OAO Scientific Production Corporation "Irkut"

Consolidated Financial Statements
for the year ended 31 December 2008

Contents

ZAO KPMG
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors

OAO Scientific Production Corporation "Irkut"

We have audited the accompanying consolidated financial statements of OAO Scientific Production Corporation "Irkut" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

12 May 2009

	Notes	2008 ’000 USD	2007 ’000 USD
Revenues	7	1,247,971	1,022,644
Cost of sales		(847,949)	(715,856)
Gross profit		**400,022**	**306,788**
Research and development costs		(8,896)	(5,658)
Distribution expenses		(165,229)	(94,054)
Administrative expenses		(131,326)	(124,358)
Taxes, other than on profit		(9,501)	(7,830)
Other operating income and expenses	9	(9,794)	5,514
Profit from operations		**75,276**	**80,402**
Interest expenses, net	10	(54,448)	(53,974)
Other financial (expenses)/income	10	(52,051)	20,488
Share of (loss) of equity accounted investees		(10,166)	-
(Loss)/profit before tax		**(41,389)**	**46,916**
Income tax benefit/(expense)	11	6,503	(9,001)
Net (loss)/profit for the year		**(34,886)**	**37,915**
Attributable to:			
Shareholders of the parent company		(40,620)	48,658
Minority interest		5,734	(10,743)
		(34,886)	**37,915**
Basic and diluted (loss)/earnings per share (USD)	21	(0.042)	0.050

The consolidated financial statements were authorised for issuance on 30 April 2009 by management and sign on its behalf.

D.V. Polevshchikov
Vice-President for Corporate Finance

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

	Note	2008 ’000 USD	2007 ’000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	12	313,530	318,000
Investment property	13	-	21,449
Intangible assets	14	149,546	171,307
Investments in equity accounted investees	6	9,577	-
Investments and non-current financial assets	15	40,655	16,264
Deferred tax assets	1	2,333	3,364
		515,641	**530,384**
Current assets			
Investments	15	5,674	288
Inventories	17	556,141	716,246
Trade and other receivables	18	510,922	264,267
Cash and cash equivalents	19	611,037	363,783
		1,683,774	**1,344,584**
Total assets		**2,199,415**	**1,874,968**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		103,811	103,811
Share premium		97,532	97,532
Revaluation reserve		-	17,741
Foreign currency translation reserve		(3,038)	12,684
Retained earnings		153,977	184,971
Total equity attributable to shareholders of the parent company		**352,282**	**416,739**
Minority interest		15,170	33,166
Total equity		**367,452**	**449,905**
Non-current liabilities			
Loans and borrowings	22	903,829	680,954
Deferred tax liabilities	1	29,344	49,859
		933,173	**730,813**
Current liabilities			
Loans and borrowings	22	298,274	314,036
Trade and other payables	23	591,322	363,154
Deferred income		-	3,863
Provisions	24	9,194	13,197
		898,790	**694,250**
Total equity and liabilities		**2,199,415**	**1,874,968**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

	2008 ’000 USD	2007 ’000 USD
OPERATING ACTIVITIES		
(Loss)/profit before tax	(41,389)	46,916
Adjustments for:		
Depreciation and amortisation	40,062	31,939
Unrealised foreign exchange loss/(gain)	14,425	(23,602)
Impairment of capitalised development costs	-	248
(Reverse)/impairment of loans and bad debts	(98)	60
Loss/(gain) on disposal of subsidiary	2,600	(6,961)
Loss/(gain) on disposal of property, plant and equipment	650	(381)
Loss/(income) from investments	15,998	(1,236)
Loss from associates	10,166	-
Interest expense	95,916	84,442
Government grant related to compensation of interest expense	(28,576)	(25,134)
Interest income	(12,892)	(5,334)
Development costs	8,896	5,658
Gain on revaluation of investment property	-	(3,838)
Operating profit before changes in working capital and provisions	**105,758**	**102,777**
Change in inventories	117,197	(83,788)
Change in trade and other receivables	(261,071)	20,992
Change in trade and other payables	293,345	129,450
Change in deferred income	(3,863)	(6,783)
Change in provisions	(4,003)	3,283
Cash flows from operations before income taxes and interest paid	**247,363**	**165,931**
Income taxes paid	(34,165)	(6,730)
Interest paid, net of grant received	(62,676)	(57,018)
Cash flows from operating activities	**150,522**	**102,183**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and assets held for sale	806	1,516
Proceeds from disposal of subsidiary, net of cash disposed of	(784)	2,892
Acquisition of property, plant and equipment	(81,824)	(101,985)
Acquisition of intangible assets and development expenditure	(45,004)	(28,245)
Dividends received	-	50
Net cash to (from disposal)/acquisition of investments	(45,942)	(1,904)
Interest received	12,892	5,284
Cash flows utilised by investing activities	**(159,856)**	**(122,392)**
FINANCING ACTIVITIES		
Proceeds from borrowings	617,536	1,158,920
Repayment of borrowings	(347,632)	(843,842)
Proceeds from leasing	-	10,110
Dividends paid	(5,539)	(5,370)
Cash flows from financing activities	**264,365**	**319,818**
Net increase in cash and cash equivalents	**255,031**	**299,609**
Cash and cash equivalents at beginning of year	363,783	75,200
Effect of exchange rates fluctuations on cash and cash equivalents	(7,777)	(11,026)
Cash and cash equivalents at end of year (note 19)	**611,037**	**363,783**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

