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In accordance with Regulation 32 of the Overseas Companies Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law

✗ **What this form is NOT for**
You cannot use this form to r an alteration of manner of co with accounting requiremen

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A06 01/05/2014 #143
COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶	PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"
UK establishment number	B R 0 0 2 5 7 0

❶ This is the name of the company in its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation ❷	International Financial Reporting Standards

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☑ **Yes** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**

Name of organisation or body ❸	International Accounting Standards Board

❸ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☑ **Yes** Go to **Section A4**

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ **No** Go to **Part 3 'Signature'** ☑ **Yes** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**	❶ Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ❶	The International Auditing and Assurance Standards Board	

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☐ **No** ☑ **Yes**

Part 3 Signature

	I am signing this form on behalf of the overseas company
Signature	Signature X 8 04 2014 X Viacheslav Chumatov, Vice President Finance
	This form may be signed by Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name Viacheslav Chumakov

Company name PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

Address 4 Lysenko St

Post town Kyiv

County/Region

Postcode 0 1 0 3 4

Country Ukraine

DX

Telephone

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address

England and Wales
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www companieshouse gov uk or email enquiries@companieshouse gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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COMPANIES HOUSE

Closed Joint Stock Company
"Ukraine International Airlines"
Consolidated Financial Statements
Year ended 31 December 2009
Together with Independent Auditors' Report

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Палати України 3516

INDEPENDENT AUDITORS' REPORT

To the shareholders and the Board of Directors of Closed Joint Stock Company "Ukraine International Airlines"

We have audited the accompanying consolidated financial statements of Closed Joint Stock Company "Ukraine International Airlines" and its subsidiary (hereinafter together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

Auditor's 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

Basis for Qualified Opinion

1) As described in Note 2 4, the Group considers that its route rights have indefinite useful life The Group has amortised its route rights until 2004, the year until which amortisation was required by IAS 38 (1998), and has ceased further amortisation of its route rights after 2004 In our opinion these route rights should be amortised over the period for which exclusivity has been guaranteed. If amortised on a straight line basis over the period of guaranteed exclusivity, the carrying value of route rights as of 31 December 2009 would be reduced by the amount of additional accumulated amortisation of USD 25,921 thousand (2008 USD 23,490 thousand), the net profit for the year ended 31 December 2009 would be decreased by USD 2,431 thousand (2008 USD 2,432 thousand) and accumulated deficit as of 31 December 2009 would be increased by USD 25,921 thousand (2008 USD 23,490 thousand)

ERNST & YOUNG

2) As described in Note 23, the Group has included convertible preference shares of USD 5,400 thousand with non-discretionary dividends in equity and dividend distribution in the consolidated statement of changes in equity. In accordance with International Accounting Standard 32 "Financial Instruments Presentation" ("IAS 32"), these convertible preference shares should be accounted for as a compound financial instruments having both debt and equity components The dividends payable each year should be treated as a finance expense in the consolidated statement of comprehensive income. The impact of the departure from IAS 32 is overstating the net profit for 2009 by USD 388 thousand (2008: USD 391 thousand) and overstating net assets and equity by USD 3,500 thousand (2008. USD 3,500 thousand)

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Ernst & Young Audit Services LLC

9 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of US Dollars)

	Notes	2009	2008
Traffic revenue	3	263,933	351,258
Other revenue	3	19,235	19,777
Total revenue		283,168	371,035
Fuel costs		(69,847)	(133,350)
Handling charges and catering costs	4	(42,582)	(41,506)
Landing fees and route charges	5	(35,692)	(36,378)
Aircraft operating lease costs	6	(31,849)	(27,363)
Engineering and other aircraft costs	7	(30,559)	(35,079)
Employee costs	8	(31,143)	(34,226)
Selling costs	9	(16,580)	(22,123)
Depreciation and amortisation	14, 16	(3,775)	(3,375)
Other operating expenses	10	(14,391)	(15,675)
Total expenditures on operations		**(276,418)**	**(349,076)**
Operating profit		**6,750**	**21,960**
Loss on disposal of subsidiary		-	(37)
Foreign currency loss		(974)	(7,762)
Share of results of associates	18	-	(150)
Finance costs, net	11	(3,309)	(2,852)
Other non-operating expenses	12	(506)	(1,120)
Profit before income tax		**1,961**	**10,039**
Income tax expense	13	(637)	(3,815)
Profit for the year		**1,324**	**6,224**
Other comprehensive income			
Revaluation of buildings		-	1,797
Income tax effect		-	(449)
Total other comprehensive income, net of tax		-	**1,348**
Total comprehensive income for the year, net of tax		**1,324**	**7,572**
Profit attributable to			
Equity holders of the parent		1,319	6,311
Minority interests		5	(87)
		1,324	**6,224**
Total comprehensive income attributable to:			
Equity holders of the parent		1,319	7,659
Minority interests		5	(87)
		1,324	**7,572**

Signed and authorised for release on behalf of the Board of CJSC "Ukraine International Airlines"

Yuriy Miroshnikov _______________ / President

Karl Dandler Karl Dandle _______________ / Deputy President

9 April 2010

The accompanying notes on pages 5 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009
(Thousands of US Dollars)

