JSC SCIENTIFIC PRODUCTION CORPORATION “IRKUT”
(FORMERLY IRKUTSK AVIATION INDUSTRIAL ASSOCIATION)
AND ITS SUBSIDIARIES
UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of JSC Scientific Production Corporation "IRKUT" (formerly JSC Irkutsk Aviation Industrial Association)

We have audited the accompanying consolidated balance sheets of Joint Stock Company Scientific Production Corporation "IRKUT" and its subsidiaries ("the Group") as of 31 December 2001 and 2000, and the related statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. The inspection of certain underlying documentation on sales, cost of sales and fixed assets was performed by another firm of auditors due to the circumstances described in Note 1(c) to the financial statements. Our audit opinion, insofar as it relates to the inspection of such documentation, is based on the work of the other auditors.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the work of other auditors provide a reasonable basis for our opinion.

We did not observe the taking of the physical inventory as of 31 December 1999, 2000 and 2001 as these dates were prior to our appointment as independent accountants for the Group and we were unable to satisfy ourselves regarding inventory quantities at those dates and their related effect on the net income for the years ended December 31, 2000 and 2001.

In our opinion, based on the audits as described in the first paragraph and except for the effect on the financial statements, if any, of the matter referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Joint Stock Company Scientific Production Corporation "IRKUT" and its subsidiaries at 31 December 2001 and 2000, and the results of their operations and their cash flows for the years ended 31 December 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

February 26, 2003

SCIENTIFIC PRODUCTION CORPORATION "IRKUT"
Consolidated Balance Sheets
(in millions of US$)

	Notes	December 31, 2001	December 31, 2000
ASSETS			
Current assets			
Cash and cash equivalents	4	122	2
Short-term investments	5	59	9
Accounts receivable, third parties, net of provision of $1 (December 31, 2000: $1)	6	220	235
Advances to third parties		104	60
Advances to related parties		69	49
Taxes and other receivables	7	48	42
Inventories	8	76	20
Prepaid expenses and other current assets		8	1
Deferred income taxes, short-term	15	22	2
Total current assets		**728**	**420**
Property, plant and equipment, net	9	133	132
Long-term investments		28	27
Deferred income taxes, long-term	15	57	64
Total assets		**946**	**643**
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTERESTS			
Current liabilities			
Short-term borrowings	11	246	99
Accounts payable, trade		80	86
Advances received	12	267	163
Accrued liabilities		15	19
Income and other taxes payable		11	7
Other current liabilities, third parties		5	6
Other current liabilities, related parties		2	-
Deferred income taxes, short-term	15	11	11
Total current liabilities		**637**	**391**
Long-term borrowings	11	136	84
Deferred income taxes, long-term	15	50	52
Total liabilities		**823**	**527**
Minority interest		**4**	**6**
Commitments and contingencies	19		
Shareholders' equity			
Capital stock	10	29	29
Treasury shares, at cost	10	(7)	(7)
Accumulated other comprehensive loss		(2)	(2)
Retained earnings		99	90
Total shareholders' equity		**119**	**110**
Total liabilities, shareholders' equity and minority interests		**946**	**643**

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of US$)

	Notes	For the year ended December 31, 2001	For the year ended December 31, 2000
Revenue			
Sales and other operating revenues	13	308	244
Cost of products and services	14	(226)	(174)
Gross profit		**82**	**70**
Research and development costs		(12)	(7)
Taxes other than on income		(8)	(6)
Energy and utilities		(4)	(4)
Selling, general and administrative expenses		(10)	(5)
Social expenditure		(7)	(4)
Repairs and maintenance		(5)	(3)
Other operating expenses		(1)	(2)
Operating income		**35**	**39**
Interest expense (net)		(38)	(18)
Loss from investments		(2)	(2)
Foreign exchange gain		2	2
Income (loss) before income taxes and minority interest		**(3)**	**21**
Income taxes			
Current tax expense	15	(5)	(6)
Deferred tax credit/ (expense)	15	15	(16)
Total tax credit/ (expense)		**10**	**(22)**
Income/ (loss) before minority interest		**7**	**(1)**
Minority interest		2	1
Net income		**9**	**-**

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of US$)

