ASSURANCE AND ADVISORY BUSINESS SERVICES

ASSURANCE SERVICES

UTair Aviation Joint-Stock Company

Consolidated Financial Statements

For the year ended 31 December 2005
with Report of Independent Auditors

ERNST & YOUNG

ERNST & YOUNG

UTair Aviation Joint-Stock Company

Consolidated Financial Statements

For the Year Ended 31 December 2005

Contents

Management's Statement of Responsibility for Financial Reporting

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

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

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

The Board of Management conducts the business of the Group in the interests of the stockholders and in awareness of its responsibilities toward employees, communities and the environment in all the regions in which we operate. The Board of Management's priorities are to increase the effectiveness of the aviation business, the profitability of the Group and therefore the wealth of their shareholders.

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V.A. — Chief Accountant

30 August 2006

Management Discussion and Analysis

UTair Aviation Joint-Stock Company aims to maximize the transparency of its activities. The purpose of the Company is to provide high-quality client services both in the area of helicopter operations and passenger transportation performed using various types of airplanes.

The Aircompany continues its effort towards the creation of a system sustainable to unfavorable factors prevailing in the domestic and international aviation markets through the development and implementation of integrated initiatives which are described below.

In 2005, UTair Aviation Joint-Stock Company undertook to gradually resolve its strategic objectives relating to the development and diversification of business, expanded the existing air fleet, developed new helicopter operations markets, and opened new domestic and international flight destinations.

The Group's revenues for the year ended 31 December 2005 amounted to 428,161 thousand US$, having exceeded the respective parameter for the year ended December 31, 2004 by almost 48%. A considerable increase in proceeds was achieved through a more efficient operation of the existing air fleet and acquisition of new aircrafts. Introduction of new domestic and international routes ensured increased flight revenue. Owing to its successful implementation of operational programs focused on the expansion of domestic and international helicopter operations, UTair Aviation Joint-Stock Company significantly increased the corresponding revenues from helicopter transportation services.

In spite of the surge in jet fuel prices in 2005, the Company managed to control its expenses. As a result of this policy, coupled with successful diversification of assets, the Company's net profit for the year ended 31 December 2005 amounted to 14,154 thousand US$.

The pardoning of overdue fines and penalties in the amount of 2,594 thousand US$ by the tax authorities was one of the factors which had a positive impact on the Group's net profits for 2005. The above fines and penalties were forgiven pursuant to the relevant Decree passed by the Russian Government in consideration for the full repayment by the Company of the restructured debt in accordance with the agreed-upon schedule.

In 2005, the Company decreased its bad debt provision mainly due to the write-off of overdue receivables.

In accordance with IAS 12 "Income Taxes", in 2003-2004 the Group has not recognized a deferred tax asset in the amount of 7,540 thousand US$, because it was not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates to. Based on the analysis conducted in 2005, no further increase of the above non-recognized asset was required. Following the 2006 year-end results, the Group will revisit this issue. In the event that the Group receives IFRS profit and provided reasonable assurance is obtained as to the fact that future profit will be sufficient to realize the existing tax asset, the Group will recognize the above asset having increased the relevant financial result after taxation.

At the end of 2005, the structure of the Group's balance sheet was changed. The above changes were mainly related to the change in the borrowings structure. In accordance with IAS 1 "Presentation of the Financial Statements", the previously raised loans were reclassified from long-term to short-term loans, since their maturities were under 12 months as at 31 December 2005. Under the loan restructuring program, starting from April 2006, the Company plans to raise debt capital through bond issue in order to considerably reduce the share of short-term borrowings and decrease the relevant loan interest rates.

The Group recorded in the consolidated balance sheet the accumulated deficit for 2005 in the amount of 90,546 thousand US$ which is less than the relevant parameter for the year ended 31 December 2004 by 19,684 thousand US$. The accumulated deficit was estimated by the Group in the course of the preparation of the IFRS opening balance sheet at 31 December 2002. The main adjustments to retained earnings opening balance were: effect of adoption of IAS 29 "Financial Reporting in Hyperinflationary Economies", unrecognized tax asset, expenses and liabilities cut-off, accounting for investments in associates under the equity method, recognition of the restructured tax debts, other provisions and allowances.

The Group disclosed the operations with the enterprises that directly or indirectly through one or more intermediaries control the Group in accordance with IAS 24 "Related party disclosures" in the Note 7 to these financial statements. The Group identified these enterprises based on their key management personnel membership in the Supervisory Board of UTair Aviation Joint-Stock Company.

In March 2006, UTair Aviation Joint-Stock Company was recognized with a "Wings of Russia-2005" national prize. UTair Aviation Joint-Stock Company was winner in the following two nominations: "Scheduled Domestic Carrier of the Year (group I, passenger volume over 1 billion pkm)" and "Carrier of the Year, Serving Sectors of Russian Economy". UTair was also awarded with a special prize organised by Vneshtorgbank – "The Most Impressive Airline of the Year". "Wings of Russia" was established in 1997 and since that time has become the most prestigious and independent aviation award in the former Soviet Union.

In May 2006, UTair Aviation Joint-Stock Company received the certificate of compliance with quality management system requirements (ISO9001:2000) in the area of maintaining the airworthiness of the customer air fleet (VIP-aviation travel services rendered by UTair-Technik LLC). The Company's branch (ZapSib - Catering) is currently in the process of the preparing for the certification audit of its quality management system.

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

Independent Auditors' Report

To the Shareholders and Board of Directors of UTair Aviation Joint-Stock Company:

We have audited the accompanying consolidated balance sheet of UTair Aviation Joint-Stock Company and its subsidiaries ("the Company") as of 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company has not disclosed the name of its ultimate controlling party as required by IAS 24 "Related party disclosures".

In our opinion, except for the matter referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We draw attention to the Notes 1, 2 and 3 to the consolidated financial statements. The functional currency of the Company is Russian Ruble. The presentation currency of the accompanying consolidated financial statements is the United States Dollar. The accompanying consolidated financial statements were issued in addition to the consolidated financial statements presented in Russian Rubles. We have audited and reported separately on those consolidated financial statements presented in Russian Rubles and issued our audit report dated August 30, 2006, which was qualified for the departure from IAS 24 as described in this report.

Ernst & Young LLC

30 August 2006

UTair Aviation Joint-Stock Company

Consolidated Balance Sheet at 31 December 2005

(in thousands of US$)

	Notes	2005	2004 As restated
ASSETS			
Non-current assets			
Property, plant and equipment	8	**172,265**	148,818
Intangible assets		**472**	505
Net investment in lease – long-term	9	**3,294**	1,355
Investments in associates	10	**3,627**	3,338
Available-for-sale investments	11	**220**	263
Other assets		**206**	203
		180,084	154,482
Current assets			
Inventories	12	**25,132**	13,489
Accounts receivable and prepayments	13	**73,543**	60,360
Net investment in lease – short-term	9	**2,469**	1,084
Available-for-sale investments	11	**1,922**	8,051
Income tax receivable	13	**2,554**	2,660
Cash and cash equivalents	14	**6,227**	1,570
		111,847	87,214
Total assets		**291,931**	241,696
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	19	**112,145**	112,145
Treasury shares		**(485)**	(434)
Surplus from reissuance of treasury shares		**451**	451
Accumulated deficit		**(94,326)**	(110,328)
Foreign currency translation reserve		**3,907**	5,780
Assets revaluation reserve		**32,827**	36,299
Minority interest	27	**2,459**	2,041
Total equity		**56,978**	45,954
Non-current liabilities			
Long-term borrowings	15	**6,458**	50,488
Long-term taxes payable	16	**533**	9,870
Deferred tax liability	25	**9,657**	10,031
Other long-term liabilities		**1,560**	1,179
		18,208	71,568
Current liabilities			
Trade and other payables	17	**44,657**	29,276
Short-term borrowings	15	**139,735**	66,656
Other taxes payable	16	**22,690**	21,018
Advances from customers and deferred revenue	18	**9,663**	7,224
		216,745	124,174
Total liabilities		**234,953**	195,742
Total equity and liabilities		**291,931**	241,696

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V.A. — Chief Accountant

30 August 2006

The accompanying notes on pages 9 to 45 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Income Statement

