UTair Aviation Joint-Stock Company

Consolidated Financial Statements

as at and for the year ended 31 December 2008

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Management's Statement of Responsibility for Financial Reporting

The consolidated financial statements of the UTair Aviation Joint-Stock Company (the "Group") have been prepared by the management of the Group, which is responsible for the substance and objectivity of the information contained therein.

In preparing the financial statements, the management is responsible for: selecting appropriate accounting principles and applying them consistently; developing assumptions and estimates that are reasonable and prudent; stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue its business for the foreseeable future.

The management is also responsible for designing, implementing and maintaining an effective and sound system of internal controls across the Group; maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS; maintaining accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates; taking steps to safeguard the assets of the Group; and preventing and detecting fraud and other irregularities. In doing so, the Group established the audit committee within the Supervisory Board with the aim to increase the effectiveness of the internal controls and improve the corporate government practices.

The management of the Group conducts business in the interests of the shareholders and in awareness of its responsibilities toward employees, communities and the environment in all the regions in which the Group operates. Among the management's priorities is increasing the effectiveness of the aviation business, profitability of the Group and therefore wealth of the shareholders.

A.Z. Martirosov — General Director

O.V. Grabarovskaya — Chief Accountant

11 December 2009

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Independent Auditors' Report

To the Board of Directors of UTair Aviation Joint-Stock Company

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the fourth paragraph of the Basis of Qualified Opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

KPMG

Basis for Qualified Opinion

There are indications that the recoverable amount of property, plant and equipment might be lower than its carrying amount stated at US$749,016 thousand. International Financial Reporting Standard IAS 36 *Impairment of Assets* requires that where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made. The effects of this departure from International Financial Reporting Standards on the consolidated financial statements as at and for the year ended 31 December 2008 has not been determined.

The Group has not carried out a purchase price allocation in relation to its acquisition of Aviacion del Sur S.A. presented in Note 7, as required by International Financial Reporting Standard IFRS 3 *Business Combinations*, but has consolidated the subsidiary on the basis of carrying amounts of assets and liabilities in the acquiree's financial statements. The effect of this departure from International Financial Reporting Standards as at and for the year ended 31 December 2008 has not been determined.

The Group's associates, Airport Surgut OJSC and Kondaavia CJSC, referred to in Note 10 to the consolidated financial statements, carry certain items of property, plant and equipment, which should be stated at revalued amounts in accordance with the Group's accounting policy, at cost. The Group has not adjusted the associates' accounts when applying the equity method of accounting to conform the associates' accounting policy to those of the Group as required by International Financial Reporting Standard IAS 28 *Investments in Associates*. The effect of this departure from International Financial Reporting Standards on the consolidated financial statements as at and for the year ended 31 December 2008 has not been determined.

The Group has not disclosed the name of its ultimate controlling party, if any. It was impracticable to satisfy ourselves as to whether there was an ultimate controlling party and therefore whether such disclosure is required. Accordingly, we were unable to determine whether the disclosure of related party outstanding balances as at 31 December 2008 and related party transactions for the year then ended, which are required to be disclosed by International Financial Reporting Standard IAS 24 *Related Party Disclosures*, are complete.

Qualified Opinion

In our opinion, except for the effects of the matters described in the first, second and third paragraphs of the Basis of Qualified Opinion, and except for the omission of disclosure described in the fourth paragraph of the Basis of Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Other Matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2007 were audited by other auditors whose report dated 25 August 2008 expressed a qualified opinion on those statements because the Group did not disclose the name of its ultimate controlling party and because of the matter described in the third paragraph of the Basis of Qualified Opinion.

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11 December 2009

UTair Aviation Joint-Stock Company

Consolidated Balance Sheet as at 31 December 2008

(in thousands of US dollars)

	Notes	2008	2007
ASSETS			
Non-current assets			
Goodwill	7	12,021	-
Property, plant and equipment	8	749,016	415,869
Intangible assets		2,760	399
Net investment in leases	9	3,782	3,074
Investments in associates	10	13,280	5,851
Investments available-for-sale	11	466	194
Loans issued	12	1,800	-
Accounts receivable and prepayments	15	126,124	47,984
Other non-current assets		144	1,226
		909,413	**474,597**
Current assets			
Non-current assets held for sale	13	15,398	-
Inventories	14	72,682	53,706
Accounts receivable and prepayments	15	210,547	114,555
Net investment in leases	9	6,276	4,992
Investments available-for-sale	11	1,997	2,442
Income tax receivable		3,381	11,313
Loans issued	12	25,258	39,256
Cash and cash equivalents	16	11,534	9,647
Other current assets		34	-
		347,107	**235,911**
Total assets		**1,256,520**	**710,508**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	22	112,145	112,145
Treasury shares		(6,815)	(694)
Surplus from reissuance of treasury shares		451	451
Foreign currency translation reserve		8,379	26,028
Accumulated deficit		(165,383)	(67,915)
Property, plant and equipment revaluation reserve		336,272	102,357
Total equity attributable to equity holders of the Company		**285,049**	**172,372**
Minority interest	29	12,774	3,325
Total equity		**297,823**	**175,697**
Non-current liabilities			
Loans and borrowings	17	211,925	196,918
Deferred tax liabilities	28	66,380	25,656
Post-employment benefits payable	21	4,350	5,870
Other non-current liabilities		10	1,605
		282,665	**230,049**
Current liabilities			
Trade and other payables	19	115,014	86,195
Loans and borrowings	17	523,504	175,571
Current taxes payable	18	19,144	21,229
Advances from customers and deferred revenue	20	18,370	21,767
		676,032	**304,762**
Total liabilities		**958,697**	**534,811**
Total equity and liabilities		**1,256,520**	**710,508**

A.Z. Martirosov — General Director

O.V. Grabarovskaya — Chief Accountant

11 December 2009

The accompanying notes on pages 9-50 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Income Statement for the year ended 31 December 2008

(in thousands of US dollars)

	Notes	2008	2007
Revenue			
Passenger traffic and helicopter services revenue	23	1,210,789	874,820
Other revenue		51,870	28,092
		1,262,659	**902,912**
Operating expenses			
Direct operating expenses	24	(789,431)	(532,966)
Personnel expenses	25	(244,482)	(177,337)
Depreciation and amortisation		(60,639)	(50,736)
Repair expenses		(45,038)	(24,043)
Commissions		(36,859)	(29,770)
Impairment of doubtful debts	15	(1,720)	(4,487)
Other operating income		5,944	1,428
Other operating expenses	26	(73,115)	(40,212)
		(1,245,340)	**(858,123)**
Operating profit		**17,319**	**44,789**
Financial income	27	4,859	3,680
Financial expenses	27	(64,764)	(31,472)
Net foreign exchange loss	27	(63,295)	(148)
Share of results of associates		3,483	1,403
Loss on subsidiary disposals		-	(2,421)
Other		340	-
(Loss)/profit before income tax		**(102,058)**	**15,831**
Income tax benefit	28	4,028	5,619
(Loss)/profit for the year		**(98,030)**	**21,450**
Attributable to:			
- equity holders of the Company		(101,733)	20,830
- minority interests	29	3,703	620
Earnings/(loss) per share (in US$):			
basic and diluted (loss)/earnings per share attributable to equity holders of the Company	30	(0.18)	0.04

A.Z. Martirosov — General Director

O.V. Grabarovskaya — Chief Accountant

11 December 2009

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UTair Aviation Joint-Stock Company

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(in thousands of US dollars)

	Notes	Attributable to equity holders of the Company								
		Share capital	Treasury shares	Surplus from reissuance of treasury shares	Foreign currency translation reserve	Revaluation reserve	Accumulated deficit	Total	Minority interest	Total equity
At 31 December 2006	22	**112,145**	**(546)**	**451**	**15,139**	**102,357**	**(87,204)**	**142,342**	**3,507**	**145,849**
Profit for the year		-	-	-	-	-	20,830	20,830	620	21,450
Foreign currency translation differences		-	-	-	10,889	-	-	10,889	555	11,444
Total recognised income and expense								**174,061**	**4,682**	**178,743**
Acquisition of minority interest in a subsidiary		-	-	-	-	-	1,471	1,471	(1,471)	-
Purchase of treasury shares		-	(148)	-	-	-	-	(148)	-	(148)
Dividends paid to minority shareholders		-	-	-	-	-	-	-	(89)	(89)
Acquisition of a subsidiary		-	-	-	-	-	-	-	203	203
Dividends paid to equity holders of the Company		-	-	-	-	-	(3,012)	(3,012)	-	(3,012)
At 31 December 2007	22	**112,145**	**(694)**	**451**	**26,028**	**102,357**	**(67,915)**	**172,372**	**3,325**	**175,697**
Revaluation reserve		-	-	-	-	242,659	-	242,659	5,429	248,088
Realisation of property, plant and equipment revaluation reserve		-	-	-	-	(8,744)	8,744	-	-	-
(Loss)/profit for the year		-	-	-	-	-	(101,733)	(101,733)	3,703	(98,030)
Foreign currency translation differences		-	-	-	(17,649)	-	-	(17,649)	(443)	(18,092)
Total recognised income and expense								**295,649**	**12,014**	**307,663**
Purchase of treasury shares		-	(6,121)	-	-	-	-	(6,121)	-	(6,121)
Dividends paid to minority shareholders		-	-	-	-	-	-	-	(120)	(120)
Acquisition of subsidiary		-	-	-	-	-	-	-	880	880
Dividends paid to equity holders of the Company		-	-	-	-	-	(4,479)	(4,479)	-	(4,479)
At 31 December 2008	22	**112,145**	**(6,815)**	**451**	**8,379**	**336,272**	**(165,383)**	**285,049**	**12,774**	**297,823**

A.Z. Martirosov — General Director

O.V. Grabarovskaya — Chief Accountant

11 December 2009

The accompanying notes on pages 9-50 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Statement of Cash Flows for the year ended 31 December 2008

(in thousands of US dollars)

