



WESTA ISIC S.A.

Quarterly report of the Board of Directors for the three months ended September 30, 2011

FOREWORD BY DENYS DZENZERS'KYY,

Controlling Shareholder and CEO of WESTA ISIC S.A.

Dear Shareholders,

We are pleased to report on the results of WESTA ISIC S.A. after 9 months of operations in 2011.

For the 9-month period the Group's sales increased by 24% compared to 9 months of 2010, to 3.44 million of conventional batteries, revenue increased by 31% to USD 124.4 million and EBITDA increased by 6% to USD 25.4 million.

We have improved our operational performance in 3Q 2011 even in current unfavourable market environment. In the third quarter Group's operations were affected by significant instability of the basic materials prices and disturbances on the financial markets. Lead followed the trend of other basic materials and dropped by 20% just in September 2011. Our dealers faced difficulties with attracting short term financing, which they rely on to purchase our products.

Taking into account the above factors, we have prepared well for the 4Q 2011, which is the most important season in our business, and increased our stock by 0.25 million of conventional batteries for the first 9 months of 2011. We see the fundamental seasonal increase in consumer demand for our products that will allow us to build-up both prices and sales volumes in 4Q 2011.

We believe that WESTA is well positioned in the current market conditions and will retain its operational and financial flexibility over the coming periods. Our liquidity position will allow us to further improve market share in the following year as well as diversify our sales geography through entering new markets. We also plan to reduce our debt position in the upcoming months.

We believe that the WESTA Group is well positioned in the current market conditions and will retain its operational and financial flexibility over the coming periods. The Group has a good liquidity position to prepare well for the coming year and improve its market share.

Sincerely yours,

Denys Dzenzers'kyy

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

WESTA ISIC S.A., incorporated in the Grand Duchy of Luxembourg, is a holding company of group of companies incorporated and operating in Ukraine in the battery manufacturing industry (the “Group” or the “WESTA Group”).

The Group produces wide range of starting, lighting and ignition (SLI) lead-acid batteries, which are used primarily as automotive starter batteries, and for storage of energy. All the Group’s subsidiaries are primarily involved in all the stages of battery design, manufacturing and marketing.

Financial and operational highlights

Key operational highlights for the nine months ended 30 September 2011:

- Battery production increased to 3.69 million conventional units¹ as compared to 2.81 million conventional units¹ in the first nine months of 2010, representing a 31% y-o-y increase
- Battery sales increased to 3.44 million conventional units¹ as compared to 2.78 million conventional units¹ in the first nine months of 2010, representing a 24% y-o-y increase
- Battery stock increased by 0.25 million conventional units¹ year-to-date to meet increasing demand in the last quarter of the year
- Net sales increased to USD 124.4 million as compared to USD 94.8 million for the first nine months of 2010, representing a 31% y-o-y increase.

Key operational highlights for the three months ended 30 September 2011:

- Battery production increased to 1.59 million conventional units¹ as compared to 1.09 million conventional units¹ in 3Q 2010, representing a 46% y-o-y increase
- Battery sales increased to 1.67 million conventional units¹ as compared to 1.11 million conventional units¹ in 3Q 2010, representing a 51% y-o-y increase
- Net sales increased to USD 58.7 million as compared to USD 35.2 million in 3Q 2010, representing a 67% y-o-y increase.

¹ Conventional battery is measure that enables to unify all the range of products (which vary from capacity of 44A*h to 225 A*h) to the analogue of 60A*h battery as the most widespread product. As battery’s cost and price correlate perfect with its capacity (which is mainly defined by lead content), it is possible to unify all the range of batteries to a unified measure. For instance, a single 180A*h battery is equivalent to three 60A*h (conventional) batteries.

Selected financial data for the nine months ended September 30, 2011 is presented in the table below:

in thousand USD unless otherwise stated	As at and for the nine months ended September 30		As at and for the three months ended September 30	
	2011	2010	2011	2010
Revenue	124,366	94,837	58,734	35,223
Gross profit	29,847	27,569	11,725	10,647
EBITDA ²	25,392	24,064	9,425	9,374
Total comprehensive income/(loss)	(9,543)	581	(2,101)	(3,094)
Operating profit before working capital changes	24,345	23,737	7,595	9,171
Net cash used in operating activities	(5,187)	(16,196)	12,727	(6,798)
Net cash used in investing activities	4,419	(11,914)	10,034	(3,191)
Net cash generated from financing activities	58,502	31,196	(12,174)	13,721
Total net cash flow	57,734	3,086	10,587	3,732
Total assets	396,216	311,265	396,216	311,265
Non-current liabilities	223,782	159,884	223,782	159,884
Current liabilities	134,978	202,615	134,978	202,615
Total equity (deficit)	37,456	(51,234)	37,456	(51,234)
Weighted average number of shares	37,909,402	33,100,000	44,133,333	33,100,000
Profit (loss) per ordinary share (USD)	(0.25)	0.02	(0.05)	(0.10)

² EBITDA is defined as gross profit less general and administrative expenses, less selling and distribution expenses, plus government grants, plus depreciation and amortization as derived from the Financial Statements.

DESCRIPTION OF SIGNIFICANT EVENTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER, 2011

Progress with VRLA capacities construction

In 3Q 2011 most of the equipment for the VRLA capacities construction was delivered to the Group facilities with the remaining part expected to be delivered in 4Q 2011. We plan to launch the capacities in the testing mode in 1Q 2012.

Change of lead prices

In 3Q 2011 the Group's operations were affected by fluctuation of the lead prices. London Metal Exchange (LME) spot lead price in September decreased by approximately 20%, which caused the Group to postpone seasonal prices increase for 4Q 2011.

Changes in loan agreements

In 3Q 2011 the interest rate for the banking loan with the principal value of USD 30 mln was lowered from 13.5% to 12.0%, the loan was prolonged for 3 years with the new maturity date in the end of 2014.

In 3Q 2011 the overall debt balance of the Group decreased by USD 5 mln.

PRINCIPAL RISKS AND UNCERTAINTIES FOR THE REMAINING THREE MONTHS OF THE FINANCIAL YEAR

Currency exchange rates fluctuations

Fluctuations in the value of USD, which is the Group's reporting currency, against other currencies, such as UAH, RUB and EUR may have an adverse effect on its financial results. Approximately 30% of the Group's sales are invoiced in USD and EURO and approximately 45% - in RUB for goods sold on the international markets. The remaining 25% represent the sales of batteries in the Ukrainian domestic market.

Moreover, the loan facilities of the Group are denominated in USD, EURO and UAH. A change in the value of EURO or UAH compared to USD could have a negative effect on the financial results of the Group.

The Group also encounters currency exchange risks to the extent that it incurs operating expenses in a currency other than that in which it has obtained financing or those in which it generates revenues.

Prices for raw materials

Since lead constitutes more than a half in the cost of a battery, any fluctuation in its price significantly affects the battery producers. The costs of lead are volatile and are beyond of the Group's control. The increase of price might cause a reduction in profit margin unless WESTA is able to hedge these risks or to pass on to its customers the increased costs of the raw materials.

Global economic conditions may worsen

Since the Group operates on the international scale, it is exposed to the global economic and financial conditions and change in consumers' purchasing power. In case of a further slowdown in the global economy, the Group's business may be affected by shortfall of the demand for its products or by

decrease in availability of financing, which could in turn negatively impact its sales and revenue generation and result in a material adverse effect on its financial results.

Risks relating to operating in Ukraine

Since all Group's production capacities are located in Ukraine, risks and events that have a material adverse effect on the Group's operations in Ukraine could, in turn, have a material adverse effect on its overall business, financial condition, operating results or prospects. Some of such risks are presented below:

- Political or economic instability or uncertainty in Ukraine may worsen
- Any unfavorable changes in Ukraine's regional relationships, especially with Russia
- The business environment in Ukraine could deteriorate etc.

MANAGEMENT STATEMENT

Denys Dzenzers'kyy, Director A of WESTA ISIC S. A. hereby declares that to the best of his knowledge the condensed consolidated financial statements for the 3 months ended September 30, 2011 have been prepared in compliance with IFRS and give a true, fair and clear view of WESTA ISIC S.A. assets, liabilities, financial standing and net results, and quarterly report of the Board of Directors for the three months ended September 30, 2011 include a fair review of the information.

By Order of the Board of Directors

**Denys Dzenzers'kyy,
Director A**

23 November 2011,
Luxembourg

CONDENSED CONSOLIDATED FINANCIAL STATEMENT

As at and for the three months ended September 30, 2011

WESTA ISIC S.A.