For the Year Ended 31 December 2005

(in thousands of US$)

	Notes	2005	2004 As restated
Revenue			
Flight revenue		**393,820**	264,884
Other revenue		**34,341**	23,839
Total operating revenue	**20**	**428,161**	288,723
Direct operating expenses	**21**	**(234,156)**	(171,040)
Personnel expenses	**22**	**(66,247)**	(52,220)
Depreciation and amortization	**8**	**(20,765)**	(15,702)
Repair expenses		**(23,273)**	(21,573)
Commissions		**(18,052)**	(10,775)
Impairment of doubtful debts	**13**	**(1,539)**	(1,991)
Other operating income / (expenses), net	**23**	**(36,499)**	(13,623)
Total operating expenses		**(400,531)**	(286,924)
Operating profit		**27,630**	1,799
Interest income/ (expenses), net	**24**	**(15,553)**	(12,629)
Gain from acquisition of a subsidiary		**-**	10,072
Gain on restructuring of tax debt and other borrowings	**16**	**2,594**	7,007
Share of result of associates	**10**	**687**	518
Net foreign exchange gain (loss)		**152**	(537)
Profit before income tax		**15,510**	6,230
Income tax expense	**25**	**1,356**	702
Profit for the year		**14,154**	6,932
Attributable to:			
Equity holders of the parent		**13,673**	6,671
Minority interests	**27**	**481**	261
Earnings per share (in US$) - basic and diluted, for profit for the year attributable to equity holders of the parent	**26**	**0.024**	0.012

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V.A. — Chief Accountant

30 August 2006

The accompanying notes on pages 9 to 45 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2005

(in thousands of US$)

	Notes	2005	2004 (As restated)
Cash flows from operating activities:			
Profit before income tax		15,510	6,230
Adjustments for:			
Depreciation of property, plant and equipment	8	20,765	15,702
Amortization of discount attributable to restructured tax debts	24	589	1,791
Allowance for impairment of receivables	13	1,539	1,991
Other provisions and allowances		1,305	1,250
Gains on restructuring of tax debts and other borrowings	16	(2,594)	(7,007)
Loss on disposal of property, plant and equipment		1,103	2,257
Interest expense	24	15,630	11,928
Interest income	24	(666)	(1,090)
Gain from purchase of a subsidiary, before minority interest		-	(10,303)
Share of result of associates, before tax	10	(687)	(518)
Operating cash flows before working capital changes		52,494	22,231
Increase in accounts receivable and prepayments		(13,835)	(20,226)
Increase in inventories		(12,528)	(1,605)
Increase in accounts payable, advances and other payables		17,472	1,311
(Decrease)/Increase in taxes payable		(3,180)	3,868
Cash generated from operations		40,423	5,579
Income tax paid		(1,370)	(590)
Interest paid		(15,289)	(11,830)
Net cash from/(used in) operating activities		23,764	(6,841)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(54,132)	(26,572)
Proceeds from the sale of property, plant and equipment		3,404	111
Increase in net investments in lease		(3,472)	(2,009)
Short-term loans provided to third parties		(1,768)	(830)
Short-term loans repaid by third parties		1,768	830
Acquisition of subsidiary, net of cash acquired		-	(3,987)
Dividends received	10	37	-
Interest received		665	235
Net cash used in investing activities		(53,498)	(32,222)
Cash flows from financing activities:			
Proceeds from borrowings		242,962	172,250
Repayment of borrowings		(205,992)	(129,732)
Repayment of long-term taxes restructured		(1,207)	(3,208)
Purchase of treasury shares		(51)	(12,873)
Proceeds from reissuance of treasury shares		-	13,472
Dividends paid to minority shareholders	27	(63)	-
Dividends paid to equity holders of the parent		(1,119)	(844)
Net cash from financing activities		34,530	39,065
Effect of exchange rate changes on cash and cash equivalents		(139)	217
Net increase in cash and cash equivalents		4,657	219
Cash and cash equivalents at the beginning of the year	14	1,570	1,351
Cash and cash equivalents at the end of the year	14	6,227	1,570

Martirosov A.Z. Chief Executive Officer

Pozdnyakov V.A. Chief Accountant

30 August 2006

The accompanying notes on pages 9 to 45 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

(in thousands of US$)

	Notes	Attributable to equity holders of the parent							Minority interests	Total equity
		Share capital	Treasury shares	Surplus from reissuance of treasury shares	Retained earnings	Foreign currency translation reserve	Revaluation reserve	Total		
Balance at 31 December 2003 (as previously reported)		112,145	(582)	–	(118,118)	3,268	37,319	34,032	1,550	35,582
Correction of errors		–	–	–	(2,421)		3,384	963	–	963
Balance at 31 December 2003 (as restated)		112,145	(582)	–	(120,539)	3,268	40,703	34,995	1,550	36,545
Amortization of assets revaluation reserve (as restated)		–	–	–	4,404	–	(4,404)	–	–	–
Purchase of treasury shares		–	(12,826)	–	–	–	–	(12,826)	–	(12,826)
Sale of treasury shares		–	12,974	451	–	–	–	13,425	–	13,425
Acquisition of a subsidiary		–	–	–	–	–	–	–	230	230
Profit for the year (as restated)		–	–	–	6,672	–	–	6,672	261	6,933
Foreign currency translation		–	–	–	-	2,512	–	2,512	–	2,512
Dividends to equity holders of parent		–	–	–	(865)	–	–	(865)	–	(865)
Balance at 31 December 2004 (as restated)	**19**	**112,145**	**(434)**	**451**	**(110,328)**	**5,780**	**36,299**	**43,913**	**2,041**	**45,954**
Amortization of assets revaluation reserve		–	–	–	**3,472**	–	**(3,472)**	–	–	–
Purchase of treasury shares		–	**(51)**	–	–	–	–	**(51)**	–	**(51)**
Profit for the year		–	–	–	**13,673**	–	–	**13,673**	**481**	**14,154**
Foreign currency translation						**(1,873)**		**(1,873)**	–	**(1,873)**
Dividends to minority shareholders		–	–	–	–	–	–	–	**(63)**	**(63)**
Dividends to equity holders of parent		–	–	–	**(1,143)**	–	–	**(1,143)**	–	**(1,143)**
Balance at 31 December 2005	**19**	**112,145**	**(485)**	**451**	**(94,326)**	**3,907**	**32,827**	**54,519**	**2,459**	**56,978**

Martirosov A.Z. Chief Executive Officer Pozdnyakov V.A. Chief Accountant 30 August 2006

The accompanying notes on pages 9 to 45 are an integral part of these consolidated financial statements.

(in thousands of US$, unless stated otherwise)

1. Corporate Information

UTair Aviation Joint Stock Company ("the Company" or "UTair") and its subsidiaries (collectively "the Group") provide cargo and passenger services using helicopters and aircraft. The Group is the largest helicopter operator in Russia and provides cargo and passenger helicopter services on the domestic market (mainly in oil and gas regions) and outside Russia. The Group operates five domestic airports located in Khanty-Mansijsk and Yamalo-Nenetzk region and aircraft-repair facilities where it provides airport and technical maintenance services for own air fleet as well as for other carriers. UTair is involved in providing transport services for UN peacekeeper missions. UTair provides aircraft passenger services on domestic and international routes.

