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AUDITOR'S REPORT

To the Shareholders of Utair Aviation Joint-Stock Company

1. We have audited the accompanying consolidated Balance Sheet of Utair Aviation Joint-Stock Company and its related companies (hereinafter, the Group) as of 31 December 2002 and the relevant consolidated statements – Statement of Operations, Cash Flow Statement and Statement of Changes in Shareholders' Equity for the period from 1 January 2002 to 31 December 2002.

2. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the reliability, in all material aspects, of these financial statements based on our audit.

3. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the Group's accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

4. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2002, and of the results of its operations and its cash flows for the period from 1 January 2002 to 31 December 2002 in accordance with International Accounting Standards.

R.M. Lerner
General Director
RSM Top-Audit LLC

Пронумеровано,
прошнуровано
листов

Подпись

«РСМ Топ-Аудит»

UTair AIR COMPANY

Consolidated financial statements for the year ended 31 December 2002

UTair Air Company
Consolidated Balance Sheet as at 31 December 2002
('000 Russian roubles)

	Note	31 December 2002	31 December 2001
Assets			
Non-current assets			
Intangible assets		8,198	3,610
Property, plant and equipment	7	3,489,227	3,229,651
Investments in related companies	8	121,727	105,060
Other long-term assets	17	13,156	-
Total non-current assets		**3,632,308**	**3,338,321**
Current assets			
Cash and cash equivalents	9	24,291	47,920
Accounts receivable and prepayments	10	1,467,958	1,203,260
Deferred tax asset	14	11,182	-
Inventories	11	482,559	299,305
Total current assets		**1,985,990**	**1,550,485**
TOTAL ASSETS		**5,618,298**	**4,888,806**
Shareholder's equity and liabilities			
Shareholder's equity			
Share capital	12	2,647,000	2,647,000
Ordinary shares (577,208,000 shares with a nominal value per share of 1 Russian Rouble)		2,647,000	2,647,000
Treasury shares			
Accumulated profit		693,019	146,078
Profit for the year		75,655	546,941
Total shareholder's equity		**3,415,674**	**3,340,019**
Non-current liabilities			
Goodwill of related companies	15	67,610	72,597
Non-current debt	16	150,631	392,226
Other non-current liabilities	17	82,110	-
Total non-current liabilities		**300,351**	**464,823**
Current liabilities			
Current debt and current portion of non-current debt	18	687,741	12,083
Accounts payable and accrued charges	19	793,131	527,275
Taxes payable		421,401	544,606
Total current liabilities		**1,902,273**	**1,083,964**
Total liabilities		**2,202,624**	**1,548,787**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**5,618,298**	**4,888,806**

A.Z. Martirosov — General Director

V.A. Pozdnyakov — Chief Accountant

«_____»____________ 2004

('000 Russian roubles)

	Note	For the year ended 31 December 2002	For the year ended 31 December 2001
Revenues			
Helicopter operations	21	2,542,118	2,545,071
Passenger operations	21	3,098,060	2,525,284
Other activities	21	129,494	145,964
Total revenues		**5,769,672**	**5,216,319**
Costs and other deductions			
Fuel expenses (air fuel and lubricants)		(1,164,620)	(896,372)
Wages and payroll taxes		(960,328)	(743,439)
Airport and air navigation charges		(917,580)	(580,505)
Repairs and maintenance of aircraft and aircraft engines		(271,069)	(679,362)
Depreciation		(149,212)	(135,192)
Other expenses		(1,897,636)	(1,761,235)
Taxes other than on income		(37,695)	(32,012)
Increase/(release) of provision for impairment of receivables		(83,577)	128,892
Social expenditures		(32,918)	(33,517)
(Income)/loss on disposal of fixed assets		(33,327)	(59,143)
Other expenses		(11,008)	363,784
Total costs and other deductions		**(5,558,970)**	**(4,428,101)**
Interest paid		**(129,908)**	**-**
Income from associates		**21,653**	**6,789**
Income (loss) from operations		**102,447**	**795,007**
Monetary effect and gain (loss) on the net monetary position		736	(105,291)
Income/(loss) before profit tax		103,183	689,716
Tax benefit/(charge)		9,042	(107,973)
Net income		**112,225**	**581,743**
Income per share – basic and diluted - in Russian Roubles		0.194	1.008

A.Z. Martirosov — General Director

V.A. Pozdnyakov — Chief Accountant

«____» ____________ 2004

('000 Russian roubles)

