



UTair Aviation Joint-Stock Company
Consolidated Financial Statements
for the year ended 31 December 2007
with Report of Independent Auditors

Ernst & Young

 **ERNST & YOUNG**

UTair Aviation Joint-Stock Company

Consolidated Financial Statements

For the year ended 31 December 2007

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

In preparing the financial statements, the management is responsible for: selecting appropriate accounting principles and applying them consistently; developing assumptions 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.

The 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 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 within the Supervisory Board 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 the Group operates. 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

Grabarovskaya O. V.

Chief Accountant

25 August 2008



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 2007, and the consolidated income statement, changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management of UTair Aviation Joint-Stock Company 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. Except for the matter described in the Basis for Qualified Opinion paragraph, 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 did not disclose the name of its ultimate controlling party as required in accordance with IAS 24 "Related party disclosures".

Opinion

In our opinion, except for the effects of the adjustments that might be necessary for the reasons described in the Basis for Qualified Opinion paragraph (i), as well as except for the absence of information on the matter described 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 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to the Notes 1, 2 and 3 to the consolidated financial statements. The functional currency of the Company is Russian Ruble. The presentation currency of the accompanying consolidated financial statements is the United States Dollar. The accompanying consolidated financial statements were issued in addition to the consolidated financial statements presented in Russian Rubles. We have audited and reported separately on those consolidated financial statements presented in Russian Rubles and issued our audit report dated August 25, 2008, which was qualified for the departure (i) from IAS 28 and (ii) IAS 24 as described in this report.

Ernst & Young LLC

25 August 2008

UTair Aviation Joint-Stock Company
 Consolidated Balance Sheet at 31 December 2007
 (in thousand of US Dollars)

	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	8	\$ 415,869	\$ 333,999
Intangible assets		399	491
Net investment in lease - long-term	9	3,074	2,821
Investments in associates	10	5,851	4,508
Long-term investments available-for-sale	11	194	306
Long-term accounts receivable and prepayments	13	47,984	503
Other assets		1,226	491
		<u>474,597</u>	<u>343,119</u>
Current assets			
Inventories	12	53,706	34,829
Accounts receivable and prepayments	13	114,555	78,962
Net investment in lease - short-term	9	4,992	4,918
Short-term investments available-for-sale	11	2,442	1,150
Income tax receivable		11,313	7,171
Loans issued	11	39,256	1,285
Cash and cash equivalents	14	9,647	8,024
		<u>235,911</u>	<u>136,339</u>
Total assets		<u>\$ 710,508</u>	<u>\$ 479,458</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	\$ 112,145	\$ 112,145
Treasury shares		(694)	(546)
Surplus from reissuance of treasury shares		451	451
Accumulated deficit	20	(67,915)	(87,204)
Foreign currency translation reserve		26,028	15,139
Assets revaluation reserve		102,357	102,357
		<u>172,372</u>	<u>142,342</u>
Minority interest	27	3,325	3,507
Total equity		<u>175,697</u>	<u>145,849</u>
Non-current liabilities			
Long-term borrowings	15	196,918	122,853
Deferred tax liabilities	26	25,656	34,876
Post-employment benefits payable	19	5,870	2,779
Other non-current liabilities		1,605	1,104
		<u>230,049</u>	<u>161,612</u>
Current liabilities			
Trade and other payables	17	86,195	51,819
Short-term borrowings	15	175,571	91,611
Current taxes payable	16	21,229	14,131
Advances from customers and deferred revenue	18	21,767	14,436
		<u>304,762</u>	<u>171,997</u>
Total liabilities		<u>534,811</u>	<u>333,609</u>
Total equity and liabilities		<u>\$ 710,508</u>	<u>\$ 479,458</u>

Martirosov A.Z.

Chief Executive Officer

Grabarovskaya O. V.

Chief Accountant

25 August 2008

*The accompanying notes on pages 8-58 are an integral part
of these consolidated financial statements.*

UTair Aviation Joint-Stock Company
 Consolidated Income Statement
 For the year ended 31 December 2007
 (in thousand of US Dollars)

	Notes	2007	2006
Revenue			
Flight and aviation revenue		\$ 880,856	\$ 589,412
Other revenue		28,091	34,886
Total operating revenue	21	908,947	624,298
Direct operating expenses			
Personnel expenses	22	(503,865)	(351,047)
Depreciation and amortization	23	(152,346)	(99,652)
Repair expenses	8	(50,386)	(35,016)
Commissions		(54,397)	(27,226)
Impairment of doubtful debts		(29,754)	(23,072)
Other operating income	13	(4,487)	2,447
Other operating expenses	24	1,430	1,583
Other operating expenses	24	(70,353)	(56,256)
Total operating income and expenses		(864,158)	(588,239)
Operational profit		44,789	36,059
Financial income	25	3,680	1,200
Financial expenses	25	(31,472)	(20,882)
Gain on restructuring of tax debt and other borrowings	16	-	10,792
Share of result of associates	10	1,403	810
Profit/ (loss) from purchase and/ or disposal of subsidiaries	7	(2,421)	-
Net foreign exchange gains/(loss)		(148)	(1,552)
Profit before income tax		15,831	26,427
Income tax expense	26	5,619	(3,398)
Profit for the year		\$ 21,450	\$ 23,029
Attributable to:			
Equity holders of the parent		\$ 20,830	\$ 21,855
Minority interests	27	620	1,174
Earnings per share (in US\$)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	28	\$ 0.037	\$ 0.038

Martirosov A.Z.

Chief Executive Officer

Grabarovskaya O. V.

Chief Accountant

25 August 2008

The accompanying notes on pages 8-58 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007

(in thousand of US Dollars)

	Attributable to equity holders of the parent									
	Notes	Share capital	Treasury shares	Treasury shares	Surplus from reissuance of treasury shares	Retained earnings	Foreign currency translation reserve	Revaluation reserve	Total	Minority interest
Balance at 31 December 2005	20	\$112,145	\$ (485)	\$ 451	\$(107,716)	\$ 3,907	\$ 44,241	\$ 52,543	\$ 2,456	\$ 54,999
Acquisition of minority interest in a subsidiary		-	-	-	51	-	-	51	(60)	(9)
Purchase of treasury shares		-	(61)	-	-	-	-	(61)	-	(61)
Revaluation of property, plant and equipment		-	-	-	-	-	58,116	58,116	-	58,116
Profit for the year/total income and expense for the period		-	-	-	21,855	-	-	21,855	1,174	23,029
Foreign currency translation reserve		-	-	-	-	11,232	-	11,232	-	11,232
Dividends paid to minority shareholders		-	-	-	-	-	-	-	(63)	(63)
Dividends paid to equity holders of the parent		-	-	-	(1,394)	-	-	(1,394)	-	(1,394)
At 31 December 2006	20	\$112,145	\$ (546)	\$ 451	\$(87,204)	\$ 15,139	\$ 102,357	\$ 142,342	\$ 3,507	\$ 145,849
Acquisition of additional interest in a subsidiary		-	-	-	1,471	-	-	1,471	(1,471)	-
Purchase of treasury shares		-	(148)	-	-	-	-	(148)	-	(148)
Profit for the year/total income and expense for the period		-	-	-	20,830	-	-	20,830	1,175	22,005
Foreign currency translation reserve		-	-	-	-	10,889	-	10,889	-	10,889
Dividends paid to minority shareholders		-	-	-	-	-	-	-	203	203
Acquisition of a subsidiary		-	-	-	(3,012)	-	-	(3,012)	(89)	(89)
Dividends paid to equity holders of the parent		-	-	-	-	-	-	-	-	-
At 31 December 2007	20	\$112,145	\$ (694)	\$ 451	\$(67,915)	\$ 26,028	\$ 102,357	\$ 172,372	\$ 3,325	\$ 175,697

Martirosov A.Z.

Chief Executive Officer

Grabarovskaya O. V.

Chief Accountant

25 August 2008

The accompanying notes on pages 8-58 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 2007
(in thousand of US Dollars)

	Notes	2007	2006
Cash flows from operating activities:			
Profit before income tax		\$ 15,831	\$ 26,427
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	8	50,386	35,016
Amortization of discount attributable to restructured tax debts	25	-	185
Allowance for impairment of receivables	13	4,487	(2,447)
Other provisions, allowances and pensions		12,980	8,244
Gain on restructuring of tax debt and other borrowings	16	-	(10,792)
Loss on disposal and revaluation of property, plant and equipment		5,509	4,775
Interest expense	25	31,472	20,698
Interest income	25	(3,680)	(1,200)
Loss on disposal/ purchase of subsidiaries	7	2,421	-
Share of result of associates, before tax	10	(1,403)	(810)
Operating cash flows before working capital changes		118,003	80,096
Decrease/(increase) in accounts receivable and prepayments		(35,244)	2,985
Increase in inventories		(17,144)	(9,227)
Increase in accounts payable, advances and other payables		25,156	4,391
Increase/(decrease) in taxes payable and receivable		5,233	(2,194)
Cash generated from operations		96,004	76,051
Income tax paid		(8,558)	(5,754)
Interest paid		(29,386)	(20,490)
Net cash from operating activities		58,060	49,807
Cash flows from investing activities:			
Purchase of property, plant and equipment		(156,568)	(95,668)
Proceeds from the sale of property, plant and equipment		971	136
Decrease/(increase) in net investments in lease		226	(1,393)
Short-term loans provided to third parties		(37,183)	(12,150)
Short-term loans repaid by third parties		3,318	7,641
Investments acquisition		(288)	(1,177)
Investments disposal		1,640	100
Acquisition of minority interest in subsidiaries		-	(9)
Dividends received	10	81	51
Interest received		1,197	852
Net cash used in investing activities		(186,606)	(101,617)
Cash flows from financing activities:			
Proceeds from borrowings		419,306	404,054
Repayment of borrowings		(282,627)	(348,944)
Repayment of long-term taxes restructured		-	(412)
Repayment and prepayment under finance lease agreements		(3,803)	-
Purchase of treasury shares		(148)	(61)
Dividends paid to minority shareholders	27	(89)	(63)
Dividends paid to equity holders of the parent		(3,012)	(1,496)
Net cash from financing activities		129,627	53,078
Effect of exchange rate changes on cash and cash equivalents		542	529
Net increase in cash and cash equivalents		1,623	1,797
Cash and cash equivalents at the beginning of the year	14	8,024	6,227
Cash and cash equivalents at the end of the year	14	\$ 9,647	\$ 8,024

Martirosov A.Z.

