OAO Scientific Production Corporation "Irkut"

Consolidated Financial Statements
for the year ended 31 December 2007

Contents

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Independent Auditors' Report

The Board of Directors

OAO Scientific Production Corporation "Irkut"

We have audited the accompanying consolidated financial statements of OAO Scientific Production Corporation "Irkut" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

30 May 2008

	Notes	2007 ’000 USD	2006 ’000 USD
Revenues	7	1,022,644	832,107
Cost of sales		(715,856)	(537,185)
Gross profit		**306,788**	**294,922**
Research and development costs		(5,658)	(6,611)
Distribution expenses		(94,054)	(107,218)
Administrative expenses		(124,358)	(93,260)
Taxes, other than on profit		(7,830)	(5,217)
Other operating income and expenses	9	5,514	(1,644)
Profit from operations		**80,402**	**80,972**
Financial income	10	25,822	22,120
Financial expenses	10	(59,308)	(47,168)
Profit before tax		**46,916**	**55,924**
Income tax expense	11	(9,001)	(12,197)
Net profit for the year		**37,915**	**43,727**
Attributable to:			
Shareholders of the parent company		48,658	43,188
Minority interest		(10,743)	539
		37,915	**43,727**
Basic and diluted earnings per share (USD)	21	0.050	0.044

The consolidated financial statements were authorised for issuance on 23 May 2008:

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 39.

	Note	2007 '000 USD	2006 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	12	318,000	224,423
Investment property	13	21,449	15,804
Intangible assets	14	171,307	146,523
Investments and non-current financial assets	15	16,264	13,604
Deferred tax assets	16	3,364	5,287
		530,384	**405,641**
Current assets			
Investments	15	288	1,365
Inventories	17	716,246	633,359
Trade and other receivables	18	264,267	281,003
Cash and cash equivalents	19	363,783	74,868
Disposal group assets and assets classified as held for sale	6	-	76,792
		1,344,584	**1,067,387**
Total assets		**1,874,968**	**1,473,028**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		103,811	103,811
Share premium		97,532	97,532
Revaluation reserve		17,741	17,741
Foreign currency translation reserve		12,684	6,509
Retained earnings		184,971	141,106
Total equity attributable to shareholders of the parent company		**416,739**	**366,699**
Minority interest		33,166	43,421
Total equity		**449,905**	**410,120**
Non-current liabilities			
Loans and borrowings	22	680,954	561,808
Deferred tax liabilities	16	49,859	79,860
		730,813	**641,668**
Current liabilities			
Loans and borrowings	22	314,036	91,642
Trade and other payables	23	363,154	235,878
Deferred income		3,863	10,646
Provisions	24	13,197	9,914
Disposal group liabilities	6	-	73,160
		694,250	**421,240**
Total equity and liabilities		**1,874,968**	**1,473,028**

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 39.

	2007 '000 USD	2006 '000 USD
OPERATING ACTIVITIES		
Profit before tax	46,916	55,924
Adjustments for:		
Depreciation and amortisation	31,939	23,889
Unrealised foreign exchange gains	(23,602)	(3,665)
Impairment of capitalised development costs	248	-
Impairment of loans and bad debts	60	177
Gain on disposal of subsidiary	(6,961)	-
Gain on disposal of property, plant and equipment and assets held for sale	(381)	(10,655)
Income from investments	(1,236)	(4,539)
Interest expense	84,442	68,066
Government grant related to compensation of interest expense	(25,134)	(20,898)
Interest income	(5,334)	(13,021)
Development costs	5,658	6,611
Gain on revaluation of investment property	(3,838)	(3,274)
Operating profit before changes in working capital and provisions	**102,777**	**98,615**
Change in inventories	(83,788)	(101,136)
Change in trade and other receivables	20,992	(141,234)
Change in trade and other payables	129,450	98,465
Change in deferred income	(6,783)	10,646
Change in provisions	3,283	1,081
Cash flows from operations before income taxes and interest paid	**165,931**	**(33,563)**
Income taxes paid	(6,730)	(2,500)
Interest paid, net of grant received	(57,018)	(45,411)
Cash flows from/(utilised by) operating activities	**102,183**	**(81,474)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and assets held for sale	1,516	36,099
Proceeds from disposal of subsidiary	2,892	-
Acquisition of property, plant and equipment	(101,985)	(65,574)
Acquisition of intangible assets and development expenditure	(28,245)	(19,851)
Dividends received	50	-
Change in loans granted to related parties	-	(445)
Net cash to (from disposal)/acquisition of investments	(1,904)	7,629
Interest received	5,284	13,021
Cash flows utilised by investing activities	**(122,392)**	**(29,121)**
FINANCING ACTIVITIES		
Proceeds from borrowings	1,158,920	579,985
Repayment of borrowings	(843,842)	(506,207)
Proceeds from leasing	10,110	-
Dividends paid	(5,370)	-
Cash flows from financing activities	**319,818**	**73,778**
Net decrease in cash and cash equivalents	**299,609**	**(36,817)**
Cash and cash equivalents at beginning of year	75,200	108,335
Effect of exchange rates fluctuations on cash and cash equivalents	(11,026)	3,682
Cash and cash equivalents at end of year (note 19)	**363,783**	**75,200**

