



OAO Scientific Production Corporation “Irkut”

Consolidated Financial Statements
for the year ended 31 December 2011

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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 statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As described in Note 8, grants received from the government have been recognised as revenue. International Financial Reporting Standard IAS 20 *Accounting for Government grants and Disclosure of Government Assistance* requires government grants related to assets to be accounted for as a deduction in arriving at the carrying amount of the asset or, where the grant relates to compensation of costs, be recognised in the income statement on a systematic basis over the periods in which the related costs are recognised. Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have been reduced by USD 274,143 thousand, cost of sales would have been reduced by USD 201,648 thousand, and government grants related to income would have been increased by USD 72,495 thousand as at and for the year ended 31 December 2011.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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24 April 2012

OAO Scientific Production Corporation "Irkut"
 Consolidated Income Statement for the year ended 31 December 2011

	Note	2011 '000 USD	2010 '000 USD
Revenues	8	1,626,028	1,672,650
Cost of sales		(1,107,794)	(978,768)
Gross profit		518,234	693,882
Other income		1,527	1,013
Research and development costs		(21,232)	(11,274)
Distribution expenses		(108,135)	(247,221)
Administrative expenses		(155,629)	(127,523)
Taxes, other than on profit		(9,226)	(9,646)
Other expenses	10	(22,439)	(137,478)
Profit from operating activities		203,100	161,753
Finance income	11	10,452	14,331
Finance costs	11	(49,246)	(59,344)
Share of loss of equity accounted investees	15	-	(13,493)
Profit before tax		164,306	103,247
Income tax expense	12	(40,863)	(17,701)
Profit for the year		123,443	85,546
<i>Attributable to:</i>			
Owners of the parent company		122,860	84,682
Non-controlling interest		583	864
		123,443	85,546
Basic and diluted profit per share (USD)	22	0.106	0.086

The consolidated financial statements were authorised for issuance on 24 April 2012 by management and signed on its behalf.



D.V. Polevshchikov
 Vice-President for Corporate Finance

OAQ Scientific Production Corporation “Irkut”
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

	Note	<u>2011</u> <u>'000 USD</u>	<u>2010</u> <u>'000 USD</u>
Profit for the year		123,443	85,546
Other comprehensive income:			
Foreign exchange differences		(4,357)	(573)
Effective portion of changes in fair value of cash flow hedges, (net of tax)		<u>27,848</u>	<u>(462)</u>
Total comprehensive income for the year		<u>146,934</u>	<u>84,511</u>
Attributable to:			
Owners of the parent company		147,239	83,764
Non-controlling interest		<u>(305)</u>	<u>747</u>
		<u>146,934</u>	<u>84,511</u>

OAO Scientific Production Corporation “Irkut”
Consolidated Statement of Financial Position as at 31 December 2011

	Note	31 December 2011 '000 USD	31 December 2010 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	13	335,186	331,592
Intangible assets	14	225,593	182,620
Investments and non-current financial assets	16	22,487	20,554
Other non-current assets	7	100,580	100,580
Deferred tax assets	17	1,993	2,274
		685,839	637,620
Current assets			
Investments	16	16,220	32,801
Inventories	18	836,702	611,178
Trade and other receivables	19	767,062	355,777
Cash and cash equivalents	20	295,532	320,434
		1,915,516	1,320,190
Total assets		2,601,355	1,957,810
EQUITY AND LIABILITIES			
Equity			
	21		
Share capital		122,124	122,124
Share premium		227,118	227,118
Foreign currency translation reserve		(8,437)	(4,968)
Additional paid-in capital		173,234	24,358
Hedging reserve		27,386	(462)
Retained earnings		311,771	204,861
Total equity attributable to shareholders of the parent company		853,196	573,031
Non-controlling interest		15,336	15,755
Total equity		868,532	588,786
Non-current liabilities			
Loans and borrowings	23	856,581	679,730
Deferred tax liabilities	17	112,406	40,615
		968,987	720,345
Current liabilities			
Loans and borrowings	23	235,267	332,621
Trade and other payables	24	518,690	305,349
Provisions	25	9,879	10,709
		763,836	648,679
Total equity and liabilities		2,601,355	1,957,810

OAO Scientific Production Corporation “Irkut”
Consolidated Statement of Cash Flows for the year ended 31 December 2011

	2011	2010
	'000 USD	'000 USD
OPERATING ACTIVITIES		
Profit before tax	164,306	103,247
Adjustments for:		
Depreciation and amortisation	49,819	44,370
Unrealised foreign exchange gain	(27,272)	(2,875)
(Reversal)/impairment of loans given and receivables	(1,266)	1,700
Impairment of non-current assets	-	77,786
Impairment of capitalised development costs	2,536	37,316
(Gain)/loss on disposal of property, plant and equipment	(463)	1,365
Loss from disposal of intangible assets	1,673	-
Loss from impairment of investments	3,157	12,546
Share of loss of equity accounted investees	-	13,493
Interest expense	62,245	98,944
Government grant related to compensation of interest expense	(16,156)	(52,146)
Interest income	(6,087)	(12,032)
Operating profit before changes in working capital and provisions	232,492	323,714
Change in inventories	(225,524)	(217,112)
Change in trade and other receivables	(407,171)	(81,375)
Change in trade and other payables	213,286	7,303
Change in provisions	(830)	3,677
Cash flows (used in)/from operations before income taxes and interest paid	(187,747)	36,207
Income taxes paid	(485)	(15,158)
Cash flows (used in)/from operating activities	(188,232)	21,049
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1,927	960
Acquisition of property, plant and equipment	(35,249)	(38,644)
Acquisition of intangible assets	(63,514)	(66,293)
Government grant related to intangible assets	3,110	-
Loans advanced to related parties	(3,021)	-
Proceeds from/(acquisition of) investments	14,512	(24,298)
Interest received	6,087	12,032
Cash flows used in investing activities	(76,148)	(116,243)
FINANCING ACTIVITIES		
Proceeds from borrowings	1,184,545	1,045,620
Repayment of borrowings	(864,087)	(1,227,360)
Payment of lease liabilities	(10,460)	-
Interest paid, net of grant received	(61,343)	(70,247)
Proceeds from share issue	-	147,899
Dividends paid	(16,064)	(14,179)
Cash flows from/(used in) financing activities	232,591	(118,267)
Net decrease in cash and cash equivalents	(31,789)	(213,461)
Cash and cash equivalents at beginning of year	320,434	535,096
Effect of exchange rates fluctuations on cash and cash equivalents	6,887	(1,201)
Cash and cash equivalents at end of year (note 20)	295,532	320,434