	Note	2008	2007
Cash flows from operating activities:			
(Loss)/profit before income tax		(102,058)	15,831
Adjustments for:			
Depreciation and amortisation		60,639	50,386
Interest expenses and fair value adjustments	27	64,764	31,472
Unrealised foreign exchange differences		61,692	-
Other provisions, allowances and pensions	14, 19, 21	10,740	12,980
Loss on disposal of property, plant and equipment	26	7,101	5,509
Provision for doubtful debts	15	1,720	4,487
Loss on revaluation of property, plant and equipment		1,310	-
Loss on disposal of subsidiaries		-	2,421
Accounts payable written off		(420)	-
Share of result in associates, after tax	10	(3,483)	(1,403)
Interest income	27	(4,859)	(3,680)
Operating cash flows before working capital changes		**97,146**	**118,003**
Increase in accounts payable, advances and other payables		25,462	25,156
Increase in taxes payable and receivable		1,672	5,233
Purchase of non-current assets held for sale	13	(23,931)	-
Increase in inventories		(31,764)	(17,144)
Increase in accounts receivable and prepayments		(229,790)	(35,244)
Cash (used in)/generated from operating activities		**(161,205)**	**96,004**
Income tax paid		(676)	(8,558)
Interest paid		(61,927)	(29,386)
Net cash (used in)/generated from operating activities		**(223,808)**	**58,060**
Cash flows from investing activities:			
Short-term loans repaid by third parties		13,108	3,318
Decrease in net investments in lease		2,601	226
Proceeds from sales of investments		1,408	1,640
Dividends received	10	152	81
Proceeds from sales of property, plant and equipment		-	971
Interest received		-	1,197
Investments acquisition		(10)	(288)
Short-term loans provided to third parties		(3,640)	(37,183)
Acquisition of share in associates	10	(6,978)	-
Acquisition of subsidiaries		(13,400)	-
Acquisition of property, plant and equipment		(119,293)	(156,568)
Net cash used in investing activities		**(126,052)**	**(186,606)**
Cash flows from financing activities:			
Proceeds from borrowings		906,184	419,306
Dividends paid to minority shareholders		(120)	(89)
Dividends paid to equity holders of the Company		(3,207)	(3,012)
Repayment of liability under finance lease agreements		(6,106)	(3,803)
Acquisition of treasury shares	22	(6,121)	(148)
Repayment of borrowings		(538,883)	(282,627)
Net cash from financing activities		**351,747**	**129,627**
Effect of exchange rate changes on cash and cash equivalents		-	542
Net increase in cash and cash equivalents		**1,887**	**1,623**
Cash and cash equivalents at the beginning of the year	16	9,647	8,024
Cash and cash equivalents at the end of the year	16	**11,534**	**9,647**

A.Z. Martirosov — General Director

O.V. Grabarovskaya — Chief Accountant

11 December 2009

The accompanying notes on pages 9-50 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

(in thousands of US dollars)

1. General Information

The core businesses of UTair Aviation Joint-Stock Company (the "Company" or "UTair") and its subsidiaries (collectively referred to as the "Group") are passenger and cargo transportation using airplanes and helicopters, helicopter works as well as aviation services. The Group operates more than 300 machines. Cargo and passenger aircraft transportation is performed in Russia, CIS and non-CIS countries. The main customers of helicopter services of the Group are mainly Russian oil and gas companies, and the United Nations Organisation (UN) outside of Russia. The main aviation services are: catering, airport services, aircraft repairs and maintenance services, provision of passenger and cargo air transportation and aeronautical personnel training.

UTair, the parent company, was incorporated as an open joint stock company in the Russian Federation on 28 October 1992. The registered office of the Company is: 628012, Russia, Tyumen oblast, Khanty-Mansiysk, Airport.

As at 31 December 2008 and 2007, the Company's ordinary shares were owned by:

Name	2008 % share	2007 % share
La Manche LLC (Russia)	19.99%	19.99%
Triseltco LLC (Russia)	19.84%	19.84%
Polint LLC (Russia)	18.80%	18.80%
Krajel LLC (Russia)	17.00%	17.00%
Individuals	14.05%	15.00%
Other legal entities	6.30%	7.96%
Treasury shares	4.02%	1.41%

The Company has the following subsidiaries, which are included into the consolidated financial statements:

Entity	Activity	2008 % share	2007 % share
Transportations and Services Realisation Centre LLC	Ticket sales agency	100.00%	100.00%
UTair Leasing LLC	Leasing company	100.00%	100.00%
NP Staff Training Centre	Staff Teaching and assessment	100.00%	100.00%
UTair - Cargo CJSC	Freight service	100.00%	100.00%
Tumenaviatecksnab LLC	Delivery of property, plant, equipment and materials	100.00%	100.00%
ChOP Aircraft Security Centre LLC	Aircraft security service	100.00%	100.00%
UTair-Finance LLC	Finance services	100.00%	100.00%
UTair-Technique LLC	Repair of aircrafts fleet	100.00%	100.00%
UTair-Ufa LLC	Representative office	100.00%	100.00%
UTair-Samara LLC	Representative office	100.00%	100.00%
Tobolskavia LLC	Airport service	100.00%	100.00%
UTair-Express LLC	Air transportation	100.00%	100.00%
Economic Reforms Centre LLC	Investing activities	100.00%	100.00%
UTair Development LLC	Finance agency, sale/buying of estate	100.00%	100.00%
UTair South Africa (Pty) Ltd.	Aviation services and maintenance service of fleet of aircraft	100.00%	100.00%
UTair Sierra Leone Limited	Aviation services and maintenance service of fleet of aircraft	100.00%	100.00%
UT Project Services Ltd. (India)	Representation, agency services	100.00%	100.00%
West Sib-Capital Limited (Cyprus)	Investing services	100.00%	100.00%
UTair-Irkutsk LLC	Representation	100.00%	100.00%
Kirensk-Avia LLC	Airport service	100.00%	100.00%
UTair-Ukraine LLC	Air transportations	100.00%	-

Entity	Activity	2008 % share	2007 % share
Tyumen General Purpose Aircraft Research and Production Centre LLC	Manufacture of flying machines	100.00%	-
UTair India Private Limited (India)	Air transportations	100.00%	-
LLC Tyumen Civil Aviation Pilot School	Educational services	100.00%	-
Airport Ust-Kut OJSC	Airport service	85.60%	85.60%
UTair - Engineering OJSC	Repair and service of aircraft fleet	82.17%	77.80%
Aviation del Sur S.A. (Peru)	Aviation services	70.00%	-
Western-Siberian Agency of Air Communications LLC	Tickets sale	51.00%	51.00%
UKair LLC	Administrative services	50.00%	50.00%
UTG CJSC	Land service	50.00%	50.00%
Ukrainian Handling Company	Trade in fuel, the organisation of transportation of cargoes	50.00%	50.00%
UTair-Europe s.r.o. (Slovakia)	Aviation services	20.00%	20.00%

All subsidiaries of the Group are incorporated under the laws of the Russian Federation except for subsidiaries in South Africa, India, Slovakia, Peru and Ukraine.

In 2008 the Group incorporated Tyumen Civil Aviation Pilot School LLC, UTair Ukraine LLC and UTair India Private Limited (India). In addition, in 2008 the Group acquired a controlling stake in Aviation del Sur S.A. (Peru) (Note 7).

As at 31 December 2008 the Group had approximately 10 thousand employees (2007: 9.2 thousand). The Group's facilities are based mainly in the Tyumen Oblast, as well as in Moscow, Syktyvkar, Samara and Ufa. The facilities of the Group's non-Russian subsidiaries are based in South Africa, India, Slovakia, Peru and Ukraine.

The consolidated financial statements of the Group as at and for the year ended 31 December 2008 were authorised for issue by the Company's Executive Body on 11 December 2009.

2. Basis for Preparation of the Financial Statements

Statement of Compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that certain items of property, plant and equipment are stated at revalued amount and continue to be revalued periodically.

3. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in notes 3.1 to 3.24. These accounting policies have been consistently applied.

3.1 Principles of Consolidation

Subsidiaries
The subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over their operations, are consolidated. The subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date when the control ceases. All inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries
The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the purchase consideration over the fair value of the Group's share in the identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share in the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Increases in Ownership Interests in Subsidiaries
The difference between the carrying value of the acquired interest in the net assets of the subsidiaries and the consideration paid for such interest are charged or credited to retained earnings.

3.2 Investments in Associates

The associates are the entities in which the Group generally owns between 20% and 50% of the voting rights, or is otherwise able to exercise a significant influence, but which are not under the Group's control or are under joint control of the Group and third parties. Investments in the associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share in the net assets of the associate.

The Group's share in its associates' profits or losses is recognised in the income statement, and its share in movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in that associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on the transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.3 Investments and Other Financial Assets

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or as financial investments available for sale, as appropriate. Initially, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The

Group determines the classification of its financial assets at their initial recognition.
All regular purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the reporting period, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has a positive intention and ability to hold to maturity. During the reporting period, the Group did not hold any investments in this category.

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

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After the initial recognition, the available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

3.4 Cash and Cash Equivalents

Cash in the balance sheet comprises cash at banks and in hand and short-term deposits with an original maturity of three months or less.

3.5 Trade and Other Receivables

Trade receivables, which are generally short-term, are carried at the original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the outstanding balances.

3.6 Non-current assets held for sale

Items of non-current assets held for sale, except for land, are measured at lower of their carrying amount and fair value less costs to sell.

Requirements on consolidation of the assets included in disposal group continue to be applied after initial classification of this disposal group in a category of the assets held for sale. Thus the assets held for sale will not be depreciated.

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle ("FIFO"), and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8 Property, Plant and Equipment

Aircraft, helicopters, engines, land and buildings
Aircraft, helicopters, engines, land and buildings are initially recognised at cost. Following initial recognition, they are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group involved independent appraisers to determine the fair value of aircraft, helicopters, engines, land and buildings. The most recent valuation was performed as of 31 December 2008.