Chief Executive Officer

Grabarovskaya O. V.

Chief Accountant

25 August 2008

The accompanying notes on pages 8-58 are an integral part of these consolidated financial statements.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements
For the year ended 31 December 2007

(All amounts presented are in thousand of US Dollars unless otherwise indicated)

1. General Information

The core businesses of UTair Aviation Joint-Stock Company ("the Company" or "UTair") and its subsidiaries (collectively "the Group") are passenger transportation using airplanes and helicopters, helicopter works as well as aviation services. The Group operates the air fleet of more than 300 aircraft. Cargo and passengers aircraft transportation is performed within Russia, CIS and non-CIS countries. The main customers for helicopters services of the Group are mainly oil- and gas companies in Russia, and the United Nations Organization (UN) outside Russia. The main aviation services are: catering, airport services, repairs and maintenance of the air fleet, sale of aviation transportation and other services and aeronautical personnel training.

Utair, the parent company, 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 2007 and 2006, the Company's ordinary shares were owned by:

Name	2007 % share	2006 % 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	15.00%	15.60%
Other legal entities	7.96%	7.45%
Treasury shares	1.41%	1.32%

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

Entity	Activity	2007 % share	2006 % share
"Carriages and services sales centre" LLC	Agent for air ticket sales	100%	100%
"UTair Leasing" LLC	Leasing company	100%	100%
Non-commercial Partnership "Personnel Training Centre"NP	Training and certification services for cockpit personnel	100%	100%
"UTair-Kargo" CJSC (in 2006 -"Tjumenjspezavia" CJSC)	Air transportation	100%	100%

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

1. Corporate Information (continued)

Entity	Activity	2007 % share	2006 % share
"Tjumenjaviatechsnaab" LLC	Fixed assets and inventories supply	100%	100%
Private security agency "Air Safety Centre" LLC	Organization of the Group's security	100%	100%
"UTair Finance" LLC	Finance services	100%	100%
"UTair-Technic" LLC	Air fleet repairs	100%	100%
UTair South Africa (Pty) Ltd. (Republic of South Africa)	Transportation services and technical support and maintenance of air fleet in South African Republic	100%	100%
UT Project Services Ltd. (India)	Transportation services and technical support and maintenance of air fleet in India	100%	100%
UTair-Europe s.r.o.	Transportation activities	20%	20%
"UTair-Ufa" LLC	Representative office	100%	-
"UTair Samara" LLC	Representative office	100%	-
"Tobolskavia" LLC	Airport services	100%	-
"UTair Express" LLC (in 2005 - "Komiinteravia" JSC)	Air carrier	100%	100%
"Centre of Economic Transformation" LLC	Investment activities	100%	100%
"UTair-Development" LLC	Runways maintenance	100%	-
"Kirensk-Avia" LLC	Airport services	100%	-
"UTair-Irkutsk" LLC	Sale of air tickets, ground servicing	100%	-
"Ust-Kut Airport" OJSC	Airport services	85,6%	-
"UTair-Engineering" OJSC (in 2006 - "Zavod No. 26" JSC)	Repair and maintenance of air fleet	77.8%	55.8%
"West-Siberian Air Service Agency" LLC (West-Siberian Agency for ticket sales)	Sale of air tickets	51%	51%
"Ukrainian Handling Company" (Ukraine)	Transportation services and technical support and maintenance of air fleet in Ukraine	50%	100%
"Ukair" LLC	Management services	50%	50%
"UTG" CJSC	Ground servicing	50%	50%

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

In 2007, CJSC "Tjumenjspezavia", OJSC "Zavod No. 26" and LLC "Gloris" changed their names, correspondingly, to CJSC "UTair-Kargo", OJSC "UTair-Engineering" and LLC "Utair-Development", respectively. Besides, in 2007, the Group significantly increased its interest in "UTair-Engineering" JSC (from 55.8% to 77.8%).

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

1. Corporate Information (continued)

In 2007, the Group registered "UTair-Irkutsk" LLC and "Kirensk-Avia" LLC and acquired a controlling stake in "Ust-Kut Airport" OJSC. The establishment and acquisition of these companies aimed to the optimization of the UTair Group structure for the purposes of the Group's representation in the Eastern Siberia, organization of helicopter services and shift workers transportation.

As of 31 December 2007, the Group had approximately 9,200 employees (as of 31 December 2006: approximately 7,900 employees). The Group's facilities are based mainly in Tyumen oblast, as well as in Moscow, Syktyvkar, Samara and Ufa. The facilities of the Group's non-Russian subsidiaries are based in the Republic of South Africa, India and Ukraine.

The consolidated financial statements of the Group for the year 2007 were authorized for issue by the executive body of the Company on 25 August 2008.

2. Basis for Preparation of the Financial Statements

Statement of Compliance

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

Basis for consolidated accounting

The Group companies maintain their accounting records in Russian Rubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation or of the country in which the particular subsidiary is domiciled. These financial statements are based on the statutory accounting records, with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to (1) expenses and revenue recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property, plant 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 Principal Accounting Policies section 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 2007.

Adoption of these revised standards and interpretations did not have any significant effect on the financial statements of the Group. However, they did give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 "Presentation of Financial Statements";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 12 "Service Concessions Arrangements".

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

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

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

Changes in Accounting Policies (continued)

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from using those financial instruments. The new information is disclosed in these financial statements in Note 30. Though there was no material impact on the financial status or performance of the Group, the comparable information was also reviewed, where necessary, in accordance with new requirements.

IAS 1 "Presentation of Financial Statements"

This change requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, basic principles and methods for managing capital. The new disclosures are provided in Note 30.

IFRIC 8 "Scope of IFRS 2"

This Interpretation requires applying IFRS 2 in all cases where the entity cannot identify some or all of the goods or services received, specifically if the equity instruments are issued for consideration which appears to be less than the fair value of the equity instruments granted. This Interpretation did not have a material impact on financial position or operational results of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 9 establishes that the date to assess the existence of an embedded derivative is the date when the entity first becomes a party to a contract, with re-assessment made only if there is a change to the contract that significantly modifies the cash flows. As the Group does not have any embedded derivatives required to be separated from the main contract, this Interpretation did not have a material impact on financial position or operational results of the Group.

IFRIC 10 "Interim Financial Reporting and Impairment"

At 1 January 2007 the Group adopted IFRIC 10 "Interim Financial Reporting and Impairment" which requires that an entity must 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. As the Group previously did not have any impairment losses recovered, this Interpretation did not have a material impact on financial condition and results of the Group's operations.

IFRIC 12 "Service Concession Arrangements", issued on 30 November 2006

IFRIC 12 must be applied for annual periods that commence on or after 1 January 2008, however the Group adopted it earlier, starting from 1 January 2007. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

Accounting standards and interpretations issued at 31 December 2007, not adopted by the Group yet:

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

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

Changes in Accounting Policies (continued)

IFRS 8 "Operating Segments", issued on 21 November 2007

IFRS 8 must be applied for reporting periods that commence on or after 1 January 2009. This standard requires the Group to disclose information about its operating segments and also replaces the requirement to disclose the information about the Group's primary (operating) and secondary (geographical areas in which it operates) segments. The Group has not yet finally decided whether the same operating segments will be maintained as previously determined under IAS 14 "Segment reporting". The Group will adopt this new standard for annual the periods commencing on 1 January 2009.

IAS 23 (amended) "Borrowing Costs", issued on 29 March 2007

IAS 23 must be applied for reporting periods that commence on or after 1 January 2009. The main change, as compared to the previous version, is the removal of the option of immediately recognizing as an expense of the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for use or sale. The Group must capitalize such borrowing costs into the cost of the qualifying asset. The revised standard shall apply for periods commencing on 1 January 2009.

IAS 1 (as amended) "Presentation of Financial Statements", issued on 6 September 2007

The revised standard requires, among other things, to prepare a statement of comprehensive income which indicates, at the beginning the amount of net profit for the year adjusted with all items of income and expenses directly recognized in equity. The revised standard will come into effect for the annual period commencing on 1 January 2009.

IFRS 3 (revised) "Business Combinations", issued on 10 January 2008

The revised standard requires, among other things, that the acquisition-related costs be accounted for separately from the business combination and then recognized as expenses rather than included in goodwill. In addition, the revised IFRS 3 enables applying the method of goodwill recognition in full, i.e. recognizing the total amount of goodwill arisen on business combinations including the part attributable to minority interest.

In the case of a phased acquisition, the revised standard also provides for recognition in the profit and loss account of the difference between the fair value at the acquisition date of the net assets previously held and their carrying amounts. The revised standard will come into effect for the annual periods beginning on or after 1 July 2009 (for the Group: 2010 financial statements for 2010). The changes introduced by IFRS 3R will affect future acquisitions and transactions with minority interests.