OAo Scientific Production Corporation “Irkut”
Consolidated Statement of Changes in Equity for the year ended 31 December 2011

	Attributable to the equity holders of the Company								
	Share capital	Share premium	Hedging reserve	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
'000 USD									
Balance at 1 January 2010	103,811	97,532	-	-	(4,512)	134,289	331,120	15,077	346,197
Profit for the year	-	-	-	-	-	84,682	84,682	864	85,546
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of related income tax effect of USD 115 thousand			(462)	-	-	-	(462)	-	(462)
Foreign exchange differences	-	-	-	-	(456)	-	(456)	(117)	(573)
Total comprehensive income for the year							83,764	747	84,511
Transactions with owners, recorded directly in equity									
Shares issued	18,313	129,586	-	-	-	-	147,899	-	147,899
Contribution, net of related income tax effect of USD 6,090 thousand	-	-	-	24,358	-	-	24,358	-	24,358
Dividends to shareholders	-	-	-	-	-	(14,110)	(14,110)	(69)	(14,179)
	18,313	129,586	-	24,358	-	(14,110)	158,147	(69)	158,078
Balance at 31 December 2010	122,124	227,118	(462)	24,358	(4,968)	204,861	573,031	15,755	588,786

OAO Scientific Production Corporation “Irkut”
Consolidated Statement of Changes in Equity for the year ended 31 December 2011

'000 USD	Attributable to the equity holders of the Company							Non-controlling interest	Total equity
	Share capital	Share premium	Hedging reserve	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2011	122,124	227,118	(462)	24,358	(4,968)	204,861	573,031	15,755	588,786
Profit for the year	-	-	-	-	-	122,860	122,860	583	123,443
Other comprehensive income									
Effective portion of changes in fair value of cash flow hedges, net of related income tax effect of USD 6,962 thousand	-	-	27,848	-	-	-	27,848	-	27,848
Foreign exchange differences	-	-	-	-	(3,469)	-	(3,469)	(888)	(4,357)
Total comprehensive income for the year							<u>147,239</u>	<u>(305)</u>	<u>146,934</u>
Transactions with owners, recorded directly in equity									
Contribution, net of related income tax effect of USD 37,219 thousand (Note 23)	-	-	-	148,876	-	-	148,876	-	148,876
Dividends to shareholders	-	-	-	-	-	(15,950)	(15,950)	(114)	(16,064)
	-	-	-	148,876	-	(15,950)	132,926	(114)	132,812
Balance at 31 December 2011	122,124	227,118	27,386	173,234	(8,437)	311,771	853,196	15,336	868,532

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 13(c)) 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 Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. 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 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 (“RUB”). 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 RUB is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUB to USD should not be construed as a representation that the RUB 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 3(m) and 8 – Revenues;
- Note 4(c) and 16 – Investments and non-current financial assets;
- Note 14 – Intangible assets;
- Note 25 – Provisions;
- Note 28 – 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) Accounting for business combinations

All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(iii) *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.

(iv) *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.

(c) **Operations for which functional currency is different from functional currency of the Company**

For subsidiaries whose functional currency is different from the functional currency of the Company, the assets and liabilities of such 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 these operations are translated into USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When an 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 such operations, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in the operation and are recognised directly in equity in the foreign currency translation reserve.

(d) 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 capitalised 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 statement of financial position.

(e) 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(m)), 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 consolidated 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.

(f) 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.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss -category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets 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 in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

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.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(ii) *Derivative financial instruments*

Hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency exposures.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is

designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(g) 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.

(h) 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 consolidated statement of financial position net of advance payments received for construction contracts.

(i) 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.

(j) Dividends

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

(k) 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.

(l) Provisions

A provision is recognised in the consolidated statement of financial position 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.

(m) 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.

(n) 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.

(o) Finance income and costs

Finance 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.

Finance costs 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.

(p) 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 reporting 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 reporting 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.

(q) Government grants

Government grants are recognised in the statement of financial position 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 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.

(r) 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.

(s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial is available.

(t) 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 2011, and have not been applied in preparing these consolidated financial statements. None of these will have an impact on the Group’s financial reporting.

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) 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.

(d) 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.

(e) 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 established a 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 the 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. The 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 Government related entities.