These condensed consolidated financial statement contain 43 pages

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WESTA GROUP

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2011 (in thousands of US Dollars)

	Notes	30 September 2011 Unaudited	30 June 2011 Unaudited	31 December 2010 audited	30 September 2010 Unaudited
ASSETS					
NON-CURRENT ASSETS:					
Property, plant and equipment	4	173,518	176,419	179,708	176,294
Prepayments for property, plant and equipment	5	19,121	19,130	10,701	11,957
Intangible assets		615	618	620	477
Investments in associates	6	161	161	161	162
Deferred tax assets	7	1,766	1,966	1,636	975
Other non-current assets	8	1,437	1,723	1,415	1,449
Total non-current assets		196,618	200,017	194,241	191,314
CURRENT ASSETS:					
Inventories	9	25,476	24,317	18,986	15,328
Trade and other accounts receivable	10	45,836	39,163	48,315	44,363
Government grant receivable		-	-	9,795	-
Advances to suppliers and prepaid expenses	11	37,893	70,049	31,658	31,962
Taxes recoverable and prepaid		14,381	12,892	11,862	10,679
Other financial assets		7,650	9,410	11,099	11,369
Cash and cash equivalents	12	68,362	57,822	10,640	6,250
Total current assets		199,598	213,653	142,355	119,951
TOTAL ASSETS		396,216	413,670	336,596	311,265
EQUITY AND LIABILITIES					
EQUITY/(DEFICIT):					
Share capital/combined contributed capital	13	621	621	41	18,446
Share premium		45,180	45,180		
Additional paid-in capital	1	16,665	16,665	16,665	-
Revaluation reserve		26,756	28,248	28,248	28,456
Accumulated deficit		(51,135)	(50,635)	(43,372)	(97,087)
Cumulative translation difference		(1,196)	(1,116)	(1,043)	(1,057)
Equity/(deficit) attributable to shareholders of the Parent		36,891	38,963	539	(51,242)
Non-controlling interests	14	565	594	700	8
Total equity/(deficit)		37,456	39,557	1,239	(51,234)
CONTINGENCIES AND CONTRACTUAL					
NON-CURRENT LIABILITIES:					
Long-term borrowings	15	217,367	203,652	145,555	133,177
Bonds issued	16	6,415	7,940	6,439	13,900
Deferred tax liabilities	7	-	-	-	12,807
Total non-current liabilities		223,782	211,592	151,994	159,884
CURRENT LIABILITIES:					
Trade and other accounts payable	17	19,148	27,155	30,181	13,301
Advances received		10,851	13,523	1,935	7,519
Short-term borrowings and current portion of the long-term borrowings	15	101,925	119,186	149,158	179,889
Taxes payable		572	493	605	403
Provisions and accruals		2,482	2,164	1,484	1,503
Total current liabilities		134,978	162,521	183,363	202,615
TOTAL LIABILITIES		358,760	374,113	335,357	362,499
TOTAL EQUITY AND LIABILITIES		396,216	413,670	336,596	311,265

On behalf of Board of Directors of WESTA Group:

(signed)
Denys Dzenzers'kyi,
CEO of WESTA ISIC S.A.

The notes on pages 15 to 50 form an integral part of these Condensed consolidated financial statements.

WESTA GROUP

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH ENDED 30 SEPTEMBER 2011

(in thousands of US Dollars)

	Notes	3 months ended 30 September 2011 (unaudited)	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2010 (unaudited)	9 months ended 30 September 2010 (unaudited)
REVENUE	18	58,734	124,366	35,223	94,837
COST OF SALES	19	(47,009)	(94,519)	(24,576)	(67,268)
GROSS PROFIT		11,725	29,847	10,647	27,569
General and administrative expenses	20	(1,859)	(5,518)	(1,442)	(4,287)
Selling and distribution expenses	21	(2,234)	(4,302)	(928)	(2,484)
Other income /(expenses), net	22	3,538	3,138	(57)	(146)
Foreign exchange gain/(loss), net		(3,680)	(4,536)	(3,589)	4,216
Finance costs	23	(10,503)	(30,814)	(8,505)	(23,829)
Interest income		1,282	2,741	399	1,188
PROFIT/(LOSS) BEFORE INCOME TAX		(1,731)	(9,444)	(3,475)	2,227
INCOME TAX	7	(289)	57	268	(1,396)
NET PROFIT/(LOSS)		(2,020)	(9,387)	(3,207)	831
Other comprehensive (loss)/income		(81)	(156)	113	(250)
TOTAL COMPREHENSIVE INCOME/(LOSS)		(2,101)	(9,543)	(3,094)	581
Profit/(loss) attributable to:					
Shareholders of the Parent		(1,992)	(9,254)	(3,161)	820
Non-controlling interests		(28)	(133)	(46)	11
TOTAL COMPREHENSIVE INCOME/(LOSS)					
Shareholders of the Parent		(2,072)	(9,407)	(3,050)	573
Non-controlling interests		(29)	(136)	(44)	8
EARNINGS PER SHARE	27				
Basic and diluted(USD per share)		(0.05)	(0.24)	(0.10)	0.02

On behalf of Board of Directors of WESTA Group:

_____(signed)
Denys Dzenzers'kyy,
CEO of WESTA ISIC S.A.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH ENDED 30 SEPTEMBER 2011 (in thousands of US Dollars)

	Attributable to Shareholders of the Parent						Total	Non-controlling interests	Total equity/ (deficit)
	Combined contributed capital/ Share capital	Share premium	Additional paid-in capital	Revaluation reserve	Accumulated deficit	Cumulative translation difference			
30 June 2010	18,446	-	-	28,456	(88,806)	(1,168)	(43,072)	52	(43,020)
Distribution to shareholders (Notes 1 and 11)	-	-	-	-	(2,388)	-	(2,388)	-	(2,388)
Contribution from shareholders (Note 1)	-	-	-	-	(2,732)	-	(2,732)	-	(2,732)
Net profit for the three months	-	-	-	-	(3,161)	-	(3,161)	(46)	(3,207)
Translation adjustment	-	-	-	-	-	111	111	2	113
Total comprehensive income for the three months	-	-	-	-	(3,161)	111	(3,050)	(44)	(3,094)
30 September 2010	18,446	-	-	28,456	(97,087)	(1,057)	(51,242)	8	(51,234)
Distribution to shareholders (Notes 1 and 11)	-	-	-	-	(5,243)	-	(5,243)	-	(5,243)
Contribution from shareholders (Note 1)	-	-	-	-	26,291	-	26,291	-	26,291
Net profit for the three months ended 31 December 2010	-	-	-	-	32,667	-	32,667	469	33,136
Translation adjustment	-	-	-	-	-	14	14	-	14
Total comprehensive income for the three months ended 31 December 2010	-	-	-	-	32,667	14	32,681	469	33,150
Capital contribution	41	-	-	-	-	-	41	-	41
Effect from corporate reorganization (Note 1)	(18,446)	-	16,665	(208)	-	-	(1,989)	223	(1,766)
31 December 2010	41	-	16,665	28,248	(43,372)	(1,043)	539	700	1,239
Net profit for the six month	-	-	-	-	(7,263)	-	(7,263)	(104)	(7,367)
Translation adjustment	-	-	-	-	-	(73)	(73)	(2)	(75)
Total comprehensive income or the six months	-	-	-	-	(7,263)	(73)	(7,336)	(106)	(7,442)
Share capital increase	420	-	-	-	-	-	420	-	420
Proceeds from IPO	160	47,302	-	-	-	-	47,462	-	47,462
Cost of IPO	-	(2,122)	-	-	-	-	(2,122)	-	(2,122)
30 June 2011	621	45,180	16,665	28,248	(50,635)	(1,116)	38,963	594	39,557
Transfer to retained earnings, net of tax	-	-	-	(1,492)	1,492	-	-	-	-
Net profit for the three month	-	-	-	-	(1,992)	-	(1,992)	(28)	(2,020)
Translation adjustment	-	-	-	-	-	(80)	(80)	(1)	(81)
Total comprehensive income or the three months	-	-	-	(1,492)	(500)	(80)	(2,072)	(29)	(2,101)
30 September 2011	621	45,180	16,665	26,756	(51,135)	(1,196)	36,891	565	37,456

On behalf of Board of Directors of WESTA Group:

(signed)

Denys Dzenzers'kyy,
CEO of WESTA ISIC S.A.

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WESTA GROUP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTH ENDED 30 SEPTEMBER 2011

(in thousands of US Dollars)

	3 months ended 30 September 2011 (unaudited)	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2010 (unaudited)	9 months ended 30 September 2010 (unaudited)
OPERATING ACTIVITIES:				
Profit/(loss) before income tax	(1,731)	(9,444)	(3,475)	2,227
Adjustments to reconcile profit/(loss) to net cash provided by operations:				
Finance costs	10,503	30,814	8,505	23,829
Depreciation and amortization expense	1,793	5,365	1,097	3,266
Loss on disposal of property, plant and equipment	(4,194)	(3,863)	-	16
Interest income	(1,282)	(2,741)	(399)	(1,188)
Share of (gains)/ losses of associates	-	-	-	(102)
Non-operating foreign exchange (gain)/loss	2,506	4,214	3,443	(4,311)
Operating profit before working capital changes	7,595	24,345	9,171	23,737
Increase in trade and other accounts receivable	(4,637)	5,903	(2,671)	1,315
Increase in Government grant receivable	-	9,838	-	-
Increase in advances to suppliers and prepaid expenses	33,417	(4,115)	(3,182)	(18,314)
(Increase)/decrease in inventories	(1,159)	(6,490)	(3,883)	(1,270)
Increase in taxes payable (other than income tax)	(428)	(33)	3,504	(48)
Increase/(decrease) in trade and other accounts payable	(8,185)	(11,255)	(5,220)	(640)
Increase in provisions and accruals	318	998	(290)	575
(Decrease)/ increase in advances received	(2,697)	8,874	(262)	1,761
Decrease in taxes receivable (other than income tax)	(1,489)	(2,520)	1,485	(1,004)
Cash generated by operations	22,735	25,545	(1,348)	6,112
Income tax paid	(233)	(491)	(197)	(282)
Interest paid	(9,775)	(30,241)	(5,253)	(22,026)
Net cash used in operating activities	12,727	(5,187)	(6,798)	(16,196)
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment and intangible assets	(658)	(9,923)	(3,869)	(16,613)
Proceeds from disposal of property, plant and equipment	6,734	6,734		
Interest received	1,331	2,676	888	1,188
Decrease/(increase) in other financial assets	2,341	4,955	(67)	3,437
Change in other non-current assets	286	(23)	(143)	74
Net cash used in investing activities	10,034	4,419	(3,191)	(11,914)

