OAO Scientific Production Corporation "Irkut"

Consolidated Financial Statements
for the period ended 31 December 2006

Contents

	Note	2006 '000 USD	2005 '000 USD
Revenues	4	832,107	711,692
Cost of sales		(537,185)	(357,774)
Gross profit		**294,922**	**353,918**
Research and development costs		(6,611)	(8,179)
Distribution expenses		(107,218)	(86,190)
Administrative expenses		(93,260)	(64,404)
Taxes, other than on profit		(5,217)	(3,255)
Other operating expenses	6	(1,644)	(42,389)
Profit from operations		**80,972**	**149,501**
Financial income	7	22,120	11,653
Financial expenses	7	(47,168)	(50,182)
Profit before tax		**55,924**	**110,972**
Income tax expense	8	(12,197)	(27,295)
Net profit for the year		**43,727**	**83,677**
Attributable to:			
Shareholders of the parent company		43,188	84,826
Minority interest		539	(1,149)
		43,727	**83,677**
Basic and diluted earnings per share (USD)	19	0.045	0.095

The consolidated financial statements were authorised for issuance on 27 April 2007:

D.A. Eliseev
Vice-President for Corporate Finance

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 33.

	Note	2006 '000 USD	2005 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	9	224,423	201,922
Investment property	10	15,804	-
Intangible assets	11	146,523	128,852
Investments and non-current financial assets	12	13,604	14,230
Deferred tax assets	13	5,287	4,523
		405,641	**349,527**
Current assets			
Investments	12	1,365	21,837
Inventories	14	633,359	540,367
Trade and other receivables	15	281,003	189,400
Cash and cash equivalents	16	74,868	108,335
Disposal group assets and assets classified as held for sale	17	76,792	10,387
		1,067,387	**870,326**
Total assets		**1,473,028**	**1,219,853**
EQUITY AND LIABILITIES			
Equity	18		
Share capital		103,811	103,811
Share premium		97,532	97,532
Revaluation reserve		17,741	17,741
Foreign currency translation reserve		6,509	(773)
Retained earnings		141,106	97,918
Total equity attributable to shareholders of the parent company		**366,699**	**316,229**
Minority interest		43,421	39,640
Total equity		**410,120**	**355,869**
Non-current liabilities			
Loans and borrowings	20	561,808	529,144
Deferred tax liabilities	13	79,860	67,734
		641,668	**596,878**
Current liabilities			
Loans and borrowings	20	91,642	75,881
Trade and other payables	21	235,878	182,392
Deferred income		10,646	-
Provisions	22	9,914	8,833
Disposal group liabilities	17	73,160	-
		421,240	**267,106**
Total equity and liabilities		**1,473,028**	**1,219,853**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 33.

	2006 '000 USD	2005 '000 USD
OPERATING ACTIVITIES		
Profit before tax	55,924	110,972
Adjustments for:		
Depreciation and amortisation	23,889	20,368
Unrealised foreign exchange (gains)/losses	(3,665)	481
Impairment of capitalised development costs	-	17,063
Impairment of loans and bad debts	177	(446)
Negative goodwill	-	(3,135)
(Gain)/loss on disposal of property, plant and equipment and assets held for sale	(10,655)	2,235
Income from investments	(4,539)	(578)
Interest expense	68,066	57,630
Government grant related to compensation of interest expense	(20,898)	(7,448)
Interest income	(13,021)	(3,006)
Development costs	6,611	8,179
Gain on revaluation of investment property	(3,274)	-
Operating profit before changes in working capital and provisions	**98,615**	**202,315**
Change in inventories	(101,136)	(279,913)
Change in trade and other receivables	(141,234)	54,207
Change in trade and other payables	98,465	1,950
Change in deferred income	10,646	-
Change in provisions	1,081	(997)
Cash flows from operations before income taxes and interest paid	**(33,563)**	**(22,438)**
Income taxes paid	(2,500)	(18,709)
Interest paid, net of grant received	(45,411)	(50,134)
Cash flows from operating activities	**(81,474)**	**(91,281)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and assets held for sale	36,099	10,304
Proceeds from disposal of subsidiary	-	9,541
Acquisition of property, plant and equipment	(65,574)	(26,119)
Acquisition of intangible assets and development expenditure	(19,851)	(28,186)
Acquisition of subsidiaries and associates, net of cash acquired	-	(5,304)
Change in loans granted to related parties	(445)	3,200
Net cash to acquisition/(from disposal) of investments	7,629	(8,118)
Interest received	13,021	3,006
Cash flows utilised by investing activities	**(29,121)**	**(41,676)**
FINANCING ACTIVITIES		
Proceeds from borrowings	579,985	894,878
Repayment of borrowings	(506,207)	(830,672)
Proceeds from issue of share capital	-	66,138
Dividends paid	-	(3,071)
Cash flows from financing activities	**73,778**	**127,273**
Net decrease in cash and cash equivalents	**(36,817)**	**(5,684)**
Cash and cash equivalents at beginning of year	108,335	114,975
Effect of exchange rates fluctuations on cash and cash equivalents	3,682	(956)
Cash and cash equivalents at end of year (note 16)	**75,200**	**108,335**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 33.