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 39.

	Attributable to the shareholders of the parent company						Minority interest	Total
’000 USD	**Share capital**	**Share premium**	**Revaluation reserve**	**Foreign currency translation reserve**	**Retained earnings/ (Accumulated losses)**	**Total**		
Balance at 1 January 2006	**103,811**	**97,532**	**17,741**	**(773)**	**97,918**	**316,229**	**39,640**	**355,869**
Net profit for the year	-	-	-	-	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**
Net profit for the year	-	-	-	-	48,658	48,658	(10,743)	37,915
Disposal of subsidiary	-	-	-	-	-	-	(1,481)	(1,481)
Foreign exchange differences	-	-	-	6,175	-	6,175	2,546	8,721
Total recognised gains and losses						54,833	(9,678)	45,155
Dividends to shareholders	-	-	-	-	(4,793)	(4,793)	(577)	(5,370)
Balance at 31 December 2007	**103,811**	**97,532**	**17,741**	**12,684**	**184,971**	**416,739**	**33,166**	**449,905**

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 39.

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 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 21 July 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 12(c)) 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 7 – Revenues;
- Note 14 – Intangible assets;
- Note 24 – Provisions;
- Note 27 – 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. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the asset.

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, an appropriate proportion of overheads and borrowing costs that are directly attributable to the development activity. 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.

(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.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(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..

Foreign currency gains and losses are reported on a net basis.

(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 2007, 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 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.

- Revised IAS 23 *Borrowing Costs,* which becomes mandatory for the Group's 2009 financial statements. The Standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* which is effective for the Group's 2008 financial statements. It considers a share-based payment arrangement. IFRIC 11 is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* which becomes mandatory for the Group's 2008 financial statements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not expected to have any effect on the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* which becomes mandatory for the Group's 2009 financial statements, relates to customer loyalty programmes. IFRIC 13 is not expected to have any impact on the consolidated financial statements.
- IFRS 3 *Business Combinations,* which comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The objective of the IFRS is to enhance the relevance, reliability and comparability of the information that the Group provides in its financial statements about a business combination and its effects.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of 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. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

The fair value of intellectual property rights and patents acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the intellectual property rights or patent being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually. The fair values are 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.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has recently established the Risk Management Commission, which is responsible for developing and monitoring the Group's risk management policies. The commission reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

Main customers of the Group are governments of other countries and Group's exposure to credit risk is influenced mainly by the economical and political situation in these countries. Approximately 90% of the Group's revenue is attributable to sales transactions with a group of three main customers. Therefore, geographically there is high concentration of credit risk. Group monitors all changes which occurs in the target countries.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities.

(iii) 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 29,835 thousand (2006: USD 31,427 thousand). A guarantee for the amount of USD 27,798 thousand (2006: USD 28,483 thousand) as 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 382 thousand (2006: 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 2007 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(c) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- USD 21 million credit line that is secured by future cash receipts under existing contracts. Interest would be payable at the fixed rate of 8%.
- USD 46.7 million credit line that is unsecured. Interest would be payable at the fixed rate of 7.2%.

