



Consolidated Financial Statements

**JOINT STOCK COMPANY “CONCERN GALNAFTOGAZ”**

**Year ended 31 December 2009**

With Independent Auditors' Report

**Joint Stock Company “Concern Galnaftogaz”  
Consolidated Financial Statements  
Year ended 31 December 2009**

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## 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 statement of financial position as of 31 December 2009, and the consolidated statement of comprehensive income, 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

28 May 2010

*Ernst & Young Audit Services*

**Joint Stock Company “Concern Galnaftogaz”**  
**Consolidated statement of comprehensive income**  
For the year ended 31 December 2009  
(In thousands of Ukrainian hryvnia, except per share information)

	Notes	2009	2008
Revenues	8	5,588,252	5,509,262
Cost of sales	9	(4,944,823)	(5,039,141)
<b>Gross profit</b>		<u>643,429</u>	<u>470,121</u>
General and administrative expenses	10	(184,335)	(130,197)
Other operating income	11	26,606	15,728
Other operating expenses	11	(146,225)	(151,555)
<b>Operating profit</b>		<u>339,475</u>	<u>204,097</u>
Gain on disposal of subsidiary	12	2,431	-
Finance expenses	13	(171,864)	(127,458)
Finance income	13	2,792	563
Foreign currency exchange losses	14	(63,347)	(639,967)
<b>Profit / (loss) before income tax</b>		<u>109,487</u>	<u>(562,765)</u>
Income tax	15	22,575	141,828
<b>Net profit / (loss) for the year</b>		<u><u>132,062</u></u>	<u><u>(420,937)</u></u>
Attributable to:			
Equity holders of the parent		132,308	(421,198)
Non-controlling interests		(246)	261
<b>Other comprehensive income</b>			
Revaluation of land and buildings		-	1,404,434
Income tax relating to the components of other comprehensive income		-	(351,109)
<b>Other comprehensive income for the period, net of tax</b>		<u>-</u>	<u>1,053,325</u>
<b>Total comprehensive income for the year, net of tax</b>		<u><u>132,062</u></u>	<u><u>632,388</u></u>

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 50.

**Joint Stock Company "Concern Galnaftogaz"**  
**Consolidated statement of comprehensive income**  
For the year ended 31 December 2009  
(In thousands of Ukrainian hryvnia, except per share information)


Attributable to:

Equity holders of the parent	132,308	632,127
Non-controlling interests	(246)	261

Earnings/(loss) per share (in Ukrainian hryvnia)

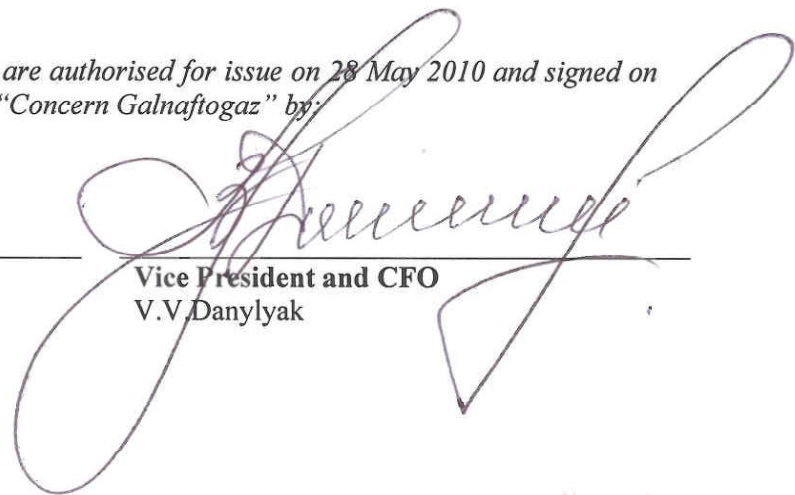
- basic and diluted	22	0.0068	(0.0240)
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*These consolidated financial statements are authorised for issue on 28 May 2010 and signed on behalf of the Board of Directors of JSC "Concern Galnaftogaz" by:*



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**President and CEO**  
V.B. Antonov



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**Vice President and CFO**  
V.V. Danylyak

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 50.

**Joint Stock Company “Concern Galnaftogaz”**  
**Consolidated statement of financial position**  
As of 31 December 2009  
(In thousands of Ukrainian hryvnia)

	Notes	2009	2008	2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	16	3,412,198	3,188,865	1,405,580
Intangible assets	17	70,153	64,710	60,308
Investments		-	-	31
Deferred tax assets	15	85,268	1,060	5,161
Other non-current assets		334	340	347
		<u>3,567,953</u>	<u>3,254,975</u>	<u>1,471,427</u>
<b>Current assets</b>				
Inventories	18	356,746	214,250	148,186
Trade and other receivables	19	309,604	196,675	156,356
Prepayments and other current assets	20	796,865	301,071	194,987
Prepaid income tax		4,852	31,439	328
Cash and cash equivalents	21	168,397	75,057	56,672
		<u>1,636,464</u>	<u>818,492</u>	<u>556,529</u>
<b>Total assets</b>		<u><u>5,204,417</u></u>	<u><u>4,073,467</u></u>	<u><u>2,027,956</u></u>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital	22	195,265	175,238	160,000
Additional paid-in capital	22	377,493	237,700	235,678
Revaluation reserve		1,288,773	1,288,773	235,448
Accumulated deficit		(98,494)	(230,802)	190,396
<b>Equity attributable to equity holders of the parent</b>		<u>1,763,037</u>	<u>1,470,909</u>	<u>821,522</u>
Non-controlling interests		767	1,013	752
<b>Total equity</b>		<u>1,763,804</u>	<u>1,471,922</u>	<u>822,274</u>
<b>Non-current liabilities</b>				
Loans and borrowings	23	1,872,491	1,608,733	583,614
Deferred tax liabilities	15	371,738	309,592	109,229
		<u>2,244,229</u>	<u>1,918,325</u>	<u>692,843</u>
<b>Current liabilities</b>				
Loans and borrowings	23	438,611	436,834	288,125
Payables and advances received	24	750,058	246,097	223,742
Other current liabilities		7,715	289	972
		<u>1,196,384</u>	<u>683,220</u>	<u>512,839</u>
<b>Total liabilities and equity</b>		<u><u>5,204,417</u></u>	<u><u>4,073,467</u></u>	<u><u>2,027,956</u></u>

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 50.