’000 USD	Share capital	Share premium	Revaluation reserve	Foreign currency translation reserve	Retained earnings/ (Accumulated losses)	Total	Minority interest	Total
	Attributable to the shareholders of the parent company							
Balance at 1 January 2005	93,438	41,767	-	2,479	16,163	153,847	18,547	172,394
Net profit for the period	-	-	-	-	84,826	84,826	(1,149)	83,677
Foreign exchange differences	-	-	-	(3,252)		(3,252)	(1,472)	(4,724)
Total recognised gains and losses						81,574	(2,621)	78,953
Shares issued	10,373	55,765	-	-	-	66,138	-	66,138
Acquisition of subsidiaries			17,741	-	-	17,741	23,714	41,455
Dividends to shareholders	-	-	-	-	(3,071)	(3,071)	-	(3,071)
Balance at 31 December 2005	**103,811**	**97,532**	**17,741**	**(773)**	**97,918**	**316,229**	**39,640**	**355,869**
Net profit for the period	-	-	-	-	43,188	43,188	539	43,727
Foreign exchange differences	-	-	-	7,282	-	7,282	3,242	10,524
Total recognised gains and losses						50,470	3,781	54,251
Balance at 31 December 2006	**103,811**	**97,532**	**17,741**	**6,509**	**141,106**	**366,699**	**43,421**	**410,120**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 33.

1 Background

(a) Organisation and operations

OAO Scientific Production Corporation "Irkut" ("the Company") was formed as an open joint stock company following the President Decree and State Privatization Programme of 1992. The principal activity of the Company is the construction of military and civil aircraft under contracts with Russian and foreign governments. The Company and its subsidiaries ("the Group") are also engaged in research and development works for military and civil aircraft. This research and development is carried out for the Group's own purposes.

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 organization FGUP "Rosoboronexport" ("Rosoboronexport").

The Company's operations are subject to license for production and repair of aviation equipment awarded by FGUP "Rosaviacosmos". The current license is valid until March 2009.

The Parent Company's office is located at bld. 1, 68, Leningradsky prospect, Moscow, 125315, Russia.

(b) State Secrets

The operations of the Group 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, disclosure 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 organizations 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 the mobilization capacity of the state (refer note 9(b)) and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of these assets.

(c) Russian business environment

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. The accompanying 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.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investment property, instruments held for trading, designated at fair value through profit and loss and available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). The Parent Company's functional currency is the United States Dollar ("USD") because it reflects the economic substance of the underlying events and circumstances of the company.

USD is also the currency in which the consolidated financial statements are presented. All financial information presented in USD has been rounded to the nearest thousand.

The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of estimates and judgements

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 3(n) and 4 – Revenues;
- Note 11 – Intangible assets;
- Note 22 – Provisions;
- Note 25 – Contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

Where necessary, the assets and liabilities of foreign entities are translated into USD at the exchange rate at the end of the year. Revenues and expenses are translated into USD using rates approximating exchange rates at the dates of the transactions. The resulting exchange difference is recorded directly in equity in the foreign currency translation reserve.