	Notes	*2009*	*2008*
ASSETS			
Non-current assets			
Property and equipment	14	31,763	30,482
Route rights	15	25,921	25,921
Other intangible assets	16	512	224
Deferred tax asset	13	1,199	836
		59,395	**57,463**
Current assets			
Expendable spare parts and other inventory	19	6,091	6,030
Trade and other receivables	20	15,596	14,643
Prepayments and other current assets	21	20,709	19,397
Cash and cash equivalents	22	5,062	8,055
		47,458	**48,125**
TOTAL ASSETS		**106,853**	**105,588**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	23		
Share capital		54,400	54,400
Treasury shares	31	(3,250)	-
Revaluation reserve		1,638	1,638
Accumulated deficit		(12,996)	(13,750)
		39,792	**42,288**
Non-controlling interest		**20**	**15**
Total equity		**39,812**	**42,303**
Non-current liabilities			
Long-term borrowings	27	19,919	20,759
Provisions	24	5,643	4,521
		25,562	**25,280**
Current liabilities			
Short-term borrowings	27	1,840	1,708
Trade accounts payable and advances received	25	24,554	23,835
Air traffic liability		9,599	9,037
Other liabilities	26	4,005	2,701
Provisions	24	1,481	724
		41,479	**38,005**
Total liabilities		**67,041**	**63,285**
TOTAL EQUITY AND LIABILITIES		**106,853**	**105,588**

The accompanying notes on pages 5 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2009
(Thousands of US Dollars)

	Note	2009	2008
Operating activities			
Profit before income tax		1,961	10,039
Non-cash adjustments to reconcile profit before income tax to net cash flows:			
Depreciation and amortisation	14, 16	3,775	3,375
Movements in provisions	10, 24	2,659	626
Net foreign exchange gain		(974)	(1,393)
Non-recoverable VAT	12	387	554
Loss on disposal of property and equipment		71	566
Loss on disposal of rotable spare parts		902	2,269
Interest expense	11	2,961	2,690
Interest income	11	(64)	(263)
Share of net loss of associate	18	-	150
Loss on disposal of subsidiary		-	37
Working capital adjustments			
Increase in expendable spare parts and other inventory		(61)	(1,437)
Increase in trade and other receivables		(1,006)	(128)
Increase in prepayments and other current assets		(2,201)	(2,839)
Increase in trade accounts payable and advances received		1,298	5,743
Increase in air traffic liability		562	513
Increase in other liabilities		114	241
		10,384	20,743
Interest received		64	263
Income tax paid		(1,041)	(6,702)
Net cash flows from operating activities		9,407	14,304
Investing activities			
Purchase of rotable spare parts and improvements on leased assets		(4,449)	(5,238)
Purchase of property and equipment and other intangible assets		(1,868)	(3,738)
Net cash flows used in investing activities		(6,317)	(8,976)
Financing activities			
Net proceeds from / (repayment of) borrowings		(708)	565
Interest paid		(2,960)	(2,703)
Dividends paid on preference shares		(388)	(391)
Dividends paid on ordinary shares		(177)	-
Treasury shares purchase		(1,850)	-
(Placement) / withdrawal of restricted cash deposits		104	(272)
Net cash flows used in financing activities		(5,979)	(2,801)
Net increase / (decrease) in cash and cash equivalents		(2,889)	2,527
Cash and cash equivalents at 1 January	22	7,669	5,142
Cash and cash equivalents at 31 December	22	4,780	7,669

The accompanying notes on pages 5 to 30 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009
(Thousands of US Dollars)

	Attributable to equity holders of the parent					Non-	
	Share capital	*Treasury shares*	*Revaluation reserve*	*Accumulated deficit*	*Total*	*controlling interest*	*Total equity*
1 January 2008	**54,400**	**-**	**290**	**(19,670)**	**35,020**	**102**	**35,122**
Profit for the year	-	-	-	6,311	6,311	(87)	6,224
Other comprehensive income	-	-	1,348	-	1,348	-	1,348
Total comprehensive income	-	-	1,348	6,311	7,659	(87)	7,572
Dividends to equity holders of the parent (Note 23)	-	-	-	(391)	(391)	-	(391)
31 December 2008	**54,400**	**-**	**1,638**	**(13,750)**	**42,288**	**15**	**42,303**
Profit for the year	-		-	1,319	1,319	5	1,324
Shares purchase	-	(3,250)	-	-	(3,250)	-	(3,250)
Dividends to equity holders of the parent (Note 23)	-	-	-	(565)	(565)	-	(565)
31 December 2009	**54,400**	**(3,250)**	**1,638**	**(12,996)**	**39,792**	**20**	**39,812**

The accompanying notes on pages 5 to 30 are an integral part of these financial statements

(Thousands of US Dollars, unless otherwise indicated)

1. Corporate information

Closed Joint Stock Company "Ukraine International Airlines" (referred to herein as "Ukraine International Airlines" or the "Company") was incorporated in Ukraine on 29 October 1992

The principal activities of the Company consist of the provision of commercial passenger and cargo transportation services primarily between selected destinations in Western Europe, Asia and Ukraine and between cities of Ukraine

The consolidated financial statements include the financial statements of Closed Joint Stock Company "Ukraine International Airlines" and the subsidiary Limited Liability Company "COENT" (together referred to herein as the "Group")

As at 31 December the Company's principal subsidiaries and associate were as follows

Entity	*Country of incorporation*	*Activity*	*2009 share %*	*2008 share %*
Subsidiaries				
COENT LLC	Ukraine	Training and technology insertion services	70 0	70 0
Ukraine Aeroservice GmbH	Germany	General sales agent of the Company	-	52.0
Associate				
Swissport Ukraine LLC	Ukraine	Passengers handling services	29 4	29 4

In 2009 Ukraine Aeroservice GmbH was closed down and legally deleted from the company register.

