UTair Aviation Joint-Stock Company

Consolidated Financial Statements

For the year ended 31 December 2006

with Report of Independent Auditors

UTair Aviation Joint-Stock Company

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For the year ended 31 December 2006

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 the management, which is responsible for the substance and objectivity of the information contained therein.

In preparing the 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 financial statements; and preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue its business for the foreseeable future.

Management is also responsible for designing, implementing and maintaining an effective and sound system of internal controls across the Group; maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS; maintaining 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, the Group established the audit committee with the aim to increase the effectiveness of the internal controls and improve the corporate government practices.

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

Martirosov A.Z. Chief Executive Officer

Pozdnyakov V. A. Chief Accountant

30 August 2007

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of UTair Aviation Joint-Stock Company and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

(i) As discussed in Note 3 to the consolidated financial statements, the Group has used a revaluation model for measuring its property, plant and equipment. The Group's associates referred to in Note 10 to the consolidated financial statements carry their property, plant and equipment at cost. The Group has not adjusted the associate's accounts when applying the equity method of accounting to conform the associate's accounting policy to those of the Group as required by IAS 28 "Investments in associates". The effect of this departure from the International Financial Reporting Standards has not been determined.

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

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph (i) and except for the omission of the information referred to in the Basis for Qualified Opinion paragraph (ii), the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

September 15, 2007

Ernst & Young

UTair Aviation Joint-Stock Company

Consolidated Balance Sheet at 31 December 2006

(in thousands of Russian Rubles)

	Notes	2006	2005 As restated
ASSETS			
Non-current assets			
Property, plant and equipment	8	**8,794,567**	4,958,224
Intangible assets		**12,930**	13,558
Net investment in lease – long-term	9	**74,283**	94,815
Investments in associates	10	**118,692**	104,385
Available-for-sale investments	11	**8,062**	6,340
Other assets		**26,173**	5,925
		9,034,707	5,183,247
Current assets			
Inventories	12	**917,079**	723,373
Accounts receivable and prepayments	13	**2,079,145**	2,116,749
Net investment in lease – short-term	9	**129,493**	71,077
Available-for-sale investments	11	**30,291**	55,326
Income tax receivable		**188,816**	73,512
Loans issued		**33,832**	–
Cash and cash equivalents	14	**211,279**	179,235
		3,589,935	3,219,272
Total assets		**12,624,642**	8,402,519
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	**3,101,456**	3,101,456
Treasury shares		**(17,340)**	(15,674)
Surplus from reissuance of treasury shares		**13,010**	13,010
Accumulated deficit	20	**(2,424,469)**	(2,982,163)
Assets revaluation reserve		**3,064,366**	1,391,655
Minority interest	27	**103,341**	74,747
Total equity		**3,840,364**	1,583,031
Non-current liabilities			
Long-term borrowings	15	**3,234,864**	185,886
Long-term taxes payable	16	–	15,340
Deferred tax liability	26	**918,333**	277,959
Post-employment benefits	19	**73,168**	53,507
Other non-current liabilities		**29,062**	44,913
		4,255,427	577,605
Current liabilities			
Trade and other payables	17	**1,364,444**	1,288,763
Short-term borrowings	15	**2,412,207**	4,021,911
Other taxes payable	16	**372,078**	653,088
Advances from customers and deferred revenue	18	**380,122**	278,121
		4,528,851	6,241,883
Total liabilities		**8,784,278**	6,819,488
Total equity and liabilities		**12,624,642**	8,402,519

Martirosov A.Z. Chief Executive Officer

Pozdnyakov V. A. Chief Accountant

30 August 2007

The accompanying notes on pages 8 to 52 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Income Statement
For the year ended 31 December 2006

(in thousands of Russian Rubles)

	Notes	2006	2005 As restated
Revenue			
Flight revenue		**16,025,881**	11,139,158
Other revenue		**948,537**	971,334
Total operating revenue	21	**16,974,418**	12,110,492
Direct operating expenses	22	**(9,544,825)**	(6,623,089)
Personnel expenses	23	**(2,709,508)**	(1,876,114)
Depreciation and amortization	8	**(952,064)**	(587,324)
Repair expenses		**(740,268)**	(658,263)
Commissions		**(627,312)**	(510,598)
Impairment of doubtful debts	13	**66,541**	(43,526)
Other operating income/(expenses), net	24	**(1,486,541)**	(1,032,394)
Total operating expenses		**(15,993,977)**	(11,331,308)
Operating profit		**980,441**	779,184
Interest income/ (expenses), net	25	**(535,159)**	(439,923)
Gain on restructuring of tax debt and other borrowings	16	**293,434**	73,367
Share of result of associates	10	**22,020**	19,436
Net foreign exchange gain/(loss)	30	**(42,193)**	4,300
Profit before income tax		**718,543**	436,364
Income tax expense	26	**(92,382)**	(38,348)
Profit for the year		**626,161**	398,016
Attributable to:			
Equity holders of the parent		**594,222**	384,483
Minority interests	27	**31,939**	13,533
Earnings per share (in Russian Rubles) - basic and diluted, for profit for the year attributable to equity holders of the parent	28	**1.05**	0.68

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V. A. — Chief Accountant

30 August 2007

The accompanying notes on pages 8 to 52 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 2006

(in thousands of Russian Rubles)

	Notes	2006	2005 As restated
Cash flows from operating activities:			
Profit before income tax		**718,543**	436,364
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	8	**952,064**	587,324
Amortization of discount attributable to restructured tax debts	25	**5,040**	16,673
Allowance for impairment of receivables	13	**(66,541)**	43,526
Other provisions, allowances and pensions		**224,171**	39,249
Gain on restructuring of tax debt and other borrowings	16	**(293,434)**	(73,367)
Loss on disposal and revaluation of property, plant and equipment		**129,817**	31,187
Interest expense	25	**562,756**	442,069
Interest income	25	**(32,637)**	(18,819)
Share of result of associates, before tax	10	**(22,020)**	(19,436)
Operating cash flows before working capital changes		**2,177,759**	1,484,770
Decrease/(increase) in accounts receivable and prepayments		**81,173**	(391,311)
Increase in inventories		**(250,874)**	(354,355)
Increase in accounts payable, advances and other payables		**119,387**	494,187
Increase in taxes payable and receivable		**(59,655)**	(89,933)
Cash generated from operations		**2,067,790**	1,143,358
Income tax paid		**(156,450)**	(38,728)
Interest paid		**(557,110)**	(432,454)
Net cash from operating activities		**1,354,230**	672,176
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(2,601,172)**	(1,531,130)
Proceeds from the sale of property, plant and equipment		**3,705**	96,271
Increase in net investments in lease		**(37,884)**	(98,213)
Short-term loans provided to third parties		**(330,351)**	(50,000)
Short-term loans repaid by third parties		**207,751**	50,000
Investments acquisition		**(32,013)**	–
Investments disposal		**2,724**	–
Acquisition of minority interest in the subsidiary		**(250)**	–
Dividends received	10	**1,400**	1,041
Interest received		**23,165**	18,819
Net cash used in investing activities		**(2,762,925)**	(1,513,212)
Cash flows from financing activities:			
Proceeds from borrowings		**10,986,080**	6,872,151
Repayment of borrowings		**(9,487,654)**	(5,826,444)
Repayment of long-term taxes restructured		**(11,212)**	(34,151)
Purchase of treasury shares		**(1,666)**	(1,434)
Dividends paid to minority shareholders	27	**(1,720)**	(1,810)
Dividends paid to equity holders of the parent		**(40,684)**	(31,640)
Net cash from financing activities		**1,443,144**	976,672
Effect of exchange rate changes on cash and cash equivalents		**(2,405)**	20
Net increase in cash and cash equivalents		**32,044**	135,656
Cash and cash equivalents at the beginning of the year	14	**179,235**	43,579
Cash and cash equivalents at the end of the year	14	**211,279**	179,235