(c) Classification of assets and liabilities

The operating cycle for aircraft construction contracts exceeds one year. Assets, which are reasonably expected to be realised 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.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is determined using straight-line method based on the estimated useful lives of the individual assets and is recognised in profit or loss.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Leased assets are depreciated over the period of useful life which is determined in line with one applied to similar owned assets.

The estimated useful lives for the current and comparative periods are as follows:

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

(iv) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(v) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

(e) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, rather than for use in production or supply of goods or services, or for administrative purpose or for sale in the ordinary course of business. Investment property is measured at fair value with any change therein recognised in profit or loss.

(f) Intangible Assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, other than development carried out as part of construction contracts (refer accounting policy 3(n)), is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement over the estimated units to be produced. The carrying amount is reviewed for impairment annually when the asset is not yet in use and thereafter whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(ii) Other intangible assets

Other intangible assets are recorded at cost less accumulated amortisation and/or impairment losses. Intangible assets that have limited useful lives are amortised on a straight-line basis over the estimated useful lives of the individual assets, which are in the range of 3-5 years. Intangible assets with indefinite useful lives are not amortised but are instead tested for impairment at least annually.

(g) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

(h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(p).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(j)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

The fair value of investments held for trading, designated at fair value through profit and loss and available-for-sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(i) Inventories

Construction work in progress is stated at cost plus profit recognised to date less foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Other inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Inventories are presented in the balance sheet net of advance payments received for construction contracts.

(j) Impairment

(i) Financial assets

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 current 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 profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed where there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(l) Employee benefits

Employees receive pension benefits from the government of the Russian Federation and the Group makes contributions on their behalf in accordance with the appropriate laws and regulations which are expensed as incurred.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected 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.

A provision for estimated standard warranty costs is recognised in the period in which the related product sales occur. An accrual for warranty costs is recognised based on the Group's historical experience on previous deliveries of aircrafts. Estimates are adjusted as necessary based on subsequent experience.

(n) Revenues

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, labour and contract related design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. Marketing costs that are incurred for a specific contract may be included in contract costs, but only if these costs can be directly associated with a specific contract and if their recoverability from that contract is probable.

Provisions for estimated losses on uncompleted contracts, if any, 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 recognised in the period in which the revisions are determined.

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(o) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(p) Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(q) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Government grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses were incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amounts of the asset.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, 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 financial reporting. The Group is currently in process of assessing the impact of these pronouncements on the Group's financial position and results of operations when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.

4 Revenues

	2006 '000 USD	2005 '000 USD
Revenue earned on military aircraft construction contracts	507,042	474,226
Revenue on sales of military aircraft components and related products	250,593	173,127
Revenue earned on civil aircraft construction contracts	35,517	25,210
Revenue on sales of civil aircraft components and related products	9,020	18,194
Other revenues	29,935	20,935
	832,107	**711,692**

(a) Segment reporting

The Group manufactures both military and civil aircraft. However, the revenues, results and assets attributable to military aircraft comprise substantially all of the Group's revenues, results and assets. Therefore no separate information in respect of business segments is presented.

The Group's manufacturing activities are in Russia and substantially all of its revenues are derived from export to one market. Therefore no geographical segment information is presented.

(b) Changes in accounting estimate

In 2005, one of the Group's customers executed options for the acquisition of additional products under existing construction contracts. In addition, the price of the products was renegotiated. The revision of the contract revenue and the contract cost resulted in adjustments to the cumulative amount of revenue recognised under the contract, which amounted to USD 81,215 thousand. The adjustments have been accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on a prospective basis, which resulted in additional revenue of USD 81,215 thousand being recognised for the year ended 31 December 2005.