A revaluation increase is recognised directly in the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case the reversing amount is recognised directly in equity. The Group does not recognise an annual transfer from the asset revaluation reserve to retained earnings for the depreciation relating to the revaluation surplus, due to impracticability of such a disclosure. When a revalued asset is sold, the amount included in the revaluation reserve is transferred to retained earnings.

Rotables
Rotables acquired both as a part of aircraft and helicopters and separately are recorded as property, plant and equipment and amortised according to their useful life (generally 5 years).

Assets under construction
Assets under construction are recorded at purchase or construction cost.

Impairment
At each reporting date, the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value in use less cost to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation
Depreciation for aircraft, helicopters and engines is calculated using the straight-line method over the remaining useful lives defined in years by independent appraisers for each specific aircraft, helicopter and engine. The remaining useful life varies from 1 to 23 years.

Depreciation for other property, plant and equipment groups is calculated using the straight-line method over the following estimated useful lives:

Buildings	20 to 57 years
Equipment	8 years
Rotables	5 years
Furniture	5 years
Vehicles	5 years
Office equipment	3 years

Land is not depreciated.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, annually.

Accounting for Major Overhauls
Consistent with IAS 16 *Property, Plant and Equipment*, the Group identifies as a separate component of its aircraft, helicopter and engines, an amount representing major overhaul and depreciates that component within the period to the next major overhaul to reflect the consumption of benefits, which are replaced or restored by the subsequent major overhaul. Amounts spent on major maintenance overhauls are subsequently capitalised as a separate component of an aircraft, helicopter or an engine with a different useful life.

Repair and Maintenance
Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

Borrowing Costs
Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised in the cost of the relevant asset, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.9 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is initially recognised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 2-5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

on a prospective basis.

3.10 Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

3.11 Income Taxes

Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are effective as at the financial statements date.

Current tax represents the sum of the income tax payable to the State (recovered from the State) with regard to the tax income (tax loss) for the period determined in accordance with the rules established by the tax authorities, according to which the income tax is payable to the State (or recovered from the State).

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred Income Tax
Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or declared (and practically adopted) at the balance sheet date.

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

3.12 Foreign Currency Transactions

The Group's functional currency is the Russian Rouble ("RUR"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially

recognised in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss. Non monetary items that are accounted for in a foreign currency and measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

The functional currency of the foreign operations is the United States Dollar ("US$"), South African Rand ("rand"), Slovak Koruna ("koruna") and the Indian Rupee ("rupee"). As at the reporting date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Group, RUR, at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in the equity relating to that particular foreign operation is recognised in the income statement.

On 11 December 2009 the Group authorized and issued its consolidated financial statements as of 31 December 2008 and for the year then ended prepared in accordance with IFRS and presented in RUR. The presentation currency of these financial statements, issued as a supplement to the financial statements prepared in RUR, is US$. As of the reporting date, the assets and liabilities of the Group are translated into the presentation currency of the Group at the rate of exchange ruling at that balance sheet date (31 December 2008: 29.38 RUR for 1 US$ (2007: 24.55)), and its income, expenses and cash flows are translated at the weighted average exchange rate for the respective year (2008: 24.86 RUR for 1 US$; (2007: 25.58)). The equity items (other than those resulting from income and expenses recognised for the period) are translated at historical rates of exchange (rate ruling at the transaction date).

3.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is realised as a separate asset but only when the reimbursement is virtually certain.

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

3.14 Equity

Share Capital
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised also as share premium.

Treasury Shares
Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are cancelled or reissued. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Minority Interest
Minority interest represents the interest in subsidiaries not held by the Group. Minority interest at the balance sheet 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. Minority interest is presented within the shareholders' equity.

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

3.15 Revenue Recognition

Operating revenues comprise the invoiced value of airline and other services, net of any discounts and taxes.

Revenue from sales of tickets for regular flights is recognised in the period in which the service is provided. Unearned revenue represents tickets sold but not yet flown and is included in deferred income. It is released to the income statement as passengers fly. Unused non-valid tickets which are not refundable are recognised as revenue.

Sales of other services (cargo, charters, helicopter services, airport and technical support services) are recognised in the period the services are provided.

3.16 Employee Benefits

Post-Employment Benefits
The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The entitlement to some benefits is conditional on the period during which the retired reside at the places where the Group is based.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-reliable government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related obligations.

Actuarial gains and losses are recognised in the income statement in the period in which they occur. The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested.

State Pension Scheme
The Group contributes to the Pension Fund of the Russian Federation as well as Social and Medical Funds according to the effective official rates, on the basis of the salaries of the employees of the Russian subsidiaries of the Group before taxation. Similar contributions for other subsidiaries of the Group are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. The only obligation of the Group is to pay the said contributions as they fall due. These contributions are expensed as incurred.

Other Expenses
The Group incurs employee costs related to the provision of benefits such as medical insurance and kindergartens. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to operating expenses.

3.17 Leases (Group as a Lessor)

One of the Group's subsidiaries is a leasing company which enters into finance and operating lease agreements as a lessor. The leasing operations within the Group are eliminated during the consolidation.

Finance Lease
When assets are leased to the non-Group companies under a finance lease, the present value of the lease payments ("net investment in leases") is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The net investment in the lease and the related obligation to purchase the asset are recorded when the lease contract is signed. Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the lease.

Provisions against net investment in leases are based on the evaluation by the management of the collectability of the net investment in leases. Specific provisions are made against amounts whose recovery has been identified as doubtful. The aggregate provisions made as at the year-end are charged against statement of income for the year.

Settlements on equipment purchased for leasing purposes are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Operating Lease
Payments made under operating leases are charged against income in equal instalments over the period of the lease.

3.18 Leases (Group as a Lessee)

Finance Lease
The determination of whether an arrangement is or contains a lease, is based on the substance of the leased item and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys the right to use the asset.

Finance leases, which in fact transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception 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 the 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 expenses are charged to interest expense in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating Lease
Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

3.19 Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

3.20 Frequent Flyer Programme

The Company records an estimated liability for the incremental costs associated with providing free transportation under the Status frequent flyer programme (Note 19) when a free air ticket or upgrade of service class are earned. Incremental costs include customer service, airport fees, customer nutrition and insurance. The liability is included in trade and other payables, and is adjusted periodically based on awards earned, awards redeemed and changes to the Status programme. The costs are included in other operating expenses in the consolidated income statement.

3.21 Dividends

Dividends are recognised at the date they are declared by the shareholders at a general meeting.

Retained earnings legally distributed by the Company are based on the amounts available for distribution in accordance with applicable legislation and reflected in the statutory financial statements (Note 22). These amounts may differ significantly from the amounts presented in accordance with IFRS.

3.22 Financial Income and Expenses

Financial income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs, other than those capitalised in the cost of construction of a qualifying asset, are recognised in the income statement using the effective interest method.

3.23 Other Operating Expenses

Other operating expenses comprise expenses that are not directly incurred in revenue generation. Other operating expenses are recognised in the period in which they occur.

3.24 New standards not yet adopted

A number of new Standards, amendments to standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IAS 1 (revised) *Presentation of Financial Statements*;
- IFRS 2 (revised) *Share-based Payment*;
- IFRS 3 (revised) *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IAS 23 *Borrowing Costs;*
- IAS 27 *Consolidated and Separate Financial Statements;*
- IAS 32 *Financial Instruments: Presentation;*
- IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate.*

Influence of these changes on the Group's accounting policy is discussed below:

IAS 1 (revised) Presentation of Financial Statements
Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

IFRS 2 (revised) Share-based Payment
The revised standard clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

IFRS 3 (revised) Business Combinations
The revised standard, which comes into effect on 1 July 2009 (i.e. becomes mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be

measured upon acquisition and require recognising the effects of transactions with non-controlling interest directly in equity.

IFRS 8 Operating Segments
IFRS 8 introduces the "management approach" to segment reporting and becomes mandatory for the Group's 2009 consolidated financial statements and will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (Note 5).

IAS 27 *(amended) Consolidated and Separate Financial Statements*
Amended IAS 27 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

IAS 32 *(amended) Financial Instruments: Presentation*
Amendments to IAS 32 require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required. The Group has not yet determined the potential effect of the amendments.

IAS 39 *(amended) Financial Instruments: Recognition and Measurement*
Amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment becomes mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group has not yet determined the potential effect of the amendment.

IFRIC 13 Customer Loyalty Programmes
IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008 (for the Group: financial statements for 2009). This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group has not yet determined the potential effect of the interpretation.

IFRIC 15 *Agreements for the Construction of Real Estate*
IFRIC 15 addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 becomes mandatory for the Group's 2009 consolidated financial statements. The Group has not yet determined the potential effect of the interpretation.

4. Significant Accounting Judgments and Estimates

4.1 Judgments

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

The Group determined that the substance of the relationship between the Group and UKair LLC, with a 50% share belonging to the Group, indicates that UKair LLC is controlled by the Group. As a result, this entity has been included into the Group's consolidated financial statements as at 31 December 2008 and 2007, because this is a special purpose entity.

The Group determined that the substance of the relationship between the Group and UTG CJSC, with a 50% share belonging to the Group, indicates that UTG CJSC is controlled by the Group. As a result, this entity has been included into the Group's consolidated financial statements as at 31 December 2008 and 2007, because this is a special purpose entity.

In 2007 the Group reduced its share in the Ukrainian Handling Company (Ukraine) from 100% to 50% due to the specifics of the local legislation. Nevertheless, the Ukrainian Handling Company still remains under control of the Group. As a result, the entity has been included into the Group's consolidated financial statements as at 31 December 2008 and 2007.

The Group determined that the substance of the relationship between the Group and UTair Europe s.r.o. (Slovakia), with a 20% share belonging to the Group, indicates that UTair Europe s.r.o. (Slovakia) is controlled by the Group. As a result, this entity has been included into the Group's consolidated financial statements as at 31 December 2008 and 2007, because this is a special purpose entity.

4.2 Estimation Uncertainty

The preparation of the consolidated financial statements requires the management to make judgmental estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

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

Useful Life of Property, Plant and Equipment
The Group assesses the remaining useful lives, residual values and methods of depreciation of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in the income statement.