	Notes	For the year ended December 31, 2001	For the year ended December 31, 2000
Net cash generated by operating activities	16	**(28)**	**(98)**
Investing activities			
Capital expenditures		(15)	(11)
Loans advanced to related parties		-	(2)
Loans advanced to third parties		(1)	-
Cash used for acquisitions		(4)	(3)
Net cash used for investing activities		**(20)**	**(16)**
Financing activities			
Loans received – third parties		399	257
Repayment of loans – third parties		(229)	(147)
Loans received – related parties		2	2
Repayment of loans – related parties		(3)	-
Net cash received from financing activities		**169**	**112**
Effect of exchange rate changes on cash and cash equivalents		(1)	-
Net change in cash and cash equivalents		**120**	**(2)**
Cash and cash equivalents at the beginning of the year		**2**	**4**
Cash and cash equivalents at the end of the year		**122**	**2**
Supplemental cash flow information:			
Interest paid		(36)	(18)
Income taxes paid		(10)	-

The following non-cash transactions were excluded from investing and financing activities:

	For the year ended December 31, 2001	For the year ended December 31, 2000
Non-cash investing activities		
Acquisition of securities	(92)	(4)
Total non-cash investing activities	**92**	**(4)**
Non-cash financing activities		
Issue of promissory notes	92	1
Total non-cash financing activities	**92**	**1**

During 2001 the Company made several issues of promissory notes in exchange for the securities of local banks and investment institutions. This transaction was executed to facilitate placing of the Company's promissory notes in the Russian capital markets.

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of US$)

	Note	Comprehensive income	Charter capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at December 31, 1999		**-**	**22**	**90**	**-**	**112**
Net income (loss)		-	-	-	-	**-**
Unrealised loss on securities available-for-sale		(2)	-	-	(2)	**(2)**
Balance at December 31, 2000		**-**	**22**	**90**	**(2)**	**110**
Net income (loss)		9	-	9	-	9
Balance at December 31, 2001		**-**	**22**	**99**	**(2)**	**119**

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of US$)

Note 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

(a) History and nature of business

Joint Stock Company Scientific Production Corporation "IRKUT" (formerly "Irkutsk Aviation Industrial Association") ("the Company") was formed as a joint stock company following the President Decree and State Privatisation Programme of 1992. The principal activity of the Company is the construction of military aircraft under contracts with Russian and foreign governments. In accordance with Russian legislation the supply of military equipment to foreign governments is the competence of the Russian government and, therefore, all contracts with foreign governments are concluded through the Russian state organisation GK "Rosvooruzhenie". In 2000 and 2001 all of the revenues on military aircraft were accrued on two contracts. The Company's operations are subject to the licenses for production and repair of aviation equipment awarded by Rosaviacosmos. The current licence is valid until April 2007.

The Company and its subsidiaries (collectively "the Group") are also engaged in research and development works for military and civil aircrafts. This research and development is carried out for the Group's own purposes. In addition, starting from 1991 the Group commenced development of the Be-200 amphibian aircraft for fire fighting and certification for such use was received in August 2001. Currently the Company is in the process of obtaining full flight certification for other uses which is a requirement for serial production. In 2000 the Company concluded a contract for supply of seven civil aircrafts with the Russian Ministry for Emergencies.

In 2000 GK "Rosvooruzhenie", acting as the Company's agent, concluded a general licence agreement with a foreign government for the production of military aircraft. This agreement involves the supply of technical documentation and equipment and provision of relevant services to launch the production of military aircrafts at a plant in India. In the framework of this agreement, the Company has signed a contract for the supply of technical documentation. Other contracts are under negotiation.

(b) Ownership, subsidiaries and associates

The main shareholders of the Company are state owned enterprise AVPK "Sukhoi", DCL-KF Corporation, Fenway Services Corporation, StradeBroke Trading Limited, ZAO Company FTC, ZAO Aerocom, ZAO Ornatus and ZAO FTK-Invest.

The entities of the Group, included in these consolidated financial statements are as follows:

Name	Principal activities	Ownership interest	
Consolidated		**31 December 2001**	**31 December 2000**
ZAO Beta-Ir	Development of Be-200	75%	75%
ZAO Company FTK	Finance and Investment	56%	56%
ZAO FTK-Invest	Finance and Investment	-	-
JSC TANTK	Research and development	20%	20%

ZAO FTK-Invest is effectively controlled by the Company through management arrangements and is therefore consolidated in the financial statements.

Note 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION (continued)

(c) State Secrets

The operations of the Company related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on July 21, 1993. This Law provides that the information on the foreign economic activities of the Russian Federation disclosing of which can cause damage to the security of the country is considered a state secret. Access to information classified as a state secret can be granted by the appropriate authorities only to organisations and individuals holding security licenses with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up mobilisation capacities of the state and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of those assets.