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V. A. — Chief Accountant

30 August 2007

The accompanying notes on pages 8 to 52 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2006

(in thousands of Russian Rubles)

		Attributable to equity holders of the parent							
	Notes	Share capital	Treasury shares	Surplus from reissuance of treasury shares	Retained earnings	Revaluation reserve	Total	Minority interests	Total equity
Balance at 31 December 2004 (as previously reported)		3,101,456	(14,240)	13,010	(3,058,760)	1,170,702	1,212,168	63,024	1,275,192
Retrospective adjustments	5	–	–	–	(275,563)	220,953	(54,610)	–	(54,610)
Balance at 31 December 2004 (as restated)		3,101,456	(14,240)	13,010	(3,334,323)	1,391,655	1,157,558	63,024	1,220,582
Purchase of treasury shares		–	(1,434)	–	–	–	(1,434)	–	(1,434)
Profit for the year (as restated)		–	–	–	384,483	–	384,483	13,533	398,016
Dividends to minority shareholders		–	–	–	–	–	–	(1,810)	(1,810)
Dividends to equity holders of the parent		–	–	–	(32,323)	–	(32,323)	–	(32,323)
Balance at 31 December 2005 (as restated)	20	**3,101,456**	**(15,674)**	**13,010**	**(2,982,163)**	**1,391,655**	**1,508,284**	**74,747**	**1,583,031**
Purchase of minority interest		–	–	–	1,375	–	1,375	(1,625)	(250)
Assets revaluation as of 01.01.2006		–	–	–	–	1,672,711	1,672,711	–	1,672,711
Purchase of treasury shares		–	(1,666)	–	–	–	(1,666)	–	(1,666)
Profit for the year		–	–	–	594,222	–	594,222	31,939	626,161
Dividends to minority shareholders		–	–	–	–	–	–	(1,720)	(1,720)
Dividends to equity holders of the parent		–	–	–	(37,903)	–	(37,903)	–	(37,903)
Balance at 31 December 2006	20	**3,101,456**	**(17,340)**	**13,010**	**(2,424,469)**	**3,064,366**	**3,737,023**	**103,341**	**3,840,364**

Martirosov A.Z. — Chief Executive Officer

Pozdnyakov V. A. — Chief Accountant

30 August 2007

The accompanying notes on pages 8 to 52 are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles unless otherwise stated))

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 aircrafts as well as aviation services. The Group operates the air fleet of more than 300 aircrafts and helicopters. Cargo and passengers aircraft transportation is performed within Russia, CIS and far-abroad. The Group provides helicopters services in Russia mainly to the oil- and gas companies, abroad – to the United Nations Organization (UN). The main aviation services are: catering, airport services, repairs and maintenance of the air fleet, air ticketing and aeronautical personnel training.

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: 628012, Russia, Tyumen oblast, Khanty-Mansijsk autonomous district – Ugra, Khanty-Mansijsk, Airport.

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

Name	2006 % share	2005 % share
"La Manche" LLC (Russia)	**19.99%**	19.99%
"Triseltco" LLC (Russia)	**19.84%**	19.84%
"Polint" LLC (Russia)	**18.80%**	18.80%
"Krajel" LLC (Russia)	**17.00%**	17.00%
Individuals	**15.60%**	16.80%
Other legal entities	**7.45%**	6.25%
Treasury shares	**1.32%**	1.32%

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

Entity	Activity	2006 % share	2005 % share
"Zentr Realizazii Perevozok I Uslug" LLC	General agent for air ticket sales	**100%**	100%
"UTair-Leasing" LLC	Leasing company	**100%**	100%
"Zentr Professionalnoj Podgotovki" NP	Education and certification services for cockpit personnel	**100%**	100%
"Tjumenjspezavia" CJSC	Air carrier	**100%**	100%

1. Corporate Information (continued)

Entity	Activity	2006 % share	2005 % share
“Tjumenjaviatechsnab” LLC	Fixed assets and inventories supply	**100%**	100%
“Zentr Aviazionnoj Bezopasnosti” LLC	Organization of the Group’s security	**100%**	100%
“UTair-Finance” LLC	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 Private Ltd. (India)	Transportation services and technical support and maintenance of air fleet	**100%**	100%
Ukrainian Handling Company (Ukraine)	Transportation services and technical support and maintenance of air fleet	**100%**	100%
“UTair-Ufa” LLC	Representative office	**100%**	–
“UTair-Samara” LLC	Representative office	**100%**	–
“UTair-Express” LLC (in 2005 - “Komiinteravia” JSC)	Air carrier	**100%**	98.4%
“UKair” LLC	Management services	**50%**	–
“Irtyshaviatrans” LLC	Air carrier	**100%**	73%
“Zavod Nr. 26” LLC	Repair and maintenance of air fleet	**55.8%**	55.8%
“Zapadno-Sibirskoe Agentstvo Vozdushnyh Soobcheny” LLC	Sale of air tickets	**51%**	51%

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

In 2006 the Group purchased the minority shares in “Komiinteravia” JSC after which the company was reorganized into a limited liability company and its name was changed to “UTair-Express” LLC.

In 2006 the Group registered “UTair-Ufa” LLC and “UTair-Samara” LLC. These companies were established as a result of optimization of the UTair Group structure for the purposes of representation of interest of the Company in the cities of Ufa and Samara, organization and sale of domestic and international flight tickets, attraction and arrangement of special aerial works, organization of arrival and departure of passengers, shipment of luggage, cargo and mail. The Group also registered “Tobolskavia” LLC which provides airport services in Tobolsk airport (Tyumen region).

1. Corporate Information (continued)

At 31 December 2006 the Group employed approximately 7.9 thousands of employees (31 December 2005: 7.6). The Group's facilities are based in Tyumen oblast, as well as in Moscow, Syktyvkar, Samara and Ufa. The facilities of the Group's foreign subsidiaries are based in South African Republic, India and Ukraine.

The consolidated financial statements of UTair Aviation Joint-Stock Company for the year ended 31 December 2006 were authorized for issue by the executive body of the Company, on 30 August 2007.

2. Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

Russian subsidiaries of the Group registered in Russian Federation 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. The subsidiaries of the GroupSubsidiaries registered outside the Russian Federation maintain their accounting records in respective currencies in accordance with the local or statutory requirements of the jurisdictions in which they are incorporated. 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 generally 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 2006.

Also for the purposes of unification of accounting policies, starting from 1 January 2006 the Group determines the cost of fuel and other inventories by the FIFO method (before 1 January 2006 the Group determined the cost of fuel on the weighted average basis and the cost of other inventories - using the FIFO method). The Group estimated the effect of this change of accounting policies as insignificant and, as a result, did not make retrospective adjustments related to this change of accounting policies.

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

Changes in Accounting Policies (continued)

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

- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement":
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

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

IAS 19 (amended 2005) "Employee Benefits"

As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates"

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated and of which Group entity transacts with the foreign operation. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 "Financial Instruments: Recognition and Measurement"

The amendments to IAS 39 in 2005 included the following:

- required the inclusion of financial guarantee contracts issued;
- permitted the foreign currency risk of a highly probable forecast intra-group transaction to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

These amendments did not have an effect on the Group's financial statements.