	Note	For the year ended 31 December 2002	For the year ended 31 December 2001
CASH FLOW FROM OPERATING ACTIVITIES			
Income/(loss) on ordinary activities before profit tax		**103,183**	**689,716**
Adjustments to reconcile loss/income on ordinary activities before taxation to net cash provided by operations:			
Depreciation		149,212	135,192
Increase/(release) of provision for impairment of receivables		83,577	(128,892)
Interest expenses		129,908	-
(Income)/loss from disposals of fixed assets		33,327	59,143
Monetary effects on non-operating items		(736)	105,291
Income from associates		(21,653)	(6,789)
Other		(149,128)	(269,995)
Operating profit before working capital changes		**327,690**	**583,666**
Working capital changes			
Decrease/(increase) in accounts receivable and prepayments		(258,826)	53,631
Decrease/(increase) in inventories		(183,254)	(119,716)
Increase/(decrease) in accounts payable and accrued charges		236,040	(191,190)
Increase/(decrease) in taxes payable other than profit tax		(123,205)	(154,268)
Profit tax paid		(2,028)	(89,647)
Net cash provided by operating activities		**(3,583)**	**82,476**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(308,866)	(272,421)
Proceeds from sale of property, plant and equipment		1,024	7,533
Net cash used in investing activity		**(307,842)**	**(264,888)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from current debt		675,658	(249,575)
Net proceeds from non-current debt		(241,595)	373,782
Interest paid		(123,023)	-
Dividends paid		(23,244)	(19,927)
Net cash used in financing activities		**287,796**	**104,280**
Increase/(decrease) in cash and cash equivalents		(23,629)	(78,132)
Cash and cash equivalents at the beginning of year		47,920	126,052
Cash and cash equivalents at the end of year		24,291	47,920

A.Z. Martirosov — General Director

V.A. Pozdnyakov — Chief Accountant

«_____»_____________ 2004.

('000 Russian roubles)

	Share capital, ordinary shares	Accumulated profit (loss)	Total shareholders' equity
As at 31 December 2000	**2,647,000**	**146,078**	**2,793,078**
Net income		581,743	581,743
Dividends		(34,802)	(34,802)
As at 31 December 2001	**2,647,000**	**693,019**	**3,340,019**
As at 01 January 2002	**2,647,000**	**693,019**	**3,340,019**
Net income		112,225	112,225
Dividends		(36,570)	(36,570)
As at 31 December 2002	**2,647,000**	**768,674**	**3,415,674**

A.Z. Martirosov — General Director

V.A. Pozdnyakov — Chief Accountant

«_____»_____________ 2004

Note 1. The Group and its activities.

Utair Aviation Joint-Stock Company (hereinafter, the Air Company) is one of the biggest vertically integrated groups of air transportation companies dealing in domestic and international passenger transportations and helicopter operations including international helicopter activities, maintenance and repairs of aircraft and aerotechnics as well as training and retraining of aeronautical personnel.

The history of the Air Company has been traced back to 7 February 1967. Following Order No. 1 dated 4.01.91 issued by the Soviet Minister of Civil Aviation there was set up Tyumen Department of Civil Aviation which was incorporated as Tyumenaviatrans State Air Company.

Following Presidential Order No. 721 dated 1.7.92 Tyumenaviatrans State Air Company was transformed into the open joint-stock company. The Air Company was renamed as Utair Aviation Joint-Stock Company on 1 October 2002 following decision of the general meeting of shareholders.

Utair Air Company is the largest Russian helicopter operator and one of the world's leading helicopter companies with a fleet of 181 helicopters. The Air Company also holds a fleet of 113 air planes, making it one of the top five Russian air companies in terms of the number of passengers transported via domestic airways.

Since 1991 the Air Company cooperates with the UN providing helicopter services for the UN peace missions worldwide.

From 1997 the Air Company has become an annual prizewinner of Wings of Russia and for its 2002 performance it has been awarded the honorary title "The Air Company of the Year" and the first prize nomination "Participant in the Service of Russian Sectors".

On 10 April 2003 the Air Company was awarded the first prize and Diploma "Outstanding Achievements in Flight Safety" at the award ceremony organized in Moscow by the not-for-profit partnership "Flight Safety".

The Air Company is the largest Russian and one of the world's largest helicopter operators. The major customers demanding aircraft operations with the involvement of helicopters are oil and gas producers such as Surgutneftegaz, Sibneft, Gazprom etc. Servicing the oil sector yields around 65% of income from helicopter operations.

The Air Company is steadily developing and aggressively expands its presence on the domestic and international markets of passenger transportation.

The Air Company has seven branches and three representative offices.

The Air Company, its subsidiaries and controlled companies (hereinafter, the Group) were registered in accordance with the law of Russian Federation (hereinafter, the State). Major companies in the group have been disclosed in Note 6.

In 2002 the number of the Group's employees was about 5,500.

Legal address: Airport, Khanty-Mansiysk, 628012 Tyumen Region, Russia.

Relations with the State.

The Government has interest in the Air Company, namely: 25% is held by the Department for State Property of Khanty-Mansiysk Autonomous Region, 18.8% is held by the Department for

Proprietary and Land Relationships of Surgut Administration, 2.1% is held by the Russian Foundation for Federal Property.