IAS 27 (revised) "Consolidated and Separate Financial Statements", issued on 10 January 2008

The revised standard requires, among other things, that acquisition or disposal of non-controlling interest in a subsidiary that does not result in the loss of control, shall be accounted for as equity transactions. The disposal of any interests that parent retains in a former subsidiary may result in the loss of control. In this case, at the date when the control is lost, the remaining investment retained is increased/decreased to their fair value with gains or losses arising from the difference between the fair value and the carrying amount of the held investment recognized in the profit or loss account. The revised standard will come into effect for the annual periods beginning on or after 1 July 2009 (for the Group: financial statements for 2010). The changes introduced by IAS 27R will affect future acquisitions and transactions with minority interests.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

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

Changes in Accounting Policies (continued)

IFRS 2 (revised) "Share-based payment", issued on 17 January 2008

This amendment specifies the treatment procedure for all cases, when an entity cancels the grant of equity instruments to employees. These amendments also impose that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The amendment shall apply for annual periods commencing on 1 January 2009.

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions", issued on 2 November 2006

This Interpretation gives guidance on how the share-based payment arrangements involving parent company equity instruments should be accounted for in the subsidiary's separate financial statements. The standard shall apply for the annual periods beginning on or after 1 March 2007 (for the Group: 2008 financial statements).

IFRIC 13 "Customer Loyalty Programs", issued on 28 June 2007

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008 (for the Group: financial statements for 2009). This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. Compared to the additional cost method currently applied, this will result in a considerably higher deferred value per mile and will have a commensurate effect on net assets and financial and earnings positions of the Group.

IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", issued on 5 July 2007

This Interpretation provides guidance on how companies should determine the limit on the amount of a surplus in an employee benefit plan that they can recognize as an asset. The Interpretation also gives guidance on the amounts that companies can recover from the plan, as either refunds or reductions in contribution. This Interpretation shall apply for annual periods commencing on or after 1 January 2008.

The Group is currently reviewing these new IFRSs and interpretations to determine the likely impact on the Group's results.

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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

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

Going Concern

As at 31 December 2007, the Group's total current liabilities were 304,762 and exceeded the total current assets by 68,851. In 2008 the Group is working on debt restructuring and lowering interest rate on borrowed funds and is implementing a cost cutting program. Based on these facts and taking into account the positive history of the Group's profitability in 2004-2007 (net income for the year ended 31 December 2007 was 21,450 and in particular, the operating profit was 44,789) and positive equity as well as positive cash flow from operating activities for the year ended 31 December 2007 (58,060), the management believes that the attached 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 the going concern assumptions were not appropriate for these financial statements, some 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

The 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. The subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date when the control ceases. All inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the 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 availability and extent of any minority interest.

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

Increases in Ownership Interests in Subsidiaries

The difference between the carrying value of the acquired interest in the net assets of the subsidiaries and the consideration paid for such interest are charged or credited to retained earnings.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.2 Investments in Associates

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

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

Unrealized gains on the transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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 as financial investments available for sale, as appropriate. Initially, the financial assets 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 their initial recognition.

All regular purchases and sales of financial assets are recognized 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 market place.

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 recognized in income. During the reporting 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 a positive intention and ability to hold to maturity. During the reporting 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 recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.3 Investments and Other Financial Assets (continued)

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 the initial recognition, the available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized 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 recognized 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 recognized in the income statement.

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 taxation legislation permit the settlement of sales and purchases value added tax (VAT) upon goods and services on a net basis.

Value-Added Tax Payable

VAT is payable to the state budget upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from buyers and customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable.

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

Value-Added Tax Recoverable

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

3.7 Inventories

Inventories are recorded at the lower of two values: 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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

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, helicopters, 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. The Group does not recognize an annual transfer from the asset revaluation reserve to retained earnings for the depreciation relating to the revaluation surplus, due to impracticability of such a disclosure.

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, the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 recognized as an expense (impairment loss) in the income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's 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.

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

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, annually.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.8 Property, Plant and Equipment (continued)

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 capitalized 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 capitalized in the cost of relevant asset, 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.

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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.10 Borrowings

Borrowings are initially recognized at the fair value of the consideration received less 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 an adjustment to interest expense over the period of the borrowings.

3.11 Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are effective as of the financial statements date.

Current tax represents the sum of the income tax payable to the budget (recovered from the budget) with regard to the tax income (tax loss) for period determined in accordance with the rules established by the tax authorities, according to which the income tax is payable to the budget (or recovered from the budget).

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred Income Tax

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 declared (and practically adopted) at the balance sheet date.

Deferred income tax is provided on all 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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.12 Foreign Currency Transactions

The consolidated financial statements are presented in Russian Ruble (RUR) 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.

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.

On 25 August 2008 the Group authorized and issued its consolidated financial statements as of 31 December 2007 and for the year then ended prepared in accordance with IFRS and presented in Russian Rubles. The presentation currency of these financial statements, issued as a supplement to the financial statements prepared in Russian Rubles, is US Dollar (US\$). As of the reporting date, the assets and liabilities of the Group are translated into the presentation currency of the Group at the rate of exchange ruling at that balance sheet date (31 December 2007: 24.5462 Russian Rubles for 1 US\$; 31 December 2006: 26.3311), and its income statements and cash flows are translated at the weighted average exchange rate for the respective year (2007: 25.579060 Russian Rubles for 1 US\$; 2006: 27.1896). The equity items (other than those resulting from income and expenses recognised for the period) are translated at historical rates of exchange (rate ruling at the transaction date).

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

3.13 Provisions

Provisions are 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 discounting is material, provisions are determined by discounting the expected value of 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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

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 from the proceeds in equity. 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 equity. Treasury shares are stated at weighted average cost.

Minority Interest

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, helicopter services, 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 bargaining 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 bargaining agreements. The entitlement to some benefits is conditional on the period during which the retired reside at the places where the Group is based.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Significant Accounting Policies

3.16 Employee Benefits (continued)

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.

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

The Group contributes to the Pension fund of the Russian Federation as well as social and medical funds according to the effective official rates, on the basis of the salaries of the employees of the Russian subsidiaries of the Group before taxation. Similar contributions for other subsidiaries of the Group are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. The only obligation of the Group is to pay the said contributions as they fall due. These contributions are expensed as incurred.

Other Expenses

The Group incurs employee costs related to the provision of benefits such as medical insurance and kindergartens. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

3.17 Leases (Group as a Lessor)

One of the Group's subsidiaries is a leasing company which enters 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.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

3. Summary of Principal Accounting Policies (continued)

3.17 Leases (Group as a lessor) (continued)

Provisions against net investment in leases are based on the evaluation by the management of the collectability 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.

Operating Lease

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

3.18 Leases (Group as a lessee)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the leased item requires an assessment of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys the right to use the asset.

Finance leases, which in fact transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged to interest expense in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

3.19 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 installments.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

3. Summary of Principal Accounting Policies (continued)

3.20 Service Concessions Agreements

The Group operates runways owned by Russian Federation as well as some other (mainly aeronautical) equipment. The runways cannot be privatized in accordance with Presidential Decree 2284 from 24 December 1993. The Group entered into lease and/or gratuitous use agreements with regard to the runways and equipment for the period of 50 years with the State Property Management Committees of a number of regions of the Russian Federation. The Group also leases the land lots, on which the runways are located, from the Russian Federation for the period of 50 years.

Upon expiration of the runways lease agreements the property reverts to the State; however the Group has the priority right to extend such lease agreements. The agreements may be early terminated upon mutual agreement, upon a court's decision or by virtue of law.

Such lease agreements do not provide for any rent payments. In return, the Group has to provide due routine maintenance and current repairs to the rented runways to maintain them in the good working order.

In accordance with IFRIC Interpretation 12 "Service concession agreements", infrastructure items (runways and equipment) to which the Group is given access by the State for the purposes of the service arrangement are not recognised as property, plant and equipment of the Group. The contractual obligations to maintain these infrastructure objects, except for any upgrade and reconstruction element, are recognised and measured in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". In accordance with this Standard, no provision for routine maintenance and current repairs of runways and other equipments is recognized by the Group; and such repairs are expenses as incurred.

The substantial upgrades and reconstruction of the leased infrastructure objects are recognized under fixed assets of the Group and depreciated over their respective useful lives or the remaining lease term, whatever is shorter.

4. Significant Accounting Judgments and Estimates

4.1 Judgments

In the process of applying the Group's accounting policies, the 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 Special Purpose Entities (SPE)

OOO Ukair, 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 OOO Ukair, a special purpose entity, indicates that OOO Ukair is controlled by the Group. As a result, this entity has been included into the Group's consolidated accounts as of 31 December 2006 and 2007.

CJSC UTG, 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 CJSC UTG, a special purpose entity, indicates that CJSC UTG is controlled by the Group. As a result, this entity has been included into the Group's consolidate accounts as of 31 December 2006 and 2007.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

4.1 Judgments (continued)

In 2007, the Group reduced its share in the Ukrainian Handling Company (Ukraine) from 100% to 50% due to the specifics of the local legislation. Actually, the Ukrainian Handling Company is still under control of the Group. As a result, this entity has been included into the Group's consolidate accounts as of 31 December 2007 and 2006.

4.2 Estimation Uncertainty

The preparation of the financial statements requires the 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, residual values and methods of depreciation 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.

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 2007 the Group has not identified any impairment indications.

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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

4.2 Estimation Uncertainty (continued)

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. The 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.

Provisions

The 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 2007, allowances for doubtful accounts have been created in the amount of 9,997 (2006: 8,251).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of 31 December 2007 and 2006, allowances for obsolete and slow-moving items were 5,223 and 3,258 respectively (Note 12). Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

4.2 Estimation Uncertainty (continued)

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 occurring 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 2007, 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.

Deferred Tax Assets

The 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.

Fair values of Assets and Liabilities Acquired in Business Combinations

The Group recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in Note 7.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

5. 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 is individual (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.