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

IFRIC 4 "Determining Whether an Arrangement Contains a Lease"

IFRIC 4 provides guidance for determining whether arrangements are, or contain, leases that should be accounted for in accordance with IAS 17. If the arrangements comprise a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. The adoption of this IFRIC Interpretation as of 1 January 2006 has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. As the Group does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

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:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements - Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions".

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

The amendment of IAS 1 "Presentation of Financial Statements – Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after 1 May 2006.

IFRIC 9 clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract.

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

IFRSs and IFRIC Interpretations Not Yet Effective (continued)

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issue as to whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

Inflation Accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS29 "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 unit 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 2006, the Group's current liabilities were 4,528,851 and exceeded current assets by 938,916. In 2007 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 2006 (net income for the year ended 31 December 2006 was 626,161, and in particular operating profit was 980,441) and positive equity as well as positive cash flow from operating activities for the year ended 31 December 2006 (1,354,230), 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.

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.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

In 2006 the Group purchased minority shares in "Komiinteravia" JSC, thus increasing its share in this subsidiary to 100%. In December 2006, "Komiinteravia" JSC was reorganized into "UTair-Express" LLC. As a result of this operation the retained earnings of the Group as of 31 December 2006 increased by 1,375.

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.

3. Summary of Significant Accounting Policies (continued)

3.2 Investments in Associates (continued)

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 and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial investments, as appropriate. When financial assets 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 financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has 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 amortized 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. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

3. Summary of Significant Accounting Policies (continued)

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

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performance of work or rendering of services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Value-Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, the VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases and putting property, plant and equipment into operation.

3.7 Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is determined on the FIFO method basis. Net realizable value is the estimated selling price in the ordinary course of business, less costs necessary to make the sale.

3. Summary of Significant Accounting Policies (continued)

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 2006.

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.

Rotables

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

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 23 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 57 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 capitalized, 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

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

3. Summary of Significant Accounting Policies (continued)

3.9 Intangible Assets (continued)

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

3.10 Borrowings

Borrowings are initially recognized at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized 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 recognized as 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 basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 consolidated financial statements are presented in Russian Ruble which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3. Summary of Principal Accounting Policies (continued)

3.12 Foreign Currency Transactions (continued)

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

3.13 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, 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 realized 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 recognized as a borrowing cost.

3.14 Equity

Share Capital

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

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are cancelled or reissued. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at weighted average cost.

3. Summary of Principal Accounting Policies (continued)

3.14 Equity (continued)

Minority Interests

Minority interest represents the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within the shareholders' equity.

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

3.15 Revenue Recognition

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

Revenue from sales of tickets for regular flights is 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.

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

3.16 Employee Benefits

Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective labor agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective labor agreements. The entitlement to some benefits is conditional on the period during which a retiree's constant residence remains in the regions where the Group's entities are located.

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

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

3. Summary of Principal Accounting Policies (continued)

3.16 Employee Benefits (continued)

Post-Employment Benefits (continued)

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

State Pension Scheme

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.

Other Expenses

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment 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 recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized 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.

Settlements on equipment purchased for leasing purposes are recognized 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.

3. Summary of Principal Accounting Policies (continued)

3.17 Leases (continued)

Operating Lease

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

Government Grants

Government grants are recognized 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 recognized as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

4. Significant Accounting Judgments and Estimates

4.1 Judgments

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

Consolidation of a Special Purpose Entity (SPE)

"UKair" LLC, with a 50% share belonging to the Group, was incorporated in 2006. The Group determined that the substance of the relationship between the Group and "UKair" LLC, a special purpose entity, indicates that "UKair" LLC is controlled by the Group. As a result this entity has been included in the Group's accounts as of 31 December 2006.

4.2 Estimation Uncertainty

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

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

Useful Life of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

4. Significant Accounting Judgments and Estimates (continued)

4.2 Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2006, the Group recognized no impairment loss of property, plant and equipment (2005: none)

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by the management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Fair Values of Unlisted Available-For-Sale Investments

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

4. Significant Accounting Judgments and Estimates (continued)

4.2 Estimation Uncertainty (continued)

Allowance for Doubtful Receivables

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

As of 31 December 2006, allowances for doubtful accounts have been created in the amount of 217,262 (2005: 305,336).

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees, rates of employee turnover, disability and early retirement, the possibility for former employees to reside in the regions where the entities of the Group operate, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially. More details are provided in Note 19.

Legal Claims

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

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of the management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2006, the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 29.

4. Significant Accounting Judgments and Estimates (continued)

4.2 Estimation Uncertainty (continued)

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies.

If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows of the Group may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

5. Prior Years` Financial Statements Adjustment

The Group recognizes the effect of the prior period’s material errors correction in the accounting period in which such errors occurred. The corrections are recognized in the comparative data for that period in which the error occurred. If any error occurs in the prior period the comparative data on which are not included in the financial statements, the correction shall be recognized as the adjustment of the amount of assets, liabilities and equity as of the beginning of the earliest period the comparative data on which are included in the financial statement.

Any material prior period errors are corrected retrospectively, unless the determination of the error effect in the given period or cumulative effect is impossible.

Correction of Errors

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

In 2006, the Group assessed its liabilities to pay post-employment benefits as of 31 December 2004 and 2005 and adjusted its financial statements for the year 2005 on the basis of these liabilities recognition. As a result, the Group recognized the liabilities to pay post-employment benefits in the amount of 54,610 as of 1 January and 56,927 as of 31 December 2005. These resulted in decrease of pre-taxed income and net income for 2005 by 2,317. The cumulative effect on retained earnings as of 31 December 2004 amounted to 54,610.

5. Prior Years` Financial Statements Adjustment (continued)

Correction of Errors (continued)

For the 2005 year the basic and diluted profit attributable to equity holders of the Parent decreased by the amount of 0.003 Russian Rubles due to the effect of correction of the post-employment benefit liability.

Changes in Presentation

In 2005 the Company ceased to recognize an annual transfer from the asset revaluation reserve to retained earnings for the depreciation relating to the revaluation surplus, due to impractibility of such a disclosure. Accordingly, the Company restated its financial statements for the year ended 31 December 2005 to give effect to this change. As of 1 January and 31 December 2005 the balance of the revaluation reserve increased by 220,953 and 319,163 respectively. This resulted in the decrease of the retained earnings as of the stated above dates.

	As previously reported	**Correction of errors**	**Change in presentation**	**As restated**
Consolidated balance sheet as of 31 December 2005				
Total assets	**8,402,519**	**–**	**–**	**8,402,519**
Prior year retained earnings	(2,606,152)	(56,848)	(319,163)	(2,982,163)
Non-current assets revaluation reserve	1,072,492	–	319,163	1,391,655
Minority interest	74,826	(79)		74,747
Total equity	**1,639,958**	**(56,927)**	**–**	**1,583,031**
Post-Employment Benefits	–	53,507	–	53,507
Total long-term liabilities	**524,098**	**53,507**	**–**	**577,605**
Accounts payable and accrued liabilities	1,285,343	3,420	–	1,288,763
Total short-term liabilities	**6,238,463**	**3,420**	**–**	**6,241,883**
Total liabilities	**6,762,561**	**56,927**	**–**	**6,819,488**
Total liabilities and equity	**8,402,519**	**–**	**–**	**8,402,519**
Net profit for 2005 attributable to the shareholders of the Parent	**386,721**	**(2,238)**	**–**	**384,483**
Retained earnings as of 1 January 2005	**(3,058,760)**	**(54,610)**	**(220,953)**	**(3,334,323)**

6. Segment Information

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

The Group is organized into two main business segments: transportation services performed by planes (transport commercial complex or TCC) and transportation services performed by helicopters (helicopter commercial complex or HCC). 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 the other operations segment to the TCC. Transfer prices between business segments are set by mutual agreements of the parties involved in these transactions.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment. Impairment loss and provisions relate only to those charges made against allocated assets. In 2006 the Group has revised the accounting policy for expenses allocation between the reporting segments. Therefore the disclosures for 2005 were restated retrospectively to reflect the effect of these changes.