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

For the year ended 31 December 2009

(In thousands of Ukrainian hryvnia, unless otherwise noted)

	2009	2008
<b>Cash flows from operating activities</b>		
Profit / (loss) before income tax	109,487	(562,765)
Adjustments for:		
Depreciation and amortisation	103,119	61,731
(Gain)/loss on disposal of property, plant and equipment	(688)	6,243
Property, plant and equipment revaluation decrease	-	86,334
Impairment/reversal of impairment of property, plant and equipment	416	(26)
Impairment of trade and other receivables	14,698	13,729
Foreign currency exchange losses	63,572	634,025
Finance expense	171,864	127,458
Finance income	(2,792)	(563)
<b>Operating profit before changes in working capital</b>	459,676	366,166
Increase in inventories	(142,161)	(66,064)
Increase in trade and other receivables	(119,467)	(54,048)
Increase in prepayments and other current assets	(527,953)	(153,725)
Increase in payables and advances received	496,892	30,969
Increase/(decrease) in other current liabilities	7,429	(683)
Cash flows generated from operations	174,416	122,615
Income tax returned/(paid)	26,600	(33,628)
<i>Net cash from operating activities</i>	201,016	88,987
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired (Note 6)	74	-
Proceeds from sale of subsidiaries and available-for sale investments	35,600	32,060
Purchases of property, plant and equipment	(315,476)	(549,886)
Purchases of intangible assets	(4,331)	(5,443)
Proceeds from sale of property, plant and equipment	1,881	10,732
Interest received	2,792	563
<i>Net cash used in investing activities</i>	(279,460)	(511,974)
<b>Cash flows from financing activities</b>		
Issue of share capital	159,820	17,260
Proceeds from long-term borrowings	638,005	596,514
Proceeds from short-term borrowings	-	141,083
Repayments of long-term borrowings	(186,324)	(83,852)
Repayments of short-term borrowings	(247,558)	(127,569)
Interest paid	(186,795)	(107,428)
<i>Net cash provided by financing activities</i>	177,148	436,008
<b>Net increase in cash and cash equivalents</b>	98,704	13,021
Cash and cash equivalents at the beginning of the year	69,693	56,672
Cash and cash equivalents at the end of the year (Note 21)	168,397	69,693

**SUPPLEMENTARY CASH FLOW INFORMATION (Note 25)**

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 6 to 50.

**Joint Stock Company “Concern Galnaftogaz”**  
**Consolidated statement of changes in equity**  
For the year ended 31 December 2009  
(In thousands of Ukrainian hryvnia)

	Attributable to equity holders of the parent						Non-controlling interests	Total
	Share capital	Additional paid-in capital	Revaluation reserve	(Accumulated deficit)/retained earnings	Total			
<b>Balance at 31 December 2007</b>	<b>160,000</b>	<b>235,678</b>	<b>235,448</b>	<b>190,396</b>	<b>821,522</b>	<b>752</b>	<b>822,274</b>	
Net loss	-	-	-	(421,198)	(421,198)	261	(420,937)	
Other comprehensive income	-	-	1,053,325	-	1,053,325	-	1,053,325	
Total comprehensive income	-	-	1,053,325	(421,198)	632,127	261	632,388	
Increase in share capital (Note 22)	15,238	2,022	-	-	17,260	-	17,260	
<b>Balance at 31 December 2008</b>	<b>175,238</b>	<b>237,700</b>	<b>1,288,773</b>	<b>(230,802)</b>	<b>1,470,909</b>	<b>1,013</b>	<b>1,471,922</b>	
Net profit	-	-	-	132,308	132,308	(246)	132,062	
Total comprehensive income	-	-	-	132,308	132,308	(246)	132,062	
Increase in share capital (Note 22)	20,027	139,793	-	-	159,820	-	159,820	
<b>Balance at 31 December 2009</b>	<b>195,265</b>	<b>377,493</b>	<b>1,288,773</b>	<b>(98,494)</b>	<b>1,763,037</b>	<b>767</b>	<b>1,763,804</b>	

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 6 to 50.

## **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”) incorporated and domicile in Ukraine. JSC “Concern Galnaftogaz” was established on 30 October 2001.

The Group’s principal activity is retail sales and wholesales of petroleum products in Ukraine. The Group operates a network of 11 petroleum depots and about 301 petrol stations, 278 of which are under the Group’s registered trademark “OKKO”.

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

The average number of employees of the Group was 5,622 during 2009 (2008: 5,500).

These consolidated financial statements for the year ended 31 December 2009 were authorised for issue by the Board of Directors on 28 May 2010.

#### **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 global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within Ukraine, and significant devaluation of the Ukrainian hryvnia against major currencies. Furthermore, the downgrade of the country’s credit ratings, which began in late 2008, continued in 2009. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the exchange rate and the banking sector, there continues to be uncertainty regarding exchange rates, access to capital and its cost for the Group and its counterparties. At the same time, the global economic recession has also had a significant impact on Ukraine’s balance of payments resulting from a drop in exports. 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, continued and 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. 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 2009.

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.

Non-controlling 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 statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent’s equity. Acquisitions of non-controlling 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 2009. 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.

- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009
- IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009
- IAS 1 *Presentation of Financial Statements (Revised)* effective 1 January 2009
- IFRS 8 *Operating Segments* effective 1 January 2009
- IAS 32 *Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* effective 1 January 2009

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

(In thousands of Ukrainian hryvnia, unless otherwise noted)

- IFRIC 9 *Remeasurement of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009
- IFRIC 15 *Agreement for the Construction of Real Estate* effective 1 January 2009
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- Improvements to IFRSs

*IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

*IFRS 7 Financial instruments: Disclosures*

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value and liquidity risk disclosures prepared by the Group are not significantly impacted by the amendments.

*IAS 1 Presentation of Financial Statements (Revised)*

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes 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 has elected to present one statement.

*IFRS 8 Operating segments*

IFRS 8 replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 6, including the related revised comparative information.

*IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group, as the Group has not issued such instruments.

*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 statement of comprehensive income in the separate financial statements. The new requirements did not have an impact on the consolidated financial statements of the Group.

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

(In thousands of Ukrainian hryvnia, unless otherwise noted)

*IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

The amendments to IFRIC 9 and IAS 39 were issued in March 2009 and are effective for annual periods ending on or after 30 June 2009. The amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The adoption of these amendments did not result in changes in presentation and disclosures as the Group did not have contracts caught by this interpretation.

*IFRIC 15 Agreement for the Construction of Real Estate*

IFRIC 15 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 did not have an impact on the consolidated financial statements of the Group.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

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 adoption of IFRIC 16 did not have an impact on the consolidated financial statements, because the Group does not have investments in foreign operations.

**Improvements to IFRSs**

In May 2008 and April 2009 the IASB issued 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 adoption of the following amendments by the Group since 1 January 2009 resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

*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 statement of financial position. The Group amended its accounting policy accordingly and analysed whether the 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 consolidated statement of financial position.