The table below summarizes the information on income and profit, as well as assets and liabilities regarding the Group's business segments:

Year ended 31 December 2007	TCC	HCC	Other	Retained amounts	Group
Sales to external customers	\$ 591,427	\$ 265,463	\$ 52,057	\$ -	\$ 908,947
Inter-segment sales	(16,880)	(23,090)	39,970	-	-
Segment results	15,559	94,077	(30,690)	(34,157)	44,789
Segment assets	181,248	194,700	18,458	316,102	710,508
Segment liabilities	(82,946)	(9,926)	(17,953)	(423,986)	(534,811)
Capital expenditures	77,413	47,012	-	24,427	148,852
Depreciation and amortization	(20,376)	(20,804)	-	(9,206)	(50,386)
Year ended 31 December 2006	TCC	HCC	Other	Retained amounts	Group
Sales to external customers	\$ 395,537	\$ 193,875	\$ 34,886	\$ -	\$ 624,298
Inter-segment sales	(12,852)	(3,950)	16,802	-	-
Segment results	(15,644)	73,700	(1,505)	(20,492)	36,059
Segment assets	103,278	129,178	24,614	222,388	479,458
Segment liabilities	(7,907)	(17,004)	(18,803)	(289,895)	(333,609)
Capital expenditures	28,446	35,945	-	36,641	101,032
Depreciation and amortization	(11,432)	(13,487)	-	(10,097)	(35,016)

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

5. Segment Information (continued)

Secondary Reporting Format - 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 2007	Russia	Non-Russia	Group
Segment revenue	\$ 753,528	\$ 155,419	\$ 908,947
Segment expenses	(647,748)	(91,180)	(738,928)
Unallocated operating expenses	-	-	(125,230)
Segment results	105,780	64,239	44,789
Segment assets	634,860	75,648	710,508
Capital expenditures	140,360	8,492	148,852
Year ended 31 December 2006	Russia	Non-Russia	Group
Segment revenue	\$ 499,656	\$ 124,642	\$ 624,298
Segment expenses	(479,123)	(50,164)	(529,287)
Unallocated operating expenses	-	-	(58,952)
Segment results	20,533	74,478	36,059
Segment assets	417,067	62,391	479,458
Capital expenditures	87,890	13,142	101,032

6. 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, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. 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, i.e. enterprises in which the Group has significant influence and which is neither a subsidiary nor a party in a joint venture of the investor;
- key management personnel;
- other.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

6. Balances and Transactions with Related Parties (continued)

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

	2007	2006
Trade receivables (Note 13):		
Entities with joint control or significant influence over the Group	\$ 3,148	\$ 1,637
Associates	525	81
Other	-	18
	<u>3,673</u>	<u>1,736</u>
Prepayments (Note 13):		
Entities with joint control or significant influence over the Group	595	41
Associates	28	20
	<u>\$ 623</u>	<u>\$ 61</u>
Long-term accounts receivable:		
Key management personnel (maturing before 31 December 2008)	\$ 128	\$ 130
Other (Note 13):		
Entities with joint control or significant influence over the Group	20	6
Key management personnel	-	9
	<u>\$ 4,444</u>	<u>\$ 1,942</u>

The outstanding balances are interest free and short-term, except for specifically noted. 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 2007 or 31 December 2006.

The Group also had cash balances of 144 and 329 held with entities exercising joint control or significant influence over the Group at 31 December 2007 and 2006, respectively.

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

	2007	2006
Trade accounts payable (Note 17):		
Entities with joint control or significant influence over the Group	\$ 1,560	\$ 4,382
Associates	2,532	1,309
Other	27	25
	<u>\$ 4,119</u>	<u>\$ 5,716</u>
Advances received (Note 18):		
Entities with joint control or significant influence over the Group	\$ 142	\$ 123
Associates	145	-
	<u>287</u>	<u>123</u>
Loans payable (Note 15):		
Entities with joint control or significant influence over the Group	22,290	3,388
Remuneration payable (Note 17):		
Key management personnel	-	653
	<u>\$ 26,696</u>	<u>\$ 9,880</u>

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

6. Balances and Transactions with Related Parties (continued)

Trade payables are related to the purchase of aviation fuel and airport services and payment of airport duties and transportation services. Purchase of air fuel from related parties in 2007 amounted to 71% in quantitative terms and 65% in monetary terms from total air fuel purchases.

Loans payable are denominated in Rubles, bear an interest of 9.97% p.a. as of 31 December 2007 and 11.8% p.a. at 31 December 2006 and are payable according to the following schedule:

	2007	2006
2007	\$ -	\$ 2,141
2008	441	942
2009	1,797	305
2010	3911	-
2011	737	-
2012	15,404	-
	\$ 22,290	\$ 3,388

Aircrafts and engines in the total amount of 27,627 and 7,448 were pledged as collateral under agreements with creditors as of 31 December 2007 and 2006, 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 2007 and 2006:

	2007	2006
<i>Sale - transportation services:</i>		
Entities with joint control or significant influence over the Group	\$ 71,384	\$ 37,709
Associates	6,060	272
Key management personnel	2	-
Other	74	151
Total sales to related parties	\$ 77,520	\$ 38,132
<i>Direct operating expenses:</i>		
Entities with joint control or significant influence over the Group	\$ 97,919	\$ 71,613
Associates	33,866	26,972
Other	1,083	1,317
	\$ 132,868	\$ 99,902

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

6. Balances and Transactions with Related Parties (continued)

	2007	2006
<i>Other operating expense:</i>		
Entities with joint control or significant influence over the Group	\$ 451	\$ 3,487
Associates	81	125
Other	-	553
	<u>532</u>	<u>4,165</u>
<i>Interest expenses on loans payable (Note 25):</i>		
Entities with joint control or significant influence over the Group	1,241	999
Total purchases from related parties	<u>134,641</u>	<u>105,066</u>
<i>Proceeds from loans and borrowings:</i>		
Entities with joint control or significant influence over the Group	(70,666)	47,445
<i>Repayment of loans and borrowings:</i>		
Entities with joint control or significant influence over the Group	52,764	(53,817)
Net repayment of borrowings to related parties	<u>\$ (17,902)</u>	<u>\$ (6,372)</u>

Compensation to Key Management Personnel

Key management personnel comprised directors, members of the Management Board and Supervisory Council. Total compensation to key management personnel included in personnel expenses in the income statement amounted to 3,862 and 2 624 in 2007 and 2006, 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.

7. Acquisition and Disposal of Subsidiaries

Acquisition of OJSC "Airport Ust'-Kut"

As of 22 January 2007 the Group has acquired 85.6% of voting shares in OJSC "Airport Ust'-Kut" based in the city of Ust'-Kut in the Irkutsk region (Russia), an enterprise offering airport services. The Group intends to develop this airport according to modern standards for its future use as the main base in Eastern Siberia. The transaction was settled in cash.

The fair values of identifiable assets and liabilities of OJSC "Airport Ust'-Kut" at the acquisition date were as follows:

	As of the dates of acquisition
Property, plant and equipment	\$ 1,718
Inventories	191
Trade and other receivables; prepaid expenses	7
Cash and cash equivalents	28
Trade payables	(235)
Deferred tax liabilities	(347)
Minority interests	(196)
Fair value of net assets	<u>\$ 1,166</u>

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

7. Acquisition and Disposal of Subsidiaries (continued)

Acquisition of OJSC "Airport Ust'-Kut" (continued)

	As of the dates of acquisition
Consideration paid	\$ 316
Gain from the acquisition of a subsidiary	850
Cash outflow arising on acquisition	
Net cash acquired with the subsidiary	28
Cash paid	(316)
Net cash outflow	\$ (288)

Excess of the fair value of the net assets share of the subsidiary over costs is recognized in the income statement as a result of a profitable transaction. Since acquisition, share of OJSC "Airport Ust'-Kut" loss in the total net income of the Group reached 117.

Minority Interest in OJSC "UTair-Engineering"

On 1 October 2007 the Group additionally acquired 22% of voting shares in OJSC "UTair Engineering" (formerly, "JSC "Zavod No.26") thus extending the Group's interest in this company to 77.8%. Interest was increased through the additional issue of shares of OJSC "UTair-Engineering". Additionally issued shares were acquired by the Group. The price of shares was established at 1,592; payment for shares was performed in form of fixed assets transferred to OJSC "UTair-Engineering". Cost of the additionally acquired interest is 1,471.

Disposal of Subsidiaries

On 17 December 2007 the Group disposed of 100% of the voting shares in West-Sib Lease LLC (Cyprus) and BLF Ltd (Bermuda) to the same acquirer. These subsidiaries leased out aircrafts to the Group.

The carrying value of the assets and liabilities of these companies at the acquisition date was as follows:

	As of the date of disposal
Property, plant and equipment	\$ 40,217
Trade and other receivables	50,382
Cash and cash equivalents	14
Trade payables	(87,317)
Fair value of net assets	\$ 3,296
Consideration receivable	25
Loss from the disposal of a subsidiary	(3,271)
Cash inflow on disposal	
Net cash disposed with the disposed enterprise	(14)
Cash received on disposal	-
Net cash outflow	\$ (14)

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

7. Acquisition and Disposal of Subsidiaries (continued)

Disposal of Subsidiaries (continued)

Excess of the fair value of net assets of the disposed subsidiary over the due consideration is recognized in the income statement. Prior to disposal, the share of the disposed companies in the total net income of the Group in 2007 amounted to 1,370.

