



Consolidated Financial Statements

JOINT STOCK COMPANY “CONCERN GALNAFTOGAZ”

Year ended 31 December 2008

With Independent Auditors' Report

These consolidated financial statements contain 43 pages

**Joint Stock Company “Concern Galnaftogaz”
Consolidated Financial Statements
Year ended 31 December 2008**

Contents

Independent Auditors’ Report

Consolidated Financial Statements

Consolidated Income Statement.....	1
Consolidated Balance Sheet.....	2
Consolidated Cash Flow Statement.....	3
Consolidated Statement of Changes in Equity.....	4
Notes to the Consolidated Financial Statements	5 - 43

Independent Auditors' Report

To the Board of Directors and Shareholders of Joint Stock Company "Concern Galnaftogaz":

We have audited the accompanying consolidated financial statements of Joint Stock Company "Concern Galnaftogaz" and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as of 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

30 July 2009

Joint Stock Company “Concern Galnaftogaz”**Consolidated income statement**

For the year ended 31 December 2008

(In thousands of Ukrainian hryvnia, except per share information)

	Notes	2008	2007
Revenues	7	5,509,262	3,208,848
Cost of sales	8	(5,035,995)	(2,989,237)
Gross profit		473,267	219,611
General and administrative expenses	9	(135,277)	(79,551)
Other operating income	10	15,728	24,949
Other operating expenses	10	(128,718)	(17,697)
Operating profit		225,000	147,312
Finance expenses	11	(127,458)	(72,442)
Finance income	11	563	561
Foreign currency exchange losses	12	(660,870)	-
(Loss) / profit before income tax		(562,765)	75,431
Income tax	13	141,828	(13,195)
Net (loss) / profit for the year		(420,937)	62,236
Attributable to:			
Equity holders of the parent		(421,198)	62,007
Minority interests		261	229
(Loss)/earnings per share (in Ukrainian hryvnia)			
- <i>basic and diluted</i>	20	(0.0240)	0.0038

These consolidated financial statements are authorised for issue on 30 July 2009 and signed on behalf of the Board of Directors of JSC “Concern Galnaftogaz” by:

President and CEO
V.B.Antonov

Vice President and CFO
V.V.Danylyak

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 43.

Joint Stock Company “Concern Galnaftogaz”**Consolidated balance sheet**

As of 31 December 2008

(In thousands of Ukrainian hryvnia)

	Notes	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	14	3,188,865	1,405,580
Intangible assets	15	64,710	60,308
Investments		-	31
Deferred tax assets	13	147,047	12,401
Other non-current assets		340	347
		<u>3,400,962</u>	<u>1,478,667</u>
Current assets			
Inventories	16	214,250	148,186
Trade and other receivables	17	196,675	156,356
Prepayments and other current assets	18	301,071	194,987
Prepaid income tax		31,439	328
Cash and cash equivalents	19	75,057	56,672
		<u>818,492</u>	<u>556,529</u>
Total assets		<u><u>4,219,454</u></u>	<u><u>2,035,196</u></u>
LIABILITIES AND EQUITY			
Equity			
Share capital	20	175,238	160,000
Additional paid-in capital	20	237,700	235,678
Revaluation reserve		1,288,773	235,448
(Accumulated deficit)/retained earnings		(230,802)	190,396
		<u>1,470,909</u>	<u>821,522</u>
Minority interests		<u>1,013</u>	<u>752</u>
Total equity		<u>1,471,922</u>	<u>822,274</u>
Non-current liabilities			
Loans and borrowings	21	1,608,733	583,614
Deferred tax liabilities	13	455,579	116,469
		<u>2,064,312</u>	<u>700,083</u>
Current liabilities			
Loans and borrowings	21	436,834	288,125
Payables and advances received	22	246,097	223,742
Other current liabilities		289	972
		<u>683,220</u>	<u>512,839</u>
Total liabilities and equity		<u><u>4,219,454</u></u>	<u><u>2,035,196</u></u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 43.

Joint Stock Company “Concern Galnaftogaz”**Consolidated cash flow statement**

For the year ended 31 December 2008

(In thousands of Ukrainian hryvnia, unless otherwise noted)

	2008	2007
Cash flows from operating activities		
(Loss) / profit before income tax	(562,765)	75,431
Adjustments for:		
Depreciation, amortisation and impairment of goodwill	61,731	36,514
Loss/(gain) on disposal of property, plant and equipment	6,243	(1,380)
Property, plant and equipment revaluation decrease	86,334	-
Reversal of impairment of property, plant and equipment	(26)	(158)
Foreign currency exchange losses	657,686	-
Finance expense, net	126,895	71,881
Operating profit before changes in working capital	376,098	182,288
Increase in inventories	(66,064)	(43,037)
(Increase)/decrease in trade and other receivables	(40,319)	54,748
(Increase)/decrease in prepayments and other current assets	(153,725)	59,975
Increase in payables and advances received	7,308	75,316
Decrease in other current liabilities	(683)	(96,662)
Cash flows generated from operations	122,615	232,628
Income tax paid	(33,628)	(12,355)
<i>Net cash from operating activities</i>	88,987	220,273
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired (of UAH 44 in 2007)	-	(102,156)
Proceeds from sale of investments	32,060	-
Purchases of property, plant and equipment	(549,886)	(548,771)
Purchases of intangible assets	(5,443)	(326)
Proceeds from sale of equipment	10,732	1,656
Interest received	563	561
<i>Net cash used in investing activities</i>	(511,974)	(649,036)
Cash flows from financing activities		
Issue of share capital	17,260	226,578
Proceeds from long-term borrowings	596,514	323,200
Proceeds from short-term borrowings	141,083	108,030
Repayments of long-term borrowings	(83,852)	(43,604)
Repayments of short-term borrowings	(127,569)	(110,651)
Interest paid	(107,428)	(70,884)
<i>Net cash provided by financing activities</i>	436,008	432,669
Net increase in cash and cash equivalents	13,021	3,906
Cash and cash equivalents at the beginning of the year	56,672	52,766
Cash and cash equivalents at the end of the year (Note 19)	69,693	56,672

SUPPLEMENTARY CASH FLOW INFORMATION (Note 23)

The consolidated cash flows statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 43.