*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 reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

*IAS 39 Financial Instruments: Recognition and Measurement:*

Changes in circumstances relating to derivatives do not result in reclassifications. Therefore, when circumstances related to derivatives change, they may be either removed from, or included in, the ‘fair value through profit or loss’ classification after initial recognition. The amendments

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

(In thousands of Ukrainian hryvnia, unless otherwise noted)

removed the reference in IAS 39 to a ‘segment’, when determining whether an instrument qualifies as a hedge. The amendments also require the use of the revised effective interest rate, when remeasuring a debt instrument on the cessation of fair value hedge accounting. This amendment has no impact on the consolidated financial statements of the Group.

*IFRS 7 Financial Instruments: Disclosures:*

Removal of the reference to ‘total interest income’ as a component of finance costs.

*IAS 10 Events after the Reporting Period:*

Clarification that dividends declared after the end of the reporting period are not obligations.

*IAS 18 Revenue:*

The Board has added guidance to determine whether an entity is acting as a principal or as an agent. There is no effective date of this amendment, hence, it is effective from the date the amendments were issued. The adoption of this amendment by the Group resulted in changes to the accounting policies, but did not have any effect on the financial position or performance of the Group.

*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.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group.

*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 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 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 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 28 Investment in Associates:*

If an associate is accounted for at fair value in accordance with IAS 39, only 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.

## **Joint Stock Company “Concern Galnaftogaz”**

### **Notes to the consolidated financial statements**

(In thousands of Ukrainian hryvnia, unless otherwise noted)

#### *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 31 Interests in Joint Ventures:*

Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit and loss. If a joint venture is accounted for at fair value, the only disclosure requirements of IAS 31 are those relating to the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses.

#### *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 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 of the term ‘point-of-sale costs’ with ‘costs to sell’.

### **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 statement of comprehensive income. 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 non-controlling interest.

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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 statement of comprehensive income.

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.

#### **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 statement of financial position 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 statement of comprehensive income 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 other comprehensive income. 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 statement of comprehensive income.

#### **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 2008 the Group obtained an independent appraisal of its buildings and

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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 statement of comprehensive income as incurred.

#### ***Revaluation***

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

#### ***Depreciation***

Depreciation is charged to the statement of comprehensive income 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 statement of comprehensive income 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

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#### **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 hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the statement of comprehensive income.

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 statement of comprehensive income. 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 statement of comprehensive income 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

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carrying amount of the financial asset. Gains and losses are recognised in the consolidated statement of comprehensive income 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 2009 and 2008.

#### *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 in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income.

### **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:

#### *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 statement of comprehensive income.

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 statement of comprehensive income 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

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

#### **Fair value of financial instruments**

The fair value of financial instruments that are 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 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 statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated

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statement of comprehensive income; increases in their fair value after impairment are recognised in other comprehensive income.

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 statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

### **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.

#### *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 statement of comprehensive income.

### **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.

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In 2009, the Group changed its accounting policy on measuring the cost of inventories from first-in, first-out principle to weighted average. This change in accounting policy was applied retrospectively with no effect on prior periods presented.

The cost of inventories 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 statement of comprehensive income over the period of the borrowings on an effective interest basis.

#### **Trade and other payables**

Liabilities for trade and other amounts payable which are normally settled on 0-90 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 statement of comprehensive income 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 statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where

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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 in other comprehensive income is recognised in other comprehensive income.

##### *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:

- 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.

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Deferred income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

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 statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

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

The Group operates a loyalty program “Fishka”, which allows customers to accumulate points when they purchase petroleum products at Group’s petrol stations. The points could be redeemed for free consumer products and services. Consideration received is allocated between the petroleum products sold and points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

#### **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 statement of comprehensive income.

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.

Operating lease payments are recognised as an expense in the statement of comprehensive income 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.

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**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.

**Reclassifications**

Certain reclassifications were made to the comparative balances to conform to the 2009 presentation. They relate to certain reclassifications within the consolidated statement of comprehensive income and within the consolidated statement of financial position.

	<u><i>As reclassified</i></u>	<u><i>As previously reported</i></u>
<i>Consolidated statement of financial position</i>		
Deferred tax assets	1,060	147,047
Deferred tax liabilities	<u>(309,592)</u>	<u>(455,579)</u>
	<u><b>(308,532)</b></u>	<u><b>(308,532)</b></u>
<i>Consolidated statement of comprehensive income</i>		
Petroleum and consumer products	4,749,176	4,713,294
Inventory shortages	-	3,146
Transportation	59,069	91,805
Currency conversion and other bank charges	27,024	-
Bank charges	-	6,121
Foreign currency exchange losses	<u>639,967</u>	<u>660,870</u>
	<u><b>5,475,236</b></u>	<u><b>5,475,236</b></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.

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#### ***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

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a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

#### *Allowance for doubtful trade and other receivables*

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

#### *Fair values of assets and liabilities acquired in business combinations*

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.

#### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. These estimates may have a material impact on the amount of deferred tax assets recognised in the consolidated statement of financial position.

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#### 5. Standards issued but not yet effective

The Group has not adopted the following IFRS and IFRIC interpretations published but not yet effective. Adoption of these standards and interpretations will not have any effect on the financial performance or position of the Group. They will however give rise to additional disclosures, including revisions to accounting policies.

- *IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*
- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- *Amendments to IFRS 2 Share-based payment - Group Cash-settled Share-based Payment Transactions*
- *IFRS 9 Financial Instruments*
- *IAS 24 Related Party Disclosures (Revised)*
- *IFRS for Small and Medium Sized Entities*
- *Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*
- *Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement*
- *IFRIC 17 Distributions of Non-cash Assets to Owners*
- *IFRIC 18 Transfers of Assets from Customers*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
- *Certain improvements to IFRS’s issued by IASB in its omnibus of amendments*

#### *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. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

#### *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 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.

#### *Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions*

The amendments were issued in June 2009 and are effective for annual periods beginning on or after 1 January 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. Specifically, an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amended standard clarifies that in IFRS 2 a ‘group’ has the same meaning as in IAS 27,

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that is, it includes only a parent and its subsidiaries. The Group expects that the amended standard will not have any effect on financial position or performance of the Group as the Group did not enter into such transactions.

*IFRS 9 Financial Instruments*

In November 2009 the IASB has issued IFRS 9, which provides guidance on the classification and measurement of financial assets. Publication of this IFRS represents the completion of the first part of a three-part project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a new standard - IFRS 9 *Financial Instruments*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing many different impairment methods in IAS 39. The effective date for mandatory adoption of IFRS 9 is for annual periods beginning on or after 1 January 2013. The Group expects that the new standard may have effect on the classification and measurement of its financial assets, however, the exact amount of potential effect have not yet been quantified.

*IAS 24 Related Party Disclosures (Revised)*

In November 2009 the IASB replaced IAS 24 *Related Party Disclosures* with a new version. The IASB believes the revised standard simplifies the disclosure requirements for government-related entities by focusing disclosures on significant transactions, and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard will not result in additional disclosures as the Company is not a subsidiary of a government-related entity.