5 Personnel expenses

	2006 '000 USD	2005 '000 USD
Wages and salaries	123,870	81,477
Compulsory social security contributions	27,891	20,501
	151,761	**101,978**

6 Other operating expenses

	2006 '000 USD	2005 '000 USD
(Gain)/loss on disposal of property, plant and equipment and assets held for sale	(10,655)	2,235
Gain from revaluation of investment property	(3,274)	-
Negative goodwill	-	(3,135)
Social costs	7,340	7,054
Impairment of loans given and bad debts	177	(446)
Impairment of capitalised development costs	-	17,063
Other operating income and expenses, net	8,056	19,618
	1,644	**42,389**

7 Financial income and expenses

	2006 '000 USD	2005 '000 USD
Financial income		
Interest income on amounts due from tax authorities (note 25(b))	7,984	-
Other interest income	5,037	3,006
Foreign exchange gain	4,560	8,069
Income from investments	4,539	578
	22,120	**11,653**
Financial expenses		
Interest expense	(68,066)	(57,630)
Government grant related to compensation of interest expense	20,898	7,448
	(47,168)	**(50,182)**

8 Income tax expense

	2006 '000 USD	2005 '000 USD
Current tax expense		
Current income tax	6,152	3,495
Overprovided in prior years	(3,083)	-
	3,069	**3,495**
Deferred tax benefit		
Origination and reversal of temporary differences	9,888	27,888
Change in recognised deferred tax assets	(760)	(4,088)
	9,128	**23,800**
	12,197	**27,295**

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

Reconciliation of effective tax rate:

	2006 '000 USD	%	2005 '000 USD	%
Profit before tax	55,924	100%	110,972	100%
Income tax at applicable tax rate	13,422	24%	26,633	24%
Non-deductible/non-taxable items, net	5,066	9%	4,734	5%
Foreign currency translation	(2,448)	(4%)	16	0%
Overprovided in prior years	(3,083)	(6%)	-	0%
Change in recognised deferred tax assets	(760)	(1%)	(4,088)	(4%)
	12,197	**22%**	**27,295**	**25%**

9 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2005	173,786	219,826	29,287	422,899
Additions through business combinations	20,660	27,354	927	48,941
Other additions	89	9,252	16,778	26,119
Transfers	13,395	3,115	(16,510)	-
Disposals	(7,853)	(7,203)	(1,995)	(17,051)
Disposal of subsidiary	(10,791)	-	-	(10,791)
Classified as assets held for sale	(10,638)	-	-	(10,638)
Foreign exchange differences	(1,523)	(1,156)	(44)	(2,723)
At 31 December 2005	**177,125**	**251,188**	**28,443**	**456,756**
Additions and transfers	14,385	20,169	31,020	65,574
Transferred to investment property	(12,676)	-	-	(12,676)
Disposals	(16,245)	(13,214)	(804)	(30,263)
Classified as disposal group assets	-	(195)	-	(195)
Foreign exchange differences	2,562	2,754	144	5,460
At 31 December 2006	**165,151**	**260,702**	**58,803**	**484,656**
Depreciation				
At 1 January 2005	(90,653)	(149,681)	-	(240,334)
Depreciation charge	(3,119)	(16,520)	-	(19,639)
Disposals	178	4,609	-	4,787
Classified as assets held for sale	251	-	-	251
Foreign exchange differences	26	75	-	101
At 31 December 2005	**(93,317)**	**(161,517)**	**-**	**(254,834)**
Depreciation charge	(2,932)	(17,537)	-	(20,469)
Disposals	4,554	10,672	-	15,226
Transferred to investment property	451	-	-	451
Classified as disposal group assets	-	62	-	62
Foreign exchange differences	(114)	(555)	-	(669)
At 31 December 2006	**(91,358)**	**(168,875)**	**-**	**(260,233)**
Net book value				
At 1 January 2005	**83,133**	**70,145**	**29,287**	**182,565**
At 31 December 2005	**83,808**	**89,671**	**28,443**	**201,922**
At 31 December 2006	**73,793**	**91,827**	**58,803**	**224,423**

(a) Security

Property, plant and equipment with a carrying amount of USD 22,546 thousand (31 December 2005: USD 20,462 thousand) is pledged as collateral for secured loans (see note 20(a)).

(b) Other restrictions

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 USD 28,564 thousand (2005: USD 33,036 thousand).

10 Investment property

Investment property comprises a number of vacant buildings and apartments which are held for capital appreciation.