Joint Stock Company “Concern Galnaftogaz”

Consolidated statement of changes in equity

For the year ended 31 December 2008

(In thousands of Ukrainian hryvnia)

	Share capital	Attributable to equity holders of the parent Additional paid-in capital	Revaluation reserve	(Accumulated deficit)/retained earnings	Total	Minority interests	Total
Balance at 31 December 2006	160,000	9,100	153,660	127,265	450,025	523	450,548
Revaluation of land, net of tax (Notes 13 and 14)	-	-	82,912		82,912	-	82,912
Total income and expense for the year recognised directly in equity	-	-	82,912	-	82,912	-	82,912
Disposal of revalued land			(1,124)	1,124	-		-
Net profit	-	-	-	62,007	62,007	229	62,236
Total income and expense for the year	-	-	81,788	63,131	144,919	229	145,148
Change in additional paid-in capital (Note 20)	-	226,578	-	-	226,578	-	226,578
Balance at 31 December 2007	160,000	235,678	235,448	190,396	821,522	752	822,274
Revaluation of property, plant and equipment, net of tax (Notes 13 and 14)	-	-	1,053,325		1,053,325	-	1,053,325
Total income and expense for the year recognised directly in equity	-	-	1,053,325	-	1,053,325	-	1,053,325
Net loss	-	-	-	(421,198)	(421,198)	261	(420,937)
Total income and expense for the year	-	-	1,053,325	(421,198)	632,127	261	632,388
Increase in share capital (Note 20)	15,238	2,022	-	-	17,260	-	17,260
Balance at 31 December 2008	175,238	237,700	1,288,773	(230,802)	1,470,909	1,013	1,471,922

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 5 to 43.

**Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements**

(In thousands of Ukrainian hryvnia, unless otherwise noted)

1. Organization and operations

JSC “Concern Galnaftogaz” (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Ukrainian joint stock companies as defined in the Civil Code of Ukraine. JSC “Concern Galnaftogaz” was established on 30 October 2001. The Company is the ultimate parent entity of this group of companies.

The Group’s principal activity is retail sales and wholesales of petroleum products in Ukraine. The Group operates a network of 9 petroleum depots and about 288 petrol stations, 260 of which are under the Group’s registered trademark “OKKO”. In 2008 the Group started to sell foodstuffs under the trade mark “TOBI” through a network of 40 retail food stores.

The Company’s registered office is 1 Plastova Str., Lviv, Ukraine.

The average number of employees of the Group was 5,500 during 2008 (2007: 5,187).

These consolidated financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 30 July 2009.

2. Ukrainian economic environment

Operating environment

The Ukrainian economy while deemed to be of market status, continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government’s policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country’s credit ratings. Whilst the Ukrainian Government is introducing various stabilization measures aimed at providing liquidity and supporting debt refinancing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties. These factors could affect the Group’s financial position, results of operations and business prospects.

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

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

3.1 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for land and buildings that are measured at fair value and assets and liabilities acquired through business combinations that are measured at fair value on initial recognition. The consolidated financial statements are presented in Ukrainian hryvnia and all values are rounded to the nearest thousand.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2008.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent’s equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

3.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after 1 January 2008. Adoption of these revised standards and interpretations did not have any effect on the consolidated financial statements of the Group.

They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*
- IFRIC 12 – *Service Concession Arrangements*
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of these changes are as follows:

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Group has adopted IFRIC Interpretation 11 insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policy accordingly. The Group has not issued instruments affected by this interpretation.

IFRIC 12 – Service Concession Arrangements

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 Employee Benefits. The Group amended its accounting policy accordingly. The adoption of this interpretation had no impact on the financial position or performance of the Group since it does not have any defined benefit schemes.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to the standards:

- ▶ *IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management’s expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.
- ▶ *IAS 16 Property, Plant and Equipment:* This amendment replaces the term “net selling price” with “fair value less costs to sell”. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- ▶ *IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- ▶ *IAS 28 Investment in Associates:* If an associate is accounted for at fair value in accordance with IAS 39, the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39.

An investment in an associate is a single asset for the purpose of conducting impairment testing. Therefore, an impairment test is not separately carried out for any goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

- ▶ *IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using ‘value in use’.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reconsidered the amortisation method applied for its intangible assets and concluded that the straight-line method was still appropriate.

3.3 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements.

Foreign currencies

Transactions in foreign currencies are translated to UAH at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to UAH at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to UAH at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to UAH at the foreign exchange rate ruling at the dates the fair values were determined.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Investment in an associate

The Group’s investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group’s share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group’s investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Property, plant and equipment

Land and buildings are stated at revalued amounts less any impairment. Other items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. In 2006 the Group obtained an independent appraisal of its buildings and changed its accounting policy for buildings from cost model to revaluation model. This change in accounting policy is accounted for prospectively.

Construction in progress represents plant and properties under construction and is stated at cost less any impairment in value. This includes cost of plant and properties construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment, is capitalised and the carrying amount of the component replaced is retired. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. Expenditures for continuing repair and maintenance are charged to the consolidated income statement as incurred.

Revaluation

A revaluation surplus on land and buildings is recognised directly in equity except to the extent that it reverses a previous revaluation deficit recognised in the income statement, in which case it is recognised in the income statement. A revaluation deficit is recognised in the income statement except to the extent that it reverses a previous revaluation surplus recognised directly in equity, in which case it is recognised directly in equity.

Depreciation

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	- 40 years
Equipment	- 6 – 10 years
Office equipment	- 4 years
Vehicles	- 5 years

Intangible assets

Intangible assets, which are acquired by the Group, other than through business combinations, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

Patents and licences	- 5 to 10 years
Software licences	- 3 years
Land lease rights	- indefinite

Financial assets

Initial recognition

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

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Group did not have any held-to-maturity investments during the years ended 31 December 2008 and 2007.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement.

Financial liabilities

Initial recognition

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

Financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of ‘Interest and similar income’. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Financial liabilities

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

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

Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Trade and other receivables

Trade receivables, which generally have 0-150 day terms, are recognised and carried at original invoice amount less an impairment provision. Provision for impairment of receivables is made when collection of the full amount is no longer probable.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Trade and other payables

Liabilities for trade and other amounts payable which are normally settled on 0-360 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Employee benefits

The Group does not have any pension arrangements separate from the state pension system of Ukraine, which requires current contributions by the employer to be calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related compensation is earned by the employee. The Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from transportation services is recognised in the income statement when services are rendered, i.e. when the destination point is reached.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Finance income and expenses

Finance expenses comprise interest expense on borrowings and the accretion of interest on provisions. Finance income comprises interest income on funds invested and dividend income.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expense, except when capitalised in accordance with the policy on borrowing costs below.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is included in the determination of the equity income from the associate. For investments in other companies, dividend income is recognised when the Group’s right to receive the payment is established.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Certain foreign exchange differences on directly attributable borrowings are capitalised as part of borrowing costs.

Other borrowing costs are recognised as expenses in the period in which they are incurred.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

Reclassifications

Certain reclassifications were made to the comparative balances to conform to the 2008 presentation. They relate to certain reclassifications within the consolidated income statement, land lease rights separated from property, plant and equipment to intangible assets and other reclassifications within the consolidated balance sheet.