The table below summarizes the information on the Group's business segments:

Year ended 31 December 2006	**Air planes**	**Helicopters**	**Other**	**Unallocated**	**Group**
Sales to external customers	**10,754,493**	**5,271,388**	**948,537**	**–**	**16,974,418**
Inter-segment sales	**(349,439)**	**(107,410)**	**456,849**	**–**	**–**
Segment results	**(425,367)**	**2,003,885**	**(40,930)**	**(557,147)**	**980,441**
Segment assets	**2,719,430**	**3,401,407**	**648,101**	**5,855,704**	**12,624,642**
Segment liabilities:	**(208,202)**	**(447,722)**	**(495,096)**	**(7,633,258)**	**(8,784,278)**
Capital expenditures	**773,444**	**977,333**	**–**	**996,254**	**2,747,031**
Depreciation and amortization	**(310,822)**	**(366,712)**	**–**	**(274,530)**	**(952,064)**

Year ended 31 December 2005 (as restated)	**Air planes**	**Helicopters**	**Other**	**Unallocated**	**Group**
External sales	7,576,586	3,562,575	971,331	–	12,110,492
Intersegment sales	(181,106)	(117,210)	298,316	–	–
Segment result	(53,638)	1,086,776	140,772	(394,726)	779,184
Segment assets	1,706,117	1,716,374	–	4,980,028	8,402,519
Segment liabilities	(155,959)	–	–	(6,663,529)	(6,819,488)
Capital expenditure	577,729	466,014	–	499,768	1,543,511
Depreciation and amortization	(254,938)	(217,944)	–	(114,442)	(587,324)

6. Segment Information (continued)

Secondary Reporting Segment — Geographical Segments

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

Year ended 31 December 2006	**Russia**	**Non-Russia**	**Group**
Segment sales	**13,585,462**	**3,388,956**	**16,974,418**
Segment costs	**(13,027,161)**	**(1,363,947)**	**(14,391,108)**
Unallocated operating expenses	–	–	**(1,602,869)**
Segment result	**558,301**	**2,025,009**	**980,441**
Segment assets	**10,981,840**	**1,642,802**	**12,624,642**
Capital expenditure	**2,389,689**	**357,342**	**2,747,031**

Year ended 31 December 2005 (as restated)	**Russia**	**Non–Russia**	**Group**
Segment sales	9,843,653	2,266,839	12,110,492
Segment costs	(8,839,252)	(902,674)	(9,741,926)
Unallocated operating expenses	–	–	(1,589,382)
Segment result	1,004,401	1,364,165	779,184
Segment assets	8,023,917	378,602	8,402,519
Capital expenditure	1,424,009	119,502	1,543,511

7. Balances and Transactions with Related Parties

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

Related parties may enter into transactions which unrelated parties might not enter into, 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":

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

7. Balances and Transactions with Related Parties (continued)

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

	2006	2005
Trade receivables (Note 13)		
Entities with joint control or significant influence over the Group	**43,111**	30,758
Associates	**2,133**	2,729
Other	**475**	4,409
	45,719	37,896
Prepayments (Note 13)		
Entities with joint control or significant influence over the Group	**1,091**	–
Associates	**531**	–
Other	**–**	–
	1,622	–
Long-term accounts receivable		
Key management personnel (maturing before 31 December2008)	**3,413**	3,730
Other (Note 13)		
Entities with joint control or significant influence over the Group	**160**	–
Key management personnel	**236**	346
	51,150	41,792

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 outstanding balances are not guaranteed or secured. The settlements are performed in cash. No doubtful debts due from related parties existed as of 31 December 2006 or 31 December 2005.

The Group also had cash balances of 8,676 and 5,619 held with entities with joint control or significant influence over the Group at 31 December 2006 and 2005, respectively.

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

	2006	2005
Trade accounts payable (Note 17):		
Entities with joint control or significant influence over the Group	**115,388**	–
Associates	**34,462**	37,206
Other	**647**	2,211
	150,497	39,417
Advances received (Note 18):		
Entities with joint control or significant influence over the Group	**3,236**	27,370
Other	**9**	–
	3,245	27,370
Loans payable (Note 15):		
Entities with joint control or significant influence over the Group	**89,209**	280,921
Remuneration payable (Note 17):		
Key management personnel	**17,200**	–
	260,151	347,708

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

7. Balances and Transactions with Related Parties (continued)

Loans payable are denominated in Rubles, bear an interest of 11.8% p.a. as of 31 December 2006 and 12% p.a. at 31 December 2005 and are payable according to the following schedule:

	2006	2005
2006	–	227,392
2007	**56,369**	46,404
2008	**24,800**	5,525
2009	**8,040**	1,322
2010	–	278
	89,209	280,921

Aircrafts and engines in the total amount of 196,111 and 556,665 were pledged as collateral under agreements with creditors as of 31 December 2006 and 2005, 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). Interest on these loans is fully recovered by lessees.
There were the following related party transactions in 2006 and 2005:

	2006	2005
Sale - transportation services:		
Entities with joint control or significant influence over the Group	**1,025,282**	646,509
Associates	**7,388**	176,053
Other	**4,115**	4,630
Total sales to related parties	**1,036,785**	827,192
Direct operating expenses:		
Entities with joint control or significant influence over the Group	**1,947,133**	328,517
Associates	**733,361**	290,432
Other	**35,817**	26,409
	2,716,311	645,358
Other operating expense		
Entities with joint control or significant influence over the Group	**94,816**	57,241
Associates	**3,404**	–
Other	**15,030**	–
	113,250	57,241

7. Balances and Transactions with Related Parties (continued)

	2006	2005
Interest expenses on loans payable:		
Entities with joint control or significant influence over the Group	**27,170**	38,968
Total purchases from related parties	**2,856,731**	741,567
Proceeds from loans and borrowings;		
Entities with joint control or significant influence over the Group	**1,290,009**	943,577
Repayment of loans and borrowings:		
Entities with joint control or significant influence over the Group	**(1,481,721)**	(987,486)
Net repayment of borrowings to related parties	**(191,712)**	(43,909)

Compensation to key management personnel:

Key management personnel comprised members of the Management Board and Supervisory Council. Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 71,335 and 32,152 in 2006 and 2005, respectively. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

Transactions with related parties are made at the contractual basis.