	Attributable to the shareholders of the parent company						Minority interest	Total
’000 USD	**Share capital**	**Share premium**	**Revaluation reserve**	**Foreign currency translation reserve**	**Retained earnings/ (Accumulated losses)**	**Total**		
Balance at 1 January 2007	**103,811**	**97,532**	**17,741**	**6,509**	**141,106**	**366,699**	**43,421**	**410,120**
Net profit for the year	-	-	-	-	48,658	48,658	(10,743)	37,915
Foreign exchange differences	-	-	-	6,175	-	6,175	2,546	8,721
Total recognised gains and losses						54,833	(8,197)	46,636
Disposal of subsidiary	-	-	-	-	-	-	(1,481)	(1,481)
Dividends to shareholders	-	-	-	-	(4,793)	(4,793)	(577)	(5,370)
Balance at 31 December 2007	**103,811**	**97,532**	**17,741**	**12,684**	**184,971**	**416,739**	**33,166**	**449,905**
Net (loss)/profit for the year	-	-	-	-	(40,620)	(40,620)	5,734	(34,886)
Foreign exchange differences	-	-	-	(15,986)	-	(15,986)	(6,345)	(22,331)
Total recognised gains and losses						(56,606)	(611)	(57,217)
Disposal of subsidiary	-	-	(17,741)	264	15,141	(2,336)	(17,361)	(19,697)
Dividends to shareholders	-	-	-	-	(5,515)	(5,515)	(24)	(5,539)
Balance at 31 December 2008	**103,811**	**97,532**	**-**	**(3,038)**	**153,977**	**352,282**	**15,170**	**367,452**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

1 Background

(a) Organisation and operations

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

In accordance with Russian legislation the supply of military equipment to foreign governments is the competence of the Russian government and, therefore, all contracts with foreign governments are concluded through the Russian state organization FGUP “Rosoboronexport” (“Rosoboronexport”).

The Company’s operations are subject to license for production and repair of aviation equipment awarded by FGUP “Rosaviacosmos”. The current license is valid until January 2013.

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

(b) State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the foreign economic activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. Access to information classified as a state secret can be granted by the appropriate authorities only to organizations and individuals holding security licenses with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up the mobilization capacity of the state (refer note 12(b)) and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of these assets.

(c) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgements

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

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

- Note 3(o) and 7 – Revenues;
- Note 4(d) and 15 – Investments and non-current financial assets
- Note 14 – Intangible assets;
- Note 24 – Provisions;
- Note 27 – Contingencies.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 % of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

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

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

(c) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(d) Classification of assets and liabilities

The operating cycle for aircraft construction contracts exceeds one year. Assets, which are reasonably expected to be realised in cash or sold or consumed during the operating cycle of the business are shown under current assets. Liabilities whose liquidation is reasonably expected within the operating cycle of the business are also shown under current liabilities.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(iv) Leased assets

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

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

(v) Reclassification to investment property

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

(f) Investment property

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

(g) Intangible Assets

(i) Research and development

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

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

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

(ii) Other intangible assets

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

(h) Negative goodwill

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

(i) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

Accounting for financial income and expenses is discussed in note 3(q).

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Investments at fair value through profit or loss

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

(ii) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of its supplies or affiliates, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(j) Inventories

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

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

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

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

(k) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

(ii) Non-financial assets

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

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

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

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

(l) Dividends

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

(m) Employee benefits

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

(n) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(o) Revenues

The operations of the Group principally consist of building aircraft under fixed-price contracts. Revenues under such contracts are recognised on a percentage of completion basis, measured by the ratio of total direct materials, labour and contract related design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. Marketing costs that are incurred for a specific contract may be included in contract costs, but only if these costs can be directly associated with a specific contract and if their recoverability from that contract is probable.

Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. Changes in job performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income and are recognised in the period in which the revisions are determined.

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

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

(p) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(q) Financial income and expenses

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

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs, which are not directly attributable to the qualifying assets, are recognised in profit or loss using the effective interest method, except for borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are recognized as part of the cost of such assets.

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

(r) Income tax

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

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

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

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

(s) Government grants

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

(t) Earnings per share

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

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s financial reporting. The Group is currently in process of assessing the impact of these pronouncements on the Group’s financial position and results of operations when they become effective.

- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the “management approach” to segment reporting.
- IFRIC 13 *Customer Loyalty Programmes* which becomes mandatory for the Group’s 2009 financial statements, relates to customer loyalty programmes. IFRIC 13 is not expected to have any impact on the consolidated financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income and becomes mandatory for the Group’s 2009 consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

- IFRS 3 *Business Combinations*, which comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The objective of the IFRS is to enhance the relevance, reliability and comparability of the information that the Group provides in its financial statements about a business combination and its effects.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements are not expected to have a significant impact on the consolidated financial statements.

4 Determination of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(b) Intangible assets

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

(c) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group’s investment property portfolio annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. If the market for an investment is not active, the fair value is determined by reference to the observable market transactions with the same or comparable instrument or by using a valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

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

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

The Group’s risk management policies are established to identify and analyse the risks faced by the

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

(ii) Investments

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

(iii) Guarantees

The Group has provided financial guarantees for loans advanced to certain suppliers of the Group and financial intermediaries for the total amount of USD 2,834 thousand (2007: USD 29,835 thousand) and to its affiliates for the amount of USD 2,776 thousand (2007: none). As of 31 December 2008 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(c) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit, which were undrawn as at 31 December 2008:

- USD 77 million long-term credit line that is secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 10%;

- USD 75 million long-term credit line that is unsecured. Interest would be payable at the fixed rate of 8.5%;
- A range of short-term unsecured credit lines of the total amount of USD 252 million;

(d) Market risk

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

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

(i) Currency risk

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

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

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

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

(ii) Interest rate risk

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(iii) Capital management

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

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

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

6 Disposal of subsidiary

On 28 December 2008, the Group disposed of 13% shares in subsidiary OAO “TANTK Imeni G.M. Berieva” in a common control transaction with the Parent Company OAO “United Aircraft Corporation” for USD 2,938 thousand. The result on disposal of USD 2,336 thousand net of foreign currency translation effect of USD 264 thousand has been recorded directly in equity. The ownership interest decreased from 59% to 46%. The subsidiary contributed USD 11,009 thousand to the net profit for the year.

The disposal of the subsidiary had the following effect on the Group’s assets and liabilities at the date of disposal:

	Note	2008 ’000 USD
Assets		
Property, plant and equipment	12	42,796
Investment property	13	17,919
Intangible assets	14	33,114
Investments		204
Inventories		42,908
Trade and other receivables		24,288
Cash and cash equivalents		784
		162,013
Liabilities		
Loans and borrowings		78,900
Advances received		9,882
Trade and other payables		21,341
Deferred income tax liabilities	16	9,288
		119,411
Net assets and liabilities		42,602
Consideration received, satisfied in cash		-
Cash disposed of		(784)
Net cash inflow		**(784)**

The outstanding amount of USD 2,938 thousand is due to be paid by 1 June 2009 and is recorded in Other receivables and originated loans in the consolidated balance sheet as at 31 December 2008.

As at 31 December 2008, 46% interest in “TANTK Imeni G.M. Berieva” was accounted for as an equity accounted investee. The following is summarised financial information, not adjusted for the percentage ownership held by the Group.

	2008 ’000 USD
Non-current assets	66,516
Current assets	67,980
Total assets	**134,496**
Current liabilities	106,741
Non-current liabilities	7,167
Total liabilities	**113,908**

7 Revenues

	2008 ’000 USD	2007 ’000 USD
Revenue earned on military aircraft construction contracts	838,539	770,614
Revenue on sales of military aircraft components and related products	280,856	125,819
Revenue earned on civil aircraft construction contracts	8,936	75,501
Revenue on sales of civil aircraft components and related products	12,424	487
Other revenues	107,216	50,223
	1,247,971	**1,022,644**

The aggregate amount of costs incurred and recognized profits (less recognized losses) to date on construction contracts in progress is USD 3,481,149 thousand (2007: USD 2,633,674 thousand).

(a) Segment reporting

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

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

8 Personnel expenses

	2008 ’000 USD	2007 ’000 USD
Wages and salaries	163,997	170,279
Compulsory social security contributions	36,126	35,989
	200,123	**206,268**

9 Other operating income and expenses

	2008 ’000 USD	2007 ’000 USD
(Loss)/gain on disposal of property, plant and equipment and assets held for sale	(650)	381
Gain on disposal of subsidiary	-	6,961
Gain from revaluation of investment property	-	3,838
Social costs	(10,736)	(7,543)
Impairment of loans given and bad debts	98	(60)
Impairment of capitalised development costs	-	(248)
Other, net	1,494	2,185
	(9,794)	**5,514**

10 Financial income and expenses

During 2008, the Company used forwards exchange contracts for hedging a part of expenses nominated in RUR. Because of crucial change in value of RUR during October-December 2008, Company incurred losses on the revaluation and settlement of the forward contracts (note 5(i)).

