share Plans are summarised below.

	PSP	SOP
<i>Administration</i>	The remuneration committee is responsible for administering the Incentive Share Plans.	
<i>Eligibility</i>	Any employee or Executive Director of the Group will be eligible to participate in the PSP and SOP at the discretion of the remuneration committee.	
<i>Awards</i>	<p>Awards may be granted over newly issued shares, treasury shares, and shares purchased in the market and held by a special purpose vehicle (i.e., an employee benefit trust or special purpose company) established by the Group. No payment will be required for the grant of an award. No awards may be granted later than ten years after the adoption of the PSP and SOP by the Board. The remuneration committee is responsible for granting awards to Executive Directors, and the Board is responsible for granting awards to all other key employees of the Group.</p> <p>Awards will take the form of:</p> <p>(i) a conditional right to acquire Shares;</p> <p>(ii) an option to acquire Shares at no cost or nominal cost; or</p> <p>(iii) such other form that shall confer to the participant an equivalent economic benefit (i.e., phantom awards that deliver cash).</p> <p>Awards granted as no cost or nominal cost options must be exercised no later than the tenth anniversary of the date of the award.</p>	<p>(i) a right to acquire Shares with an exercise price determined by the remuneration committee, being not less than the nominal cost of the Shares; or</p> <p>(ii) such other form that shall confer to the participant an equivalent economic benefit (i.e., phantom awards that deliver cash).</p>

	PSP	SOP								
<i>Vesting</i>	Awards will normally vest on the third anniversary of the date of grant of the award, although the remuneration committee has the right to determine the vesting period.	<p>Awards granted under the SOP can be exercised no later than the tenth anniversary of the date of the award.</p> <p>Awards granted in the twelve months following Admission will normally vest in portions on each anniversary of the grant date as set forth below:</p> <table border="1"> <thead> <tr> <th style="text-align: center;">% Vesting</th> <th style="text-align: center;">Timing of Vesting</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">30%</td> <td>3rd anniversary of grant date</td> </tr> <tr> <td style="text-align: center;">30%</td> <td>4th anniversary of grant date</td> </tr> <tr> <td style="text-align: center;">40%</td> <td>5th anniversary of grant date</td> </tr> </tbody> </table> <p>For all other awards granted under the SOP, the remuneration committee or the Board will, at the date of grant, determine the vesting period for Executive Directors and other key employees of the Group, respectively.</p>	% Vesting	Timing of Vesting	30%	3rd anniversary of grant date	30%	4th anniversary of grant date	40%	5th anniversary of grant date
% Vesting	Timing of Vesting									
30%	3rd anniversary of grant date									
30%	4th anniversary of grant date									
40%	5th anniversary of grant date									
<i>Performance Conditions</i>	Awards may be subject to the satisfaction of performance conditions that will determine how many (if any) of the shares awarded will vest at the end of the performance period. Awards granted under the SOP in the twelve months following Admission will not be subject to performance conditions.									
<i>Leaver provisions</i>	Awards granted under the Incentive Share Plans will normally lapse on cessation of employment, except in the event of a participant's death, injury or disability, in which case the remuneration committee, in its discretion, may determine the timing of and extent to which an award may vest, after having regard to the period of time that has elapsed since the award was granted and, where appropriate, the performance condition.									
<i>Change of Control/ Variation of Capital</i>	<p>In the event of a change of control of the Group (other than an internal reorganisation), the extent to which awards may vest and/or become exercisable will be at the discretion of the remuneration committee after taking into account the period of time that has elapsed since the grant date and, where appropriate, the performance of the Company. In these circumstances, the remuneration committee may permit or require awards to be exchanged for new awards of shares in the acquiring company on a comparable basis.</p> <p>In the event of any variation of share capital, demerger or other corporate event, the remuneration committee may make such consequential adjustments as they consider appropriate to the performance conditions and the number of shares subject to an award in order that a participant's award retains the same economic value.</p>									
<i>Amendment/Termination</i>	Each of the Incentive Share Plans may be altered by the Board so long as the alteration or addition is minor in nature and made to benefit the administration of the Incentive Share Plan, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment. Any major alterations or additions to the Incentive Share Plans would require the approval of shareholders at a general meeting of the Company. The PSP and SOP shall terminate on the tenth anniversary of adoption by the Board (unless									

terminated earlier) but in any case, the rights of existing participants shall not terminate.