The fair value of the investments property was determined by an independent valuer based on:

- market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion; or
- in the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected from renting out the property. A yield that reflects the specific risks inherent in the net cash flows was applied to the net annual cash flows to arrive at the property valuation.

	2006 '000 USD
Balance at 1 January 2006	-
Transfers from property, plant and equipment	12,225
Change in fair value	3,274
Foreign exchange differences	305
Balance at 1 December 2006	**15,804**

11 Intangible assets

'000 USD	**Development costs**	**Other intangibles**	**Total**
Cost			
At 1 January 2005	91,269	3,596	94,865
Additions through business combinations	36,262	943	37,205
Other additions	19,060	947	20,007
Disposals	-	(275)	(275)
Impairment	(17,063)	-	(17,063)
Foreign exchange differences	(3,027)	(42)	(3,069)
At 31 December 2005	**126,501**	**5,169**	**131,670**
Additions	10,539	2,701	13,240
Classified as disposal group assets	-	(138)	(138)
Disposals	-	(91)	(91)
Foreign exchange differences	7,942	140	8,082
At 31 December 2006	**144,982**	**7,781**	**152,763**

’000 USD	Development costs	Other intangibles	Total
Amortisation			
At 1 January 2005	(438)	(1,652)	(2,090)
Amortisation charge	(218)	(511)	(729)
Foreign exchange differences	-	1	1
At 31 December 2005	**(656)**	**(2,162)**	**(2,818)**
Amortisation charge	(1,029)	(2,391)	(3,420)
Classified as disposal group assets	-	39	39
Disposals	-	9	9
Foreign exchange differences	-	(50)	(50)
At 31 December 2006	**(1,685)**	**(4,555)**	**(6,240)**
Net book value			
At 1 January 2005	**90,831**	**1,944**	**92,775**
At 31 December 2005	**125,845**	**3,007**	**128,852**
At 31 December 2006	**143,297**	**3,226**	**146,523**

Capitalised development costs comprise the following items:

	2006 ’000 USD	2005 ’000 USD
Intellectual property rights related to the development of:		
Be-200 aircraft	67,078	63,889
Yak-130 aircraft	59,227	44,330
SUV-30K modernisation set	9,260	10,289
A-50 airborne warning and control system	4,801	4,556
Be-103 aircraft	2,931	2,781
	143,297	**125,845**

Be-200 and Yak-130 development projects are not yet completed and therefore the related intangibles assets are not amortised. The amortisation will commence when the Group will start production of the assets which is planned for 2007-2025.

12 Investments and non-current financial assets

	2006 ’000 USD	2005 ’000 USD
Non-current		
Available-for-sale investments, stated at cost	12,520	13,936
Other non-current financial assets	1,084	294
	13,604	**14,230**
Current		
Investments held to maturity	940	-
Investments designated at fair value through profit and loss	425	21,837
	1,365	**21,837**

Available-for-sale investments include equity securities of ZAO Company “FTK” (“FTK”), a former subsidiary of the Group and a related party as of 31 December 2006. A stock issuance in 2002, which the Company did not take part in, diluted its interest in FTK’s from 56% to 9%. The investment was recorded at cost of USD 8,885 thousand.

13 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

’000 USD	**Assets**		**Liabilities**		**Net**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Property, plant and equipment	8,954	4,887	(4,694)	(11,146)	4,260	(6,259)
Investment property	-	-	(3,707)	-	(3,707)	-
Intangible assets	21,768	31,334	(28,205)	(30,633)	(6,437)	701
Investments	-	-	(959)	(338)	(959)	(338)
Inventories	9,372	11,999	(99,715)	(99,527)	(90,343)	(87,528)
Trade and other receivables	525	99	(5,722)	-	(5,197)	99
Loans and borrowings	788	259	(1,101)	(653)	(313)	(394)
Trade and other payables	11,994	9,123	-	-	11,994	9,123
Provisions	1,631	2,548	-	-	1,631	2,548
Tax loss carry-forwards	14,521	18,837	(23)	-	14,498	18,837
Total tax assets/(liabilities)	**69,553**	**79,086**	**(144,126)**	**(142,297)**	**(74,573)**	**(63,211)**
Offset of tax	(64,266)	(74,563)	64,266	74,563	-	-
Net tax assets/(liabilities)	**5,287**	**4,523**	**(79,860)**	**(67,734)**	**(74,573)**	**(63,211)**