8. Property, Plant and Equipment

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

31 December 2006	Buildings	Aircraft and engines	Other	Assets under construction	Total
Cost					
31 December 2005	1,585,108	3,847,499	1,014,505	342,585	6,789,697
Revaluation	1,131,940	144,804	238,881	–	1,515,625
31 December 2005 (after revaluation)	2,717,048	3,992,303	1,253,386	342,585	8,305,322
Additions	104,251	2,159,342	306,484	176,954	2,747,031
Disposals	(14,425)	(29,501)	(78,674)	(38,548)	(161,148)
31 December 2006	**2,806,874**	**6,122,144**	**1,481,196**	**480,991**	**10,891,205**

8. Property, Plant and Equipment (continued)

31 December 2005	Buildings	Aircraft and engines	Other	Assets under construction	Total
Accumulated depreciation					
31 December 2005	(166,755)	(1,022,725)	(641,993)	–	(1,831,473)
Revaluation	166,755	827,833	(384,671)	–	609,917
31 December 2005 (after revaluation)	–	(194,892)	(1,026,664)	–	(1,221,556)
Accrued depreciation	(111,908)	(750,724)	(83,667)	–	(946,299)
Disposals	474	753	69,990	–	71,217
31 December 2006	**(111,434)**	**(944,863)**	**(1,040,341)**	**–**	**(2,096,638)**
Net book value					
31 December 2005	1,418,353	2,824,774	372,512	342,585	4,958,224
31 December 2006	**2,695,440**	**5,177,281**	**440,855**	**480,991**	**8,794,567**

Cost	Buildings	Aircraft and engines	Other	Assets under construction	Total
31 December 2004	1,382,802	2,888,802	856,707	294,116	5,422,427
Additions	203,427	997,974	207,564	134,546	1,543,511
Disposals	(1,121)	(39,277)	(49,766)	(86,077)	(176,241)
31 December 2005	**1,585,108**	**3,847,499**	**1,014,505**	**342,585**	**6,789,697**
Accumulated depreciation					
31 December 2004	(111,742)	(589,566)	(591,624)	–	(1,292,932)
Accrued depreciation	(55,129)	(437,214)	(94,981)	–	(587,324)
Disposals	116	4,055	44,612	–	48,783
31 December 2005	**(166,755)**	**(1,022,725)**	**(641,993)**	**–**	**(1,831,473)**
Net book value					
31 December 2004	1,271,060	2,299,236	265,083	294,116	4,129,495
31 December 2005	**1,418,353**	**2,824,774**	**372,512**	**342,585**	**4,958,224**

At 31 December 2006 and 2005, the carrying value of fully depreciated property, plant and equipment was 860,930 and 559,745 respectively.

Major overhauls capitalized comprised 486,429 and 422,687 in 2006 and 2005, respectively.

Bank borrowings were secured on properties to the value of 927,957 (2005: 1,325,186) (Note 15).

8. Property, Plant and Equipment (continued)

The assets transferred to the Group upon privatization do not include the land on which the Group's sites and buildings, comprising the Group's principal manufacturing facilities, are located. The Group has the option to purchase this land upon application to the state registering 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 2006 the Group has not filed any application to exercise the purchase option.

Operating Leases

The Group has entered into operating lease contracts for a number of fixed assets: buildings, installations and aircraft (frames and engines).
These leases have an average life of between 3 and 5 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these lease contracts. Operating lease obligations are disclosed under 'Commitments and Contingencies' (Note 29).

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:

	2006	2005
Gross investment in leases	**247,340**	191,083
Less: unearned finance lease income	**(43,564)**	(25,191)
Net investment in leases	**203,776**	165,892

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

Gross investments in leases are paid in Russian Rubles. The maturity structure of the net investment in lease is detailed as follows:

	2006		2005	
	Gross	**Net**	**Gross**	**Net**
Not later than 1 year	**156,493**	**129,493**	76,801	71,077
Later than 1 year and not later than 5 years	**90,847**	**74,283**	114,282	94,815
Total	**247,340**	**203,776**	191,083	165,892

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 90,117 at 31 December 2005 (2005: 61,506).

10. Investments in Associates

The Group has investments in the following associates:

Associate	Business activity	2006, interest (%)	2005, interest (%)
"Airport Surgut" JSC, Russia	Airport facilities and services in Surgut	**26%**	26%
"Kondaavia" CJSC, Russia	Operating the airport facilities and services	**45.5%**	45.5%

The movements in investments in associates were as follows:

	2006	2005
At 1 January	**104,385**	92,636
Share of income before taxes	**22,020**	19,436
Share of tax charge	**(6,313)**	(6,646)
Share of income after taxes	**15,707**	12,790
Dividends received from associates	**(1,400)**	(1,041)
At 31 December	**118,692**	104,385

Aggregated assets and liabilities of associates	2006	2005
Current assets	**208,916**	233,789
Non-current assets	**307,582**	289,384
Current liabilities	**(77,801)**	(129,265)
Non-current liabilities	**(45)**	(118)
Net assets	**438,652**	393,790

Aggregated revenue and profit of associates	2006	2005
Revenue	**947,607**	842,986
Net profit after tax	**60,257**	53,489

11. Available for Sale Investments

Short-term available-for-sale investments include interest in participatory construction in the total amount of 30,291 at 31 December 2006 (2005: 0), evaluated at fair value, which the Group intends to sell in 2007. As at 31 December 2005, the Group had interest-bearing promissory notes issued by financial institutions in the total amount of 55,326, which were repaid in 2006.

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 comprise:

	2006	**2005**
Spare parts	**412,907**	364,596
Fuel	**384,616**	289,252
Other inventories	**194,593**	84,516
On-board goods for resale	**10,759**	13,637
Allowance for impairment	**(85,796)**	(28,628)
	917,079	723,373

At 31 December 2006 inventories in the amount of 536,463 (2005: 199,450) have been pledged as security for borrowings (Note 15). Increase in inventory by 193,706 is due to the expansion of the Group's operations as well as purchase of spare parts and supplemental inventory for the maintenance of its air fleet.

13. Accounts Receivable and Prepayments

	2006	**2005**
Trade accounts receivable	**1,099,873**	1,212,265
VAT recoverable	**619,306**	600,808
Advances to suppliers	**363,743**	277,372
Other receivables - claims	**100,159**	135,886
Road users tax overpayment	–	71,629
Prepaid expenses	**39,993**	55,956
Other taxes receivable	**25,595**	29,927
Related party receivable (Note 7)	**47,738**	38,242
Less: provision for impairment of trade receivables	**(120,939)**	(169,450)
Provision for impairment of other receivables - claims	**(96,323)**	(135,886)
	2,079,145	2,116,749

Other receivables (claims) as of 31 December 2005 included 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. On 13 January 2005 the arbitration court satisfied the claim of the Group for the amount of 69,147. In 2006 the Group received this compensation in cash form the Ministry of Finance in accordance with the court ruling. The remaining amount of compensation due from the Ministry of Finance was included in the provision for impairment of accounts receivable.

At 31 December 2005 the amount of unrecovered road user tax due to the tax overpayments in 2001-2003 was 71,629. In 2006 the Group wrote off these outstanding receivables as bad debt on the basis of lost lawsuits as well as accrued additional 22,925 already received from the budget (see Note 16). The total amount of road users tax charged to income statement in 2006 is 94,554 as disclosed in Note 24.

13. Accounts Receivable and Prepayments (continued)

Net trade receivables in the amount of 896,903 and 596,201 are denominated in foreign currencies, mainly US Dollar, at 31 December 2006 and 2005, respectively.