(d) Market risk

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

The Group incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Commission. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily U.S. Dollars (USD) but also the euro (EURO), and Russian Roubles (RUR). The currencies in which these transactions primarily are denominated are USD, euro and RUR.

The Group is going to hedge 85% to 100% of its estimated foreign currency exposure in respect of forecast expenses over the following twelve months. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUR and EURO. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk

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.

(iii) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Disposal of subsidiary

In 2007, the Group disposed of all 51% shares in ZAO Russian Avionics involved in research and development activities not related to the Group's main products to a third party for USD 8,500 thousand. Assets and liabilities of ZAO Russian Avionics were classified at 31 December 2006 as "disposal group assets" and "disposal group liabilities".

The disposal of the subsidiary had the following effect on the Group's assets and liabilities:

	Note	On disposal '000 USD	2006 '000 USD
Assets			
Property, plant and equipment	12	134	133
Intangible assets	14	105	99
Investments		19,565	18,008
Inventories		9,045	8,144
Trade and other receivables		49,320	50,076
Cash and cash equivalents		2,108	332
		80,277	**76,792**
Liabilities			
Loans and borrowings		29,576	27,572
Advances received		44,455	42,866
Trade and other payables		2,698	2,113
Deferred income tax liabilities	16	528	609
		77,257	**73,160**
Net assets and liabilities		3,020	3,632
Consideration received, satisfied in cash		5,000	-
Cash disposed of		(2,108)	-
Net cash inflow		**2,892**	**-**

The outstanding amount of USD 3,500 thousand was paid in February 2008.

7 Revenues

	2007 '000 USD	2006 '000 USD
Revenue earned on military aircraft construction contracts	770,614	507,042
Revenue on sales of military aircraft components and related products	125,819	250,593
Revenue earned on civil aircraft construction contracts	75,501	35,517
Revenue on sales of civil aircraft components and related products	487	9,020
Other revenues	50,223	29,935
	1,022,644	**832,107**

(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. Therefore no geographical segment information is presented.

(b) Changes in accounting estimate

In 2007, management has changed its estimate of contract costs and renegotiated the price of the products with a customer. The revision of the contract cost and the contract revenue resulted in adjustments to the cumulative amount of revenue recognized under the contract, which amounted to USD 4,357 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 4,357 thousand being recognized for the year ended 31 December 2007.

8 Personnel expenses

	2007 '000 USD	2006 '000 USD
Wages and salaries	170,279	123,870
Compulsory social security contributions	35,989	27,891
	206,268	**151,761**

9 Other operating income and expenses

	2007 '000 USD	2006 '000 USD
Gain on disposal of property, plant and equipment and assets held for sale	381	10,655
Gain on disposal of subsidiary	6,961	-
Gain from revaluation of investment property	3,838	3,274
Social costs	(7,543)	(7,340)
Impairment of loans given and bad debts	(60)	(177)
Impairment of capitalised development costs	(248)	-
Other, net	2,185	(8,056)
	5,514	**(1,644)**

10 Financial income and expenses

	2007 '000 USD	2006 '000 USD
Financial income		
Interest income on amounts due from tax authorities (note 27(b))	1,491	7,984
Dividend income on available-for-sale financial assets	50	-
Other interest income	3,793	5,037
Foreign exchange gain	19,252	4,560
Income from investments	1,236	4,539
	25,822	**22,120**
Financial expenses		
Interest expense	(84,442)	(68,066)
Government grant related to compensation of interest expense	25,134	20,898
	(59,308)	**(47,168)**

11 Income tax expense

	2007 '000 USD	2006 '000 USD
Current tax expense		
Current income tax	39,952	6,152
Overprovided in prior years	(1,121)	(3,083)
	38,831	**3,069**
Deferred tax benefit		
Origination and reversal of temporary differences	(29,957)	9,888
Change in unrecognised deferred tax assets	127	(760)
	(29,830)	**9,128**
	9,001	**12,197**

The Group's applicable tax rate is the corporate income tax rate of 24% (2006: 24%).