(b) Movement in temporary differences during the year

’000 USD	**1 January 2005**	**Recognised in income**	**Foreign currency translation**	**Acquired/ disposed of**	**31 December 2005**
Property, plant and equipment	(2,681)	979	434	(4,991)	(6,259)
Intangible assets	13,892	(6,825)	558	(6,924)	701
Investments	(1,273)	926	9	-	(338)
Inventories	(38,263)	(41,930)	274	(7,609)	(87,528)
Trade and other receivables	(11,174)	11,278	(5)	-	99
Loans and borrowings	(357)	(37)	-	-	(394)
Trade and other payables	9,229	(106)	-	-	9,123
Provisions	955	1,593	-	-	2,548
Tax loss carry-forwards	4,163	10,322	171	4,181	18,837
	(25,509)	**(23,800)**	**1,441**	**(15,343)**	**(63,211)**

'000 USD	1 January 2006	Recognised in income	Foreign currency translation	Transferred to disposal group	31 December 2006
Property, plant and equipment	(6,259)	11,587	(1,068)	-	4,260
Investment property	-	(3,707)	-	-	(3,707)
Intangible assets	701	(5,209)	(1,929)	-	(6,437)
Investments	(338)	(621)	-	-	(959)
Inventories	(87,528)	(2,734)	(362)	281	(90,343)
Trade and other receivables	99	(5,299)	3	-	(5,197)
Loans and borrowings	(394)	57	24	-	(313)
Trade and other payables	9,123	2,856	15	-	11,994
Provisions	2,548	(918)	1	-	1,631
Tax loss carry-forwards	18,837	(5,140)	473	328	14,498
	(63,211)	**(9,128)**	**(2,843)**	**609**	**(74,573)**

14 Inventories

	2006 '000 USD	2005 '000 USD
Advance payments to suppliers	121,206	74,728
Raw materials and other supplies	72,456	40,116
Aircraft components	84,807	47,550
Amounts due from customers for contract work	625,731	553,361
Other work in progress	20,332	22,297
	924,532	**738,052**
Advance payments received	(291,173)	(197,685)
	633,359	**540,367**

15 Trade and other receivables

	2006 '000 USD	2005 '000 USD
Accounts receivable – trade	92,494	51,752
Allowance for doubtful accounts	(108)	(686)
	92,386	**51,066**
VAT recoverable	134,843	113,720
Government grant receivable	20,898	-
Due from tax authorities	17,021	7,737
Prepaid taxes	2,367	871
Other receivables and originated loans	13,488	16,006
	281,003	**189,400**

16 Cash and cash equivalents

	2006 '000 USD	2005 '000 USD
Bank balances, US Dollars	32,521	64,224
Bank balances, Russian roubles	42,679	44,111
Cash and cash equivalents in the statement of cash flows	**75,200**	**108,335**
Cash of disposal group (note 17)	(332)	-
Cash and cash equivalents in the balance sheet	**74,868**	**108,335**

17 Disposal group assets and liabilities and assets classified as held for sale

During 2006 management of the Group decided and designed a formal plan to dispose of a subsidiary ZAO Russian Avionics involved in research and development activities not related to the Group's main products. The disposal occurred in April 2007 (see note 28). Assets and liabilities of ZAO Russian Avionics were classified as at 31 December 2006 as 'disposal group assets' and 'disposal group liabilities'. The analysis of the amounts presented on the face of the balance sheet is provided below.

	Note	2006 '000 USD
Disposal group assets		
Property, plant and equipment	9	133
Intangible assets	11	99
Investments		18,008
Inventories		8,144
Trade and other receivables		50,076
Cash and cash equivalents		332
		76,792
Disposal group liabilities		
Loans and borrowings		27,572
Advances received		42,866
Trade and other payables		2,113
Deferred income tax liabilities	13	609
		73,160

As at 31 December 2005, the carrying value of certain properties of USD 10,387 were classified as non-current assets held for sale. The properties have been disposed of in the reporting period for USD 13,509 thousand received in cash.