WESTA GROUP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTH ENDED 30 SEPTEMBER 2011

(in thousands of US Dollars)

	3 months ended 30 September 2011 (unaudited)	9 months ended 30 September 2011 (unaudited)	3 months ended 30 September 2010 (unaudited)	9 months ended 30 September 2010 (unaudited)
FINANCING ACTIVITIES:				
Contribution from/(distribution to) shareholders	-	-	(11,439)	(16,654)
Net proceeds from share issue	-	45,760	-	-
Payments on bonds redeemed	(1,734)	(1,734)	-	-
Proceeds from bonds issuance	108	1,670	-	-
Proceeds from borrowings	2,668	44,276	29,788	53,509
Principal payments on borrowings	(13,216)	(31,470)	(4,628)	(5,659)
Net cash generated from financing activities	(12,174)	58,502	13,721	31,196
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,587	57,734	3,732	3,086
CASH AND CASH EQUIVALENTS, at the beginning	57,822	10,640	2,400	3,221
Effect of translation to presentation currency and exchange rate changes on the balance of cash and	(47)	(12)	118	(57)
CASH AND CASH EQUIVALENTS, at the end	68,362	68,362	6,250	6,250

On behalf of Board of Directors of WESTA Group:

(signed)
Denys Dzenzers'kyy,
CEO of WESTA ISIC S.A.

The notes on pages 15 to 50 form an integral part of these Condensed consolidated financial statements.

WESTA GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH ENDED 30 SEPTEMBER 2011

(in thousands of US Dollars unless otherwise stated)

1. NATURE OF THE BUSINESS AND CORPORATE REORGANIZATION

Nature of the business –WESTA ISIC S.A. (the “Parent”), a public limited liability company registered under the laws of Luxembourg, was formed on 10 December 2009 under the legal name of Tramaine Development S.A. The Parent was acquired in 2010 by Vankeria Consultants Limited to serve as the ultimate holding company of PSC “WESTA-DNEPR” (the “WESTA-DNEPR”) and its subsidiaries. The Parent’s legal name was changed from Tramaine Development S.A. to WESTA ISIC S.A. on 24 November 2010. Hereinafter, WESTA ISIC and its subsidiaries are referred to as the “WESTA Group” or the “Group”. The registered address of WESTA ISIC is 412 F Route d’Esch, L-2082 Luxembourg.

The controlling shareholder of WESTA ISIC is the Chief Executive Officer of the Group Mr. Denys Dzenzers’kyi (the “Controlling Shareholder”), who owns 100% of the shares of Vankeria Consultants Limited registered in Cyprus, which holds 75% of share capital of WESTA ISIC. Other 25% of WESTA ISIC share capital is a free-float.

The principal operating office of the Group is located at 34,Budivelnykiv St., Dnipropetrovsk, 49055, Ukraine.

Principal operating activity of WESTA Group started in January 2005. WESTA Group is one of the leading manufacturing groups in Ukraine involved in the production and distribution of starter accumulator batteries that refer to a maintenance-free category and category of batteries requiring maintenance. The extent of batteries application is as follows:

- Commercial vehicles, tractors, combine harvesters equipped with petrol and diesel engines;
- Cars of any class with petrol and diesel engines;
- Batteries for heavy-duty trucks, including those of special-purpose.

Batteries are sold in Ukraine, Russia and other countries, collectively in more than 30 countries.

As of 30 September 2011 the structure of the Group and principal activities of the companies forming the Group were as follows:

Name of the company	Principal activity	Place of incorporation and operation	Effective ownership interest of the Group	
			30 September 2011	31 December 2010
Parent:				
WESTA ISIC S.A.	Holding company	Luxemburg	Parent	Parent
Subsidiary:				
WESTA-DNEPR CYPRUS LIMITED	Sub-holding company	Cyprus	100.00%	100.00%
PSC “WESTA-DNEPR”	Manufacturing of batteries (operating company)	Ukraine, Dnipropetrovsk	97.25%	97.25%

Name of the company	Principal activity	Place of incorporation and operation	Effective ownership interest of the Group	
			30 September 2011	31 December 2010
Limited company “WESTA INDUSTRIAL”	Manufacturing of batteries (operating company)	Ukraine, Dnipropetrovsk	97.20%	97.20%
LIMITED COMPANY “INDUSTRIAL ENERGY SYSTEMS”	Researcher and development of the third generation battery	Ukraine, Dnipropetrovsk	97.19%	97.19%
Limited Company “TECHKOMPLEKT”	Trade house (operating company)	Ukraine, Dnipropetrovsk	97.19%	97.19%
Associates: PrSC “Dnepro-Deu”	Maintenance of transmission equipment	Ukraine, Dnipropetrovsk	21.00%	21.00%

The Group also has an ownership in two dormant subsidiaries, namely LLC “WF Production” and LLC “FW Trading”, which were not engaged in significant operating activities as of 30 September 2011 and 30 September 2010 and for the three months then ended. These subsidiaries are stated at cost due to their insignificance to the Condensed consolidated financial statements of the Group.

Corporate reorganization –Prior to 31 December 2010 the ownership in the companies forming the Group was not united in the form of a legal holding and was represented by the following Ukrainian entities: “WESTA-DNEPR” and its subsidiary, Limited Company “TECHKOMPLEKT” and LTD “INDUSTRIAL ENERGY SYSTEMS”. All of these companies were in operation as of 1 January 2008 (the date of the Group’s transition to International Financial Reporting Standards). During the year ended 31 December 2010 the possession of various entities in which the Controlling Shareholder previously held ownership interests were contributed into WESTA ISIC S.A. The Group accounted for this contribution as a transaction between entities under common control, meaning that all transfers were done at the pre-acquisition carrying amounts. In particular, the following processes were completed during the year ended 31 December 2010 to form the business engaged in production and distribution of starter accumulator batteries as described above in this Note:

- The ownership in the Ukrainian entities of the Group was united under a single holding company WESTA-DNEPR. Then WESTA-DNEPR was transferred by the Controlling Shareholder to WESTA Dnepr (Cyprus) Limited for USD 1,758 thousand. This amount remained unpaid as of 30 September 2011 and was shown within trade and other accounts payable (Note 19);
- WESTA ISIC S.A. was acquired by Vankeria Consultants Limited in 2010 to serve as a holding company of the Group;
- WESTA Dnepr (Cyprus) Limited was established in Cyprus and ownership in this entity was transferred to WESTA ISIC S.A. for an insignificant consideration;

- The Group disposed ownership in one of its subsidiary at cost, namely LLC “Rekuperaciyasvinca”, to an entity under common control. In order to present financial information of the Group for the year ended 31 December 2010, which is to reflect financial performance of the Group on comparable basis, this subsidiary was not consolidated in the accompanying financial statements and the cost of investment into the disposed subsidiary was shown as a distribution to the shareholders in the Condensed consolidated statement of changes in equity from the earliest period for which the Group prepared its financial statements in accordance with International Financial Reporting Standards (starting 1 January 2008).

Following the above, the consolidated financial information for the periods up to the formal date of the Group formation has been prepared based on the following assumptions:

- The assets, liabilities and the profit or loss of the entities comprising the Group have been aggregated for all periods presented, based on when the Controlling Shareholder obtained its ownership interests in the entities;
- All transactions and balances between Group entities have been eliminated;
- Transactions and balances with entities controlled by the Controlling Shareholder that are not within the Group are classified as related party transactions and balances;
- The share capital presented as of 30 September 2011 represents that of the Parent. The excess of net assets of WESTA-DNEPR acquired from the Controlling Shareholder over the consideration paid to him in the amount USD 16,665 thousand was recognized as additional paid-in capital in the statement of changes in equity upon legal reorganization of the Group. The share capital before legal reorganization of each of the Group entities has been combined and was presented as combined contributed capital. The Group retained earnings balance therefore represents the historical retained earnings of the entities comprising the Group;
- All other items within equity have been aggregated in a manner consistent with the assets and liabilities;
- The non-controlling interests share, which has been increased and reduced throughout the periods presented as a result of a number of further direct and indirect acquisitions and disposals by the Group was presented as equity transactions.

Transactions with a larger group of entities under common control with the Group—During the year ended 31 December 2010 the Group was also engaged in the purchase of raw materials from parties under common control at prices in excess of market. Based on requirements of International Financial Reporting Standards Framework and substance of these transactions, the excess in prices over the purchase price paid by the parties under common control, was recorded as a distribution to the shareholders in the condensed consolidated statement of changes in equity for the year ended 31 December 2010 in the amount of USD12,846 thousand, with corresponding decrease of cost of sales and decrease of cost of inventories.