Reconciliation of effective tax rate:

	2007 '000 USD	%	2006 '000 USD	%
Profit before income tax	46,916	100	55,924	100
Income tax at applicable tax rate	11,260	24	13,422	24
Non-deductible/non-taxable items, net	2,158	4	5,066	9
Foreign currency translation	(3,423)	(7)	(2,448)	(4)
Overprovided in prior years	(1,121)	(2)	(3,083)	(6)
Change in unrecognised deferred tax assets	127	0	(760)	(1)
	9,001	**19**	**12,197**	**22**

12 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2006	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**
Additions	-	19,900	95,815	115,715
Transfers	9,794	61,886	(71,680)	-
Disposals	(471)	(6,140)	(558)	(7,169)
Foreign exchange differences	1,972	2,220	2,662	6,854
At 31 December 2007	**176,446**	**338,568**	**85,042**	**600,056**

’000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Depreciation				
At 1 January 2006	(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)**
Depreciation charge	(2,878)	(24,065)	-	(26,943)
Disposals	359	5,675	-	6,034
Foreign exchange differences	(143)	(771)	-	(914)
At 31 December 2007	**(94,020)**	**(188,036)**	**-**	**(282,056)**
Net book value				
At 1 January 2006	**83,808**	**89,671**	**28,443**	**201,922**
At 31 December 2006	**73,793**	**91,827**	**58,803**	**224,423**
At 31 December 2007	**82,426**	**150,532**	**85,042**	**318,000**

(a) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 22). At 31 December 2007 the net carrying amount of leased plant and machinery was USD 20,013 thousand.

(b) Security

Property, plant and equipment with a carrying amount of USD 29,367 thousand (31 December 2006: USD 22,546 thousand) is pledged as collateral for secured loans (see note 22(a)).

(c) 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 25,970 thousand (2006: USD 28,564 thousand).

13 Investment property

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

	’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 31 December 2006	**15,804**
Additions	379
Change in fair value	3,838
Foreign exchange differences	1,428
Balance at 31 December 2007	**21,449**

14 Intangible assets

’000 USD	Development costs	Other intangibles	Total
Cost			
At 1 January 2006	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**
Additions	13,501	9,085	22,586
Disposals	-	(100)	(100)
Foreign exchange differences	7,499	187	7,686
At 31 December 2007	**165,982**	**16,953**	**182,935**
Amortisation and impairment			
At 1 January 2006	(656)	(2,162)	(2,818)
Amortisation charge	(1,029)	(2,391)	(3,420)
Classified as disposal group assets	-	39	39
Disposal	-	9	9
Foreign exchange differences	-	(50)	(50)
At 31 December 2006	**(1,685)**	**(4,555)**	**(6,240)**
Amortisation charge	(2,746)	(2,250)	(4,996)
Impairment loss	(248)	-	(248)
Disposals	-	5	5
Foreign exchange differences	(51)	(98)	(149)
At 31 December 2007	**(4,730)**	**(6,898)**	**(11,628)**
Net book value			
At 1 January 2006	**125,845**	**3,007**	**128,852**
At 31 December 2006	**143,297**	**3,226**	**146,523**
At 31 December 2007	**161,252**	**10,055**	**171,307**

(a) Amortisation and impairment charge

The Group tested the R&D asset for impairment and recognised an impairment loss of USD 248 thousand with respect to development costs Related to BE-103 project. Capitalised development costs comprise the following items:

	2007 ’000 USD	2006 ’000 USD
Intellectual property rights related to the development of:		
Be-200 aircraft	67,521	67,078
Yak-130 aircraft	77,063	59,227
SUV-30K modernisation set	9,265	9,260
A-50 airborne warning and control system	3,895	4,801
Be-103 aircraft	2,887	2,931
Others	621	-
	161,252	**143,297**

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 2009-2025.