Impairment of Property, Plant and Equipment
The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does

not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by the management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Fair Values of Unlisted Available-For-Sale Investments

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date.

Provisions

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

The Group makes an allowance for obsolete inventories. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees, rates of employee turnover, disability and early retirement, the possibility for former employees to reside in the regions where the entities of the Group operate, etc., as well as financial

assumptions (discount rate, future salary).

In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. More details are provided in Note 21.

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

Current Taxes
Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of the management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 31.

Deferred Tax Assets and Liabilities
The management's judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction.

Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

Fair values of Assets and Liabilities Acquired in Business Combinations
The Group recognises separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in Note 7.

4.3 Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

5. Segment Information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The business segments are structured and managed separately depending on the services provided, with each segment representing a strategic business unit that offers different services and serves different markets.

The Group is organised into two main business segments: passenger traffic and helicopter services. The major part of the passenger traffic segment is represented by regular flights. The major part of the helicopter services segment is individual (charter) flights. Other operations of the Group mainly comprise airport services, technical support and repairs of air fleet, none of which are of a sufficient size to be reported separately.

The technical support and air fleet repairs are provided from the other operations segment to the passenger traffic segment. Transfer prices between business segments are set by mutual agreements of the parties involved in these transactions.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment. Impairment loss and provisions relate only to those charges made against allocated assets.

The table below summarises the information on income and profit, as well as assets and liabilities related to the Group's business segments:

2008	Passenger traffic	Helicopter services	Other	Retained amounts	Group
Operating revenue	822,845	361,524	78,290	-	1,262,659
Inter-segment sales	(47,088)	(71,542)	118,630	-	-
Operating profit/(loss)	(38,980)	201,173	18,715	(163,589)	17,319
Total assets	369,140	559,943	17,028	310,409	1,256,520
Total liabilities	(129,989)	(23,513)	(26,618)	(778,577)	(958,697)
Capital expenditures	94,378	66,513	-	19,629	180,520
Depreciation and amortisation	(22,695)	(28,698)	-	(9,246)	(60,639)

2007	Passenger traffic	Helicopter services	Other	Retained amounts	Group
Operating revenue	591,427	265,463	46,022	-	902,912
Inter-segment sales	(16,880)	(23,090)	39,970	-	-
Operating profit/(loss)	15,559	94,077	(30,690)	(34,157)	44,789
Total assets	181,248	194,700	18,458	316,102	710,508
Total liabilities	(82,946)	(9,926)	(17,953)	(423,986)	(534,811)
Capital expenditures	77,413	47,012	-	24,427	148,852
Depreciation and amortisation	(20,376)	(20,804)	-	(9,206)	(50,386)

Secondary Reporting Format - Geographical Segments

The Group's two business segments operate mainly in Russia. In addition, the Group provides helicopter transportation services outside Russia (in Republic of South Africa, India, Slovakia, Peru). Sales revenue is attributed to the geographical area in which the customer is located. There were no sales between the segments.

2008	Russia	Non-Russia	Group
Operating revenue	1,046,734	215,925	1,262,659
Operating expenses	(1,132,094)	(106,789)	(1,238,883)
Unallocated operating expenses	-	-	(6,457)
Operating profit/(loss)	(85,360)	109,136	17,319
Total assets	1,063,079	193,441	1,256,520
Capital expenditures	151,036	29,484	180,520

2007	Russia	Non-Russia	Group
Operating revenue	747,493	155,419	902,912
Operating expenses	(641,713)	(91,180)	(732,893)
Unallocated operating expenses	-	-	(125,230)
Operating profit	105,780	64,239	44,789
Total assets	634,860	75,648	710,508
Capital expenditures	140,360	8,492	148,852

6. Balances and Transactions with Related Parties

In accordance with IAS 24 *Related Parties 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. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

For the purpose of these financial statements, the following related parties were identified in accordance with IAS 24 *Related Party Disclosures*:

- parties which exercise joint control or significant influence on the Group;
- associates, i.e. enterprises in which the Group has significant influence and which is neither a subsidiary nor a party in a joint venture of the investor;
- key management personnel;
- other.

The outstanding amounts due from related parties were as follows as at 31 December:

	2008	2007
Trade receivables (Note 15):		
Entities with joint control or significant influence over the Group	2,010	3,148
Associates	2,917	525
	4,927	**3,673**
Prepayments (Note 15):		
Entities with joint control or significant influence over the Group	-	595
Associates	4	28
	4	**623**
Long-term accounts receivable:		
Key management personnel (maturing before 31 December 2008)	-	128
	-	**128**
Other (Note 15)		
Entities with joint control or significant influence over the Group	-	20
Associates	121	-
Key management personnel	1	-
	122	**20**
	5,053	**4,444**

The outstanding balances are interest free and short-term, except for where it is specifically noted. Most are related to rendering of transportation services to the related parties. The outstanding balances are neither guaranteed nor secured. The settlements are performed in cash. No doubtful debts due from related parties existed as at 31 December 2008 and as at 31 December 2007.

The Group also had cash balances of US$784 thousand (2007: US$144 thousand) held with entities exercising joint control or significant influence over the Group as at 31 December 2008.

The outstanding amounts due to related parties were as follows as at 31 December:

	2008	2007
Trade accounts payable (Note 19):		
Entities with joint control or significant influence over the Group	3,863	1,560
Associates	2,232	2,532
Other	-	27
	6,095	**4,119**
Advances received (Note 20):		
Entities with joint control or significant influence over the Group	172	142
Associates	622	145
Key management personnel	-	-
	794	**287**
Loans payable (Note 17):		
Entities with joint control or significant influence over the Group	107,110	22,290
	107,110	**22,290**
Other (Note 19)		
Related parties which jointly controls or have a significant influence to the Group	287	-
Associates	4	-
Key management personnel	2	-
	293	**-**
	114,292	**26,696**

There were the following related party transactions in 2008 and 2007:

	2008	2007
Sale - transportation services:		
Entities with joint control or significant influence over the Group	76,553	71,384
Associates	4,320	6,060
Key management personnel	3	2
Other	-	74
	80,876	**77,520**
Other sales:		
Entities with joint control or significant influence over the Group		
Associates	2,541	-
Key management personnel	248	-
Other	1	-
	2,790	-
Total sales to related parties	**83,666**	**77,520**
Direct operating expenses:		
Entities with joint control or significant influence over the Group	123,526	97,919
Associates	28,302	33,866
Other	-	1,083
	151,828	**132,868**
Other operating expense:		
Entities with joint control or significant influence over the Group	11,771	451
Associates	441	81
	12,212	**532**
Interest expenses on loans payable (Note 27):		
Entities with joint control or significant influence over the Group	3,285	1,241
Total purchases from related parties	**167,325**	**134,641**
Proceeds from loans and borrowings:		
Entities with joint control or significant influence over the Group	148,521	70,666
Repayment of loans and borrowings:		
Entities with joint control or significant influence over the Group	(50,954)	(52,764)
Net proceeds of borrowings from related parties	**97,567**	**17,902**

In 2008 the Group concluded agreements with related parties about repayments of loans and borrowings amounted to US$148,521 thousand. The loans outstanding as at 31 December 2008 are secured by property, plant and equipment with a carrying value of US$9,126 thousand, notes issued by the Company, and also legal claims of cash inflows collectable under the existing contracts and guaranties of Group companies.

Compensation to Key Management Personnel

Key management personnel comprised directors, members of the Management Board and the Supervisory Council. The total compensation to key management personnel is reported under personnel expenses of the consolidated income statement in 2008 and amounted to US$6,950 thousand (2007: US$3,862 thousand). Compensation to key management personnel consists of the contractual salary and performance bonus depending on the achieved operating results.

Transactions with related parties are made on contractual bases.

7. Acquisition and Disposal of Subsidiaries

Acquisition of Aviacion del Sur S.A. (Peru)

On 12 June 2008 the Group acquired 70% of voting shares in Aviacion del Sur S.A., a Peruvian company rendering helicopter transportation services in Peru.

Taking control of Aviacion del Sur S.A. will enable the Group to gain access to the Central and Latin American helicopter transportation market.

If the acquisition had occurred on 1 January 2008, Group revenue for the year would have been US$1,270,649 thousand and the net loss for the year would have been US$97,452 thousand. In determining these figures it has been assumed that the fair value adjustments at 1 January 2008 would have been the same as the fair value adjustments that arose on the date of acquisition.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	As at the date of acquisition
Inventories	6,951
Property, plant and equipment	4,324
Trade and other receivables; prepaid expenses	2,496
Cash and cash equivalents	49
Deferred tax liability	(142)
Long-term accounts receivable and prepayments	(284)
Minority interests	(880)
Trade account payable	(7,808)
Fair value of net assets	**4,706**
Consideration paid	13,449
Deferred consideration	5,295
Goodwill	**14,038**
Cash outflow on acquisition:	
Net cash acquired with the subsidiary	49
Cash paid	(13,449)
Net cash outflow	**(13,400)**

The difference between the fair value of net assets acquired and the consideration paid is accounted for as goodwill in the consolidated balance sheet. Since the date of acquisition Aviacion del Sur S.A. contributed net profit of US$4,261 thousand to the Group's net loss.