#### *General*

Awards are not pensionable, transferable (other than on death) or able to be used as collateral without the consent of the remuneration committee. Awards may be granted to service companies/entities established by the participants as well as directly to the participants.

The remuneration committee may vary the performance conditions of an award in certain circumstances following the grant of an award so as to achieve its original purpose, but not so as to make their achievement materially any more or less difficult to satisfy.

Shares allotted or transferred under the Incentive Share Plans will rank equally with all other ordinary shares of the Company for the time being in issue.

The Company will apply for the listing of any new shares allotted under the Incentive Share Plans.

The Company may also satisfy awards in cash provided the participant receives the same economic value as would have been provided by an award over shares. In respect of the SOP, the Group reserves the right to satisfy options using equity settled share appreciation rights (SARs), which involves net settlement of the option rights.

### **10. Working Capital**

The Directors (having made due and careful enquiry) are of the opinion that, taking into account the proceeds of the Offer, existing cash, bank and other facilities available to the Company and the Group, the working capital available to the Company and the Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

The Group's liquidity requirements primarily relate to the construction of its developments. In the event that the Group's future cash flows from operations and other capital resources are significantly less than the amounts budgeted by the Group, management anticipates that the primary effect will be a reduction in capital expenditures for construction and a longer construction schedule for its portfolio. In the event the Group is forced to reduce its total budgeted capital expenditures, management expects that priority will be given to the development of the following projects: PecherSKY, followed by ZAGS and WTC.

### **11. Litigation**

Neither the Company nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) that may have, or have had during the 12 months prior to the date of this document, a significant effect on the Company or the Group and/or the financial position or profitability of the Company or the Group.

### **12. CREST and Depositary Interests and the Deed Poll**

#### **CREST and Depositary Interests**

- 12.1 The Shares are in dematerialised registered form. However, it is proposed that, with effect from Admission, Depositary Interests representing Shares may be delivered, held and settled in CREST. Pursuant to a method approved by Euroclear under which transactions in foreign securities may be settled through CREST, the Depositary will issue Depositary Interests representing entitlements to the Shares. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through CREST. The Depositary (through its nominated custodian) will hold the Shares on trust for the holder of Depositary Interests and this trust relationship is documented in the Deed Poll executed by the Depositary.
- 12.2 The Depositary Interests will be created pursuant to and issued on the terms of the Deed Poll. Prospective holders of Depositary Interests should note that they will have no rights in respect of

the underlying Shares or the Depositary Interests representing them against Euroclear or its subsidiaries. Shares will be transferred to an account for the Depositary's nominated custodian ("Custodian") and the Depositary will pass onto the holders of Depositary Interests any cash or other benefits received by the Custodian as holder of Shares. Holders of Depositary Interests will also receive notices of meetings of holders of Shares and other notices issued by the Company to its Shareholders and received by the Custodian on behalf of the Depositary.

- 12.3 The Depositary Interests will have the same ISIN number as the underlying Shares and will not require a separate application for Admission. Participation in CREST is voluntary and Shareholders who wish to hold their Shares in registered form may do so. They will not, however, be able to settle their Shares through CREST and will have their holding recorded on the Company's share register in The Netherlands. The Deed Poll sets out the mechanics for the transfer of the Shares into the Depositary and the issue of Depositary Interests and also the cancellation of Depositary Interests and the consequent transfer of Shares. A transfer of the Shares is effected by way of a deed of transfer executed before a notary in The Netherlands and prospective holders of Depositary Interests should refer to the terms of the Deed Poll and the Articles to ensure compliance with the relevant provisions.
- 12.4 Application has been made by the Depositary for the Depositary Interests representing the Shares to be admitted to CREST on Admission.