*IFRS for Small and Medium Sized Entities (IFRS SMEs)*

IFRS for SMEs is designed to meet the needs and capabilities of small and medium-sized entities. The standard is intended to be less complex as compared to the full IFRSs as many principles are simplified and significantly fewer disclosures are required. The new standard will not result in any changes to the Group’s consolidated financial statements as the Group is not small or medium-sized entity.

*Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*

The amendment, which was issued in January 2010, provides relief to first-time adopters of IFRSs from providing the additional disclosures introduced by the recent amendments to IFRS 7. As a result, first-time adopters receive the same transition provisions provided to current IFRS preparers. This amendment is effective for financial years beginning on or after 1 July 2010, with early application is permitted. The amendment will not result in any changes to the consolidated financial statements as the Group is not a first-time adopter.

*Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement*

Amendment to IFRIC 14 IAS 19 was issued in November 2009 and becomes effective for financial years beginning on or after 1 July 2011 with early application permitted. The amendment applies in the limited circumstances when an entity is a subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment will have no impact on the financial position or performance of the Group, as the Group’s employee benefit plans are unfunded.

*IFRIC 17 Distributions of Non-cash Assets to Owners*

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners. As such it provides guidance on when to recognise a liability, how to measure it and the

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associated assets, and when to derecognise the asset and liability and the consequences of doing so. IFRIC 17 will have no impact on the financial position or performance of the Group, as the Group does not distribute non-cash assets to its owners.

*IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Group, as the Group does not receive assets from customers.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19, which was published in November 2009, provides guidance on how to account for the extinguishment of financial liability by the issuance of equity instruments. These transactions are often referred to as debt-for-equity swaps. IFRIC 19 includes the following guidance: (i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (ii) the equity instruments issued are measured at their fair value; (ii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit and loss for the period.

IFRIC 19 becomes effective for financial years beginning on or after 1 July 2010 with early application permitted.

***Improvements to IFRSs***

In May 2008 the IASB issued first omnibus of amendments to its standards primarily with a view to removing inconsistencies and clarifying wording. The Group has not yet adopted the following amendments to standards and anticipates that this change will have no material effect on the consolidated financial statements:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:*

This amendment is effective for annual periods commencing 1 July 2009. The amendment clarifies that when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains non-controlling interest in the subsidiary after the sale.

In April 2009 the IASB issued second omnibus edition of amendments to its standards, majority of which are effective for annual periods beginning on or after 1 January 2010, unless stated otherwise. The Group has not yet adopted the following amendments to standards and anticipates that these changes will have no material effect on the consolidated financial statements:

*IFRS 2 Share-based payment:*

The amendment is effective for annual periods beginning on or after 1 July 2009. It clarifies that the contribution of a business on formation of joint venture and combinations under common control are not within the scope of IFRS 2.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:*

The amendment clarifies that the disclosures required in respect of non-current assets, disposal groups classified as held for sale, or discontinued operations are only those set out in IFRS 5.

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*IFRS 8 Operating segments:*

Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.

*IAS 1 Presentation of Financial Statements:*

The terms of liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

*IAS 7 Statement of Cash Flows:*

Only expenditure that results in a recognised asset can be classified as cash flow from investing activities.

*IAS 17 Leases:*

The specific guidance on classifying land as lease has been removed so that only the general guidance remains.

*IAS 36 Impairment of Assets:*

The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.

*IAS 38 Intangible Assets:*

If an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided that the individual assets have similar useful lives. In addition, the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are not restrictive on the methods that can be used. These amendments are effective for annual periods commencing on or after 1 July 2009.

*IAS 39 Financial Instruments: Recognition and Measurement:*

The changes include conditions for assessment of loan prepayment penalties as embedded derivatives, scope exemption for business combination contract for derivative contracts, where further actions still have to be taken and cash flow hedge accounting.

*IFRIC 9 Reassessment of Embedded Derivatives:*

Clarification that IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. These amendments are effective for annual periods commencing on or after 1 July 2009.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation:*

Qualifying hedging instruments may be held by an entity within the Group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. These amendments are effective for annual periods commencing on or after 1 July 2009.

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#### 6. Business combinations

##### *Acquisition of “Terrin PP” Ltd.*

In December 2009 the Group acquired 100% ownership in Terrin Ltd., a Ukrainian-based company providing its registered trade-mark "A-la-minute" under franchising agreement to 19 restaurants located in different regions of Ukraine. The effective date of acquisition was 18 December 2009.

	<b>18 December 2009</b>	
	<b>Fair value</b>	<b>Previous carrying value</b>
Property, plant and equipment (Note 16)	212	212
Intangible assets (Note 17)	2,851	9
Deferred tax assets	57	103
Inventory	304	304
Trade and other receivables	2,074	2,074
Cash and cash equivalents	74	74
Prepayments and other current assets	1,121	1,121
	<b>6,693</b>	<b>3,897</b>
Trade and other payables	(6,116)	(6,116)
Other current liabilities	(438)	(438)
	<b>(6,554)</b>	<b>(6,554)</b>
<b>Net assets/net liabilities</b>	<b>139</b>	<b>(2,657)</b>
Ownership interest acquired	100.00%	
Total net assets acquired	139	
Excess of share in net assets of acquired subsidiary over consideration paid	(99)	
<b>Total consideration</b>	<b>40</b>	
Cash paid	-	
Net cash acquired with the subsidiary	74	
<b>Net cash inflow on acquisition</b>	<b>74</b>	

#### 7. Segment information

For management purposes, the group is organized into business units based on their products and services and has two reportable operating segments as follows:

- 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.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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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.

<b>2009</b>	Retail sales	Wholesales	Other	Eliminations	Total
Sales to external customers	4,671,735	916,224	293	-	5,588,252
Inter-segment sales	22,276	-	45,864	(68,140)	-
<b>Total revenue</b>	<b>4,694,011</b>	<b>916,224</b>	<b>46,157</b>	<b>(68,140)</b>	<b>5,588,252</b>
<b>Segment result</b>	<b>511,601</b>	<b>131,561</b>	<b>51</b>	<b>-</b>	<b>643,213</b>
Finance expenses, net					(169,072)
Unallocated other income and expenses					(364,654)
<b>Profit before income tax</b>					109,487
Income tax					22,575
<b>Net profit</b>					<b>132,062</b>
Segment assets	4,413,512	300,379	-	-	4,713,891
Unallocated assets					490,526
<b>Total assets</b>	<b>4,413,512</b>	<b>300,379</b>	<b>-</b>	<b>-</b>	<b>5,204,417</b>
Segment liabilities	2,103,158	469,150	-	-	2,572,308
Unallocated liabilities					868,305
<b>Total liabilities</b>	<b>2,103,158</b>	<b>469,150</b>	<b>-</b>	<b>-</b>	<b>3,440,613</b>
Capital expenditure	280,359	-	3,675	-	284,034
Depreciation and amortisation	76,049	-	27,070	-	103,119