	2008 ’000 USD	2007 ’000 USD
Interest expenses		
Interest income on amounts due from tax authorities (note 27(b))	808	1,491
Other interest income	12,084	3,843
Interest expense	(95,916)	(84,442)
Government grant related to compensation of interest expense	28,576	25,134
	(54,448)	**(53,974)**
Other financial income and expenses		
Foreign exchange (loss)/gain	(27,539)	17,645
(Loss)/gain from forward exchange contract	(8,514)	1,607
(Loss from impairment)/gain on disposal of investments	(15,998)	1,236
	(52,051)	**20,488**

11 Income tax expense

	2008 ’000 USD	2007 ’000 USD
Current tax expense		
Current income tax	761	39,952
Overprovided in prior years	(550)	(1,121)
	211	**38,831**
Deferred tax benefit		
Origination and reversal of temporary differences	479	(29,957)
Change in tax rate	(7,206)	-
Change in unrecognised deferred tax assets	13	127
	(6,714)	(29,830)
	(6,503)	**9,001**

The Group’s applicable tax rate is the corporate income tax rate of 24% (2007: 24%). Effective from 1 January 2009 the Russian corporate income tax rate has been reduced to 20%.

Reconciliation of effective tax rate:

	2008 ’000 USD	%	2007 ’000 USD	%
(Loss)/profit before income tax	(41,389)	100	46,916	100
Income tax at applicable tax rate	(9,933)	24	11,260	24
Non-deductible/non-taxable items, net	1,884	(4)	2,158	4
Foreign currency translation	9,289	(22)	(3,423)	(7)
Overprovided in prior years	(550)	1	(1,121)	(2)
Change in tax rate	(7,206)	17		
Change in unrecognised deferred tax assets	13	0	127	0
	(6,503)	**16**	**9,001**	**19**

12 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2007	165,151	260,702	58,803	484,656
Additions	-	19,900	95,815	115,715
Transfers	9,794	61,886	(71,680)	-
Disposals	(471)	(6,140)	(558)	(7,169)
Foreign exchange differences	1,972	2,220	2,662	6,854
At 31 December 2007	**176,446**	**338,568**	**85,042**	**600,056**
Additions	4,591	28,203	49,030	81,824
Transfers	9,550	36,803	(46,353)	-
Disposals	(1,119)	(4,508)	(30)	(5,657)
Disposal of subsidiary	(22,071)	(25,745)	(10,369)	(58,185)
Foreign exchange differences	(4,823)	(4,392)	(2,169)	(11,384)
At 31 December 2008	**162,574**	**368,929**	**75,151**	**606,654**
Depreciation				
At 1 January 2007	(91,358)	(168,875)	-	(260,233)
Depreciation charge	(2,878)	(24,065)	-	(26,943)
Disposals	359	5,675	-	6,034
Foreign exchange differences	(143)	(771)	-	(914)
At 31 December 2007	**(94,020)**	**(188,036)**	**-**	**(282,056)**
Depreciation charge	(5,271)	(28,891)	-	(34,162)
Disposals	806	3,472	-	4,278
Disposal of subsidiary	2,538	12,851	-	15,389
Foreign exchange differences	526	2,901	-	3,427
At 31 December 2008	**(95,421)**	**(197,703)**	**-**	**(293,124)**
Net book value				
At 1 January 2007	**73,793**	**91,827**	**58,803**	**224,423**
At 31 December 2007	**82,426**	**150,532**	**85,042**	**318,000**
At 31 December 2008	**67,153**	**171,226**	**75,151**	**313,530**

(a) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 22). At 31 December 2008 the net carrying amount of leased plant and machinery was USD 23,866 thousand (2007: USD 20,013 thousand).

(b) Other restrictions

The net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to USD 36,461 thousand (2007: USD 25,970 thousand).

13 Investment property

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

	’000 USD
Balance at 1 January 2007	15,804
Additions	379
Change in fair value	3,838
Foreign exchange differences	1,428
Balance at 31 December 2007	**21,449**
Foreign exchange differences	(3,530)
Disposal of subsidiary	(17,919)
Balance at 31 December 2008	**-**