The Company's registered office is located at 4 Lysenko St, Kyiv, 01034, Ukraine

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorized for issue by the Company's management on 9 April 2010

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for buildings that have been measured at fair value

The consolidated financial statements are presented in the United States dollars ("USD" or "US dollar") and all values are rounded to the nearest thousand except when otherwise indicated

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")

Basis of consolidation

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, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction

Losses are attributed to the non-controlling interest even if that results in a deficit balance

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009

- IFRS 2 *Share based Payment. Vesting Conditions and Cancellations* effective 1 January 2009
- IFRS 2 *Share-based Payment. Group Cash-settled Share-based Payment Transactions* effective 1 January 2010 (early adopted)
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 7 *Financial Instruments Disclosures* effective 1 January 2009
- IAS 1 *Presentation of Financial Statements* effective 1 January 2009
- IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009
- IAS 32 *Financial Instruments Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- IAS 39 *Financial Instruments. Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009 (early adopted)

2.2 Changes in accounting policies and disclosures (continued)

- 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 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009 (early adopted)
- IFRIC 18 *Transfers of Assets from Customers* effective 1 July 2009 (early adopted)
- Improvements to IFRSs (April 2009, early adopted)

When the adoption of the standard or interpretation is deemed to have an impact on the consolidated financial statements or performance of the Group, its impact is described below

IFRS 7 Financial Instruments Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The Group has no items recorded at fair value The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 30

IAS 1 Presentation of Financial Statements

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 in a reconciliation of each component of equity 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.

IAS 23 Borrowing Costs

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis

Improvements to IFRSs

In 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 resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group

- IAS 18 *Revenue* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent The features to consider are whether the entity:
  - has primary responsibility for providing the goods or service,
  - has inventory risk,
  - has discretion in establishing prices,
  - bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements The revenue recognition accounting policy has been updated accordingly

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group

- IFRS 2 *Share-based Payment*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segment Information*
- IAS 7 *Statement of Cash Flows*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*

2.2 Changes in accounting policies and disclosures (continued)

Improvements to IFRSs (continued)

- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*IAS 39 *Financial Instruments Recognition and Measurement*
- IAS 40 *Investment Properties*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's 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 could require a material adjustment to the carrying amount of the asset or liability affected in the future

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements

Route rights

As per the Company's charter the State Property Fund of Ukraine as one of the shareholders granted certain route rights to the Company which have a carrying amount of USD 25,921 thousand Management considers that these route rights have an indefinite life and therefore according to IAS 38 "Intangible Assets" they are not subject to regular amortisation.

Classification of lease agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as 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 that 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 finance lease, unless it is clearly demonstrated otherwise

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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

Deferred Tax Asset

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies

Allowance for doubtful accounts

The Group regularly reviews its trade and other receivables, prepayments made to suppliers and other receivables to assess impairment The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a contractor is in financial difficulties

Pension Obligations

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially More details are provided in Note 24

2.3 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations 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

Tax and other regulatory compliance risks

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

At the same time it 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 unfavourable outcome

Revenue recognition – miles for Frequent flyer programme

The Group estimates the fair value of miles awarded under the Frequent flyer programme by applying statistical techniques Inputs to the models include making assumptions about expected redemption rates and customer preferences As miles issued under the programme do not expire, such estimates are subject to significant uncertainty

2.4 Summary of significant accounting policies

Investment in an associate

The Group's investment in its associate is accounted for using the equity method 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 neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates

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 reporting date whether there is any objective evidence that the investment in the associate is impaired If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss

2.4. Summary of significant accounting policies (continued)

Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity The Group recognises its interest in the joint venture using the proportionate consolidation method The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements The financial statements of the joint venture are prepared for the same reporting period as the parent company Adjustments are made where necessary to bring the accounting policies in line with those of the Group

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture

Upon loss of joint cottrol and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss When the remaining investment constitutes significant influence, it is accounted for as investment in an associate

Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the reporting date Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined

The assets and liabilities of foreign operations are translated into US dollars at the exchange rate ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year The exchange differences arising on the translation are taken directly to a separate component of equity On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

All 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

The Group did not have any financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets during the years ended 31 December 2009 and 2008 The Group's financial assets include cash and bank balances and accounts receivable

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

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement The losses arising from impairment are recognised in the income statement in finance costs

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, less impairment Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs

Available-for-sale financial assets

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

Derecognition

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
- 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, the asset is recognised to the extent of the Group's continuing involvement in the asset

In that case, the Group also recognises an associated liability The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained

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

Impairment of financial assets

The Group assesses at each reporting 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

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss The interest income is recorded as part of finance income in the income statement Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account If a future write-off is later recovered, the recovery is credited to finance costs in the income statement

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting 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 "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original 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 income statement – is removed from other comprehensive income and recognised in the income statement Impairment losses on equity investments are not reversed through the income statement, increases in their fair value after impairment are recognised directly 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 However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss The interest income is recorded as part of finance 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 income statement, the impairment loss is reversed through the income statement

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

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 that are not designated as hedging instruments in hedge relationships as defined by IAS 39 Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments

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

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method ("EIR") amortisation process

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

Financial guarantee contracts

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

Derecognition

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

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

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 traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs

For financial instruments not traded in an active market, the fair value is determined using appropriate 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

Property and equipment

Property and equipment except for buildings is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met When significant parts of property and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied All other repair and maintenance costs are recognised in the income statement as incurred

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)

Buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The most recent valuation was performed by independent professionally qualified appraisers at 31 December 2008.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows

	Number of years
Buildings	20 years
Furniture and equipment	5 years
Motor vehicles	5 years
Rotable spare parts	16 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate

Route rights

Route rights are stated at cost which is equal to the value stipulated by the Company's charter documents, less accumulated amortisation until the year 2004 Since 2005 no further amortisation is calculated on these route rights Instead they are tested for impairment Until 2004 route rights were amortised on a straight-line basis over 40 years

Other intangible assets

Other intangible assets include computer software and licences Other intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses The useful lives of intangible assets are assessed to be either finite or indefinite Intangible assets with finite lives are amortised over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods of amortisation for intangible assets with finite useful lives are reviewed at least at each financial year-end

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred

Expendable spare parts and other inventory

Expendable spare parts and supplies relating to flight equipment are classified as current assets They are carried at acquisition cost and are expensed when used in operations using weighted average costing method. Expendable spare parts and other inventory are stated at lower of cost and net realisable value Cost of other inventory is determined on the weighted average basis Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the 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.