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

	2006	2005
Balance at the beginning of the year	**305,336**	422,114
Usage for the year	**(21,533)**	(160,304)
Impairment charge for the year	**(66,541)**	43,526
Balance at the end of the year	**217,262**	305,336

14. Cash and Cash Equivalents

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

	2006	2005
Foreign currency denominated balances with banks	**25,832**	97,510
Ruble denominated cash on hand and balances with banks	**174,177**	81,725
Bank deposit (maturing on 9 January 2007, at 1% p.a.)	**10,560**	–
Other	**710**	–
	211,279	179,235

15. Loans and Borrowings

	2006	2005
Current portion of loans and borrowings		
Sberbank JSC (a)	**1,965,614**	1,514,606
Khanty-Mansiysky Bank JSC (b)	**215,783**	520,150
National bank TRUST (c)	–	150,475
Other	**585**	60
Long-term debt, current portion		
- Sberbank JSC (f)	**75,147**	29,482
- related parties (Note 7)	**56,369**	227,392
- Komiregionbank “Ukhtabank” JSC (g)	**21,282**	–
Promissory notes issued, short-term (d)	**77,427**	672,456
Bonds (e)	–	907,290
Total current portion of loans and borrowings	**2,412,207**	4,021,911

15. Loans and Borrowings (continued)

	2006	2005
Non-current portion of loans and borrowings		
Related parties (Note 7)	**89,209**	280,921
Sberbank JSC (f)	**297,068**	132,333
Komiregionbank "Uhtabank" JSC (g)	**21,282**	29,506
Less: current portion of long-term debt		
- Sberbank JSC (f)	**(75,147)**	(29,482)
- Komiregionbank "Uhtabank" JSC	**(21,282)**	–
- related parties (Note 7)	**(56,369)**	(227,392)
	254,761	185,886
Bonds (e)	**2,980,103**	–
Total non-current portion of loans and borrowings	**3,234,864**	185,886

Long-term loans and borrowings mature as follows as of 31 December:

	2006	2005
1 to 2 years	**114,649**	105,321
2 to 3 years	**1,085,982**	34,901
3 to 4 years	**2,027,023**	30,698
4 to 5 years	**7,210**	14,966
	3,234,864	185,886

(a) In 2006 the Group entered into a number of short-term loan agreements with Sberbank of Russia for the total amount of 776,000. Loans are secured by cash inflows from Group sales in the amount of 129,000 and by collateral of property, plant and equipment and inventories.

In 2005 the Group entered into a number of short-term loan agreements with Sberbank of Russia for the total amount of 1,561,150. Loans were secured by cash inflows from Group sales in the amount of 181,624 and by collateral of property, plant and equipment and inventories.

(b) In 2006 the Group entered into a number of short-term loan agreements with Khanty-Mansiysky Bank for the total amount of 1,498,350 and USD 18,800 thousand. The loans are secured by collateral of property, plant and equipment. In 2005 the Group entered into a number of short-term loan agreements with Khanty-Mansiysky Bank for the total amount of 520,150. Loans were secured by cash inflows from Group sales in the amount of 585 and by collateral of property, plant and equipment and inventories.

(c) In 2005 the Group entered into a number of short-term loan agreements with TRUST bank for the total amount of 150,000. Loans were secured by cash inflows from Group sales in the amount of 18,750.

15. Loans and Borrowings (continued)

(d) In 2006, the Group also issued short-term non-interest bearing notes for the total amount of 1,935,750. In December 2006, all notes were repaid. The average weighted rate on these notes was 11.15 % p.a. in 2006.

In 2005, the Group issued short-term Ruble-denominated notes for the total amount of 672,456. Average weighted rate on these notes was 12% in 2005.

(e) In 2004, the Group's subsidiary, UTair-Finance LLC, placed interest-bearing non-convertible bearer bonds (1,000,000 bonds at par value of RUR 1,000). The bonds were issued at 100% face value and were repaid on the scheduled maturity date 22 November 2006. The interest rate defined for the first and second coupon period is 13% per annum, for the third and fourth coupon periods – 10.65% per annum.

14 March 2006, UTair-Finance LLC placed interest-bearing non-convertible bearer bonds (1,000,000 bonds at par value of RUR 1,000). The bonds were issued at 100% face value. No premature redemption is allowed. The issue of bonds was intended to refinance the payables on loans and borrowings of UTair Aviation Joint Stock Company which were taken to finance the purchase of new aircraft and maintenance of the existing air fleet. The bonds mature on 6 March 2009.

Coupon payments are made quarterly (12 times); the interest rate is established separately for each coupon period. The interest rate for the third and fourth coupon periods was 10.4 % per annum. The bonds issue was secured by the guarantee of the parent Company UTair Aviation Joint Stock Company in the amount of 1,400,000.

19 December 2006, UTair-Finance LLC placed interest-bearing non-convertible bearer bonds (2,000,000 bonds at par value of RUR 1,000). The bonds were issued at 100% face value. No premature redemption is allowed. The issue of bonds was intended to refinance the payables on loans and borrowings of UTair Aviation Joint Stock Company which were taken to finance the purchase of new aircraft and maintenance of the existing air fleet. The bonds mature on 14 December 2010.

Coupon payments are made quarterly (8 times); the interest rate is established separately for each coupon period. The interest rate for the third and fourth coupon periods was 10.4 % per annum. The bonds issue was secured by the guarantee of the parent Company UTair Aviation Joint Stock Company in the amount of total par value and accrued coupon income.

(f) In 2006, the Group entered into a number of long-term Ruble-denominated loan agreements with Sberbank of Russia for the total amount of 201,317. The loans are secured by pledged fixed assets.

In 2005 the Group entered into the long-term loan with Sberbank to borrow 146,880. The loan was provided in Russian Rubles and is secured by collateral of fixed assets.

15. Loans and borrowings (continued)

(g) In 2005, the Group entered into the Ruble-denominated long-term loan agreement with Ukhtabank. The loan matured on 8 June 2007 repaid accordingly. The loan is secured by collateral of fixed assets and of the promissory notes issued by the parent company for the total amount of 23,128.

The average effective interest rate on the bank loans outstanding at 31 December 2006 is 10.23% (at 31 December 2005: 10.5%).

As at 31 December 2006 all loans and borrowings are denominated in Russian Rubles except for a loan denominated in US$ and amounting to 215,783 (2005:0).

16. Taxes Payable

Current taxes payable, other than income tax, comprise the following:

	2006	**2005**
Restructured taxes payable	–	273,054
Deferred VAT	**164,875**	265,258
Additional allocations to the State Pension Fund	**81,021**	53,952
Value Added Tax payable	**27,589**	38,506
Unified social tax	**26,144**	16,271
Property tax	**16,061**	6,047
Road users tax	**22,925**	–
Personal income tax	**9,624**	–
Other taxes	**23,839**	–
	372,078	653,088

The Group makes an additional 14% accrual (calculated on the basis of salaries of cockpit personnel) based on the 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. In 2005 and 2006 the Group accrued these payments for 2006 but has not paid them to the Fund. No fines and penalties for the late payment are imposed by State Pension Fund of Russia for this accrual.

Long-term taxes payable comprise various taxes, fines and penalties payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of the Government Resolutions No. 1002 dated 3 September 1999 and No. 699 dated 1 October 2001 (see below).

Long-term taxes payable have been recorded at fair value at the date of restructuring and are subsequently recorded at amortized cost. Fair value has been determined as net present value of future cash flows using a discount rate of 5.5 %.

16. Taxes Payable (continued)

The accumulated deficit as of 1 January 2003 includes 183,588 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 recognized in the income statement as interest expense.

In 2006, the Group repaid 11,212 of the restructured payables and, due to the fulfilment of the conditions of payment restructuring and early payment of certain restructured liabilities in accordance with the above Resolutions, the previously restructured fines and penalties in the amount of 293,434 (2005: 73,367) were forgiven by tax authorities.. Accordingly, restructured payables was fully repaid as of 31 December 2006. The tax payables as of 31 December 2005 are presented in the table below:

	2005		
	Federal and regional budgets	**Other extra-budgetary funds**	**Total**
Short-term	2,315	270,739	273,054
1 – 2 years	1,960	–	1,960
2 – 3 years	1,920	–	1,920
3 - 4 years	4,536	–	4,536
4 - 5 years	4,367	–	4,367
More than 5 years	2,557	–	2,557
Total restructured	17,655	270,739	288,394
Less the current portion	(2,315)	(270,739)	(273,054)
Long-term portion of restructured taxes	15,340	–	15,340

17. Trade and Other Payables

	2006	**2005 (as restated)**
Trade payables	**687,247**	853,774
Unused vacation accrual	**221,488**	150,477
Accrued payroll	**170,320**	109,971
Payables to related parties (Note 7)	**167,697**	39,417
Accrued liabilities and other creditors	**83,700**	108,006
Frequent Flyer Program accrual	**24,658**	17,534
Short-term portion of the employee benefits (Note 19)	**4,698**	3,420
Dividends payable	**4,636**	6,164
	1,364,444	1,288,763

Trade payables in the amount of 99,004 and 11,503 are denominated in foreign currency, mainly US Dollar, at 31 December 2006 and 2005, respectively.