The Government affects the Group's operations through setting and implementing the state policy in the area of civil aviation aimed at flight safety.

Through its special service – the State Civil Aviation Authority (SCCA) of the Russian Ministry of Transport – the Government, within its competence, discharges special functions in the civil aviation and organization of air traffic in accordance with the Russian law.

In Russia and in other locations within the range of its responsibilities SCCA of the Russian Ministry of Transport provides control over compliance with national and international requirements, standards, norms, rules and procedures related to the civil aviation and it represents and protects Russian interests in cooperation with the authorized agencies of other countries and international organizations.

SCCA of the Russian Ministry of Transport and its regional departments perform their activities in cooperation with central and local executive bodies, international organizations, public associations and local authorities.

The activities of civil aviation are subject to mandatory certification and licensing by the Russian Ministry of Transport.

The Air Company pays airport and air navigation charges and ground servicing fees set by the Russian Ministry of Transport.

Air navigation charges are imposed for the service of aircrafts in accordance with the requirements and rules adopted by the civil aviation, namely when those aircrafts make regular or irregular flights in those parts of Russian air space which have been duly set specifically for air paths, local air ways, straightening routes, aerial work, civil aerodromes and airports.

Airport charges and tariffs are imposed for the service of aircrafts in the civil airdromes and airports of the Russian Federation in accordance with the requirements and rules adopted by the civil aviation.

Position of the Group and Competitive Environment.

The decline in domestic transportations observed in 1998-2000 was overcome early in 2001 – the revival of economy and growth of GDP in 2001-2002 resulted in the increased volume of air transportations in Russia. According to the analysts' estimates, the domestic market of air transportation grew by 22% in 2002 (without taking account of small regional air companies). In 2002 the total number of transported passengers grew by 5.8% to 26.5 mln. people. Analysts forecast further growth of air transportations in Russia at the level of 5-10% a year. At this stage the main directions of development of air companies are the restructuring of routes, development of independent routes and improvement of services provided. It is also important to resolve the issue of compliance of technical specifications with international requirements.
Today 5 air companies provide 52% of all transportations in Russia (in terms of the number of passengers); totally, 237 operators play on the modern market of air transportations. In these circumstances around 80% of all transportations are performed by 30 companies while the 200 share the remaining 15% of the market.

Main Competitors

Aeroflot Russian Air Lines lead the Russian market of air carriers. In 2002 Aeroflot carried 5.49 mln. passengers losing in the order of 6% of its passenger channel. Conversely, the remaining top five air companies increased their transportation volumes by 10-40%. For instance, Siberia which carried 2.69 mln. passengers in 2002 (second ranking company) increased its passenger channel by 41%. Pulkovo Aviation Enterprise which increased its transportation volume by 10.2% to 2.057 mln passengers ranks third. UTair Air Company comes 4th with its 1.238 mln. of transported passengers (22.4% growth). Krasnoyarsk Air Company which carried 1.233 mln. people (20% more than in 2001) proves to be fifth ranking.

Competitive Edge

The main competitive edge of the Air Company is broad diversification of its activities and, respectively, income. The Air Company's business structure is composed of passenger and cargo transportations, helicopter operations, airport activities in the Air Company's airports and aircraft maintenance and repairs in the Air Company's maintenance base.

The Air Company is distinguished by its fleet of helicopters which is biggest in Russia and which generates a substantial portion in the Company's total income apart from revenues from the passenger operations. The major customers demanding helicopter operations are oil and gas producers and the United Nations who engage the Air Company for the transportation support of their peace missions in the South-East Asia and Africa. In 2002 the UN extended its main helicopter service contracts in East Timor, Eritrea, Western Sahara and Sierra-Leone. More than ten years of cooperation between the UN and the Air Company evidence a high level of flight safety and extensive international experience of the latter. In 2003 existing international contracts will provide steady inflow of revenues in foreign currency.

When flying international routes Russian air companies operate under intergovernmental agreements.

Note 2. Economic Environment in the Russian Federation

Whilst there have been improvements in the economic conditions in the Russian Federation in recent years, the country continues to display some characteristics of emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, restrictive currency controls and relatively high inflation.

The prospects of future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments.

Note 3. Financial Condition

Utair Aviation Joint-Stock Company is a dynamically developing business. The 2002 revenues made up 5.4 bln. roubles (exclusive of VAT). Total income of the Air Company is 25% higher than that of 2001. In 2002 the main components of the revenue structure were proceeds from regular passenger transportations (in the order of 2.4 bln. roubles), international helicopter operations (in the order of 1.2 bln. roubles), helicopter operations on the Russian market (in the order of 1.21 bln. roubles), charter flights (in the order of 0.49 bln. roubles). According to the business plan of Utair Aviation Joint-Stock Company adopted on 20 February 2003 at the regular Board meeting, in 2003 the Air Company plans to increase its operating income by 24%, with the expenditure part of the budget going up by 33.8%. Operating profit will be in the order of 50 mln. roubles. In 2003 the planned number of transported passengers is 1,303,000.