(iii) Guarantees

The Group has provided financial guarantees to the Parent Company for the total amount of RUB 2,061.5 million (USD 64,029 thousand) under contracts with Government for rendering services and supplying goods (2010: nil). As of 31 December 2011 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 2011:

- RUB 6,055 million long-term credit lines secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 7%;
- RUB 7,747 million long-term credits lines secured by state guarantee of Russian Government. Interest would be payable at the fixed rate of 10%;
- USD 45 million short-term credit line secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 6%;
- USD 45 million long-term credit line secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 6.3%;
- USD 85 million short-term unsecured credit line. Interest would be payable at the fixed rate of 5.5%;
- USD 24 million long-term unsecured credit lines. Interest would be payable at the fixed rate of 8.5%;
- USD 1,040 million long-term unsecured credit lines. Interest would be payable at the fixed rate not above 10%;

(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 (RUB). The currencies in which these transactions primarily are denominated are USD, EURO and RUB. Interest on borrowings is generally denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUB and EURO. This provides an economic hedge and no derivatives are entered into, except for the following:

In 2010 the Group issued three-year rouble bonds and hedged those using foreign currency exchange forward contracts. This hedge is accounted as cash flow hedge and the effective part of hedging recognised directly in hedging reserve in other comprehensive income net of related tax.

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) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions

- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

(iv) **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.

The Group’s return on capital was 14.2% in 2011 (2010:14.5%). The weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest and excluding effect of government grants related to interest expense) was 7.3% (2010: 8.43%).

The Group’s debt to adjusted capital ratio at the end of the reporting period was as follows:

	2011	2010
	'000 USD	'000 USD
Total debt	1,091,848	1,012,351
Less: cash and cash equivalents	(295,532)	(320,434)
Net debt	796,316	691,917
Total equity	868,532	588,786
Debt to capital ratio at 31 December	0.92	1.18

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 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise fixed assets, administrative expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has four reportable segments, as described below, which are the Group’s strategic business programs. The strategic business programs offer different products and complied services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business programs, the Group’s CEO reviews internal management reports on a half-yearly basis. The following summary describes the operations in each of the Group’s reportable segments:

- *SU-30 Program.* Includes development, manufacturing and distributing SU-30 aircrafts, components and service equipment.
- *YAK-130 Program.* Includes development, manufacturing and distribution of YAK-130 aircrafts components and service equipment.
- *MC-21 Program.* Includes development of a new civil aircraft with silicon wing.

The project is included in the Federal Target Program “Development of the civil aircraft for 2002-2010 and for the period until 2015” approved by the Decision of the Federal Government of the Russian Federation No. 728 dated 15 October 2001. In accordance with this program, the Company receives financing from the Federal Government. Funds are received under the government contract with Ministry of Industry and Trade (Minpromtorg) which is structured as a contract for provision of the development services and the proceed derived therefrom are included in revenue from provision of services on research and development.

- *Cooperation.* Includes products which are developed and manufactured in cooperation with Airbus.

Other operations include repair and modernization of aircrafts sold in the past but not currently produced, supply of utilities, design and development work under contract with client and other. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2011 or 2010.

The underlying principles on which the reportable segments information are generally derived from the statutory accounting records adjusted for management reporting purposes. The major reconciling differences between the information provided to CEO and the related IFRS-based amounts relate to:

- Timing differences related to when revenue and costs are recognised.
- Differences related to allocation of types of expenses to cost of sales and distribution cost.
- Differences related to design and development costs and subsequent amortisation of such costs.

Information regarding the results of each reportable segment is included below. Segment performance is measured based on segment gross profit calculated as revenue after deduction of the direct cost of production and directly attributable distribution expenses. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

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Information about reportable segments

'000 USD	SU-30 Program		YAK-130 Program		MC-21 Program		Cooperation		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
External revenue	1,061,143	1,378,413	258,481	4,867	255,881	139,403	6,245	17,221	90,056	96,038	1,671,806	1,635,942
Segment direct costs	(535,846)	(645,827)	(155,093)	(2,624)	(190,138)	(101,482)	(5,901)	(12,618)	(69,962)	(67,909)	(956,940)	(830,460)
Direct distribution expenses	(127,914)	(268,256)	(65,336)	-	-	-	(271)	(219)	(753)	(591)	(194,274)	(269,066)
Design and development	-	(8,320)	(4,384)	-	-	-	-	-	(1,329)	(1,318)	(5,713)	(9,638)
Reportable segment gross profit	397,383	456,010	33,668	2,243	65,743	37,921	73	4,384	18,012	26,220	514,879	526,778

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Reconciliation of reportable segments’ revenues and reportable segments’ measure of profit:

	2011	2010
	'000 USD	'000 USD
Total revenue for reportable segments	1,671,806	1,635,942
Difference in timing of revenue recognition	(45,778)	36,708
Consolidated revenue	1,626,028	1,672,650
Reportable segment gross profit	514,879	526,778
Direct distribution expenses	194,274	269,066
Difference in timing of recognition and presentation of expenses	(190,919)	(101,962)
Gross profit	518,234	693,882
Other income	1,527	1,013
Research and development costs	(21,232)	(11,274)
Distribution expenses	(108,135)	(247,221)
Administrative expenses	(155,629)	(127,523)
Taxes, other than on profit	(9,226)	(9,646)
Other expenses	(22,439)	(137,478)
Profit from operating activities	203,100	161,753
Finance income	10,452	14,331
Finance costs	(49,246)	(59,344)
Share of loss of equity accounted investees	-	(13,493)
Consolidated profit before income tax	164,306	103,247

7 Other non-current assets

Other non-current assets are represented by a number of SU-30K military aircraft acquired as trade-in by the Group in 2008 and expected to be sold in 2013.