14 Intangible assets

’000 USD	**Development costs**	**Other intangibles**	**Total**
Cost			
At 1 January 2007	144,982	7,781	152,763
Additions	13,501	9,085	22,586
Disposals	-	(100)	(100)
Foreign exchange differences	7,499	187	7,686
At 31 December 2007	**165,982**	**16,953**	**182,935**
Additions	26,054	10,054	36,108
Disposals	-	(2,501)	(2,501)
Disposal of subsidiary	(34,240)	(2,908)	(37,148)
Foreign exchange differences	(18,911)	(677)	(19,588)
At 31 December 2008	**138,885**	**20,921**	**159,806**
Amortisation and impairment			
At 1 January 2007	(1,685)	(4,555)	(6,240)
Amortisation charge	(2,746)	(2,250)	(4,996)
Impairment loss	(248)	-	(248)
Disposal	-	5	5
Foreign exchange differences	(51)	(98)	(149)
At 31 December 2007	**(4,730)**	**(6,898)**	**(11,628)**
Amortisation charge	(1,180)	(4,720)	(5,900)
Disposals	-	2,424	2,424
Disposal of subsidiary	2,254	1,780	4,034
Foreign exchange differences	429	381	810
At 31 December 2008	**(3,227)**	**(7,033)**	**(10,260)**
Net book value			
At 1 January 2007	**143,297**	**3,226**	**146,523**
At 31 December 2007	**161,252**	**10,055**	**171,307**
At 31 December 2008	**135,658**	**13,888**	**149,546**

Capitalised development costs comprise the following items:

	2008 '000 USD	2007 '000 USD
Intellectual property rights related to the development of:		
Be-200 aircraft	34,823	67,521
Yak-130 aircraft	89,798	77,063
SUV-30K modernisation set	9,265	9,265
A-50 airborne warning and control system	-	3,895
Be-103 aircraft	-	2,887
Others	1,772	621
	135,658	**161,252**

Yak-130 development project is not yet completed and therefore the related intangibles assets are not amortised. The amortisation will commence when the Group will start production of the assets which is planned for 2009-2025.

15 Investments and non-current financial assets

	2008 '000 USD	2007 '000 USD
Non-current		
Available-for-sale investments, stated at cost	38,194	13,361
Other non-current financial assets	2,461	2,903
	40,655	**16,264**
Current		
Investments held to maturity	5,674	-
Investments designated at fair value through profit and loss	-	288
	5,674	**288**

Available-for-sale investments include equity securities of ZAO Company “FTK” (“FTK”) and OAO United Aircraft Corporation (“UAC”) which is the Parent Company of the Group.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 USD	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	59	9,952	(10,536)	(4,924)	(10,477)	5,028
Investment property	-	-	-	(4,965)	-	(4,965)
Intangible assets	7,757	19,153	(21,673)	(27,739)	(13,916)	(8,586)
Investments	6,997	-	(2,529)	(205)	4,468	(205)
Inventories	7,480	7,833	(45,586)	(47,029)	(38,106)	(39,196)
Trade and other receivables	274	592	(9,410)	(9,338)	(9,136)	(8,746)
Loans and borrowings	2,471	818	(10)	(911)	2,461	(93)
Trade and other payables	7,778	7,769	(2,029)	(24)	5,749	7,745
Provisions	568	584	(1,373)	(2,154)	(805)	(1,570)
Tax loss carry-forwards	32,830	4,433	(79)	(340)	32,751	4,093
Total tax assets/(liabilities)	**66,214**	**51,134**	**(93,225)**	**(97,629)**	**(27,011)**	**(46,495)**
Offset of tax	(63,881)	(47,770)	63,881	47,770	-	-
Net tax assets/(liabilities)	**2,333**	**3,364**	**(29,344)**	**(49,859)**	**(27,011)**	**(46,495)**

(b) Movement in temporary differences during the year

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

'000 USD	1 January 2008	Recognised in income	Foreign currency translation	Change in rate	Transferred to disposed subsidiary	31 December 2008
Property, plant and equipment	5,028	(24,198)	935	3,039	4,719	(10,477)
Investment property	(4,965)	(255)	996	704	3,520	-
Intangible assets	(8,586)	(21,053)	5,279	4,060	6,384	(13,916)
Investments	(205)	5,567	-	(894)	-	4,468
Inventories	(39,196)	(650)	(4,060)	7,318	(1,518)	(38,106)
Trade and other receivables	(8,746)	(3,659)	281	2,021	967	(9,136)
Loans and borrowings	(93)	3,632	(147)	(565)	(366)	2,461
Trade and other payables	7,745	(975)	204	(1,207)	(18)	5,749
Provisions	(1,570)	947	(27)	108	(263)	(805)
Tax loss carry-forwards	4,093	40,152	21	(7,378)	(4,137)	32,751
	(46,495)	**(492)**	**3,482**	**7,206**	**9,288**	**(27,011)**

The tax losses expire in 2018. The deductible temporary difference can be utilized in full against the future profits without any restrictions during the remaining years.