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<b>2008</b>	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)	-
<b>Total revenue</b>	<b>4,624,625</b>	<b>891,861</b>	<b>53,214</b>	<b>(60,438)</b>	<b>5,509,262</b>
<b>Segment result</b>	<b>290,094</b>	<b>15,608</b>	<b>12,496</b>	<b>-</b>	<b>318,198</b>
Finance expenses, net					(126,895)
Unallocated other income and expenses					(754,068)
<b>Loss before income tax</b>					<b>(562,765)</b>
Income tax					141,828
<b>Net loss</b>					<b>(420,937)</b>
Segment assets	3,591,502	159,007	-	-	3,750,509
Unallocated assets					322,958
<b>Total assets</b>	<b>3,591,502</b>	<b>159,007</b>	<b>-</b>	<b>-</b>	<b>4,073,467</b>
Segment liabilities	1,898,498	55,120	-	-	1,953,618
Unallocated liabilities					647,927
<b>Total liabilities</b>	<b>1,898,498</b>	<b>55,120</b>	<b>-</b>	<b>-</b>	<b>2,601,545</b>
Capital expenditure	338,748	-	49,953	-	388,701
Depreciation and amortisation	43,326	-	18,405	-	61,731

## 8. Revenues

Revenues for the year ended 31 December were as follows:

	2009	2008
Retail sales of petroleum products	4,255,210	4,305,781
Large lot wholesale of petroleum products	307,330	473,022
Small lot wholesale of petroleum products	606,980	416,837
Sales of consumer products and other services	418,441	307,727
Sales of transportation services	291	5,895
	<b>5,588,252</b>	<b>5,509,262</b>

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

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**9. Cost of sales**

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

	2009	2008
Petroleum and consumer products	4,616,144	4,749,176
Salary, wages and related charges	105,571	102,188
Depreciation	77,560	42,237
Transportation	54,034	59,069
Rent	26,714	29,700
Utilities	24,271	16,797
Repair and maintenance	13,249	15,708
Security	12,496	9,102
Storage	9,280	9,276
Other	5,504	5,888
	<u>4,944,823</u>	<u>5,039,141</u>

**10. General and administrative expenses**

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

	2009	2008
Salary and related charges	98,021	65,799
Depreciation and amortization	23,717	16,829
Professional services	16,980	7,721
Rent	14,855	6,688
Advertising	11,026	11,412
Taxes other than income tax	8,224	9,813
Communication	5,664	5,508
Insurance	3,438	3,419
Commission fees	204	1,116
Security	800	1,025
Other	1,406	867
	<u>184,335</u>	<u>130,197</u>

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**11. Other operating income and expenses**

Other operating income for the year ended 31 December was as follows:

	2009	2008
Rent income	10,729	10,567
Gain on sale of investments	1,938	-
Gain on disposal of property, plant and equipment	688	-
Excess of share in net assets of acquired subsidiary over consideration paid	99	-
Reversal of impairment of property, plant and equipment	-	26
Other income	13,152	5,135
Total other operating income	<u>26,606</u>	<u>15,728</u>

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

	2009	2008
Currency conversion and other bank charges	115,139	27,024
Impairment of trade and other receivables	14,698	13,729
Inventory used	9,555	13,417
Property, plant and equipment revaluation decrease	-	86,334
Loss on disposal of property, plant and equipment	-	6,243
Loss on sale of investments	-	2,393
Impairment of property, plant and equipment	416	-
Other expenses	6,417	2,415
Total other operating expenses	<u>146,225</u>	<u>151,555</u>

**12. Gain on disposal of subsidiary**

During the year 2009, the Group disposed of its 100% interest in the share capital of Subsidiary Company Lutsknaftoinvest. The effective date of disposal was 26 November 2009. Consideration was received in cash and amounted to UAH 35,600. Prior to being disposed of, Subsidiary Company Lutsknaftoinvest was the primary operator of the Group’s retail sales network. The disposal did not have any significant impact on the Group’s principal activities.

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	<b>26 November 2009</b>
Property, plant and equipment	6
Intangible assets	7
Inventory	18
Trade and other receivables	25,269
Other current assets	42,776
	<b>68,076</b>
Deferred tax liabilities	(4,842)
Trade and other payables	(4,477)
Other current liabilities	(25,588)
	<b>(34,907)</b>
<b>Net assets</b>	<b>33,169</b>
Consideration received	35,600
<b>Net gain on disposal of subsidiary</b>	<b>2,431</b>
Cash inflow on disposal of the subsidiary was as follows:	
Net cash disposed with the subsidiary	-
<b>Net cash inflow on disposal</b>	<b>35,600</b>

### 13. Finance income and expenses

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

	2009	2008
Interest income	2,792	563
Total finance income	2,792	563
Interest expense	(171,864)	(127,458)
Total finance expenses	(171,864)	(127,458)

### 14. Foreign currency exchange losses

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

	2009	2008
<i>Non-current liabilities</i>		
Loans and borrowings	64,115	574,611
<i>Current liabilities</i>		
Loans and borrowings	(543)	59,414
Trade payables	(225)	5,942
	<b>63,347</b>	<b>639,967</b>

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**15. Income tax**

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

	2009	2008
<i>Current tax expense:</i>		
Current tax	198	4,817
	198	4,817
<i>Deferred tax benefit:</i>		
Origination and reversal of temporary differences	(22,773)	(146,645)
	(22,773)	(146,645)
	(22,575)	(141,828)

Ukraine was the only tax jurisdiction in which the Group’s income was subject to income tax in 2009 and 2008. In these years the Group’s applicable income tax rate was 25%.