8 Revenues

	2011	2010
	'000 USD	'000 USD
Revenue earned on military aircraft construction contracts	841,399	1,152,183
Revenue on sales of military aircraft components and related products	444,404	283,729
Revenue from services on research and development of MC-21 project	274,143	148,561
Revenue earned on civil aircraft construction contracts	1,814	12,536
Revenue on sales of civil aircraft components and related products	11,539	22,733
Other revenues	52,729	52,908
	1,626,028	1,672,650

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date on construction contracts in progress is USD 3,826,680 thousand (2010: USD 3,019,345 thousand).

9 Personnel expenses

	2011 <u>'000 USD</u>	2010 <u>'000 USD</u>
Wages and salaries	216,155	202,574
Compulsory social security contributions	58,865	42,829
	<u>275,020</u>	<u>245,403</u>

10 Other expenses

	2011 <u>'000 USD</u>	2010 <u>'000 USD</u>
Impairment of other non-current assets	-	(77,786)
Impairment of capitalised development costs (Note 14)	(2,536)	(37,316)
Loss on disposal of property, plant and equipment	-	(1,365)
Social costs	(15,949)	(9,772)
Impairment of loans given and receivables	-	(1,700)
Banking charges	(2,767)	(1,698)
Other	(1,187)	(7,841)
	<u>(22,439)</u>	<u>(137,478)</u>

11 Finance income and costs

	2011 <u>'000 USD</u>	2010 <u>'000 USD</u>
<i>Finance income</i>		
Interest income	6,087	12,032
Foreign exchange gain	4,365	2,299
	<u>10,452</u>	<u>14,331</u>
<i>Finance costs</i>		
Interest expense	(62,245)	(98,944)
Government grant related to compensation of interest expense	16,156	52,146
Interest expense, net	(46,089)	(46,798)
Loss from impairment of investments	(3,157)	(12,546)
	<u>(49,246)</u>	<u>(59,344)</u>

12 Income tax expense

	2011 '000 USD	2010 '000 USD
<i>Current tax expense</i>		
Current income tax	12,271	6,976
Adjustment of prior periods	404	(1,138)
	12,675	5,838
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	28,188	2,137
Change in recognised deferred tax assets	-	9,726
	28,188	11,863
Income tax expense	40,863	17,701

The Group's applicable tax rate is the corporate income tax rate of 20%.

Reconciliation of effective tax rate:

	2011 '000 USD	%	2010 '000 USD	%
Profit before income tax	164,306	100	103,247	100
Income tax expense at applicable tax rate	32,861	20	20,649	20
Non-deductible/non-taxable items, net	4,639	3	2,830	3
Foreign currency translation	2,959	2	30	0
Adjustment of prior periods	404	0	(1,138)	(1)
Recognition of previously unrecognised tax losses	-	-	(14,396)	(14)
Change in recognised deferred tax assets	-	-	9,726	9
	40,863	25	17,701	17

13 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
<i>Cost</i>				
At 1 January 2010	170,025	452,643	31,002	653,670
Additions	-	15,200	28,408	43,608
Transfers	7,052	30,314	(37,366)	-
Disposals	(130)	(10,578)	(23)	(10,731)
Foreign exchange differences	(21)	(31)	293	241
At 31 December 2010	176,926	487,548	22,314	686,788
Additions	-	14,532	32,370	46,902
Transfers	3,623	(1,613)	(2,010)	-
Disposals	(1,154)	(7,364)	(68)	(8,586)
Foreign exchange differences	(153)	(501)	(1,712)	(2,366)
At 31 December 2011	179,242	492,602	50,894	722,738

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'000 USD	<u>Land and Buildings</u>	<u>Plant and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Depreciation</i>				
At 1 January 2010	(98,326)	(226,681)	-	(325,007)
Depreciation charge	(3,537)	(35,077)	-	(38,614)
Disposals	80	8,316	-	8,396
Foreign exchange differences	2	27	-	29
At 31 December 2010	(101,781)	(253,415)	-	(355,196)
Depreciation charge	(3,270)	(36,502)	-	(39,772)
Disposals	831	6,291	-	7,122
Foreign exchange differences	18	276	-	294
At 31 December 2011	(104,202)	(283,350)	-	(387,552)
<i>Net book value</i>				
At 1 January 2010	71,699	225,962	31,002	328,663
At 31 December 2010	75,145	234,133	22,314	331,592
At 31 December 2011	75,040	209,252	50,894	335,186

(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 23). At 31 December 2011 the net carrying amount of leased plant and machinery was USD 31,754 thousand (2010: USD 37,653 thousand).

(b) Security

At 31 December 2011 properties with a carrying amount of USD 4,221 thousand (31 December 2010: USD 10,885 thousand) are pledged as a collateral for secured bank loans (see Note 23).

(c) 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 79,630 thousand (2010: USD 97,624 thousand).