18 Equity

(a) Share capital

As at 31 December 2006 and 2005, authorised, issued and fully paid capital stock consisted of 978,131,612 ordinary shares. All ordinary shares have a nominal value of Russian roubles 3 each.

(b) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2006 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 1,458,797 thousand (USD 55,402 thousand translated at the closing exchange rate of 26.3311).

Before these consolidated financial statements were authorised for issue, no recommendation has been made by the Board of Directors with regard to dividend distribution for 2006. In accordance with the Group's dividend policy, the amount of distribution is limited to 25% of the net profit for the year attributable to the shareholders of the Parent Company determined in accordance with IFRS.

19 Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Group has no dilutive potential ordinary shares.

Number of shares	**2006**	**2005**
Issued ordinary shares at 1 January	978,131,612	878,946,528
Effect of ordinary shares issued in November 2005	-	16,530,847
Weighted average number of ordinary shares at 31 December	**978,131,612**	**895,477,375**

20 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	2006 '000 USD	**2005 '000 USD**
Non-current		
Secured bank loans	305,856	355,304
Unsecured bank loans	2,588	59,514
Unsecured bond issue	251,495	114,326
Other loans	1,869	-
	561,808	**529,144**
Current		
Secured bank loans	2,094	9,820
Unsecured bank loans	45,388	24,058
Current portion of non-current secured bank loans	30,723	16,000
Current portion of non-current unsecured bank loans	11,946	23,512
Other loans	1,491	2,491
	91,642	**75,881**

(a) Security

The loans are secured over property, plant and equipment with a carrying amount of USD 22,546 thousand (31 December 2005: USD 20,462 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

'000 USD	Total	Under 1 year	1-5 years
Secured bank loans:			
RUR – fixed at 9-11%	7,637	24	7,613
USD – fixed at 9-11%	245,884	23,205	222,679
USD – variable at 6-8%	85,152	9,588	75,564
Unsecured bank loans:			
USD – variable at 10%	34,797	32,209	2,588
USD – fixed at 10%	25,125	25,125	-
Unsecured bond issues:	-		
RUR – fixed at 9%	125,169	-	125,169
USD – fixed at 9%	126,326	-	126,326
Other loans	3,360	1,491	1,869
	653,450	**91,642**	**561,808**

For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

21 Trade and other payables

	2006 '000 USD	2005 '000 USD
Accounts payable – trade	162,514	126,873
Accrued expenses	27,897	20,982
Advances from customers	23,241	16,869
Income and other taxes payable	9,211	10,144
Other payables	13,015	7,524
	235,878	**182,392**

22 Provisions

	Warranties	
	2006 '000 USD	2005 '000 USD
Balance at 1 January 2006	8,833	9,830
Provisions made during the year	5,698	3,906
Provisions used during the year	(4,298)	(2,311)
Provisions reversed during the year	(319)	(2,592)
Balance at 31 December 2006	**9,914**	**8,833**

The Group provides product warranties in conjunction with certain product sales. Generally, aircraft sales are accompanied by a twelve to eighteen month warranty period that covers systems, accessories, equipment, parts and software manufactured by the Group to certain contractual specifications. Warranty coverage includes non-conformance to specifications and defects in material and workmanship.

The warranty liability recorded at each balance sheet date reflects the estimated number of months of warranty coverage outstanding for products produced times the expected monthly warranty payments, as well as additional amounts, if necessary, for certain major warranty issues that exceed a normal claims level.

23 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than USD. The currency giving rise to this risk is primarily RUR. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values

Fair values of financial instruments have been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximate their carrying amount except in the following instance:

'000 USD	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Unsecured bond issues, RUR (note 20)	125,169	128,526	114,326	112,916
Unsecured bond issues, USD (note 20)	126,326	127,563	-	-

24 Commitments

(a) Capital commitments

At 31 December 2006 the Group is committed to capital expenditure of approximately USD 5,232 thousand (2005: USD 46,449 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2006 under long-term supply agreements are estimated at USD 153,307 thousand at current market prices (2005: USD 211,324 thousand).