	<i>Reported in 2008</i>	<i>Reported in 2007</i>
<i>Consolidated income statement</i>		
Cost of sales:		
Transportation	48,595	51,572
Storage	2,977	-
Other	4,503	8,546
General and administrative expenses:		
Other	1,380	2,870
Other operating income:		
Impairment of property, plant and equipment	(158)	-
Rent income	(2,966)	-
Other income	(2,677)	(5,801)
Other operating expenses:		
Inventory used	5,533	-
Impairment of trade and other receivables	742	733
Other expenses	6,814	6,823
	<u>64,743</u>	<u>64,743</u>
<i>Consolidated balance sheet</i>		
Property, plant and equipment:		
Property, plant and equipment, net	1,072,595	1,107,984
Construction in progress and uninstalled equipment	294,758	313,897
Intangible assets:		
Land lease rights	54,528	-
Payables and advances received:		
Trade payables for inventory	125,474	174,761
Payables for securities	40,108	-
Payables for commission	7,780	-
Payables to related parties for inventories and securities	1,893	494
Interest payable	6,224	-
Other payables	3,122	9,346
	<u>1,606,482</u>	<u>1,606,482</u>

4. Significant accounting judgments, estimates and assumptions

The preparation of the Group’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of lease agreements

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for longer than 75 percent of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it can be clearly demonstrated otherwise.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Fair Values of Assets and Liabilities Acquired in Business Combinations

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

The Group is required to recognise separately, at the acquisition date, all identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Fair value of land and buildings

The fair value of land and buildings is determined by professional appraisal. The appraisal involves making assumptions and estimates by using valuation techniques, such as recent arm's length transactions, reference to the current market value of other similar properties and/or discounted cash flow analysis. The application of these valuation techniques and assumptions may have a material impact on the fair value and ultimately the recoverable amount of the Group's holding of land and buildings reported in these consolidated financial statements.

Litigation

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

5. Standards issued but not yet effective

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 1 allow an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

IAS 1 Revised Presentation of Financial Statements

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

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

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- ▶ *IFRS 2 Share-based payment:*
Clarification of the definition of a vesting condition and prescription of the treatment for an award that is effectively cancelled.
- ▶ *IFRS 7 Financial Instruments: Disclosures:*
Removal of the reference to ‘total interest income’ as a component of finance costs.
- ▶ *IFRS 8 Operating Segments*
Replaces the requirements of IAS 14 regarding the identification of segments, measurement of segment information and disclosure requirements.
- ▶ *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:*
Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- ▶ *IAS 10 Events after the Reporting Period:*
Clarification that dividends declared after the end of the reporting period are not obligations.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

- ▶ *IAS 16 Property, Plant and Equipment:*
Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- ▶ *IAS 18 Revenue:*
Replacement of the term ‘direct costs’ with ‘transaction costs’ as defined in IAS 39.
- ▶ *IAS 19 Employee Benefits:*
Revised the definition of ‘past service costs’, ‘return on plan assets’ and ‘short term’ and ‘other long-term’ employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- ▶ *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:*
Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- ▶ *IAS 23 Borrowing Costs*
Requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- ▶ *IAS 27 Consolidated and Separate Financial Statements:*
When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- ▶ *IAS 29 Financial Reporting in Hyperinflationary Economies:*
Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- ▶ *IAS 34 Interim Financial Reporting:*
Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- ▶ *IAS 39 Financial Instruments: Recognition and Measurement:*
Changes in circumstances relating to derivatives do not result in reclassifications and therefore derivatives when circumstances related to them change may be either removed from, or included in, the ‘fair value through profit or loss’ classification after initial recognition. Removed the reference in IAS 39 to a ‘segment’ when determining whether an instrument qualifies as a hedge. Requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- ▶ *IAS 40 Investment Property:*
Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- ▶ *IAS 41 Agriculture:*
Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term ‘point-of-sale costs’ with ‘costs to sell’.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

6. Segment information

The primary segment reporting format is determined to be business segments as the Group’s risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is not reported since the Group operates only in Ukraine which is the only location of the Group’s assets and its markets and customers.

The operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group is organised into two business segments:

- retail sales of petroleum and consumer products
- wholesales of petroleum products

Other operations of the Group mainly comprise transportation and storage services, neither of which are of a sufficient size to be reported separately.

Segment revenue, segment expenses and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including those arising from business combinations.

Joint Stock Company “Concern Galnaftogaz”**Notes to the consolidated financial statements**

(In thousands of Ukrainian hryvnia, unless otherwise noted)

The following tables present revenue, profit/(loss) and certain asset and liability information regarding the Group’s business segments:

2008	Retail sales	Wholesales	Other	Eliminations	Total
Sales to external customers	4,611,506	891,861	5,895	-	5,509,262
Inter-segment sales	13,119	-	47,319	(60,438)	-
Total revenue	4,624,625	891,861	53,214	(60,438)	5,509,262
Segment result	290,094	15,608	12,496	-	318,198
Finance expenses, net					(126,895)
Unallocated other income and expenses					(754,068)
Loss before income tax					(562,765)
Income tax					141,828
Net loss					(420,937)
Segment assets	3,591,502	159,007	-	-	3,750,509
Unallocated assets					468,945
Total assets	3,591,502	159,007	-	-	4,219,454
Segment liabilities	1,898,498	55,120	-	-	1,953,618
Unallocated liabilities					793,914
Total liabilities	1,898,498	55,120	-	-	2,747,532
Capital expenditure	338,748	-	49,953	-	388,701
Depreciation and amortisation	43,326	-	18,405	-	61,731
2007	Retail sales	Wholesales	Other	Eliminations	Total
Sales to external customers	2,852,041	351,884	4,923	-	3,208,848
Inter-segment sales	10,996	-	46,433	(57,429)	-
Total revenue	2,863,037	351,884	51,356	(57,429)	3,208,848
Segment result	225,198	15,931	-	-	241,129
Finance expenses, net					(71,881)
Unallocated other income and expenses					(93,817)
Profit before income tax					75,431
Income tax					(13,195)
Net profit					62,236
Segment assets	1,633,739	92,123	-	-	1,725,862
Unallocated assets					309,334

Joint Stock Company “Concern Galnaftogaz”**Notes to the consolidated financial statements**

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Total assets	<u>1,633,739</u>	<u>92,123</u>	<u>-</u>	<u>-</u>	<u>2,035,196</u>
Segment liabilities	534,065	19,605	-	-	553,670
Unallocated liabilities					659,252
Total liabilities	<u>534,065</u>	<u>19,605</u>	<u>-</u>	<u>-</u>	<u>1,212,922</u>
Capital expenditure	639,809	-	44,660	-	684,469
Depreciation and amortisation	20,969	-	15,545	-	36,514

7. Revenues

Revenues for the year ended 31 December were as follows:

	<u>2008</u>	<u>2007</u>
Retail sales of petroleum products	4,305,781	2,615,319
Large lot wholesale of petroleum products	473,022	151,977
Small lot wholesale of petroleum products	416,837	199,907
Sales of consumer products and other services	307,727	236,722
Sales of transportation services	5,895	4,923
	<u>5,509,262</u>	<u>3,208,848</u>

Small lot represents parcels of up to 10 tons in average while large parcels are more than 10 tons.