#### **Deed Poll**

- 12.5 Prospective subscribers for and purchasers of the Shares are referred to the Deed Poll available for inspection at the offices of Baker & McKenzie LLP as set out in paragraph 15 of this Part XVI. The Deed Poll contains, among other things, the provisions summarised below which are binding on all holders of Depositary Interests.
- 12.6 The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the Depositary Interests for the benefit of the holders of the relevant Depositary Interests.
- 12.7 Holders of Depositary Interests warrant, among other things, that the Shares transferred to the Depositary or to the Custodian on behalf of the Depositary are free and clear from all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Articles or any relevant contractual obligation, law or regulation.
- 12.8 The Depositary (or its Custodian) must pass on to holders of Depositary Interests and exercise on behalf of holders of Depositary Interests all rights and entitlements received or to which they are entitled in respect of the underlying the Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with any amendments and additional documentation necessary to effect such passing-on or, as the case may be, exercised in accordance with the Deed Poll.
- 12.9 The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary is not liable to any holder of Depositary Interests or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence, wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, except in the case of personal injury or death, the Depositary's liability to a holder of Depositary Interests will be limited to the lesser of (a) the value of the Shares and other deposited property properly attributable to the Depositary Interests to which the liability relates and (b) that proportion of £5,000,000 which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the holder of Depositary Interests bears to the aggregate of the amounts that the Depositary would otherwise be liable to pay to all or any holders of Depositary Interests in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5,000,000.



- 12.10 The Depositary is entitled to charge holders of Depositary Interests fees and expenses for the provision of its services under the Deed Poll. The Depositary is not liable for taxes, duties, charges, costs or expenses which may become payable in respect of the Shares or other deposited property or the Depositary Interests.
- 12.11 Each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of, or Depositary Interests held by, that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary or Custodian, or if the Depositary has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent and in certain other circumstances.
- 12.12 The Depositary may terminate the Deed Poll by giving not less than 90 days' prior notice to the holders of Depositary Interests. Upon such notice, each holder shall be deemed to have requested the cancellation of their Depositary Interests and, subject to completion of the transfer procedures, the withdrawal of their deposited property. If any Depositary Interests remain outstanding after termination, the Depositary may, at its discretion, sell all or part of such deposited property and request the removal of the Depositary Interests from CREST. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to it, together with any other cash held by it under the Deed Poll, pro rata to holders of Depositary Interests in respect of their Depositary Interests.
- 12.13 The Depositary or the Custodian may require from any holder, or former or prospective holder, information as to the capacity in which Depositary Interests are owned or held and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying Shares and the holders are bound to provide such information requested. In addition, if and to the extent that, among other things, the Articles require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever in, the Company's securities, the holders of Depositary Interests must comply with such provisions and with the Company's instructions with respect to them.
- 12.14 A copy of the Deed Poll can be obtained on request in writing to the Depositary.

#### **Depositary Agreement**

- 12.15 The Depositary Agreement has been entered into between the Company and the Depositary under which the Company has appointed the Depositary to constitute and issue from time to time upon the terms of the Deed Poll (the key terms of which are summarised above), series of Depositary Interests representing Shares and to provide certain other services in connection with such Depositary Interests.
- 12.16 Pursuant to the Depositary Agreement, the Depositary agrees that it will comply, and will procure certain other persons comply, with the terms of the Deed Poll and that it and they will perform their obligations in good faith and with all reasonable skill and care. The Depositary assumes certain specific obligations including, for example, to arrange for the Depositary Interests to be admitted to CREST as participating securities and to provide copies of and access to, the register of Depositary Interests.
- 12.17 The Depositary warrants that it is and, to the extent necessary, any custodian, agent or other parties appointed by the Depositary pursuant to the Deed Poll shall be, an authorised person under the Financial Services and Markets Act 2000 and is duly authorised to carry out custodial and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation. It will either itself or through its appointed Custodian hold the deposited property on trust (which includes, inter alia, the securities represented by the Depositary Interests) for the benefit of the holders of the Depositary Interests as tenants in common, subject to the terms of the Deed Poll. The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Deed Poll and the Depositary Agreement. In particular, the Company is to supply the Depositary with all documents it sends to its Shareholders so that the Depositary can distribute the same to all holders of Depositary Interests. The agreement sets out



the procedures to be followed where the Company is to pay or make a dividend or other distribution and in respect of voting at general or other meetings.