2.4 Summary of significant accounting policies (continued)

Leases (continued)

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

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) 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 groups of assets Where the carrying amount of an asset or CGU 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 assessments of the time value of money and the risks specific to the asset In determining fair value less costs to sell, an appropriate valuation model is used These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets

Equity

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium

Non-Controlling Interest

Non-controlling interest represents the interest in subsidiaries not held by the Group Non-controlling interest at the reporting date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination Non-controlling interest is presented within the shareholders' equity

Losses allocated to non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses All such losses are allocated to the Group

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue

2.4 Summary of significant accounting policies (continued)

Equity (continued)

Convertible preference shares

The convertible preference shares are recognised in equity in the statement of financial position The corresponding dividends on those shares are charged in equity

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments Any difference between the carrying amount and the consideration is recognised in other capital reserves

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets All other borrowing costs are expensed in the period they occur Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date Provisions are reassessed annually and changes in the provisions resulting from the passage of time are reflected in the income statement each year within non-operating income and expenses Other changes in provisions, related to a change in the expected pattern of settlement of the obligation or in the estimated amount of the obligation or changes in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of asset retirement obligations, reflected in the income statement Where the Group expects 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

Employee benefits

Post-employment benefit

The Group has agreed to provide certain additional post employment benefits to senior employees These benefits are unfunded The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan

State pension scheme

The Group makes statutory contributions to the Social Insurance, Pension and Unemployment Fund of Ukraine in respect of its employees The contributions are calculated as a percentage of current gross salary, and are expensed as incurred

Income tax

The current income tax charge is calculated in accordance with Ukrainian taxation regulations and is based on the taxable income and tax allowable expenses reported by the Group 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 reporting date The corporate income tax rate was 25% in 2009 and 2008

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

Deferred income tax liabilities are recognized for all taxable temporary differences except for those arising on 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

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilized - 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

The carrying amount of deferred income tax assets is reviewed at each reporting 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 utilized

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

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the value added tax ("VAT") incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables that are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent The Group has concluded that it is acting as a principal in all of its revenue arrangements The following specific recognition criteria must also be met before revenue is recognised

Rendering of services

Revenue is recognised in the period when the respective service is rendered

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability Interest income is included in finance income in the income statement

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

Rental income

Aircraft rentals revenue arising from operating leases on aircraft is accounted for on a straight line basis over the lease term

Air traffic liability

The air traffic liability balance represents the proceeds from tickets sold but not yet utilised This includes the liability for transportation to be provided by the Group (deferred revenue) as well as the liability for transportation that may be provided by other air carriers

2.4 Summary of significant accounting policies (continued)

Frequent flyer programme

The Group maintains a frequent flyer programme (the "Panorama programme") offering incentives to increase quantity of passengers' flights Customer loyalty credits (air miles) are accounted for as a separate component of the sales transaction in which they are granted A portion of the fair value of the consideration received is allocated to the award credits and deferred This is then recognised as revenue over the period that the award credits are redeemed

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable

(Thousands of US Dollars, unless otherwise indicated)

3. Revenues

Revenues comprise

	2009	2008
Traffic revenue:		
Passengers	166,650	225,547
Charters	86,790	117,499
Cargo and excess baggage	10,493	8,212
	263,933	351,258
Other revenue		
Technical service	10,975	8,545
Aircraft rentals	5,227	6,816
Revenue from commissions	1,419	1,778
Other	1,614	2,638
	19,235	19,777
Total revenue	283,168	371,035

4. Handling charges and catering costs

Handling charges and catering costs comprise:

	2009	2008
Aircraft handling	22,524	20,598
Catering	10,087	11,713
Passenger handling	5,639	5,933
Block seats costs	4,332	3,262
Total handling charges and catering costs	42,582	41,506

5. Landing fees and route charges

Landing fees and route charges comprise

	2009	2008
Navigation fees	25,470	26,418
Landing fees	10,222	9,960
Total landing fees and route charges	35,692	36,378

6. Aircraft operating lease costs

Aircraft operating lease costs comprise

	2009	2008
Aircrafts lease	31,368	26,167
Engines lease	481	1,196
Total aircraft operating lease costs	31,849	27,363

7. Engineering and other aircraft costs

Engineering and other aircraft costs comprise

	2009	2008
Aircraft maintenance charge	14,752	16,821
Repairs	13,690	15,552
Aircraft spare parts	2,117	2,706
Total engineering and other aircraft costs	30,559	35,079

According to aircraft lease agreements the Group bears "aircraft maintenance charge" which is calculated based on flight hours, expected time and amount of future maintenances of airframes, engines and landing gear. Aircraft maintenance charge comprises USD 13,621 thousand paid to lessors and USD 1,131 thousand accumulated as leased aircrafts maintenance provision (Note 24) Aircraft maintenance charges are used for heavy airframe and engine overhauls and paid by lessor or by the Group in the amount of charges transferred or provision accumulated

(Thousands of US Dollars, unless otherwise indicated)

8. Employee costs

Employee costs comprise

	2009	2008
Salaries and wages	25,625	27,470
Payroll taxes and social security cost	5,518	6,756
Total employee costs	**31,143**	**34,226**

9. Selling costs

Selling costs comprise

	2009	2008
Commissions	8,358	13,005
Booking and reservation expenses	6,223	7,155
Marketing and advertising	1,461	1,327
Maintenance of representative offices	538	636
Total selling costs	**16,580**	**22,123**

