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**OS AA01**

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

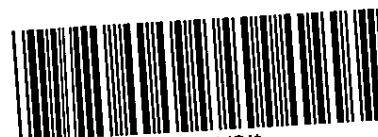


Companies House

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

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an alteration of manner c  
with accounting requirer

THURSDAY



A06 \*A36Y1VQI\* #142  
01/05/2014  
COMPANIES HOUSE

**Part 1 Corporate company name**

Corporate name of  
overseas company <sup>①</sup>

PRIVATE JOINT STOCK COMPANY

"UKRAINE INTERNATIONAL AIRLINES"

UK establishment  
number

B R 0 0 2 5 7 0

→ **Filling in this form**

Please complete in typescript or in  
bold black capitals

All fields are mandatory unless  
specified or indicated by \*

<sup>①</sup> 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 <sup>②</sup>

International Financial Reporting Standards

<sup>②</sup> 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 <sup>③</sup>

International Accounting Standards Board

<sup>③</sup> 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**

**OS AA01**

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

**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 Chumakov, 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



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#### England and Wales

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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



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For further information, please see the guidance notes on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or email [enquiries@companieshouse.gov.uk](mailto: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](http://www.companieshouse.gov.uk)

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FC 018106

**PRIVATE JOINT STOCK COMPANY  
"UKRAINE INTERNATIONAL  
AIRLINES"**

**Consolidated Financial Statements**  
Year Ended 31 December 2010

SA\* THURSDAY

	*A36Y1VRN*	
A06	01/05/2014	#147
	COMPANIES HOUSE	
	*A346DHOI*	
A08	22/03/2014	#49
	COMPANIES HOUSE	

# **PRIVATE JOINT STOCK COMPANY “UKRAINE INTERNATIONAL AIRLINES”**

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## PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

---

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Private Joint Stock Company "Ukraine International Airlines" and its subsidiaries (collectively, the "Group") as of 31 December 2010, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS")

In preparing the consolidated financial statements, management is responsible for

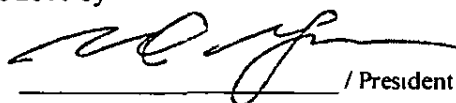
- Properly selecting and applying accounting policies,
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance,
- Making an assessment of the Group's ability to continue as a going concern

Management is also responsible for

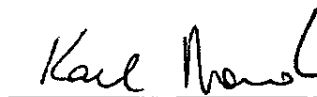
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group,
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS,
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in Ukraine,
- Taking such steps as are reasonably available to them to safeguard the assets of the Group, and
- Preventing and detecting fraud and other irregularities

The consolidated financial statements for the year ended 31 December 2010 were approved on behalf of the Group's management on 22 June 2011 by

Yuriy Miroshnikov

 / President

Karl Dandler

 Deputy President

Vladimir Bogatsky

 / Vice President Finance

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Private Joint Stock Company "Ukraine International Airlines" and its subsidiaries (collectively – the "Group") which comprise the consolidated statement of financial position as of 31 December 2010, and the consolidated statement of comprehensive income/(loss), statement of changes in owners' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

### **Basis for qualified opinion**

As described in Note 16, the Group considers that its route rights have indefinite useful life. The Group has amortized its route rights until 2004, the year until which amortization was required by IAS 38 "Intangible Assets", and has ceased further amortization of its route rights after 2004. In our opinion these route rights should be amortized over the period for which exclusivity has been guaranteed. If amortized over straight line basis over the period of guaranteed exclusivity, the carrying value of the route rights as of 31 December 2010 would be reduced by the amount of additional accumulated amortization of USD 25,921 thousand (2009: USD 25,921 thousand), the net profit for the year ended 31 December 2010 would be decreased by nil (2009: 2,431 thousand) and accumulated deficit as of 31 December 2010 would be increased by USD 25,921 thousand (2009: USD 25,921 thousand).

As described in Note 24, 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 instrument having both debt and equity components before the terms of the instruments were significantly amended in 2010 (Note 24). The dividends payable each year should be treated as a finance expense in the consolidated statement of comprehensive income/(loss). The impact of the departure from IAS 32 is overstating the net profit for 2010 by USD 389 thousand (2009: USD 388 thousand) and overstating net assets and equity by zero as of 31 December 2010 (2009: 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 consolidated financial position of the Group as of 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Other matters**

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by other auditors, whose report dated 9 April 2010 expressed a qualified opinion on those statements in respect of non-amortization of route rights and misclassification of convertible preference shares with non-discretionary dividends.

*Deloitte & Touche*

22 June 2011 ;



# PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

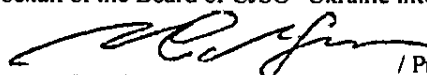
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of US Dollars)


	Notes	2010	2009
Traffic revenue	4	297,899	263,933
Other revenue	4	8,220	19,235
<b>Total revenue</b>		<b>306,119</b>	<b>283,168</b>
Fuel costs		(95,428)	(69,847)
Handling charges and catering costs	5	(46,376)	(42,582)
Aircraft operating lease costs	6	(42,872)	(31,849)
Landing fees and route charges	7	(40,847)	(35,692)
Employee costs	8	(34,597)	(31,143)
Maintenance and other aircraft costs	9	(30,987)	(30,559)
Selling costs	10	(19,470)	(16,580)
Depreciation and amortization	15, 17	(3,730)	(3,775)
Other operating expenses	11	(13,820)	(14,391)
<b>Total expenditures on operations</b>		<b>(328,127)</b>	<b>(276,418)</b>
<b>Operating (loss)/profit</b>		<b>(22,008)</b>	<b>6,750</b>
Finance costs, net	12	(3,712)	(3,309)
Foreign currency loss		(485)	(974)
Share of results of associates	19	-	-
Other non-operating expenses	13	(1,073)	(506)
<b>(Loss)/profit before income tax</b>		<b>(27,278)</b>	<b>1,961</b>
Income tax benefit/(expense)	14	3,341	(637)
<b>(Loss)/profit for the year</b>		<b>(23,937)</b>	<b>1,324</b>
<b>Other comprehensive income</b>			
Revaluation of buildings	15	783	-
Income tax effect	14	(131)	-
<b>Total other comprehensive income</b>		<b>652</b>	<b>-</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(23,285)</b>	<b>1,324</b>
<b>(Loss)/profit attributable to:</b>			
Equity holders of the parent		(23,939)	1,319
Minority interests		2	5
		<b>(23,937)</b>	<b>1,324</b>
<b>Total comprehensive (loss)/income attributable to:</b>			
Equity holders of the parent		(23,287)	1,319
Minority interests		2	5
		<b>(23,285)</b>	<b>1,324</b>