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

As of 31 December the Company's ordinary shares were owned by:

Name	**2005 % share**	**2004 % share**
OOO "La Manche" (Russia)	**19.99%**	19.99%
OOO "Triseltco" (Russia)	**19.84%**	19.84%
OOO "Polint" (Russia)	**18.80%**	18.80%
OOO "Krajel" (Russia)	**17.00%**	17.00%
Individuals	**16.8%**	16.86%
Other legal entities	**6.25%**	6.19%
Treasury shares	**1.32%**	1.14%

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

Entity	Activity	**2005 % share**	**2004 % share**
OOO "Zentr Realizazii Perevozok I Uslug" (Center for sale of transportation services)	General agent for air ticket sales	**100%**	100%
OOO "UTair Leasing"	Leasing company	**100%**	100%
NP "Zentr Professionalnoj Podgotovki" (Professional education center)	Education and certification services for cockpit personnel	**100%**	100%
ZAO "Tjumenjspezavia"	Air carrier	**100%**	100%

1. Corporate Information (continued)

Entity	Activity	2005 % share	2004 % share
OOO "Tjumenjaviatechsnab"	Fixed assets and inventories supply	**100%**	100%
OOO "Zentr Aviazionnoj Bezopasnosti" (Center for air safety)	Organization of the Group's security	**100%**	100%
OOO "UTair Finance"	Finance services	**100%**	100%
UTair South Africa (Pty) Ltd. (South African Republic)	Transportation services and technical support and maintenance of air fleet	**100%**	100%
UT Project Services Ltd. (India)	Transportation services and technical support and maintenance of air fleet	**100%**	–
Donbass Helicopters (Ukraine)	Transportation services and technical support and maintenance of air fleet	**100%**	–
OAO "Komiinteravia"	Air carrier	**98.4%**	98.4%
OOO "Irtyshaviatrans"	Air carrier	**73%**	73%
OOO "Zavod Nr. 26"	Repair and maintenance of air fleet	**55.8%**	55.8%
OOO "Zapadno-Sibirskoe Agentstvo Vozdushnyh Soobcheny" (West-Siberian Agency for ticket sales)	Sale of air tickets	**51%**	51%

All companies of the Group are incorporated under the Laws of the Russian Federation except subsidiaries in South Africa, India and Ukraine.

In the beginning of 2005 the Group registered a subsidiary in India (UT Project Services) in order to support services performed (mainly for Gazprom) in this region and provide base for own repair and maintenance facilities. In 2005 the Group also registered a subsidiary in Ukraine (Donbass Helicopters), which has not yet started its activities in 2005.

At 31 December 2005 the Group employed approximately 7,630 employees (31 December 2004: 6,484). The Group's facilities are primarily based in Khanty-Mansijsk and Tymenj regions.

The consolidated financial statements of UTair Aviation Joint-Stock Company for the year ended 31 December 2005 were authorized for issue by the executive body of the Company, on 30 August 2006.

2. Basis of Preparation of the Financial Statements

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

Group companies maintain their accounting records in Russian Rubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation or of the country in which the particular subsidiary is domiciled. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property and equipment, (4) accounting for income taxes, (5) measurement of financial instruments.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 33 (revised) "Earnings per Share";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and
- IAS 40 (revised) "Investment property".

2. Basis of Preparation of the Financial Statements (continued)

Changes in Accounting Policies (continued)

The principal effects of these changes in policies are discussed below.

IAS 1 (revised) "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from parent shareholders' equity. Previously, minority interests were presented separately from liabilities and equity in the Group's consolidated balance sheet.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 4 "Determining whether an Arrangement contains a Lease".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Accounting for the Effect of Inflation

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Going Concern

As of 31 December 2005, the Group's current liabilities were 216,745 thousand US$ and exceeded current assets by 104,898 thousand US$. The management believes that the current situation is related to the expansion of operations and the start of flights from new key airport (Vnukovo). In 2006 the Group is working on debt restructuring and lowering interest rate on borrowed funds and initiated cost cutting program. Based on these facts and taking into account the positive changes in the Group's profitability in 2005 (net income for the year ended 31 December 2005 was 14,154 thousand US$, and in particular operating profit was 27,630 thousand US$) and positive equity as well as positive cash flow from operating activities for the year ended 31 December 2005: 23,764 thousand US$, management believes that the accompanying consolidated financial statements were appropriately prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If going concern assumptions were not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities and in the reported revenues and expenses.

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

Subsidiaries

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

Acquisition of Subsidiaries

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

UT Project services has been included in the consolidated financial statements from the date of inception (July 2005). Accordingly, the consolidated financial statements include the results of UT Project services for the six-month period.

Donbass Helicopters has been included in the consolidated financial statements from the date of inception (January 2005). Accordingly, the consolidated financial statements include the results of Donbass Helicopters for the twelve-month period.

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

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within the shareholders' equity.

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

3. Summary of Significant Accounting Policies (continued)

3.2 Investments in Associates

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

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

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

3.3 Investments

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition. All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

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

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

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

3. Summary of Significant Accounting Policies (continued)

3.3 Investments (continued)

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis.

3.4 Cash and Cash Equivalents

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

3.5 Trade and Other Receivables

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

3.6 Value-Added Tax

The tax authorities permit the settlement of sales and purchases value-added tax (VAT) on a net basis.

Value-Added Tax Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date (VAT deferred) is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Value-Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

3. Summary of Significant Accounting Policies (continued)

3.7 Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of fuel is determined on the weighted average basis. Cost of other inventory is determined on the "first in – first out" (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

3.8 Property, Plant and Equipment

Aircraft, Helicopters, Engines and Buildings

Aircraft, helicopters, engines and buildings are measured at fair value less depreciation. Following initial recognition at cost, they are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Group involved independent appraisers to determine the fair value of aircraft, engines and buildings. The most recent valuation was performed on 1 January 2003.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve is transferred to retained earnings for the depreciation relating to the revaluation surplus. Additionally, accumulated depreciation as of revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Equipment and Assets under Construction

Other equipment is recorded at purchase or construction cost.

Impairment

At each reporting date management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation

Depreciation for aircraft, helicopters and engines is computed using the straight-line method over the remaining useful lives defined in years by independent appraisers for each specific aircraft and engine. The remaining useful life varies from 1 to 30 years.

3. Summary of Significant Accounting Policies (continued)

3.8 Property, Plant and Equipment (continued)

Depreciation (continued)

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

Buildings	20 to 50 years
Equipment	8 years
Rotables	5 years
Furniture	5 years
Vehicles	5 years
Office equipment	3 years

Accounting for Major Overhauls

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

Repair and Maintenance

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

Borrowing Costs

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

3.9 Intangible Assets

Expenditures on acquired software licences are capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Where an indication of impairment exists, the carrying amount of any intangible asset, is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

3. Summary of Significant Accounting Policies (continued)

3.10 Borrowings

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

3.11 Deferred Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

3.12 Foreign Currency Transactions

The functional currency of the Group is the national currency of the Russian Federation, Russian Ruble (RR). Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction.

On 30 August 2006 the Group authorized and issued its consolidated financial statements as of 31 December 2005 and for the year then ended prepared in accordance with IFRS and presented in Russian Rubles. The presentation currency of these financial statements, issued as a supplement to the financial statements prepared in Russian Rubles, is US Dollar (US$). As of the reporting date, the assets and liabilities of the Group are translated into the presentation currency of the Group at the rate of exchange ruling at that balance sheet date (31 December 2005: 28.7825 Russian Rubles for 1 US$; 31 December 2004: 27.7487), and its income statements and cash flows are translated at the weighted average exchange rate for the respective year (2005: 28.2849 Russian Rubles for 1 US$; 2004: 28.8167). The equity items (other than those resulting from income and expenses recognised for the period) are translated at historical rates of exchange (rate ruling at the transaction date).

3. Summary of Significant Accounting Policies (continued)

3.12 Foreign Currency Transactions (continued)

The exchange differences arising on the initial translation as of the date of transition to IFRS – 1 January 2003 – are included into the accumulated deficit as of that date. The exchange differences arising on the translation after 1 January 2003 are taken directly to foreign currency translation reserve, a separate component of equity.

3.13 Provisions

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

If the effect of the time value of money 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

3.14 Equity

Treasury Shares

Where the Group or its subsidiaries purchases the Group's share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued.

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

Dividends

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

3.15 Revenue Recognition

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

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

3. Summary of Significant Accounting Policies (continued)

3.15 Revenue Recognition (continued)

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

3.16 Employee Benefits

Pension Costs

In the normal course of business, the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Discretionary pensions and other post-employment benefits are included in labour costs in the income statement, however, separate disclosures are not provided as these costs are not material.

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services and kindergarten services. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to cost of sales.

3.17 Leases

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

Finance Lease

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

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

3. Summary of Significant Accounting Policies (continued)

3.17 Leases (continued)

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

Operating Lease

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

3.18 Government Grants

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

4. Significant Accounting Judgements and Estimates

4.1 Judgements

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

The Group will recover in money or offset against other tax liabilities the income tax receivables in the amount of 2,554 thousand US$ outstanding more than one year. The Group will recover in money the road users tax receivable in the amount of 2,489 thousand US$ outstanding more than one year, also.