(d) Basis of presentation

Group entities prepare statutory accounting reports in accordance with local accounting regulations. The accompanying consolidated financial statements are based on the statutory records of each entity, which are maintained in Russian roubles ("roubles"), the official currency of the Russian Federation, and are recorded under the historical cost convention, except for the revaluations of property, plant and equipment. They have been adjusted in order to present the financial position and the results of operations in U.S. Dollars ("US$" or "$") and in accordance with US GAAP.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Principles of consolidation. The consolidated financial statements are based on the financial statements of the entities presented in Note 1 "Nature of operations and basis of presentation".

Subsidiary undertakings, 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 the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts 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 consolidation. Minority interest is presented separately from liabilities and shareholders' equity.

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or otherwise the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency and translation methodology. The Russian economy is hyperinflationary. The US$ is the reporting and the functional currency for the purpose of these financial statements. Accordingly, transactions not already measured in US$ have been remeasured into US$ in accordance with the relevant provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation".

Monetary assets and liabilities of Group's entities have been translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities have been translated at historic rates and adjusted for impairment as necessary. Revenues, expenses and cash flows have been translated at the average exchange rates which approximate the exchange rate on the date of the transaction. Translation gains and losses from the remeasurement of assets and liabilities that are not denominated in US$ are credited or charged to the consolidated statement of income.

Prior to 1992, the Government of the Russian Federation set the official exchange rate for the rouble which amounted to 60 kopecks per US dollar, and consequently exchange rates for prior periods may differ from rates that might have existed under free market conditions. However, management believes that this rate gives the best estimate of the historic cost of property, plant and equipment acquired prior to 1992 and have applied this rate in the application of SFAS No 52.

Exchange restrictions and controls exist relating to converting the rouble into other currencies. At present, the rouble is not convertible outside of Russia and, further, Group entities are required to convert 50% of their hard currency earnings into roubles. Future movements in the exchange rates between the rouble and the US$ will affect the carrying value of the Group's rouble denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realise non-monetary assets represented in US$ in these consolidated financial statements. Accordingly, any translation of local currencies to US$ should not be construed as a representation that such amounts have been, could be, or will in the future be converted into US$ at the exchange rate shown or at any other exchange rate.

The official rate of exchange, as determined by the Central Bank of the Russian Federation for 1 dollar was 28.16 at December 31, 2000 and 30.14 roubles at December 31, 2001 (27.00 at December 31,1999).

Classification of assets and liabilities. The operating cycle for aircraft construction contracts exceeds one year. Assets which are reasonably expected to be realized in cash or sold or consumed during the operating cycle of the business are shown under current assets. Liabilities whose liquidation is reasonably expected within the operating cycle of the business are also shown under current liabilities.

Revenue recognition and cost. The operations of the Group principally consist of building aircraft under fixed-price contracts. Revenues under such contracts are recognised on a percentage of completion basis, measured by the ratio of total direct materials and design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used because management consider this to be the best available measure of progress on the contracts.

Costs incurred in relation to the general licence agreement concluded with foreign government are treated as work in process and are taken to cost of sales when the relevant milestones are achieved, at which time the related revenue is also recognised.

(in millions of US$)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract costs are charged to cost of sales as incurred and include all direct material and labour costs and those indirect costs related to contract performance, such as indirect labour, tools, repairs, and depreciation of property, plant and equipment. Selling, general, administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts, should they exist, are made in the period in which such losses are determined. Changes in job performance, contract conditions, and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

Warranty reserve. Provision is made for warranty costs based on the Group's historical experience on previous deliveries of aircraft. Provisions are made as revenues are accrued. Estimates are adjusted as necessary based on subsequent experience. The reserve at December 31, 2001, included in accrued liabilities was US$ 9 (December 31, 2000 US$ 7).

Accounts receivable. Accounts receivable are presented net of any provision for bad and doubtful debts.

Cash and cash equivalents. The Group considers only those short-term, highly liquid investments with original maturity of 90 days or less to be cash equivalents net of any restricted cash amounts.

Inventory valuation. Inventories are carried at the lower of cost or market value. Inventories include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year. The cost of aircraft components and general inventory materials are stated at average cost.

Property, plant and equipment. Property, plant and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, which are as follows:

Buildings	40 - 50 years
Machinery and equipment	5 - 20 years

Profits or losses from the sale of assets are included in operating income.