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

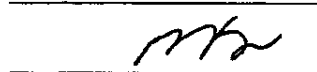
Yuriy Miroshnikov

 / President

Karl Dandler

 / Deputy President

Vladimir Bogatsky

 / Vice President Finance

The Notes on pages 9-46 form an integral part of these financial statements

22 June 2011

# PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of US Dollars)

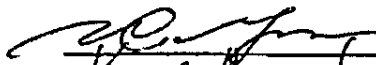
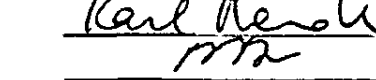

	Notes	31 December 2010	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	15	30,129	31,763
Route rights	16	25,921	25,921
Other intangible assets	17	548	512
Deferred tax asset	14	4,435	1,199
		<u>61,033</u>	<u>59,395</u>
<b>Current assets</b>			
Expendable spare parts and other inventory	20	7,053	6,091
Trade and other receivables	21	16,128	15,596
Prepayments and other current assets	22	21,821	20,709
Cash and cash equivalents	23	2,059	5,062
		<u>47,061</u>	<u>47,458</u>
<b>TOTAL ASSETS</b>		<u>108,094</u>	<u>106,853</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	24	54,400	54,400
Treasury shares	24	-	(3,250)
Revaluation reserve		2,290	1,638
Accumulated deficit		(37,226)	(12,996)
		<u>19,464</u>	<u>39,792</u>
<b>Non-controlling interest</b>		<u>22</u>	<u>20</u>
<b>Total equity</b>		<u>19,486</u>	<u>39,812</u>
<b>Non-current liabilities</b>			
Long-term borrowings	29	9,927	19,919
Provisions	25	5,335	4,785
Aircraft maintenance liabilities	26	3,381	858
		<u>18,643</u>	<u>25,562</u>
<b>Current liabilities</b>			
Short-term borrowings	29	17,960	1,840
Trade accounts payable and advances received	27	36,423	24,554
Air traffic liability		11,096	9,599
Provisions	25	1,506	1,481
Other liabilities	28	2,980	4,005
		<u>69,965</u>	<u>41,479</u>
<b>Total liabilities</b>		<u>88,608</u>	<u>67,041</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>108,094</u>	<u>106,853</u>

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

Yuriy Miroshnikov

Karl Dandler

Vladimir Bogatsky

 / President  
 / Deputy President  
 / Vice President Finance

The Notes on pages 9-46 form an integral part of these financial statements

22 June 2011

# PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of US Dollars)

	Notes	2010	2009
<b>Operating activities</b>			
(Loss)/profit before income tax		(27,278)	1,961
Non-cash adjustments to reconcile profit before income tax to net cash flows.			
Depreciation and amortization	15, 17	3,730	3,775
Movements in provisions	11, 25	(253)	2,659
Net foreign exchange gain		-	(974)
Non-recoverable VAT	13	586	387
Loss on disposal of property and equipment		15	71
Loss on disposal of rotatable spare parts		1,241	902
Interest expense	12	3,241	2,961
Interest income	12	(46)	(64)
<b>Working capital adjustments</b>			
Increase in expendable spare parts and other inventory		(962)	(61)
Increase in trade and other receivables		(562)	(1,006)
Increase in prepayments and other current assets		(1,831)	(2,201)
Increase in trade accounts payable and advances received		13,291	1,298
Increase in air traffic liability		1,497	562
Increase in other liabilities		6,690	114
		<u>(641)</u>	<u>10,384</u>
Interest received		46	64
Income tax paid		<u>(2,315)</u>	<u>(1,041)</u>
<b>Net cash flows (used in)/provided by operating activities</b>		<u>(2,910)</u>	<u>9,407</u>
<b>Investing activities</b>			
Purchase of rotatable spare parts and improvements on leased assets		(1,642)	(4,449)
Purchase of property and equipment and other intangible assets		<u>(963)</u>	<u>(1,868)</u>
<b>Net cash flows used in investing activities</b>		<u>(2,605)</u>	<u>(6,317)</u>
<b>Financing activities</b>			
Net proceeds from/(repayment of) borrowings		2,914	(708)
Interest paid		(3,014)	(2,960)
Dividends paid on preference shares		(389)	(388)
Dividends paid on ordinary shares		(138)	(177)
Purchase of treasury shares		(1,400)	(1,850)
Resale of treasury shares		3,486	-
Withdrawal of restricted cash deposits		-	104
<b>Net cash flows provided by/(used in) financing activities</b>		<u>1,459</u>	<u>(5,979)</u>
Net decrease in cash and cash equivalents		(4,056)	(2,889)
Cash and cash equivalents at 1 January	23	<u>4,780</u>	<u>7,669</u>
<b>Cash and cash equivalents at 31 December</b>	<b>23, 29</b>	<u><b>724</b></u>	<u><b>4,780</b></u>

**PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"**

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2010**

*(thousands of US Dollars)*

Cash and cash equivalents as of 31 December comprise

	Notes	2010	2009
Cash and cash equivalents		2,059	5,062
Restricted cash balances (Note 23)		-	(282)
Bank overdraft (Note 29)		(1,335)	-
<b>Total</b>		<b>724</b>	<b>4,780</b>


During the year ended 31 December 2010 the Group set off corporate income tax prepayment with personal income tax payable in the amount of USD 2,959 thousand

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

Yuriy Miroshnikov

 / President

Karl Dandler

 / Deputy President

Vladimir Bogatsky

 / Vice President Finance

The Notes on pages 9-46 form an integral part of these financial statements

22 June 2011

# PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of US Dollars)


	Attributable to equity holders of the parent				Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Revaluation reserve	Accumulated deficit			
1 January 2009	54,400	-	1,638	(13,750)	42,288	15	42,303
Profit for the year and other comprehensive income	-	-	-	1,319	1,319	5	1,324
Shares purchase	-	(3,250)	-	-	(3,250)	-	(3,250)
Dividends to equity holders of the parent (Note 24)	-	-	-	(565)	(565)	-	(565)
31 December 2009	54,400	(3,250)	1,638	(12,996)	39,792	20	39,812
Loss for the year	-	-	-	(23,939)	(23,939)	2	(23,937)
Other comprehensive income	-	-	652	-	652	-	652
Total comprehensive income/(loss)	-	-	652	(23,939)	(23,287)	2	(23,285)
Resale of treasury shares	-	3,250	-	236	3,486	-	3,486
Dividends to equity holders of the parent (Note 24)	-	-	-	(527)	(527)	-	(527)
31 December 2010	54,400	-	2,290	(37,226)	19,464	22	19,486