4.2 Estimation Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates with regard to those financial statements relate to the useful lives of tangible and intangible assets, recoverability of amounts receivable, fair values of long-term liabilities and deferred taxation, as discussed in Notes 8, 13, 16 and 25.

5. Correction of Errors

The Group corrected material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Accounting for Unused Vacation Provision

In 2005 the Group recalculated the number of unused vacation days outstanding as of 31 December 2004. As a result the Group made adjustments to the amount of unused vacation provision, including the deferred tax effect, as of 31 December 2004 and 31 December 2003, to the amount of retained earnings and to the amount of remuneration expenses for the years then ended.

The effect of correction of the unused vacation provision balance as of 31 December 2004 decreased the profit before taxation for the year 2004 by 35 thousand US$ and the net profit by 27 thousand US$. This correction increased the amount of the unused vacation provision as of 31 December 2004 by 3,193 thousand US$ and decreased the amount of the deferred tax liability by 766 thousand US$. The total effect on retained earning as of 31 December 2003 comprised 2,310 thousand US$.

For the 2004 year the basic and diluted profit attributable to equity holders of the Parent decreased by the amount of 0.00003 US$, due to the effect of correction of the unused vacation provision.

Accounting for Property, Plant and Equipment – Valuation

The Group involved independent appraisers to determine the fair value of aircraft, engines and buildings. The most recent valuation was performed at 1 January 2003. During this valuation The Group has not determined the fair values of some assets (aircrafts and helicopters engines in stock, buildings in Plekhanovo). In 2005 the independent appraiser was engaged to determine the fair values of these assets. As a result the Group has made adjustments to the amount of property, plant and equipment, including the deferred tax effect, to the amount of assets revaluation reserve as of 31 December 2004 and 31 December 2003 and to the amount of depreciation expenses for the years then ended.

The effect of correction of the net book values of these items of property, plant and equipment as of 31 December 2004 decreased the profit before taxation for the year 2004 by 332 thousand US$ and the net profit by 252 thousand US$. This correction increased the amount of the property, plant and equipment as of 31 December 2004 by 4,771 thousand US$ and decreased the amount of the deferred tax liability by 1,145 thousand US$. The total effect on assets revaluation reserve as of 31 December 2003 comprised 3,663 thousand US$.

For the 2004 year the basic and diluted profit attributable to equity holders of the Parent decreased by the amount of 0.00045 US$ due to the effect of correction of the property, plant and equipment value.

5. Correction of Errors (continued)

Accounting for Property, Plant and Equipment – Rotable Parts

In 2003-2004 the Group depreciated the rotable parts of fixed assets over ten years. As of 31 December 2004 the Group has recalculated the value of rotable parts and the depreciation of these parts for the year then ended using the five year useful life.

As a result the Group has made adjustments to the amount of property, plant and equipment, including the deferred tax effect, to the amount of retained earning as of 31 December 2004 and 31 December 2003 and to the amount of depreciation expenses for the years then ended.

The effect of correction of the net book values of these items of property, plant and equipment as of 31 December 2004 decreased the profit before taxation for the year 2004 by 844 thousand US$, and the net profit by 642 thousand US$. This correction decreased the amount of the property, plant and equipment as of 31 December 2004 by 1,994 thousand US$ and increased the amount of the deferred tax liability by 479 thousand US$. The total effect on assets retained earning as of 31 December 2003 comprised 800 thousand US$.

For the 2004 year the basic and diluted profit attributable to equity holders of the Parent decreased by the amount of 0.0012 US$ due to the effect of correction of the property, plant and equipment value.

Accounting for Deferred Income Taxes

In 2005 the Company corrected tax balances of property, plant and equipment used for the calculation of the deferred tax liability as of 31 December 2004 and 2003. As a result the Company made adjustments to the amount of deferred tax liabilities as of 31 December 2004 and 2003 and deferred income tax benefit for the year ended 31 December 2004.

The effect of correction of tax balances of property, plant and equipment has decreased net profit for the year ended 31 December 2004 by 24 thousand US$. The amount of retained earnings as of 31 December 2003 has increased by the amount of 774 thousand US$.

For the 2004 year the basic and diluted profit attributable to equity holders of the Company decreased by the amount of 0.00003 US$ due to the effect of correction of tax balances. The deferred tax liability at 1 January 2004 and 31 December 2004 was restated as presented in the table below.

	As previously reported	**Correction of errors**	**As restated**
Consolidated balance sheet as of 31 December 2004			
Property, plant and equipment	146,041	2,777	148,818
Total assets	238,919	2,777	241,696
Deferred income tax liability	(10,926)	895	(10,031)

5. Correction of Errors (continued)

	As previously reported	Correction of errors	As restated
Accounts payable and accrued expenses	(26,083)	(3,193)	(29,276)
Total liabilities	(193,444)	(2,298)	(195,742)
Assets revaluation reserve	(33,133)	(3,166)	(36,299)
Accumulated deficit as of 31 December 2004	107,179	3,149	110,328

6. Segment Information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different services and serves different markets.

The Group is organised into two main business segments: transportation services performed by planes and transportation services performed by helicopters. The major part of services performed by planes is represented by regular flights. The major part of services performed by helicopters are charter flights. Other operations of the Group mainly comprise airport services, technical support and repairs of air fleet, neither of which are of a sufficient size to be reported separately. The technical support and air fleet repairs are provided from other operations segment to the helicopters transportation segment. Transfer prices between business segments are set by mutual agreements of the parties involved in these transactions.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment and accounts receivable. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment. Impairment loss and provisions relate only to those charges made against allocated assets. The following table presents revenue and profit and certain asset and liability information regarding the Group's business segments:

Year ended 31 December 2005	**Air planes**	**Helicopters**	**Other**	**Unallocated**	**Group**
External sales	**267,867**	**112,877**	**47,417**	**-**	**428,161**
Intersegment sales/costs	**(6,403)**	**(4,144)**	**-**	**10,547**	**-**
Segment result	**(1,896)**	**9,691**	**4,977**	**14,858**	**27,630**
Segment assets	**59,276**	**59,633**	**-**	**173,022**	**291,931**
Segment liabilities	**(5,419)**	**-**	**-**	**(229,534)**	**(234,953)**
Capital expenditure	**20,425**	**16,476**	**-**	**17,231**	**54,132**
Depreciation and amortization	**(9,013)**	**(7,705)**	**-**	**(4,047)**	**(20,765)**

6. Segment Information (continued)

Year ended 31 December 2004	**Air planes**	**Helicopters**	**Other**	**Unallocated**	**Group**
External sales	177,442	86,781	24,500	-	288,723
Intersegment sales/costs	-	(3,675)	-	3,675	-
Segment result	3,024	17,981	2,571	(21,777)	1,799
Segment assets	63,004	40,936	-	137,756	241,696
Segment liabilities	(5,294)	(689)	-	(189,759)	(195,742)
Capital expenditure	18,653	8,314	-	17,331	44,298
Depreciation and amortization	(5,374)	(4,531)	-	(5,797)	(15,702)

Secondary Reporting Format – Geographical Segments

The Group's business segments operate mainly within Russia. In addition, the Group provides helicopter transportation services outside Russia (primarily for the UN). Sales are based on the geographical area in which the customer is located. There are no sales between the segments.

Year ended 31 December 2005	**Russia**	**Non-Russia**	**Group**
Segment sales	**348,018**	**80,143**	**428,161**
Segment costs	**(312,508)**	**(31,913)**	**(344,421)**
Unallocated operating expenses	**-**	**-**	**(56,110)**
Segment result	**35,510**	**48,230**	**27,630**
Segment assets	**278,778**	**13,153**	**291,931**
Capital expenditure	**49,907**	**4,225**	**54,132**

Year ended 31 December 2004	**Russia**	**Non-Russia**	**Group**
Segment sales	233,591	55,132	288,723
Segment costs	(237,718)	(26,216)	(263,934)
Unallocated operating expenses	-	-	(22,990)
Segment result	(4,127)	28,916	1,799
Segment assets	227,116	14,580	241,696
Capital expenditure	42,967	1,331	44,298

7. Balances and Transactions with Related Parties

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

7. Balances and Transactions with Related Parties (continued)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

- enterprises that directly, or indirectly through one or more intermediaries control the Group;
- associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture;
- key management personnel;
- others.