8. Cost of sales

Cost of sales for the year ended 31 December was as follows:

	<u>2008</u>	<u>2007</u>
Petroleum and consumer products	4,713,294	2,803,289
Salary, wages and related charges	102,188	76,679
Transportation	91,805	48,595
Depreciation	42,237	26,309
Rent	29,700	4,649
Utilities	16,797	8,439
Repair and maintenance	15,708	6,908
Storage	9,276	2,977
Security	9,102	6,889
Other	5,888	4,503
	<u>5,035,995</u>	<u>2,989,237</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

9. General and administrative expenses

General and administrative expenses for the year ended 31 December were as follows:

	2008	2007
Salary and related charges	65,799	31,902
Depreciation	15,788	7,720
Advertising	11,412	6,320
Taxes other than income tax	9,813	8,894
Professional services	7,721	5,505
Rent	6,688	4,404
Bank charges	6,121	2,857
Communication	5,508	4,995
Insurance	3,419	4,269
Commission fees	1,116	724
Security	1,025	581
Other	867	1,380
	<u>135,277</u>	<u>79,551</u>

10. Other operating income and expenses

Other operating income and expenses for the year ended 31 December were as follows:

	2008	2007
Rent income	(10,567)	(2,966)
Impairment of property, plant and equipment	(26)	(158)
Gain on disposal of property, plant and equipment	-	(1,380)
Gain on trading of available-for-sale investments and associates	-	(2,343)
Excess of the net assets acquired in a business combination over the consideration paid	-	(15,425)
Other income	(5,135)	(2,677)
Total other operating income	<u>(15,728)</u>	<u>(24,949)</u>
Property, plant and equipment revaluation decrease	86,334	-
Impairment of trade and other receivables	13,729	742
Inventory used	13,417	5,533
Loss on disposal of property, plant and equipment	6,243	-
Inventory shortages	3,146	2,932
Loss on trading of available-for-sale investments and associates	2,393	-
Amortisation and impairment of intangible assets	1,041	1,676
Other expenses	2,415	6,814
Total other operating expenses	<u>128,718</u>	<u>17,697</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

11. Finance income and expenses

Finance income and expenses for the year ended 31 December were as follows:

	2008	2007
Interest income	563	561
Total finance income	<u>563</u>	<u>561</u>
Interest expense	(127,458)	(72,442)
Total finance expenses	<u>(127,458)</u>	<u>(72,442)</u>

12. Foreign currency exchange losses

Foreign currency exchange losses for the year ended 31 December were as follows:

	2008	2007
<i>Non-current liabilities</i>		
Loans and borrowings	574,611	-
<i>Current liabilities</i>		
Loans and borrowings	83,075	-
Payables and advances received	3,184	-
	<u>660,870</u>	<u>-</u>

13. Income tax

Income tax expense for the year ended 31 December was as follows:

	2008	2007
<i>Current tax expense:</i>		
Current tax	4,817	14,558
	<u>4,817</u>	<u>14,558</u>
<i>Deferred tax benefit:</i>		
Origination and reversal of temporary differences	(146,645)	(1,363)
	<u>(146,645)</u>	<u>(1,363)</u>
	<u>(141,828)</u>	<u>13,195</u>

Ukraine was the only tax jurisdiction in which the Group’s income was subject to income tax in 2008 and 2007. In these years the Group’s applicable income tax rate was 25%.

Reconciliation of effective tax rate is as follows:

	2008	%	2007	%
(Loss)/profit before income tax	(562,765)	100%	75,431	100%
Computed income tax at applicable tax rate	(140,691)	25%	18,858	25%
Non-taxable income	(17,566)	3%	(7,027)	(9%)
Non-deductible expenses	16,429	(3%)	1,364	1%
	<u>(141,828)</u>	<u>25%</u>	<u>13,195</u>	<u>17%</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

Deferred tax assets and liabilities were as follows as of 31 December:

	2006	Charged/ (credited) to consolidated income statement	Charged to consolidated statement of changes in equity	Effect of business combina- tion	2007	Charged/ (credited) to consolidated income statement	Charged to consolidated statement of changes in equity	2008
Deferred tax asset								
Intangible assets	5,567	345	-	-	5,912	(133)	-	5,779
Trade and other receivables	644	(644)	-	-	-	3,939	-	3,939
Payables and advances received	4,646	680	-	223	5,549	4,506	-	10,055
Inventory	321	619	-	-	940	(940)	-	-
Prepaid revenue	-	-	-	-	-	33	-	33
Losses carried forward	-	-	-	-	-	127,241	-	127,241
Deferred tax asset	11,178	1,000	-	223	12,401	134,646	-	147,047
Deferred tax liability								
Property, plant and equipment	(56,994)	(3,453)	(27,637)	(22,2	(110,350)	15,316	(351,109)	(446,143)
Inventory	-	-	-	-	-	(556)	-	(556)
Trade and other receivables	-	(339)	-	-	(339)	339	-	-
Investments	(2,492)	1,915	-	-	(577)	577	-	-
Loans and borrowings	(232)	(980)	-	-	(1,212)	566	-	(646)
Prepayments and other current assets	(7,211)	3,220	-	-	(3,991)	(4,243)	-	(8,234)
Deferred tax liability	(66,929)	363	(27,637)	(22,2	(116,469)	11,999	(351,109)	(455,579)
Net deferred tax liabilities	(55,751)	1,363	(27,637)	(22,0	(104,068)	146,645	(351,109)	(308,532)

As of 31 December 2008, there was no recognised deferred tax liability (2007: nil) for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of 31 December 2008, the total amount of accumulated deficit of the Group's subsidiaries was UAH 283,090 (undistributed earnings as of 31 December 2007: UAH 127,766).

The temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognised aggregate to UAH 1,098 (2007: UAH 4,646).