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

Yuriy Miroshnikov

 / President

Karl Dandler

 Deputy President

Vladimir Bogatsky

 / Vice President Finance

The Notes on pages 9-46 form an integral part of these financial statements

22 June 2011

## PRIVATE JOINT STOCK COMPANY "UKRAINE INTERNATIONAL AIRLINES"

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of US Dollars)

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#### 1. DESCRIPTION OF THE BUSINESS

Private 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 Private 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 subsidiary, associate and jointly controlled entity were as follows

Entity	Country of incorporation	Activity	2010 share %	2009 share %
<i>Subsidiary</i>				
COENT LLC	Ukraine	Training and technology implementation services	70 0	70 0
<i>Associate</i>				
Swissport Ukraine LLC	Ukraine	Passengers handling services	29 4	29 4
<i>Jointly controlled entity</i>				
Joint activity "Ukraine International Airlines - technical maintenance - Boryspil"	Ukraine	Technical services	50 0	50 0

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 2010 were authorized for issue by the Company's management on 22 June 2011

#### 2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business

As of 31 December 2010, the Group's current liabilities exceeded its current assets by USD 22,904 thousand, accumulated deficit amounted to USD 37,226 thousand, and, for the year ended 31 December 2010, the Group incurred net loss in the amount of USD 23,937 thousand

The consolidated balance sheet does not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary should the Group be unable to continue as a going concern. The Group's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms of its financing agreements, to obtain additional financing or refinancing as may be required, and ultimately to attain successful operations. The management of the Group believes that preparation of accompanying financial statements on going concern basis is appropriate.

In accordance with the Group's financial plans for 2011, its working capital needs will be financed by the improved cash flows from operating activities, an acceleration of the VAT refund as well as through restructuring the existing short-term loans from local banks and financial support from the shareholders.

- In February 2011, privatization of the Company took place and as a result the stake owned by the State Property Fund of Ukraine (61.58%) was realized among other shareholders (Note 33). The private shareholders started to revise the Group's operating strategy in order to increase passenger transportation volumes, decrease direct operating costs and increase general profitability of the Group. The new ideology is to increase traffic flows by adding feed from/to the regions in Ukraine and the new eastern network to be developed. Within the framework of this strategy schedules have been amended to optimize the possibilities for such feed.
- New routes have been opened to Astana, Dnepropetrovsk, Samara, Goa, and Colombo. In addition in early 2011, a new partnership agreement was signed with British Midland International, which will allow the Group to increase the number of code-sharing flights to the United Kingdom.
- To reduce the liquidity gap between the Group's current assets and current liabilities, at the end of 2010 – early 2011 the management renegotiated with vendors the postponement of payments under operating leases and other accounts payable in total amount exceeding USD 10,000 thousand for half year period. In addition negotiations with all lessors are ongoing to restructure all Boeing 737 classic leases with an immediate positive cash effect in 2011.
- As of the date of these consolidated financial statements, the Group was in the process of negotiation with a bank regarding the extension for 3 years and increase up to USD 25,000 thousand of the credit line initially due in September 2011 totaling to USD 12,000 thousand as of 31 December 2010.

### **3.1 BASIS OF PREPARATION**

#### **Basis of presentation**

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared under the historical cost basis, except for buildings that have been measured at revalued amounts.

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.

## **Basis of consolidation**

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

All significant intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation, except when the intergroup losses indicate an impairment that requires recognition in the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

## **3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

### **Adoption of new and revised International Financial Reporting Standards**

The following new and revised Standards and Interpretations have been adopted in the current year:

<b>Standard/Interpretation</b>	<b>Effective for annual periods beginning on or after</b>
IAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"	1 July 2009
IFRS 1 "First-time Adoption of International Financial Reporting Standards" (Revised November 2008)	1 July 2009
IFRS 3 (Revised 2008) "Business Combinations"	1 July 2009
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (July 2008)	1 July 2009
Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"	30 June 2009
Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions" (June 2009)	1 January 2010

The impact of the adoption of IFRS 3 (Revised 2008) "Business Combinations" has been:

- To allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree,
- To change the recognition and subsequent accounting requirements for contingent consideration. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date, subsequent adjustments to the consideration are recognized against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognized in profit or loss,
- Where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss, and



- To require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition

IAS 27 (Revised 2008) has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. All such increases or decreases in interests in existing subsidiaries are dealt with in equity, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognize all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognized at its fair value at the date control is lost, with the gain or loss arising recognized in profit or loss.

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

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

<b>Standard / Interpretation</b>	<b>Effective for annual accounting period beginning on or after:</b>
Amendments to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues	1 February 2010
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
IAS 24 "Related Party Disclosures" (2009)	1 January 2011
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Replacement of "fixed dates" for certain exceptions with "the date of transition to IFRSs" and additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets	1 July 2011
Improvements to IFRS issued in 2010	1 July 2010 and 1 January 2011 (as appropriate)
Amendments to IAS 12 "Income Taxes" – Limited scope amendment (recovery of underlying assets)	1 January 2012
Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a minimum funding requirement	1 January 2011

<b>Standard / Interpretation</b>	<b>Effective for annual accounting period beginning on or after:</b>
IFRS 9 “Financial Instruments Classification and Measurement”	1 January 2013
IAS 27 Separate Financial Statements (revised 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (revised 2011)	1 January 2013
IFRS 10 “Consolidated Financial Statements”	1 January 2013
IFRS 11 “Joint Arrangements”	1 January 2013
IFRS 12 “Disclosure of Interests in Other Entities”	1 January 2013
IFRS 13 “Fair Value Measurement”	1 January 2013

Management is currently evaluating the impact of the adoption of IFRS 9 “Financial Instruments Classification and Measurement” For other Standards and Interpretations management anticipates that their adoption in future periods will have no material effect on the consolidated financial statements of the Group

### **3.3 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 recognized 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 amortization

#### *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 recognized 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 utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, 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.