10. Other operating expenses

Other operating expenses comprise

	2009	2008
Crew and aircrafts maintenance personnel training	1,766	2,649
Crew and aircrafts maintenance personnel business trips	1,757	1,981
Insurance	1,494	1,086
IT support	957	336
Flight operations support	953	947
Bank charges	944	586
Consulting, legal and audit services	811	1,282
Allowance for impairment of trade receivables (Note 20)	780	157
Office maintenance and rent	710	1,038
Crew transportation	650	913
Cars maintenance and fuel	491	645
Communication	484	510
Uniform	405	425
Business trips	239	361
Other	1,950	2,759
Total other operating expenses	**14,391**	**15,675**

11. Finance costs, net

Net finance costs comprise

	2009	2008
Interest income	64	263
Interest expense	(2,961)	(2,690)
Other finance costs	(412)	(425)
Total net finance costs	**(3,309)**	**(2,852)**

12. Other non-operating expenses

Other non-operating expenses comprise

	2009	2008
Fines and penalties	119	213
Non-recoverable VAT	387	554
Other	-	353
Total other non-operating expenses	**506**	**1,120**

(Thousands of US Dollars, unless otherwise indicated)

13. Taxation

The corporate income tax expense comprises

Consolidated income statement

	2009	2008
Current income tax charge	1,000	4,015
Deferred tax – reversal of temporary differences	(363)	(200)
Total income tax expense	637	3,815

Consolidated statement of changes in equity

	2009	2008
Net gain on revaluation of buildings	-	(449)
Total income tax expense	-	(449)

In 2009 Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25% (2008 25%)

The effective income tax rate differs from the statutory income tax rates A reconciliation of the income tax expense based on statutory rates with actual is as follows

	2009	2008
Profit before income tax	1,961	10,039
Statutory tax rate	25%	25%
Theoretical income tax expense at the applicable statutory rate	490	2,510
Non-deductible expenses and other differences	147	1,305
Total income tax expense	637	3,815

Deferred tax assets and liabilities as of 31 December for the respective years comprise

	2009	2008
Tax effect of deductible temporary differences:		
Trade and other receivables	263	126
Accounts payable and accrued liabilities	-	72
Other liabilities	-	30
Air traffic liability	564	423
Provisions	1,545	1,311
Gross deferred tax asset	2,372	1,962
Tax effect of taxable temporary differences		
Property and equipment	(1,106)	(1,126)
Trade accounts payable and advances received	(67)	-
Gross deferred tax liability	(1,173)	(1,126)
Net deferred tax asset	1,199	836

(Thousands of US Dollars, unless otherwise indicated)

14. Property and equipment

The movements of property and equipment during 2009 were as follows

	Buildings	Aircraft	Leasehold improvements	Rotable spare parts	Motor vehicles	Furniture and other	Assets under construction	Total
Cost or valuation								
31 December 2008	8,935	16,786	3,695	11,072	347	2,011	31	42,877
Additions	72	-	753	4,449	29	592	-	5,895
Transfers	(656)	-	1,260	(1,251)	(8)	686	(31)	-
Disposals	-	-	(143)	(1,310)	-	(139)	-	(1,592)
31 December 2009	8,351	16,786	5,565	12,960	368	3,150	-	47,180
Accumulated depreciation								
31 December 2008	78	6,953	1,458	2,922	96	888	-	12,395
Charge for the year	397	1,192	1,183	469	66	334	-	3,641
Transfers	-	-	(141)	145	-	(4)	-	-
Disposals	(41)	-	(143)	(408)	-	(27)	-	(619)
31 December 2009	434	8,145	2,357	3,128	162	1,191	-	15,417
Net book value								
31 December 2008	8,857	9,833	2,237	8,150	251	1,123	31	30,482
31 December 2009	7,917	8,641	3,208	9,832	206	1,959	-	31,763

The movements of property and equipment during 2008 were as follows

	Buildings	Aircraft	Leasehold improvements	Rotable spare parts	Motor vehicles	Furniture and other	Assets under construction	Total
Cost or valuation								
31 December 2007	6,603	16,786	2,169	10,012	320	1,848	2	37,740
Additions	80	-	1,040	5,238	171	310	2,080	8,919
Transfers	1,051	-	567	-	-	293	(1,911)	-
Disposals	-	-	(81)	(4,178)	(144)	(440)	(140)	(4,983)
Revaluation	1,201	-	-	-	-	-	-	1,201
31 December 2008	8,935	16,786	3,695	11,072	347	2,011	31	42,877
Accumulated depreciation								
31 December 2007	372	5,761	1,036	3,046	124	770	-	11,109
Charge for the year	302	1,192	422	983	61	268	-	3,228
Disposals	-	-	-	(1,107)	(89)	(150)	-	(1,346)
Revaluation	(596)	-	-	-	-	-	-	(596)
31 December 2008	78	6,953	1,458	2,922	96	888	-	12,395
Net book value								
31 December 2007	6,231	11,025	1,133	6,966	196	1,078	2	26,631
31 December 2008	8,857	9,833	2,237	8,150	251	1,123	31	30,482

Rotable spare parts and office premises have been pledged as security for bank loans, as described in Note 27

Furniture and equipment items with total cost of USD 649 thousand (2008 373 thousand) were fully depreciated and still in use as of 31 December 2009

The carrying value of property and equipment held under finance lease contract at 31 December 2009 was USD 8,641 thousand (2008 USD 9,833 thousand)

The Group measures its buildings at revalued cost Fair value is determined by reference to market based evidence This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property The date of the last revaluation was 31 December 2008

15. Route rights

Route rights represent the major part of the contribution to the share capital by the State Property Fund of Ukraine ("SPFU") The route rights are stated at USD 25,921 thousand An impairment test carried by independent appraiser confirmed that as of 31 December 2009 there is no impairment of the value of route rights

(Thousands of US Dollars, unless otherwise indicated)