Research and development costs. Research and development costs include design, construction and materials used in testing of pre-production prototypes and models. Such costs are expensed as incurred. Test planes which have an alternative use are capitalised as fixed assets and depreciated over ten years, which is management's estimate of their useful life.

Long-lived assets. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable based upon the undiscounted future cash flows. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Financial instruments. The fair value of financial instruments (cash and cash equivalents, advances, accounts receivable, accounts payable and loans) is determined with reference to various market information and other valuation methods as considered appropriate. At December 31, 2001 and December 31, 2000 the fair values of financial instruments held by the Group did not materially differ from their recorded book values.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments. Investments include investments in securities and investments in associates accounted for under the equity method. Investments in securities are classified into the three categories: held to maturity, available-for-sale and trading and are valued at amortised cost or fair value accordingly. Unrealised gains and losses on investments available-for-sale are reported as a separate component of shareholders' equity.

Pensions and post employment benefits. The Group, in the normal course of business, makes payments to the pension fund, medical insurance, employment fund and social insurance fund of the Russian Federation. These payments are expensed when incurred and included within personnel costs.

Value Added Taxes. In the consolidated balance sheets and the consolidated statement of cash flows, transactions and balances are presented inclusive of the associated Value Added Tax ("VAT") applicable under the legislation of the relevant jurisdiction in which the transaction occurred. These taxes are excluded from the consolidated statement of income since the payment and collection of VAT generally has no effect on the results of operations.

Income Taxes. Deferred income tax assets and liabilities are recognised for the future tax consequences attributable to differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Valuation allowances are provided against deferred tax assets that are not expected to be realised.

Risks and Concentrations. Note 1 and Note 13 describe the Group's business and its current concentration in the military sector.

Recently issued accounting standards. Effective January 1, 2001, the Group adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended. Under SFAS 133, all derivatives are required to be recognised in the balance sheet at fair value. Gains or losses from changes in fair value are recognised in earnings in the period of change unless the derivative is designated as a hedging instrument.

Effective January 1, 2002 the Group adopted SFAS No. 141, "Business Combinations" for all business combinations after June 30, 2001. This standard requires that all business combinations be accounted for using the purchase method, and it further clarifies the criteria for recognition of intangible assets separately from goodwill.

The Group adopted SFAS No. 142, "Goodwill and other intangible assets" for other intangible assets. SFAS No. 142 requires that goodwill and other intangibles with indefinite useful lives should not be amortised but should be tested for impairment at least annually.

Effective January 1, 2002, the Group will adopt SFAS No. 144 "Accounting for the Impairment or Disposal of Long - Lived Assets". This statement addresses financial accounting and reporting for the impairment and disposal of long-lived assets. Management is currently developing a plan to apply the provision of this standard to its operations on an ongoing basis.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The Group believes that the adoption of this standard will have no material impact on its consolidated financial statements.

(in millions of US$)

Note 3: ACQUISITIONS

In June 2000, ZAO Beta-Ir, the company that manages the development of the Be-200 aircraft, issued 485,277 ordinary shares most of which were purchased by the Group entities. As a result, the effective rate of the Group's shareholding in ZAO Beta-Ir increased from 63% to 75%. In December 2000 ZAO Company FTK has issued 12,440,143 ordinary shares and all of them were acquired by the Company. This increased the effective Group shareholding in ZAO Company FTK from 28% to 56%.

These acquisitions have been accounted for using the purchase method and the results of operations and earnings previously allocated to minority owners have been included from the dates of acquisition. The purchase prices have been allocated to the assets acquired and liabilities assumed based on their estimated fair market values. The fair values did not materially differ from book values.

Note 4: CASH AND CASH EQUIVALENTS

	December 31, 2001	December 31, 2000
Cash at bank, US$ accounts	5	1
Cash at bank, Russian roubles accounts	117	1
Total cash and cash equivalents	**122**	**2**

Note 5: SHORT-TERM INVESTMENTS

	December 31, 2001	December 31, 2000
Commercial paper	46	7
Loans to related parties	4	
Loans to third companies	7	1
Other financial instruments	2	1
Total short-term investments	**59**	**9**

As at December 31, 2001 promissory notes of Nomos bank, BIN bank and MFK bank with a carrying value of US$ 37, included under commercial paper above, were pledged under short-term loan agreements with those banks. The promissory notes were purchased at nominal value and are redeemable in 2002 at par.

As at December 31, 2000 promissory notes of third parties totalling of $1 were pledged under the loan agreement with AKB Andreevsky.

