



**OAO Scientific Production Corporation "IRKUT"**

**Interim Consolidated Financial Statements**  
**September 30, 2003**

These interim consolidated financial statements were prepared by OAO Scientific Production Corporation "IRKUT" in accordance with US GAAP and have not been audited by our independent auditor. If these financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

**OAo Scientific Production Corporation “IRKUT”**  
**Interim Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002**  
**(Thousands of US dollars)**

|   | Note | (UNAUDITED)<br>September 30,<br>2003 | December 31,<br>2002 |
|---|------|--------------------------------------|----------------------|
| <b>ASSETS</b>   |      |                                      |                      |
| <b>Current assets</b>   |      |                                      |                      |
| Cash and cash equivalents   | 3    | 10,948                               | 22,217               |
| Short-term investments  |      | 50,630                               | 71,438               |
| Accounts receivable, net of allowance for doubtful accounts of US\$ 925 (December 31, 2001: US\$ 1,053) |      | 8,086                                | 39,806               |
| Taxes and other receivables   |      | 117,058                              | 95,878               |
| Inventories   | 4    | 400,211                              | 206,875              |
| Prepaid expenses and other current assets   |      | 2,333                                | 2,188                |
| Deferred income taxes, short-term   |      | -                                    | 2,074                |
| <b>Total current assets</b>   |      | <b>589,266</b>                       | <b>440,476</b>       |
| Property, plant and equipment   |      | 161,575                              | 152,653              |
| Intangible assets   |      | 3,423                                | 2,983                |
| Long-term investments   |      | 29,667                               | 31,133               |
| Deferred income taxes, long-term  |      | 2,634                                | 6,873                |
| <b>Total assets</b>   |      | <b>786,565</b>                       | <b>634,118</b>       |
| <b>LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST</b>  |      |                                      |                      |
| <b>Current liabilities</b>  |      |                                      |                      |
| Short-term borrowings   | 6    | 538,674                              | 460,330              |
| Accounts payable, trade   |      | 80,998                               | 18,312               |
| Advances received   |      | 812                                  | 851                  |
| Accrued liabilities   |      | 10,307                               | 8,186                |
| Income and other taxes payable  |      | 10,522                               | 8,533                |
| Other current liabilities, third parties  |      | 6,964                                | 4,430                |
| Other current liabilities, related parties  |      | 647                                  | 272                  |
| Deferred income tax liabilities, short-term   |      | 6,329                                | -                    |
| <b>Total current liabilities</b>  |      | <b>655,253</b>                       | <b>500,914</b>       |
| Long-term borrowings  | 6    | 110,574                              | 104,393              |
| <b>Total liabilities</b>  |      | <b>765,827</b>                       | <b>605,307</b>       |
| <b>Minority interest</b>  |      | <b>-</b>                             | <b>890</b>           |
| <b>Commitments and contingencies</b>  | 9    |                                      |                      |
| <b>Stockholders' equity</b>   |      |                                      |                      |
| Common stock  | 5    | 84,183                               | 84,183               |
| Accumulated losses  |      | (63,445)                             | (56,262)             |
| <b>Total stockholders' equity</b>   |      | <b>20,738</b>                        | <b>27,921</b>        |
| <b>Total liabilities, stockholders' equity and minority interest</b>                                    |      | <b>786,565</b>                       | <b>634,118</b>       |

The consolidated financial statements as set out on pages 3 to 12, were approved by the Group's management on February 9, 2004.

Senior Vice-President  
Tsvilev S.V.

The accompanying notes are an integral part of these interim consolidated financial statements.

**OAo Scientific Production Corporation “IRKUT”**  
**Interim Consolidated Statement of Operations (UNAUDITED)**  
(Thousands of US dollars, unless otherwise noted)