#### *Revenue recognition – miles for Frequent flyer program*

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

### **3.4 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 amortized 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 recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized 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 recognize an additional impairment loss on the Group's investment in its associate. 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 recognizes the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes 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 is recognized in profit or loss.

#### **Interest in a joint venture**

The Group has an interest in a joint venture which is a jointly controlled operations, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities. The Group recognizes 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 intergroup balances, income and expenses and unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable 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 control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognizes 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 is recognized 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 relevant exchange rates were

	As of 31 December 2010	Average for 2010	As of 31 December 2009	Average for 2009
UAH/USD	7.9617	7 9353	7 9850	7.7916
UAH/EUR	10 5731	10 5313	11 4489	10 8736

## **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 recognized 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, available-for-sale financial assets and derivatives designated as hedging instruments in an effective hedge during the years ended 31 December 2010 and 2009. 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 recognized in the income statement.

##### *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 amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized 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 amortization is included in finance income in the income statement. The losses arising from impairment are recognized 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 amortized cost using the effective interest method, less impairment. Amortized 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 amortization is included in finance income in the income statement. The losses arising from impairment are recognized 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 unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized 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 derecognized 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 recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes 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 reorganization 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.

### *Financial assets carried at amortized cost*

For financial assets carried at amortized 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, recognized 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 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 realized 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 recognized, the previously recognized 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 recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized 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 amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized 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 recognized 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 recognized 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.

### **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 recognized 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 amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method ("EIR") amortization process.

Amortized 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 amortization 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 recognized 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 recognized less cumulative amortization.

#### **Derecognition**

A financial liability is derecognized 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized 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 recognized in the income statement as incurred.

Buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized 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 recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized 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:

	<b>Number of years</b>
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 recognized is derecognized 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 derecognized.

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 amortization until the year 2004. Since 2005 no further amortization is calculated on these route rights. Instead they are tested for impairment. Until 2004 route rights were amortized on a straight-line basis over 40 years.

### **Other intangible assets**

Other intangible assets include computer software and licenses. 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 amortization 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 amortized over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods of amortization for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, 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 programs 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 realizable value. Cost of other inventory is determined on the weighted average basis. Net realizable 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized 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 recognized 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 recognized 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 recognized in other comprehensive income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized 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 recognized as a share premium.

### *Non-controlling interest*

Non-controlling interest represents the interest in subsidiary 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 recognized 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 authorized for issue.

#### *Convertible preference shares*

The convertible preference shares are recognized 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 recognized at cost and deducted from equity. No gain or loss is recognized 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 recognized 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 capitalized 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 recognized 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 are 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 recognized 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 reflected in the income statement. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized 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 recognized as income or expense when the net cumulative unrecognized 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 recognized over the expected average remaining working lives of the employees participating in the plans. The past service cost is recognized 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 recognized 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 2010 and 2009.

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 recognized 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 recognized 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 recognized 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 when services are rendered using Group's fleet or when the Group buys out the seats on other airlines' flights. The Group is acting as an agent when tickets for other airlines' flights are sold. Revenue is recognized in the period when the respective service is rendered.

Any commission fees paid for sale of tickets are recognized when incurred.

### *Interest income*

For all financial instruments measured at amortized 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 recognized 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 utilized. 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.

### **Frequent flyer program**

The Group maintains a frequent flyer program (the "Panorama program") 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 recognized as revenue over the period that the award credits are redeemed.

### **Contingencies**

Contingent liabilities are not recognized 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 recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

## **4. REVENUES**

Revenues comprise:

	2010	2009
<b>Traffic revenue:</b>		
Passengers	187,057	166,650
Charters	98,571	86,790
Cargo and excess baggage	12,271	10,493
	<u>297,899</u>	<u>263,933</u>
<b>Other revenue:</b>		
Technical service	4,621	10,975
Aircraft rentals	1,257	5,227
Revenue from commissions	970	1,419
Other	1,372	1,614
	<u>8,220</u>	<u>19,235</u>
<b>Total revenue</b>	<u><u>306,119</u></u>	<u><u>283,168</u></u>

In year 2010 revenues from technical services decreased significantly due to the fact that one of the main Group's customers became bankrupt.

Aircraft rentals revenues comprise of revenues from aircraft wet lease to other airlines. In 2009 one of the aircrafts leased by Group was sub-leased to other airline on a permanent basis. In November 2009 sub-leasing agreement was terminated under the request of sub-lessee. In 2010 revenues were gained from irregular wet leases to other airlines.

## **5. HANDLING CHARGES AND CATERING COSTS**

Handling charges and catering costs comprise

	2010	2009
Aircraft handling	24,792	22,524
Block seats costs	11,505	10,087
Passenger handling	6,397	5,639
Catering	3,682	4,332
<b>Total handling charges and catering costs</b>	<u><u>46,376</u></u>	<u><u>42,582</u></u>



## 6. AIRCRAFT OPERATING LEASE COSTS

Aircraft operating lease costs comprise

	2010	2009
Aircrafts lease	41,745	31,368
Engines lease	1,127	481
<b>Total aircraft operating lease costs</b>	<b>42,872</b>	<b>31,849</b>

From the end of year 2009 Group leased additional four new Boeing 737-800 aircrafts under long-term operating lease agreements

## 7. LANDING FEES AND ROUTE CHARGES

Landing fees and route charges comprise

	2010	2009
Navigation fees	29,437	25,470
Landing fees	11,410	10,222
<b>Total landing fees and route charges</b>	<b>40,847</b>	<b>35,692</b>

## 8. EMPLOYEE COSTS

Employee costs comprise

	2010	2009
Salaries and wages	28,090	25,625
Payroll taxes and social security cost	6,507	5,518
<b>Total employee costs</b>	<b>34,597</b>	<b>31,143</b>

## 9. MAINTENANCE AND OTHER AIRCRAFT COSTS

Maintenance and other aircraft costs comprise

	2010	2009
Aircraft maintenance charge	16,112	14,752
Repairs	12,871	13,690
Aircraft spare parts	2,004	2,117
<b>Total maintenance and other aircraft costs</b>	<b>30,987</b>	<b>30,559</b>

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 12,420 thousand accrued and paid to lessors (2009 UAH 13,621 thousand), USD 3,185 thousand maintenance charges accrued but not paid as the payment is postponed up to year 2015 (Note 26) and USD 507 thousand accumulated as leased aircrafts maintenance provision (Note 25) (2009 USD 1,131 thousand). 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.