16. Other intangible assets

The movements of other intangible assets during 2009 were as follows

	Software and licenses
Cost	
31 December 2008	613
Additions	422
Disposals	-
31 December 2009	1,035
Accumulated amortization:	
31 December 2008	389
Charge for the year	134
Disposals	-
31 December 2009	523
Net book value:	
31 December 2008	224
31 December 2009	512

The movements of other intangible assets during 2008 were as follows

	Software and licenses
Cost:	
31 December 2007	556
Additions	57
Disposals	-
31 December 2008	613
Accumulated amortisation:	
31 December 2007	242
Charge for the year	147
Disposals	-
31 December 2008	389
Net book value	
31 December 2007	314
31 December 2008	224

17. Interest in a joint venture

The Group has a 50% interest (till 30 June 2009 82%) in Joint Activity CJSC "Ukraine International Airlines" and State International Airport "Boryspil", a jointly controlled entity which is involved in technical maintenance services

The Group's share of the assets and liabilities as at 31 December 2009 and 2008 and income and expenses of the jointly controlled entity for the years ended 31 December 2009 and 2008, which are proportionally consolidated in the consolidated financial statements, are as follows

	2009	2008
Share of the joint venture's statement of financial position		
Non-current assets	194	256
Current assets	297	144
Non-current liabilities	-	-
Current liabilities	(340)	(53)
Equity	151	347
Share of the joint venture's revenue and profit:		
Revenue	2,044	2,375
Expenses	(1,698)	(2,246)
Profit before income tax	346	129
Income tax expense	(88)	(87)
Profit for the year	258	42

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2009 and 2008

(Thousands of US Dollars, unless otherwise indicated)

18. Investments in associates

The Group's principal associate is listed in Note 1 The movements in investment in associate were as follows

	2009	*2008*
Balance at 1 January	-	150
Decrease in associate's equity	-	(150)
Balance at 31 December	-	-

The following tables illustrate summarised financial information of the Group's investment in associate

	At 31 December 2009	*At 31 December 2008*
Aggregated assets and liabilities of associate		
Non-current assets	3,458	5,793
Current assets	2,685	1,275
Non-current liabilities	(2,120)	(6,682)
Current liabilities	(4,385)	(726)
Net assets	(362)	(340)
Share in net assets (29 4%)	(106)	(100)
Unrecognized share of losses	106	100
Carrying amount of the investment (29 4%)	-	-

	For period ended 31 December 2009	*For period ended 31 December 2008*
Aggregated revenue and profit of associate		
Revenue	10,671	4,524
Net loss for the period	(20)	(850)
Share in net loss (29 4%)	(6)	(250)
Unrecognized share of losses	6	100
The Group's share in net profit/(loss) of associate (29 4%)	-	(150)

19. Expendable spare parts and other inventory

Expendable spare parts and other inventory comprise

	2009	*2008*
Expendable spare parts	3,462	3,255
Other inventory	2,629	2,775
Total expendable spare parts and other inventory	6,091	6,030

20. Trade and other receivables

Trade and other receivables comprise

	2009	*2008*
Trade receivables	16,574	14,843
Other receivables	305	303
	16,879	15,146
Less Provision for impairment	(1,283)	(503)
Total trade and other receivables	15,596	14,643

Movements in provision for impairment of trade accounts receivable were as follows

	2009	*2008*
At 1 January	503	346
Charge	780	157
At 31 December	1,283	503

20. Trade and other receivables (continued)

As at 31 December, the ageing analysis of trade and other receivables is as follows

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2009	15,596	14,031	15	74	8	7	1,461
2008	14,643	12,503	16	332	533	298	961

21. Prepayments and other current assets

Prepayments and other current assets comprise

	2009	2008
VAT recoverable	7,878	7,949
Aircraft lease prepayments	5,586	3,064
Income tax prepaid	1,352	1,282
Other prepayments	5,893	7,102
Total prepayments and other current assets	**20,709**	**19,397**

22. Cash and cash equivalents

Cash and cash equivalents comprise

	2009	2008
Cash in hand and balances with banks in Ukrainian hryvnya	1,142	3,350
Cash in hand and balances with banks in foreign currency	3,920	4,705
Total cash and cash equivalents	**5,062**	**8,055**

Cash at banks earns interest at floating rates based on daily bank deposit rates As at 31 December 2009, included in cash in hand and balances with banks in foreign currency are guarantee deposits in the amount of USD 282 thousands (2008 USD 386 thousand) pledged as security under letter of credit agreements signed with Citibank and First Ukrainian International Bank

Cash and cash equivalents for the purposes of cash flow statement are as follows

	2009	2008
Total cash and cash equivalents	5,062	8,055
Less Restricted cash balances	(282)	(386)
Cash and cash equivalents for the purpose of cash flow statement	**4,780**	**7,669**

23. Equity

Share Capital

As of 31 December 2009, the Group's shareholders and their respective declared interests were as follows

	Type of shares	Nominal value USD 000	Number of shares	Interest
State Property Fund of Ukraine	Ordinary	33,500	335,000	61 58%
ULA Beteiligungsgesellschaft GmbH	Ordinary	12,250	122,500	22 52%
Treasury shares	Ordinary	3,250	32,500	5 97%
European Bank for Reconstruction and Development ("EBRD")	Preference	5,400	54,000	9 93%
Total		**54,400**	**544,000**	**100 00%**

As of 31 December 2008, the Group's shareholders and their respective declared interests were as follows

	Type of shares	Nominal value USD 000	Number of shares	Interest
State Property Fund of Ukraine	Ordinary	33,500	335,000	61 58%
ULA Beteiligungsgesellschaft GmbH	Ordinary	12,250	122,500	22 52%
AerCap B V	Ordinary	3,250	32,500	5 97%
European Bank for Reconstruction and Development	Preference	5,400	54,000	9 93%
Total		**54,400**	**544,000**	**100 00%**

(Thousands of US Dollars, unless otherwise indicated)