|  | Note | For the nine month<br>period ended<br>September 30, 2003 |
|--|------|--|
| Sales and other operating revenues               | 7    | 367,696  |
| Cost of products and services                    |      | (217,139)  |
| <b>Gross profit</b>                              |      | <b>150,557</b>   |
| Research and development costs                   |      | (12,603)   |
| Taxes other than on income                       |      | (6,272)  |
| Selling, general and administrative expenses     |      | (59,654)   |
| Social expenditure                               |      | (3,144)  |
| Repairs and maintenance                          |      | (6,269)  |
| Other operating income and expenses, net         |      | (3,799)  |
| <b>Operating income</b>                          |      | <b>58,816</b>  |
| Interest expenses, net                           |      | (48,466)   |
| Loss from investments                            |      | (351)  |
| Share in losses of associates                    |      | (632)  |
| Foreign exchange loss                            |      | (754)  |
| <b>Income before taxes and minority interest</b> |      | <b>8,613</b>   |
| <b>Income taxes</b>                              |      |  |
| Current tax expense                              |      | (1,718)  |
| Deferred tax expense                             |      | (12,642)   |
| <b>Total tax expense</b>                         |      | <b>(14,360)</b>  |
| <b>Loss before minority interest</b>             |      | <b>(5,747)</b>   |
| Minority interest                                |      | 890  |
| <b>Net loss</b>                                  |      | <b>(4,857)</b>   |
| Basic and diluted loss per share (US dollars):   |      | (0.006)  |

The accompanying notes are an integral part of these interim consolidated financial statements.

**OA Scientific Production Corporation “IRKUT”**  
**Interim Consolidated Statement of Cash Flows (UNAUDITED)**  
**(Thousands of US dollars)**

|  | <b>For the nine month<br/>period ended<br/>September 30, 2003</b> |
|--|---|
| Net loss   | (4,857)   |
| Adjustments to reconcile net loss to cash used for operating activities: |   |
| Depreciation   | 9,681   |
| Change in deferred income taxes  | 12,642  |
| Change in provision for warranty repairs                                 | 2,121   |
| Change in provision for income taxes                                     | 1,718   |
| Minority interest  | (890)   |
| Loss from investments  | 351   |
| Share in losses of associates  | 632   |
| Foreign exchange differences   | 11,109  |
| Changes in operating working capital:                                    |   |
| Decrease in receivables  | 10,540  |
| Increase in inventories  | (193,336)   |
| Increase in prepaid expenses and other current assets                    | (145)   |
| Decrease in accounts payable, trade                                      | 62,686  |
| Decrease in advances received  | (39)  |
| Increase in other current liabilities                                    | 3,135   |
| <b>Net cash used for operating activities</b>                            | <b>(84,652)</b>   |
| <b>Investing activities</b>  |   |
| Capital expenditure  | (19,043)  |
| Net cash received from disposals of short-term investments               | 11,818  |
| Cash used for acquisition of associate                                   | (327)   |
| <b>Net cash used for investing activities</b>                            | <b>(7,552)</b>  |
| <b>Financing activities</b>  |   |
| Loans received   | 272,040   |
| Repayment of loans   | (189,154)   |
| Dividends paid   | (2,281)   |
| <b>Net cash received from financing activities</b>                       | <b>80,605</b>   |
| Effect of exchange rate changes on cash and cash equivalents             | 330   |
| <b>Net change in cash and cash equivalents</b>                           | <b>(11,269)</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b>            | <b>22,217</b>   |
| <b>Cash and cash equivalents at the end of the year</b>                  | <b>10,948</b>   |
| <b>Supplemental cash flow information</b>                                |   |
| Interest paid  | 52,020  |
| Income taxes paid  | -   |

The accompanying notes are an integral part of these interim consolidated financial statements.

**Note 1. BASIS OF FINANCIAL STATEMENTS PRESENTATION**

The accompanying interim consolidated financial statements and notes thereto of OA0 Scientific Production Corporation “IRKUT” (“the Company”) and its subsidiaries (“the Group”) have not been audited by independent accountants, except for the balance sheet at December 31, 2002. In the opinion of the Company's management, the interim financial information includes all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim period reported herein, in conformity with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”). These adjustments were of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim consolidated financial statements. Therefore, these financial statements should be read in conjunction with the Group's December 31, 2002 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2002 consolidated financial statements.

The results for the nine-month periods ended September 30, 2003 are not necessarily indicative of future financial results.

***Going concern***

The accompanying interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment.

The Group's current liabilities exceeded current assets by US\$ 65,987 at September 30, 2003 (at December 31, 2002: US\$ 60,438). The Group had a net loss of US\$ 4,857 for the nine months period ended September 30, 2003. The ultimate realization of the Group's assets and its long-term liquidity will be impacted by its operating success. To the extent cash flow from operations is insufficient to fund future capital expenditures, additional sources of equity or debt financing may be necessary or the Group may need to curtail its operations. As of September 30, 2003 the Company had an unused borrowing facility with Sberbank for US\$ 126,872 maturing in 2005, which, with its other capital resources, is sufficient to meet the current portion of its September 30, 2003 obligations, as they become due in 2003-2004.