(c) Unrecognized deferred tax liability

A temporary difference of USD 6,415 thousand (31 December 2007: USD 5,987 thousand) relating to investments in subsidiaries has not been recognized as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

17 Inventories

	2008 ’000 USD	2007 ’000 USD
Advance payments to suppliers	205,380	216,173
Raw materials and other supplies	129,167	121,202
Aircraft components	169,238	102,020
Goods for sale	170,710	163,622
Amounts due from customers for contract work	213,425	325,036
Other work in progress	70,643	41,990
	958,563	**970,043**
Advance payments received	(402,422)	(253,797)
	556,141	**716,246**

18 Trade and other receivables

	2008 ’000 USD	2007 ’000 USD
Accounts receivable – trade due from related parties	16,922	42,684
Accounts receivable – trade due from third parties	367,969	51,277
Allowance for doubtful accounts	(137)	(325)
	384,754	**93,636**
VAT recoverable	81,127	131,680
Government grant receivable	-	25,715
Due from tax authorities	791	-
Prepaid taxes	12,209	1,662
Other receivables and originated loans	32,041	11,574
	510,922	**264,267**

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

19 Cash and cash equivalents

	2008 '000 USD	2007 '000 USD
Bank balances, US Dollars	540,816	9,878
Bank balances, Euro	17	-
Bank balances, Russian roubles	49,405	280,540
Call deposits, Russian roubles	20,799	73,365
	611,037	**363,783**

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

20 Equity

(a) Share capital

As at 31 December 2008 and 2007, authorised, issued and fully paid capital stock consisted of 978,131,612 ordinary shares. All ordinary shares have a nominal value of RUR 3 each.

(b) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2008 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 5,482,017 thousand (USD 186,588 thousand translated at the closing RUR/USD exchange rate of 29.3804).

Before these consolidated financial statements were authorised for issue, no recommendation has been made by the Board of Directors with regard to dividend distribution for 2008**.** In accordance with the Group's dividend policy, the amount of distribution is limited to 25% of the net profit for the year attributable to the shareholders of the Parent Company determined in accordance with IFRS.

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

	20 June 2008	25 June 2007
Amount per share, RUR	0.14	0.12
Amount per share, USD	0.0056	0.0049
Total amount, '000 USD	5,515	4,793

21 Earnings per share

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

Number of shares	**2008**	**2007**
Issued ordinary shares at 1 January	978,131,612	978,131,612
Weighted average number of ordinary shares at 31 December	**978,131,612**	**978,131,612**

22 Loans and borrowings

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

	2008 '000 USD	**2007 '000 USD**
Non-current		
Secured bank loans	183,703	372,368
Unsecured bank loans	603,274	26,570
Unsecured bond issue	112,761	261,271
Finance lease liabilities	4,091	20,745
	903,829	**680,954**
Current		
Secured bank loans	3,404	33,209
Unsecured bank loans	40,552	3,006
Current portion of non-current secured bank loans	67,848	65,599
Current portion of non-current unsecured bank loans	52,606	31,435
Current portion of unsecured bond issue	127,304	-
Current portion of finance lease liabilities	6,537	6,838
Other loans	23	173,949
	298,274	**314,036**

(a) Security

The loans are secured over goods for sale with a carrying amount of USD 25,000 thousand, over property, plant and equipment with a carrying amount of USD 6,603 thousand (31 December 2007: USD 29,367 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

'000 USD	Nominal interest rate	Year of maturity	Face value 2008	Carrying amount 2008	Face value 2007	Carrying amount 2007
Secured bank loans:						
RUR	8.50%	2008	-	-	26,387	26,446
RUR	15%	2009	3,404	3,404	-	-
USD	9.25%-10%	2009-2012	225,000	229,573	374,612	375,008
USD	7.95%-8.3%	2008	-	-	20,000	20,241
USD	Libor+2.8%	2009	20,000	20,300	49,875	49,481
EURO	Euribor+6%	2010	1,678	1,678	-	-
Unsecured bank loans:						
RUR	8.3%-8.5%	2008	-	-	10,185	10,410
USD	8.50%	2009-2011	75,000	75,088	23,000	22,990
USD	10%	2012-2013	222,955	224,975	-	-
USD	Libor+2.4%-6.5%	2008	-	-	18,000	18,134
USD	Libor+2.4%-6.5%	2010	387,080	386,659	-	-
EURO	Euribor+1.25%-6%	2009-2011	9,768	9,710	9,538	9,477
Unsecured bond issues:						
RUR	8.74%	2010	110,618	112,761	132,403	134,592
USD	8.25%	2009	125,000	127,304	125,000	126,679
Finance lease liabilities	10.2%-14%	2009-2012	10,628	10,628	27,583	27,583
Other loans	5%	2008-2009	23	23	173,949	173,949
Total interest-bearing liabilities			**1,191,154**	**1,202,103**	**990,532**	**994,990**

(c) Finance lease liabilities are payable as follows:

'000 USD	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008	Future minimum lease payments 2007	Interest 2007	Present value of minimum lease payments 2007
Less than one year	7,449	912	6,537	9,170	2,332	6,838
Between one and five years	4,318	227	4,091	23,443	2,698	20,745
	11,767	**1,139**	**10,628**	**32,613**	**5,030**	**27,583**

For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

23 Trade and other payables

	2008 '000 USD	2007 '000 USD
Accounts payable – trade due to related parties	23,225	20,586
Other trade payables	211,975	160,171
Accrued expenses	2,790	11,524
Advances from customers	308,566	95,878
Income and other taxes payable	24,684	43,341
Other payables	20,082	31,654
	591,322	**363,154**

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

24 Provisions

	Warranties	
	2008 '000 USD	2007 '000 USD
Balance at 1 January	13,197	9,914
Provisions made during the year	6,780	8,046
Provisions used during the year	(10,297)	(3,660)
Provisions reversed during the year	(486)	(1,103)
Balance at 31 December	**9,194**	**13,197**

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

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

25 Financial instruments

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

(a) Credit risk

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

'000 USD	Carrying Amount 2008	Carrying amount 2007
Available-for-sale financial assets	38,194	13,361
Held-to-maturity investments	5,674	-
Financial assets at fair value through profit or loss	-	288
Trade receivables	384,754	93,636
Amounts due from customers for contract work	213,425	325,036
Originated loans	3,109	8,545
Other receivables	30,966	28,904
Cash and cash equivalents	611,037	363,783
	1,287,159	**833,553**

(b) Impairment losses

The aging of trade receivables at the reporting date was:

'000 USD	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	368,578	-	71,329	-
Past due 0-360 days	16,176	-	22,307	-
More than one year	137	(137)	325	(325)
	384,891	**(137)**	**93,961**	**(325)**

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

'000 USD	2008 '000 USD	2007 '000 USD
Balance at 1 January	325	108
Impairment loss recognised	(188)	217
Balance at 31 December	**137**	**325**

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

The allowance accounts in respect of trade receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2008 the Group does not have any collective impairments on its trade receivables or its held-to-maturity investments (2007: nil).

(c) Liquidity risk

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

31 December 2008

’000 USD	Carrying amount	Contractual cash flows	12 month or less	1-2 years	2-5 years
Secured bank loans	254,955	306,867	91,834	63,648	151,385
Unsecured bank loans	696,432	821,788	122,333	388,311	311,144
Unsecured bond issues	240,065	260,147	139,967	120,180	-
Finance lease liabilities	10,628	11,767	7,449	3,933	385
Other loans	23	23	23	-	-
Trade and other payables	282,756	282,756	282,756	-	-
	1,484,859	**1,683,348**	**644,362**	**576,072**	**462,914**

31 December 2007

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

(d) Currency risk

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

’000 USD	31 December 2008 USD	31 December 2008 RUR	31 December 2008 EURO	31 December 2007 USD	31 December 2007 RUR	31 December 2007 EURO
Cash and cash equivalents	540,816	70,204	17	9,878	353,905	-
Trade receivables	369,245	15,243	266	79,089	14,330	217
Other receivables	-	32,041	-	-	11,573	-
Amounts due from customers for contract work	206,620	6,805	-	237,835	87,201	-
Secured bank loans	(249,873)	(3,404)	(1,678)	(444,730)	(26,446)	-
Unsecured bank loans	(686,722)	-	(9,710)	(41,124)	(10,410)	(9,477)
Unsecured bond issues	(127,304)	(112,761)	-	(126,679)	(134,592)	-
Finance lease liabilities	(2,534)	(3,128)	(4,966)	(19,434)	(4,279)	(3,870)
Other loans	-	(23)	-	(173,949)	-	-
Trade and other payables	(196,150)	(81,027)	(5,579)	(158,250)	(96,376)	(12,650)
Gross balance sheet exposure	**(145,902)**	**(76,050)**	**(21,650)**	**(637,364)**	**194,906**	**(25,780)**

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date spot rate**	
	2008	**2007**	**2008**	**2007**
RUR 1,000	40.23	39.10	34.04	40.74
EURO	1.47	1.37	1.41	1.46

(e) Sensitivity analysis

A 5% strengthening of the USD against the following currencies at 31 December 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007

’000 USD	**Equity/Profit or loss**
31 December 2008	
RUR	3,621
EURO	1,031
31 December 2007	
RUR	(9,281)
EURO	1,228

A 5% weakening of the USD against the above currencies at 31 December 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(f) Interest rate risk

(i) Profile

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

’000 USD	**Carrying amount**	
	2008	**2007**
Fixed rate instruments		
Financial assets	23,908	81,981
Financial liabilities	(783,756)	(917,898)
	(759,848)	**(835,917)**
Variable rate instruments		
Financial liabilities	(418,347)	(77,092)
	(418,347)	**(77,092)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates based on the Group's exposure at the balance sheet date for 2008 would have increased or (decreased) profit for the year by USD 4,183 thousand (2007: USD 771 thousand). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values