During the year ended 31 December 2010 the Group was involved in reallocation of the resources to and from larger group of entities under common control. These amounts were recorded as contribution from and distribution to the shareholders in the Condensed consolidated statement of changes in equity for the year ended 31 December 2010 in the amount of USD 17,052 thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These condensed consolidated financial statements for the three months ended 30 September 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The accompanying condensed consolidated financial statements have been prepared in accordance with the requirements of all IAS, IFRS, and Interpretations of International Financial Reporting Interpretations Committee (“IFRIC”), which were effective as of 30 September 2011.

The entities of the Group maintain their accounting records in accordance with accounting standards and other statutory requirements to financial reporting in the country of their incorporation. Local statutory accounting principles and procedures differ from accounting principles generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group entities’ statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The accompanying financial statements of the Company are prepared on the historical cost basis, except for the revaluation of plant and equipment and certain financial instruments.

Adoption of new and revised International Financial Reporting Standards – The following new and revised Standards and Interpretations have been adopted in the year:

- IFRS 3 “Business Combinations” (Revised 2008);
- IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008);
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (Revised 2008);
- IFRIC 17 “Distributions of Non-cash Assets to Owners”;
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items (July 2008);
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”.

IFRS 3 “Business Combinations” (Revised 2008) has been applied effective 1 January 2010 prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. The most significant changes affecting the Group’s accounting policies are as follows:

- IFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as “minority” interests) either at fair value or at the non-controlling interests’ share of recognized identifiable net assets of the acquired subsidiary;
- IFRS 3 (Revised 2008) changes the recognition and subsequent accounting for contingent consideration. Previously, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of twelve months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration are recognized in profit or loss;

- IFRS 3 (Revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquired subsidiary;
- IFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The application of IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008) resulted in changes in the Group’s accounting policies for changes in ownership interests in subsidiaries, which were applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions:

- When control of a subsidiary is lost as a result of a transaction, event or circumstance, IAS 27 (Revised 2008) requires the Group to derecognize all assets, liabilities and non-controlling interests at their carrying amounts and to recognize the fair value of the consideration received. Any retained interest in the former subsidiary is recognized at its fair value at the date control is lost. The resulting difference is recognized in profit or loss;
- IAS 27 (Revised 2008) requires that the non-controlling interests’ proportionate share of profit or loss is attributed to the non-controlling interests even if this results in the non-controlling interests having a debit balance. In prior years, the excess of the losses applicable to the non-controlling interests in a subsidiary over the non-controlling interest in the subsidiary’s equity were allocated against the Parent’s interest except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

The principle adopted under IAS 27(2008) (see above) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit or loss.

The adoption of IFRS 3 “Business Combinations” (Revised 2008), IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008) and IAS 28 “Investments in Associates” (revised in 2008) did not materially affect the amounts reported in the current year but may affect the accounting for future transactions as a result of changes in the Group’s accounting policies.

In the current year, the Group also adopted amendments to a number of Standards including those resulting from annual improvements to IFRS that are effective for annual periods beginning on or after 1 January 2010. Adoption of these amendments, as well as adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these condensed consolidated financial statements but may affect the accounting for future transactions and arrangements.

Standards and Interpretations in issue but not effective –At the date of authorization of these condensed consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Replacement of “fixed dates” for certain exceptions with “the date of transition to IFRSs” and Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011*
Amendments to IFRS 7 “Financial instruments: Disclosures” – Transfers of financial assets	1 July 2011*
Amendments to IAS 12 “Income Taxes” – Limited scope amendment (recovery of underlying assets)	1 January 2012*
IFRS 9 “Financial Instruments: Classification and Measurement”	1 January 2013*

* Standards and Interpretations not yet endorsed by the European Union.

As of the date of authorization of these condensed consolidated financial statements, there were also amendments to other Standards and Interpretation issued resulting from annual improvements to IFRS that are effective in future periods.

The management is currently evaluating the impact of the adoption of IFRS 9 “Financial Instruments: Classification and Measurement”, amendments to IAS 24 “Related Party Disclosures” and IAS 12 “Income Taxes”. For other Standards and Interpretations management anticipates that their adoption in future periods will have no material effect on the condensed consolidated financial statements of the Group.

Functional and presentation currency – The functional currency of the condensed consolidated financial statements of the Group is the Ukrainian Hryvnia (“UAH”). The currency of presentation is United States dollars (“USD”). The assets and liabilities of the subsidiaries denominated in functional currencies are translated into presentation currency at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income or loss.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The relevant exchange rates were as follows:

	As of 30 September 2011	Average for the three month ended 30 September 2011	As of 30 September 2010	Average for the three months ended 30 September 2010
UAH/USD	7.9727	7.9717	7.9135	7.9006
UAH/EUR	11.85	11.2778	10.771	10.05
UAH/RUB	0.2501	0.2752	0.2603	0.281

Basis of consolidation– The condensed consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Parent (its subsidiaries). Control is achieved when the Parent has the power to govern the financial and operating policies of an entity, either directly or indirectly, so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the condensed consolidated financial statements of the Group from the date when control effectively commences.

All significant intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to Shareholders of the Parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 “Financial Instruments: Recognition and Measurement” or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Accounting for acquisitions from third parties– Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits”, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment at the acquisition date” (see 3.16.2); and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired subsidiary, and the fair value of the Group's previously held equity interest in the acquired subsidiary (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of non-controlling interest in the subsidiary and the fair value of the Group's previously-held interest in the subsidiary (if any), the excess is recognized in the profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the subsidiary's identifiable net assets. The choice of measurement basis is made on transaction-by-transaction basis. Other types of non-controlling interests, if any, are measured at fair value or, when applicable, on the basis specified in other Standards.

When the consideration transferred by the Group in a business combination includes assets and liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which may not exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

When an acquisition of a legal entity does not constitute a business, the cost of the group of assets is allocated between the individual identifiable assets in the group based on their relative fair values.

Accounting for acquisitions from entities under common control—The assets and liabilities of subsidiaries acquired from entities under common control are recorded in these condensed consolidated financial statements at pre-acquisition carrying values. Any difference between the

carrying value of net assets of these subsidiaries, and the consideration paid by the Group is accounted for in these condensed consolidated financial statements as an adjustment to shareholders' equity. The results of the acquired entity are reflected from the earliest period presented.

Any gain or loss on disposals to entities under common control are recognized directly in equity and attributed to Shareholders of the Parent.

Non-controlling interests—Non-controlling interests in subsidiaries and consolidated entities are identified separately from the Group's equity therein. The interests of non-controlling shareholders consist of the amount of those interests at the date of the original business combination (see above) and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling shareholders in excess of the non-controlling shareholders' interest in the subsidiary's equity are attributed to the non-controlling shareholders even if this results in the non-controlling shareholders having a debit balance.

Investments in associates—An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these condensed consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, an investment in an associate is initially recognized in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 "Impairment of Assets" to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Financial instruments— Financial assets and financial liabilities are recognized on the Group’s condensed consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

Financial assets and liabilities are initially recognized at fair value plus, in the case when financial asset or financial liability are not stated at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below in this Note.

Financial assets and financial liabilities are only offset and the net amounts are reported in the statement of financial position when the Group has a legally enforceable right to set-off the recognized amounts and intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets – Financial assets are classified into the following specified categories: financial assets as “at fair value through profit or loss” (FVTPL), “held-to-maturity investments”, “available-for-sale” (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method – The effective interest method is a method of calculating the amortized cost of a financial asset (liability) and of allocating interest income (expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (payments) – including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts – through the expected life of the financial asset (liability), or, where appropriate, a shorter period.

Accounts receivable – Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Short-term accounts receivable, which are non-interest bearing, are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognized in the profit or loss when there is objective evidence that the asset is impaired.

Other financial assets – Other financial assets include deposits with original maturity of more than three months held for investment purposes or as guarantees for the Group’s borrowings and are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash with banks and deposits with original maturity of less than three months.

Impairment of financial assets—Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment 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.

If the Group determines that no objective evidence exists that impairment has incurred for individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issue costs. Repurchase of the Parent's own equity instruments is recognised in and deducted from directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Parent's own equity instruments.

Financial liabilities – Financial liabilities are classified as either financial liabilities “at FVTPL” or “other financial liabilities”.

Other financial liabilities – Other financial liabilities, including borrowings, trade payables and payables for property and equipment are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial liabilities – The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Contributed capital of consolidated entities – Contributed capital is recognized at the fair value of the contributions received by the Group's consolidated entities.

Trade and other payables – Accounts payable are subsequently measured at amortized cost using the effective interest rate method. Accounts payable are classified as long-term if they are due for settlement in period longer than twelve months from the reporting date. Accounts payable which are expected to be settled within twelve months from the reporting date are classified as current accounts payable.

Borrowings and bonds issued – Interest-bearing borrowings and bonds are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognized over the term of the borrowings and bonds issued and recorded as finance costs.

Borrowing costs – Borrowing costs include interest expenses and other debt service costs. Borrowing costs directly attributable to the acquisition, construction or production of the qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Property, plant and equipment – Buildings and structures, machinery and equipment and vehicles held for use in the production or supply of goods or services, or for administrative purposes, are stated in the condensed consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such buildings and structures, machinery and equipment and vehicles, is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such buildings and structures, machinery and equipment and vehicles, is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset recognized previously in other comprehensive income.