The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

**OA Scientific Production Corporation "IRKUT"**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
**(Thousands of US dollars, except as indicated)**

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***Foreign currency and translation***

Effective January 1, 2003, the Russian economy ceased to be considered hyperinflationary in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". As a result, the Company has assessed its functional currency and determined that the US dollar should continue to be considered the functional currency for financial reporting beginning January 1, 2003. This is primarily due to the market in which the Company operates, the significance of operations and transactions conducted in US dollars, and the fact that management's measurement of the Company's performance and decision making are based on US dollars denominated data. For the purposes of presenting financial statements prepared in conformity with US GAAP, the US dollar is also the reporting currency of the Group.

Monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates, which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated statements of operations.

Foreign currency transaction gains and losses are included in the consolidated statement of operations.

As of September 30, 2003 and December 31, 2002, exchange rates of 30.61 and 31.78 Russian rubles, respectively to the US dollar have been used for translation purposes.

The Russian ruble is not freely convertible outside of the Russian Federation. Accordingly, the translation of amounts recorded in rubles into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

**Note 2. RECENTLY ISSUED ACCOUNTING STANDARDS**

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"), which addresses when a company should include in its financial statements the assets, liabilities and activities of another entity.

The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. For variable interest entities created before February 1, 2003, Interpretation No. 46 must be adopted in the first interim or annual period ending after December 15, 2003. There have been no variable interest entities created after January 31, 2003 in which the Group has an interest. The Group is reviewing its financial arrangements entered into before February 1, 2003 to identify any that might qualify as variable interest entities. There is a reasonable possibility that certain enterprises might be variable interest entities. However, the Group does not expect any significant impact on net assets if it is required to consolidate any of these possible variable interest entities.

**OAo Scientific Production Corporation "IRKUT"**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
**(Thousands of US dollars, except as indicated)**

**Note 3. CASH AND CASH EQUIVALENTS**

|  | September 30,<br>2003 | December 31,<br>2002 |
|--|-----------------------|----------------------|
| Cash at bank, US\$ accounts            | 301                   | 14,986               |
| Cash at bank, Russian ruble accounts   | 10,647                | 7,231                |
| <b>Total cash and cash equivalents</b> | <b>10,948</b>         | <b>22,217</b>        |

As of September 30, 2003 the Group had cash and cash equivalents of US\$ 890 (as of December 31, 2002: US\$ 5,042) on deposit with a related party bank.

**Note 4. INVENTORIES**

|  | September 30,<br>2003 | December 31,<br>2002 |
|--|-----------------------|----------------------|
| Advances to third parties  | 48,059                | 69,461               |
| Advances to related parties                                      | 31,641                | 64,032               |
| Aircraft components  | 23,261                | 39,268               |
| Work in progress   | 30,758                | 10,351               |
| General stock and other materials                                | 35,080                | 31,201               |
| Costs and earnings recognized on contracts in excess of billings | 479,175               | 198,940              |
|  | 647,974               | 413,253              |
| Advance payments received  | (247,763)             | (206,378)            |
| <b>Total inventories</b>   | <b>400,211</b>        | <b>206,875</b>       |

**Note 5. STOCKHOLDERS' EQUITY**

***Common stock***

At September 30, 2003 authorized, issued and fully paid capital stock consisted of 791,051,875 ordinary shares with a nominal value of Russian rubles 3 each. Subsequent to the balance sheet date, at the Company's stockholders meeting on December 2, 2003, stockholders approved a measure to increase the number of shares by 87,894,653 (refer Note 10).

***Dividends***

At the stockholders' meeting on May 30, 2003, dividends were declared for 2002 in the amount of Russian rubles 0.09 per common share, which at the date of the decision was equivalent to US\$ 0.003, or US\$ 2,326 in total.