8. Property, Plant and Equipment

	Land and buildings	Rotables, aircraft, helicopter and engines	Other	Assets under construction	Total
Cost					
31 December 2007	**121,403**	**331,350**	**70,558**	**25,694**	**549,005**
Additions	6,101	160,891	11,602	1,926	180,520
Additions through acquisition of companies	652	10,846	1,029	-	12,527
Disposals	(3,610)	(3,435)	(5,319)	(1,537)	(13,901)
Effect of translation to US$	(20,485)	(80,876)	(12,777)	(4,288)	(118,426)
31 December 2008	**104,061**	**418,776**	**65,093**	**21,795**	**609,725**
Revaluation	119,679	184,079	-	-	303,758
31 December 2008 (after revaluation)	**223,740**	**602,855**	**65,093**	**21,795**	**913,483**
Accumulated depreciation					
31 December 2007	**(9,183)**	**(77,918)**	**(46,035)**	-	**(133,136)**
Accrued depreciation for the period	(3,719)	(48,977)	(7,322)	-	(60,018)
Accumulated depreciation of property, plant and equipment, through acquisition of companies	(117)	(7,478)	(608)	-	(8,203)
Disposals	593	732	3,577	-	4,902
Effect of translation to US$	2,015	21,704	8,269	-	31,988
31 December 2008	**(10,411)**	**(111,937)**	**(42,119)**	-	**(164,467)**
Net book value					
31 December 2007	112,220	253,432	24,523	25,694	415,869
31 December 2008	**213,329**	**490,918**	**22,974**	**21,795**	**749,016**

	Land and buildings	Rotables aircraft, helicopter and engines	Other	Assets under construction	Total
Cost					
31 December 2006	**106,599**	**232,506**	**56,253**	**18,267**	**413,625**
Additions	6,630	124,425	11,123	6,674	148,852
Additions through acquisition of companies	1,374	-	344	-	1,718
Disposals	(1,287)	(4,101)	(1,677)	(822)	(7,887)
Disposals through disposal of companies	-	(43,515)	-	-	(43,515)
Effect of translation to US$	8,087	22,035	4,515	1,575	36,212
31 December 2007	**121,403**	**331,350**	**70,558**	**25,694**	**549,005**
Accumulated depreciation					
31 December 2006	**(4,232)**	**(35,884)**	**(39,510)**	-	**(79,626)**
Accrued depreciation for the period	(4,618)	(41,180)	(4,282)	-	(50,080)
Disposals	162	467	777	-	1,406
Disposals through disposal of companies	-	3,298	-	-	3,298
Effect of translation to US$	(495)	(4,619)	(3,020)	-	(8,134)
31 December 2007	**(9,183)**	**(77,918)**	**(46,035)**	-	**(133,136)**
Net book value					
31 December 2006	102,367	196,622	16,743	18,267	333,999
31 December 2007	**112,220**	**253,432**	**24,523**	**25,694**	**415,869**

As at 31 December 2008 the cost of fully depreciated property, plant and equipment was US$29,028 thousand (2007: US$37,955 thousand).

Expenses capitalised in property, plant and equipment in 2008 amounted to US$32,776 thousand (2007: US$29,187 thousand).

No interest was capitalised during 2008 due to the absence of qualifying assets for such capitalisation in accordance with the Group accounting policy.

In 2008 the Group commissioned Consulting Company Expert LLC, a third party appraiser, to independently appraise the Group's aircraft, helicopters, engines, land and buildings as at 31 December 2008. In accordance with the Group's accounting policy these items of property, plant and equipment are accounted for at fair value (Note 3.8).

As at 31 December 2008 the fair value of aircraft, helicopters, engines, land and buildings as at 31 December 2008 was determined to be US$657.6 million, of which US$537 million was primarily determined based on the market comparison approach (also referred to as sales comparison approach). This approach considers sales of similar or substitute properties and related market data, and establishes a value estimate by a process involving comparison:

- with an identical object which is being sold in a secondary market;
- with a similar object which is being sold in a secondary market using adjustments, if there is no identical object; or
- with new analogous equipment using adjustments for depreciation in the absence of a secondary market.

The fair value of the remaining items of property, plant and equipment of US$120.6 million was determined based on depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

As at 31 December 2008 property, plant and equipment with a carrying value of US$251,458 thousand (2007: US$112,081 thousand) is pledged as collateral against bank borrowings (Note 17).

Operating Leases
The Group has entered into operating lease contracts for a number of fixed assets: buildings, installations and aircraft (frames and engines). These leases have an average life of 3 to 5 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed in Note 31.

Finance Lease
In 2007 the Group entered into aircraft lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term of eight years. The estimated average remaining useful life of leased assets varies from 10 to 15 years. As at 31 December 2008 the carrying value of an aircraft already used by the Group under finance lease was US$83,931 thousand (2007: US$15,884 thousand). Finance lease obligations are disclosed in Note 31.

9. Net Investment in Leases

The net investment in leases resulting from the long-term finance lease agreements entered by the Group as a lessor through its subsidiary comprise the following:

	2008	2007
Gross investment in leases	12,527	10,246
Less: unearned finance lease income	(2,469)	(2,180)
Net investment in leases	**10,058**	**8,066**

The interest rate incremental in the lease agreements varied between 9% and 14% per annum (2007: 9% and 14% per annum) depending on the total amount and duration of the contract as well as other terms. The amounts receivable under the lease agreements are secured by the assets leased out.

Gross investments in leases are paid in RUR. The maturity structure of the net and gross investments in leases is detailed as follows:

	2008		2007	
	Gross investments	**Net investments**	**Gross investments**	**Net investments**
Less than 1 year	7,841	6,276	6,335	4,992
1 to 5 years	4,686	3,782	3,911	3,074
Total	**12,527**	**10,058**	**10,246**	**8,066**

As at 31 December 2008 assets leased out with the net investment value of US$6,363 thousand (2007: US$3,901 thousand) have been pledged as collateral against bank borrowings (Note 17).

10. Investments in Associates

The Group holds investments in the following associates:

Associate	**Business activity**	**2008 share (%)**	**2007 share (%)**
Airport Surgut OJSC (Russia)	Airport facilities and services	26.0%	26.0%
Kondavia CJSC (Russia)	Airport facilities and services	45.5%	45.5%
Nefteyuganskiy Aviaotryad OJSC (Russia)	Transportation services	24.4%	-

The movements in investments in associates were as follows:

	2008	2007
As at 1 January	**5,851**	**4,508**
Acquisition of an associate	6,978	-
Gain on acquisition of an associates	4,566	-
Share of (loss)/profit before taxes	(999)	1,403
Share of tax benefit/(expense)	172	(346)
Share of (loss)/profit after taxes	(827)	1,057
Dividends received from associates	(152)	(81)
Effect of translation to US$	(3,136)	367
As at 31 December	**13,280**	**5,851**

The following table illustrates summarised financial information on associates:

Aggregated assets and liabilities of associates	**2008**	**2007**
Current assets	17,039	11,122
Non-current assets	53,646	15,042
Current liabilities	(14,805)	(4,334)
Non-current liabilities	(6,836)	(55)
Net assets	**49,044**	**21,775**
Revenue	103,982	44,453
Net (loss)/profit after tax	(3,646)	4,009

In April 2008 the Group acquired 24.4% of voting shares in Nefteyuganskiy Aviaotryad OJSC, a company located in the town of Nefteyugansk, Russia, specialising in passenger transportation services by helicopters and helicopter works. The acquisition was settled in cash.

The fair value of the identified assets and liabilities of Nefteyuganskiy Aviaotryad OJSC as at the acquisition date were as follows:

	As at the date of acquisition
Property, plant and equipment	55,312
Trade accounts receivable and other accounts receivable	5,996
Inventories	1,581
Intangible assets	93
Other non-current assets	15
Cash and cash equivalents	9
Other short-term liabilities	(18)
Trade payables	(2,861)
Short-term loans and borrowings	(4,245)
Deferred tax liability	(8,572)
Fair value of net assets	**47,310**
Acquired share of net assets	11,544
Consideration paid	(6,978)
Gain from acquisition of associate	**4,566**

11. Investments Available-for-Sale

As at 31 December 2008 long-term available-for-sale investments of the Group amounted to US$486 thousand (2007: US$194 thousand) and consist of investments in ordinary shares of unlisted Russian companies with no fixed maturity date or coupon rate.

Short-term available-for-sale investments as at 31 December are as follows:

	2008	**2007**
Promissory notes	1,091	-
Participatory construction contracts	906	993
Investments in ordinary shares of unlisted Russian companies	-	1,449
	1,997	**2,442**

12. Loans issued

As at 31 December 2008 long-term loans amounting to US$1,800 thousand (2007: Nil) are denominated in US$, bear interest rate of 8% per annum and mature before 10 June 2013.

As at 31 December 2008 short-term loans amounting to US$25,258 thousand (2007: US$39,256 thousand) are denominated in RUR, bear interest rates of 10% to 12% per annum and mature before 31 December 2009.

13. Non-current assets held for sale

Non-current assets held for resale mainly comprise three Mil Mi-171 helicopters and engines for them that have been purchased by the Group for resale.

	Property, plant and equipment held for sale
As at 31 December 2007	-
Additions	23,931
Disposals	(5,729)
Effect of translation to US$	(2,804)
As at 31 December 2008	**15,398**

14. Inventories

	2008	**2007**
Spare parts	44,620	28,430
Fuel	20,780	17,201
Other inventories	14,063	11,963
On-board goods for resale	73	1,335
Allowance for impairment	(6,854)	(5,223)
	72,682	**53,706**

As at 31 December 2008 inventories of US$24,833 thousand (2007: US$30,353 thousand) have been pledged as collateral against borrowings (Note 17).

15. Accounts Receivable and Prepayments

	2008	**2007**
Long-term receivables and prepayments		
Prepayments under operating leases (Note 31)	101,067	39,669
Advances to suppliers	16,766	-
Other long-term trade receivables	8,291	7,058
Prepayments under finance leases (Note 31)	-	1,257
	126,124	**47,984**

	2008	**2007**
Short-term receivables and prepayments		
Trade receivables	89,866	56,940
Advances to suppliers	65,589	24,468
Prepayments under operating leases (Note 31)	15,599	6,563
VAT recoverable	10,792	8,092
Other taxes receivable	10,045	4,317
Related parties receivables (Note 6)	5,053	4,444
Other receivables - claims	2,600	4,261
Deferred expenses	1,918	2,580
Prepayments under finance leases (Note 31)	-	2,712
Other accounts receivable	18,892	10,175
Less:		
Provision for impairment of trade receivables	(2,396)	(3,594)
Provision for impairment of other receivables and advances	(7,411)	(6,403)
	210,547	**114,555**

As at 31 December 2008 the Group entered into an agreement to purchase thirty-six Mil Mi-8 helicopters for the total contract amount of US$239,565 thousand (Note 31). The helicopters are expected to be subsequently resold. Advances amounting to US$52,147 thousand have been paid by the Group in relation to this agreement.