On the subsequent sale or retirement of revalued items of property, plant and equipment, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

Fixtures and other depreciable assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The historical cost of an item of property, plant and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Group; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. The cost of self-constructed assets includes the cost of material, direct labor and an appropriate portion of production overheads.

As the historical cost information was not available, the Group elected to use a fair value as a deemed cost as of the date of transition to IFRS. The management used valuation performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS. The fair value was defined as the amount for which an asset could have been exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined at their market value.

If there is no market-based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an income or a depreciated replacement cost approach was used to estimate the fair value.

Depreciation is recognized so as to write off the cost or revalued amount of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as

the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Subsequently capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the profit or loss as incurred.

Depreciable amount represents the cost, deemed cost or revalued amount of an item of property, plant and equipment less its residual value. The residual value is the estimated amount that the Group would currently obtain from disposal of the item of property, plant and equipment, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful lives of the groups of property, plant and equipment are as follows:

Buildings and structures	25 - 85 years
Machinery and equipment	5 - 30 years
Vehicles	5 - 25 years
Furniture and other depreciable assets	1 - 12 years

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets become available for use, i.e. when they are in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Intangible assets – Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets – At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior

years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Income tax – Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax– Income taxes have been computed in accordance with the laws currently enacted in Ukraine. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss as reported in the condensed consolidated profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax– Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period – Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

Inventories– Inventories are stated at the lower of cost and net realizable value. The costs comprise raw materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present locations and condition.

Cost is calculated using FIFO (first-in, first-out) method. Net realizable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions—Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities and assets—Contingent liabilities are not recognized in the condensed consolidated financial statements. They are disclosed in the notes to the condensed consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognized only when the contingency is resolved.

Dividends – Dividends declared during the reporting period are recognized as distributions of retained earnings to equity holders during the period, the amount of recognized but unpaid dividends is included in current liabilities. Dividends declared after the reporting date but before the financial statements were authorized for issue are not recognized as a liability at the reporting date, but are disclosed in the notes to the financial statements.

Segment information – IFRS 8 “Operating segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision-maker has been identified as the Chief Executive Officer (CEO) of the Group. The CEO reviews the Group’s internal reporting in order to assess performance and allocate resources. Currently, the CEO evaluates the business from a single perspective as one unit manufacturing starter batteries .No further analysis to assess profitability based on types of batteries sold or based on geography of sales (while revenue per regions and distributors is reviewed) is made by the CEO .For this reason the CEO and the Group’s management considers the entire Group to be a single operating and reportable segment.

Revenue recognition— Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts, net of value added tax (“VAT”) or other sales related taxes.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognised using the effective interest method.

The Group derives its revenue from sales to distributors operating on aftermarket. Specifically, revenue from the sale of goods to distributors is recognized when goods are dispatched and the risk and rewards are passed to the distributor based on the provision of applicable terms for the sale (the Group uses Incoterms).

Defined contribution plan – The employees of the Ukrainian entities of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. Group's contributions to the State Pension Fund are recorded in the profit or loss on the accrual basis. The Group is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

Warranty provisions – Provisions for warranty costs are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Government grants– Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

Key sources of estimation uncertainty– The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment provision for accounts receivable– The Group's accounts receivable that are past due but not considered to be impaired as at 30 September 2010 relate to the trade and other accounts receivable due from the Group's related parties and accounts receivable arisen on sales of securities in the total amount USD 1,862 thousand. Such accounts receivable are analyzed separately from accounts receivable from third parties for impairment assessment. After analysis performed as of 30 September 2011 and 30 September 2010 the Group's management considered overdue amounts as recoverable and no allowance was provided in these financial statements based on the past experience of the Group as well as current arrangements and expectations about

respective debtors' ability to settle their debt to the Group. If there is deterioration in creditworthiness of such debtors the actual results could differ from these estimates.

Recoverability of property, plant and equipment – As part of the valuation of property, plant and equipment as of 31 December 2009 the Group assessed the existence of external (economic) obsolescence. Such analysis is necessary to determine whether the fair value of items of specialized nature, which was valued using the depreciated replacement cost approach, is recoverable. The assessment of absence of external (economic) obsolescence was determined using projections of future cash flows of the Group discounted using a weighted average cost of capital of 17%. Future cash flows projections were built on the following key assumption: production of 4 million of conventional batteries in 2010, with subsequent growth rate in 2011 at 14%, 5.4% in 2012, 3% in 2013, and 1% thereafter, and growth rate for terminal value at 2%. As of 30 September 2011 and 30 September 2010 the Group assessed that the Group performance was better than assumptions used and hence there is no indication that the recoverable amount of the Group's property, plant and equipment has declined below the carrying value.

Useful lives of property, plant and equipment – The estimation of the useful life of an item of property, plant and equipment is a matter of management estimate based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Deferred tax assets –Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. As of 30 September 2011 and 31 December 2010 the Group recognized deferred tax asset related to tax losses carried forward at individual entities of the Group in the amount of USD 3,722 thousand and USD 3,717 thousand, respectively, as the Group intends to utilize such deferred tax assets against set off with related deferred tax liabilities. The management judgment to recognize respective deferred tax assets was also based on the ability of the Group to carry forward respective losses for indefinite time in future based on existing requirements of tax legislation in Ukraine. Meantime, in the past, there were instances when other Ukrainian laws provided specific periods within which tax losses could be utilized. If any new law enacted subsequently to 31 December 2010 provides specific period for utilization of the amount of the Group's tax losses carry forward, the Group can loose its ability to utilize part or all of the deferred tax assets currently recognized.

VAT recoverable –The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods. Management classified VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within twelve months from the reporting date.

In making this assessment, management considered past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess of VAT output over VAT input in the normal course of the business.

4. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements in property, plant and equipment for the nine months ended 30 September 2011:

	Buildings and structures	Machinery and equipment	Vehicles	Furniture and other depreciable assets	Construction in progress and equipment due for installation	Total
Cost, deemed cost or valuation						
As of 31 December 2010	50,780	113,564	1,148	665	18,009	184,166
Additions	-	-	-	-	1,504	1,504
Disposals	(65)	(236)	(237)	(64)	(1,612)	(2,214)
Transfers	198	5,306	308	620	(6,432)	-
Translation difference	(76)	(182)	(18)	(2)	(189)	(467)
As of 30 September 2011	50,837	118,452	1,201	1,219	11,280	182,989
Accumulated						
As of 31 December 2010	(319)	(3,743)	(231)	(165)	-	(4,458)
Depreciation charge for the nine month	(512)	(4,408)	(282)	(118)	-	(5,320)
Disposals	65	119	212	30	-	426
Translation difference	(62)	(52)	(7)	2	-	(119)
As of 30 September 2011	(828)	(8,084)	(308)	(251)	-	(9,471)
Net book value						
As of 30 September 2011	50,009	110,368	893	968	11,280	173,518
As of 31 December 2010	50,461	109,821	917	500	18,009	179,708

The following table represents movements in property, plant and equipment for the nine months ended 30 September 2010:

	Buildings and structures	Machinery and equipment	Vehicles	Furniture and other depreciable assets	Construction in progress and equipment due for installation	Total
Cost, deemed cost or valuation						
As of 31 December 2009	22,495	59,374	922	593	75,216	158,600
Additions	-	7,431	20	10	7,222	14,683
Disposals	-	(16)	-	-	-	(16)
Capitalized borrowing costs	2,992	3,150	15	-	353	6,510
Transfers	413	4,804	-	23	(5,240)	-
Translation difference	(20)	(3)	4	2	(92)	(109)
As of 30 September 2010	25,880	74,740	961	628	77,459	179,668
Accumulated						
As of 31 December 2009	-	-	-	(103)	-	(103)
Depreciation charge for the year	(239)	(2,806)	(168)	(49)	-	(3,262)
Disposals	-	-	-	-	-	-
Translation difference	-	(8)	(1)	-	-	(9)
As of 30 September 2010	(239)	(2,814)	(169)	(152)	-	(3,374)
Net book value						
As of 30 September 2010	25,641	71,926	792	476	77,459	176,294
As of 31 December 2009	22,495	59,374	922	490	75,216	158,497

As of 31 December 2009 construction in progress of the Group were represented by items of imported property, plant and equipment that were undergoing custom clearance before being transferred to the Group site with the carrying amount of USD 32,635 thousand and that were treated by the Group as qualifying assets. The Group got customs clearance for that property, plant and equipment during the year ended 31 December 2010 and put them into operation.

As of 31 December 2009 all Group's property, plant and equipment, excluding furniture and other depreciable assets, were revalued by independent valuers in accordance with the requirements of International Valuation Standards. The valuation of specialized items of revalued property, plant and equipment was determined based on depreciable replacement cost, while the analogues method was used to determine the valuation of the remaining items.

As of 30 September 2010 and 2011, had the Group's property, plant and equipment, excluding furniture and other depreciable assets, been carried at historical cost less accumulated depreciation where applicable, their carrying amount would have been the following:

	2011	2010
Buildings and structures	44,169	19,937
Machinery and equipment	85,472	49,601
Vehicles	481	392
Construction in progress and equipment due to installation	<u>3,902</u>	<u>53,158</u>
Total	<u>134,024</u>	<u>123,088</u>

As of 30 September 2011 and 2010, fully depreciated assets with a cost of USD 520 thousand and USD 52 thousand, respectively, were included into property, plant and equipment.