For its 2002 performance the Air Company demonstrated a significant growth of main performance indicators. From 1999 the Company's passenger turnover grew by more than 50%. In 2002 the Air Company's aircraft carried 1.58 mln. passengers, including 1.24 mln. persons by transport aircraft and 0.34 mln. persons by helicopters. The total flight hours made up 112,909.

('000 Russian roubles)

The Air Company demonstrates a stable tendency of growing its income from international activities. In 1999 its proceeds equaled 4 mln. dollars, in 2000 – about 22 mln. dollars, in 2001 – 35 mln. dollars, while the 2002 proceeds grew to 38.1 mln. dollars.

The Group's business strategy consists of well-balanced development of the Air Company's passenger transportations and helicopter operations with the aim of business diversification and stability both in domestic and international competitive environment.

Note 4. Basis of Presentation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations issued by IASB ("IFRS").

The Group maintains its books of accounts in accordance with RAR. The accompanying balance-sheet is based on the statutory records, which are maintained under the historical cost convention method, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of the fair valuation of property, plant and equipment, construction in progress, deferred profit taxes, allowance for doubtful debtors and fair values of financial instruments. Actual results could differ from these estimates.

Inflation Accounting

The adjustments and reclassifications made to the statutory records included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Corresponding figures, for the year ended 31 December 2001, were restated for the changes in the general purchasing power of the Russian Rouble as at 31 December 2002.

The conversion factors used in calculations of restatements were derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"). The indices used to restate the balance sheet, based on 1988 prices (1988=100) for the year ended 31 December 2002, and the respective conversion factors, are:

Date	Index	Conversion factors
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
31 December 2002	2,730,154	1.00

The significant guidelines followed in restating these financial statements in accordance with IFRS 29 are:

- All amounts, including comparative figures, are stated in terms of the measuring unit current at 31 December 2002;

- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;

- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;

- All items in the statement of operations and cash flows were restated by applying the change in the general price index from the date when the items were initially transacted to 31 December 2002.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group plans to no longer apply the provisions of IFRS 29 "Financial Reporting in Hyperinflationary Economies".

Note 5. Summary of Significant Accounting Policies

Principles of preparation. These financial statements are prepared on the basis of results of the Group's operations for the period from 1 January 2002 to 31 December 2002 and include the Group's operating and financial figures for the period.

Principles of consolidation. These consolidated financial statements comprise the financial statements of UTair Air Company and the financial statements of those entities which are controlled or significantly influenced by the Group. Subsidiaries are consolidated from the date on which control is transferred to or significant influence is exercised over the Group and are no longer consolidated from the date that control or significant influence ceases.

Foreign currency. Monetary assets and liabilities which are held by the Group and denominated in foreign currency at the balance sheet date are translated into Russian Roubles at the exchange rates prevailing at this date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$) at 31 December 2002 was RR 31.7831:US$1 (31 December 2001: RR 30.14:US$1). Exchange restrictions and controls exist relating to converting the Russian Rouble into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

Property, plant and equipment. Property, plant and equipment as at 31 December 2002 is stated at depreciated replacement cost, based upon values determined by third party valuation, and adjusted for subsequent additions at cost, disposals and depreciation.

Major renewals and improvements that result in a technical improvement or extension of useful lives are capitalized.

Interest expenses are capitalized if directly associated with the construction of assets. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical improvement of the asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

In accordance with the Russian law the land used for the activities of the Group is owned by the government or local authorities and, therefore, is not presented in the Balance-Sheet.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

Type of facility	Years
Buildings and construction facilities	20 to 80
Aircraft	25 to 35
Aircraft engines	20
Other	10

Social assets are excluded from the Balance Sheet as they are not expected to result in future economic benefits to the Group. However, costs for social responsibilities are expensed as incurred.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks "payable on demand". Cash equivalents comprise short-term investments that may be readily converted into cash. Cash equivalents are not subject to the risk of significant changes in value and have an original maturity of three months or less.

Cash flow statement has been prepared in accordance with IFRS 7 "Cash Flow Statements". The total of operating activities represents actual cash flow transactions from operations.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes which are payable to tax authorities upon collection of such receivables. Trade and other receivables are adjusted for an allowance made for impairment for these receivables. Such an allowance for impairment of receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the amount expected to be recovered.

Value added tax. Value added taxes related to sales are payable to tax authorities upon collection of receivables for services provided. Input VAT is reclaimable against sales VAT upon payment to suppliers. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis and disclosed separately as a current asset or liability. Where provision has been made for irrecoverable receivables, bad debt expenses are recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is repaid or written off in the Russian accounting records.