## 10. SELLING COSTS

Selling costs comprise

	2010	2009
Commissions	9,609	8,358
Booking and reservation expenses	7,651	6,223
Marketing and advertising	1,702	1,461
Maintenance of representative offices	508	538
<b>Total selling costs</b>	<b>19,470</b>	<b>16,580</b>

## 11. OTHER OPERATING EXPENSES

Other operating expenses comprise

	2010	2009
Crew and aircrafts maintenance personnel business trips	2,138	1,757
Insurance	1,769	1,494
Crew and aircrafts maintenance personnel training	1,445	1,766
Flight operations support	1,089	953
IT support	927	957
Crew transportation	762	650
Office maintenance and rent	742	710
Consulting, legal and audit services	609	811
Bank charges	601	944
Communication	453	484
Cars maintenance and fuel	441	491
Uniform	316	405
Other business trips	248	239
Allowance for impairment of trade receivables (Note 21)	151	780
Other	2,129	1,950
<b>Total other operating expenses</b>	<b>13,820</b>	<b>14,391</b>

## 12. FINANCE COSTS, NET

Net finance costs comprise

	2010	2009
Interest income	46	64
Interest expense	(3,014)	(2,961)
Unwinding of a discount	(227)	-
Other finance costs	(517)	(412)
<b>Total net finance costs</b>	<b>(3,712)</b>	<b>(3,309)</b>

### 13. OTHER NON-OPERATING EXPENSES

Other non-operating expenses comprise:

	2010	2009
Non-recoverable VAT	586	387
Fines and penalties	154	119
Other	333	-
<b>Total other non-operating expenses</b>	<b>1,073</b>	<b>506</b>

### 14. TAXATION

The corporate income tax expense comprises

#### Consolidated income statement

	2010	2009
Current income tax charge	26	1,000
Deferred tax – reversal of temporary differences	(3,367)	(363)
<b>Total income tax (benefit)/expense</b>	<b>(3,341)</b>	<b>637</b>

#### Consolidated statement of changes in equity

	2010	2009
Deferred tax effect from revaluation of buildings	131	-
<b>Total income tax expense</b>	<b>131</b>	<b>-</b>

In 2010 and 2009 Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25%

The new Tax Code of Ukraine, which was enacted in December 2010, introduced gradual decreases in income tax rates over the future years (from 23% effective 1 April 2011 to 16% effective 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities as of 31 December 2010 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse

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

	2010	2009
(Loss)/profit before income tax	(27,278)	1,961
Statutory tax rate	25%	25%
Theoretical income tax (benefit)/expense at the applicable statutory rate	(6,820)	490
Non-deductible expenses and other differences	628	147
Permanent differences due to change in tax rates	1,074	-
Recognition of valuation allowance for tax losses carried forward	1,777	-
<b>Total income tax (benefit)/expense</b>	<b>(3,341)</b>	<b>637</b>

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

	2010	2009
<b>Tax effect of deductible temporary differences:</b>		
Trade and other receivables	309	263
Accounts payable and accrued liabilities	137	-
Air traffic liability	350	564
Provisions	2,225	1,545
Tax losses carried forward	3,553	-
	<u>6,574</u>	<u>2,372</u>
Allowance for tax losses carried forward	(1,777)	-
<b>Total deferred tax asset</b>	<u>4,797</u>	<u>2,372</u>
<b>Tax effect of taxable temporary differences:</b>		
Property and equipment	(164)	(1,106)
Other long-term liabilities	(198)	-
Trade accounts payable and advances received	-	(67)
<b>Total deferred tax liability</b>	<u>(362)</u>	<u>(1,173)</u>
<b>Net deferred tax asset</b>	<u>4,435</u>	<u>1,199</u>

As of 31 December 2010 the Group's management estimated that it will not be able to realize more than 50% of tax losses carried forward and accrued the valuation allowance

## 15. PROPERTY AND EQUIPMENT

The movements of property and equipment during 2010 were as follows:

	Buildings	Aircraft	Leasehold improve- ments	Rotable spare parts	Motor vehicles	Furniture and other	Total
<b>Cost or valuation:</b>							
<b>31 December 2009</b>	<b>8,392</b>	<b>16,786</b>	<b>5,565</b>	<b>12,960</b>	<b>368</b>	<b>3,150</b>	<b>47,221</b>
Additions	83	-	301	1,642	-	372	2,398
Transfers	-	-	115	(115)	-	-	-
Revaluation	(59)	-	-	-	-	-	(59)
Disposals	-	-	(415)	(1,632)	(18)	(82)	(2,147)
<b>31 December 2010</b>	<b>8,416</b>	<b>16,786</b>	<b>5,566</b>	<b>12,855</b>	<b>350</b>	<b>3,440</b>	<b>47,413</b>
<b>Accumulated depreciation:</b>							
<b>31 December 2009</b>	<b>475</b>	<b>8,145</b>	<b>2,357</b>	<b>3,128</b>	<b>162</b>	<b>1,191</b>	<b>15,458</b>
Charge for the year	421	1,192	664	828	66	388	3,559
Transfers	-	-	36	(36)	-	-	-
Revaluation	(842)	-	-	-	-	-	(842)
Disposals	-	-	(415)	(391)	(17)	(68)	(891)
<b>31 December 2010</b>	<b>54</b>	<b>9,337</b>	<b>2,642</b>	<b>3,529</b>	<b>211</b>	<b>1,511</b>	<b>17,284</b>
<b>Net book value:</b>							
<b>31 December 2009</b>	<b>7,917</b>	<b>8,641</b>	<b>3,208</b>	<b>9,832</b>	<b>206</b>	<b>1,959</b>	<b>31,763</b>
<b>31 December 2010</b>	<b>8,362</b>	<b>7,449</b>	<b>2,924</b>	<b>9,326</b>	<b>139</b>	<b>1,929</b>	<b>30,129</b>