(in millions of US$)

Note 6: ACCOUNTS RECEIVABLE

	December 31, 2001	December 31, 2000
Completed contracts	-	6
Contract revenue recognised in excess of billings	210	125
Contracts in progress	-	99
Contracts in progress – retained until completion of contract	1	1
Other trade accounts receivable, third parties	9	5
Other trade accounts receivable, related parties	1	-
	221	236
Less: allowance for doubtful collections	(1)	(1)
Total contract receivables	**220**	**235**

Note 7: TAXES AND OTHER RECEIVABLES

	December 31, 2001	December 31, 2000
VAT recoverable	37	28
Prepaid taxes	6	11
Other receivables – third parties	5	3
Total taxes and other receivables	**48**	**42**

VAT recoverable relates to input VAT incurred with respect to inventories purchased and available for offset against future output VAT following the settlement of accounts payable in relation to such inventories.

Note 8: INVENTORY

	December 31, 2001	December 31, 2000
Aircraft components	41	13
Work in progress	11	1
General stock materials and other	27	9
Less: Obsolescence Reserve	(3)	(3)
Total inventories	**76**	**20**

Work in progress comprises costs incurred on the licence agreement (see Note1(a)) and work on sundry orders for aircraft components and spare parts.

(in millions of US$)

Note 9: PROPERTY, PLANT AND EQUIPMENT

	December 31, 2001	December 31, 2000
Buildings	146	146
Machinery and equipment	205	198
Less: accumulated depreciation	(235)	(224)
Net book value	116	120
Construction in progress	10	9
Advances to suppliers of equipment	7	3
Property, plant and equipment, net	**133**	**132**

The net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to $45 at December 31, 2001 and at December 31, 2000, respectively.

Carrying and pledged values of property, plant and equipment subject to liens under loan agreements comprise $7 and $4 at December 31, 2001 and $1 and $1 at December 31, 2000, respectively.

Fully depreciated facilities, which are still in use by the Company, comprise $113 at December 31, 2001 and $108 at December 31, 2000, respectively.

Note 10: CHARTER CAPITAL

	December 31, 2001	December 31, 2000
Capital stock	29	29
Treasury shares	(7)	(7)
Total charter capital	**22**	**22**

At December 31, 2000 and December 31, 2001 authorised, issued and fully paid share capital consists of 791,051,875 ordinary shares with a nominal value of Russian Rubles 0.8 each.

As at December 31, 2001 158,010,000 shares were pledged under long-term loan agreements of the Company (158,010,000 shares at December 31, 2000), 22,411,187 shares were pledged under short-term borrowings of third parties (including 9,212,573 pledged under short-term borrowings of physical persons) and 10,901,229 shares were provided as a security to the loans of related parties.

(in millions of US$)

Note 11: BORROWINGS

Short-term borrowings:	December 31, 2001	December 31, 2000
Bank Loans		
Loans denominated in Russian roubles, secured		
Sberbank; fixed rate loans with interest of 17% (Note b)	28	-
Sberbank; variable rate loans with interest ranging from 19% to 34% (Note b)	8	12
Nomos bank; fixed interest rate of 27% (Note h)	8	-
MFK Bank; fixed interest rate of 27% (Note g)	6	-
BIN Bank; fixed interest rate of CBR + 3% (Note i)	17	-
Probusiness bank; fixed interest rate of 42% (Note e)	-	2
Total Russian roubles secured loans	**67**	**14**
Loans denominated in Russian roubles, unsecured		
National Investment bank, fixed interest rate of 25%	2	-
Russian Bank of Development of Regions, fixed interest rate of 24%	1	-
Total Russian roubles unsecured loans	**3**	**-**
Loans denominated in US dollars, secured		
Sberbank; variable rate loans with interest ranging from 13.5% to 19% (Note b)	79	
Trust and Investment Bank; fixed interest rate of 12% (Note c)	10	-
Mosnarbank; fixed interest rate of 12% (Note j)	20	-
Alfabank, fixed interest rate of 16% (Note f)	-	14
AKB Forpost (Note k)	-	1
Andreyevsky Bank, fixed interest rate of 15% (Note d)	-	1
Total US Dollar secured loans	**109**	**16**
Loans denominated in US dollars, unsecured		
Trust and Investment Bank; fixed interest rate of 15%	7	69
Trust and Investment Bank; variable rate loans with interest ranging from 14.25 to 15.5%	36	
Total US Dollars unsecured loans	**43**	**69**
Total bank loans	**222**	**99**
Company loans – third parties	**6**	**-**
Total company loans – third parties	**6**	**-**
Promissory notes – third parties (Note l)	**18**	**-**
Total short-term borrowings	**246**	**99**