8. Property, Plant and Equipment

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

	Buildings	Aircraft and engines	Other	Assets under construction	Total
31 December 2007					
Cost					
31 December 2006	\$ 106,599	\$ 232,506	\$ 56,253	\$ 18,267	\$ 413,625
Additions	6,630	124,425	11,123	6,674	148,852
Additions through acquisition of companies	1,374	-	344	-	1,718
Disposals	(1,287)	(4,101)	(1,677)	(822)	(7,887)
Disposals through disposal of companies	-	(43,515)	-	-	(43,515)
Effect of translation into US\$	8,087	22,035	4,515	1,575	36,212
31 December 2007	121,403	331,350	70,558	25,694	549,005
Accumulated depreciation					
31 December 2006	(4,232)	(35,884)	(39,510)	-	(79,626)
Accrued depreciation for the period	(4,618)	(41,180)	(4,282)	-	(50,080)
Disposals	162	467	777	-	1,406
Disposals through disposal of companies	-	3,298	-	-	3,298
Effect of translation into US\$	(495)	(4,619)	(3,020)	-	8,134
31 December 2007	(9,183)	(77,918)	(46,035)	-	(133,136)
Net book value					
31 December 2006	102,367	196,622	16,743	18,267	333,999
31 December 2007	\$ 112,220	\$ 253,432	\$ 24,523	\$ 25,694	\$ 415,869
31 December 2006					
Cost					
31 December 2005	\$ 55,071	\$ 133,674	\$ 35,248	\$ 11,904	\$ 235,897
Revaluation	39,327	5,031	8,300	-	52,658
31 December 2005 (after revaluation)	94,398	138,705	43,548	11,904	288,555
Additions	3,834	79,418	11,272	6,508	101,032
Disposals	(531)	(1,085)	(2,894)	(1,418)	(5,928)
Effect of translation into US\$	8,898	15,468	4,327	1,273	29,966
31 December 2006	106,599	232,506	56,253	18,267	413,625
Accumulated depreciation					
31 December 2005	(5,794)	(35,533)	(22,305)	-	(63,632)
Revaluation	5,794	28,762	(13,365)	-	21,191
31 December 2005 (after revaluation)	-	(6,771)	(35,670)	-	(42,441)
Accrued depreciation for the period	(4,116)	(27,611)	(3,077)	-	(34,804)
Disposals	17	28	2,574	-	2,619
Effect of translation into US\$	(133)	(1,530)	(3,337)	-	(5,000)
31 December 2006	(4,232)	(35,884)	(39,510)	-	(79,626)
Net book value					
31 December 2005	49,277	98,141	12,943	11904	172,265
31 December 2006	\$ 102,367	\$ 196,622	\$ 16,743	\$ 18267	\$ 333,999

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

8. Property, Plant and Equipment (continued)

As of 31 December 2007 and 2006, the carrying value of fully depreciated property, plant and equipment was 37,955 and 32,696 respectively.

Major overhauls capitalized comprised 29,187 and 17,890 in 2007 and 2006, respectively.

Bank borrowings were secured on properties to the value of 112,081 (2006: 35,242) (see Note 15).

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. As of 31 December 2007 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 1 and 7 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed under 'Contingencies and Commitments' (see Note 29).

Finance Lease

In 2007 the Group entered into aircraft lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term of eight years. The estimated average remaining useful life of leased assets varies from 10 to 15 years. As of 31 December 2007, the carrying value of an aircraft already used by the Group under finance lease was 15,884 (2006: Nil). Finance lease obligations are disclosed under 'Contingencies and Commitments' (see Note 29).

9. Net Investment in Leases (Leasing)

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

	2007	2006
Gross investment in leases	\$ 10,246	\$ 9,393
Less: unearned finance lease income	(2,180)	(1,654)
Net investment in leases	\$ 8,066	\$ 7,739

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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

9. Net Investment in Leases (Leasing) (continued)

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

	2007		2006	
	Gross investments	Net investments	Gross investments	Net investments
Not later than 1 year	\$ 6,335	\$ 4,992	\$ 5,943	\$ 4,918
Later than 1 year and not later than 5 years	3,911	3,074	3,450	2,821
Total	\$ 10,246	\$ 8,066	\$ 9,393	\$ 7,739

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 3,901 at 31 December 2007 (2006: 3,422).

10. Investments in Associates

The Group has investments in the following associates:

Associate	Business activity	2007, interest (%)	2006, interest (%)
OJSC "Airport Surgut", Russia	Airport facilities and services in Surgut	26%	26%
CJSC "Kondaavia", Russia	Operating the airport facilities and services	45.5%	45.5%

The movements in investments in associates were as follows:

	2007	2006
At 1 January	\$ 4,508	\$ 3,627
Share of income before taxes	1,403	810
Share of tax charge	(346)	(232)
Share of income after taxes	1,057	578
Dividends received from associates	(81)	(51)
Effect of translation into US\$	367	354
At 31 December	\$ 5,851	\$ 4,508

The following table illustrates summarized financial information on associates:

Aggregated assets and liabilities of associates	2007	2006
Current assets	\$ 11,122	\$ 7,934
Non-current assets	15,042	11,681
Current liabilities	(4,334)	(2,955)
Non-current liabilities	(55)	(2)
Net assets	\$ 21,775	\$ 16,658
Aggregated revenue and profit of associates	2007	2006
Revenue	\$ 44,453	\$ 34,852
Net profit after tax	4,009	2,216

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

11. Available for Sale Investments

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.

Short-term available-for-sale investments as of 31 December were as follows:

	2007	2006
Participatory construction contracts	\$ 993	\$ 1,150
Investments in ordinary shares of unlisted Russian companies	1,449	-
	\$ 2,442	\$ 1,150

These investments evaluated at fair value, are intended for sale by the Group in 2008.

As of 31 December 2007 loans for 39,256 denominated in Russian Rubles maturing on 1 September 2008 bore an interest of 10.58% per annum.

12. Inventories

Inventories comprise:

	2007	2006
Spare parts	\$ 28,430	\$ 15,681
Fuel	17,201	14,607
Other inventories	11,963	7,390
On-board goods for resale	1,335	409
Allowance for impairment	(5,223)	(3,258)
	\$ 53,706	\$ 34,829

At 31 December 2006 inventories in the amount of 30,353 (2006: 20,374) have been pledged as security for borrowings (Note 15). At 31 December 2007, as compared to 31 December 2006, increase in inventory by 18,877 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

	2007	2006
Prepayments under operating leases (Note 29)	\$ 39,669	\$ -
Prepayments under finance leases (Note 29)	1,257	-
Other long-term trade receivables	7,058	503
Total long-term receivables and prepayments	\$ 47,984	\$ 503

	2007	2006
Trade receivables	\$ 67,242	\$ 41,772
VAT Recoverable	8,092	23,520
Advances to suppliers	24,469	13,814
Prepayments under operating leases (Note 29)	6,563	-
Prepayments under finance leases (Note 29)	2,712	-
Other receivables - claims	4,261	3,804
Prepaid expenses	2,580	1,519
Other taxes receivable	4,317	972
Related parties receivables (Note 6)	4,316	1,812
Less: provision for impairment of trade receivables	(3,594)	(4,593)
provision for impairment of other receivables and advances	(6,403)	(3,658)
Total short-term receivables and prepayments	\$ 114,555	\$ 78,962

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

13. Accounts Receivable and Prepayments (continued)

Trade receivables in the amount of 47,113 and 34,062 are denominated in foreign currency, mainly US Dollar, at 31 December 2007 and 2006, respectively.

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

	2007	2006
Balance at the beginning of the year	\$ 8,251	\$ 10,608
Usage over the year	(3,388)	(792)
Impairment for the year	4,487	(2,447)
Effect of translation into US\$	647	882
Balance at the end of the year	<u>\$ 9,997</u>	<u>\$ 8,251</u>

14. Cash and Cash Equivalents

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

	2007	2006
Foreign currency denominated balances with banks	\$ 1,022	\$ 981
Ruble denominated cash on hand and balances with banks	8,575	6,615
Bank deposit (maturing on 9 January 2007, at 1% p.a.)	-	401
Other	50	27
Total	<u>\$ 9,647</u>	<u>\$ 8,024</u>

15. Loans and Borrowings

	2007	2006
Short-term loans and borrowings:		
Sberbank JSC (a)	\$ 89,369	\$ 74,650
Khanty-Mansiysky Bank JSC (b)	46,785	8,195
VTB Bank OJSC (c)	12,222	-
Other	185	22
Long-term debt, current portion		
- Sberbank JSC (e)	7,073	2,854
- related parties (Note 6)	7,038	2,141
- Komiregionbank "Ukhtabank" JSC (f)	-	808
- VTB Bank OJSC (c)	1,906	-
- Akkobank JSC (h)	951	-
- Finance lease obligations (Note 29)	2,120	-
Promissory notes issued, long-term (d)	<u>7,922</u>	<u>2,941</u>
Total short-term loans and borrowings	<u>\$ 175,571</u>	<u>\$ 91,611</u>

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

15. Loans and Borrowings (continued)

	2007	2006
Non-current portion of loans and borrowings		
Related parties (Note 6)	\$ 22,290	\$ 3,388
Sberbank JSC (f)	47,209	11,282
VTB Bank OJSC (c)	6,174	-
Akkobank JSC (h)	2,721	-
Komiregionbank "Ukhtabank" JSC (i)	-	808
Other	22	-
Finance lease obligations (Note 29)	15,818	-
Less: current portion of long-term debt		
- Sberbank JSC (f)	(7,073)	(2,854)
- related parties (Note 6)	(7,038)	(2,141)
- Komiregionbank "Ukhtabank" JSC (i)	-	(808)
- VTB Bank OJSC (c)	(1,906)	-
Akkobank JSC (h)	(951)	-
Finance lease obligations (Note 29)	(2,120)	-
Promissory notes	106	-
Bonds (e)	121,666	113,178
Total non-current portion of loans and borrowings	\$ 196,918	\$ 122,853

(a) In 2007 the Group entered into a number of short-term loan agreements with Sberbank of Russia for the total amount of 86,317. Loans are secured by cash inflows from Group sales in the amount of 21,971 and by pledge of property, plant and equipment and inventories.

In 2006 the Group entered into a number of short-term loan agreements with Sberbank of Russia for the total amount of 28,540. Loans are secured by cash inflows from Group sales in the amount of 4,744 and by pledge of property, plant and equipment and inventories.