The movements of property and equipment during 2009 were as follows

	Buildings	Aircraft	Leasehold improve- ments	Rotable spare parts	Motor vehicles	Furniture and other	Assets under construc- tion	Total
<b>Cost or valuation:</b>								
<b>31 December 2008</b>	<b>8,935</b>	<b>16,786</b>	<b>3,695</b>	<b>11,072</b>	<b>347</b>	<b>2,011</b>	<b>31</b>	<b>42,877</b>
Additions	113	-	753	4,449	29	592	-	5,936
Transfers	(656)	-	1,260	(1,251)	(8)	686	(31)	-
Disposals	-	-	(143)	(1,310)	-	(139)	-	(1,592)
<b>31 December 2009</b>	<b>8,392</b>	<b>16,786</b>	<b>5,565</b>	<b>12,960</b>	<b>368</b>	<b>3,150</b>	<b>-</b>	<b>47,221</b>
<b>Accumulated depreciation:</b>								
<b>31 December 2008</b>	<b>78</b>	<b>6,953</b>	<b>1,458</b>	<b>2,922</b>	<b>96</b>	<b>888</b>	<b>-</b>	<b>12,395</b>
Charge for the year	397	1,192	1,183	469	66	334	-	3,641
Transfers	-	-	(141)	145	-	(4)	-	-
Disposals	-	-	(143)	(408)	-	(27)	-	(578)
<b>31 December 2009</b>	<b>475</b>	<b>8,145</b>	<b>2,357</b>	<b>3,128</b>	<b>162</b>	<b>1,191</b>	<b>-</b>	<b>15,458</b>
<b>Net book value:</b>								
<b>31 December 2008</b>	<b>8,857</b>	<b>9,833</b>	<b>2,237</b>	<b>8,150</b>	<b>251</b>	<b>1,123</b>	<b>31</b>	<b>30,482</b>
<b>31 December 2009</b>	<b>7,917</b>	<b>8,641</b>	<b>3,208</b>	<b>9,832</b>	<b>206</b>	<b>1,959</b>	<b>-</b>	<b>31,763</b>

Rotable spare parts and office premises have been pledged as security for bank loans and letters of credit, as described in Note 29

Furniture and equipment items with total cost of USD 1,363 thousand (2009 649 thousand) were fully depreciated and still in use as of 31 December 2010

The carrying value of property and equipment held under finance lease contract at 31 December 2010 was USD 7,449 thousand (2009: USD 8,641 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 valuator 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 2010.

## 16. 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 as of 31 December 2010. The Company does not amortize route rights as they are considered to have an indefinite useful life. An impairment test carried by independent appraiser as of 31 December 2010 did not identify any impairment of the value of route rights.

## 17. OTHER INTANGIBLE ASSETS

The movements of other intangible assets during 2010 were as follows

	Software and licenses
<b>Cost:</b>	
31 December 2009	1,035
Additions	207
Disposals	(77)
31 December 2010	<u>1,165</u>
<b>Accumulated amortization:</b>	
31 December 2009	523
Charge for the year	171
Disposals	(77)
31 December 2010	<u>617</u>
<b>Net book value:</b>	
31 December 2009	<u>512</u>
31 December 2010	<u>548</u>

The movements of other intangible assets during 2009 were as follows:

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

## 18. INTEREST IN A JOINT VENTURE

The Group has a 50% interest (till 30 June 2009 82%) in a joint activity of 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 2010 and 2009 and income and expenses of the jointly controlled entity for the years ended 31 December 2010 and 2009, which are proportionally consolidated in the consolidated financial statements, are as follows

	2010	2009
<b>Share of the joint venture's statement of financial position:</b>		
Non-current assets	188	194
Current assets	211	297
Non-current liabilities	(2)	-
Current liabilities	(269)	(340)
<b>Equity</b>	<b>128</b>	<b>151</b>
<b>Share of the joint venture's revenue and profit:</b>		
Revenue	1,870	2,044
Expenses	(1,875)	(1,698)
(Loss)/profit before income tax	(5)	346
Income tax expense	(18)	(88)
<b>(Loss)/profit for the year</b>	<b>(23)</b>	<b>258</b>

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2010 and 2009

## 19. INVESTMENTS IN ASSOCIATES

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

	31 December 2010	31 December 2009
<b>Aggregated assets and liabilities of associate</b>		
Non-current assets	3,212	3,458
Current assets	3,074	2,685
Non-current liabilities	(1,295)	(2,120)
Current liabilities	(5,664)	(4,385)
<b>Net liabilities</b>	<b>(673)</b>	<b>(362)</b>
Share in net liabilities (29.4%)	(198)	(106)
Unrecognized share of losses	198	106
<b>Carrying amount of the investment (29.4%)</b>	<b>-</b>	<b>-</b>
	<b>2010</b>	<b>2009</b>
<b>Aggregated revenue and profit of associate</b>		
Revenue	12,805	10,671
Net loss for the period	(308)	(20)
Share in net loss (29.4%)	(91)	(6)
Unrecognized share of losses	91	6
<b>The Group's share in net loss of associate (29.4%)</b>	<b>-</b>	<b>-</b>

## 20. EXPENDABLE SPARE PARTS AND OTHER INVENTORY

Expendable spare parts and other inventory comprise

	2010	2009
Expendable spare parts	4,126	3,462
Other inventory	<u>2,927</u>	<u>2,629</u>
<b>Total expendable spare parts and other inventory</b>	<b><u>7,053</u></b>	<b><u>6,091</u></b>

## 21. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise

	31 December 2010	31 December 2009
Trade receivables	17,202	16,574
Other receivables	<u>239</u>	<u>305</u>
	<b>17,441</b>	<b>16,879</b>
Less Provision for impairment of accounts receivable	<u>(1,313)</u>	<u>(1,283)</u>
<b>Total trade and other receivables</b>	<b><u>16,128</u></b>	<b><u>15,596</u></b>

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

	2010	2009
At 1 January	1,283	503
Charge	151	780
Amounts written off during the year as uncollectible	<u>(121)</u>	<u>-</u>
<b>At 31 December</b>	<b><u>1,313</u></b>	<b><u>1,283</u></b>

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
2010	16,128	15,709	-	231	-	-	188
2009	15,596	14,031	15	74	8	7	1,461



## 22 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as of 31 December comprise

	2010	2009
VAT recoverable	11,802	7,819
Aircraft lease prepayments	2,241	5,586
Insurance prepaid	1,876	1,663
Taxes, other than income tax, prepaid	1,082	585
Income tax prepaid	689	1,352
Other prepayments	4,131	3,704
<b>Total prepayments and other current assets</b>	<b>21,821</b>	<b>20,709</b>

In September 2010 Group reimbursed part of VAT recoverable by means of Governmental Bonds issued by Ministry of Finance of Ukraine at par value of USD 2,586 thousand. Above-mentioned Bonds were issued on the following terms: par value of each Bond – UAH 1,000 (equivalent of USD 126.45), maturity – 5 years evenly repaid by 10% each 6 months, interest rate – 5.5% per annum. In November 2010 Group realized Bonds (par value of USD 2,586 thousand) at 11.95% discount. Loss from sale of Bonds equaled USD 317 thousand presented in other non-operating expenses (Note 13).