Reconciliation of effective tax rate is as follows:

	2009	%	2008	%
Profit / (loss) before income tax	109,487	100%	(562,765)	100%
Computed income tax at applicable tax rate	27,372	25%	(140,691)	25%
Revaluation of property, plant and equipment for tax purposes	(57,928)	(53%)	-	-
Non-taxable income	(953)	(1%)	(17,566)	3%
Non-deductible expenses	8,934	8%	16,429	(3%)
	(22,575)	(21%)	(141,828)	25%

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

	<i>Charged/ (credited) to consolidated income statement</i>		<i>Charged to other comprehensive income</i>		<i>Charged/ (credited) to consolidated statement of comprehensive income</i>		<i>Effect of business combination (Note 0)</i>	
	2007		2008				2009	
<b>Deferred tax asset</b>								
Intangible assets	5,912	(133)	-	5,779	(75)	-	5,704	
Trade and other receivables	-	3,939	-	3,939	2,668	-	6,607	
Payables and advances received	5,549	4,506	-	10,055	23,790	-	33,845	
Inventory	940	(940)	-	-	343	-	343	
Prepaid revenue	-	33	-	33	1,549	-	1,582	
Other current liabilities	-	-	-	-	3,578	-	3,578	
Losses carried forward	-	127,241	-	127,241	(39,718)	-	87,523	
<b>Deferred tax asset</b>	<b>12,401</b>	<b>134,646</b>	<b>-</b>	<b>147,047</b>	<b>(7,865)</b>	<b>-</b>	<b>139,182</b>	
<b>Deferred tax liability</b>								
Property, plant and equipment	(110,350)	15,316	(351,109)	(446,143)	100,398	-	(345,745)	
Intangible assets	-	-	-	-	-	(711)	(711)	
Inventory	-	(556)	-	(556)	556	-	-	
Trade and other receivables	(339)	339	-	-	-	-	-	
Investments	(577)	577	-	-	-	-	-	
Loans and borrowings	(1,212)	566	-	(646)	415	-	(231)	
Prepayments and other current assets	(3,991)	(4,243)	-	(8,234)	(70,731)	-	(78,965)	
<b>Deferred tax liability</b>	<b>(116,469)</b>	<b>11,999</b>	<b>(351,109)</b>	<b>(455,579)</b>	<b>30,638</b>	<b>(711)</b>	<b>(425,652)</b>	
<b>Net deferred tax liabilities</b>	<b>(104,068)</b>	<b>146,645</b>	<b>(351,109)</b>	<b>(308,532)</b>	<b>22,773</b>	<b>(711)</b>	<b>(286,470)</b>	

As of 31 December, deferred tax assets and liabilities were reflected in the consolidated statement of the financial position as follows:

	2009	2008	2007
Deferred tax assets	85,268	1,060	5,161
Deferred tax liabilities	(371,738)	(309,592)	(109,229)
Deferred tax liabilities, net	(286,470)	(308,532)	(104,068)

As of 31 December 2009, there was no recognised deferred tax liability (2008: 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 2009, the total amount of accumulated deficit of the Group’s subsidiaries was UAH 266,918 (2008: UAH 283,090).

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The temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognised aggregate to UAH 3,685 (2008: UAH 1,098).

**16. Property, plant and equipment**

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

	2009	2008
Property, plant and equipment, net	3,027,447	2,853,367
Prepayments for property, plant and equipment	251,184	164,641
Construction in progress and uninstalled equipment	133,567	170,857
	<u>3,412,198</u>	<u>3,188,865</u>

Changes in property, plant and equipment, construction in progress and uninstalled equipment are as follows:

	Land	Buildings	Equipment	Office equipment	Vehicles	Construction in progress and uninstalled equipment	Total
<i>At cost/ revalued amount</i>							
At 31 December 2007	382,441	579,238	110,578	53,772	51,201	294,758	1,471,988
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)
Revaluation	821,286	445,051	-	-	-	-	1,266,337
At 31 December 2008	1,247,274	1,310,779	258,946	53,726	91,472	170,857	3,133,054
Additions through acquisition	-	-	-	73	98	41	212
Additions	16,294	-	70,630	3,927	1,196	147,520	239,567
Transfers	-	184,794	-	-	-	(184,794)	-
Disposals	-	-	(643)	(444)	(2,790)	(57)	(3,934)
At 31 December 2009	1,263,568	1,495,573	328,933	57,282	89,976	133,567	3,368,899
<i>Accumulated depreciation</i>							
At 31 December 2007	-	36,443	25,157	26,182	16,853	-	104,635
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)
Revaluation	-	(51,763)	-	-	-	-	(51,763)
At 31 December 2008	-	-	51,645	27,243	29,942	-	108,830
Depreciation charge	-	39,515	35,412	10,098	16,355	-	101,380
Impairment charge	-	106	310	-	-	-	416
Disposals	-	-	(360)	(309)	(2,072)	-	(2,741)
At 31 December 2009	-	39,621	87,007	37,032	44,225	-	207,885
<i>Net book value</i>							
At 31 December 2008	1,247,274	1,310,779	207,301	26,483	61,530	170,857	3,024,224
At 31 December 2009	1,263,568	1,455,952	241,926	20,250	45,751	133,567	3,161,014

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If land properties and buildings were measured using the cost model, the carrying amounts of land would be UAH 128,231 as of 31 December 2009 (2008: UAH 111,937) and the carrying amount of buildings would be UAH 1,050,522 (2008: UAH 865,728).

Property, plant and equipment with a carrying amount of UAH 2,442,413 is subject to a registered debenture to secure bank loans (Note 23) (2008: UAH 1,196,052).

As of 31 December 2009, property, plant and equipment with a cost of UAH 37,015 were fully depreciated but still in use (2008: UAH 24,297).

The amount of borrowing costs capitalised during 2009 is UAH 1,710 with an interest capitalization rate of 6.6% (2008: UAH 4,420 with capitalization interest rate at 7.7%, Note 25). The amount of foreign exchange losses capitalised as an adjustment to borrowing costs during 2009 is nil (2008: UAH 12,415).

**17. Intangible assets**

Intangible assets were as follows as of 31 December:

	<b>Patents and licences</b>	<b>Software licences</b>	<b>Goodwill</b>	<b>Trademarks</b>	<b>Land lease rights</b>	<b>Total</b>
<i>Cost</i>						
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
Additions through acquisition	-	9	-	2,842	-	2,851
Additions	4,070	264	-	-	-	4,334
Disposal	-	(19)	-	-	-	(19)
At 31 December 2009	10,161	7,866	4,762	2,842	54,528	80,159
<i>Accumulated amortisation and impairment</i>						
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
Amortisation charge	1,122	617	-	-	-	1,739
Disposal	-	(16)	-	-	-	(16)
At 31 December 2009	7,213	2,457	336	-	-	10,006
<i>Net book value</i>						
At 31 December 2008	-	5,756	4,426	-	54,528	64,710
At 31 December 2009	2,948	5,409	4,426	2,842	54,528	70,153

As of 31 December 2009, intangible assets with a cost of UAH 7,940 were fully amortised but still in use (2008: UAH 7,140).

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

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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 21% (2008: 15%).

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

- Budgeted retail margins (2.5% increase to 15.5% margin) – 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, adjusted for expected efficiency improvements;
- Retail price (39% increase) – 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.