25 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group was involved in a number of disputes with tax authorities related to the results of the tax audits for 2003-2004. In 2006, the disputes were finalised in favour of the Group. According to the tax legislation the Group claimed additional deductions from the taxable profits reported in previous years and return of amounts deducted by the tax authorities from the Group's bank accounts as well as related interest. The claim was satisfied, which resulted in a reduction of the current income tax expense by USD 3,083 thousand (refer note 8) and interest income of USD 7,984 (refer note 7).

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Financial guarantees

The Group has provided financial guarantees for loans advanced to certain suppliers of the Group and financial intermediaries for the total amount of USD 31,427 thousand. A guarantee for the amount of USD 28,483 thousand was provided in exchange for a financial instrument linked to the market value of a portfolio of debt and equity instruments managed by the debtor, which is classified as “Investments designated at fair value through profit and loss” in the consolidated balance sheet. The fair value of the guarantees, which amounted to USD 214 thousand is included in “Trade and other payables” in the consolidated balance sheet. The Group’s estimated maximum exposure to credit losses in the event of non-performance by the other parties to the financial guarantees is represented by the contractual amounts disclosed above. Management believes that the likelihood of material payments being required under these agreements is remote. As of 31 December 2006 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(e) 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.

26 Related party transactions

(a) Control relationship

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

Upon establishment of OAO United Aircraft Corporation in December 2006, the controlling interest in the Parent Company was contributed by the shareholders to the share capital of OAO United Aircraft Corporation, which is controlled by the Federal Government of Russian Federation. Therefore, as at 31 December 2006 the Federal Government of Russian Federation is the ultimate controlling party of the Group. Related parties disclosures (refer 26(c)) as at 31 December 2006 include balances with other state-controlled entities.

(b) Transactions with management

Key management received the following remuneration during the year, which is included in personnel expenses (see note 5):

	2006 '000 USD	2005 '000 USD
Wages and salaries	10,203	1,405
Compulsory social security contributions	477	78
	10,680	**1,483**

(c) Transactions with other related parties

Transactions with related parties are disclosed in note 12. In addition, the Group had the following transactions and balances with related parties.

'000 USD	Transaction value 2006	Outstanding balance 2006	Transaction value 2005	Outstanding balance 2005
Purchases of raw materials and components	(2,507)	(61,177)	-	-
Sales of military aircraft components and related products	26,514	16,291	17,682	5,745
Acquisition of design and development	(1,653)	(22,623)	(3,292)	(18,196)
Accounts receivable – trade	-	87,127	-	-
Advance payments received	-	(230,968)	-	-
Other receivables and originated loans	-	4,612	-	4,167
Bank balances	-	44,250	-	-
Secured loans	-	(206,701)	-	-
Unsecured loans	-	(37,384)	-	-

Tax balances are disclosed on the face of the balance sheet and in notes 15 and 21.

Outstanding balance for sales of military aircraft components and related products as at 31 December 2006 includes trade accounts receivable of USD 16,817 thousand included in disposal group assets (refer note 17).

Unsecured loans as at 31 December 2006 include an unsecured loan of USD 27,288 thousand included in disposal group liabilities (refer note 17).

(d) Pricing policies

Prices for related party transactions are determined on a transaction-by-transaction basis, not necessarily at arm's length.

27 Significant subsidiaries

	Country of incorporation	Ownership/voting 2006	2005
OAO “OKB Imeni A.S. Yakovleva”	Russia	75%	75%
OAO “TANTK Imeni G.M. Berieva”	Russia	59%	44%
ZAO “Beta Air”	Russia	72%	66%
ZAO “Russian Avionics”	Russia	51%	51%
ZAO “Irkut AviaSTEP”	Russia	100%	100%
ZAO “ITELA”	Russia	51%	51%
ZAO “Techserviceavia”	Russia	51%	51%
OAO “NII Izmerenia”	Russia	-	98%

In addition, the Group has other subsidiaries, which are not material to the Group, either individually or in aggregate.

28 Events subsequent to the balance sheet date

In April 2007, the Group disposed of subsidiary ZAO Russian Avionics (refer note 17) for USD 8,500 thousand.

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