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

14. Property, plant and equipment

Property, plant and equipment were as follows as of 31 December:

	2008	2007
Property, plant and equipment, net	2,853,367	1,072,595
Construction in progress and uninstalled equipment	170,857	294,758
Prepayments for property, plant and equipment	164,641	38,227
	<u>3,188,865</u>	<u>1,405,580</u>

Changes in property, plant and equipment are as follows:

	Land	Buildings	Equipmen t	Office equipment	Vehicles	Construction in progress and uninstalled equipment	Total
<i>At cost/ revalued amount</i>							
At 31 December 2006	229,238	363,371	73,247	43,765	26,010	52,514	788,145
Additions through acquisition	12,777	4,229	956	1,082	2	72,410	91,456
Revaluation	110,549	-	-	-	-	-	110,549
Additions	31,030	-	37,175	16,948	26,256	382,939	494,348
Transfers	-	213,105	-	-	-	(213,105)	-
Disposals	(1,153)	(1,467)	(800)	(8,023)	(1,067)	-	(12,510)
At 31 December 2007	<u>382,441</u>	<u>579,238</u>	<u>110,578</u>	<u>53,772</u>	<u>51,201</u>	<u>294,758</u>	<u>1,471,988</u>
Revaluation	821,286	445,051	-	-	-	-	1,266,337
Additions	44,058	-	150,720	1,773	42,702	170,079	409,332
Transfers	-	287,396	-	-	-	(287,396)	-
Disposals	(511)	(906)	(2,352)	(1,819)	(2,431)	(6,584)	(14,603)
At 31 December 2008	<u>1,247,274</u>	<u>1,310,779</u>	<u>258,946</u>	<u>53,726</u>	<u>91,472</u>	<u>170,857</u>	<u>3,133,054</u>
<i>Accumulated depreciation</i>							
At 31 December 2006	-	26,215	16,134	17,981	11,323	-	71,653
Depreciation charge	-	10,525	9,236	8,860	6,217	-	34,838
Reversal of impairment charge	-	(151)	(7)	-	-	-	(158)
Disposals	-	(146)	(206)	(659)	(687)	-	(1,698)
At 31 December 2007	<u>-</u>	<u>36,443</u>	<u>25,157</u>	<u>26,182</u>	<u>16,853</u>	<u>-</u>	<u>104,635</u>
Revaluation	-	(51,763)	-	-	-	-	(51,763)
Depreciation charge	-	15,532	27,280	2,785	15,093	-	60,690
Impairment charge/(reversal)	-	(70)	44	-	-	-	(26)
Disposals	-	(142)	(836)	(1,724)	(2,004)	-	(4,706)
At 31 December 2008	<u>-</u>	<u>-</u>	<u>51,645</u>	<u>27,243</u>	<u>29,942</u>	<u>-</u>	<u>108,830</u>
<i>Net book value</i>							
At 31 December 2007	<u>382,441</u>	<u>542,795</u>	<u>85,421</u>	<u>27,590</u>	<u>34,348</u>	<u>294,758</u>	<u>1,367,353</u>
At 31 December 2008	<u>1,247,274</u>	<u>1,310,779</u>	<u>207,301</u>	<u>26,483</u>	<u>61,530</u>	<u>170,857</u>	<u>3,024,224</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

As of 31 December 2008 the Group made an independent appraisal of land and buildings. Fair value was determined by reference to market-based evidence. A revaluation surplus of UAH 834,321 included in land and UAH 570,113 included in buildings was credited directly to the consolidated statement of equity, net of income tax of UAH 351,109 (Note 13). A revaluation loss of UAH 13,035 included in land and UAH 73,299 included in buildings was debited directly to the consolidated income statement.

Impairment losses of UAH 26 have been reversed as a result of previously impaired assets put into operation.

If land properties and buildings were measured using the cost model, the carrying amounts of land would be UAH 111,937 as of 31 December 2008 (2007: UAH 68,391) and the carrying amount of buildings would be UAH 865,728.

Property, plant and equipment with a carrying amount of UAH 1,196,052 is subject to a registered debenture to secure bank loans (Note 20) (2007: UAH 294,546).

As of 31 December 2008, property, plant and equipment with a cost of UAH 24,297 were fully depreciated but still in use (2007: UAH 18,163).

The amount of borrowing costs capitalised during 2008 is UAH 4,420 with an interest capitalization rate of 7.7% (2007: UAH 6,430 with capitalization interest rate at 9.9%) (Note 23). The amount of foreign exchange losses capitalised as an adjustment to borrowing costs during 2008 is UAH 12,415 (2007: nil).

15. Intangible assets

Intangible assets were as follows as of 31 December:

	Patents and licences	Software licences	Goodwill	Land lease rights	Total
<i>Cost</i>					
At 31 December 2006	6,091	2,058	4,762	12,084	24,995
Additions through acquisition	-	18	-	42,444	42,462
Additions	-	328	-	-	328
Disposal	-	(232)	-	-	(232)
At 31 December 2007	6,091	2,172	4,762	54,528	67,553
Additions	-	5,452	-	-	5,452
Disposal	-	(12)	-	-	(12)
At 31 December 2008	6,091	7,612	4,762	54,528	72,993
<i>Accumulated amortisation and impairment</i>					
At 31 December 2006	4,364	1,099	336	-	5,799
Amortisation charge	1,208	468	-	-	1,676
Disposal	-	(230)	-	-	(230)
At 31 December 2007	5,572	1,337	336	-	7,245
Amortisation charge	519	522	-	-	1,041
Disposal	-	(3)	-	-	(3)
At 31 December 2008	6,091	1,856	336	-	8,283
<i>Net book value</i>					
At 31 December 2007	519	835	4,426	54,528	60,308
At 31 December 2008	-	5,756	4,426	54,528	64,710

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

As of 31 December 2008, intangible assets with a cost of UAH 7,140 were fully amortised but still in use (2007: UAH 673).

Intangible assets include land lease rights acquired through business combinations. These land lease rights represent the right of the Group to renew the leases at the end of the existing lease periods at little or no cost. The Group determined that these assets have an indefinite useful life since the Group regularly exercises its rights to renew the leases at the end of their existing lease term.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the filling stations cash-generating unit, which is also a reportable segment of the Group.

The recoverable amount of the cash-generating unit has been determined as value in use calculated using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 15% (2007: 12%).

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted retail margins (11.5% increase) – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in three years immediately before the budgeted year, increased for expected efficiency improvements;
- Retail price (15% decrease) – estimates are obtained from published indices from the countries from which the petroleum products are sourced. Forecast figures are used if data is publicly available, otherwise past actual price movements have been used as an indicator of future price movements.