15 Investments and non-current financial assets

	2007 '000 USD	2006 '000 USD
Non-current		
Available-for-sale investments, stated at cost	13,361	12,520
Other non-current financial assets	2,903	1,084
	16,264	**13,604**
Current		
Investments held to maturity	-	940
Investments designated at fair value through profit and loss	288	425
	288	**1,365**

Available-for-sale investments include equity securities of ZAO Company "FTK" ("FTK"), and former subsidiary of the Group and a related party as of 31 December 2007. 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.

16 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**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Property, plant and equipment	9,952	8,954	(4,924)	(4,694)	5,028	4,260
Investment property	-	-	(4,965)	(3,707)	(4,965)	(3,707)
Intangible assets	19,153	21,768	(27,739)	(28,205)	(8,586)	(6,437)
Investments	-	-	(205)	(959)	(205)	(959)
Inventories	7,833	9,372	(47,029)	(99,715)	(39,196)	(90,343)
Trade and other receivables	592	525	(9,338)	(5,722)	(8,746)	(5,197)
Loans and borrowings	818	788	(911)	(1,101)	(93)	(313)
Trade and other payables	7,769	11,994	(24)	-	7,745	11,994
Provisions	584	1,631	(2,154)	-	(1,570)	1,631
Tax loss carry-forwards	4,433	14,521	(340)	(23)	4,093	14,498
Total tax assets/(liabilities)	**51,134**	**69,553**	**(97,629)**	**(144,126)**	**(46,495)**	**(74,573)**
Offset of tax	(47,770)	(64,266)	47,770	64,266	-	-
Net tax assets/(liabilities)	**3,364**	**5,287**	**(49,859)**	**(79,860)**	**(46,495)**	**(74,573)**

(b) Movement in temporary differences during the year

'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)**

'000 USD	1 January 2007	Recognised in income	Foreign currency translation	Transferred to disposal group	31 December 2007
Property, plant and equipment	4,260	1,098	(330)	-	5,028
Investment property	(3,707)	(988)	(270)	-	(4,965)
Intangible assets	(6,437)	(947)	(1,202)	-	(8,586)
Investments	(959)	1,128	(374)	-	(205)
Inventories	(90,343)	50,891	(148)	404	(39,196)
Trade and other receivables	(5,197)	(3,441)	389	(497)	(8,746)
Loans and borrowings	(313)	166	54	-	(93)
Trade and other payables	11,994	(4,288)	39	-	7,745
Provisions	1,631	(3,202)	1	-	(1,570)
Tax loss carry-forwards	14,498	(10,587)	170	12	4,093
	(74,573)	**29,830**	**(1,671)**	**(81)**	**(46,495)**

(c) Unrecognized deferred tax liability

A temporary difference of USD 5,987 thousand (31 December 2006: USD 2,250 thousand) relating to investments in subsidiaries has not been recognized as the Group is unable to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

17 Inventories

	2007 '000 USD	2006 '000 USD
Advance payments to suppliers	216,173	121,206
Raw materials and other supplies	121,202	72,456
Aircraft components	102,020	84,807
Goods for sale	163,622	-
Amounts due from customers for contract work	325,036	625,731
Other work in progress	41,990	20,332
	970,043	**924,532**
Advance payments received	(253,797)	(291,173)
	716,246	**633,359**

18 Trade and other receivables

	2007 '000 USD	2006 '000 USD
Accounts receivable – trade due from related parties	42,684	87,127
Accounts receivable – trade due from third parties	51,277	5,367
Allowance for doubtful accounts	(325)	(108)
	93,636	**92,386**
VAT recoverable	131,680	134,843
Government grant receivable	25,715	20,898
Due from tax authorities	-	17,021
Prepaid taxes	1,662	2,367
Other receivables and originated loans	11,574	13,488
	264,267	**281,003**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 25.

19 Cash and cash equivalents

	2007 '000 USD	2006 '000 USD
Bank balances, US Dollars	9,878	32,521
Bank balances, Russian roubles	280,540	42,679
Call deposits	73,365	-
Cash and cash equivalents in the statement of cash flows	**363,783**	**75,200**
Cash of disposed subsidiary (note 6)	-	(332)
Cash and cash equivalents in the balance sheet	**363,783**	**74,868**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

20 Equity

(a) Share capital

As at 31 December 2007 and 2006, authorised, issued and fully paid capital stock consisted of 978,131,612 ordinary shares. All ordinary shares have a nominal value of RUR 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 2007 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 3,899,125 thousand (USD 158,848 thousand translated at the closing exchange rate of 24.5462).