As of 30 September 2011 and 2010 the Group has property, plant and equipment pledged to secure the Group's bank borrowings (Note 15).

5. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

As of 30 September 2011 and 2010 prepayments for property, plant and equipment were as follows:

	2011	2010
Construction works	9,111	11,353
Machinery and equipment	10,000	578
Other	<u>10</u>	<u>26</u>
Total	<u>19,121</u>	<u>11,957</u>

As of 30 September 2011 and 2010 there were prepayments for property, plant and equipment for the amount of USD 9,012 thousand and 9,062 thousand, respectively, pledged as collateral to secure bank borrowings of the Group (Note 15).

6. INVESTMENTS IN ASSOCIATES

As of 30 September 2011 and 2010 investments in associates were represented as follows:

	<u>2011</u>	<u>2010</u>
PrSC "DneproDeu"	21.00% <u>161</u>	21.00% <u>162</u>
Total	<u>161</u>	<u>162</u>

As of 30 September 2011 the Group's investment in PrSC "DneproDeu" was carried at cost since effect of its operations was not material.

7. INCOME TAX

During the nine months ended 30 September 2011 and 2010 the Group companies incorporated in Ukraine were subject to income tax at a 23% and 25% rate. The new Tax Code of Ukraine, which was enacted in December 2010, introduced gradual decreases in income tax rates over the future years (from 23% effective 1 April 2011 to 16% effective 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities as of 30 September 2011 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to be realised.

The net results of the Group companies incorporated in jurisdictions other than Ukraine (Luxemburg and Cyprus) were insignificant during the nine months ended 30 September 2011 and 2010.

The main components of income tax expense for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Current tax expense	87	239
Deferred tax (benefit)/expense	<u>202</u>	<u>(507)</u>
Income tax (benefit)/expense	<u>289</u>	<u>(268)</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts, determined after appropriate offsetting, are presented in the condensed consolidated statement of the financial position as of 30 September:

	2011	2010
Deferred tax asset	1,766	975
Deferred tax liability	<u>-</u>	<u>(12,807)</u>
Net deferred tax position	<u>1,766</u>	<u>(11,832)</u>

The movements in deferred taxes during the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Deferred tax liability as of the beginning	1,966	(12,338)
Deferred tax benefit/(expense)	(202)	507
Translation difference	<u>2</u>	<u>(1)</u>
Deferred tax liability as of the end	<u>1,766</u>	<u>(11,832)</u>

8. OTHER NON-CURRENT ASSETS

As of 30 September 2011 and 2010 other non-current assets of the Group were represented by the bank term deposit in the amount of USD 1,364 thousand and USD 1,375 thousand, respectively, being pledged as collateral to secure bank borrowing with the maturity in February 2012 (Note 15). The deposit provided 7.75% interest per annum and will mature in March 2012.

As of 30 September 2011 and 2010 the balance also comprised available-for-sale investments in the amount of USD 73 thousand and USD 74 thousand, respectively.

9. INVENTORIES

Inventories as of 30 September 2011 and 2010 were as follows:

	2011	2010
Raw materials	7,727	4,914
Finished goods	9,987	6,088
Work in progress	7,603	4,074
Other inventories	159	252
Total	<u>25,476</u>	<u>15,328</u>

As of 30 September 2011 and 2010 the Group had inventories pledged as collateral to secure the Group's bank borrowings (Note 15).

10. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade accounts receivable as of 30 September 2011 and 2010 were as follows:

	2011	2010
Trade receivables, including:		
-UAH denominated	20,358	24,112
-RUB denominated	14,360	10,938
-USD denominated	2,637	1,638
-EUR denominated	40	1,610
Receivables for securities sold (UAH denominated)	2,271	4,795
Other receivables, including:		
-UAH denominated	6,170	1,056
-USD denominated	-	214
Total	<u>45,836</u>	<u>44,363</u>

As of 30 September 2011 and 2010 trade and other receivables included balances with related parties in the amount of USD 19,216 thousand and USD 31,640 thousand, respectively (Note 24).

As of 30 September 2011 and 2010 the Group had trade and other accounts receivable pledged as collateral to secure the Group's bank borrowings (Note 15).

The average credit period for the Group's customers was 45 days for the nine months ended 30 September 2011 and 2010, respectively. No interest is charged on trade receivables.

The Group's management performed regular analysis of trade accounts receivable recoverability based on past experience, facts and circumstances existing and best management's estimates as of each reporting date.

Included in the Group's trade and other accounts receivable balances as of 30 September 2011 and 2010 were debtors which are past due at the respective reporting date and which the Group still considered recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

Ageing of past due but not impaired trade and other accounts receivable as of 30 September 2011 and 2010 were as follows:

	2011	2010
Neither past due nor impaired	45,287	42,276
Past due but not impaired:		
Past due up to 90 days	250	1,671
Past due from 90 to 180 days		-
Past due from 180 to 365 days	246	348
More than 1 year	<u>53</u>	<u>65</u>
Total	<u>45,836</u>	<u>44,360</u>

Management believes that there were no trade and other receivables that required allowance for irrecoverable amounts as there were no individually impaired receivables as of 30 September 2011 and 2010. No allowance for irrecoverable trade and other accounts receivable was provided in these condensed consolidated financial statements.

As of 30 September 2010 receivables for securities from related parties in the amount of USD 3,092 thousand were recorded at amortized cost using 19% discount rate. Difference between carrying value and fair value of these accounts receivable on their initial recognition in the amount of USD 508 thousand was recognized as distribution to shareholders during nine months ended 30 September 2010.

11. ADVANCES TO SUPPLIERS AND PREPAID EXPENSES

As of 30 September 2011 and 2010 advances to suppliers and prepaid expenses were as follows:

	2011	2010
Advances for raw materials	33,965	30,727
Advances for services	474	265
Advances for utilities	2,301	52
Other advances and prepaid expenses	<u>1,153</u>	<u>918</u>
Total	<u>37,893</u>	<u>31,962</u>

As of 30 September 2011 and 2010 advances to suppliers and prepaid expenses included balances with related parties in the amount of USD 33,842 thousand and USD 30,275 thousand, respectively (Note 24).

Management believes that there were no advances to suppliers and prepaid expenses that required allowance for irrecoverable amounts as there were no individually impaired balances as of 30 September 2011 and 2010.

As of 30 September 2011 and 2010 the Group has pledged its rights related advances made to secure the Group's bank borrowings (Note 15).

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 30 September 2011 and 2010 were as follows:

	2011	2010
Cash equivalents held in banks in UAH	46,755	-
Cash held at current accounts in banks in EUR	78	134
Cash held at current accounts in banks in RUB	269	832
Cash held at current accounts in banks in UAH	633	217
Cash held at current accounts in banks in USD	20,627	5,067
Cash equivalents held in banks in USD	<u>-</u>	<u>-</u>
Total	<u>68,362</u>	<u>6,250</u>

As of 30 September 2011 and 2010 the Group has pledged its cash and cash equivalents to secure the Group's bank borrowings (Note 15).

13. SHARE CAPITAL/ COMBINED CONTRIBUTED CAPITAL

As discussed in Note 1 the Parent was acquired in 2010 to serve as the ultimate holding company of the Group. As of 31 December 2010 the authorized, issued and fully paid share capital of the Parent was EUR 31 thousand (USD 41 thousand) comprising of 310 shares of EUR 100 each at nominal value. 100% owner of the Parent's share capital is Vankeria Consultants Limited, entity under control of the Controlling Shareholder.

On 18 March 2011 the Parent:

- Decreased par value of Parent's shares from EUR 100 to EUR 0,01;
- Increased its authorized share capital from EUR 31 thousand to EUR 331 thousand consisting of 33,100,000 shares of EUR 0.01, by the creation of additional 30,000,000 ordinary shares of EUR 0.01 each. Increase in share capital was issued and fully paid by the date of approval of these financial statements;
- Authorized Parent's Board of directors to issue up to 11,900,000 additional ordinary shares of EUR 0.01 each.

On 03 June 2011 the Parent issue additional 11,033,333 shares with a par value of EUR 0,01 each. These shares were distributed to new shareholders during initial public offering on Warsaw Stock Exchange. Total proceeds for the new shares issued were USD 47,462 thousand. Thus, share premium on issued additional 11,033,333 shares were USD 47,302 thousand. As a result of the share capital increase total share capital of the Parent is EUR 441 thousand (USD 621 thousand) comprising of 44,133,333 shares of EUR 0,01 each at a nominal value.