**18. Inventories**

Inventories were as follows as of 31 December:

	2009	2008
Petroleum products (at cost or net realisable value)	317,256	180,058
Consumer products (at cost or net realisable value)	33,612	29,478
Materials and spare parts (at cost)	5,878	4,714
	<u>356,746</u>	<u>214,250</u>

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**19. Trade and other receivables**

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

	2009	2008
Trade accounts receivable	319,222	172,765
Other receivables	2,761	4,906
Receivables from related parties (Note 28)	6,464	32,762
	<u>328,447</u>	<u>210,433</u>
Less: Impairment allowance	(18,843)	(13,758)
	<u>309,604</u>	<u>196,675</u>

As at 31 December 2009, trade receivables amounting to UAH 18,843 (2008: UAH 13,758) were impaired and fully provided for. The following table shows the movements in the allowance for impairment of receivables that are individually impaired:

	Total
At 1 January 2008	3,082
Charge for the year	10,676
At 31 December 2008	<u>13,758</u>
Charge for the year	6,620
Reversal for the year	(1,535)
At 31 December 2009	<u>18,843</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>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			
			<i>&lt; 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 day</i>	<i>&gt;90 day</i>
31 December 2008	196,675	83,314	32,873	25,942	18,454	36,092
31 December 2009	<u>309,604</u>	<u>253,800</u>	<u>14,826</u>	<u>3,404</u>	<u>23,653</u>	<u>13,921</u>

**20. Prepayments and other current assets**

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

	2009	2008
Prepayments for inventories and securities	619,971	238,128
Prepayments to related parties (Note 20)	88,568	4,377
Prepayments for taxes other than income tax	68,990	43,458
Other current assets	19,336	15,108
	<u>796,865</u>	<u>301,071</u>

Prepayments for inventories and securities of UAH 101,270 were returned in cash subsequent to 31 December 2009.

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**21. Cash and cash equivalents**

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

	2009	2008
Cash at bank	136,596	52,416
Cash in transit	22,912	16,269
Cash in hand	8,889	6,372
	<u>168,397</u>	<u>75,057</u>

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

As at 31 December 2009, cash at bank comprise deposits with Ukrainian banks in USD, which bear interest of 9% p.a.

The Group has pledged a part of its cash at bank in order to fulfil collateral requirements (Note 23).

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

	2009	2008
Cash at bank	136,596	52,416
Cash in transit	22,912	16,269
Cash in hand	8,889	6,372
	<u>168,397</u>	<u>75,057</u>
Bank overdrafts	-	(5,364)
	<u>168,397</u>	<u>69,693</u>

**22. Share capital**

As of 31 December 2009, authorised, issued and paid up share capital comprises 19,526,523 thousand ordinary shares with a par value of UAH 0.01 (2008: 17,523,842 thousand).

During 2009, the shareholders contributed additional capital of UAH 139,793 thousand through subscription to 2,002,700 thousand ordinary shares with a par value of UAH 0.01 each. Total increase in share capital in 2009 amounted to UAH 20,027 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 2009, the statutory accumulated deficit of the Group amounted to UAH 243,268 (2008: UAH 318,055).

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.

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*(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>2009</u>	<u>2008</u>
Weighted average number of ordinary shares issued and outstanding (thousands), gross	19,526,523	17,523,842
Profit/(loss) for the year attributable to equity holders of the parent	132,308	(421,198)
Basic and diluted earnings/(loss) per share, Ukrainian hryvnia	<u>0.0068</u>	<u>(0.0240)</u>

**23. Loans and borrowings**

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

	<u>2009</u>	<u>2008</u>
<i>Non-current:</i>		
Secured bank loans, long-term portion	<u>1,872,491</u>	<u>1,608,733</u>
	1,872,491	1,608,733
<i>Current:</i>		
Unsecured bonds	691	2,471
Unsecured short-term bank loans	-	251,686
Current portion of long-term secured bank loans	<u>437,920</u>	<u>182,677</u>
	438,611	436,834
	<u><u>2,311,102</u></u>	<u><u>2,045,567</u></u>

For more information about the Group's exposure to interest rate and foreign currency risk refer to Note 26.

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Loans and borrowings are repayable in accordance with the following repayment schedule as of 31 December 2009:

	<b>Within one year</b>	<b>From one to five years</b>	<b>Over five years</b>	<b>Total</b>
<i>Secured bank loans:</i>				
USD 23,000 thousand	36,731	36,731	-	<b>73,462</b>
USD 14,000 thousand	18,505	37,010	50,889	<b>106,404</b>
USD 25,000 thousand	49,827	99,654	-	<b>149,481</b>
USD 50,000 thousand	79,138	158,277	158,277	<b>395,692</b>
USD 50,000 thousand	79,205	158,410	158,410	<b>396,025</b>
USD 20,000 thousand	-	-	158,121	<b>158,121</b>
USD 20,000 thousand	-	-	158,256	<b>158,256</b>
USD 50,000 thousand	65,192	130,383	86,923	<b>282,498</b>
USD 25,000 thousand	41,501	74,223	-	<b>115,724</b>
USD 30,000 thousand	33,895	67,790	135,581	<b>237,266</b>
USD 30,000 thousand	33,926	67,852	135,704	<b>237,482</b>
<i>Unsecured bonds:</i>				
UAH 90,000	691	-	-	<b>691</b>
	<b>438,611</b>	<b>830,330</b>	<b>1,042,161</b>	<b>2,311,102</b>

Effective interest rates on secured bank loans in USD range from LIBOR + 2.9% to LIBOR + 6.65% per annum. The weighted-average rate as of 31 December 2009 was 4.48% (2008: 12.57%).

Bonds totalling UAH 691 mature in 2010 and bear an effective interest rate of 13.6% per annum.

The outstanding loans as of 31 December 2009 and 2008 were secured by property, plant and equipment with a carrying value of UAH 2,442,413 and UAH 1,196,052, respectively (Note 16) and cash and cash equivalents with a carrying value of UAH 45,538 and UAH 21,359 respectively (Note 21).

As of 31 December 2009, the Group has UAH 390,467 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.

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**24. Payables and advances received**

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

	2009	2008
Advances received	469,150	46,532
Trade payables for inventories	170,764	104,249
Payables to related parties for inventories and securities (Note 28)	59,903	24,573
Wages	25,061	19,105
Interest payable	14,517	26,791
Payables for securities	2,595	502
Payables for taxes other than income tax	2,402	2,018
Payables for commission	710	17,935
Other	4,956	4,392
	<u>750,058</u>	<u>246,097</u>

Advances received of UAH 103,292 were returned in cash subsequent to 31 December 2009.