(b) In 2007 the Group entered into a number of short-term loan agreements with Khanty-Mansiysky Bank for the total amount of 75,939 (denominated in RUR) and 22,500 (denominated in US\$). The loans are secured by pledge of property, plant and equipment.

In 2006 the Group entered into a number of short-term loan agreements with Khanty-Mansiysky Bank for the total amount of 55,107 (denominated in RUR) and 18,800. The loans are secured by pledge of property, plant and equipment.

(c) In 2007 the Group entered into a number of short-term loan agreements with VTB Bank for the total amount of 11,728. The loan is secured by pledge of property, plant and equipment.

(d) In 2007 the Group issued through an investment company short-term Ruble-denominated interest-bearing promissory notes for the total amount of 54,732. Average weighted interest rate on these notes was 10.68 % in 2007.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

15. Loans and Borrowings (continued)

In 2006 the Group also issued short-term Ruble-denominated interest-bearing promissory notes for the total amount of 71,194 through an investment company. In December 2006 all notes were repaid. The average weighted rate on these notes was 11.15% p.a. in 2006.

- e) In 2004 the Group's subsidiary, UTair-Finance LLC, placed its interest-bearing non-convertible bearer bonds (bonds for 34,702 at par value of 1,000 RUR). The bonds were issued at par value and were repaid on the scheduled maturity date 22 November 2006. The interest rate defined for the first and second coupon period was 13% per annum, for the third and fourth coupon periods - 10.65% per annum.

On 14 March 2006, UTair-Finance LLC placed interest-bearing non-convertible bearer bonds (bonds for 36,779 at par value of 1,000 RUR). The bonds were issued at par value. No premature redemption is allowed. The bonds mature on 6 March 2009.

Coupon payments are made on the quarterly basis (12 times). The interest rate for the first-fourth coupon periods was 10.4 % per annum, for the fifth-eighth coupon periods - 9.95% per annum, for the ninth-twelfth coupon periods - 10.4%.

On 19 December 2006, UTair-Finance LLC placed interest-bearing non-convertible bearer bonds (bonds for 73,558 at par value of 1,000 RUR). The bonds were issued at par value. No premature redemption is allowed. The bonds mature on 14 December 2010.

Coupon payments are made on the quarterly basis (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 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 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 2007 the Group entered into a number of long-term loan agreements with Sberbank of Russia for the total amount of 20,994 (denominated in RUR) and 14,000 (denominated in US\$). The loans are secured by pledge of property, plant and equipment.

In 2006 the Group entered into a long-term ruble-denominated loans agreement with Sberbank of Russia for the total amount of 7,404 . The loans are secured by pledged property, plant and equipment.

- (g) In 2007 the Group entered into long-term ruble-denominated loan agreement with VTB Bank for the total amount of 3,206 to finance the purchase of an aircraft. The loan is secured by the monthly cash inflows amounting to at least 30% of the loans outstanding balance.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

15. Loans and Borrowings (continued)

- (h) In 2007 the Group entered into long-term ruble-denominated loan agreement with Akkobank for the total amount of 2,737 to finance the purchase of a building. The loan is secured by pledged property, plant and equipment.
- (i) In 2005 the Group entered into a ruble-denominated long-term loan agreement with Ukhtabank. The loan matured on 8 June 2007, and was repaid accordingly. The loan is secured by pledge of property, plant and equipment and of the promissory notes issued by the parent company for the total amount of 818.

The weighted average interest rate on the bank loans outstanding at 31 December 2007 is 10.16% (at 31 December 2006: 10.23%).

As at 31 December 2007 all loans and borrowings are denominated in Russian Rubles except for the loans denominated in US\$ and amounting to 52,041 (2006: 8,195).

Unutilized Borrowing Facilities

At 31 December 2007 the Group had unutilized borrowing facilities of 3,665 (2006: 13,160).

16. Taxes Payable

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

	2007	2006
Deferred Value Added Tax	\$ 361	\$ 6,262
Additional allocations to the State Pension Fund	4,619	3,077
Value Added Tax payable	9,903	1,048
Unified social tax	1,372	993
Property tax	996	610
Road users tax	-	871
Personal income tax	942	365
Other taxes and tax provisions	3,036	905
	\$ 21,229	\$ 14,131

The accumulated deficit as of 1 January 2003 includes 6,234 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 net 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.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

16. Taxes Payable (continued)

In 2006, the Group paid to the budget 412 of previously restructured payables and, due to the fulfillment 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 10,792 were subject to write-off by tax authorities. Accordingly, restructured payables were fully repaid as of 31 December 2006.

17. Trade and Other Payables

	2007	2006
Trade payables	\$ 45,219	\$ 26,101
Unused vacation accrual	17,314	8,412
Accrued payroll	12,387	6,468
Payables to related parties (Note 6)	4,119	6,369
Accrued liabilities and other creditors	5,047	3,179
Frequent Flyer Program accrual	1,247	936
Short-term portion of the employee benefits (Note 19)	566	178
Dividends payable	296	176
	<u>\$ 86,195</u>	<u>\$ 51,819</u>

Trade payables in the amount of 12,666 and 3,760 are denominated in foreign currency, mainly US dollar, at 31 December 2007 and 2006, respectively.

18. Advances from Customers and Deferred Revenue

Advances from customers are comprised of the following:

	2007	2006
Deferred revenue (air traffic liability)	\$ 13,698	\$ 8,635
Advances from customers	7,782	5,678
Advances from related parties (Note 6)	287	123
	<u>\$ 21,767</u>	<u>\$ 14,436</u>

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 from 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 bargaining agreement. The Group pays the benefits when they fall due for payment.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

19. Post-Employment Benefits (continued)

The components of net benefit expense recognized in the consolidated income statement for the years ended 31 December 2007 and 2006 and amounts recognized in consolidated balance sheets as of 31 December 2007 and 2006 were as follows:

	2007	2006
Liabilities at 1 January	\$ 2,957	\$ 1,978
Benefit expense	3,359	878
Benefits paid	(227)	(108)
Effect of translation into US\$	347	209
Liabilities at 31 December, including:	6,436	2,957
- non-current	5,870	2,779
- current (Note 17)	566	178
	<u>2007</u>	<u>2006</u>
Net benefit expense (included in personnel costs)		
Current service cost	\$ 194	\$ 123
Past service cost	115	63
Interest expense on benefit liabilities	296	239
Net actuarial gains / (losses) recognized in year	2,754	453
Net benefit expense	<u>\$ 3,359</u>	<u>\$ 878</u>

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

	2007	2006
Discount rate	6.25%-6.75%	6.5%-7.5%
Average long-term payroll increase rate	6.5%	6.5%
Employee turnover rate	1-21%	8%
Probability of a non-working pensioner residing where the Group companies are located	30%	30%

The Group had no pension plan assets as of 31 December 2007 and 2006. 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 1,239 as of 31 December 2007 (2006: 1,092). The following table is a summary of the present value of the benefit obligations and experience adjustments as at 31 December. Experienced adjustments were calculated only for the parent company of the Group.

	2007	2006
Liabilities at 31 December	\$ 7,676	\$ 4,049
Experience adjustments	(876)	404

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

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 2005	568,647	8,561	\$ 112,145	\$ 485	\$ 202
Purchase of treasury shares	(238)	238	-	61	-
At 31 December 2006	568,409	8,799	112,145	546	202
Purchase of treasury shares	(314)	314	-	148	0
At 31 December 2007	568,095	9,113	\$ 112,145	\$ 694	\$ 202

The number of authorized ordinary shares is 577,208,000 (2006: 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.

A dividend was declared in 2007 in respect of 2006 to holders of ordinary shares of 0.318 US\$ per ordinary share (2006: 0.067 US\$ per ordinary share) for the total amount of 3,245 (2006: 1,439).

The accumulated deficit for 2007 in the amount of 67,915 was recorded in the consolidated balance sheet of the Group, which is less than the relevant parameter for the year ended 31 December 2006 by 19,289. The accumulated deficit was estimated by the Group in the course of the preparation of the IFRS opening balance sheet at 31 December 2002. The main adjustments to retained earnings opening balance were: effect of adoption of IAS 29 "Financial Reporting in Hyperinflationary Economies", unrecognized tax asset, expenses and liabilities cut-off, accounting for investments in associates under the equity method, other provisions and allowances.

In accordance with the 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 42,084 (UNAUDITED) and 26,422 (UNAUDITED) of undistributed and unreserved earnings as of 31 December 2007 and 2006, 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 23,533 (UNAUDITED) and 16,467 (UNAUDITED) as of 31 December 2007 and 2006, respectively.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

21. Revenues

Revenues comprised the following:

	2007	2006
Aircraft transportation services, regular	\$ 512,498	\$ 345,681
Helicopters transportation services, abroad	155,419	124,642
Helicopters transportation services, inland	110,044	69,233
Aircraft transportation services, charter	78,929	49,856
Technical support and maintenance services	5,801	7,524
Airport services	18,164	-
Other revenues	28,092	27,362
	<u>\$ 908,947</u>	<u>\$ 624,298</u>

22. Direct Operating Expenses

Direct operating expenses included the following:

	2007	2006
Air fuel	\$ 235,647	\$ 176,288
Airport services	114,517	78,203
Passenger servicing	35,050	22,532
Rent of air fleet and equipment	50,281	28,320
Air navigation and meteoservices	26,636	13,325
Spare parts and other materials	14,833	4,070
UN missions support	6,008	6,655
Other direct operating expenses	20,893	21,654
	<u>\$ 503,865</u>	<u>\$ 351,047</u>

23. Personnel Expenses

	2007	2006
Remuneration	\$ 112,128	\$ 77,034
Social insurance charges	26,371	17,223
Accruals for vacation and bonuses	9,913	3,602
Net post-employment benefit expenses	3,359	878
Other social payments	575	915
	<u>\$ 152,346</u>	<u>\$ 99,652</u>

24. Other Operating Income and Expenses

Other operating income includes the following:

	2007	2006
Fines and penalties receivable	\$ 369	\$ 955
Derecognition of accounts payable	579	259
Insurance coverage	230	210
Government grants	252	159
	<u>\$ 1,430</u>	<u>\$ 1,583</u>

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

24. Other Operating Income and Expenses (continued)

Other operating expenses include the following:

	2007	2006
Travel expenses	\$ 23,062	\$ 16,066
Taxes	8,100	2,982
Insurance expenses	5,922	3,784
Loss from disposal of property, plant and equipment	5,509	4,225
Advertising	4,458	3,368
Utilities	4,387	2,716
Communication expenses	3,994	3,223
Consulting, audit and legal expenses	3,903	4,429
Training expenses	3,161	3,149
Bank charges	2,249	2,134
Provisions for Frequent Flyer Passengers program	232	262
Road users tax charges	-	3,478
Other operating expenses	5,376	6,440
	<u>\$ 70,353</u>	<u>\$ 56,256</u>

Grants from local government were provided to UTair Aviation Joint-Stock Company for the execution of regular flights 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 11,870 received in 2007 (2006: 11,930) is included in revenues for regular flights (Note 21).