- 12.18 The Depositary agrees to indemnify the Company against claims made against the Company by any holder of Depositary Interests or any person having any direct or indirect interest in any such Depositary Interests or the underlying Shares that arises out of any of the terms of the Deed Poll or any trust declared or arising under it except to the extent that the claim results from the negligence, wilful default or fraud of the Company. The Company agrees to indemnify the Depositary against claims made by any holder of Depositary Interests or any person having any direct or indirect interest in any such Depositary Interests or the underlying Shares that arises out of the performance by the Depositary of the obligations, duties and responsibilities imposed upon it under the Depositary Agreement and the Deed Poll except to the extent that the claim results from the negligence, wilful default or fraud of the Depositary.
- 12.19 The Depositary Agreement is for terms of three years and thereafter until terminated by either party with not less than six months notice. Both the Company and the Depositary may terminate the agreement by written notice to the other party that such party is in material breach which is not remedied within 21 days of such notice.
- 12.20 The Company is to pay certain fees and charges including, inter alia, a commencement fee, an annual fee, a fee payable upon a deposit, transfer or cancellation of Depositary Interests and certain CREST related fees. The Depositary is also entitled to recover reasonable out-of-pocket expenses.

### **13. No Significant Change**

Save as disclosed below and in note 36 “Post balance sheet events” in Part XIII, there has been no significant change in the financial or trading position of the Company or the Group since 30 June 2007, the date to which the last combined accounts (set out in Part XIII) were prepared.

As a result of the reorganisation of the Group in preparation for the Offer the Group incurred US\$21.0 million in additional short term liabilities, representing deferred payment obligations in respect of Shares of Group companies purchased from third parties in connection with such reorganisation. The Group is currently seeking to extend the payment date of these liabilities.

The Group will incur an accounting charge in its income statement equal to the difference between: (x) the fair value, by reference to market value, of the Shares sold to Mr Sukalo and the Shares represented by the IPO Awards; and (y) the nominal value paid by Mr Sukalo for his Shares and the strike price applicable to the exercise of the IPO Awards, as applicable. Under IFRS, the charge would be taken over the period of any vesting, which under the Incentive Share Plans will normally be three years, and in the absence of vesting conditions, the charge would be incurred upon issuance of the IPO Awards. See section 7.2 above.

### **14. General**

- 14.1 The expenses payable by the Company relating to the Admission, including the AIM listing fee, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to £2.8 million.
- 14.2 Baker Tilly Corporate Finance LLP as reporting accountants is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to inclusion of their reports in Part XIII in the form and context in which they are included. Baker Tilly Ukraine LLP, the auditors of the Company, is an independent member of Baker Tilly International and was appointed as the Company’s auditors on 16 August 2007.
- 14.3 Colliers International, whose registered office is at 34 Velyka Vasytkivska Street, 01004, Kyiv, Ukraine has given and not withdrawn its written consent to the inclusion of the Valuation Report of Various Real Estate Assets in Ukraine dated 9 November 2007 (the “Valuation Report”) in this Admission Document and to the inclusion of references to the Valuation Report and its name in the form and content in which they are respectively included and has authorised the contents of the Valuation Report for the purposes of the AIM Rules for Companies. Subject to the contingent and limiting conditions set out in Appendix 4 of the Valuation Report, Colliers International authorises and accepts responsibility for the information contained in the Valuation Report, and to the best knowledge of Colliers International, having taken reasonable care to ensure that such is the case,

the information contained in such report is accurate and in accordance with the facts as on the date of its issue, and does not omit anything likely to affect the import of such information.

14.4 Save as disclosed in this document, no other person (other than professional advisers disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Offer Price, or any other benefit with a value of £10,000 or more at the date of Admission.