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

	2005	2004
Trade receivables (Note 13):		
Entities with joint control or significant influence over the Group	1,069	202
Associates	95	369
Others	153	11
	1,317	582
Prepayments (Note 13):		
Entities with joint control or significant influence over the Group	–	13
Associates	–	8
Others	–	11
	–	32
Trade receivables, long-term:		
Key management personnel (maturity date till 31.12.2007)	130	166
Others (Note 13):		
Key management personnel	12	22
	1,459	802

The balances are interest free and short-term, except for noted above. Most are related to Group's rendering transport services to the related parties. The balances are not guaranteed and not secured. The settlements are to be performed in cash. No doubtful debts due from related parties existed as of 31 December 2005 and 2004. The Group also had cash of 195 thousand US$ and 13 thousand US$ held with entities with joint control or significant influence over the Group as of 31 December 2005 and 2004 respectively.

7. Balances and Transactions with Related Parties (continued)

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

	2005	2004
Trade payables (Note 17):		
Associates	**1,293**	1,161
Others	**76**	10
	1,369	1,171
Advances received (Note 18):		
Entities with joint control or significant influence over the Group	**951**	178
Others	–	1
	951	179
Loans payable (Note 15):		
Entities with joint control or significant influence over the Group	**9,760**	11,706
Remuneration payable (Note 17):		
Key management personnel	–	187
	12,080	13,243

Trade payables are related to the purchase of airport services and duties and transportation services.

Loans payable are denominated in Rubles, bear an interest of 12% as of 31 December 2005 and 15% per annum (6,300 thousand US$) and of 12% (5,406 thousand US$) as of 31 December 2004 and are payable according to the following schedule:

	2005	2004
2005	-	1,825
2006	**7,900**	7,822
2007	**1,612**	2,059
2008	**192**	-
2009	**46**	-
2010	**10**	-
	9,760	11,706

Aircrafts and engines for the total amount of 19,340 thousand US$ and 11,412 thousand US$ were pledged as collateral to secure these loans as of 31 December 2005 and 2004, respectively. These loans were used to finance the finance lease agreements entered by the Group as the lessor through one of its subsidiaries (Note 9) and interest on these loans is fully recovered by lessees.

The Group had the following transactions with related parties:

	2005	2004
Sales – transportation services:		
Entities with joint control or significant influence over the Group	**22,857**	16,374
Associates	**6,224**	4,719
Others	**164**	94
Total sales to related parties	**29,245**	21,187

7. Balances and Transactions with Related Parties (continued)

	2005	2004
Direct operating expenses:		
Entities with joint control or significant influence over the Group	**11,615**	138
Associates	**10,268**	7,355
Others	**934**	408
	22,817	7,901
Other operating expenses:		
Entities with joint control or significant influence over the Group	**2,024**	988
Interest expenses on loans payable:		
Entities with joint control or significant influence over the Group	**1,378**	2,176
Total purchases from related parties	**26,219**	11,065
Proceeds from borrowings:		
Entities with joint control or significant influence over the Group	**33,360**	35,451
Repayment of borrowings:		
Entities with joint control or significant influence over the Group	**(34,912)**	(39,192)
Net repayment of borrowings to related parties	**(1,552)**	(3,741)

Key management personnel comprised of fifteen members of both the Management Board and Board of Directors of the Group both as of 31 December 2005 and 2004, respectively. Total compensation to key management personnel included in general and administrative expenses in the income statement comprised 1,094 thousand US$ and 1,116 thousand US$ for the years ended 31 December 2005 and 2004, respectively. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

The transactions with related parties are performed on a contractual basis.

8. Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

31 December 2005	**Buildings**	**Aircraft and engines**	**Other**	**Assets under construction**	**Total**
Cost					
Balance at 31 December 2004 (as restated)	49,833	104,106	30,874	10,600	195,413
Additions	7,192	35,283	7,338	4,757	54,570
Disposals	(40)	(1,389)	(1,759)	(3,043)	(6,231)
Effect of translation into US$	(1,914)	(4,326)	(1,205)	(410)	(7,855)
Balance at 31 December 2005	55,071	133,674	35,248	11,904	235,897

8. Property, Plant and Equipment (continued)

	Buildings	Aircraft and engines	Other	Assets under construction	Total
Accumulated Depreciation					
Balance at 31 December 2004 (as restated)	(4,027)	(21,247)	(21,321)	–	(46,595)
Depreciation charge (as restated)	(1,949)	(15,458)	(3,358)	–	(20,765)
Disposals	4	144	1,577	–	1,725
Effect of translation into US$	178	1,028	797	–	2,003
Balance at 31 December 2005	(5,794)	(35,533)	(22,305)	–	(63,632)
Net Book Value					
Balance at 31 December 2004	45,806	82,859	9,553	10,600	148,818
Balance at 31 December 2005	49,277	98,141	12,943	11,904	172,265

	Buildings	Aircraft and engines	Other	Assets under construction	Total
Cost					
Balance at 31 December 2003 (as restated)	45,207	69,884	27,387	2,252	144,730
Acquisition of a subsidiary	228	16,078	438	-	16,744
Additions	2,208	14,429	3,013	7,905	27,555
Disposals	(658)	(1,690)	(1,714)	-	(4,062)
Effect of translation into US$	2,847	5,405	1,750	443	10,445
Balance at 31 December 2004 (as restated)	49,832	104,106	30,874	10,600	195,412
Accumulated Depreciation					
Balance at 31 December 2003 (as restated)	(2,004)	(9,022)	(19,301)	–	(30,327)
Depreciation charge (as restated)	(1,917)	(11,594)	(2,050)	–	(15,561)
Disposals	88	356	1,248	–	1,692
Effect of translation into US$	(194)	(987)	(1,217)		(2,398)
Balance at 31 December 2004 (as restated)	(4,027)	(21,247)	(21,320)	–	(46,594)
Net Book Value					
Balance at 31 December 2003 (as restated)	43,204	60,863	8,086	2,252	114,404
Balance at 31 December 2004 (as restated)	45,805	82,859	9,554	10,600	148,818

At 31 December 2005 and 2004 the gross carrying value of fully depreciated property, plant and equipment was 19,449 thousand US$ and 18,955 thousand US$, respectively.

Major overhauls capitalized comprised 14,946 thousand US$ and 4,363 thousand US$ in the years ended 31 December 2005 and 2004, respectively.

8. Property, Plant and Equipment (continued)

Bank borrowings are secured on properties to the value of 46,045 thousand US$ (2004: 25,675 thousand US$) (see Note 15).

The assets transferred to the Group upon privatisation do not include the land on which the Group's factories and buildings, comprising the Group's principal manufacturing facilities, are situated. The Group has the option to purchase this land upon application to the state registrator body or to continue occupying this land under a rental agreement. Russian legislation does not specify an expiry date to this option. At 31 December 2005 the Group has not filed any application to exercise the purchase option.

9. Net Investment in Leases

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

	2005	2004
Gross investment in leases	**6,638**	2,867
Less: Unearned finance lease income	**(875)**	(428)
Net investment in leases	**5,763**	2,439

The interest rate incremental in the lease agreements varied between 4% and 34% per annum depending on the total amount and duration of the contract as well as other terms. The amounts receivable under the lease agreements are secured by the assets leased out.

Gross investment in leases is payable in RR. The maturity structure of the net investment in lease is detailed as follows:

	2005	2004
Not later than 1 year	**2,469**	1,084
Later than 1 year and not later than 5 years	**3,294**	1,355
Total	**5,763**	2,439

Some of the leased out assets are pledged as collateral in accordance with the borrowing agreements with banks (Note 15). Related net investment in lease comprised 2,137 thousand US$ at 31 December 2005 (2004: 652 thousand US$). In addition, the accounts receivable in the amount of 1,826 were pledged as collateral in accordance with these agreements at 31 December 2005 (2004: 66 thousand US$).