(in millions of US$)

Note 11: BORROWINGS (continued)

Long-term borrowings:	**December 31, 2001**	**December 31, 2000**
Bank Loans		
Loans denominated in Russian roubles, secured		
Sberbank; fixed interest rate of 19% (Note a)	117	-
Sberbank; fixed interest rate of 17% (Note a)	-	29
Total Russian Roubles secured loans	**117**	**29**
Loans denominated in Russian Roubles, unsecured		
Prominvestbank; fixed rate loan with interest of 11%	2	3
Total Russian Roubles unsecured loans	**2**	**3**
Loans denominated in US dollars, secured		
Mosnarbank, fixed interest rate of 12%	15	-
Sberbank; fixed rate loans with interest of 13.5 % (Note a)	-	49
Total US Dollars secured loans	**15**	**49**
Loans denominated in US dollars, unsecured		
Incombank; fixed interest rate of 22%	2	3
Total US Dollars unsecured loans	**2**	**3**
Total bank loans	**136**	**84**
Total long-term borrowings	**136**	**84**
Total borrowings	**382**	**183**

Details of significant secured loan balances are summarised below:

(a) Sberbank credit lines
The Group has non-revolving credit line agreements with Sberbank in the amounts of $124 as of 31 December 2001 (drawings are made both in US dollars and in roubles). Property, plant and equipment, tenant rights for a land plot; on which offices are located and 158,010,000 shares of the Company held by ZAO Company FTK have been pledged as collateral against these credit lines. The Group is obliged to insure all property, plant and equipment pledged under this credit line agreement.

In addition, the Group has provided shares of JSC Ufa Engine Industrial Association and JSC TANTK as a security to this credit line agreement. The pledge value of those shares was agreed by the parties at $2. The carrying value of the respective shares was $1.

The loans from Sberbank under the credit line agreement for $124 are guaranteed by GK "Rosvooruzhenie"

(b) Other Sberbank loans
Aircraft components and accessories and other materials have been pledged as collateral against other Sberbank loans. The pledge and carrying values of the aircraft components were $5 and $10 respectively at December 31, 2001, and $6 and $12 respectively at December 31, 2000. The pledge value of other materials was $8 at December 31, 2001 and $9 at December 31, 2000 which approximates half of the carrying values of those assets.

Note 11: BORROWINGS (continued)

(c) Trust and Investment Bank

Equipment has been pledged as collateral against the loan.

(d) *Andreyevsky Bank*

Promissory notes of third parties have been pledged as collateral against the loan. (see also Note 5).

(e) *Probusiness Bank*

Equipment has been pledged as collateral against the loan.

(f) *Alfabank*

Two unfinished construction planes with a pledge value of $15 and other materials with a pledge value of $3 which approximates half of the carrying value of those materials, have been pledged as collateral against the loan.

(g) *MFK Bank*

MFK Bank's promissory notes owned by the Group have been pledged as collateral against the loan.

(h) *NOMOS Bank*

NOMOS Bank's promissory notes owned by the Group have been pledged as collateral against the loan.

(i) BIN Bank

BIN Bank's promissory notes owned by the Group have been pledged as collateral against the loan.

(j) Mosnarbank

Four unfinished planes with a pledge value of $46 have been pledged as collateral against the loan.

(k) *AKB Forpost*

Equipment has been pledged as collateral against the loan.

(l) Promissory notes

Starting in 2001, from time to time the Company issues promissory notes, which are traded in the local securities market, as a means of financing its business. The balance on promissory notes issued under the above arrangement that remained unpaid as of December 31, 2001 was $18 (December 31, 2000 – $ 0).

The unused lines of credit for short-term bank loans at December 31, 2001 comprise $71 and $19 at December 31, 2000.