14 Intangible assets

'000 USD	Development costs	Other intangibles	Advances related to development costs	Total
<i>Cost</i>				
At 1 January 2010	154,067	22,064	-	176,131
Additions	65,248	1,045	-	66,293
Disposals	-	(495)	-	(495)
Foreign exchange differences	(454)	(9)	-	(463)
At 31 December 2010	218,861	22,605	-	241,466
Additions	29,889	3,625	30,000	63,514
Government grant related to development	(3,110)	-	-	(3,110)
Disposals	(1,953)	(10,915)	-	(12,868)
Foreign exchange differences	(3,167)	(37)	-	(3,204)
At 31 December 2011	240,520	15,278	30,000	285,798
<i>Amortisation and impairment</i>				
At 1 January 2010	(6,418)	(9,865)	-	(16,283)
Amortisation charge	(3,271)	(2,485)	-	(5,756)
Impairment	(37,316)	-	-	(37,316)
Disposals	-	495	-	495
Foreign exchange differences	-	14	-	14
At 31 December 2010	(47,005)	(11,841)	-	(58,846)
Amortisation charge	(8,113)	(1,934)	-	(10,047)
Impairment	(2,536)	-	-	(2,536)
Disposals	1,953	9,242	-	11,195
Foreign exchange differences	-	29	-	29
At 31 December 2011	(55,701)	(4,504)	-	(60,205)
<i>Net book value</i>				
At 1 January 2010	147,649	12,199	-	159,848
At 31 December 2010	171,856	10,764	-	182,620
At 31 December 2011	184,819	10,774	30,000	225,593

Capitalised development costs, including related advances, comprise the following items:

	2011 '000 USD	2010 '000 USD
Intellectual property rights related to the development of:		
Yak-130 aircraft	145,280	135,858
MC-21	62,163	26,086
SUV-30K modernisation set	6,772	6,772
Others	604	3,140
	214,819	171,856

Management monitors the MC-21 development program against the capitalization criteria required by IAS 38 *Intangible Assets* on an ongoing basis and tests it for impairment. Commercial sales are expected to commence in 2017 and therefore the related intangible asset is not amortised. As a

result of the impairment test the carrying amount of related capitalised development costs did not exceed its recoverable amount as at 31 December 2011. A discount rate of 12% was applied in determining the recoverable amount.

Provision of services to customers under SUV-30K programs will commence in 2013 and therefore the related intangible asset is not amortised. Instead, management tested this asset for impairment as at 31 December 2011. The recoverable amount determined as discounted future cash flows from the continuing use of the asset does not exceeds the carrying amount of related intangible asset as at 31 December 2011.

During 2011 management has recognised impairment loss in amount of USD 2,536 thousand relating to other development costs capitalised as it is not expected that future economic benefits related to these assets will flow to the Group.

15 Investments in equity accounted investees

As at 31 December 2010 the Group has two associates JSC “TANTK imeni Berieva” (TANTK) and JSC “NAZ “Sokol”(Sokol). Both entities are subsidiaries of the Group parent company UAC.

During 2011 UAC increased its status in equity of TANTK and Sokol by participating in additional share issue of these entities. Since the Group did not participate in these share issues, the share of the Group in equity of TANTK and Sokol decreased to 33% and 8% respectively.

Because UAC equity injections did not result in net asset of these entities become positive at 31 December 2011 the investment in Sokol was reclassified as available-for-sale investment at nil carrying amount and TANTK continue to be carried at nil carrying amount.

'000 USD	Ownership	Total assets	Total liabilities	Revenues	Loss
2011					
JSC “TANTK imeni Berieva”	33%	<u>369,280</u>	<u>(392,391)</u>	<u>167,651</u>	<u>12,536</u>
2010					
JSC “TANTK imeni Berieva”	41%	268,285	(293,142)	91,494	9,999
JSC “NAZ “Sokol”	22%	<u>337,509</u>	<u>(463,064)</u>	<u>128,515</u>	<u>147,105</u>
		<u>605,794</u>	<u>(756,206)</u>	<u>220,009</u>	<u>157,104</u>

Investment in JSC “NAZ “Sokol” has been transferred to available-for-sale investments stated at cost.

16 Investments and non-current financial assets

	2011 '000 USD	2010 '000 USD
<i>Non-current</i>		
Available-for-sale investments, stated at cost	13,475	17,983
Loans to related parties	3,021	-
Forward contracts used for hedging	5,902	2,470
Other non-current financial assets	89	101
	22,487	20,554
<i>Current</i>		
Forward contracts used for hedging	15,820	-
Rouble bank promissory notes fixed at 5%	-	30,657
Loans to third parties	225	2,144
Other current financial assets	175	-
	16,220	32,801

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.

17 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	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	29	47	(21,515)	(16,247)	(21,486)	(16,200)
Intangible assets	1,863	532	(25,919)	(12,181)	(24,056)	(11,649)
Investments	4,247	3,258	(10)	(18)	4,237	3,240
Other non-current assets	17,997	17,997	-	-	17,997	17,997
Inventories	4,525	5,301	(49,934)	(30,450)	(45,409)	(25,149)
Trade and other receivables	119	79	(13,368)	(9,695)	(13,249)	(9,616)
Loans and borrowings	14	971	(34,018)	-	(34,004)	971
Trade and other payables	3,094	58	(21)	(1,977)	3,073	(1,919)
Provisions	1,865	2,713	-	-	1,865	2,713
Tax loss carry-forwards	619	1,271	-	-	619	1,271
Total tax assets/(liabilities)	34,372	32,227	(144,785)	(70,568)	(110,413)	(38,341)
Offset of tax	(32,379)	(29,953)	32,379	29,953	-	-
Net tax assets/(liabilities)	1,993	2,274	(112,406)	(40,615)	(110,413)	(38,341)

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(b) Movement in temporary differences during the year