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 2007. 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.

The following dividends for 2006 have been declared at the Company's annual shareholders' meetings and paid:

	25 June 2007
Amount per share, RUR	0.12
Amount per share, USD	0.049
Total amount, '000 USD	4,793

Dividends for 2005 have not been declared.

21 Earnings per share

The calculation of earnings per share is the net profit for the year attributable to shareholders of the parent company 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	**2007**	**2006**
Issued ordinary shares at 1 January	978,131,612	978,131,612
Weighted average number of ordinary shares at 31 December	**978,131,612**	**978,131,612**

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 25.

	2007 '000 USD	2006 '000 USD
Non-current		
Secured bank loans	372,368	305,856
Unsecured bank loans	26,570	2,588
Unsecured bond issue	261,271	251,495
Finance lease liabilities	20,745	-
Other loans	-	1,869
	680,954	**561,808**

	2007 '000 USD	2006 '000 USD
Current		
Secured bank loans	33,209	2,094
Unsecured bank loans	3,006	45,388
Current portion of non-current secured bank loans	65,599	30,723
Current portion of non-current unsecured bank loans	31,435	11,946
Current portion of finance lease liabilities	6,838	-
Other loans	173,949	1,491
	314,036	**91,642**

(a) Security

The loans are secured over property, plant and equipment with a carrying amount of USD 29,367 thousand (31 December 2006: USD 22,546 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

'000 USD	Nominal interest rate	Year of maturity	Face value 2007	Carrying amount 2007	Face value 2006	Carrying amount 2006
Secured bank loans:						
RUR	8.50%	2008	26,387	26,446	7,637	7,637
USD	8%-8.5%	2009-2012	374,612	375,008	241,797	242,490
USD	7.95%-8.3%	2008	20,000	20,241	3,390	3,394
USD	Libor+2.8%	2009	49,875	49,481	83,700	85,152
Unsecured bank loans:						
RUR	8.3%-8.5%	2008	10,185	10,410	-	-
USD	8.50%	2009	23,000	22,990	25,000	25,125
USD	Libor+4%	2008	18,000	18,134	37,700	34,797
EURO	EUROLibor+3.5%	2009	9,538	9,477	-	-
Unsecured bond issues:						
RUR	8.74%	2010	132,403	134,592	123,428	125,169
USD	8.25%	2009	125,000	126,679	125,000	126,326
Finance lease liabilities	10.2%-14%	2009-2011	27,583	27,583		-
Other loans	5%	2008	173,949	173,949	3,360	3,360
Total interest-bearing liabilities			**990,532**	**994,990**	**651,012**	**653,450**

(c) Finance lease liabilities are payable as follows:

'000 USD	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	9,170	2,332	6,838
Between one and five years	23,443	2,698	20,745
	32,613	**5,030**	**27,583**

Group started finance lease transaction only in 2007 so there is no comparative information for 2006. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

23 Trade and other payables

	2007 '000 USD	2006 '000 USD
Accounts payable – trade due to related parties	20,586	83,800
Other trade payables	160,171	78,714
Accrued expenses	11,524	27,897
Advances from customers	95,878	23,241
Income and other taxes payable	43,341	9,211
Other payables	31,654	13,015
	363,154	**235,878**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

24 Provisions

	Warranties	
	2007 '000 USD	2006 '000 USD
Balance at 1 January	9,914	8,833
Provisions made during the year	8,046	5,698
Provisions used during the year	(3,660)	(4,298)
Provisions reversed during the year	(1,103)	(319)
Balance at 31 December	**13,197**	**9,914**

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.