10. Investments in Associates

The Group has the following investments in associates:

Entity	Activity	2005 % share	2004 % share
OAO "Airport Surgut", Russia	Airport facilities and services in Surgut	**26%**	26%
ZAO "Kondaavia", Russia	Operating the airport facilities and airport services	**45.5%**	45.5%

The movements in investments in associates were as follows:

	2005	2004
Balance at 1 January	**3,218**	2,993
Share of income before tax	**687**	518
Share of tax charge	**(235)**	(185)
Share of income after tax	**452**	333
Dividends distributed	**(37)**	–
Effect of translation into US$	**(6)**	12
Balance at 31 December	**3,627**	3,338

The following table illustrates summarised financial information of the associates:

Aggregated assets and liabilities of associates	2005	2004
Current assets	**8,123**	6,708
Non-current assets	**10,054**	9,515
Current liabilities	**(4,491)**	(3,690)
Non-current liabilities	**(4)**	(5)
Net assets	**13,682**	12,528

Aggregated revenue and profit or loss of associates	2005	2004
Revenue	**29,803**	29,201
Profit/(loss)	**1,891**	988

11. Available-for-Sale Investments

Short-term available-for-sale investments are comprised of the following:

	2005	2004
Promissory notes issued by financial institutions, interest-bearing	**1,922**	2,092
Investment in trust	–	4,233
Promissory notes issued by non-financial institutions, non-interest bearing	–	1,726
	1,922	8,051

11. Available-for-Sale Investments (continued)

As of 31 December 2004, the amounts transferred to an investment company (trustee) were placed mainly in the interest-bearing long-term bonds issued by the Group (3,536 thousand US$, see Note 15), interest bearing publicly traded bonds issued by the governmental bodies (37 thousand US$) and interest bearing non-publicly traded bonds issued by the governmental bodies and third party companies (660 thousand US$). The trust agreement was terminated in the first quarter of 2005 when cash was repaid to the Group.

Long-term available-for-sale investments of the Group consist of investments in ordinary shares of unlisted Russian companies and have no fixed maturity date or coupon rate.

12. Inventories

Inventories consist of the following as of 31 December:

	2005	2004
Spare parts	**12,667**	5,362
Fuel	**10,050**	6,919
Other inventories	**2,936**	1,682
On-board goods for resale	**474**	367
Provision for impairment for obsolescence	**(995)**	(841)
	25,132	13,489

At 31 December 2005 inventories of 6,930 thousand US$ (2004: 12,240 thousand US$) have been pledged as security for borrowings (Note 15).

13. Accounts Receivable and Prepayments

	2005	2004
Trade receivables	**42,118**	24,279
VAT recoverable	**20,874**	14,008
Advances to suppliers	**9,637**	17,775
Other receivables – claims	**4,720**	13,598
Road users tax overpayment	**2,489**	2,859
Prepaid expenses	**1,944**	777
Receivables from related parties (see Note 7)	**1,040**	1,640
Other taxes receivable	**1,329**	636
Less: Provision for impairment of trade receivables	**(5,887)**	(2,429)
Provision for impairment of other receivables - claims	**(4,721)**	(12,783)
	73,543	60,360

13. Accounts Receivable and Prepayments (continued)

Other receivables (claims) as of 31 December 2005 include 4,721 thousand US$ (2004: 6,238 thousand US$) of the compensation receivable from the Russian Ministry of Finance and local governmental bodies of some Russian regions for the free of charge transportation of privileged groups of passengers. The Group filed a lawsuit against the Russian Ministry of Finance in 2004. On 13 January 2005 the arbitration court satisfied the claim of the Group for the amount of 2,403 thousand US$. The decision of the appellate court from 3 May 2006 confirmed this satisfaction. The execution of the court's decision is in progress.

The amount of claims outstanding as of 31 December 2004 included also 5,569 thousand US$ (2003: 5,777 thousand US$) of receivables (principal debt, interest and penalties) from a supplier of aircraft resulted from the lawsuit filed by the Group against this supplier in 2002. The 100% provision for impairment of both claims receivable was created as of 31 December 2002. In 2005 the Company wrote off the receivables from an aircraft supplier as non-recoverable.

The Group filed the amended road users tax return in 2004 declaring tax overpayments in 2001-2003 of 3,415 thousand US$. The outstanding receivables as of 31 December 2005 amount to 2,489 thousand US$.

The Group filed the amended profit tax return in 2003 declaring tax overpayments in 2001-2002 in the amount of 3,484 thousand US$. The part of these overpayments was offset against current profit tax liability as of 31 December 2004. The outstanding amount (2,554 thousand US$) as of 31 December 2005 (2004: 2,660 thousand US$) will be offset against the future tax payables (profit tax or other taxes).

Net trade receivables of 20,716 thousand US$ and 9,082 thousand US$ are denominated in foreign currency, mainly US Dollars, at 31 December 2005 and 2004, respectively.

The following summarizes the changes in the provision for impairment of trade and other receivables for the years ended 31 December:

	2005	**2004**
Balance at the beginning of the year	**15,212**	12,915
Usage for the year	**(5,667)**	(543)
Impairment charge for the year	**1,539**	1,991
Effect of translation into US$	**(476)**	849
Balance at the end of the year	**10,608**	15,212

14. Cash and Cash Equivalents

Cash and cash equivalents were as follows as of 31 December:

	2005	**2004**
Foreign currency denominated balances with bank	**3,388**	13
Denominated cash on hand and balances with banks	**2,839**	1,557
	6,227	1,570

15. Borrowings

	2005	2004
Current borrowings:		
Sberbank, Surgut branch (a)	52,622	41,205
Khanty-Mansijsky Bank (b)	18,072	-
TRAST bank (c)	5,228	-
Others	4	193
Current portion of long-term borrowings:		
- Sberbank, Surgut branch (f)	**1,024**	–
- related parties (Note 7)	**7,900**	1,979
Promissory notes issued, short-term (d)	**23,363**	23,279
Bonds (e)	**31,522**	–
Total current borrowings	139,735	66,656
Long-term borrowings:		
Related parties (Note 6)	9,760	11,706
Sberbank, Surgut branch (f)	4,598	–
Ukhta Bank (g)	1,024	–
Khanty-Mansijsky Bank (h)	–	2,343
Less: Current portion of long-term borrowings:		
- Sberbank, Surgut branch (f)	**(1,024)**	–
- related parties (Note 7)	**(7,900)**	(1,979)
	6,458	12,070
Promissory notes issued, long-term (d)	–	2,380
Bonds (e)	–	36,038
Total long-term borrowings	6,458	50,488

(a) During 2005 the Group entered into a number of short-term loan agreements with Sberbank of Russia (Surgut branch) for the total amount of 55,193 thousand US$. Loans are secured by cash inflows from Group sales in the monthly amount of 6,422 thousand US$ and by collateral of property, plant and equipment and inventories.

In 2004 the Group entered in a number of short-term loan agreements with Sberbank (Surgut Branch) to borrow in total 39,677 thousand US$. Loans were secured by cash inflows from Group sales in the monthly amount of 5,189 thousand US$ and by collateral of property, plant and equipment and inventories.

(b) In 2005 the Group entered into a number of short-term loan agreements with Khanty-Mansijsky Bank for the total amount of 18,072 thousand US$. The loans are secured by cash inflows from Group sales in the monthly amount of 21 thousand US$ and by collateral of property, plant and equipment.

15. Borrowings (continued)

(c) In 2005 the Group entered into a short-term loan agreement with TRAST Bank to borrow 5,304 thousand US$. The loan is secured by cash inflows from Group sales in the monthly amount of 663 thousand US$.

(d) Both in 2005 and 2004 the Group placed its short-term interest-bearing RR denominated promissory notes through an investment company in the amount of 23,363 thousand US$ (2004: 23,279 thousand US$). The promissory notes placed bear an average interest rate of 12% per annum (2004: 14% per annum). In 2004 the Group placed its interest-bearing RR denominated long-term promissory notes in the total amount of 2,292 thousand US$ bearing interest of 14%. These long-term notes were fully repaid in 2005.