As at 31 December 2008 trade receivables of US$74,515 thousand (2007: US$47,113 thousand) are denominated in foreign currency, mainly US$.

The following table summarises the changes in the provision for impairment of trade and other receivables as at 31 December:

	2008	2007
1 January	**9,997**	**8,251**
Used during the year	-	(3,388)
Charged during the year	1,720	4,487
Effect of translation into US$	(1,910)	647
31 December	**9,807**	**9,997**

16. Cash and Cash Equivalents

	2008	2007
Bank deposit	6,582	8,575
Foreign currency denominated balances with banks	4,740	1,022
Other	212	50
	11,534	**9,647**

17. Loans and Borrowings

		2008	2007
Short-term loans and borrowings:			
Sberbank OJSC	(in RUR; secured)	144,135	89,369
Khanty-Mansiysky Bank OJSC	(in RUR; secured)	86,925	46,785
Amsterdam Trade Bank NV	(in US$; secured)	59,527	-
Bank Rossia OJSC	(in RUR; secured)	25,527	-
VTB Bank OJSC	(in RUR; secured)	24,891	12,222
Sibirgazbank CJSC	(in RUR; secured)	987	-
Related parties (Note 6)	(in RUR; secured)	89,411	-
Other	(in US$; secured)	7,877	185
Long-term debt, current portion:			
Sberbank OJSC	(in US$ and Euro; secured)	28,262	7,073
VTB Bank OJSC	(in RUR; secured)	1,161	1,906
Akkobank OJSC	(in RUR; secured)	775	951
Alfa Bank OJSC	(in RUR; secured)	292	-
Related parties (Note 6)	(in RUR; secured)	5,959	7,038
Other		196	-
Finance lease obligations (Note 31)		7,387	2,120
Promissory notes	(in RUR; unsecured)	6,156	7,922
Bonds (a)	(in RUR; secured)	34,036	-
		523,504	**175,571**

		2008	2007
Long-term debt, non-current portion:			
Sberbank OJSC	(in US$ and Euro; secured)	111,363	40,136
VTB Bank OJSC	(in RUR; secured)	389	4,269
Akkobank OJSC	(in RUR; secured)	-	1,770
Alfa Bank OJSC	(in RUR; secured)	235	-
Related parties (Note 6)	(in RUR; secured)	11,740	15,252
Other		242	21
Finance lease obligations (Note 31)		74,712	13,698
Promissory notes	(in RUR; unsecured)	134	106
Bonds (b)	(in RUR; secured)	13,110	121,666
		211,925	**196,918**

Loans and borrowings are secured by the following:

- Property, plant and equipment (Note 8); and
- Inventories (Note 14).

The finance lease liabilities are secured by the leased assets (Note 31).

Interest rates payable on these loans vary from 7% to 18% for RUR denominated loans and from 5% to 11.32% for US$ and Euro denominated loans. A debt repayment schedule of interest bearing borrowings is presented in Note 32.

(a) On 14 March 2006 UTair-Finance LLC, the Group's subsidiary, issued 1,000,000 interest bearing, non-convertible bonds (Issue No. 4-02-36059-R), with a par value of 1,000 RUR per bond and a maturity date of 10 March 2009. The bonds were issued at par value. No premature redemption to these bonds is permissible. Coupon payments are made on a quarterly basis (12 times). The interest rate for the first to fourth coupon periods was 10.4% per annum; for the fifth to eighth coupon periods – 9.95% per annum; and for the ninth to eleventh coupon period – 10.4% per annum. As of 11 December 2009 all bonds pertaining to this issue have been redeemed (Note 33). The bonds have been guaranteed by the Company.

(b) On 19 December 2006 UTair-Finance LLC, the Group's subsidiary, issued 2,000,000 interest bearing, non-convertible bonds (Issue No. 4-03-36059-R), with a par value of 1,000 RUR per bond and a maturity date of 14 December 2010. The bonds were issued at par value. Coupon payments are made twice a year (8 times). The interest rate for the first to fourth coupon periods was 10.4% per annum. Further coupon payments were made in 2009 (Note 33). The bonds have been guaranteed by the Company.

Unutilised Borrowing Facilities

As at 31 December 2008 the Group had no unused credit lines (2007: US$3,665 thousand).

18. Current Taxes Payable

	2008	2007
Value Added Tax payable	9,715	9,903
Additional allocations to the State Pension Fund	4,376	4,619
Personal income tax	1,059	942
Property tax	1,008	996
Unified social tax	948	1,372
Income tax	886	-
Road users tax	1	-
Deferred Value Added Tax	-	361
Other taxes and tax provisions	1,151	3,036
	19,144	**21,229**

19. Trade and Other Payables

	2008	2007
Trade payables	60,812	45,219
Unused vacation accrual	19,643	17,314
Accrued liabilities and other creditors	12,460	5,047
Accrued payroll	11,682	12,387
Payables to related parties (Note 6)	6,388	4,119
Dividends payable	2,013	296
Frequent Flyer Programme liabilities	1,833	1,247
Short-term portion of the employee benefits (Note 21)	183	566
	115,014	**86,195**

As at 31 December 2008 trade payables of US$14,122 thousand (2007: US$12,666 thousand) are denominated in foreign currency, mainly in US$.

20. Advances from Customers and Deferred Revenue

Advances from customers are comprised of the following:

	2008	2007
Deferred revenue (air traffic liability)	12,676	13,698
Advances from customers	4,900	7,782
Advances from related parties (Note 6)	794	287
	18,370	**21,767**

Advances from customers include the amounts received for transportation services to be rendered. The air traffic liability represents the value of tickets sold and still valid but not used by the balance sheet date as well as interline amounts received from other carriers.

21. Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The components of net benefit expense recognised in the consolidated income statement for the years ended 31 December 2008 and 2007 and amounts recognised in consolidated balance sheets as at 31 December 2008 and 2007 are as follows:

	2008	2007
Liabilities as at 1 January	6,436	2,957
Benefit expense	(741)	3,359
Benefits paid	(257)	(227)
Effect of translation to US$	(905)	347
Liabilities as at 31 December, including:	**4,533**	**6,436**
non-current part	4,350	5,870
current part (Note 19)	183	566
Net benefit expense (included in personnel costs):		
Current service cost	513	194
Past service cost	77	115
Interest expense on benefit liabilities	520	296
Net actuarial (losses)/gains recognised in year	(1,851)	2,754
Net post-employment benefit (gain)/expenses	**(741)**	**3,359**

The principal actuarial assumptions used in determining benefit liabilities are presented in the table below:

	2008	2007
Discount rate	9.00%	6.25%-6.75%
Average long-term payroll increase rate	8.00%	6.5%
Employee turnover rate	1-21%	1-21%*
Probability of a non-working pensioner residing where the Group companies are located	30%	30%

* based on the actuarial model developed and depending on experience, gender and age.

The following table is a summary of the present value of the benefit obligations and experience adjustments as at 31 December. Experienced adjustments were calculated only for the parent company of the Group.

	2008	2007
Liabilities as at 31 December	5,503	7,676
Experience adjustments	(367)	(876)

22. Equity

The total number of outstanding shares comprises:

	Number of outstanding ordinary shares (thousand)	Number of treasury shares (thousand)	Share capital	Treasury shares at cost	Premiums or discounts on transactions with treasury shares
As at 31 December 2006	568,409	8,799	112,145	546	202
Purchase of treasury shares	(314)	314	-	148	-
As at 31 December 2007	568,095	9,113	112,145	694	202
Purchase of treasury shares	(14,079)	14,079	-	6,121	-
As at 31 December 2008	554,016	23,192	112,145	6,815	202

As at 31 December 2008 the number of authorised ordinary shares amounted to 577,208,000 (2007: 577,208,000) with a nominal value of 1 RUR per share. All authorised shares have been issued and fully paid.

Treasury shares represent ordinary shares held by the Company or by Group subsidiaries.

A dividend of US$0.001 per ordinary share (2008: US$0.228) was declared in June 2009 in respect of 2008 to the holders of ordinary shares for the total amount of US$742 thousand (2007: US$5,566 thousand).

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements.

On 31 December 2008 the Company had undistributed and unreserved earnings of US$32,179 thousand (2007: US$42,084 thousand) reported in accordance with the Russian statutory financial statements. In addition, the Group's share in undistributed and unreserved earnings of the Group subsidiaries amounted to US$7,936 thousand (2007: US$23,533 thousand).

The Company's shares are listed on the Russian Trade System ("RTS") and the Moscow Interbank Currency Stock Exchange ("MICEX") and on 31 December 2008 traded at US$0.082 per share (2007: US$0.633 per share).

23. Revenue

	2008	2007
Aircraft transportation services, regular	729,018	512,498
Helicopters transportation services, abroad	215,925	155,419
Helicopters transportation services, inland	145,599	110,044
Aircraft transportation services, charter	93,826	78,929
Airport services	13,707	12,129
Technical support and maintenance services	12,714	5,801
Other revenues	51,870	28,092
	1,262,659	**902,912**

Grants from the regional government were provided to the Company for the execution of regular flights to the several Russian regions. The grants are provided both in the form of cash remuneration to cover the Company's losses from performing such flights and in the form of reduced airport duties etc. Since 2005 the Group takes part in a new regional programme where the Group sells tickets at a discount to passengers flying within the Tyumen and other regions. This discount is reimbursed by the regional government. The amount of reimbursement received in 2008 amounted to US$16,085 thousand (2007: US$11,870 thousand) and is included in regular aircraft transportation services revenue.