25 Financial instruments

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

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 USD	Carrying Amount 2007	Carrying amount 2006
Available-for-sale financial assets	13,361	12,520
Held-to-maturity investments	-	940
Financial assets at fair value through profit or loss	288	425
Trade receivables	93,636	92,386
Amounts due from customers for contract work	325,036	625,731
Originated loans	8,545	6,005
Cash and cash equivalents	363,783	74,868
	804,649	**812,875**

(b) Impairment losses

The aging of trade receivables at the reporting date was:

'000 USD	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not past due	71,329	-	86,036	-
Past due 0-360 days	22,307	-	6,350	-
More than one year	325	(325)	108	(108)
	93,961	**(325)**	**92,494**	**(108)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 USD	2007 '000 USD	2006 '000 USD
Balance at 1 January	108	219
Impairment loss recognised	217	(111)
Balance at 31 December	**325**	**108**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 360 days.

The allowance accounts in respect of trade receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2007 the Group does not have any collective impairments on its trade receivables or its held-to-maturity investments (2006: nil).

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007

’000 USD	Carrying amount	Contractual cash flows	12 month or less	1-2 years	2-5 years
Secured bank loans	471,176	580,583	130,132	117,309	333,142
Unsecured bank loans	61,011	66,351	38,484	26,951	916
Unsecured bond issues	261,271	307,568	21,853	141,866	143,849
Finance lease liabilities	27,583	32,716	9,232	12,655	10,829
Other loans	173,949	173,949	173,949	-	-
Trade and other payables	267,276	267,276	267,276	-	-
	1,262,266	**1,428,443**	**640,926**	**298,781**	**488,736**

31 December 2006

’000 USD	Carrying amount	Contractual cash flows	12 month or less	1-2 years	2-5 years
Secured bank loans	338,673	655,386	54,206	126,336	474,844
Unsecured bank loans	59,922	61,685	58,856	1,560	1,269
Unsecured bond issues	251,495	317,322	21,071	21,070	275,181
Other loans	3,360	3,360	3,360	-	-
Trade and other payables	212,637	212,637	212,637	-	-
	866,087	**1,250,390**	**350,130**	**148,966**	**751,294**

Among secured current loans Group has a loan agreement with amount of USD 19,428 thousand which was renegotiated at 31 March 2008. Group was not fully complied with covenants for the loan mentioned above at 31 December 2007.

(d) Currency risk

The Group’s exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2007			31 December 2006		
’000 USD	USD	RUR	EURO	USD	RUR	EURO
Cash and cash equivalents	9,878	353,905	-	32,516	42,352	-
Trade receivables	79,089	14,330	217	88,841	3,273	272
Amounts due from customers for contract work	237,835	87,201	-	585,732	39,999	-
Secured bank loans	(444,730)	(26,446)	-	(331,036)	(7,637)	-
Unsecured bank loans	(41,124)	(10,410)	(9,477)	(59,922)	-	-
Unsecured bond issues	(126,679)	(134,592)	-	(126,326)	(125,169)	-
Finance lease liabilities	(19,434)	(4,279)	(3,870)	-	-	-
Other loans	(173,949)	-	-	-	(3,360)	-
Trade payables	(146,726)	(21,381)	(12,650)	(148,629)	(13,875)	(10)
Gross balance sheet exposure	**(625,835)**	**258,323**	**(25,780)**	**41,176**	**(64,417)**	**262**

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date spot rate**	
	2007	**2006**	**2007**	**2007**
RUR 1,000	39.10	36.78	40.74	37.98
EURO	1.37	1.26	1.46	1.32

(e) Sensitivity analysis

A 5% strengthening of the USD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

'000 USD	**Equity/Profit or loss**
31 December 2007	
RUR	(12,916)
EURO	1,289
31 December 2006	
RUR	3,221
EURO	(13)

A 5% weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(f) Interest rate risk

(i) Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 USD	**Carrying amount**	
	2007	**2006**
Fixed rate instruments		
Financial assets	81,981	5,312
Financial liabilities	(917,898)	(533,501)
	(835,917)	**(528,189)**
Variable rate instruments		
Financial liabilities	(77,092)	(119,949)
	(77,092)	**(119,949)**

(ii) Fair value sensitivity analysis for fixed rate instruments

The Group does not recognize any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect equity or net profit for the year.