**OA Scientific Production Corporation "IRKUT"**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
**(Thousands of US dollars, except as indicated)**

**Note 6. BORROWINGS**

|  | September 30,<br>2003 | December 31,<br>2002 |
|--|-----------------------|----------------------|
| <b>Short-term borrowings</b>                             |                       |                      |
| Secured bank loans: – US\$, fixed at 9.5%                | 37,799                | 20,105               |
| – Russian rubles, fixed at 14-15.5%                      | 8,874                 | 4,090                |
| – US\$, variable at LIBOR+6.5%                           | -                     | 15,261               |
| Unsecured bank loans: – US\$, fixed at 9.5-10%           | 90,203                | 66,274               |
| Current portion of long-term secured bank loans:         |                       |                      |
| – Russian rubles, fixed at 9-10.5%                       | 257,832               | 222,876              |
| – US\$, fixed at 10-12%                                  | 85,431                | 35,104               |
| Current portion of long-term unsecured bank loans:       |                       |                      |
| – US\$, fixed at 19%                                     | -                     | 1,406                |
| Unsecured bond issues: – Russian rubles, fixed at 12-17% | 58,535                | 68,168               |
| Promissory notes: – Russian rubles, fixed at 20%-25%     | -                     | 26,383               |
| Other loans from third parties                           | -                     | 663                  |
| <b>Total short-term borrowings</b>                       | <b>538,674</b>        | <b>460,330</b>       |
| <b>Long-term borrowings</b>                              |                       |                      |
| Secured bank loans: – Russian rubles, fixed at 10%       | 66,452                | 44,252               |
| – US\$, fixed at 10%                                     | -                     | 60,141               |
| Unsecured bank loans: – US\$, variable at LIBOR+6.35%    | 44,122                | -                    |
| <b>Total long-term borrowings</b>                        | <b>110,574</b>        | <b>104,393</b>       |
| <b>Total borrowings</b>                                  | <b>649,248</b>        | <b>564,723</b>       |

Details of significant loan balances are summarized below:

*(a) Sberbank credit lines and other loans*

The Group has non-revolving ruble denominated credit line agreements and other loan agreements with Sberbank. At September 30, 2003 the amount outstanding under these agreements was US\$ 333,158, inclusive of interest. Borrowings under these agreements bear interest at fixed rates from 9% to 15.5%. Property, plant and equipment, aircraft components and accessories and other materials have been pledged as collateral against these credit lines and loans.



**OA Scientific Production Corporation "IRKUT"**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
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*(b) Vneshtorgbank*

The Group has a US\$ denominated loan agreement with Vneshtorgbank for the amount of US\$ 60,000. Borrowings under this loan bear fixed interest of 10.5%. At September 30, 2003 the amount outstanding under the loan agreement was US\$ 60,380, inclusive of interest. The Group pledged the right to receive future revenues under the general license agreement with a foreign government.

*(c) Rosbank*

The Group has two US\$ denominated loan agreement with Rosbank for the total amount of US\$ 70,000, which are unsecured and bear fixed interest of 10%. At September 30, 2003 the amount outstanding under these loan agreements was US\$ 70,177, inclusive of interest.

*(d) Alfa-Bank*

The Group has four US\$ denominated loan agreements with Alfa-Bank. At September 30, 2003 the amount outstanding under these agreements was US\$ 67,838, inclusive of interest. Borrowings under these loans bear fixed interest of 9.5%. Inventory of non-ferrous metals and work in progress has been pledged as collateral against these loans.

*(e) Moscow Narodny Bank*

In June 2003 the Group has obtained a US\$ denominated syndicated loan agreement for US\$ 50,000 from a group of South-Asian Banks. The organizer of the loan was Moscow Narodny Bank Limited, Singapore branch. The loan is unsecured and it bears variable interest rate of LIBOR+6.35%. At September 30, 2003 the amount outstanding under the loan agreement was US\$ 44,122, inclusive of interest.

*(f) Russian ruble bonds*

During 2002, the Group issued 2,100,000 Russian ruble bonds with a face value of 1,000 Russian rubles each, maturing in 2005. The Group makes semi-annual interest coupon payments. The annual interest rate for the first coupon was 20.4%, for the second - 18.5%, for the third 12%-17% depending on the type of the bond. Every time the Group changes the coupon interest, the offer is made to redeem outstanding bonds from the market. At September 30, 2003 the amount of outstanding bonds was US\$ 58,535.

***Maturities of long-term debt***

Annual maturities of total long-term debt, including the portion classified as current, are US\$ 232,993 in 2003, US\$ 22,867 in 2004 and US\$ 197,977 in 2005.