With regard to the assessment of value in use of the above cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

16. Inventories

Inventories were as follows as of 31 December:

	2008	2007
Petroleum products (at cost or net realisable value)	180,058	115,961
Consumer products (at cost or net realisable value)	29,478	21,955
Materials and spare parts (at cost)	4,714	10,270
	<u>214,250</u>	<u>148,186</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

17. Trade and other receivables

Trade and other receivables were as follows as of 31 December:

	<u>2008</u>	<u>2007</u>
Trade accounts receivable	172,765	95,202
Other receivables	4,906	62,992
Receivables from related parties (Note 26)	<u>32,762</u>	<u>1,244</u>
	210,433	159,438
Less: Impairment provision	(13,758)	(3,082)
	<u><u>196,675</u></u>	<u><u>156,356</u></u>

As at 31 December 2008, trade receivables amounting to UAH 13,785 (2007: UAH 3,082) were impaired and fully provided for. The following table shows the movements in the provision for impairment of receivables that are individually impaired:

	<u>Total</u>
At 1 January 2007	2,340
Charge for the year	742
At 31 December 2007	<u>3,082</u>
Charge for the year	10,676
At 31 December 2008	<u><u>13,758</u></u>

There were no receivables that were collectively impaired.

The analysis of trade and other receivables that were past due but not impaired is as follows:

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>			
	<i>Total</i>	<i>impaired</i>	<i>< 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 day</i>	<i>>90 day</i>
31 December 2007	156,356	60,729	13,670	5,046	47,650	29,261
31 December 2008	<u>196,675</u>	<u>83,314</u>	<u>32,873</u>	<u>25,942</u>	<u>18,454</u>	<u>36,092</u>

18. Prepayments and other current assets

Prepayments and other current assets were as follows as of 31 December:

	<u>2008</u>	<u>2007</u>
Prepayments for inventories and services	238,128	91,841
Prepayments for taxes other than income tax	43,458	65,138
Prepayments for securities	-	30,000
Prepayments to related parties (Note 26)	4,377	1,747
Other current assets	15,108	6,261
	<u><u>301,071</u></u>	<u><u>194,987</u></u>

Prepayments for inventories of UAH 18,986 were repaid in cash in the subsequent period.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

19. Cash and cash equivalents

Cash and cash equivalents were as follows as of 31 December:

	2008	2007
Cash at bank	52,416	27,086
Cash in transit	16,269	24,714
Cash in hand	6,372	4,872
	<u>75,057</u>	<u>56,672</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2008	2007
Cash at bank	52,416	27,086
Cash in transit	16,269	24,714
Cash in hand	6,372	4,872
	<u>75,057</u>	<u>56,672</u>
Bank overdrafts	<u>(5,364)</u>	<u>-</u>
	<u>69,693</u>	<u>56,672</u>

20. Share capital

As of 31 December 2008, authorised, issued and paid up share capital comprises 17,523,842 thousand ordinary shares with a par value of UAH 0.01 (2007: 16,000,000 thousand).

During 2007, the shareholders contributed additional capital of UAH 226,578 through subscription to 1,416,136 thousand ordinary shares with a par value of UAH 0.01 each. The shares underlying the contribution were issued and registered as share capital in 2008. As of 31 December 2007 these shares were unregistered but subscribed for based on temporary subscription certificates.

During 2008, the shareholders contributed additional capital of UAH 2,022 through subscription to 107,710 thousand ordinary shares with a par value of UAH 0.01 each. Total increase in share capital in 2008 amounted to UAH 15,238 thousand.

The holders of ordinary shares are entitled to receive dividends as declared unless imposed restrictions exist and are entitled to one vote per share at annual and general meetings of the Company.

In accordance with Ukrainian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with UAS. As of 31 December 2008, the statutory accumulated deficit of the Group amounted to UAH 318,055 (2007: retained earnings of UAH 110,164).

Under the terms of certain loan agreements, the Group is not allowed to distribute or declare dividends, purchase, redeem or otherwise acquire any shares of capital of the Company, unless the banks otherwise agree.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

(Loss)/earnings per share

(Loss)/earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

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

	<u>2008</u>	<u>2007</u>
Weighted average number of ordinary shares issued and outstanding (thousands), gross	17,523,842	16,124,122
(Loss)/profit for the year attributable to equity holders of the parent	(421,198)	62,007
Basic and diluted (loss)/earnings per share, Ukrainian hryvnia	<u>(0.0240)</u>	<u>0.0038</u>

21. Loans and borrowings

The Group’s loans and borrowings were as follows as of 31 December:

	<u>2008</u>	<u>2007</u>
<i>Non-current:</i>		
Secured bank loans, long-term portion	<u>1,608,733</u>	<u>583,614</u>
	1,608,733	583,614
<i>Current:</i>		
Unsecured bonds	2,471	90,000
Secured short-term bank loans	-	6,244
Unsecured short-term bank loans	251,686	108,030
Current portion of long-term secured bank loans	<u>182,677</u>	<u>83,851</u>
	436,834	288,125
	<u>2,045,567</u>	<u>871,739</u>

For more information about the Group’s exposure to interest rate and foreign currency risk refer to Note 24.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Loans and borrowings are repayable in accordance with the following repayment schedule as of 31 December 2008:

	Within one year	From one to five years	Over five years	Total
<i>Secured bank loans:</i>				
USD 5,000 thousand	5,615	-	-	5,615
USD 23,000 thousand	35,420	70,840	-	106,260
USD 14,000 thousand	4,436	70,574	31,442	106,452
USD 25,000 thousand	32,298	111,506	-	143,804
USD 50,000 thousand	62,554	249,970	21,098	333,622
USD 50,000 thousand	47,970	143,909	-	191,879
USD 20,000 thousand	-	-	151,315	151,315
USD 20,000 thousand	-	-	151,674	151,674
USD 50,000 thousand	-	189,485	-	189,485
USD 50,000 thousand	-	189,606	-	189,606
USD 30,000 thousand	-	113,623	-	113,623
USD 30,000 thousand	-	113,691	-	113,691
<i>Unsecured bank loans:</i>				
USD 15,000 thousand	48,000	-	-	48,000
USD 10,000 thousand	65,579	-	-	65,579
USD 10,000 thousand	64,027	-	-	64,027
USD 10,000 thousand	25,000	-	-	25,000
UAH 10,000 thousand	5,364	-	-	5,364
UAH 38,100 thousand	38,100	-	-	38,100
<i>Unsecured bonds:</i>				
UAH 90,000	2,471	-	-	2,471
	436,834	1,253,204	355,529	2,045,567

Effective interest rates on secured bank loans in USD range from LIBOR + 2.9% to LIBOR + 6.65% per annum. Interest rates on unsecured bank loans in UAH range from LIBOR + 2.5% to 23% per annum. The weighted-average rate as of 31 December 2008 was 12.57% (2007: 10.5%).