18. Advances from Customers and Deferred Revenue

Advances from customers are comprised of the following:

	2006	2005
Deferred revenue (air traffic liability)	**227,360**	155,959
Advances from customers	**149,517**	94,792
Advances from related parties (Note 7)	**3,245**	27,370
	380,122	278,121

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. Post-Employment Benefits

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

The components of net benefit expense recognized in the consolidated income statement for the years ended 31 December 2006 and 2005 and amounts recognized in consolidated balance sheets as of 31 December 2006 and 2005 were as follows:

	2006	2005 (as restated)
Liabilities at 1 January	**56,927**	54,610
Benefit expense	**23,874**	4,242
Benefits paid	**(2,935)**	(1,925)
Liabilities at 31 December, including:	**77,866**	56,927
- non-current	**73,168**	53,507
- current (Note 17)	**4,698**	3,420

	2006	2005 (as restated)
Net benefit expense (included in personnel costs):		
Current service cost	**3,351**	10,004
Past service cost	**1,721**	1,534
Interest expense on benefit liabilities	**6,496**	4,550
Net actuarial gains / (losses) recognized in year	**12,306**	(11,846)
Net benefit expense	**23,874**	4,242

19. Post-Employment Benefits (continued)

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

	2006	2005
Discount rate	**6.5% - 7.5%**	6.5% - 7.5%
Average long-term payroll increase rate	**6.5%**	6.5%
Employee turnover rate	**8%**	8%
Probability of a non-working pensioner residing where the Group companies are located	**30%**	30%

The Group had no plan assets as of 31 December 2006 and 2005. As of 1 January 2006, collective bargaining agreements of a number of companies of the Group were changed to significantly increase the lump-sum retirement benefits. Accordingly, unrecognized past service costs comprised 28,742 as of 31 December 2006 (2005: 30,463). Based on past experience, annual plan liabilities adjustments equal the amount of net actuarial gains / (losses) recorded in the current fiscal year.

20. Equity

Total number of outstanding shares comprises:

	Number of outstanding ordinary shares (thousands)	Number of treasury shares (thousands)	Share capital	Treasury shares at cost	Premiums or discounts on transactions with treasury shares
At 31 December 2004	569,647	7,561	3,101,456	14,240	5,679
Purchase of treasury shares	(1,000)	1,000	–	1,434	434
At 31 December 2005	568,647	8,561	3,101,456	15,674	6,113
Purchase of treasury shares	**(238)**	**238**	**–**	**1,666**	**–**
At 31 December 2005	**568,409**	**8,799**	**3,101,456**	**17,340**	**6,113**

The number of authorized ordinary shares is 577,208,000 (2005: 577,208,000) with a nominal value of 1 Russian Ruble per share. All authorized shares have been issued and fully paid.
Treasury shares represent ordinary shares held by the Company or by other Group subsidiaries.

Retained loss in 2006 decreased by 557,694 and amounts to 2,424,469 as at 31 December 2006. Retained loss was accounted as at 31 December 2002 when IFRSs were applied for the first time as the primary accounting basis. The major adjustments resulting from the transition to IFRSs posted as adjustments to the opening balance of retained earnings of 2003 were: hyperinflation of share capital as defined in IAS 29, not recognized deferred tax asset, equity accounting of associates, timely recognition of income and expenses, other write offs and allowances.

20. Equity (continued)

A dividend was declared in 2006 in respect of 2005 to holders of ordinary shares of 0.067 Russian Rubles per ordinary share (2005: 0.056 Russian Rubles per ordinary share) in the total amount of 37,903 (2005: 32,323).

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. The UTair Aviation Joint Stock Company had 695,720 (UNAUDITED) and 533,848 (UNAUDITED) of undistributed and unreserved earnings as of 31 December 2006 and 2005, respectively, in accordance with Russian statutory financial statements. In addition, the Group's share in undistributed and unreserved earnings of the UTair Aviation Joint Stock Company's subsidiaries was 433,601 (UNAUDITED) and 334,971 (UNAUDITED) as of 31 December 2006 and 2005, respectively.

21. Revenues

Revenues comprised the following:

	2006	**2005**
Aircraft transportation services, regular	**9,398,919**	6,650,710
Helicopters transportation services, abroad	**3,388,956**	2,266,839
Helicopters transportation services, inland	**1,882,430**	1,295,733
Aircraft transportation services, charter	**1,355,576**	925,876
Technical support and maintenance services	**204,577**	177,962
Other revenues	**743,960**	793,372
	16,974,418	12,110,492

22. Direct Operating Expenses

Direct operating expenses included the following:

	2006	**2005**
Fuel	**4,793,190**	3,460,593
Airport services	**2,126,315**	1,374,407
Passenger servicing	**612,641**	405,447
Rent of air fleet and equipment	**770,018**	393,570
Air navigation and meteoservices	**362,295**	279,501
UN missions support	**110,660**	66,848
Spare parts and other materials	**48,683**	103,527
Other direct operating expenses	**721,023**	539,196
	9,544,825	6,623,089

23. Personnel Expenses

Personnel expenses comprised the following:

	2006	2005 (as restated)
Remuneration	**2,094,531**	1,481,398
Social insurance charges	**468,298**	367,424
Accruals for vacation and bonuses	**97,949**	22,552
Net post-employment benefit expenses	**23,874**	4,242
Other social payments	**24,856**	498
	2,709,508	1,876,114

24. Other Operating Income and Expenses

Other operating income/(expenses), included the following:

	2006	2005
Fines and penalties receivable	**25,975**	22,860
Derecognition of accounts payable	**7,034**	9,769
Insurance coverage	**5,705**	9,036
Government grants	**4,326**	–
Travel expenses	**(436,822)**	(320,365)
Consulting, audit and legal expenses	**(120,414)**	(71,716)
Loss from disposal and revaluation of property, plant and equipment	**(114,867)**	(31,187)
Insurance expenses	**(102,883)**	(96,652)
Road users tax charges	**(94,554)**	–
Advertising	**(91,582)**	(66,030)
Communication expenses	**(87,639)**	(67,862)
Training expenses	**(85,630)**	(6,051)
Taxes	**(81,088)**	(41,971)
Utilities	**(73,839)**	(60,146)
Bank charges	**(58,012)**	(40,552)
Provisions for Frequent Flyer Passengers program	**(7,124)**	(9,094)
Other operating income (expenses)	**(175,127)**	(262,433)
	(1,486,541)	(1,032,394)

Grants from local government were provided to UTair for the execution of regular flights to the several regions in Russia. 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 Tyumen and other regions. This discount is reimbursed by the regional government. The amount of reimbursement in the amount of 324,371 received in 2006 (2005: 261,024) is included in revenues for regular flights (Note 21).