(in millions of US$)

Note 12: ADVANCES RECEIVED

	December 31, 2001	December 31, 2000
Advances for military aircrafts	257	158
Advances for civil aircrafts	8	4
Advances for other goods and services	2	1
Total advances received and other current liabilities	**267**	**163**

Note 13: SALES AND OTHER OPERATING REVENUES

	December 31, 2001	December 31, 2000
Revenue earned on military aircraft construction contracts	286	224
Revenue earned on civil aircraft construction contracts	7	4
Revenue on sales of aircraft components	5	11
Other income	10	5
Total sales and other operating income	**308**	**244**

Note 14: COST OF PRODUCTS AND SERVICES

	December 31, 2001	December 31, 2000
Cost of aircraft components and other materials	152	102
Personnel costs	28	19
Depreciation	14	14
Design and development, third party	10	1
Design and development, related party	5	27
Insurance	2	-
Warranty repairs	4	4
Cost of other goods and services	11	7
Total cost of products and service	**226**	**174**

In 1997 the Company contracted JSC "OKB Sukhogo" to develop the design of the SU-30 MKI aircraft for supply under the contract with the India government. Expenses incurred by the Company on this contract in 2001 and 2000 are disclosed in the line 'Design and development, related party'. The balances on prepayments made by the Company to JSK OKB "Sukhogo" for work to be performed in future periods were $66 as of December 31, 2001 and $46 as of December 31, 2000.

Note 15: INCOME TAXES

The Group calculates deferred income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", applying the specific provisions for foreign companies using the US$ as the reporting currency.

SFAS No. 109 requires deferred income taxes to be computed on non-current assets in local currency by comparing the historic book and tax basis in local currency after respective depreciation but before indexing for either accounting or tax purposes. The local currency deferred income tax balance is then remeasured into US$ using the period-end exchange rate.

(in millions of US$)

Note 15: INCOME TAXES (continued)

Deferred income tax assets and liabilities at December 31, 2001 and December 31, 2000 are as follows:

	December 31, 2001	December 31, 2000
Inventory and cost of sales	26	18
Unrealised foreign exchange losses	32	25
Property, plant and equipment	1	1
Prepaid expenses	20	22
Deferred income tax assets	**79**	**66**
Contract revenue recognised in excess of billings	(50)	(43)
Accruals	(11)	(20)
Deferred income tax liabilities	**(61)**	**(63)**
Net deferred tax asset	**18**	**3**

A reconciliation between the income tax expense and taxes determined by applying the statutory tax rate to income before income taxes, extraordinary item and minority interests is presented below:

	For the year ended December 31, 2001	For the year ended December 31, 2000
Income/(loss) before income taxes, extraordinary item and minority interests	(3)	21
Statutory income tax rate	35%	30%
Theoretical income tax credit/(charge) at statutory rate	1	(6)
Decrease/(increase) due to:		
Change in treatment of unrealised foreign exchange losses for tax purposes	20	-
Capital allowance	3	1
Income not assessable for income tax purposes	1	1
Non-deductible expenses	(12)	(11)
Remeasurement of non-monetary assets and liabilities to US$	5	(2)
Effect of change in the tax rate	(8)	-
Accrual for income tax that became payable in 2001 because of change in accounting principles for statutory purposes		(5)
Income tax expense	**10**	**(22)**

In 2001 the Company revised its treatment, for tax purposes, of rouble unrealised foreign exchange losses on advances received from customers (in US$'s) from 1998 to 2001. As a result of this, a deferred tax asset in relation to unrealised losses available for offset against future taxable profits was recognised at December 31, 2001 of $ 32. Prior to this, only exchange losses which accrued in the period between August 1, 1998 and December 31, 1998 could be carried forward for tax purposes.

(in millions of US$)

Note 15: INCOME TAXES (continued)

Effective January 1, 2001, the standard rate of income tax payable by companies in the Russian Federation increased from 30% to 35%. Subsequently, effective January 1, 2002, the standard rate of income tax payable by companies in the Russian Federation decreased from 35% to 24%. As the changes in rates were already enacted at December 31, of 2001 and 2000, deferred taxes were calculated using 35% at December 31, 2000 and 24% at December 31, 2001.

Note 16: CASH GENERATED FROM OPERATIONS

Reconciliation of net income to cash generated from operations:

	Notes	For the year ended December 31, 2001	For the year ended December 31, 2000
Net income		9	-
Adjustments to reconcile net income to cash generated from operations:			
Depreciation		14	14
Change in deferred income taxes		(15)	16
Change in provision for warranty repairs		2	3
Change in provision for taxes		(9)	4
Minority interests		(2)	(1)
Loss from investments		3	5
Foreign exchange differences		(6)	(1)
Changes in operating working capital:			
(Increase)/reduction in receivables		15	(96)
Increase in advances to suppliers		(64)	(24)
Increase in inventories		(53)	(6)
Increase in prepaid expenses and other current assets		(14)	(14)
Increase/ (reduction) in accounts payable		(6)	16
Increase in advances received		104	1
Increase in other current liabilities		8	5
Net cash used for acquisition of trading securities		(14)	(20)
Cash generated from operations		**(28)**	**(98)**

Note 17: BACKLOG ON CONSTRUCTION CONTRACTS

The following schedule shows a reconciliation of backlog, representing the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at December 31, 2000 and 2001 and from contractual agreements on which work has not yet begun.