The bonds that mature in 2007-2010 bear an effective interest rate of 12.7% per annum. Bonds totalling UAH 2,471 that mature in 2010 are classified as current unsecured bonds since the investors have the right to redeem these bonds in June - August 2009.

The outstanding loans as of 31 December 2008 and 2007 were secured by property, plant and equipment with a carrying value of UAH 1,196,052 and UAH 294,546, respectively (Note 14).

As of 31 December 2008, the Group has UAH 616,000 of undrawn long-term and UAH 187,029 of undrawn short-term borrowing facilities that may be available for its future operating and investment activities.

According to certain loan agreements, the Group is obliged to comply with certain financial covenants.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

22. Payables and advances received

Payables and advances received were as follows as of 31 December:

	2008	2007
Trade payables for inventories	104,249	125,474
Advances received	46,532	19,569
Interest payable	26,791	6,245
Payables to related parties for inventories and securities (Note 26)	24,573	1,893
Wages	19,105	15,456
Payables for commission	17,935	7,780
Payables for taxes other than income tax	2,018	4,116
Payables for securities	502	40,108
Other	4,392	3,101
	<u>246,097</u>	<u>223,742</u>

Advances received of UAH 27,884 were repaid in cash in the subsequent period.

23. Supplementary cash flow information

Supplementary consolidated cash flow information for the year ended 31 December is as follows:

	2008	2007
Non-cash transactions		
Investing activities:		
Capitalisation of borrowing costs (Note 14)	4,420	6,430
Capitalisation of foreign exchange loss treated as an adjustment to borrowing costs (Note 14)	12,415	-
Revaluation of land and buildings (Note 14)	1,318,101	110,549
Change in trade payables for property, plant and equipment	15,047	17,021
	<u>1,349,983</u>	<u>134,000</u>

24. Financial risk management objectives and policies

The Group’s principal financial instruments comprise trade and other receivables and trade and other payables, loans and borrowings, cash and cash equivalents.

The main risks arising from the Group’s financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Foreign currency risk

The Group conducts its operations mainly in the following currencies: the Ukrainian hryvnia (“UAH”), the US dollar (“USD”) and the Euro (“EUR”). The exchange rates for those currencies to UAH as set by the National Bank of Ukraine (“NBU”) were as follows:

	<i>USD</i>	<i>EUR</i>
As of 31 December 2007	5.05	7.42
As of 31 December 2008	7.70	10.86
As of 30 July 2009	<u>7.70</u>	<u>10.86</u>

The Group operates in the Ukrainian fuel retail market and generates cash in Ukrainian hryvnia (functional currency) from the sale of products and services. Operating costs are incurred in the functional currency. Current liabilities of the Group are mainly denominated in Ukrainian

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

hryvnia. In order to finance its investing activities, the Group attracts funds in US Dollars due to lower costs of debt financing in this currency.

Part of the Group’s purchases represents imported products, purchased in US Dollars, Russian rubles and Euro. This is the reason why the Group is exposed to transactional exchange rate fluctuations. However, the potential impact of transactional exchange rate fluctuations on the Group’s performance is insignificant because of the fact that 80% of oil products consumed in Ukraine are either imported or produced from imported crude oil and market prices for these products are linked to the US Dollar.

The Group attracts a substantial amount of foreign currency denominated loans and borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated loans and borrowings give rise to foreign exchange exposure. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group’s (loss)/profit before tax due to changes in the fair value of monetary assets and liabilities. The reasonably possible changes were estimated by analyzing annual standard deviations based on the historical market data for the past three years.

<i>2008</i>	<i>Increase/(decrease) in foreign currency rate</i>	<i>Effect on loss before tax</i>
Change in EUR exchange rate	+40%	17,170
Change in USD exchange rate	+34%	(664,090)
Change in RUR exchange rate	+36%	(5)
Change in EUR exchange rate	-40%	(17,170)
Change in USD exchange rate	-34%	664,090
Change in RUR exchange rate	-36%	5
<i>2007</i>	<i>Increase/(decrease) in foreign currency rate</i>	<i>Effect on profit before tax</i>
Change in EUR exchange rate	+5%	29
Change in USD exchange rate	+5%	(33,875)
Change in RUR exchange rate	+15%	(126)
Change in EUR exchange rate	-5%	(29)
Change in USD exchange rate	-5%	33,875
Change in RUR exchange rate	-15%	126

Liquidity risk

The Group’s objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers as well as loans and borrowings.

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among Group entities to achieve optimal financing of business needs of each entity.

Joint Stock Company “Concern Galnaftogaz”**Notes to the consolidated financial statements**

(In thousands of Ukrainian hryvnia, unless otherwise noted)

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December based on contractual undiscounted payments:

2008	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Loans and borrowings, variable interest rate	167,719	110,325	1,106,780	329,098	1,713,922
Loans and borrowings, fixed interest rate	52,319	104,000	141,416	31,439	329,174
Interest payable	49,869	103,194	295,990	31,632	480,685
Operating lease rentals payable	7,225	21,674	54,292	40,294	123,485
Payables	192,570	21,407	-	-	213,977
Other current liabilities	289	-	-	-	289
	<u>469,991</u>	<u>360,600</u>	<u>1,598,478</u>	<u>432,463</u>	<u>2,861,532</u>

2007	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Loans and borrowings, variable interest rate	-	198,125	549,156	-	747,281
Loans and borrowings, fixed interest rate	-	90,000	-	-	90,000
Interest payable	18,010	54,168	129,012	-	201,190
Operating lease rentals payable	1,532	4,595	7,597	-	13,724
Payables	94,754	109,419	-	-	204,173
Other current liabilities	972	-	-	-	972
	<u>115,268</u>	<u>456,307</u>	<u>685,765</u>	<u>-</u>	<u>1,257,340</u>

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and loans and borrowings, the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Interest rate risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s loans and borrowings with floating interest rates.

In 2007 and 2008, the Group borrowed at fixed and floating rates mostly linked to London Inter Bank Offering Rate (“LIBOR”).

The following table demonstrates the annualised sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate loans and borrowings). The reasonably possible changes were estimated by analyzing annual standard deviations based on historical market data for the past two years. There is no impact on the Group’s equity.