At 31 December 2005 the amount of unrecovered road user tax due to the tax overpayments in 2001-2003 was 2,489. In 2006 the Group wrote off these outstanding receivables, as well as the tax overpaid but already recovered from the budget of 989 as uncollectible amounts. The general effect of the road user tax write-off in the amount of 3,478 is recognized in other operating income and expense.

25. Financial Income and Expenses

Financial income includes:

	2007	2006
Gain from operations with 3 rd parties promissory notes	\$ 192	\$ 348
Interest receivable on loans issued to 3 rd parties	3,488	852
	<u>\$ 3,680</u>	<u>\$ 1,200</u>

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

25. Financial Income and Expenses (continued)

Financial expenses include:

	2007	2006
Interest payable on bank loans	\$ 13,138	\$ 9,658
Interest payable on bonds issued	12,862	6,572
Interest/discounts payable on promissory notes	2,212	3,468
Interest payable to related parties (Note 6)	1,241	999
Amortization of discount of restructured tax debts	-	185
Interest payable under finance leases	88	-
Discount on long-term accounts receivable	1,931	-
	<u>\$ 31,472</u>	<u>\$ 20,882</u>

26. Income Tax (Benefit)/Expense

	2007	2006
Income tax expense - current	\$ 6,023	\$ 1,514
Deferred tax (benefit)/expense - origination and reversal of temporary differences	(11,642)	1,884
Income tax (benefit)/expense	<u>\$ (5,619)</u>	<u>\$ 3,398</u>

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:

	2007	2006
Profit before taxation	\$ 15,831	\$ 26,427
Theoretical tax charge at statutory rate of 24%	3,799	6,342
Tax effect of items which are not deductible or assessable for taxation purposes:	-	-
Write-off of fines and penalties due to restructuring	-	(2,590)
Current income tax corrections for prior periods	-	(1,079)
Non-taxable loss from disposal/ purchase of subsidiaries	587	-
Other permanent differences	1,334	(307)
Write off road users tax	-	832
Tax loss carry forward	(2,551)	-
Different tax rates of subsidiaries	(303)	200
Consolidated income tax expense	2,866	3,398
Utilization of the previously not recognized deferred tax asset	(8,485)	-
Total	<u>\$ (5,619)</u>	<u>\$ 3,398</u>

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

26. Income Tax (continued)

Movements in deferred tax balances consisted of the following:

	31 December 2005	Differences recognition and reversal through income statement	Differences recognition and reversal through equity	Effect of transla- tion into US\$	31 December 2006	Differences recognition and reversal through income statement	Deferred tax liabilities related to purchase of subsidiary	Effect of transla- tion into US\$	31 December 2007
Tax effects of deductible temporary differences:									
Property, plant and equipment	\$ 8,868	\$ (2,015)	\$ -	\$ 760	\$ 7,613	\$ (5,977)	\$ -	\$ 302	\$ 1,938
Provision for impairment of receivables	2,732	(290)	-	245	2,687	466	-	214	3,367
Trade and other payables	2,921	1,260	-	313	4,494	4288	-	507	9,289
Inventories	1,170	(74)	-	106	1,202	(43)	-	86	1,245
Other	918	(447)	-	71	542	137	-	45	724
	<u>16,609</u>	<u>(1,566)</u>	<u>-</u>	<u>1,495</u>	<u>16,538</u>	<u>(1,129)</u>	<u>-</u>	<u>1,154</u>	<u>16,563</u>
Tax effects of taxable temporary differences:									
Trade and other receivables	(17,773)	(35)	(21,668)	(2,361)	(41,837)	4,206	(347)	(2,892)	(40,870)
Other	(129)	137	-	(8)	-	-	-	-	-
	(824)	(420)	-	(91)	(1,335)	80	-	(94)	(1,349)
	<u>(18,726)</u>	<u>(318)</u>	<u>(21,668)</u>	<u>(2,460)</u>	<u>(43,172)</u>	<u>4,286</u>	<u>(347)</u>	<u>(2,986)</u>	<u>(42,219)</u>
Net tax effect of temporary differences	(2,117)	(1,884)	(21,668)	(965)	(26,634)	3,157	(347)	(1,832)	(25,656)
Less unrecognized deferred tax asset	(7,540)	-	-	(702)	(8,242)	8,485	-	(243)	-
Total net deferred tax (liability)/asset	<u>\$ (9,657)</u>	<u>\$ (1,884)</u>	<u>\$ (21,668)</u>	<u>\$ (1,667)</u>	<u>\$ (34,876)</u>	<u>\$ 11,642</u>	<u>\$ (347)</u>	<u>\$ (2,075)</u>	<u>\$ (25,656)</u>

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, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company. As of 31 December 2007 the Group offset the previously unrecognized tax assets in the amount of 8,485 against the current income tax liability.

27. Minority Interest

	2007	2006
Balance at 1 January	\$ 3,507	\$ 2,456
Share of net income of subsidiaries	620	1,175
Less dividends distributed to minority shareholders	(89)	(63)
Acquisition of a subsidiary	203	-
Acquisition of minority interest in the subsidiary	(1,471)	(60)
Effect of translation into US\$	555	(1)
Balance at 31 December	<u>\$ 3,325</u>	<u>\$ 3,507</u>

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

28. Earnings per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares (see Note 20).

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

	2007	2006
Weighted average number of ordinary shares outstanding (thousands)	577,208	577,208
Adjusted for weighted average number of treasury shares (thousands)	(9,113)	(8,799)
Weighted average number of ordinary shares outstanding (thousands)	568,095	568,409
Net income	\$ 20,830	\$ 21,855
Basic and diluted earnings per share (US\$)	\$ 0.037	\$ 0.038

29. Contingencies and Commitments

Operating Environment of the Group

The Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

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.

Taxation

The major part of the Group tax expense relates to taxation in the Russian Federation.

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring 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. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

29. Contingencies and Commitments (continued)

Taxation (continued)

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2007, 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 accrued in the accompanying financial statements could be up to approximately 18,313. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Commitments

As at 31 December 2007 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for 10,730 (2006: 8,146). The Group had paid advances of 6,624 with respect to such commitments (2006: 3,900).

Insurance

The Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds insurance policies in relation to its air fleet, cockpit personnel and in respect of public liability resulting from its transportation activities.

Legal Proceedings

During the 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.

Operating Lease Commitments - Group as Lessee

The Group has entered into several contracts of commercial leases. The period of this lease varies from one to seven years without renewal. The following table provides the Group's future minimum lease payments under the leases as of 31 December:

	2007	2006
Within one year	\$ 34,496	\$ 17,100
After one year but not more than five years	51,547	14,615
More than five years	19,580	1,384
	<u>\$ 105,623</u>	<u>\$ 33,099</u>

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

29. Contingencies and Commitments (continued)

Operating Lease Commitments - Group as Lessee (continued)

As at 31 December 2007 the Group has contracts denominated in the US dollars for the amount of 48,992 (2006: 6,324).

As at 31 December 2007, long-term and short-term assets of the Group include 39,669 and 6,563 of prepayments under aircraft operating lease agreements. These prepayments are denominated in US Dollars and will be offset against future liabilities of the Group on lease payments under the operating lease agreements within the following periods:

	2007
Within one year	\$ 6,563
After one year but not more than five years	35,752
More than five years	3,917
	\$ 46,232

Finance Lease Commitments - Group as Lessee

As at 31 December 2007 the Group entered into finance lease agreement and received one aircraft in operation (Note 8) for the period of eight years with subsequent transfer of ownership to the Group at the end of lease, including the purchase option. The minimum future lease payments under this agreement as well as the present value of the minimum lease payments are presented in the following table:

	Minimum payments	Present value of payments (Note 15)
Within one year	\$ 3,662	\$ 2,120
After one year but not more than five years	10,429	6,770
More than five years	7,886	6,928
Total minimum lease payments	21,977	15,818
Less: future financial charges	(6,131)	
Discounted value of minimum lease payments	\$ 15,846	

As at 31 December 2007 the Group has no plans to prematurely exercise the purchase option.

In addition, at the end of 2007 the Group entered into finance lease agreement with regard to four additional aircrafts with the same lessor and on the same terms. However, at 31 December 2007, the aircrafts had not yet been delivered to the lessee and the Group did not yet incur any liabilities under these agreements, which, consequently, were not accrued in these financial statements. In 2008-2016, the total amount of minimum lease payments under these agreements is expected to be 78,057.