14.5 At Admission the Directors:

- (a) have no unspent convictions relating to indictable offences;
- (b) have not themselves been declared bankrupt or been party to any individual voluntary arrangement;
- (c) have not been associated with any receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors of any company where any of the Directors was a director of such company either at the time of, or within the twelve months preceding, such events;
- (d) have not been associated with any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where any of the Directors was a partner at the time of, or within the twelve months preceding, such events;
- (e) have not owned or been interested in (or been a partner of a partnership which has owned or been interested in) any asset the subject of a receivership at the time of, or within the twelve months preceding, such events; and
- (f) have not received any public criticisms by statutory or regulatory authorities (including recognised professional bodies), nor have they ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## **15. Documents on Display**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA from the date of this document until Admission:

1. the Articles of Association;
2. the Deed Poll;
3. the financial information included in Part XIII; and
4. the consent letters referred to in paragraphs 14.2 and 14.3 of this Part XVI.

Date: 13 December 2007

## PART XVII: DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

<i>Admission</i>	the admission of the ordinary share capital of the Company, issued and to be issued pursuant to the Offer, to AIM becoming effective
<i>AIM</i>	the Alternative Investment Market of the London Stock Exchange
<i>AIM Rules</i>	the AIM rules for companies published by the London Stock Exchange
<i>AIM Rules for Nominated Advisers</i>	the AIM rules for nominated advisers published by the London Stock Exchange
<i>AOC</i>	Limited Liability Company “Agency of Office Construction” (in Ukrainian: “Ahentsiya Ofisnoho Budivnytstva”)
<i>Articles or Articles of Association</i>	the articles of association of the Company
<i>Board or Board of Directors</i>	the board of directors of the Company
<i>CIS</i>	Commonwealth of Independent States
<i>City Code</i>	the City Code on Takeovers and Mergers published by the Panel on Takeovers and Mergers
<i>Civil Code</i>	the Civil Code of Ukraine, dated 16 January 2003
<i>Colliers</i>	Colliers International Ltd, Ukraine
<i>Colliers Report</i>	Valuation Report of Various Real Estate Assets in Ukraine dated 9 November 2007 issued by Colliers International Ukraine on 9 November 2007
<i>Combined Code</i>	the revised combined code on the principles of good governance and code of best practice published in June 2006 by the Financial Reporting Council as amended from time to time
<i>Commercial Code</i>	the Commercial Code of Ukraine, dated 16 January 2003
<i>Company</i>	KDD Group N.V.
<i>CREST</i>	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear is the operator
<i>Custodian</i>	the custodian nominated by Computershare Investor Services PLC
<i>Deed Poll</i>	the deed poll executed by the Depositary in favour of the Depositary Interest holders in connection with the issue of Depositary Interests
<i>Depositary</i>	Computershare Investor Services PLC
<i>Depositary Agreement</i>	the depositary agreement between the Company and the Depositary and described in paragraph 12 of Part XVI
<i>Depositary Interests</i>	the interests representing Shares which may be traded on CREST in dematerialised form
<i>Directors</i>	the Directors of the Company whose names appear on page 1 of this Document
<i>EBRD</i>	European Bank for Reconstruction and Development
<i>Erial</i>	Limited Liability Company “Erial”
<i>EU</i>	the European Union