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

	<i>Increase/(decrease) in basis points</i>	<i>Effect on (loss)/profit before tax</i>
<i>2008</i>		
USD	+55	10,379
USD	-55	(10,379)
<i>2007</i>		
USD	+50	3,709
USD	-50	(3,709)

Capital management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group’s policy is to keep the gearing ratio between 40% and 60%. The Group includes within net debt, interest-bearing loans and borrowings, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	<u>2008</u>	<u>2007</u>
Loans and borrowings	2,045,567	871,739
Less cash and cash equivalents	(75,057)	(56,672)
Net debt	<u>1,970,510</u>	<u>815,067</u>
Total capital	1,470,909	821,522
Capital and net debt	<u>3,441,419</u>	<u>1,636,589</u>
<i>Gearing ratio</i>	<i>43%</i>	<i>50%</i>

25. Financial instruments

Fair values

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate. However considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

The carrying values of cash and cash equivalents, trade and other receivables and payables, taxes payable and accrued liabilities approximate their fair values due to the short maturities of these instruments.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

The Group has investments in certain Ukrainian companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs. However, management believes that the carrying value of these investments does not differ substantially from their fair value.

Borrowing arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

26. Related parties

Related parties comprise associated companies of the Group, the shareholders of the Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

The ultimate controlling party of the Group is Mr. Vitaliy Antonov.

The Group had the following transactions and balances as of 31 December with related parties:

	Note	2008	2007
<i>Balances with related parties:</i>			
Trade and other receivables	17	32,762	1,244
Prepayments and other current assets	18	4,377	1,747
Payables and advances received	22	24,573	1,893
<i>Transactions with related parties included in the consolidated income statement:</i>			
Purchases of inventories and petroleum products	9	184,272	-
Rent services received	9, 10	357	155
Insurance	10	2,636	2,537
Security services	9, 10	6,469	4,473
Professional services received	10	214	1,066
Transportation services received	9	664	263
Other services received	9, 10	58	-
Sales of petroleum products	8	13,735	90,351
Sales of transportation services	8	30	911
Rent services provided	8	3,537	-
Other:			
Outstanding custody commitments	28	47	12

Balances with related parties:

2008	<i>Trade and other receivables</i>	<i>Prepayments and other current assets</i>	<i>Payables and advances received</i>
Parent	-	-	2,133
Key management personnel	432	-	7
Other related parties	32,330	4,377	22,433
Total	32,762	4,377	24,573

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements
(In thousands of Ukrainian hryvnia, unless otherwise noted)

2007	<i>Trade and other receivables</i>	<i>Prepayments and other currents assets</i>	<i>Payables and advances received</i>
Parent	-	-	1,399
Key management personnel	338	-	3
Other related parties	906	1,747	491
Total	1,244	1,747	1,893

Transactions with management

The members of the Supervisory Board, executive directors (president and vice-presidents) and close family members directly control 80% of the voting shares of the Company. There are no share options granted to the directors or pensions paid to the former or existing members of the Supervisory Board.

In 2008 the amount of total remuneration paid to directors was UAH 9,297 (2007: UAH 7,925). Total remuneration, which includes salary and bonuses, was included in “General and administrative expenses”.

As of 31 December 2008, the Group has guaranteed to key management personnel the performance of loan contracts of UAH 4,345 (2007: UAH 1,910).

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008, the Group has not recorded any impairment against receivables relating to amounts owed by related parties (2007: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

27. Commitments and contingencies

Operating leases

The Group leases a number of land plots, buildings and vehicles under operating lease agreements as a lessee. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases include contingent rentals.

During 2008, UAH 36,388 (2007: UAH 7,025) was recognised as an expense in the consolidated income statement in respect of operating leases.

As of 31 December 2008 non-cancellable operating lease rentals are payable as follows:

Within one year	28,898
Between one and five years	54,292
More than five years	40,294
	<u>123,484</u>

Joint Stock Company “Concern Galnaftogaz”
Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

Tax and other regulatory compliance

The Group performs most of its operations in Ukraine and therefore falls within the jurisdiction of the Ukrainian tax authorities.

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. Therefore, no provisions for potential tax assessments have been made in these consolidated financial statements.

Meanwhile, the tax authorities have commenced actions against the Group in respect of the tax accounting for prepayments received under the commission agreements, prepayments followed by the return of cash without supply and tax accounting for imports of petroleum products. The estimated payment is UAH 88,642 thousand should the tax authorities be successful. The Group has been advised by its legal advisers that it is possible, but not probable, that tax authorities will succeed and accordingly no provision for any liability has been made in these consolidated financial statements.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Insurance

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has insurance coverage for the majority of its property, plant and equipment as well as for third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to its operations.

Custody and storage services

During 2008, the Group provided to various third parties and related parties custody services for the storage of petroleum products. As of 31 December 2008, the Group's outstanding custody commitment to third parties approximates UAH 29,764 (2007: UAH 53,507) and to related parties – UAH 47 (2007: UAH 12).

Other commitments

The Group is committed to reimburse employees for all expenses incurred in case of injuries at work. These amounts are expensed when they are incurred.

Joint Stock Company “Concern Galnaftogaz”

Notes to the consolidated financial statements

(In thousands of Ukrainian hryvnia, unless otherwise noted)

28. Significant subsidiaries

The Company’s significant subsidiaries, all of which are incorporated in Ukraine, as of 31 December are as follows:

	Ownership 31 December 2008	Ownership 31 December 2007
Subsidiary Company Lvivnaftoproduct	-	100%
Subsidiary Company Ivano-Frankivsknaftoproduct	-	100%
Subsidiary Company Uzhgorodnaftoproduct	100%	100%
Subsidiary Company Vinnytsanaftoproduct	-	100%
Subsidiary Company Rivnenaftoproduct	-	100%
Subsidiary Company CRPP	100%	100%
Resurs-2 Ltd	100%	100%
CJSC Transport Communications	100%	100%
Odesaprominvest Ltd.	100%	100%
Khmelnitskiynaftoinvest Ltd.	-	100%
Kirovogradnaftoinvest Ltd.	100%	100%
Zhytomyrnaftoinvest Ltd.	100%	100%
Lutsznaftoinvest PP	100%	100%
Naftaoil Ltd.	100%	100%
OJSC Vinnytsa ATP 10554	90.7%	90.7%
Avtotranscom PP	100%	-
Tobi-GNG PP	100%	-
Logotrading PP	100%	-

29. Subsequent events

In 2009 the Group expanded its network of petrol stations from 288 to 291 (out of which 268 are under the Group’s registered trademark “OKKO”) of which 7 petrol stations were constructed and put into operation and 1 was acquired.

In January 2009, the Group signed a new loan facility agreement with Raiffeisen Bank Aval for a total amount of UAH 38,100. Liabilities under this agreement mature on 29 December 2009.

On 16 June 2009, the board of directors of the European Bank for Reconstruction and Development (EBRD) approved the decision to acquire shares in the Company by investing USD 50,000 thousand into the share capital of the Company. The EBRD funds are intended for financing the Group’s investment programs until the year 2012 and the related increase in working capital.