These agreements involve advance payments in the amount of 3,969, subject to offset against future lease payments during 2008-2009. Current and non-current parts of these advances amounted to 2,712 and 1,257, respectively (Note 13).

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, bonds and promissory notes debt, accounts payables and finance lease obligations. 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 accounts receivable, cash and cash equivalents, deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The information below shows susceptibility of the Group concerning each of these risks. The Group management reviews and agrees policies for managing each of these risks, which are summarized below.

Market Risk

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

Interest Rate Risk

Interest rate changes affect the market value of financial assets and liabilities of the Group and the level of finance expenses. The Group's policies concerning interest rate risk management comprise risk reduction concurrently with the attainment by the Group of a finance structure, which was determined and approved pursuant to the plans of the management. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and enhance finance portfolio consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and floating rate basis. Floating rates are based on LIBOR, MOSPRIME rates as well as set up for regular coupon periods of bond loans based on current market conditions in accordance with the terms of issue documents.

At 31 December 2007 the share of the Group's finance obligations with a floating interest rate was 42% in the total liabilities (2006: 53 %).

The Group reviews the level of interest rates and subsequent to the balance sheet date has started to hedge interest rates on loans with floating rate. The table below shows the analysis of sensitivity to possible change in exchange rates (due to loans and borrowings with floating rate), with all other variables held constant, of the Group's profit before tax: Such changes do not impact the Group's equity.

	%	Effect on profit before income tax
2007		
US dollar denominated borrowings, increase by	1	\$ (82)
US dollar denominated borrowings, decrease by	(1)	82
Russian Rubles denominated borrowings, increase by	1	\$ (1,223)
Russian Rubles denominated borrowings, decrease by	(1)	1,223
2006		
Russian Rubles denominated borrowings, increase by	1	\$ (636)
Russian Rubles denominated borrowings, decrease by	(1)	636

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies (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.

The Group's profit before tax sensitivity to possible fuel (aviation kerosene) price changes, with all other variables held constant, is presented in the table below. In estimating possible changes the Group used the fuel price dynamics over a three-year period prior to each balance sheet date.

	Basis points	Effect on profit before income tax
2007		
Fuel price increase by	5	\$ (12,278)
Fuel price increase by	25	(61,391)
Fuel price decrease by	(5)	12,278
Fuel price decrease by	(25)	61,391
	%	Effect on profit before income tax
2006		
Fuel price increase by	5	\$ (9,102)
Fuel price increase by	25	(45,509)
Fuel price decrease by	(5)	9,102
Fuel price decrease by	(25)	45,509

Foreign Exchange Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and US dollars.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The increase in foreign exchange losses in 2007 was due to the US dollar exchange rate decrease against Russian Ruble (31 December 2007: RUR 24.55 per 1 USD, 2006: RUR 26.33) as significant Group's accounts receivable are denominated in US dollars.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies (continued)

Foreign Exchange Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows at 31 December:

	2007	2006
USD/ RUR	\$ (4,090)	\$ 11,672
EUR/ RUR	(4,045)	(207)

The Group's profit before tax sensitivity to possible exchange rate changes, with all other variables held constant, is presented in the table below. In estimating possible changes the Group used the volatility of foreign exchange rates during the three years preceding each reporting date.

	2007		2006	
	Effect on profit before income tax	Exchange rate change	Effect on profit before income tax	Effect on profit before income tax
USD/ RUR	3%	\$ (123)	3%	\$ 350
USD/ RUR	6%	(245)	6%	700
USD/ RUR	(3%)	123	(3%)	(350)
USD/ RUR	(6%)	245	(6%)	(700)
EUR/ RUR	3%	\$ (121)	3%	\$ (6)
EUR/ RUR	6%	(243)	6%	(12)
EUR/ RUR	(3%)	121	(3%)	1
EUR/ RUR	(6%)	243	(6%)	6

Liquidity Risk

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

The Group manages liquidity risk by targeting an optimal ratio between equity and debt capital consistent with the management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimize borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of debt instruments at competitive rates both in the capital markets and bank sector and coordinates relationships with the banks centrally. At present, the Group believes that it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate loan portfolio (particularly availability of committed borrowings facilities) and the maintenance of adequate cash.

UTair Aviation Joint-Stock Company

Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

	On demand	Less than 3 months	3-12 months	1 to 5 years	More than 5 years	Total
At 31 December 2007						
Interest bearing borrowings	\$ -	\$ 4,354	\$ 155,536	\$ 189,008	\$ 23,591	\$ 372,489
Trade and other payables	1,070	45,261	39,864	-	-	86,195
Taxes payable	21,229	-	-	-	-	21,229
Other financial liabilities	-	-	-	4,437	3,038	7,475
	<u>\$ 22,299</u>	<u>\$ 49,615</u>	<u>\$ 195,400</u>	<u>\$ 193,445</u>	<u>\$ 26,629</u>	<u>\$ 487,388</u>
At 31 December 2006						
Interest bearing borrowings	-	6,113	77,777	130,574	-	214,464
Trade and other payables	-	17,706	34,113	-	-	51,819
Taxes Payable	14,131	-	-	-	-	14,131
Other financial liabilities	-	-	-	1,996	1,887	3,883
	<u>\$ 14,131</u>	<u>\$ 23,819</u>	<u>\$ 111,890</u>	<u>\$ 132,570</u>	<u>\$ 1,887</u>	<u>\$ 284,297</u>

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognized if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, trade accounts receivable and advances issued to suppliers and contractors.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The analysis of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

As at 31 December 2007, accounts receivable from major debtor of the Group amounted to 21,625. As at 31 December 2006, accounts receivable from major debtor of the Group amounted to 17,618. Management determines risk concentration by reference to a percentage of receivables from particular customers to total accounts receivable.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

	2007	2006
Long-term accounts receivable and prepayments	\$ 47,984	\$ 503
Cash and cash equivalents	9,647	8,024
Loans receivable	39,256	1,285
Trade and other receivables	68,486	40,796
	<u>\$ 165,373</u>	<u>\$ 50,608</u>

The ageing analysis of trade and other receivables and accounts receivable from related parties is presented in the table below:

	31 December 2007		31 December 2006	
	Carrying value	Impairment	Carrying value	Impairment
Trade and other receivables				
- undue	\$ 50,758	\$ -	\$ 28,445	\$ -
Trade and other receivables				
- overdue	25,435		18,942	
- Less than 30 days	11,958		5,344	
- From 30 to 90 days	3,874		5,215	
- From 90 to 180 days	1,896		1,792	
- Over 180 days	7,707	(7,707)	6,591	(6,591)
	<u>\$ 76,193</u>	<u>\$ (7,707)</u>	<u>\$ 47,387</u>	<u>\$ (6,591)</u>

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders value. The Board of Directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent company. The Group manages its capital structure and adjusts it by dividend payments to shareholders and purchase of treasury shares. The Group monitors the compliance of the amount of statutory general reserve and makes appropriations of profits to this reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

UTair Aviation Joint-Stock Company
Notes to the consolidated financial statements (continued)

30. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

The carrying amount 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, approximately equals their fair value.

Financial instruments the carrying value of which is different from their fair value are presented in the table below:

	31 December 2007		31 December 2006	
	Fair value	Carrying value	Fair value	Carrying value
Long-term bank loans with fixed interest rate denominated in Russian Rubles	\$ 17,517	\$ 17,299	\$ 13,705	\$ 13,667
Long-term bank loans with fixed interest rate denominated in US\$	15,320	15,404	-	-
Bonds maturing in 2009	40,678	40,740	38,073	37,978
Bonds maturing in 2010	80,086	81,479	75,956	75,956

The fair value of the bonds was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rate, which amounted to 10.10% for loans denominated in Russian Rubles as at December 31, 2007 (2006: 10.83%) and 9.44% for loans denominated in US Dollars.

31. Subsequent Events (unaudited)

In March 2008, the Group paid interests under its second issue of nonconvertible bearer bonds at the rate of 9.95% p.a. for the eighth coupon period in total amount of 1,044.

On 27 May 2008, the placement of securities interest-bearing non-convertible bearer bonds in the amount of 2,500,000 bonds at par value of 1,000 thousand RUR each was registered. To the time these financial statements were authorized for issue the bonds have not been placed yet.

In June 2008, the Group paid interests under its second issue of nonconvertible bearer bonds at the rate of 10.4% p.a. for the ninth coupon period in total amount of 1,097.

In June 2008, the Group paid interests under its third issue of nonconvertible bearer bonds at the rate of 10.4 % p.a. for the third coupon period in total amount of 4,387.

In June 2008, dividends for 2007 were declared to holders of ordinary shares in the amount of 0.228 per ordinary share totaled 5,566.

In 2008, the Group entered into an agreement to purchase 20 aircrafts Mi-171 in the total amount of 167,612.

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Notes to the consolidated financial statements (continued)

31. Subsequent Events (unaudited) (continued)

In 2008, the Group entered into operating lease contract to rent three aircrafts ATR-72-201, seven aircrafts ATR-42-300, two helicopters AS-350 and one helicopter Robinson R-44 Raven I with West-Sib Lease LLC for five-six years with the future lease payments amounting to 62,268.

For seven months of 2008 the Group raised loans for the total amount of 282,059 to finance the purchase of new aircrafts and maintenance of the existing air fleet, purchase of equipment for further lease and refinancing its working capital. For the above period the Group repaid loans in the amount of 63,229, raised financing through placement of promissory notes in the amount of 87,103 and repaid promissory notes in the amount of 45,153. That includes the loan received by the Group from Amsterdam Trade Bank N.V. in 2008 for the amount of 63,755 to finance the acquisition of helicopters by Ulan-Ude Aviation plant CJS. The loan is taken for 18 months at 9.75% p. a.

Handwritten musical notation on a single staff, consisting of a series of rhythmic notes and rests.