(e) In 2004 the Group's subsidiary, UTair-finance, placed interest-bearing non-convertible bearer bonds (1,000,000 bonds one thousand RR (appr. 35 US$) par value). The bonds were issued at 100% face value. The obligatory redemption date is 22 November 2006, no premature payments are allowed. The bonds have four semi-annual coupon periods; the interest rate is defined for each coupon period separately. The interest rate defined for the first and second coupon period is 13% per annum, for the third coupon period – 10.65% per annum. The bonds issue is secured by the guarantee of the parent Company, UTair aviation Company, in the amount of 45,969 thousand US$.

(f) In 2005 the Group entered into the US$ denominated long-term loan with Sberbank to borrow US$ 5,122 thousand. The loan matures on 18 June 2010 and is secured by the collateral of property, plant and equipment. The outstanding loan is payable in accordance with the following payment schedule (in thousand US$):

	2005
2006	**1,024.3**
2007	**1,024.3**
2008	**1,024.3**
2009	**1,024.3**
2010	**512.0**
	4,609.2

(g) In 2005 the Group entered into the RR denominated long-term loan agreement with Ukhtabank. The loan matures on 8 June 2007 and is secured by collateral of property, plant and equipment and by pledge of the promissory notes issued by the parent company for the total amount of 804 thousand US$.

(h) In 2004 the Group entered into the long-term loan agreement with Khanty-Mansijsky Bank to borrow 2,342 thousand US$. The loan matures on 21 December 2007. The loan is secured by collateral of property, plant and equipment.

The weighted average interest rate for the bank loans outstanding as of 31 December 2005 amounts to 10.5% (31 December 2004 – 10.4%.)

16. Taxes Payable

Current Taxes Payable

Current taxes payable, other than income tax, are comprised of the following:

	2005	2004
Current portion of taxes restructured to long-term	**9,487**	3,794
VAT deferred	**9,216**	11,553
Accrual for State Pension Fund additional charges	**1,874**	5,222
Value-added tax payable	**1,338**	92
Unified social tax	**565**	275
Property tax	**210**	82
	22,690	21,018

In 2002-2004 the Group made an additional 14% accrual (calculated on the basis of salaries of cockpit personnel) based on demand from the State Pension Fund of Russia. In December 2004 the Group filed a lawsuit against the Pension Fund of Russia claiming the lawlessness of these accruals. However this liability was paid to the Pension Fund in April 2005 under pressure of the Russian aviation authorities. The final outcome of the lawsuit is yet uncertain. In 2005 the Group accrued 1,874 thousand US$ of such additional 14% accrual but has not yet paid this amount waiting for the court's decision. No fines and penalties for the late payment are imposed by State Pension Fund of Russia for this accrual.

Long-Term Taxes Payable

Long-term taxes payable comprise various taxes payable as well as fines and penalties to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to ten years following the application of Government Resolution No. 1002 dated 3 September 1999 and No. 699 dated 1 October 2001, as described below. The carrying value of this debt and its maturity profile is as follows:

	2005			2004		
	Federal and regional taxes	**Other state funds**	**Total**	**Federal and regional taxes**	**Other state funds**	**Total**
Current	**80**	**9,407**	**9,487**	3,358	436	3,794
1 to 2 years	**67**	**-**	**67**	69	9,280	9,349
2 to 3 years	**67**	**-**	**67**	66	–	66
3 to 4 years	**158**	**-**	**158**	146	–	146
4 to 5 years	**152**	**-**	**152**	141	–	141
Thereafter	**89**	**-**	**89**	168	–	168
Total restructured	**613**	**9,407**	**10,020**	3,948	9,716	13,664
Less: current portion of taxes payable	**(80)**	**(9,407)**	**(9,487)**	(3,358)	(436)	(3,794)
Long-term portion of restructured taxes	533	–	533	590	9,280	9,870

16. Taxes Payable (continued)

Long-Term Taxes Payable (continued)

Long-term taxes payable have been recorded at fair value at the date of restructuring and are subsequently recorded at amortised cost. Fair value has been determined as the net present value of the future cash flows using a discount rate of 5.5%. The nominal amount of restructured tax liabilities as of 31 December 2005 is 10,405 thousand US$ (2004: 14,667 thousand US$).

The accumulated deficit as of 1 January 2003 includes 6,234 thousand US$ of the net gain on restructuring of tax debts. The net gain on restructuring of tax debt arose in the years of restructuring (2000-2002) from the application of Resolution No. 1002 dated 3 September 1999 and No. 699 dated 1 October 2001 and certain restructuring agreements which restructured current tax debts by deferring payment of liabilities to the federal and regional tax authorities and the pension and road funds to between 1 and 10 years free of interest or bearing an interest rate of 1/10 of rate established by the Central Bank of Russia. This restructuring constituted a substantial modification in terms of the difference between the recorded value of the tax liabilities prior to restructuring and the present value of the future cash flows of the restructured liabilities. The difference between the original amount and net present value of the restructured liabilities, using a discount rate of 5.5%, was accounted for as an extinguishment of debt.

The increase of the carrying amount of tax debt in subsequent years as a result of unwinding of the discount is recognised in the income statement as interest expense.

At the same time, in accordance with the above mentioned Resolutions in 2005 2,594 thousand US$ (2004: 7,007 thousand US$) of previously restructured fines and penalties were forgiven by the tax authorities reducing the Group's liabilities following the Group's compliance with the restructuring payment terms and early redemption of some restructured amounts.

17. Trade and Other Payables

	2005	**2004 (As restated)**
Trade payables	**29,663**	16,935
Unused vacation accrual (Note 5)	**5,228**	4,332
Accrued payroll	**3,940**	3,129
Accrued liabilities and other creditors	**3,634**	3,020
Payables to related parties (Note 7)	**1,369**	1,358
Frequent Flyer Program accrual	**609**	304
Dividends payable	**214**	198
	44,657	29,276

Trade payables in the amount of 400 thousand US$ and 215 thousand US$ are denominated in foreign currency, mainly US Dollar, at 31 December 2005 and 2004, respectively.

18. Advances from Customers and Deferred Revenue

Advances from customers are comprised of the following:

	2005	2004
Deferred revenue (air traffic liability)	**5,419**	5,294
Advances from customers	**3,293**	1,751
Advances from related parties (Note 7)	**951**	179
	9,663	7,224

Advances from customers include the amounts received for transportation services to be performed, mainly from oil and gas companies. The air traffic liability represents the estimated value of sold but unused tickets as well as interline amounts due to other carriers.

19. Equity

Total number of outstanding shares comprises:

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital	Treasury shares at costs	Premiums or discounts on transactions with treasury shares
At 31 December 2003	561,679	15,529	112,145	582	94
Purchase of treasury shares	(179,823)	179,823	–	12,826	6,586
Sale of treasury shares	187,791	(187,791)	–	(12,974)	(6,492)
At 31 December 2004	569,647	7,561	112,145	434	187
Purchase of treasury shares	**(1,000)**	**1,000**	–	**51**	**15**
Sale of treasury shares	–	–	–	–	–
At 31 December 2005	**568,647**	**8,561**	**112,145**	**485**	**203**

The authorised number of ordinary shares is 577,208,000 (2003: 577,208,000), with a nominal value per share of 1 Russian Ruble. All authorized shares have been issued and fully paid.

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

A dividend was declared in 2005 in respect of 2004 to holders of ordinary shares of 0.0019 US$ per ordinary share (2004: 0.0014 US$ per ordinary share) in the total amount of 1,143 thousand US$ (2004: 865 thousand US$).

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

19. Equity (continued)

The UTair Aviation Joint Stock Company had 18,549 thousand US$ and 14,431 thousand US$ of undistributed and unreserved earnings as of 31 December 2005 and 2004, respectively. In addition, the Group's share in the undistributed and unreserved earnings of the UTair Aviation Joint Stock Company's subsidiaries was 11,638 thousand US$ and 8,364 thousand US$ as of 31 December 2005 and 2004, respectively.