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates based on the Group's exposure at the balance sheet date for 2007 would have increased or (decreased) profit for the year by USD 771 thousand (2006: USD 1,199 thousand). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

'000 USD	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Available-for-sale financial assets	13,361	13,361	12,520	12,520
Held-to-maturity investments	-	-	940	940
Financial assets at fair value through profit or loss	288	288	425	425
Loans and receivables	102,181	102,181	98,391	98,391
Cash and cash equivalents	363,783	363,783	74,868	74,868
Secured bank loans	(471,176)	(471,176)	(338,673)	(338,673)
Unsecured bank loans	(61,011)	(61,011)	(59,922)	(59,922)
Unsecured bond issues, RUR (note 22)	(134,592)	(135,409)	(125,169)	(128,526)
Unsecured bond issues, USD (note 22)	(126,679)	(125,078)	(126,326)	(127,563)
Finance lease liabilities	(27,583)	(27,583)	-	-
Other loans	(173,949)	(173,949)	(3,360)	(3,360)
Trade and other payables	(180,757)	(180,757)	(162,514)	(162,514)
	(696,134)	**(695,350)**	**(628,820)**	**(633,414)**

The basis for determining fair values is disclosed in note 4.

26 Commitments

(a) Capital commitments

At 31 December 2006 the Group is committed to capital expenditure of approximately USD 1,866 thousand (2006: USD 5,232 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2007 under long-term supply agreements are estimated at USD 78,615 thousand at current market prices (2006: USD 153,307 thousand).

27 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, 2007 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 interest income of USD 1,491 thousand (2006: USD 7,984 thousand).

(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) 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.

28 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 28(c)) as at 31 December 2007 include balances with other state-controlled entities.

(b) Transactions with management

(i) Loans to directors

Unsecured loans to directors issued during the year ended 31 December 2007 amounted to USD 818 thousand (2006: nil). Interest is 9% paid by the directors, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2007 the balance outstanding was USD 818 thousand (2006: nil) and is included in other receivables (see note 18).

(ii) Key management personnel compensation

Key management received the following remuneration during the year, which is included in personnel expenses (see note 8):

	2007 '000 USD	2006 '000 USD
Wages and salaries	15,726	10,203
Compulsory social security contributions	328	477
	16,054	**10,680**

(c) Transactions with other related parties

Transactions with related parties are disclosed in note 15. In addition, the Group had the following transactions and balances with related parties.

'000 USD	Transaction value 2007	Outstanding balance 2007	Transaction value 2006	Outstanding balance 2006
Purchases of raw materials and components	(10,549)	(20,586)	(2,507)	(61,177)
Sales of military aircraft components and related products	432,764	-	26,514	16,291
Acquisition of design and development	(9,700)	-	(1,653)	(22,623)
Accounts receivable – trade	-	42,684	-	87,127
Advance payments received	-	(189,727)	-	(230,968)
Other receivables and originated loans	6,833	6,833	-	4,612
Bank balances	-	117,172	-	44,250
Secured loans	399,367	(244,975)	-	(206,701)
Unsecured loans	360,941	(124,013)	-	(37,384)

(d) Pricing policies

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

29 Significant subsidiaries

	Country of incorporation	Ownership/voting 2007	2006
OAO "OKB Imeni A.S. Yakovleva"	Russia	75%	75%
OAO "TANTK Imeni G.M. Berieva"	Russia	59%	59%
ZAO "Beta Air"	Russia	72%	72%
ZAO "Russian Avionics"	Russia	-	51%
ZAO "Irkut AviaSTEP"	Russia	100%	100%
ZAO "ITELA"	Russia	51%	51%
ZAO "Techserviceavia"	Russia	51%	51%

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

30 Events subsequent to the balance sheet date

On 7 May 2008, OAO United Aircraft Corporation ("UAC") announced an offer to acquire shares the Company's shareholders. The offer was made pursuant the requirements of the Russian legislation after UAC has accumulated more than 30% of the Company's shares. The offer is valid until 11 June 2008.