23. Equity (continued)

The number of authorised ordinary and preference shares are 490,000 (2008· 490,000) and 54,000 (2008 54,000) respectively, both with nominal value of USD 100 per share All authorised shares have been issued and fully paid

In accordance with Ukrainian legislation, the Company can distribute all statutory profits as dividends or transfer them to reserves as specified in the Company's charter The subsequent use of amounts transferred to reserves may be legally restricted, amounts transferred to reserves typically must be used for the purpose designated when the transfer is made Dividends are normally only declared from current earnings as shown in the Ukrainian statutory financial statements, not out of amounts previously transferred to reserves. The retained earnings presented in these consolidated financial statements include adjustments, not recorded in the Company's and its subsidiaries' statutory books, which are appropriate to present the financial position, results of operations, and cash flows of the Company and its subsidiaries in accordance with International Financial Reporting Standards and does not indicate the amount of distributable reserves available to shareholders

Preference shares guarantee annual dividends of not less then 7 2% of their nominal amount In 2009 dividends paid to the EBRD amounted to USD 388 thousand (2008 USD 391 thousand) representing the interest rate of 7 2% (2008 7 2%)

In accordance with the subscription agreement, the EBRD has the right to convert its preference shares into ordinary shares at any point in time In addition, Austrian Airlines and the EBRD have also signed a PUT/CALL agreement for these shares which allows conversion of preference shares into ordinary shares Any EBRD preference share which is transferred will be converted into one ordinary share

In August 2009 the Group redeemed 32,500 of its ordinary shares (5 97% of share capital) in the amount of USD 3,250 thousand (USD 100 per share) from AerCap B V The purpose of the redemption is further resale of shares.

Earnings distribution

Dividends that were declared and paid by the Group to its shareholders as its earnings distribution are as follows.

	2009	*2008*
Dividends declared on preference shares (for 2008 and 2009 USD 7 21 per share)	388	391
Dividends declared on ordinary shares (for 2008 USD 0 38 per share)	177	-
Dividends paid	(565)	(391)
Payables on dividends as at 31 December	-	-

24. Provisions

During 2009 movements in provisions were as follows

	Leased aircrafts maintenance provision	*Retirement benefit obligation*	*Unused vacations provision*	*Total*
Balance at 31 December 2008	4,099	422	724	5,245
Additional provision	1,131	71	1,271	2,473
Amounts used	-	(80)	(514)	(594)
Balance at 31 December 2009	5,230	413	1,481	7,124

(Thousands of US Dollars, unless otherwise indicated)

24. Provisions (continued)

Retirement benefit obligation

The Group has agreed to provide post-employment benefits to its certain senior employees These benefits are unfunded

The amounts of post-employment benefit obligations recognised in the statement of financial position are determined as follows

	2009	*2008*
Present value of unfunded post-employment benefit obligations	413	422
Unrecognised past service cost	-	-
	413	422

The amounts of post-employment benefit obligations recognised in the income statement are as follows

	2009	*2008*
Current service cost	47	62
Interest cost	68	40
Actuarial (gain)/loss	(44)	10
	71	112

Movement in the liability recognised in the statement of financial position

	2009	*2008*
At 1 January	422	329
Total expenses as shown above	71	112
Paid benefits	(80)	(19)
At 31 December	413	422

The principal assumptions used in determining benefit obligations for the Group's plan are shown below

	2009	*2008*
Discount rate	16 0%	12 0%
Future salary increases	10 0%	10 0%
Employment continuance rate	90 1%	90 5%

25. Trade accounts payable and advances received

Trade accounts payable and advances received comprise

	2009	*2008*
Trade accounts payable	19,014	19,197
Advances received	5,540	4,638
Total trade accounts payable and advances received	24,554	23,835

Terms and conditions of the financial liabilities

- Trade payables are non-interest bearing and are normally settled on 90-day terms

- Advances received are non-interest bearing and are normally settled on 60-day terms

26. Other liabilities

Other liabilities comprise

	2009	*2008*
Liability on shares buy-back	1,400	-
Payables to personnel on salaries and wages	938	1,115
Taxes, other than income tax, payable	297	305
Income tax payable	29	-
Accrued bonuses	-	121
Other liabilities	1,341	1,160
Total other liabilities	4,005	2,701

(Thousands of US Dollars, unless otherwise indicated)

27 Borrowings

	Currency	Effective interest rate	Maturity	2009	2008
Short-term borrowings					
Finance lease	USD	13 1%	2010	1,086	954
USD 1,509,000 bank loan (2008. 2,263,000)	USD	10 5%	Oct 2010	754	754
				1,840	1,708
Long-term borrowings					
Finance lease	USD	13.1%	Mar 2017	11,164	12,250
USD 8,000,000 bank loan (2008 7,000,000)	USD	14 2%	Sep 2011	8,000	7,000
USD 1,509,000 bank loan (2008 2,263,000)	USD	10 5%	Oct. 2011	755	1,509
				19,919	20,759

As at 31 December 2009 USD 8,000 thousand loan (2008 USD 7,000 thousand) is guaranteed by collateral of rotable spare parts to Boeing aircrafts with carrying amount of USD 4,307 thousand (2008 USD 4,447 thousand) and future revenue from tickets sold by certain agents for the total estimated amount of USD 80,960 thousand (2008 USD 24,671 thousand)

As at 31 December 2009 USD 1,509 thousand loan (2008 USD 2,263 thousand) is guaranteed by collateral of property rights for the Company's office premises As at 31 December 2009, carrying value of these office premises amounts to USD 5,452 thousand (2008 USD 5,794 thousand)

As at 31 December 2009 the Group had available USD 649 thousand (2008 USD 1,649 thousand) of undrawn borrowing facilities

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures All the borrowings bear fixed interest rate