Inventories. Inventories are valued at weighted average cost adjusted for the inflation rate. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Deferred profit taxes. Deferred profit taxes and liabilities are calculated in respect of temporary differences using a balance sheet liability method for financial reporting and accounting for deferred profit taxes. Deferred profit taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred profit tax asset is recorded only to the extent that is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred profit tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added taxes which are reclaimable from tax authorities upon the later of receipt of goods or services and settlement of the payable.

Debt. Debt is recognized at the fair value of the proceeds received, net of transaction costs incurred. Fair value is determined with reference to market interest rate applicable to the Company when the debt was incurred. In subsequent periods, debt is stated at amortized cost; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognized in the statement of operations as an interest expense over the period of the debt obligation.

Pension and post-employment benefits. The Group's mandatory contributions to the governmental pension scheme are expensed when incurred. There are no discretionary pension and other post-employment benefits.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the outflow is probable and reliable estimates exists.

Segment information. One can identify two distinguishable business segments – transportation of passengers and helicopter operations. The geographic area where the Group operates is represented by Russian and foreign territories.

Revenue recognition. Revenue is recognized on the delivery of goods before the year-end. Revenue amounts in Statement of Operations are presented exclusive of value added taxes.

Seasonality. Air commerce has explicitly seasonal features. Most passenger operations are concentrated within the spring-summer period while during the autumn-winter period there is a significant decrease in the passenger turnover. The peculiarities of aerial work are practically the same, with its volume mostly concentrating within the spring-summer-autumn period and radically decreasing during the winter period. The seasonality has a corresponding impact on the usage of fuel.

This seasonality does not impact the revenue or cost recognition policies of the Group.

('000 Russian roubles)

Note 6. Related Parties.

Principal subsidiaries

Principal Subsidiaries of the Air Company:

Name	Location	Interest	Business Line
Plekhanovo Airport	Plekhanovo Airport, 625025 Tyumen, Russia	100%	Operation of special-purpose ground equipment
Tyumenavaitekhsnab	Roshchino Airport, 625033 Tyumen, Russia	100%	Specialized organization of material and technical supplies
Tyumenspetsavia	Airport, Nizhnyaya Tavda, Nizhnetavdinsky District, 626020 Tyumen Region, Russia	100%	Operation of Mi-2 and Mi-8T helicopters and An-2 planes in Tyumen and adjacent regions
Inter-Tyumenaviatrans	14/2 Obraztsova St., 103055 Moscow, Russia	100%	Consultancy – support of corporate automated control systems
Irtyshaviatrans	Airport, 626100 Tobolsk, Tyumen Region, Russia	73%	Operation of Mi-2 and Mi-8T helicopters, An-2 planes and the airport
Flight Safety Center	Plekhanovo Airport, 625025 Tyumen, Russia	79.8%	Performing work to assembly, set to work and service electronic, computer and information systems

Investments in subsidiaries are presented in consolidated financial statements as other non-current assets. Provision for the diminution in value is made where the value of financial investments decreases.

During the preparation of financial statements for the year ended on 31 December 2002 the subsidiaries' figures were not included in consolidated financial statements because of the immateriality of their assets, liabilities, revenues and expenses for the purpose of presentation of consolidated financial statements. Management believes that non-consolidation of subsidiaries does not impact fair presentation of these financial statements.

('000 Russian roubles)

Associates.

The Air Company has the following associates.

Name	Location	Interest	Business Line
Facility No. 26	Plekhanovo Airport, 625025 Tyumen, Russia	44.52%	Overhaul and servicing of aircraft and equipment
Surgut Airport	Airport, Surgut, Khanty-Mansi Autonomous District, 626400 Tyumen Region, Russia	26%	Operation of the airport
Kondaavia	Airport, Kondinsky, 626300 Tyumen Region, Russia	45.5%	Ground service of inbound and outbound aircraft, service of arriving and departing passengers, mail, and cargo
Airport LLC	Plekhanovo Airport, 625025 Tyumen, Russia	50%	Operation of the airport
Oktyabrsky Airport	Airport, Oktyabrskoye, 626250 Tyumen Region, Russia	49%	Operation of the airport

Related companies are consolidated on the basis of the Group's interest in net assets and profit or loss (IFRS 28 "Accounting for Investments in Associates"). Consolidated financial statements show the Group's interest in the associates' net assets while Statement of Operations presents the associates' share of the profit or loss for the year ended on 31 December 2002.

Board members' remuneration. Total remuneration paid to the Board members for 2001 was RR 3,354 thousand, no remuneration was paid to the Board members for 2002.