## 23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December comprise

	2010	2009
Cash in hand and balances with banks in Ukrainian hryvnia	1,069	1,142
Cash in hand and balances with banks in other currencies	990	3,920
<b>Total cash and cash equivalents</b>	<b>2,059</b>	<b>5,062</b>

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 other currencies are guarantee deposits in the amount of USD 282 thousand (2010: nil) pledged as security under letter of credit agreements signed with Citibank and First Ukrainian International Bank.

## 24 EQUITY

As of 31 December 2010, 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%
UIA Beteiligungsgesellschaft GmbH	Ordinary	12,250	122,500	22 52%
"Capital Investment Project" LLC	Ordinary	3,250	32,500	5 97%
UIA Holding GmbH	Preference	5,400	54,000	9 93%
<b>Total</b>		<b>54,400</b>	<b>544,000</b>	<b>100.00%</b>

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%
UIA 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%
<b>Total</b>		<b>54,400</b>	<b>544,000</b>	<b>100.00%</b>

The number of authorized ordinary and preference shares are 490,000 (2009 490,000) and 54,000 (2009 54,000) respectively, both with nominal value of USD 100 per share. All authorized shares have been issued and fully paid. Contribution of State Property Fund of Ukraine mainly consisted of route rights (Note 16). Private shareholders contributed cash and cash equivalents, other assets, and reimbursement of start up and other operating costs. Both ordinary and preference shares have equal voting rights.

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.

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. In March 2010 32,500 treasury shares were sold to "Capital Investment Project" LLC for an equivalent of USD 3,486 thousand that result in gain on sale recognized directly in equity.

Preference shares guarantee annual dividends of not less than 7.2% of their nominal amount. In 2010 dividends paid to the EBRD amounted to USD 389 thousand (2009: USD 388 thousand) representing the interest rate of 7.2% (2009: 7.2%).

In accordance with revised Statute of "Ukraine International Airlines" fixed annual dividends of not less than 7.2% of nominal amount of preference shares are granted until these shares are held by European Bank for Reconstruction and Development. If European Bank for Reconstruction and Development transfers its shares to any other party, preference shares fixed dividend equals 0.02% of their nominal amount and holders of preference shares have equal rights on distribution of profits as holders of ordinary shares.

In December 2010 European Bank for Reconstruction and Development sold its interest in share capital of the Company to UIA Holding GmbH therefore interest rate on the preference shares has been reset to 0.02% per annum.

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

	2010	2009
Dividends declared on preference shares	389	388
Dividends declared on ordinary shares	138	177
Dividends paid	<u>(527)</u>	<u>(565)</u>
<b>Dividends payable as of 31 December</b>	<u><b>-</b></u>	<u><b>-</b></u>

## 25. PROVISIONS

During 2010 movements in provisions were as follows

	Leased aircrafts maintenance provision	Retirement benefit obligation	Unused vacations provision	Total
<b>Balance at 31 December 2009</b>	<b>4,372</b>	<b>413</b>	<b>1,481</b>	<b>6,266</b>
Additional provision	507	134	201	842
Amounts used	<u>-</u>	<u>(91)</u>	<u>(176)</u>	<u>(267)</u>
<b>Balance at 31 December 2010</b>	<u><b>4,879</b></u>	<u><b>456</b></u>	<u><b>1,506</b></u>	<u><b>6,841</b></u>

### *Retirement benefit obligation*

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

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

	2010	2009
Present value of unfunded post-employment benefit obligations	456	413
Unrecognized past service cost	-	-
	<u>456</u>	<u>413</u>

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

	2010	2009
Current service cost	18	47
Interest cost	62	68
Actuarial (gain)/loss	54	(44)
	<u>134</u>	<u>71</u>

Movement in the liability recognized in the statement of financial position

	2010	2009
At 1 January	413	422
Total expenses as shown above	134	71
Paid benefits	(91)	(80)
At 31 December	<u>456</u>	<u>413</u>

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

	2010	2009
Discount rate	15.0%	16.0%
Future salary increases	10.0%	10.0%
Employment continuance rate	96.2%	90.1%

## 26. AIRCRAFT MAINTENANCE LIABILITIES

According to provisions of lease agreements with several lessors the Group has an option to defer payments of maintenance charges. Most of liability will be settled evenly starting from year 2011 up to year 2015. As of 31 December 2010 aircraft maintenance liabilities were held at amortized cost using the effective interest method and amounted to USD 3,381 thousand (2009: 858 thousand). Gain on initial recognition of respective liability amounting to USD 1,271 thousand was recognized as decrease of engineering and other aircraft costs (Note 9). Unwinding of interest expense is recognized within finance costs (Note 12).

## 27. TRADE ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Trade accounts payable and advances received comprise

	2010	2009
Trade accounts payable	29,552	19,014
Advances received	6,871	5,540
<b>Total trade accounts payable and advances received</b>	<b>36,423</b>	<b>24,554</b>

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

## 28. OTHER LIABILITIES

Other liabilities comprise

	2010	2009
Payables to personnel on salaries and wages	1,179	938
Taxes, other than income tax, payable	334	297
Liability on shares buy-back	-	1,400
Income tax payable	-	29
Other liabilities	1,467	1,341
<b>Total other liabilities</b>	<b>2,980</b>	<b>4,005</b>

## 29. BORROWINGS

	Currency	Effective interest rate		Maturity	2010	2009
		2010	2009			
<b>Short-term borrowings</b>						
Finance lease	USD	13 1%	13 1%	Mar 2011	1,237	1,086
USD 12,000,000 bank loan (2009 8,000,000)	USD	11 7-13 0%	14 2%	Sep 2011	12,000	-
USD 1,508,000 bank loan (2009 1,509,000)	USD	10 5%	10 5%	Oct 2011	1,508	754
				Jun 2011		
Promissory notes issued	UAH	18 0%	18 0%	— Jul 2011	1,880	-
Bank overdraft	UAH	22 5%	22 5%	2011	1,335	-
					<u>17,960</u>	<u>1,840</u>
<b>Long-term borrowings</b>						
Finance lease	USD	13 1%	13 1%	Mar 2017	9,927	11,164
USD 12,000,000 bank loan (2009 8,000,000)	USD	11 7-13 0%	14 2%	Sep 2011	-	8,000
USD 1,509,000 bank loan (2009 1,509,000)	USD	10 5%	10 5%	Oct 2011	-	755
					<u>9,927</u>	<u>19,919</u>