'000 USD	1 January 2010	Recogni- sed in profit or loss	Foreign currency translation	Recogni- sed in equity	Recogni- sed in other comprehen sive income	31 December 2010
Property, plant and equipment	(11,758)	(4,441)	(1)	-	-	(16,200)
Intangible assets	(12,912)	1,289	(26)	-	-	(11,649)
Other non-current assets	2,440	15,557	-	-	-	17,997
Investments	(666)	3,791	-	-	115	3,240
Inventories	(7,616)	(17,562)	29	-	-	(25,149)
Trade and other receivables	1,982	(11,593)	(5)	-	-	(9,616)
Loans and borrowings	8,275	(1,214)	-	(6,090)	-	971
Trade and other payables	(2,286)	367	-	-	-	(1,919)
Provisions	1,149	1,564	-	-	-	2,713
Tax loss carry-forwards	892	379	-	-	-	1,271
	(20,500)	(11,863)	(3)	(6,090)	115	(38,341)

'000 USD	1 January 2011	Recogni- sed in profit or loss	Foreign currency translation	Recogni- sed in equity	Recogni- sed in other comprehen sive income	31 December 2011
Property, plant and equipment	(16,200)	(5,294)	8	-	-	(21,486)
Intangible assets	(11,649)	(12,855)	448	-	-	(24,056)
Other non-current assets	17,997	-	-	-	-	17,997
Investments	3,240	7,959	-	-	(6,962)	4,237
Inventories	(25,149)	(20,069)	(191)	-	-	(45,409)
Trade and other receivables	(9,616)	(3,667)	34	-	-	(13,249)
Loans and borrowings	971	2,245	(1)	(37,219)	-	(34,004)
Trade and other payables	(1,919)	4,990	2	-	-	3,073
Provisions	2,713	(845)	(3)	-	-	1,865
Tax loss carry-forwards	1,271	(652)	-	-	-	619
	(38,341)	(28,188)	297	(37,219)	(6,962)	(110,413)

18 Inventories

	2011 '000 USD	2010 '000 USD
Raw materials and other supplies, gross	130,458	88,398
Provision for obsolescence of inventories	(6,654)	(2,629)
	123,804	85,769
Advance payments to suppliers	182,636	174,295
Aircraft components	111,104	104,805
Goods for sale	16,238	12,146
Work in progress	183,824	146,240
	617,606	523,255
Construction contracts in progress	219,096	87,923
	836,702	611,178

19 Trade and other receivables

	2011	2010
	'000 USD	'000 USD
Accounts receivable – trade	622,958	126,796
Allowance for doubtful accounts	(615)	(584)
	622,343	126,212
VAT recoverable	93,454	170,689
Income tax receivable	2,932	16,241
Other prepaid taxes	1,036	1,883
Other receivables and originated loans	47,297	40,752
	767,062	355,777

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 26.

20 Cash and cash equivalents

	2011	2010
	'000 USD	'000 USD
Bank balances, US Dollars	75,624	61,226
Bank balances, Euro	7,668	329
Bank balances, Russian roubles	19,342	69,633
Call deposits, US Dollars	75,544	70,045
Call deposits, Russian roubles	117,354	119,201
	295,532	320,434

The Group’s exposure to currency risk, interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

21 Equity

(a) Share capital

As at 31 December 2011 authorised, issued and fully paid capital stock consisted of 1,166,009,086 ordinary shares. All ordinary shares have a nominal value of RUB 3 each.

(b) Additional paid-in capital

The increase in additional paid-in capital in the amount of USD 148,876 thousand (31 December 2010: USD 24,358 thousand) represents a fair value adjustment relating to a zero-interest loan received from the parent company (see note 23).

(c) 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 2011 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUB 8,869,937 thousand (USD 275,497 thousand translated at the closing RUB/USD exchange rate of 32.1961).

On 19 April 2011 Board of Directors of the Company recommended to the General Shareholders Meeting to distribute dividends in amount of RUB 513,044 thousand (which represents USD 15,935 thousand at the exchange rate as of 31 December 2010) out of profits for the year 2011.

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

	<u>8 June 2011</u>	<u>24 June 2010</u>
Amount per share, RUB	0.38	0.45
Amount per share, USD	0.0137	0.0144
Total amount, '000 USD	15,950	14,110

22 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	<u>2011</u>	<u>2010</u>
Issued ordinary shares at 1 January	1,166,009,086	978,131,612
Effect of ordinary shares issued in November 2010	-	15,656,456
Weighted average number of ordinary shares at 31 December	<u>1,166,009,086</u>	<u>993,788,068</u>

23 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 26.

	2011	2010
	'000 USD	'000 USD
<i>Non-current</i>		
Secured bank loans	297,055	217,629
Unsecured bank loans	165,218	262,691
Unsecured bond issue	159,543	168,506
Finance lease liabilities	10,181	5,900
Loans from parent company (see below)	224,584	25,004
	856,581	679,730
<i>Current</i>		
Secured bank loans	45,607	23,899
Unsecured bank loans	60,019	60,039
Current portion of non-current secured bank loans	64,146	128,429
Current portion of non-current unsecured bank loans	60,022	95,100
Current portion of finance lease liabilities	5,473	8,561
Promissory notes	-	16,593
	235,267	332,621

In March 2011 the Company received a loan in the amount of USD 355,596 thousand (RUB 11,248 million) maturing in 2020 from the parent company OAO United Aircraft Corporation bearing interest of 8%. The loan was provided as a part of the program of financial support provided to companies in the aircraft industry by the Government of the Russian Federation. The loan was used for refinancing of bank loans maturing in 2012.

In October 2011 the amendment to the loan agreement was signed and this loan became zero-interest with all previously accrued interest being cancelled from the date of the loan inception.