25. Interest Income/(Expense), net

	2006	2005
Gain/(losses) from operations with 3rd parties promissory notes	**9,467**	13,029
Interest receivable on loans issued to 3rd parties	**23,170**	5,790
Interest payable on bank loans (Note 15)	**(262,592)**	(186,162)
Interest payable on bonds issued (Note 15)	**(178,694)**	(127,104)
Interest/discounts payable on promissory notes (Note 15)	**(94,300)**	(89,363)
Interest payable to related parties (Note 7)	**(27,170)**	(38,968)
Amortization of discount of restructured tax debts (Note 16)	**(5,040)**	(16,673)
Interest on restructuring payable to tax authorities (Note 16)	**–**	(472)
	(535,159)	**(439,923)**

26. Income Tax Expense

	2006	2005
Income tax expense - current	**41,146**	38,728
Deferred tax benefit – origination and reversal of temporary differences	**51,236**	(380)
Income tax expense	**92,382**	38,348

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:

	2006	2005
Profit before taxation	**718,543**	436,364
Theoretical tax charge at statutory rate of 24%	**172,450**	104,727
Tax effect of items which are not deductible or assessable for taxation purposes:		
Write-off of fines and penalties during restructuring	**(70,425)**	(17,608)
Current income tax corrections for prior periods	**(29,333)**	8,063
Non-taxable income from recognition of assets through profit and loss	**–**	(39,134)
Write off road users tax	**22,630**	–
Other permanent differences	**(8,367)**	(17,700)
Different tax rates of subsidiaries	**5,427**	–
Consolidated tax expense	**92,382**	38,348

26. Income Tax Expense (continued)

Movements in deferred tax balances consisted of the following:

	31 December 2004	Differences recognition and reversal through income statement	31 December 2005	Differences recognition and reversal through income statement	Differences recognition through equity	31 December 2006
Tax effects of deductible temporary differences:						
Property, plant and equipment	313,174	(57,919)	255,255	(54,793)	–	200,462
Provision for impairment of receivables	99,906	(21,270)	78,636	(7,894)	–	70,742
Payables and accruals	85,151	(1,069)	84,082	34,255	–	118,337
Inventories	40,200	(6,538)	33,662	(2,008)	–	31,654
Other	8,295	18,121	26,416	(12,145)	–	14,271
	546,726	**(68,675)**	**478,051**	**(42,585)**	**–**	**435,466**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(493,341)	(18,208)	(511,549)	(937)	(589,138)	(1,101,624)
Reversal of the discount on the restructured tax liabilities	(21,106)	17,387	(3,719)	3,719	–	–
Other	(10,925)	(12,800)	(23,725)	(11,433)	–	(35,158)
	(525,372)	**(13,621)**	**(538,993)**	**(8,651)**	**(589,138)**	**(1,136,782)**
Net tax effect of temporary differences	**21,354**	**(82,296)**	**(60,942)**	**(51,236)**	**(589,138)**	**(701,316)**
Deferred tax liability resulting from purchase of a subsidiary	(82,676)	82,676	–	–	–	–
Less unrecognized deferred tax asset	(217,017)	–	(217,017)	–	–	(217,017)
Total net deferred tax (liability)/asset	**(278,339)**	**(380)**	**(277,959)**	**(51,236)**	**(589,138)**	**(918, 333)**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be offset 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, a deferred tax asset of one company of the Group may not be offset against the deferred tax liability of another company. As of 31 December 2006, deferred tax asset in the amount of 217,017 (2005: 217,017) 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.

27. Minority Interest

	2006	2005 (as restated)
Balance at 1 January	**74,747**	63,024
Share of net income of subsidiaries	**31,939**	13,533
Less dividends distributed to minority shareholders	**(1,720)**	(1,810)
Acquisition of minority interest	**(1,625)**	–
Balance at 31 December	**103,341**	74,747

28. Earnings per Share

Earnings per share are 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 20).

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

	2006	2005 (as restated)
Weighted average number of ordinary shares outstanding (thousands)	**577,208**	577,208
Adjusted for weighted average number of treasury shares (thousands)	**(8,799)**	(8,061)
Weighted average number of ordinary shares outstanding (thousands)	**568,409**	569,147
Net income	**594,222**	384,483
Basic and diluted earnings per share	**1.05**	0.68

29. Contingencies, Commitments and Operating Risks

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

29. Contingencies, Commitments and Operating Risks (continued)

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 transaction and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in 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 2006, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Management's estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not recognized could be up to approximately 167,000. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Operating Lease Commitments

Operating lease commitments as at 31 December are as follows:

	2006	2005
Within one year	**450,261**	490,190
After one year but not more than five years	**384,820**	789,364
Over five years	**36,448**	82,165
	871,529	1,361,719

The majority of the Groups' operating lease contracts are based on the leasing rates per one flying hour. The Group estimated the amounts of operating lease commitments in accordance with these contracts based on the projected number of hours to be flown in the future.

Contractual Commitments

As at 31 December 2006, the Group had contractual commitments for the purchase of property, plant and equipment from third parties for 214,487 (2005: 0).

Insurance

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

29. Contingencies, Commitments and Operating Risks (continued)

Legal Proceedings

During the period, the Company 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.

30. Financial Risk Management

The Group's principal financial instruments comprise bank loans and overdrafts, promissory notes and bonds issued, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

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 products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance 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: 370,170 or 18% of trade accounts receivable as of 31 December 2006 (2005: 455,999 or 39%). 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 allowance already recorded.

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

Foreign Exchange Risk

The Group exports services (mainly under the agreement with UN) and purchases goods and services abroad and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 13) and liabilities (see Notes 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. The increase in foreign exchange losses in 2006 was due to the US$ exchange rate decrease against Russian Ruble (31 December 2006: 26.33 RUR for 1 US$, 2005: 28.78) as significant Group's accounts receivable (for example, UN) are denominated in US$.

30. Financial risk management (continued)

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. However the Company negotiated fixed purchase prices for fuel with the fuel suppliers for the long-term prospective.

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 loans and 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.

Fair Value of Financial Instruments

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

As of 31 December 2006 the fair value of bonds issued by the Group in March 2006 with a nominal value 1,000,000 amounted to 1,002,500 and was determined on the basis of market quotations.

The fair value of bonds issued in December 2006 with a nominal value of 2,000,000 was not determined, as the report on the results of the bond issue was approved in January 2007.

31. Post Balance Sheet Events (unaudited)

In January 2007 the Group acquired a controlling stake in "Airport Ust Kut" JSC (Irkutsk region). The Group intends to develop this airport according to modern standards for its future use as the main base in Eastern Siberia.

In March 2007 the rate of the fifth, sixth, seventh and eights coupon periods of the second bonds issue was set at 9.95% p.a.

In March 2007 the Group paid interests under its second issue of nonconvertible bearer bonds at the rate of 10.4% p.a. for the forth coupon period in the total amount of 25,930.

31. Post Balance Sheet Events (unaudited) (continued)

In March 2007 the aircraft rented and operated by the Group (flight Surgut-Samara-Belgorod) had an accident in the airport of Samara. The Group believes that the financial commitments resulting from this accident are limited to the compensations already paid to the injured passengers and families of deceased passengers in the amount of 15,292, of which 800 of were recovered by the insurance.

In May 2007 “Zavod Nr. 26” JSC was renamed into “UTair-Engineering” LLC.

In June 2007 the Group paid interests under its second issue of nonconvertible bearer bonds at the rate of 9.95 % p.a. for the fifth coupon period in the total amount of 24,810.

In June 2007 the Group paid interests under its third issue of nonconvertible bearer bonds at the rate of 10.4 % p.a. for the first coupon period in the total amount of 103,720.

A dividend was declared in June 2007 in respect of 2006 to holders of ordinary shares of 0.138 Russian Rubles per ordinary share in the total amount of 79,655.