28. Contingencies, commitments and operating risks

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

Litigations

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

Tax and legal matters

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of local, regional and national authorities, and other Governmental bodies Instances of inconsistent opinions of different authorities are not unusual Management believes that the Group has complied with all regulations and paid or accrued all taxes that are applicable Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate

(Thousands of US Dollars, unless otherwise indicated)

28. Contingencies, commitments and operating risks (continued)

Insurance

The Group has obtained insurance coverage relating to the risks in connection with the exploitation of aircrafts through a Ukrainian insurance provider, which is reinsured with an international insurance company

Operating lease commitments

Future minimum lease payments required under non-cancellable operating leases as at 31 December are as follows·

	2009	*2008*
Within one year	43,344	31,462
After one year but not more than five years	142,700	141,439
More than five years	90,405	125,368
	276,449	298,269

Finance lease commitments

Future minimum lease payments under finance lease contract together with the present value of the net minimum lease payments are as follows

		2009		*2008*
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	2,622	1,086	2,622	954
After one year but not more than five years	10,487	6,076	10,487	5,336
More than five years	5,899	5,088	8,521	6,914
Total minimum lease payments	19,008		21,630	
Less amounts representing finance charges	(6,758)		(8,426)	
Present value of minimum lease payments	12,250	12,250	13,204	13,204

Guarantees

The Group guaranteed 30% of the liability under leasing agreements of Swissport Ukraine LLC, associate to a maximum amount of EUR 1,800 thousand, which is incurred jointly with other investor of the associate

Fuel price change risk

The Group's operation results may be significantly affected by changes in fuel price which is one of the Group's major expense items The Group manages this risk through introduction of additional fuel fee, which has impact on the increase in traffic revenue

29. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Sales to related parties	*Purchases from related parties*	*Amounts owed by related parties*	*Amounts owed to related parties*
Entity with significant influence over the Group					
Austrian Airlines (shareholder of ULA Beteiligungsgesellschaft GmbH)	2009	486	9,581	386	1,308
	2008	761	15,077	329	1,020
Associate					
Swissport Ukraine LLC	2009	394	5,765	511	617
	2008	788	2,021	619	496

(Thousands of US Dollars, unless otherwise indicated)

29. Related party transactions (continued)

Compensation of key management personnel of the Group

Compensation of key management personnel was comprised of the following

	2009	2008
Salaries and other short-term benefits	1,375	1,750
Social security costs	114	149
Total compensation paid to key management personnel	**1,489**	**1,899**

Key management personnel consisted of 18 persons in 2009 year (2008 18 persons)

30. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash and cash equivalents and short-term deposits The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the reporting date

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments

The Group has not entered into any material derivative transactions The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk, credit risk and capital risk The management reviews and agrees policies for managing each of these risks and they are summarised below

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar, play a significant role in the underlying economics of the business transactions of the Group As at 31 December 2009, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7 985 to the US dollar (31 December 2008 7 7) Ukrainian hryvnia denominated short and long term borrowings, trade receivables and payables give rise to foreign exchange exposure The Group has not entered into transactions designed to hedge against these foreign currency risks

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature, translation-related risks are not taken into consideration Relevant risk variables are generally non-functional currencies in which the Group has financial instruments. 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 profit before tax

For the year ended 31 December 2009	*Increase/ (decrease) in basis points*	*Effect on profit before tax*
Change in UAH exchange rate	31 3%	(1,141)
Change in EUR exchange rate	12.3%	(180)
Change in GBP exchange rate	13 9%	49
Change in UAH exchange rate	(31 3%)	1,141
Change in EUR exchange rate	(12 3%)	180
Change in GBP exchange rate	(13 9%)	(49)
For the year ended 31 December 2008	*Increase/ (decrease) in basis points*	*Effect on profit before tax*
Change in UAH exchange rate	30 1%	(1,003)
Change in EUR exchange rate	14 3%	(171)
Change in GBP exchange rate	14 6%	11
Change in UAH exchange rate	(30 1%)	1,003
Change in EUR exchange rate	(14 3%)	171
Change in GBP exchange rate	(14 6%)	(11)

(Thousands of US Dollars, unless otherwise indicated)

30. Financial risk management objectives and policies (continued)

Liquidity risk

The Group's liquidity objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and bank loans and borrowings

The Group analyzes the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted payments

For the year ended 31 December 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	253	1,587	19,919	21,759
Other payables	3,605	-	103	3,708
Trade and other accounts payables	18,825	12	177	19,014

For the year ended 31 December 2008	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	239	1,469	20,759	22,467
Other payables	2,293	-	103	2,396
Trade and other accounts payables	16,806	64	2,327	19,197

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of cash and cash equivalents, trade and other receivables

The Group maintains cash and cash equivalents with various financial institutions The Group's policy is designed to limit exposure to any one institution. Management performs periodic evaluations of the credit standing of those financial institutions. The maximum exposure to credit risk associated with cash and cash equivalents is equal to the carrying amount of these instruments

Concentrations of credit risk with respect to accounts receivable from agents is limited due to the large number of agents

The Group's credit risk exposure is monitored and analyzed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets

Capital risk management

The Group considers debt and shareholders' equity as primary capital sources The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and Group's development strategy The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to Group's access to capital markets

	2009	*2008*
Long-term borrowings	19,919	20,759
Short-term borrowings	1,840	1,708
Cash and cash equivalents	(5,062)	(8,055)
Net debt	16,697	14,412
Convertible preference shares	5,400	5,400
Total equity	34,412	36,903
Total capital	39,812	42,303
Capital and net debt	56,509	56,715
Gearing ratio	29 5%	25 4%

Management monitors on a regular basis Group's capital structure and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy.

31 Events after the reporting period

In March 2010 the Company sold 32,500 of its ordinary shares (5 97% of share capital), presented as treasury shares in these consolidated financial statements