The present value of the loan calculated as the amount payable in 9 years discounted at 7.3% (average borrowing rate of the Company on comparable loans) was USD 208,349 thousand at the date of receipt and was classified as a loan from parent company in non-current borrowings. The fair value adjustment in respect of the loan in the amount of USD 148,876 thousand, net of related income tax effect of USD 37,219 thousand, was recognized directly in equity.

(a) Security

The loans are secured over property, plant and equipment with a carrying amount of USD 4,221 thousand (31 December 2010: USD 10,885 thousand) and the right to receive future revenues under an agreement with a foreign government.

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(b) Terms and debt repayment schedule

'000 USD	Nominal interest rate	Year of maturity	Face value 2011	Carrying amount 2011	Face value 2010	Carrying amount 2010
Secured bank loans:						
RUB	7.5%	2011	-	-	23,544	23,899
RUB	6.8-7%	2013-2015	270,825	270,856	-	-
USD	6%	2012	108,814	108,996	-	-
USD	5.75%	2013	26,031	26,009	-	-
USD	8.0%-10.0%	2011-2012	-	-	299,371	299,115
USD	Libor+6.5%	2011	-	-	45,000	44,783
EURO	Euribor+3.25-5%	2012-2013	1,357	947	2,178	2,160
Unsecured bank loans:						
USD	7.2-8.5%	2016-2017	66,627	66,441	-	-
USD	2.9%	2012	60,000	60,019	-	-
RUB	8.50%	2015	16,166	16,176	-	-
USD	5.5-10%	2012-2015	6,618	6,686	371,740	370,924
USD	5.75-7.8%	2012-2013	110,000	110,053	-	-
USD	Libor+2.4%-6.5%	2011	-	-	20,000	20,196
EURO	8%	2011	-	-	26,468	26,710
EURO	8%	2012	25,886	25,884	-	-
Unsecured bond issue:						
RUB	8.74%-9.25%	2013	155,298	159,543	164,059	168,506
Finance lease liabilities	10.2%-14%	2011-2016	15,654	15,654	14,461	14,461
Other loans RUB	0%-5%	2011-2020	406,509	224,584	41,388	41,597
Total interest-bearing liabilities			1,269,785	1,091,848	1,008,209	1,012,351

(c) Finance lease liabilities are payable as follows:

'000 USD	Future minimum lease payments 2011	Interest 2011	Present value of minimum lease payments 2011	Future minimum lease payments 2010	Interest 2010	Present value of minimum lease payments 2010
Less than one year	9,168	3,695	5,473	10,947	2,386	8,561
Between one and five years	13,009	2,828	10,181	9,620	3,720	5,900
	22,177	6,523	15,654	20,567	6,106	14,461

24 Trade and other payables

	2011	2010
	'000 USD	'000 USD
Accounts payable	260,912	151,316
Accrued expenses	6,717	10,539
Advances from customers	206,227	117,346
Income tax payable	240	185
Other taxes payable	20,053	7,510
Other payables	24,541	18,453
	518,690	305,349

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

25 Provisions

	Warranties	
	2011	2010
	'000 USD	'000 USD
Balance at 1 January	10,709	7,032
Provisions made during the year	9,902	15,850
Provisions used during the year	(10,732)	(12,173)
Balance at 31 December	9,879	10,709

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 reporting 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.

26 Financial instruments

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

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(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 2011	Carrying Amount 2010
Available-for-sale financial assets	13,475	17,983
Forward contracts used for hedging	21,722	2,470
Rouble bank promissory notes	-	30,657
Other financial assets	264	101
Trade receivables	622,343	126,212
Construction contracts in progress	219,096	87,923
Loans to related parties	3,021	-
Loans to third parties	225	2,144
Other receivables and originated loans	47,297	40,752
Cash and cash equivalents	295,532	320,434
	1,222,975	628,676

(b) Impairment losses

The aging of trade receivables at the reporting date was:

'000 USD	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	237,256	-	104,609	-
Past due 0-360 days	385,087	-	21,603	-
More than one year	615	(615)	584	(584)
	622,958	(615)	126,796	(584)

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

'000 USD	2011 '000 USD	2010 '000 USD
Balance at 1 January	584	37
Impairment loss recognised	31	547
Balance at 31 December	615	584

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 2011 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2010: nil).

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(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 2011

'000 USD	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	Later
Secured bank loans	406,808	437,924	133,974	303,950	-	-
Unsecured bank loans	285,259	331,156	136,507	94,479	88,515	11,655
Unsecured bond issue	159,543	183,950	14,326	169,624	-	-
Finance lease liabilities	15,654	22,177	9,168	8,653	4,356	-
Other loans	224,584	406,509	-	-	-	406,509
Trade and other payables	312,463	312,463	312,463	-	-	-
	1,404,311	1,694,179	606,438	576,706	92,871	418,164

31 December 2010

'000 USD	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	Later
Secured bank loans	369,957	400,862	178,546	222,316	-	-
Unsecured bank loans	417,830	482,425	187,871	292,154	2,400	-
Unsecured bond issue	168,506	209,460	15,134	194,326	-	-
Finance lease liabilities	14,461	20,567	10,947	2,590	7,030	-
Other loans	41,597	72,176	16,724	-	-	55,452
Trade and other payables	188,003	188,003	188,003	-	-	-
	1,200,354	1,373,493	597,225	711,386	9,430	55,452