14. NON-CONTROLLING INTERESTS

As of 30 September 2011 and 2010, the value of share of the non-controlling owners in the Group companies was the following:

	2011	2010
Non-controlling interests value	<u>565</u>	<u>8</u>

15. BORROWINGS

The following table summarizes long-term bank loans and credit lines outstanding as of 30 September 2011 and 2010:

Currency	Weighted average interest rate	2011	Weighted average interest rate	2010
USD	12%	212,405	12%	189,137
EUR	10%	44,433	11%	49,121
UAH	19%	21,021	19%	35,980
		<u>277,859</u>		<u>274,238</u>
<i>Less:</i>				
Current portion of long-term bank borrowings		<u>(60,492)</u>		<u>(141,061)</u>
Total long-term borrowings		<u>217,367</u>		<u>133,177</u>

As of 30 September 2011 and 2010 short-term loans, borrowings and credit lines due within one year consisted of the following:

Currency	Weighted average interest rate	2011	Weighted average interest rate	2010
USD	11%	19,476	12%	18,350
UAH	n/a	-	24%	1,622
Total bank borrowings due within one year		<u>19,476</u>		<u>19,972</u>
<i>Add:</i>				
Current portion of long-term bank borrowings		60,492		141,061
Payables for factoring operations		4,020		3,955
Interest accrued		<u>17,937</u>		<u>14,901</u>
Total short-term borrowings		<u>101,925</u>		<u>179,889</u>
Total borrowings		<u>319,292</u>		<u>313,066</u>

The Group's borrowings are drawn from Ukrainian banks and subsidiaries of foreign banks as term loans and credit line facilities. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the borrowings is payable on a monthly or quarterly basis. Term bank loans and credit line facilities were as follows as of 30 September 2011 and 2010:

	2011	2010
Closed-end credit lines	204,755	187,876
Revolving credit lines	77,235	96,477
Term loans	<u>15,345</u>	<u>9,857</u>
Total bank borrowings	<u>297,335</u>	<u>294,210</u>

The following table summarizes fixed and floating interest rates bank loans and credit lines held by the Group as of 30 September 2011 and 2010:

	2011	2010
Fixed interest rate	277,726	260,453
Floating interest rate	<u>19,609</u>	<u>33,757</u>
Total	<u>297,335</u>	<u>294,210</u>

As of 30 September 2011 and 2010 the Group's total bank borrowings and respective interest forecasted based on contractual repayment schedule were repayable as follows:

	2011	2010
Due within three months	29,222	98,931
Due from three months to six months	22,215	24,840
Due from six months to twelve months	42,273	39,510
Total current portion repayable in one year	93,710	163,281
Due in the second year	81,004	85,855
Due thereafter	213,645	102,695
Total	388,359	351,831
Less interest forecasted	(87,004)	(53,666)
Add accrued interest	17,937	14,901
Total borrowings	319,292	313,066

The Group as well as particular subsidiaries has to comply with certain covenants imposed by the banks providing the loans. The main covenants which are to be complied by the Group related to the financial performance of the Group companies, change in the assets level and usage of loan funds in accordance with the stated purpose. There were no significant breach of covenants by the Group as of 30 September 2011 and 2010, respectively. The Group entities should also obtain approval from the lenders regarding the property to be used as collateral.

As of 30 September 2011 and 2010 the Group's borrowings were secured by the following pledged assets:

	2011	2010
Property, plant and equipment	153,881	157,129
Trade and other accounts receivables	42,836	42,508
Other non-current assets	1,364	1,375
Inventories	19,610	14,952
Advances to suppliers and prepaid expenses	11,890	9,873
Taxes recoverable and prepaid	3,682	3,747
Cash and cash equivalents	865	798
Other financial assets	5,175	4,098
Intangible assets, net	98	105
Prepayments for property, plant and equipment	9,012	9,062
Total	248,413	243,647

The table above includes all assets of PSC "WESTA-DNEPR" as of 30 September 2011 and 2010 that were pledge under the agreements with of the Ukrainian banks.

As of 30 September 2011 and 30 September 2010 the Group had the following pledges, except those stated above:

- Finished goods, that will be produced by Limited company "WESTA INDUSTRIAL" starting the third quarter of the year ended 31 December 2010 to fourth quarter of the year ended 31 December 2013 (2,541,000 accumulators), with the pledge value in the amount of USD 322,435 thousand and USD 325,127 thousand as at 30 September 2011 and 30 September 2010, respectively;
- There was also guarantee provided by the related party LLC "WESTA Market" to secure Group borrowings.

16. BONDS ISSUED

Bonds issued and outstanding as of 30 September 2011 and 2010 were as follows:

	2011	2010
20 % Domestic bonds due in 2011	3,389	6,280
18 % Domestic bonds due in 2012	2,452	6,280
19 % Domestic bonds due in 2012	535	1,253
Unamortized premium on bonds issued	39	87
Total	6,415	13,900

20 % Domestic bonds – In 2009 PSC “WESTA-DNEPR” placed USD 6,275 thousand 20% unsecured domestic bonds, due in November 2011, with premium amounted to USD 225 thousand. The bonds are listed on Ukrainian Stock Exchange. These bonds were guaranteed by the Group’s entity Limited Company “TECHKOMPLEKT”. Interest on 20% domestic bonds is payable on a monthly basis. The Group had the right for early redemption of the bonds as of 7 November 2009 and 14 November 2010 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest up to the redemption date. This option was not exercised by the Group as of 7 November 2009 and 14 November 2010.

18 % Domestic bonds – In 2009 PSC “WESTA-DNEPR” placed USD 6,275 thousand 18% unsecured domestic bonds, due in February 2012, at par. The bonds are listed on Ukrainian Stock Exchange. These bonds were guaranteed by the Group’s consolidated entity Limited Company “TECHKOMPLEKT”. Interest on 18% domestic bonds is payable on a quarterly basis. The Group had the right for early redemption of the bonds as of 29 November 2009 and 27 February 2011 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest up to the redemption date. This option was not exercised by the Group as of 27 February 2011 and 29 November 2009. In 2010 bonds were redeemed by the Group at par value. Interest was paid in full amount. In 2011 bonds in amount of USD 2,452 thousand were sold by the Group at par.

19 % Domestic bonds –In 2009 PSC “WESTA-DNEPR” placed USD 1,251 thousand 19% unsecured domestic bonds, due in January 2012 at par. The bonds are listed on Ukrainian Stock Exchange. These bonds were guaranteed by the Group’s entity Limited Company “TECHKOMPLEKT”. Interest on 19% domestic bonds is payable on a quarterly basis. The Group had the right for early redemption of the bonds as of 1 November 2009 and 30 January 2011 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest up to the redemption date. This option was not exercised by the Group as of 1 November 2009 and 30 January 2011. In 2010 bonds were redeemed by the Group at par value. Interest was paid in full amount. In 2011 bonds in amount of USD 535 thousand were sold by the Group at par.

17. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as of 30 September 2011 and 2010 were as follows:

	2011	2010
Trade payables for raw materials, including:		
-UAH denominated	10,876	5,078
-EUR denominated	1,066	1,199
-USD denominated	181	2,729
Trade payables for services, including:		
-UAH denominated	2,098	2,866
-EUR denominated	14	56
-USD denominated	643	42
Unsettled liabilities for the acquisition of property, plant and equipment, including:		
-EUR denominated	752	742
Accounts payable for available-for-sale investments, including:		
-UAH denominated	2,222	442
Other current liabilities, including:		
-UAH denominated	1,296	147
Total	<u>19,148</u>	<u>13,301</u>

As of 31 December 2010 accounts payable for available-for-sale investments included USD 1,756 thousand of remained unpaid amount for transfer the single holding company WESTA-DNEPR by Controlling Shareholder to WESTA Dnepr (Cyprus) Limited.

As of 30 September 2011 and 2010 trade and other payables included balances with related parties in the amount of USD 8,286 thousand and USD 5,276 thousand, respectively (Note 24).

The average credit period rendered to the Group by trade suppliers comprises 122 days and 120 days in the nine months ended 30 September 2011 and 2010, respectively. No interest is charged on trade and other payables.

The table below summarizes the maturity profile of the Group's trade and other payables as of 30 September 2011 and 2010 based on contractual undiscounted payments:

	2011	2010
Due within three months	17,288	11,536
Due from three to six months	534	478
Due from six months to twelve months	1,326	1,287
Total	<u>19,148</u>	<u>13,301</u>

18. REVENUE

Revenue for the three months ended 30 September 2011 and 2010 was as follows:

	2011	2010
Sales of finished goods	56,673	34,825
Other sales	2,061	398
Total	<u>58,734</u>	<u>35,223</u>

For the three months ended 30 September 2011 and 2010, revenue included transactions with related parties in amount of USD 6,799 thousand and USD14,810 thousand, respectively (Note 24).

19. COST OF SALES

Cost of sales for the three months ended 30 September 2011 and 2010 was as follows:

	2011	2010
Inventory	40,791	20,722
Salaries, wages and related charges	1,386	1,683
Utilities	2,621	733
Depreciation	1,485	955
Repairs and maintenance	16	111
Transportation costs	1	116
Warranty costs	395	17
Other expenses	314	239
Total	<u>47,009</u>	<u>24,576</u>

For the three months ended 30 September 2011 and 2010 the Group purchases included transactions with related parties in amount of USD 38,277 thousand and USD 27,651 thousand, respectively (Note 24).

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Salaries, wages and related charges	435	589
Transportation costs	602	228
Bank charges	224	192
Depreciation and amortization	201	83
Other services	67	68
Communication services	53	40
Non-refundable taxes	59	19
Repairs and maintenance	13	98
Rent of property, plant and equipment	23	35
Other expenses	182	90
Total	<u>1,859</u>	<u>1,442</u>

For the three months ended 30 September 2011 and 2010 general and administrative expenses included transactions with related parties in amount of USD 205 thousand and USD 200 thousand, respectively (Note 24).

21. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Transportation costs	967	410
Inventory	1,044	332
Salaries, wages and related charges	155	81
Other	68	105
Total	2,234	928

22. OTHER INCOME/ (EXPENSES), NET

Other expenses for the three months ended 30 September 2011 and 2010 consisted of the following:

	2011	2010
Allowance for irrecoverable VAT	2	1
Loss/ (Income) on disposal of other assets	(3,863)	-
Other expenses, net	323	56
Total	(3,538)	57

23. FINANCE COSTS

Finance costs for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Interest expense on bank borrowings	9,034	6,513
Interest expense on bonds	625	1,175
Interest expense on factoring	844	817
Total	10,503	8,505

24. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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 and operating decisions. Related parties include common ultimate owners, affiliates and entities under common ownership and control with the Group and members of key management personnel. Terms and conditions of business with related parties are determined based on arrangements specific to each contract or transaction and are not executed on terms similar to those used for third parties. These terms and conditions could vary to those that would have been obtained had underlying transactions been transacted with third parties.

The Controlling Shareholder of the Group is Denys Dzenzers'kyy.

The Group enters into transactions with related parties that are under the common control of the Controlling Shareholder of the Group, disposed subsidiary (Note 1) and other related parties (entities where the Controlling shareholder exercises significant influence). In the ordinary course

of business, there are following major types of transactions and operations with such related parties:

- Sales of finished goods;
- Provision of tolling services starting from 2010;
- Purchases of lead and other supplies used in production;
- Purchases of miscellaneous services;
- Transactions related to the Group's formation;
- Other transactions described in Note 1.

The revenues from sales to related parties for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Companies under common control	2,847	9,761
Other related parties	<u>3,952</u>	<u>5,049</u>
Total revenues from sales to related parties	<u>6,799</u>	<u>14,810</u>
Total per caption revenue (Note 18)	<u><u>58,734</u></u>	<u><u>35,223</u></u>

The purchases from related parties for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
<i>Purchases</i>		
Companies under common control	7,241	1,097
Other related parties	<u>31,036</u>	<u>26,554</u>
Total purchases from related parties	<u>38,277</u>	<u>27,651</u>
Total purchases	<u><u>50,277</u></u>	<u><u>43,476</u></u>
<i>General and administrative expenses</i>		
Companies under common control	205	200
Other related parties	<u>-</u>	<u>-</u>
Total	<u>205</u>	<u>200</u>
Total per caption general and administrative expenses (Note	<u><u>1,859</u></u>	<u><u>1,442</u></u>

The purchases of property, plant and equipment from related parties for the three months ended 30 September 2011 and 2010 were as follows:

	2011	2010
Companies under common control	<u>-</u>	<u>508</u>
Other related parties	<u>-</u>	<u>-</u>
Total	<u><u>-</u></u>	<u><u>508</u></u>

The balances of trade and other accounts receivable due from related parties (Note 10) were as follows as of 30 September 2011 and 2010:

	2011	2010
<i>Trade receivables</i>		
Companies under common control	14,369	26,299
Other related parties	300	1,287
<i>Receivables for securities sold</i>		
Companies under common control	-	2,731
Other related parties	-	361
<i>Other receivables</i>		
Companies under common control	580	751
Other related parties	3,967	211
Total	19,216	31,640
Total per caption trade and other accounts receivable (Note 10)	45,836	44,363

As of 31 December 2010 and 2009 the Group did not create any allowance for irrecoverable trade and other accounts receivable due from related parties.

The balances of advances made to related parties (Note 11) as of 30 September 2011 and 2010 were as follows:

	2011	2010
Companies under common control	2,792	2,526
Other related parties	31,050	27,749
Total advances to related parties	33,842	30,275
Total per caption advances (Note 11)	37,893	31,962

The balances of advances received from related parties were as follows as of 30 September 2011 and 2010:

	2011	2010
Companies under common control	895	3,890
Other related parties	126	2,130
Total advances from related parties:	1,021	6,020
Total per caption advances received	10,851	7,519

The balances of trade and other accounts payable due to related parties as of 30 September 2011 and 2010 were as follows (Note 17):

	2011	2010
<i>Trade accounts payable</i>		
Companies under common control	7,090	2,282
Other related parties	877	2,900
<i>Accounts payable for available-for-sale investments</i>		
Companies under common control	-	-
Other related parties	65	65
<i>Unsettled liabilities for the acquisition of property, plant and equipment</i>		
Companies under common control	171	26
<i>Other current liabilities</i>		
Companies under common control	81	3
Other related parties	2	-
Total	8,286	5,276
Total per caption trade and other accounts payable (Note 17)	19,148	13,301

As described in Note 15 there was also a guarantee provided by the related party LLC “WESTA Market” to secure Group borrowings.

The remuneration of the key management personnel of the Group for the three months ended 30 September 2011 and 2010 amounted to USD 294 thousand and USD 253 thousand, respectively.

25. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Operating lease commitments– As of 30 September 2011 and 2010 there were no significant commitments under non-cancellable operating lease agreements.

Ongoing Global Liquidity Crisis – The financial markets, both globally and in Ukraine, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2008 and worsened since August 2008. The global financial turmoil has significantly affected Ukrainian economy. It has resulted in a decrease of the country’s GDP, significant fluctuations in debt and equity prices, substantial outflow of capital, increase of inflation level.

While many countries, including Ukraine, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems could slow or disrupt the economy of Ukraine and adversely affect the Group operating within its environment.

While the Ukrainian government has introduced a range of stabilization measures aimed at providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital. Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Operating environment – Although in recent years there has been a general improvement in economic conditions in the country, Ukraine continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Ukraine continue to change rapidly. Tax, currency and customs legislation within the country is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Ukraine. The future economic direction is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Taxation – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

In three months ended 30 September 2010 and previous periods the Group was involved in reallocation of the resources to and from larger group of entities under common control (Note 1). These transactions that may be interpreted by the tax authorities in a way different from that of the Group and additional tax charges and penalties may be imposed. Despite the fact that the most significant tax returns of the Group companies for the said periods were reviewed by the tax authorities without any significant disputes or additional tax charges, they are still open for further review. In accordance with the current legislation, tax returns remain open and subject to examination for the three-year period after their submission, however, in certain cases this limitation does not apply. Future tax examinations could raise issues or assessments which are contrary to the Group's tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. As of 30 September 2011 and 2010 maximum tax exposure related to such transactions was estimated as USD 14,418 thousand and USD 14,538 thousand, respectively.

During three months ended 30 September 2010 and 2011 the Group rendered manufacturing services based on tolling arrangements with one of its related parties. In some instances the Group subsequently purchased raw materials imported in Ukraine based on tolling arrangements for subsequent use in its own production. The Group management believes it followed all local tax legislation applicable for such transactions. Meantime, the tax authorities may challenge an approach of the Group used for these transactions and additional tax charges and penalties may be imposed on the Group. No reliable estimate of the Group's tax exposure to these transactions can be made.

Management believes that it is not likely that any significant settlement will arise from the above cases and, therefore, the Group's condensed consolidated financial statements do not include any amount of provision in this respect.

Legal – In the ordinary course of business, the Group is subject to legal actions and complaints. The management of the Group believes that the ultimate liability, if any, arising from such legal actions or complaints will not have a material effect on the financial position or results of future operations of the Group. There were no material claims against the Group as of 30 September 2011 and 2010.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of International Financial Reporting Standard 7 “Financial Instruments: Disclosure”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 September 2011 and 2010 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value.

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, other financial assets, trade and other accounts receivable, trade and other accounts payable, provisions and accruals, payables for factoring operations due to the short-term nature of the financial instruments.

Bonds issued are recorded at amortized cost in the financial statements which approximates their fair values at USD 6,415 thousand as of 30 September 2011. The fair value of the Group’s borrowings is estimated at USD 297,502 thousand compared to carrying amount of USD 319,292 thousand (Note 15). Fair value was estimated by discounting the expected future cash outflows by a market rate of interest.

27. EARNINGS PER SHARE

The earnings/(losses) and weighted average number of ordinary shares used in calculation of earnings per share are as follows:

	2011	2010
Profit/(loss) for the year attributable to equity holders of the Parent	(1,992)	(3,161)
Earnings/(losses) used in calculation of earnings per share	(1,992)	(3,161)
Weighted average number of shares outstanding*	44,133,333	33,100,000
Earnings/ (losses) per share	(0.05)	(0.10)

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

* As discussed in Note 15 as of 31 December 2010 the authorized, issued and fully paid share capital of the Parent was EUR 31 thousand (USD 41 thousand) comprising of 310 shares of EUR 100 each at nominal value. On 18 March 2011 the Parent decreased par value of Parent’s shares from EUR 100 to EUR 0,01 and increased its authorized share capital from EUR 31 thousand to EUR 331 thousand consisting of 33,100,000 shares of EUR 0.01, by the creation of additional 30,000,000 ordinary shares of EUR 0.01 each. On 03 June 2011 the Parent issue additional 11,033,333 shares with a par value of EUR 0,01 each. These shares were distributed to new shareholders during initial public offering on Warsaw Stock Exchange. As a result of the share capital increase total share capital of the Parent is EUR 441 thousand (USD 621 thousand) comprising of 44,133,333 shares of EUR 0,01 each at a nominal value.

As the contribution to the share capital was considered as not significant comparing to the expected market value of shares issued no adjustment to the number of weighted average number of shares outstanding was made for the purpose of earnings per share calculation for the three months ended 30 September 2010.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements of the Group for the three months ended 30 September 2011 were approved by Board of Directors of WESTA ISIC S.A. on 23 November 2011.