('000 Russian roubles)

Note 7. Property, Plant and Equipment

Appraisal value or cost	Buildings and Construction Facilities	Aircraft	Aircraft Engines	Construction -in-Progress	Other	Total
Balance as at December 2001	783,053	2,364,908	396,172	135,732	245,322	3,925,187
Additions	14,415	140,926	258,703	40,140	33,117	487,301
Disposals	1,552	5,735	10,940	44,986	28,678	91,891
Balance as at December 2002	795,916	2,500,099	643,935	130,886	249,761	4,320,597
Accumulated depreciation						
Balance as at December 2001	398,841	167,480	48,468	-	80,747	695,536
Accruals	36,817	84,726	15,401	-	11,280	148,224
Disposals	376	3,686	5,869	-	2,459	12,390
Balance as at December 2002	435,282	248,520	58,000	-	89,568	831,370
Net book value as at 31 December 2002	360,634	2,251,579	585,935	130,886	160,193	3,489,227
Net book value as at 31 December 2001	384,212	2,197,428	347,704	135,732	164,575	3,229,651

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into production. Construction in progress that has actually been put into production but having no registration of the ownership title is recorded as property, plant and equipment.

Other fixed assets include motor vehicles, computer equipment, office fixtures and other assets not included in categories mentioned above.

('000 Russian roubles)

Note 8. Investments in related companies

The Group's interest in related companies' net assets includes as follows.

Interest in related companies' net assets	Group's interest	31 December 2002	31 December 2001
Facility No. 26	44.52%	51,061	40,472
Surgut Airport	26.00%	70,666	64,588
		121,727	105,060

Note 9. Cash and cash equivalents

	31 December 2002	31 December 2001
Cash at bank and in hand	21,239	38,234
Foreign currency bank accounts	2,783	8,880
Other cash and cash equivalents	269	806
	24,291	47,920

Note 10. Accounts receivable and prepayments

	31 December 2002	31 December 2001
Trade receivables (net of provision for impairment of receivables of RR 218,368,000 as at 31 December 2002 and RR 211,808,000 as at 31 December 2001)	1,265,276	1,115,173
Advances given to suppliers	106,182	5,610
Value added recoverable	46,552	43,825
Prepayments	14,097	1,927
Other receivables	35,851	36,725
	1,467,958	1,203,260

('000 Russian roubles)

Note 11. Inventories

	31 December 2002	31 December 2001
Production stocks	473,630	290,022
Other inventories	8,929	9,283
	482,559	299,305

Inventories mostly represent aircraft fuel (air lubricants) and spare parts.

Note 12. Shareholders' equity and dividends

Share capital	Number of shares issued and fully paid	31 December 2002	31 December 2001
Ordinary shares	577,208,000	2,647,000	2,647,000

The authorized number of ordinary shares is 577,208,000 with a nominal value per share of 1 Russian Rouble. All authorized shares have been issued. The value of the share capital is stated in the amount of 2,647,000 thousand Russian Roubles and is formed with regard to the requirements of IFRS 29.

Dividends for the year ended 31 December 2002 were 0.03 RR per ordinary share. Dividends were approved by the meeting of shareholders on 18.06.03, the total amount being 17,316.24 thousand RR.

Note 13. Segment Information.

Business segments. One can identify two distinguishable business segments – transportation of passengers and helicopter operations.

Helicopter operations

The Air Company's fleet of helicopters consists of 181 machines that represent substantially all of the Mil family, including Mi-26 and other truly unique rotary-wing aircraft. Mi-26 is a heavy helicopter, the world's No. 1 in terms of weight-lifting ability. It can carry large-size cargos weighing up to 20 tons inside the hull as well as suspended. The Air Company has the largest fleet of these giant machines – a total of 17 ones.

The Air Company performs all kinds of helicopter operations in a most comprehensive way. Mi-8T and Mi-8MTB helicopters are used for the construction and monitoring of pipelines and electric power transmission lines, and in emergency aid, patrol, rescue, exploration and forest fire suppression missions. The Mi-10 helicopter is also used for the assembly of power transmission towers (with the involvement of the rotation method, among all), the erection of radio relay towers, and the assembly of various architectural and engineering installations.

('000 Russian roubles)

Fleet of helicopters as at 1 June 2002

Type	Total number
Mi-26	17
Mi -8MTB	27
Mi -8T	122
Mi -10K	7
Mi -6	8

Helicopter jobs in Russia

With its 35 years' work experience, skilled professionals and an impressive aircraft fleet, UTAir is a major Russian transportation company and performs the main portion of helicopter operations for the oil and gas sector of Siberia. The oil and gas business naturally requires a reliable transport system that would ensure the seamless, expeditious and safe delivery of equipment to remote fields. This mission is usually much complicated by the lack of access ways and well-developed infrastructure, which makes oil and gas enterprises the Air Company's most common customers.

Per customer requests, the Air Company's specialists design transportation schemes intended to optimize the time and money spent as much as possible. For oil extraction companies working in Siberia the Air Company has developed the techniques of oil rig and manpower delivery by the Mi-26 machines to a distance of up to 100 km within 1.5 days. This enables to significantly reduce both exploration costs and time required to commission drilling units.