As of 31 December 2010 USD 12,000 thousand loan (2009 USD 8,000 thousand) and USD 1,508 thousand loan (2008 USD 1,509 thousand) are guaranteed by collateral of future revenue from tickets sold by certain agents for the total estimated amount of USD 72,035 thousand (2009: USD 80,960 thousand) and by collateral of property rights for the Company's office premises with carrying value as of 31 December 2010 of USD 5,399 thousand (2009 USD 5,452 thousand) As of 31 December 2010 the Group had available USD 549 thousand (2009 USD 649 thousand) of undrawn borrowing facilities

As of 31 December 2010 the Group has 13 letters of credit facilities available as a security of payment to lessors Letters of credit are secured by means of collateral of expendable spare parts to Boeing aircrafts amounting USD 4,770 thousand, rotatable spare parts to Boeing aircrafts amounting USD 12,855 thousand and leasehold improvements amounting USD 322 thousand (2009 rotatable spare parts to Boeing aircrafts amounting USD 4,307 thousand)

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

### **30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**

#### **Operating environment**

The global financial turmoil has negatively affected Ukraine's financial and capital markets in 2008 and 2009. Although in recent years there has been a general improvement in economic conditions in the country, Ukraine continues to display certain characteristics of an emerging market These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

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

#### **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

In December 2010, the Tax Code of Ukraine was officially published In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions take effect later (such as, Section III dealing with corporate income tax, came into force from 1 April 2011) Apart from changes in CIT rates from 1 April 2011, as discussed in Note 14, the Tax Code also changes various other taxation rules As of the date these financial statements were authorized for issue, additional clarifications and guidance on application of the new tax rules were not published, and certain revisions were proposed for consideration of the Ukrainian Parliament

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing of effects of its adoption on the operations of the Group

### **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.

### **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:

	2010	2009
Within one year	41,127	43,344
After one year but not more than five years	122,596	142,700
More than five years	69,937	90,405
	<u>233,660</u>	<u>276,449</u>

### **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:

	2010		2009	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	2,622	1,237	2,622	1,086
After one year but not more than five years	10,487	6,918	10,487	6,076
More than five years	3,277	3,009	5,899	5,088
Total minimum lease payments	16,386	-	19,008	-
Less amounts representing finance charges	(5,222)	-	(6,758)	-
Present value of minimum lease payments	<u>11,164</u>	<u>11,164</u>	<u>12,250</u>	<u>12,250</u>

## 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

The Group acts as a guarantor for the loan of Swissport Ukraine LLC, associate payable to Ukrainian bank to an amount of UAH 3,963 thousand

## 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

## 31. 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 UIA					
Beteiligungsgesellschaft GmbH up to 3 June 2010)	2010	83	3,668	-	-
	2009	486	9,581	386	1,308
Associate					
Swissport Ukraine LLC	2010	253	6,739	572	915
	2009	394	5,765	511	617

Till March 2011 the State and state-owned companies were considered as related parties of the Group (Note 33)

## Compensation of key management personnel of the Group

Compensation of key management personnel was comprised of the following

	2010	2009
Salaries and other short-term benefits	1,382	1,375
Social security costs	142	114
<b>Total compensation paid to key management personnel</b>	<b>1,524</b>	<b>1,489</b>

Key management personnel consisted of 18 persons in 2010 year (2009 18 persons).



## 32. 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 accounts receivable and trade accounts payable, 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 summarized 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 2010, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7 9617 to the US dollar (31 December 2009 7 985). 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 2010	Increase/(decrease) in basis points	Effect on profit before tax
Change in UAH exchange rate	10.0%	1,080
Change in EUR exchange rate	10.0%	(148)
Change in GBP exchange rate	10.0%	61
Change in UAH exchange rate	(10.0%)	(1,080)
Change in EUR exchange rate	(10.0%)	148
Change in GBP exchange rate	(10.0%)	(61)

For the year ended 31 December 2009	Increase/(decrease) in basis points	Effect on profit before tax
Change in UAH exchange rate	10 0%	(365)
Change in EUR exchange rate	10 0%	(146)
Change in GBP exchange rate	10 0%	35
Change in UAH exchange rate	(10 0%)	365
Change in EUR exchange rate	(10 0%)	146
Change in GBP exchange rate	(10 0%)	(35)

### 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 summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments

For the year ended 31 December 2010	Less than 3 months	3 to 12 months	More than 1 year	Total
Borrowings	294	17,666	9,927	27,887
Trade and other accounts payables	28,804	748	-	29,552
Other liabilities	2,646	-	-	2,646
Aircraft maintenance charge long-term liabilities	-	-	3,381	3,381
For the year ended 31 December 2009	Less than 3 months	3 to 12 months	More than 1 year	Total
Borrowings	253	1,587	19,919	21,759
Trade and other accounts payables	18,825	12	177	19,014
Other liabilities	3,605	-	103	3,708

### 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 recognized 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.

	2010	2009
Long-term borrowings	9,927	19,919
Short-term borrowings	17,960	1,840
Cash and cash equivalents	<u>(2,059)</u>	<u>(5,062)</u>
Net debt	25,828	16,697
Convertible preference shares	5,400	5,400
Total equity	<u>14,086</u>	<u>34,412</u>
Total capital	<u>19,486</u>	<u>39,812</u>
Capital and net debt	<u><b>45,314</b></u>	<u><b>56,509</b></u>
Gearing ratio	57.0%	29.5%

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.

### 33. EVENTS AFTER THE REPORTING PERIOD

In February 2011 61.58% interest in share capital of the Company was sold by State Property Fund of Ukraine. Interest was acquired by remaining shareholders proportionally to shares previously owned. As a result of transaction Group's shareholders at the date of issuing these financial statements were the following: UIA Beteiligungsgesellschaft GmbH – 22.52%, UIA Holding GmbH – 25.84%, "Capital Investment Project" LLC – 51.64%.