20. Revenues

Revenues comprised of the following:

	2005	2004
Aircraft transportation services, regular	**235,133**	144,699
Helicopters transportation services, abroad	**80,143**	55,133
Helicopters transportation services, inland	**45,810**	31,649
Aircraft transportation services, charter	**32,734**	32,743
Technical support and maintenance services	**6,292**	5,913
Other revenues	**28,049**	18,586
	428,161	288,723

21. Direct Operating Expenses

Direct operating expenses included the following:

	2005	2004
Fuel	**122,348**	64,132
Airport services	**48,592**	33,280
Passenger servicing	**14,334**	9,436
Rent of air fleet and equipment	**13,914**	15,207
Air navigation and meteoservices	**9,882**	7,259
Spare parts and other materials	**3,660**	4,274
UN missions support	**2,363**	6,457
Other direct operating expenses	**19,063**	30,995
	234,156	171,040

22. Personnel Expenses

Personnel expenses included the following:

	2005	2004
Remuneration	**52,374**	40,101
Social insurance charges	**12,990**	11,695
Accruals for vacation and bonuses	**797**	188
Other social payments	**86**	236
	66,247	52,220

23. Other Operating Income and Expenses

Other operating income/ (expenses) included the following:

	2005	2004
Penalties receivable	**808**	470
Derecognition of accounts payable	**345**	164
Insurance coverage	**319**	22
Travel expenses	**(11,326)**	(7,258)
Insurance expenses	**(3,417)**	(2,058)
Consulting expenses	**(2,535)**	(1,826)
Communication expenses	**(2,399)**	(1,310)
Advertising	**(2,334)**	(1,637)
Utilities	**(2,126)**	(1,817)
Taxes	**(1,484)**	(1,107)
Bank charges	**(1,434)**	(1,244)
Loss from disposal of fixed assets	**(1,103)**	(2,257)
VAT non-reclaimable	**(786)**	
Provisions for Frequent Flyer Passengers program	**(305)**	(148)
Training expenses	**(214)**	(263)
Release/ (addition) to provision for slow-moving inventory	**(187)**	110
Tax claims of offset (see Note 13)	–	3,415
Government grants	–	1,599
Other operating income/(expenses)	**(8,321)**	1,522
	(36,499)	(13,623)

Grants from local government were provided to UTair for the execution of regular flights to the distant regions in Russia's Western Siberia. The grants are provided both in form of cash remuneration for coverage of losses from performing such flights and in form of reduced airport duties etc. Since 2005 the Group takes part in the new regional program where the Group sells tickets with discount to passengers flying within the Tymenj region. This discount is reimbursed by the regional government. The amount of reimbursement in the amount of 9,230 thousand US$ earned in 2005 - is included in revenues for regular flights (Note 20).

24. Financial Income/ (Expenses), net

Financial income/ (expenses) comprise of:

	2005	2004
Gain from operations with 3rd parties promissory notes	**461**	855
Interest receivable on loans issued to 3rd parties	**205**	235
Interest payable on bank loans (Note 15)	**(6,582)**	(5,086)
Interest payable on bonds issued (Note 15)	**(4,494)**	(445)
Interest/discounts payable on promissory notes (Note 15)	**(3,159)**	(4,067)
Interest payable to related parties (Note 7)	**(1,378)**	(2,176)
Amortization of discount of restructured tax debts (Note 16)	**(589)**	(1,791)
Interest on restructuring payable to tax authorities (Note 16)	**(17)**	(154)
	(15,553)	(12,629)

25. Income Tax

	2005	2004 (As restated)
Income tax expense– current	**1,369**	2,521
Deferred tax expense/(benefit) – origination and reversal of temporary differences	**(13)**	(3,223)
Income tax expense (benefit)	**1,356**	(702)

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

	2005	2004 (As restated)
Profit before taxation	**15,510**	6,230
Theoretical tax charge at statutory rate of 24%	**3,722**	1,495
Tax effect of items which are not deductible or assessable for taxation purposes:		
Forgiveness of fines and penalties	**(623)**	(1,587)
Non-taxable income from acquisition of a subsidiary	–	(2,442)
Current profit tax corrections for prior periods	**285**	–
Non-taxable income from recognition of assets through profit and loss	**(1,384)**	–
Other permanent differences	**(644)**	466
Non-recognized deferred tax asset movement	–	1,366
Consolidated tax expense (benefit)	**1,356**	(702)

	31 December 2005	31 December 2004 (As restated)
Tax effects of deductible temporary differences:		
Property, plant and equipment	**8,868**	11,286
Provision for impairment of receivables	**2,732**	3,600
Timely recognition of expenses	**1,458**	1,956
Inventory in use write off and provision for obsolescence	**1,170**	1,449
Other provisions	**1,463**	1,113
Others	**918**	299
	16,609	19,703
Tax effects of taxable temporary differences:		
Property, plant and equipment	**(17,773)**	(17,779)
Discounting of restructured taxes payable	**(129)**	(761)
Others	**(824)**	(394)
	(18,726)	(18,934)
Net tax effect of temporary differences	**(2,117)**	769
Deferred tax liability resulting from purchase of a subsidiary	–	(2,979)
Less non-recognised deferred tax asset	**(7,540)**	(7,821)
Total net deferred tax liability	**(9,657)**	(10,031)

25. Income Tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. As of 31 December 2005, deferred tax asset in the amount of 7,540 thousand US$ (2004: 7,821 thousand US$) has not been recorded as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates to.

26. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (see Note 19).

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

	2005	**2004**
Weighted average number of ordinary shares outstanding (thousands)	**577,208**	577,208
Adjusted for weighted average number of treasury shares (thousands)	**(8,061)**	(11,045)
Weighted average number of ordinary shares outstanding (thousands)	**569,147**	566,163
Net income/(loss)	**13,673**	6,696
Basic and diluted earnings per share	**0.024**	0.012

27. Minority Interest

	2005	**2004**
Balance at 1 January	**2,041**	1,550
Share of net income of subsidiaries	**481**	261
Less dividends distributed to minority shareholders	**(63)**	-
Acquisition of the subsidiary	–	230
Balance at 31 December	**2,459**	2,041

28. Contingencies, Commitments and Operating Risks

Operating Environment of the Group

The Russian economy, while deemed to be of market status, continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Management's estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately 10,241 thousand US$. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Insurance Policies

The Group holds insurance policies in relation to its air fleet, cockpit personnel and in respect of public liability resulting from its transportation activities.

Legal Proceedings

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

28. Contingencies, Commitments and Operating Risks (continued)

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group's credit risk is substantially concentrated in amounts receivable from the UN: 15,844 thousand US$ or 39% of trade accounts receivable as of 31 December 2005 (2004: 9,082 thousand US$ or 42%). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Foreign Exchange Risk

The Group exports services (mainly under the agreement with UNO) and purchases goods and services abroad and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 13) and liabilities (see Note 15, 17) give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated liabilities.

Fuel Price Risk

The results of the Group's operations may be significantly affected by the fluctuation of fuel prices which is a major expense of the Group. Due to the lack of an acceptable hedging market for fuel prices in Russia, the Group does not have financial instruments to hedge the fuel price risk.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long-term borrowings are fixed, these are disclosed in Note 15. The Group has no significant interest-bearing assets. The Group is regularly working on the decrease of interest rates for borrowings in order to reduce the interest rate expenses.

29. Post Balance Sheet Events

A dividend was declared in 2006 in respect of 2005 to holders of ordinary shares of 0.0024 US$ per share in the total amount of 1,429 thousand US$.

In March 2006 the Group's subsidiary UTair-Finance issued long-term non-redeemable non-convertible bearer bonds for the total nominal amount of 35,855 thousand US$. The bonds mature in March 2009 and have 12 quarterly coupon periods. The interest rate for the first coupon period is 10.4% per annum. The bonds are secured by the guarantee of the parent company for the total amount of 50,215 thousand US$. The issue was used to refinance the existing short-term loans of the Groups, which were mainly borrowed for renewal and maintenance of the Group's air fleet. In the fourth quarter 2005 – first two quarters 2006 the Group purchased five helicopters Mi-8 MTV, one helicopter AS-355N (Erocopter), one aircraft TU-154M, two helicopters Mi-171. The Group also made the partial prepayment for two helicopters Mi-26T.

In May 2006 the Group paid the interest of 10.65% per annum for the third coupon period on the first issue of their non-convertible bearer bonds in the amount of1,962 thousand US$. In June 2006 the Group paid the interest of 10.4% per annum for the first coupon period on the second issue of their bonds in the amount of 961 thousand US$.