**25. Supplementary cash flow information**

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

	2009	2008
<b>Non-cash transactions</b>		
Investing activities:		
Capitalisation of borrowing costs (Note 16)	1,710	4,420
Capitalisation of foreign exchange loss treated as an adjustment to borrowing costs (Note 16)	-	12,415
Revaluation of land and buildings (Note 16)	-	1,318,101
Change in trade payables for property, plant and equipment	2,337	15,047
	<u>4,047</u>	<u>1,349,983</u>

**26. 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 2008	7.70	10.86
As of 31 December 2009	7.98	11.45
As of 28 May 2010	7.93	9.71

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

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functional currency. Current liabilities of the Group are mainly denominated in Ukrainian 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>2009</i>	<i>Increase/(decrease) in foreign currency rate</i>	<i>Effect on profit before tax</i>
Change in EUR exchange rate	+33%	249
Change in USD exchange rate	+31%	(715,296)
Change in RUR exchange rate	+34%	1,850
Change in EUR exchange rate	-33%	(249)
Change in USD exchange rate	-31%	715,296
Change in RUR exchange rate	-34%	(1,850)
<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

#### 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.

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

	<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>
<i>2009</i>					
Loans and borrowings, variable interest rate	107,489	331,122	1,698,817	173,674	2,311,102
Interest payable	39,739	70,586	226,092	29,892	366,309
Operating lease rentals payable	6,808	18,790	33,732	79,311	138,641
Payables	280,908	-	-	-	280,908
Other current liabilities	7,715	-	-	-	7,715
	<u>442,659</u>	<u>420,498</u>	<u>1,958,641</u>	<u>282,877</u>	<u>3,104,675</u>
<i>2008</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>

**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 2009 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.

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	<i>Increase/(decrease) in basis points</i>	<i>Effect on (loss)/profit before tax</i>
<i>2009</i>		
USD	+100	23,104
USD	-25	(5,776)
<i>2008</i>		
USD	+55	10,379
USD	-55	(10,379)

**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 2009 and 2008.

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>2009</u>	<u>2008</u>
Loans and borrowings	2,311,102	2,045,567
Less cash and cash equivalents	(168,397)	(75,057)
Net debt	<u>2,142,705</u>	<u>1,970,510</u>
Total capital	1,763,037	1,470,909
<b>Capital and net debt</b>	<b><u>3,905,742</u></b>	<b><u>3,441,419</u></b>
<i>Gearing ratio</i>	<i>45%</i>	<i>43%</i>

**27. 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.

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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.

**28. Related parties**

Related parties comprise associated companies of the Group, the shareholders of the Company, entities under common control and all other companies in which those shareholders have a controlling interest. The ultimate controlling party of the Group is Mr. Vitaliy Antonov.

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

	<i>Trade and other receivables</i>	<i>Prepayments and other currents assets</i>	<i>Payables and advances received</i>
2009			
Key management personnel	1,199	-	13,232
Entities under common control	4,928	88,568	45,960
Other related parties	337	-	711
<b>Total</b>	<b>6,464</b>	<b>88,568</b>	<b>59,903</b>
	<i>Trade and other receivables</i>	<i>Prepayments and other currents assets</i>	<i>Payables and advances received</i>
2008			
Parent	-	-	2,133
Key management personnel	432	-	7
Entities under common control	31,210	4,259	22,294
Other related parties	1,120	78	139
<b>Total</b>	<b>32,762</b>	<b>4,337</b>	<b>24,573</b>

The Group had the following transactions in 2009 with related parties:

	<i>Key management personnel</i>	<i>Entities under common control</i>	<i>Other related parties</i>	<i>Total</i>
Purchases of inventories and petroleum products	-	89,389	-	89,389
Rent services received	157	13,658	6,235	20,050
Insurance	-	2,790	-	2,790
Security services	-	4,698	-	4,698
Sales of petroleum products	-	13,547	487	14,034
Rent services provided	-	1,210	-	1,210

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The Group had the following transactions in 2008 with related parties:

	<i>Entities under common control</i>	<i>Other related parties</i>	<i>Total</i>
Purchases of inventories and petroleum products	184,272	-	184,272
Rent services received	199	158	357
Insurance	2,636	-	2,636
Security services	6,469	-	6,469
Professional services received	-	214	214
Transportation services received	-	664	664
Sales of petroleum products	13,219	516	13,735
Rent services provided	3,537	-	3,537

#### Transactions with management

The members of the Supervisory Board, executive directors (president and vice-presidents) and their close family members directly control 74% 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 2009 the amount of total remuneration paid to directors was UAH 20,607 (2008: UAH 9,297). Total remuneration, which includes salary and bonuses, was included in “General and administrative expenses”.

As of 31 December 2009, the Group has acted as guarantor for key management personnel under their loan agreements for the amount of UAH 3,543 (2008: UAH 4,345).

#### 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 2009, the Group has not recorded any impairment against receivables relating to amounts owed by related parties (2008: 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.

## 29. 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 2009, UAH 41,559 (2008: UAH 36,388) was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases.

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As of 31 December 2009 non-cancellable operating lease rentals are payable as follows:

Within one year	25,598
Between one and five years	33,732
More than five years	79,311
	<u>138,641</u>

Additionally, the Group has entered into commercial leases on certain items of equipment as a lessor. As of 31 December 2009 non-cancellable operating lease rentals are receivable as follows:

Within one year	7,851
Between one and five years	2,701
More than five years	-
	<u>10,552</u>

### 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.

The Group has identified possible tax contingencies, related to 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, which based on management best estimates are not required to be accrued. Such contingencies may materialize and require the Group to pay additional amount of taxes and other withholdings. As at 31 December 2009, management estimates such contingencies not to exceed UAH 329,639.

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

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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 2009, the Group provided to various third parties and related parties custody services for the storage of petroleum products. As of 31 December 2009, the Group’s outstanding custody commitment to third parties approximates UAH 26,976 (2008: UAH 29,764) and to related parties – nil (2008: UAH 47).

#### 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.

### 30. Significant subsidiaries

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

	Ownership 31 December 2009	Ownership 31 December 2008
Uzhgorodnaftoproduct – GNG PP	100%	100%
Subsidiary Company CRPP	100%	100%
Resurs-2 PP	100%	100%
CJSC Transport Communications	100%	100%
Odesaprominvest-GNG PP	100%	100%
Kirovogradnaftoinvest Ltd.	100%	100%
Zhytomyrnaftoinvest Ltd.	100%	100%
Naftaoil Ltd.	100%	100%
OJSC Vinnytsa ATP 10554	90.7%	90.7%
Avtotranscom PP	100%	100%
Tobi-GNG PP	100%	100%
Logotrading PP	100%	100%
Terrin Ltd.	100%	-
OKKO-Naftoproduct PP	100%	-
Lutsknaftoinvest PP	-	100%

### 31. Subsequent events

In 2010, State Anti-monopoly Committee of Ukraine has allowed the Company to acquire over 50% in the Krym-Lisprombud PP private enterprise in Sevastopol and Kreaton LLC in Donetsk. Both companies own and lease several land plots with the purpose of petrol stations construction. These acquisitions have been completed in April 2010.

In 2010 the Group expanded its network of petrol stations from 301 to 303 (out of which 280 are under the Group’s registered trademark “OKKO”).