(d) Currency risk

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

'000 USD	31 December 2011			31 December 2010		
	USD	RUB	EURO	USD	RUB	EURO
Cash and cash equivalents	151,168	136,696	7,668	131,271	188,834	329
Trade receivables	568,713	49,299	4,331	60,533	65,679	-
Other receivables and originated loans	-	47,297	-	-	40,752	-
Construction contracts in progress	219,096	-	-	66,107	21,816	-
Secured bank loans	(135,005)	(270,856)	(947)	(343,898)	(23,899)	(2,160)
Unsecured bank loans	(243,199)	(16,176)	(25,884)	(391,120)	-	(26,710)
Unsecured bond issue	-	(159,543)	-	-	(168,506)	-
Finance lease liabilities	(15,123)	(531)	-	(13,087)	(1,200)	(174)
Other loans	-	(224,584)	-	-	(41,597)	-
Trade and other payables	(204,252)	(106,316)	(1,895)	(98,247)	(82,199)	(7,557)
Gross exposure	341,398	(544,714)	(16,727)	(588,441)	(320)	(36,272)
Forward exchange contracts (Note 5(d(i)))	(455,100)	433,378	-	(165,458)	168,506	-
Net exposure	(113,702)	(111,336)	(16,727)	(753,899)	168,186	(36,272)

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The following significant exchange rates applied during the year:

USD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
RUB 1,000	34.03	32.93	31.06	32.81
EURO	1.39	1.33	1.29	1.32

(e) Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 2011 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 2010

'000 USD	Equity/Profit or loss
31 December 2011	
RUB	(10,121)
EURO	(1,521)
31 December 2010	
RUB	16,018
EURO	(3,456)

A 10% weakening of the USD against the above currencies at 31 December 2011 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	
	2011	2010
Fixed rate instruments		
Financial assets	217,866	222,112
Financial liabilities	(1,090,901)	(945,212)
	(874,035)	(723,100)
Variable rate instruments		
Financial liabilities	(947)	(67,139)
	(947)	(67,139)

(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

An increase of 100 basis points in interest rates based on the Group’s exposure at the reporting date would have increased loss for the year by USD 9 thousand (2010: USD 671 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 statement of financial position, are as follows:

’000 USD	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Available-for-sale financial assets	13,475	13,475	17,983	17,983
Other non-current financial assets	3,110	3,110	101	101
Forward contracts used for hedging	21,722	21,722	2,470	2,470
Rouble bank promissory notes fixed at 5%	-	-	30,657	30,657
Loans and receivables	669,865	669,865	169,108	169,108
Cash and cash equivalents	295,532	295,532	320,434	320,434
Secured bank loans	(406,808)	(406,808)	(369,957)	(369,957)
Unsecured bank loans	(285,259)	(285,259)	(417,830)	(417,830)
Unsecured bond issue, RUB (note 23)	(159,543)	(158,715)	(168,506)	(165,814)
Finance lease liabilities	(15,654)	(15,654)	(14,461)	(14,461)
Other loans	(224,584)	(224,584)	(41,597)	(41,597)
Trade and other payables	(312,463)	(312,463)	(188,003)	(188,003)
	(400,607)	(399,779)	(659,601)	(656,909)

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

27 Commitments

(a) Capital commitments

At 31 December 2011 the Group is committed to capital expenditure of approximately USD 106,110 thousand (2010: USD 2,569 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2011 under long-term supply agreements are estimated at USD 9,250 thousand at current market prices (2010: USD 169,621 thousand).

28 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) 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.

(c) 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.

29 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.

OAo "United Aircraft Corporation" 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 29(c)) as at 31 December 2011 include balances with other government related entities.

(b) Transactions with management

(i) Key management personnel compensation

Key management received the following remuneration during the year, which is included in personnel expenses (see note 9):

	2011 '000 USD	2010 '000 USD
Wages and salaries	8,864	8,396
Compulsory social security contributions	305	256
	9,169	8,652

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of Russian Federation (95.3%). The Group operates in an industry dominated by entities directly or indirectly controlled by the Federal Government of Russian Federation through its government authorities, agencies, affiliation and other organizations (collectively referred to as “government related entities”). The Group has transactions with other government related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, lease of assets, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary course of the Group’s business generally on terms comparable to those with other entities that are not government related. The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

In March 2011, the Company received zero-interest loan in the amount of USD 355,596 thousand (see note 23). During the year ended 31 December 2011 the Group did not enter into other individually significant transactions with government related entities.

For the year ended 31 December 2011, management estimates that the aggregate amount of the Group’s collectively significant transactions with government related entities is up to 62% (2010: up to 10%) of its revenues, up to 9% (2010: at least 32%) of its purchases of materials, equipment and services, and up to 60% of its borrowings (2010: up to 90%).

The Group also benefits from compensation of borrowing costs related to financing of long-term construction contract from the government of Russian Federation. This government grant was provided following the Regulation of the Government of Russian Federation #357 dated 6 June 2005 which provides for partial compensation of borrowing costs incurred by Russian entities engaged in export of industrial products and which obtain financing from Russian banks. Management expects that the Group will continue to qualify for further compensation during 2011 and 2012 in relation to loans already secured or to be secured in 2008-2012.

30 Significant subsidiaries

	Country of incorporation	Ownership/voting 2011	2010
ОАО “OKB Imeni A.S. Yakovleva”	Russia	75%	75%
ZAO “Beta Air”	Russia	72%	72%
ZAO “Techserviceavia”	Russia	51%	51%

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

31 Events subsequent to the reporting date

There were no significant events subsequent to the reporting date.