Major helicopter job customers in Russia:

- Surgutneftegaz;
- Sibneft;
- Surgutgazprom (Gazprom);
- LUKoil;
- Obneftegazgeologia;
- Tyumenenergo (RAO UES);
- Khantymansiyskgeofizika;
- Sibnefteprovod (Transneft);
- Noyabrskgazodobycha;
- Tyumentransgaz (Gazprom);
- Administration of Khanty-Mansi and Yamalo-Nenets Autonomous Districts.

Helicoter jobs abroad

From 1991, the United Nations are the Air Company's primary international partner. During the past decade, the UTAir machines have carried out under UN contracts numerous shipping operations to scores of countries worldwide, including Yugoslavia, Angola, Cambodia, Mozambique, Somalia, Western Sahara, and Central African Republic.

After winning seven tenders in 2001 and getting several contracts extended, the Air Company is currently fulfilling for the United Nations a contract for helicopter shipping operations, the biggest one ever awarded to a helicopter company. It supports peacekeeping operations in several countries of Africa (Sierra Leone, Western Sahara, and Eritrea) and East Timor. In all, UTAir operates abroad under current UN contracts 19 machines: three Mi-26, 11 – Mi-8MTB, and five Mi-8T.

From September 2001, the Air Company supports the UN Mission in Eritrea where one Mi-8MTB helicopter is employed. In May – June 2001, the Air Company won two tenders for helicopter jobs to support a peacekeeping mission in East Timor where it sent two Mi-8MTB and one Mi-26.

('000 Russian roubles)

From August 2001, the Air Company has supported a peacekeeping mission in Western Sahara. Three Mi-8T machines are employed under the contract, whose main operation base is hosted by Oum Dreyga.

Transportation operations (airplane passenger flights)

Fleet of helicopters as at 1 June 2002

Type	Total number
Tu – 154M	9
Tu – 154B	6
Tu – 134	12
Yak – 40	22
An – 24	10
An – 26	2
An – 2	52

The Air Company expands its program of international passenger service by airplanes. The Tu-154M machines, which perform international flights, meet the ICAO requirements: they have oxygen dispensing equipment, systems of acoustic absorbtion, prevention of hazardous proximity, satellite and inertial navigation, and barometric equipment. This permits to perform flights in the Reduced Vertical Separation Minima (RVSM) mode.

In 2002, the Air Company continued the expansion of its route network and started a comprehensive program for the route network optimization.

The Air Company also works to improve the linkup route network, including, amongst other things, interline agreements concluded with other airlines, marketing and advertising activities, improved quality of services and flight safety. It announces open tenders for the purchase of aircraft.

('000 Russian roubles)

In 2002, the Air Company provided passenger services involving over 80 destinations.

Business segment information is shown below.

	Helicopter operations		Passenger operations		Other activities		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenues	**2, 542,118**	**2,545,071**	**3,098,060**	**2,525,284**	**129,494**	**145,964**	**5,769,672**	**5,216,319**
Segment profit	**805,418**	**900,213**	**(476,548)**	**(580,283)**	**129,494**	**145,964**	**458,364**	**465,894**
Unallocated expenses							(247,662)	322,324
Interests paid							(129,908)	-
Income from associates							21,653	6,789
Monetary effect and gain (loss) on the net monetary position							736	(105,291)
Profit tax							9,042	(107,973)
Net profit							112,225	581,743
Other information								
Segment assets	1,796,890	1,592,705	1,040,624	952,427	-	-	2,837,514	2,545,132
Unallocated assets							2,780,784	2,343,674
Unallocated liabilities							2,202,624	1,548,787
Additions to segment non-current assets	275,831	201,540	123,798	6,232	-	-	399,629	207,772
Segment depreciation	67,660	57,889	32,467	31,647	-	-	100,127	89,536

Geographical segment information is shown below.

Income by geographical segments.

	2002	2001
Revenues from services in the RF territory	4,507,866	4,008,591
Revenues from services outside the RF territory	1,261,806	1,207,728
	5,769,672	5,216,319

('000 Russian roubles)

Assets by geographical segments.

	Segment assets		Additions to segment non-current assets	
	2002	2001	2002	2001
Services in the RF territory	2,542,526	2,126,488	399,629	207,772
Services outside the RF territory	294,988	418,644	-	-
	2,837,514	2,545,132	399,629	207,772

Note 14. Profit Tax.

	31 December 2002	31 December 2001
Current profit tax charge	2,140	107,973
Deferred profit tax benefit (expense)	(11,182)	-
Total profit tax expenses	(9,042)	107,973

Income/(loss) before profit tax for financial reporting purposes is reconciled to the profit tax benefit as follows:

	31 December 2002	31 December 2001
Income/(loss) before taxation	103,183	689,716
Theoretical profit tax benefit (expense) at an average statutory tax rate of 24 percent thereon	24,764	165,532
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-temporary elements of monetary gains (losses)	(177)	(25,270)
Non-deductible expenses (receipts), net	(22,447)	(32,289)
Deferred tax liabilities (asset)	(11,182)	-
Total profit tax expenses	(9,042)	107,973

('000 Russian roubles)

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 24 percent, the rate applicable when the asset or liability will reverse.