**OAO Scientific Production Corporation “IRKUT”**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
**(Thousands of US dollars, except as indicated)**

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**Note 7. SALES AND OTHER OPERATING REVENUES**

|  | <b>For the nine month<br/>period ended<br/>September 30, 2003</b> |
|--|---|
| Revenue earned on military aircraft construction contracts   | 281,510   |
| Revenue earned on civil aircraft construction contracts      | 24,040  |
| Revenue on sales of aircraft components and related products | 52,410  |
| Other operating revenues                                     | 9,736   |
| <b>Total sales and other revenues</b>                        | <b>367,696</b>  |

**Note 8. RELATED PARTY TRANSACTIONS**

Related party transactions are disclosed on the face of each primary consolidated financial statement and in the corresponding notes to the financial statements. In addition:

In 1992, the Group contracted OAO TANTK Imeni Berieva (“TANTK”) to perform research and development works related to Be-200 amphibian aircraft. In the nine months period ended September 30, 2003 the expenses incurred in relation to this project, included in the line “Research and development costs” of the Consolidated Statement of Operations, were US\$ 3,304.

The Group has a loan receivable from TANTK for the amount of US\$ 1,214. Subsequent to the balance sheet date TANTK repaid the loan by a transfer of its minority interest in ZAO Beta-IR, a subsidiary of the Group. The fair value of the consideration received by the Group was nil, therefore the Group recognized an impairment of the loan as of September 30, 2003. The amount of impairment was included in the line “Other operating income and expenses, net”. As of September 30, 2003 the Group held 44% of the shares of TANTK (as of December 31, 2002: 43%).

In 1997, the Group contracted OAO OKB Sukhogo, a principle stockholder of the Company, to develop the design of the SU-30 MKI aircraft for supply under the contract with a foreign government. Expenses incurred by the Group on this contract in the nine month period ended September 30, 2003, disclosed in the line “Cost of products and services” of the Consolidated Statement of Operations, were US\$ 31,501. The balances of prepayments made by the Group to OAO OKB Sukhogo for work to be performed in future periods were US\$ 23,707 as of September 30, 2003 and US\$ 46,849 as of December 31, 2002.

The Group has an available-for-sale investment in ZAO Company FTK (“FTK”), a former subsidiary of the Group and its principle stockholder. After a dilution of FTK’s stock, which took place in 2002, the Group controls 9% of FTK’s share capital. The investment was recorded at cost of US\$ 8,885 and included in the line “Long-term investments” of the Consolidated Balance Sheet.

**Note 9. COMMITMENTS AND CONTINGENCIES**

***Capital commitments***

As of September 30, 2003 the Group is committed to capital expenditure of approximately US\$ 9,853 (as of December 31, 2002: US\$ 3,052).

**OA Scientific Production Corporation "IRKUT"**  
**Notes to the Interim Consolidated Financial Statements for the nine month period ended**  
**September 30, 2003 (UNAUDITED)**  
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***Purchase commitments***

Commitments with third parties for the supply of aircraft components and services after September 30, 2003 under long-term supply agreements are estimated at US\$ 228,313 at current market prices (as of December 31, 2001: US\$ 180,529).

***Taxation***

Russian tax, currency and customs legislation is subject to varying interpretations and changes, occurring frequently. Furthermore, the interpretation of such legislation by the authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, such authorities may challenge certain transactions.

The Group is involved in a number of disputes with tax authorities. Based on results of the recent tax audits tax authorities claimed US\$ 26,510 of additional tax payments and deducted the amount from the Company's bank account. Subsequent to the balance sheet date, the District West-Siberian Arbitration made the judgment to return the amount to the Company's bank account. As of September 30, 2003 the amount is included in the line "Taxes and other receivables" of the Consolidated Balance Sheet. Future obligations of the Company to pay the amount to the state budget is dependant on the resolution of disputes with tax authorities. Management believes that these disputes will be resolved without significant loss to the Group and, accordingly, no provision has been made for these liabilities.

***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 recognized 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.

**Note 10. SUBSEQUENT EVENTS**

At the Company's stockholders meeting on December 2, 2003, stockholders approved a measure to increase the number of shares by 87,894,653. The additional shares will be distributed among various investors during an initial public offering of the Company's shares on the Russian stock exchanges (RTS and MICEX) expected in March 2004.

At the Company's stockholders meeting on January 16, 2004, stockholders approved a decision to move the head office of the Group to a new address:

13 Novoalexeevskaya street,  
Moscow, 129626, Russia