	December 31, 2001	December 31, 2000
Balance at the beginning of the year	1,360	1,442
New contracts	-	146
Less: contract revenue already recognised	(293)	(228)
Balance at the end of the year	**1,067**	**1,360**

Note 18: RELATED PARTY TRANSACTIONS

Related party transactions are disclosed on the face of each primary consolidated financial statement and in the corresponding notes to the financial statements.

In addition, in 1999 the Company contracted ZAO "OKB Russian Avionics" to perform research and design works relating to military system upgrades of the SU-27 and SU-30 aircrafts with a view to signing the contract with the Russian Ministry for Defence for modernisation of those type aircrafts. In the year ended December 31, 2001 the expenses incurred in relation to this project, included in the line 'Research and development costs' of the Income Statement, were $6 ($3 in the year ended December 31, 2000). As at December 31, 2001 and 2000 the Company held 27% of the shares of ZAO "OKB Russian Avionics".

In the year ended December 31, 2000 the Company incurred a loss on sales of trading securities to related parties in the amount of $2.

Note 19: COMMITMENTS AND CONTINGENCIES

Capital commitments. The Group is engaged in construction and equipment renovation programs currently estimated in the amount of $34. The construction programs are subject to periodic reviews and actual construction costs may vary from these estimates for many reasons including, but not limited to, general business conditions; environmental regulations; exchange rate fluctuations; the cost and efficiency of construction labour, equipment and materials; and the availability and cost of capital. At December 31, 2001 the purchase contracts signed in connection with such construction programs amounted to $15.

Operating environment. The economy of Russian Federation displays the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, currency controls, a low level of liquidity in the public and private debt and equity markets and relatively high rates of inflation.

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

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations and changes, occurring frequently. Furthermore, the interpretation of such legislation by the authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, such authorities may challenge certain transactions. The periods remain open to review by the tax and customs authorities with respect to tax payments for three years.

Environmental contingencies. Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are recognised immediately. The outcome of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no liabilities which will have a materially adverse effect on the financial position or the operating results of the Group.

Purchase Commitments. Commitments with third parties for the supply of aircraft components in 2002 under long-term supply agreements at current market prices are estimated at $175.

Note 20: SUBSEQUENT EVENTS

On 1 August 2002, a general shareholders' meeting took the decision to increase the charter capital of the Company by raising the par value of shares from 0.80 to 3 Russian rubles. The new Charter of the Company was registered with the appropriate authorities in September 2002.

In July 2001, the Company concluded a contract for the purchase of the controlling block of shares of ZAO "OKB Russian Avionics" for $1. The shares were transferred to the company after the final settlement in October 2002.

In 2002 the Group increased its shareholding in TANTK from 20% to 38%.

In June 2002, General Agreement between AK named after Ilyushin, Hindustan Aeronautic Ltd. (India), FGUP Rosoboronexport and the Company was signed. The main objectives of this agreement are:

- joint research of MTS market;
- preparation of the agreement on joint activities.

In 2002 the Company placed two issues of bonds in the local stock market:

In March 2002, 600,000 registered uncertified rouble denominated bonds with the par value rouble 1,000 for the total amount of 600,000,000 roubles ($19) were issued maturing in 3 years. There will be six coupon payments with varying interest rates per coupon. Annual interest rate for the first coupon is 20.4%, for the second – 18.5%. As of 1 October 2002 bonds for RR 308,000,000 were redeemed by the Company;

In November 2002, 1,500,000 certified inconvertible bonds with a par value of ruble 1,000 for a total amount of 1,500,000,000 rubles ($47) were issued. Time to maturity is three years, each bond is carrying 6 coupon payments with variable income. Annual interest rate for the first coupon was set at 18.5%.

In May 2002, the Company signed a memorandum of understanding with EADS. In September 2002, Rolls-Royce co-signed that memorandum. The main objectives are:

- investigation of technical, economic, marketing, regulatory and other aspects of implementation of the Be-200 project;
- preparation of draft Agreement on Cooperation establishing the basis for future cooperation between the parties to the project;
- investigation of further opportunities for cooperation between the parties in the area of aviation industry.

On December 27, 2002 a general shareholder's meeting approved the change of the name of the Company to JSC Scientific Production Corporation "IRKUT".