Note 15. Goodwill of Related Companies.

Goodwill of related companies at the reporting date represents the following:

	Facility No. 26	Surgut Airport	Total
As at 31 December 2001	34,624	37,973	72, 597
Goodwill amortization in 2002	(1,822)	(3,165)	(4,987)
As at 31 December 2002	32,802	34,808	67,610

Negative goodwill represents the excess of the cost of share of related companies' net assets at the date of acquisition over the total cost of acquisition of corresponding shares. Goodwill is amortized over its useful life established by Management (20 years).

Note 16. Non-current debt

Non-current debt at the reporting date is stated in the financial statements as follows:

	Currency	Due	31 December 2002	31 December 2001
Surgutneftegasbank	RR	21/03/05	70,000	
Surgutneftegasbank	RR	05/04/05	8,000	
Surgutneftegasbank	RR	08/04/05	49,300	
Surgutneftegasbank	RR	12/04/05	12,400	
Surgutneftegasbank	RR	25/04/05	10,300	
Surgutneftegasbank	RR	23/04/03		220,000
Khanty-Mansi Bank	RR	03/10/03		158,505
Other			631	13,721
			150,631	**392,226**

All loan proceeds have been received for operating needs.

('000 Russian roubles)

Note 17. Lease.

In 2002 the Air Company entered into lease agreements, whereby such aircrafts as TU-154, TU-134, MI-8AMT were leased. The cost of leased property is charged to property, plant and equipment, the non-current portion of lease payments at the reporting date is 82,110 thousand RR and is shown as other non-current liabilities. The current portion of lease payments is shown as current liabilities. Non-current liabilities are shown in the balance-sheet at the fair value which is determined depending on the agreement date, due dates and the relevant discount rate. VAT reclaimable after 12 months from the reporting date is recognized within other non-current assets also taking account of the relevant discount rate. An applicable discount rate of 21-31 percent during the reporting period is based on the refinancing rate set by the Russian Central Bank.

Note 18. Current debt and current portion of non-current debt.

Current debt at the reporting date is stated in the financial statements as follows

	Currency	31 December 2002	31 December 2001
RF Sberbank (Surgut OSB)	RR	131,006	
Surgutneftegasbank	RR	168,500	
Khanty-Mansi Bank	RR	200,228	
Other		188,007	12,083
		687,741	**12,083**

Note 19. Accounts payable and accrued charges

	31 December 2002	31 December 2001
Trade payables, including those secured by promissory notes	672,467	361,929
Payroll arrears	58,873	35,187
Dividends payable	21,227	9,839
Accrued liabilities and other creditors	40,564	120,320
	793,131	527,275

Note 20. Earnings per share

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares outstanding during the period.

	31 December 2002	31 December 2001
Weighted average number of ordinary shares outstanding (thousands)	577,208	577,208
Adjusted for weighted average number of treasury shares (thousands)	0	0
Weighted average number of ordinary shares outstanding (thousands)	577,208	577,208
Net income	112,225	581,743
Income per ordinary share (in RR)	0.194	1.008

Note 21. Commitments

Trade payables. At the end of the reporting period the Group has no significant trade payables other than those included in these financial statements.

Social commitments. For the purposes of stabilization and maintenance of high professional level of staff the Group pays great attention to social development aspects, including provision of free health and recreation trips, pecuniary aid, allocation of funds towards the upkeep of housing and welfare facilities.

Capital commitments. At the end of the reporting period the Group has no capital commitments other than those included in these financial statements.

Note 22. Contingencies and operating risks.

Political environment. The operations and earnings of the Group continue, in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including the changes in airport charges and duties occurring in Russia.

Insurance. The Group has limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or claims outstanding which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Taxation. Russian tax legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulations or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate, under existing legislation, management believes that there are no significat liabilities for environment damage.

Note 23. Financial instruments and financial risk factors

Finacial risk factors. The Group's activities expose it to a variety of risks, including the effects of changes in foreign currency exchange rates, changes in interest rates and the collectibility of receivables. The Group does not have a risk policy to hedge its financial exposures.

Credit risk. Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Foreign exchange risk. The Group operates abroad as well as in the Russian Federation. As regards revenues receivable in foreign currency, the Group is exposed to the risks of adverse exchange rate fluctuations. The currency component of the Group's revenue approximates the Group's expenses that have been set in currency under the agreements made but are payable in roubles therefore reducing the risk of exchange rate fluctuations.

Interest rate risk. Long-term and short-term borrowings are at fixed interest rates. The Groups assets are generally non-interest bearing.