(i) Fair values versus carrying amounts

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

'000 USD	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Available-for-sale financial assets	38,194	38,194	13,361	13,361
Held-to-maturity investments	5,674	5,674	-	-
Financial assets at fair value through profit or loss	-	-	288	288
Loans and receivables	418,829	418,829	131,085	131,085
Cash and cash equivalents	611,037	611,037	363,783	363,783
Secured bank loans	(254,955)	(254,955)	(471,176)	(471,176)
Unsecured bank loans	(696,432)	(696,432)	(61,011)	(61,011)
Unsecured bond issues, RUR (note 22)	(112,761)	(96,790)	(134,592)	(135,409)
Unsecured bond issues, USD (note 22)	(127,304)	(116,263)	(126,679)	(125,078)
Finance lease liabilities	(10,628)	(10,628)	(27,583)	(27,583)
Other loans	(23)	(23)	(173,949)	(173,949)
Trade and other payables	(282,756)	(282,756)	(267,276)	(267,276)
	(411,125)	**(384,113)**	**(753,749)**	**(752,965)**

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

26 Commitments

(a) Capital commitments

At 31 December 2008 the Group is committed to capital expenditure of approximately USD 6,003 thousand (2007: USD 1,866 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2008 under long-term supply agreements are estimated at USD 93,179 thousand at current market prices (2007: USD 78,615 thousand).

27 Contingencies

(a) Insurance

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

(b) Litigation

The Group was involved in a number of disputes with tax authorities related to the results of the tax audits for 2003-2004. In 2006, 2007 the disputes were finalised in favour of the Group. According to the tax legislation the Group claimed additional deductions from the taxable profits reported in previous years and return of amounts deducted by the tax authorities from the Group's bank accounts as well as related interest. The claim was satisfied, which resulted in interest income of USD 808 thousand (2007: USD 1,491 thousand).

(c) Taxation contingencies

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

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

(d) Environmental contingencies

Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are recognised immediately. The outcome of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no liabilities, which will have a materially adverse effect on the financial position or the operating results of the Group.

28 Related party transactions

(a) Control relationship

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

Upon establishment of OAO United Aircraft Corporation in December 2006, the controlling interest in the Parent Company was contributed by the shareholders to the share capital of OAO United Aircraft Corporation, which is controlled by the Federal Government of Russian Federation. Therefore, from 31 December 2006 the Federal Government of Russian Federation is the ultimate controlling party of the Group. Related parties disclosures (refer 28(b)) as at 31 December 2008 include balances with other state-controlled entities.

(b) Transactions with management

(i) Loans to directors

Unsecured loans to directors issued during the year ended 31 December 2008 amounted to USD 85 thousand (2007: USD 818 thousand). Interest is 9% paid by the directors, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2008 the balance outstanding was USD 85 thousand (2007: USD 818 thousand) and is included in other receivables (see note 18).

(ii) Key management personnel compensation

Key management received the following remuneration during the year, which is included in personnel expenses (see note 0):

	2008 ’000 USD	**2007 ’000 USD**
Wages and salaries	3,069	15,726
Compulsory social security contributions	589	328
	3,658	**16,054**

(c) Transactions with other related parties

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

’000 USD	Transaction value 2008	Outstanding balance 2008	Transaction value 2007	Outstanding balance 2007
Purchases of raw materials and components	(7,765)	(23,225)	(10,549)	(20,586)
Sales of military aircraft components and related products	523,179	-	432,764	-
Acquisition of design and development	(19,240)	-	(9,700)	-
Accounts receivable – trade	-	16,922	-	42,684
Advance payments received	-	(26,211)	-	(189,727)
Advance payments given	-	59,767		34,753
Other receivables and originated loans	210	3,839	6,833	6,833
Bank balances	-	554,565	-	117,172
Secured loans	(1,056)	(225,000)	399,367	(244,975)
Unsecured loans	361,654	(548,035)	360,941	(124,013)

(d) Pricing policies

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

29 Significant subsidiaries

	Country of incorporation	Ownership/voting 2008	2007
OAO “OKB Imeni A.S. Yakovleva”	Russia	75%	75%
OAO “TANTK Imeni G.M. Berieva”	Russia	46%*	59%
ZAO “Beta Air”	Russia	72%	72%
ZAO “Irkut AviaSTEP”	Russia	100%	100%
ZAO “ITELA”	Russia	51%	51%
ZAO “Techserviceavia”	Russia	51%	51%

*) As stated in Note 6, the Group lost control in December 2008. As a result, the investment is accounted for under the equity-method.

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

30 Events subsequent to the balance sheet date

On 9 April 2009 Company has settled full amount of unsecured bond issue, in the amount of USD 125,000 thousand.