<i>Euroclear</i>	Euroclear UK & Ireland Limited
<i>Exchange Act</i>	US Securities Exchange Act of 1934, as amended
<i>Fitch</i>	Fitch Ratings Ltd.
<i>FSA</i>	Financial Services Authority of the United Kingdom
<i>GDP</i>	Ukraine’s gross domestic product
<i>GLA</i>	the gross lettable area
<i>Group</i>	the Company and its subsidiary undertakings from time to time
<i>IAD</i>	the Internal Audit Department
<i>IAS</i>	International Accounting Standards
<i>IFRS</i>	the International Financial Reporting Standards
<i>IMF</i>	International Monetary Fund
<i>ING</i>	ING Bank N.V., London Branch
<i>Incentive Share Plans</i>	The Performance Share Plan and Share Option Plan as described in paragraph 9 of Part XVI
<i>Integra-Holding</i>	Limited Liability Company “Integra-Holding”
<i>ISIN</i>	International Security Identification Number
<i>Joint Bookrunners</i>	ING Bank N.V., London Branch and Renaissance Securities (Cyprus) Limited
<i>KDD Group</i>	Limited Liability Company “KDD Group”
<i>Kureni</i>	Subsidiary Enterprise Kureni
<i>Land Code</i>	the Land Code of Ukraine, dated 25 October 2001
<i>Land Lease Law</i>	the Law of Ukraine “On the Lease of Land”, dated 6 October 1998, as amended
<i>Lisova</i>	Limited Liability Company “Center of Public Service and Catering ‘Lisova’” (in Ukrainian: “Tsentr Hromadskoho Obsluhovuvannya ta Kharchuvannya ‘Lisova’ ”)
<i>London Stock Exchange or LSE</i>	London Stock Exchange plc
<i>Member States</i>	member states of the EU
<i>Moody’s</i>	Moody’s Investors Service, Inc
<i>MTC</i>	Limited Liability Company “Modern Technologies of Construction” (in Ukrainian: “Suchasni Tekhnolohiyi Budivnytstva”)
<i>NATO</i>	North Atlantic Treaty Organization
<i>NBU</i>	the National Bank of Ukraine
<i>Offer</i>	the issue of Shares by the Company to institutional investors in the United Kingdom and elsewhere described in Part XIV
<i>Offer Price</i>	£2.00, being the price at which each Ordinary Share is to be issued or sold under the Offer
<i>Order</i>	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
<i>Over-Allotment Option</i>	the option granted to ING (on behalf of the Joint Bookrunners) by the Selling Shareholders to acquire, or procure acquirers for, up to 4,781,755 additional Shares as more particularly described in paragraph 3 of Part XIV

<i>Over-Allotment Shares</i>	the Shares that are the subject of the Over-Allotment Option
<i>Patriacom</i>	Limited Liability Company “Patriacom”
<i>PFIC</i>	Passive foreign investment company
<i>Prospectus Directive</i>	EU Prospectus Directive (2003/71/EC)
<i>Prospectus Rules</i>	the Prospectus Rules issued by the FSA
<i>QIBs</i>	qualified institutional buyers as defined in Rule 144A under the Securities Act
<i>Qualified Investors</i>	qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive
<i>Red Book</i>	the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual
<i>Relevant Member State</i>	Each Member State of the European Economic Area that has implemented the Prospectus Directive
<i>Renaissance</i>	Renaissance Securities (Cyprus) Limited
<i>Securities Act</i>	the United States Securities Act of 1933, as amended
<i>SDRT</i>	Stamp Duty Reserve Tax
<i>SEDOL</i>	Stock Exchange Daily Official List
<i>Selling Shareholders</i>	Parsel Investments Limited, Yorania Investments Limited, Arpanet Holdings Limited, Yankline Holdings Limited and Kenways Trading Limited
<i>Shares</i>	the ordinary shares of the Company (issued and to be issued) to be admitted to trading on the AIM
<i>Shareholder</i>	a holder of Shares in the capital of the Company
<i>Solomyanka</i>	Limited Liability Company “Solomyanka”
<i>Stabilising Manager</i>	ING
<i>UK or United Kingdom</i>	the United Kingdom of Great Britain and Northern Ireland
<i>UKLA</i>	the FSA in its capacity as the UK Listing Authority
<i>Underwriters</i>	ING Bank N.V., London Branch and Renaissance Securities (Cyprus) Limited
<i>Underwriting Agreement</i>	the underwriting agreement entered into between the Company, the Selling Shareholders and the Joint Bookrunners and described in paragraph 4 of Part XIV
<i>United States or US</i>	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
<i>Vysokyi Status</i>	Limited Liability Company “Vysokyi Status”
<i>WTO</i>	World Trade Organization
<i>Yarus</i>	Limited Liability Company “Project Company ‘Yarus’”
<i>Zanet</i>	Closed Joint Stock Company “Firm ‘Zanet’”

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 **KDD  
GROUP**





KDD Group N.V.  
Pushkinska 42/4  
Kyiv  
01004  
Ukraine

[www.kddgroup.com.ua](http://www.kddgroup.com.ua)