24. Direct Operating Expenses

	2008	2007
Airport services	147,198	110,578
Rent of air fleet and equipment	74,010	50,074
Spare parts and other materials	57,114	55,232
Passenger servicing	48,343	32,111
Air navigation and meteoservices	41,167	26,866
UN mission support	7,392	6,410
Frequent flyer programme expense	936	232
Other direct operating expenses	36,855	24,230
Direct operating expenses except fuel	**413,015**	**305,733**
Fuel expenses	376,416	227,233
	789,431	**532,966**

25. Personnel Expenses

	2008	2007
Remuneration	162,656	108,543
Social insurance charges	36,449	27,057
Travel expenses	34,992	23,061
Accruals for vacation and bonuses	9,693	9,913
Net post-employment benefit (gain)/expenses	(741)	3,359
Other social payments	1,433	5,404
	244,482	**177,337**

26. Other Operating Expenses

	2008	2007
Insurance expenses	7,638	5,908
Consulting, audit and legal expenses	7,474	3,827
Loss on disposal of property, plant and equipment	7,101	5,509
Taxes	6,594	7,981
Training expenses	6,194	3,156
Bank charges	6,067	2,249
Advertising	5,624	3,905
Communication expenses	5,108	3,955
Prior year taxes additionally charged	4,073	-
Utilities	3,230	3,498
Other operating expenses	14,012	224
	73,115	**40,212**

27. Financial Income and Expenses

Financial income includes:

	2008	2007
Interest on loans issued to third parties	4,075	3,448
Unwinding of fair value adjustment on long-term accounts receivable	768	-
Gain from operations with third party promissory notes	16	232
	4,859	**3,680**

Financial expenses include:

	2008	2007
Interest on bank loans	53,471	13,138
Interest/discounts on promissory notes	3,488	2,212
Interest on loans from related parties (Note 6)	3,285	1,241
Interest on bonds issued	165	12,862
Interest on finance leases	4,355	88
Fair value adjustment on long-term accounts receivable	-	1,931
	64,764	**31,472**

In the last quarter of 2008 the RUR sharply depreciated against the US$ and Euro. Due to the fact that, as at 31 December 2008, the Group US$ and Euro denominated liabilities substantially exceeded the assets denominated in those foreign currencies (Note 32), the Group incurred large foreign exchange losses. The total net foreign exchange loss incurred in 2008 amounts to US$63,295 thousand (2007: US$148 thousand).

28. Income Tax Benefit

	2008	2007
Current tax expense:		
Current income tax expense	7,256	6,023
Underprovided in prior periods	2,856	-
	10,112	**6,023**
Deferred tax benefit:		
Origination and reversal of temporary difference	(19,997)	(3,158)
Change in tax rate	3,144	-
Utilisation of previously unrecognised tax loss carry-forward:	-	(8,484)
Change in unrecognised temporary difference	2,713	-
	(14,140)	**(11,642)**
Income tax benefit	**(4,028)**	**(5,619)**

Reconciliation between the income tax expense reported in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 24% is as follows:

	2008	%	2007	%
(Loss)/profit before taxation	**(102,058)**		**15,831**	
Theoretical tax (benefit)/charge at statutory rate of 24%	(24,494)	24%	3,799	24%
Tax effect of items which are not deductible or assessable for taxation purposes:				
Changes in income tax rate from 24% to 20%	3,144	(3.1%)	-	-
Current income tax related to previous periods	2,856	(2.8%)	-	-
Tax losses on which deferred tax was not recognised	2,713	(2.7%)	-	-
Non-deductable expenses	12,059	(11.8%)	1,334	8.4%
Influence of profits taxable at higher tax rate	66	(0.1%)	(303)	(1.9%)
Non-taxable losses on sales and acquisition of subsidiaries	-	-	587	3.7%
Deferred tax losses	-	-	(2,551)	(16.1%)
Non-taxable income	(372)	0.4%	-	-
Consolidated income tax (benefit)/expense	**(4,028)**	**3.9%**	**2,866**	18.1%
Utilisation of previously unrecognised deferred tax asset	-	-	(8,485)	(53.6%)
Consolidated income tax benefit	**(4,028)**	**3.9%**	**(5,619)**	**(35.5%)**

Effective from 1 January 2009 the Russian corporate profits tax is reduced to 20%. The new rate has been used during the calculation of deferred tax assets and liabilities.

Movements in deferred tax balances consisted of the following:

	31 Dec 2006	Differences recognised through income statement	Deferred tax liabilities related to purchase of subsidiary	Effect of translation to US$	31 Dec 2007	Differences recognised through income statement	Differences recognised through equity	Deferred tax liabilities related to purchase of subsidiary	Effect of translation to US$	31 Dec 2008
Tax effects of deductible temporary differences:										
Property, plant and equipment	7,613	(5,977)	-	302	1,938	(1,913)	-	-	(24)	1
Trade and other receivables	2,687	466	-	214	3,367	(2,752)	-	-	(130)	485
Trade and other payables	4,494	4,288	-	507	9,289	65	-	-	(1,538)	7,816
Inventories	1,202	(43)	-	86	1,245	2,918	-	-	(654)	3,509
Other	542	137	-	45	724	9,185	-	-	(1,533)	8,376
	16,538	**(1,129)**	-	**1,154**	**16,563**	**7,503**	-	-	**(3,879)**	**20,187**
Tax effects of taxable temporary differences:										
Property, plant and equipment	(41,837)	4,206	(347)	(2,892)	(40,870)	18,689	(56,794)	-	3,845	(75,130)
Trade and other receivables	-	-	-		-	(9,350)	-	-	1,440	(7,910)
Other	(1,335)	80	-	(94)	(1,349)	11	-	(142)	249	(1,231)
	(43,172)	**4,286**	**(347)**	**(2,986)**	**(42,219)**	**9,350**	**(56,794)**	**(142)**	**5,534**	**(84,271)**
Net tax effect of temporary differences	**(26,634)**	**3,157**	**(347)**	**(1,832)**	**(25,656)**	**16,853**	**(56,794)**	**(142)**	**1,655**	**(64,084)**
Less unrecognised deferred tax asset	(8,242)	8,485	-	(243)	-	(2,713)	-	-	417	(2,296)
Total net deferred tax liability	**(34,876)**	**11,642**	**(347)**	**(2,075)**	**(25,656)**	**14,140**	**(56,794)**	**(142)**	**2,072**	**(66,380)**

In the context of the Group's current structure, tax losses and current tax assets of a company may not be offset against current tax liabilities and taxable profits of another company and, consequently, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one subsidiary of the Group is not offset against deferred tax liability of another subsidiary.

Deferred tax assets of US$2,296 thousand have not been recognised in respect of tax losses carried forward because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

29. Minority Interest

	2008	2007
As at 1 January	**3,325**	**3,507**
Share in revaluation reserve	5,429	-
Share of net income of subsidiaries	3,703	620
Acquisition of subsidiary company	880	203
Less dividends distributed to minority shareholders	(120)	(89)
Acquisition of minority interest in the subsidiary	-	(1,471)
Effect of translation to US$	(443)	555
As at 31 December	**12,774**	**3,325**

30. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding the

average number of ordinary shares purchased by the Group and held as treasury shares (Note 22).

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

	2008	2007
Weighted average number of outstanding ordinary shares (thousands)	577,208	577,208
Adjusted for weighted average number of treasury shares (thousands)	(16,163)	(8,956)
Weighted average number of outstanding ordinary shares (thousands)	**561,046**	**568,252**
(Loss)/profit for the year	(101,733)	20,830
Basic and diluted (loss)/earnings per share (US$)	**(0.18)**	**0.04**

31. Contingencies and Commitments

Operating Environment of the Group

The Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation

The major part of the Group tax expense relates to taxation in the Russian Federation.

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Management's interpretation of such legislation as applied to the transaction and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Management's estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately US$15.8 million (2007: US$18.3 million). Management

believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Commitments

As at 31 December 2008 the Group had contractual commitments to purchase property, plant and equipment for US$312,581 thousand (2007: US$10,730 thousand) of which US$67,564 thousand (2007: US$6,624 thousand) has been advanced.

Insurance

The Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds insurance policies in relation to its air fleet, cockpit personnel and in respect of public liability resulting from its transportation activities.

Legal Proceedings

In 2008 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. According to management, there are no current legal cases or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Operating Lease Commitments - Group as Lessee

The Group has entered into several operating lease contracts. The period of these leases varies from one to seven years with no renewal rights. The following table provides information on the Group's future minimum lease payments under the leases as at 31 December:

	2008	2007
Within one year	70,546	34,496
After one year but not more than five years	196,165	51,547
More than five years	21,539	19,580
	288,250	**105,623**

As at 31 December 2008 the Group had operating lease contracts denominated in both US$ and Euro amounting to US$173,503 thousand (2007: US$48,992 thousand) and US$164 thousand (2007: Nil), respectively.

The Group operates runways owned by the Russian Federation as well as some other (mainly aeronautical) equipment. The runways cannot be privatised in accordance with Presidential Decree 2284 of 24 December 1993. The Group entered into lease and/or gratuitous use agreements with regard to the runways and equipment for the period of 50 years with the State Property Management Committees of a number of regions of the Russian Federation. The Group also leases the land plots, on which the runways are located, from the Russian Federation for the period of 50 years.

Upon expiration of the runways lease agreements the property reverts to the State; however the Group has the priority right to extend such lease agreements. The agreements may be earlier terminated upon mutual agreement, upon a court's decision or by virtue of law.

Such lease agreements do not provide for any rent payments. In return, the Group has to provide due routine maintenance and current repairs to the rented runways to maintain them in good working order.

The substantial upgrades and reconstruction of the leased infrastructure objects are recognised under property, plant and equipment of the Group and depreciated over their respective useful lives or the remaining lease term, whatever is shorter.

Finance Lease Commitments – Group as Lessee

As at 31 December 2008 the Group has entered into a finance lease agreement under which six aircraft have been received (Note 8) for the duration of eight years with subsequent transfer of ownership to the Group on the expiry of the agreement, including a purchase option. The minimum future lease payments under the agreement as well as the present value of the minimum lease payments are presented in the following table:

	2008		2007	
	Minimum payments	Present value of payments (Note 17)	Minimum payments	Present value of payments (Note 17)
Within one year	14,887	7,387	3,662	2,120
After one year but not more than five years	60,920	39,157	10,429	6,770
More than five years	38,895	35,555	7,886	6,928
Total minimum lease payments	**114,702**	**82,099**	**21,977**	**15,818**
Less: future financial charges	(32,603)		(6,159)	
Discounted value of minimum lease payments	**82,099**		**15,818**	

As at 31 December 2008 the Group has no plans to prematurely exercise the purchase option.

32. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, bonds and promissory notes, accounts payable and finance lease obligations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, cash and cash equivalents and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The information below shows susceptibility of the Group concerning each of these risks. The Group management reviews and agrees policies for managing each of these risks, which are summarised below.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control the Group's potential market risks exposure while optimising the return on risk.

Interest Rate Risk

Interest rate changes affect the market value of financial assets and liabilities of the Group and the level of finance expenses. The Group's policies concerning interest rate risk management comprise risk reduction concurrently with the attainment by the Group of a finance structure, which was determined and approved pursuant to the plans of the management. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and enhance the finance portfolio consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and floating rate basis. Floating rates are based on LIBOR, EURIBOR and MosPrime rates as well as set up for regular coupon periods of bond loans based on current market conditions in accordance with the terms of issue documents.

As at 31 December 2008 the share of the Group's liabilities bearing a floating interest rate constituted 16.4% of the total liabilities (2007: 42%).

The table below shows the analysis of sensitivity to possible change in interest rates (due to loans and borrowings with floating rate), with all other variables held constant, of the Group's profit before tax. Such changes do not impact the Group's equity.

	% points	Effect on profit before income tax
2008		
US$ denominated borrowings, increase by	30	(1,192)
US$ denominated borrowings, decrease by	(30)	1,192
RUR denominated borrowings, increase by	30	(3,702)
RUR denominated borrowings, decrease by	(30)	3,702
2007		
US$ denominated borrowings, increase by	30	(202)
US$ denominated borrowings, decrease by	(30)	202
RUR denominated borrowings, increase by	30	(3,620)
RUR denominated borrowings, decrease by	(30)	3,620

Fuel Price Risk

The results of the Group's operations may be significantly affected by the fluctuation of jet fuel prices, which is a major expense of the Group. Due to the lack of an acceptable hedging market for fuel prices in Russia, the Group does not have financial instruments to hedge the fuel price risk. The major instrument to mitigate the fuel price risk is conclusion of direct contracts with fuel suppliers, thus receiving significant savings in fuel expenses of the Group.

The Group's profit before tax sensitivity to possible jet fuel (aviation kerosene) price changes, with all other variables held constant, is presented in the table below. In estimating possible changes the Group used the fuel price trend over a three-year period prior to each balance sheet date.

	%	Effect on profit before income tax
2008		
Fuel price increase by	5	(19,026)
Fuel price increase by	25	(95,130)
Fuel price decrease by	(5)	19,026
Fuel price decrease by	(25)	95,130
2007		
Fuel price increase by	5	(11,782)
Fuel price increase by	25	(58,912)
Fuel price decrease by	(5)	11,782
Fuel price decrease by	(25)	58,912

Foreign Exchange Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The

currencies in which these transactions primarily are denominated are the Euro and the US$.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The increase in foreign exchange losses in 2008 was due to the appreciation of the US$ against RUR to 29.38 on 31 December 2008 from 24.55 per 1 US$ the year before as significant Group's financial liabilities are denominated in US$.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows at 31 December:

	2008	2007
USD/RUR	(114,771)	(4,090)
EUR/RUR	(56,793)	(4,045)

The Group's profit before tax sensitivity to possible exchange rate changes, with all other variables held constant, is presented in the table below. In estimating possible changes the Group used the volatility of foreign exchange rates during the three years preceding each reporting date.

	2008		2007	
	Effect on profit before income tax	**Exchange rate change**	**Effect on profit before income tax**	**Exchange rate change**
USD/RUR	10%	(13,567)	3%	(118)
USD/RUR	20%	(27,133)	6%	(236)
USD/RUR	(10%)	13,567	(3%)	118
USD/RUR	(20%)	27,133	(6%)	236
EUR/RUR	10%	(6,794)	3%	(116)
EUR/RUR	20%	(13,590)	6%	(233)
EUR/RUR	(10%)	6,794	(3%)	116
EUR/RUR	(20%)	13,590	(6%)	233

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and debt capital consistent with the management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of debt instruments at competitive rates both in the capital markets and bank sector and coordinates relationships with the banks centrally. At present, the Group believes that it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate loan portfolio (particularly availability of committed borrowing facilities) and the maintenance of adequate cash.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

	On demand	Less than 3 months	3-12 months	1 to 5 years	More than 5 years	Total
At 31 December 2008						
Interest bearing borrowings	402	115,556	407,546	176,637	35,288	735,429
Trade and other payables	2,714	68,406	43,493	401	-	115,014
Taxes payable	19,144	-	-	-	-	19,144
Other financial liabilities	-	-	-	703	3,657	4,360
	22,260	**183,962**	**451,039**	**177,741**	**38,945**	**873,947**
At 31 December 2007						
Interest bearing borrowings	-	4,354	171,217	173,327	23,591	372,489
Trade and other payables	1,070	45,261	39,864	-	-	86,195
Taxes Payable	21,229	-	-	-	-	21,229
Other financial liabilities	-	-	-	4,437	3,038	7,475
	22,299	**49,615**	**211,081**	**177,764**	**26,629**	**487,388**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, trade accounts receivable and advances issued to suppliers and contractors.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivables collection. The analysis of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

As at 31 December 2008 accounts receivable from the Group's major debtor amounted to US$33,429 thousand (2007: US$21,625 thousand). Management determines risk concentration by reference to a percentage of receivables from particular customers to the total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

	2008	2007
Trade and other receivables	113,807	70,936
Long-term accounts receivable	8,278	7,058
Short-term loans given	25,258	39,256
Cash and cash equivalents	11,534	9,647
Long-term loans issued	1,800	-
	160,677	**126,897**

The ageing analysis of trade and other receivables is presented in the table below:

	2008		2007	
	Carrying value	Impairment	Carrying value	Impairment
Trade and other receivables – no due	104,165	-	60,266	-
Trade and other receivables - overdue	25,215	(7,295)	25,435	(7,707)
Less than 30 days	12,584	-	11,958	-
From 30 to 60 days	2,158	-	3,874	-
From 60 to 150 days	3,178	-	1,896	-
Over 150 days	7,295	(7,295)	7,707	(7,707)
	129,380	**(7,295)**	**85,701**	**(7,707)**

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Board of Directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent company. The Group manages its capital structure and adjusts it by dividend payments to shareholders and purchase of treasury shares. The Group monitors the compliance of the amount of statutory general reserve and makes appropriations of profits to this reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

Fair Value of Financial Instruments

The carrying amount of financial instruments, consisting of cash, short-term and long-term investments, short-term receivables and payables, long-term receivables and payables and short-term and long-term loans payable, approximately equals their fair value.

Financial instruments the carrying value of which is different from their fair value are presented in the table below:

	2008		2007	
	Fair value	Carrying value	Fair value	Carrying value
Long-term accounts receivable	8,278	9,551	7,058	9,069

The fair value of the interest-free long-term accounts receivable was calculated based on the present value of future cash flows, discounted at the prevailing interest rate, applicable on the date of receivables arising, which amounted to 9%.

33. Subsequent Events

In March 2009 the Group redeemed its 4-02-36059-R bonds of 1,000,000 thousand RUR issued on 14 March 2006, along with the last twelfth coupon related to these bonds of 25,930 thousand RUR (US$ 748 thousand).

In June 2009 the Group paid the fifth coupon in relation to its bond issue 4-03-36059-R dated 19 December 2006. The interest rate for the fifth coupon period was 16% per annum and the total amount of coupon paid amounted to 50,009 thousand RUR (US$ 1,610 thousand), giving a yield of 79.78 roubles (US$ 2.57 thousand) per bond.

In December 2009 UTair-Finance LLC made a decision to set the interest rate for the seventh and eighth coupon periods at 14% per annum in relation to its bond issue 4-03-36059-R dated 19 December 2006. Effective from June 2008 bonds issued by UTair-Finance LLC carry the A1 rating. The rating has been issued by MICEX.

In May 2009 the Group made a decision to open a credit line of US$102,670 thousand at Sberbank of Russia. The purpose of the credit line is to fund the modernisation and expansion of the Group's fleet.

In June 2009 a dividend of US$ 0.001 per ordinary share was declared in respect of 2008 to the holders of ordinary shares for the total amount of US$ 742 thousand.

In June 2009 the Group established UTair – Murmansk LLC, a new subsidiary of the Group. The new subsidiary's core business will be aviation transportation and services.

In August 2009 UTair-Finance LLC, a group subsidiary, received the A (high level of creditworthiness) rating from the Expert RA Rating Agency.

In September 2009, UTair-Ukraine LLC received a license to operate as an airline in Ukraine. Effective from December 2009, three new routes have been commissioned flying from three Ukrainian cities to Moscow. In addition to regular and charter flights, UTair-Ukraine LLC also carries out aircraft maintenance.

In December 2009 the Group reduced its shareholding in Airport Surgut OJSC to 18%.

Subsequent to the report period to November 2009 the Group borrowed funds of 9,336,600 thousand RUR, US$165,874 thousand and 5,575 thousand Euro. In addition, during the period the Group issued promissory notes for the total amount of 1,122,607 thousand RUR. The funds will be used to finance the modernisation and expansion of the Group's fleet and to support the Group's working capital. Included in the indicated amounts are loans of US$98,620 thousand borrowed from West-Siberian Bank of Sberbank of Russia for 5 years which will be used to pay for helicopters ordered from Ulan-Ude Aviation Plant OJSC. In the same period, the Group repaid US$215,504 thousand nominated in roubles, US$101,740 thousand and 5,102 thousand Euro and redeemed promissory notes of US$92,172 thousand.

In 2009 the Group entered into lease agreements with Chitalla Investments Ltd to lease three Mil Mi-171 and eight Mil Mi-8AMT helicopters. In addition, a lease agreement was signed with PL Panorama Leasing Ltd pertaining to seven Boeing B737-500 aircraft. All of the machines have been received to-date.