OAO Scientific Production Corporation “Irkut”

Consolidated Financial Statements
for the year ended 31 December 2012

Contents

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Auditors' Report

To 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 2012, 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 express a qualified opinion on the fair presentation of these consolidated financial statements.

Basis for Qualified Opinion

The Group has accounted for certain Government grants as revenue and the related costs as cost of sales which is not in compliance with International Financial Reporting Standard IAS 20 *Accounting for Government grants and Disclosure of Government Assistance.* Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have been reduced by USD 402,482 thousand as at and for the year ended 31 December 2012 (31 December 2011: USD 274,143 thousand), cost of sales would have been reduced by USD 307,395 thousand as at and for the year ended 31 December 2012 (31 December 2011: USD 201,648 thousand), and government grants related to income would have been increased by USD 95,087 thousand as at and for the year ended 31 December 2012 (31 December 2011: USD 72,495 thousand).

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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belyatski I.O., Director, (power of attorney dated 3 October 2011 No. 35/11)

ZAO KPMG

15 April 2013

Moscow, Russian Federation

	Note	2012 '000 USD	Restated 2011 '000 USD
Revenues	7	1,530,855	1,626,028
Cost of sales		(1,163,192)	(1,107,794)
Gross profit		**367,663**	**518,234**
Other income		706	1,527
Research and development costs		(1,243)	(21,232)
Distribution expenses		(155,215)	(170,599)
Administrative expenses		(158,780)	(155,629)
Taxes, other than on profit		(8,628)	(9,226)
Other expenses	9	(31,537)	(22,439)
Profit from operating activities		**12,966**	**140,636**
Finance income	10	42,682	10,452
Finance costs	10	(58,667)	(49,246)
(Loss)/profit before tax		**(3,019)**	**101,842**
Income tax benefit/(expense)	11	35,155	(28,370)
Profit for the year		**32,136**	**73,472**
Attributable to:			
Owners of the parent company		31,608	72,889
Non-controlling interest		528	583
		32,136	**73,472**
Basic and diluted profit per share (USD)	21	0.027	0.063

The consolidated financial statements were authorised for issuance on 15 April 2013 by management and signed on its behalf.

D.V. Polevshchikov
Vice-President for Corporate Finance

The accompanying notes form an integral part of these consolidated financial statements

	Note	2012 '000 USD	Restated 2011 '000 USD
Profit for the year		32,136	73,472
Other comprehensive income:			
Foreign exchange differences		4,618	(4,357)
Defined benefit plan actuarial (loss)/gain, net of tax		(4,770)	258
Effective portion of changes in fair value of cash flow hedges, net of tax		(29,852)	27,848
Total comprehensive income for the year		**2,132**	**97,221**
Attributable to:			
Owners of the parent company		662	97,526
Non-controlling interest		1,470	(305)
		2,132	**97,221**

	Note	31 December 2012 '000 USD	Restated 31 December 2011 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	12	357,480	335,186
Intangible assets	13	290,569	225,593
Investments and non-current financial assets	15	22,943	22,487
Other non-current assets	17	-	100,580
Deferred tax assets	16	1,233	1,993
		672,225	**685,839**
Current assets			
Investments	15	53,999	16,220
Inventories	17	883,004	613,101
Trade and other receivables	18	633,272	990,663
Cash and cash equivalents	19	413,451	295,532
		1,983,726	**1,915,516**
Total assets		**2,655,951**	**2,601,355**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		122,124	122,124
Share premium		227,118	227,118
Foreign currency translation reserve		(4,761)	(8,437)
Additional paid-in capital		174,027	173,234
Hedging reserve		(2,466)	27,386
Retained earnings		260,010	248,761
Total equity attributable to shareholders of the parent company		**776,052**	**790,186**
Non-controlling interest		16,731	15,336
Total equity		**792,783**	**805,522**
Non-current liabilities			
Loans and borrowings	22	440,619	856,581
Deferred tax liabilities	16	71,208	96,654
Employee benefits	24	12,119	12,072
		523,946	**965,307**
Current liabilities			
Loans and borrowings	22	501,179	235,267
Trade and other payables	23	825,681	584,713
Employee benefits	24	6,582	667
Provisions	25	5,780	9,879
		1,339,222	**830,526**
Total equity and liabilities		**2,655,951**	**2,601,355**

The accompanying notes form an integral part of these consolidated financial statements

	2012 '000 USD	Restated 2011 '000 USD
OPERATING ACTIVITIES		
(Loss)/profit before tax	(3,019)	101,842
Adjustments for:		
Depreciation and amortisation	63,592	49,819
Unrealised foreign exchange loss/(gain)	12,162	(27,272)
Impairment/(reversal) of loans given and receivables	706	(1,266)
Impairment of capitalised development costs	-	2,536
Loss/(gain) on disposal of property, plant and equipment	279	(463)
Loss from disposal of intangible assets	310	1,673
Loss from impairment of investments	239	3,157
Interest expense	58,428	62,245
Government grant related to compensation of interest expense	-	(16,156)
Interest income	(10,500)	(6,087)
Operating profit before changes in working capital and provisions	**122,197**	**170,028**
Change in inventories and other non-current assets	(169,320)	(92,945)
Change in trade and other receivables	380,396	(539,750)
Change in trade and other payables	241,175	275,750
Change in provisions	(4,099)	(830)
Cash flows from/(used in)operations before income taxes and interest paid	**570,349**	**(187,747)**
Income taxes paid	(5,205)	(485)
Cash flows from/(used in) operating activities	**565,144**	**(188,232)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	448	1,927
Acquisition of property, plant and equipment	(62,823)	(35,249)
Acquisition of intangible assets	(82,734)	(63,514)
Government grant related to intangible assets	2,940	3,110
Loans advanced to related parties	-	(3,021)
(Acquisition of)/proceeds from investments	(38,472)	14,512
Interest received	10,500	6,087
Cash flows used in investing activities	**(170,141)**	**(76,148)**
FINANCING ACTIVITIES		
Proceeds from borrowings	703,080	1,184,545
Repayment of borrowings	(898,427)	(864,087)
Payment of lease liabilities	(10,760)	(10,460)
Interest paid, net of grant received	(68,657)	(61,343)
Dividends paid	(15,663)	(16,064)
Cash flows (used in)/from financing activities	**(290,427)**	**232,591**
Net increase/(decrease) in cash and cash equivalents	**104,576**	**(31,789)**
Cash and cash equivalents at beginning of year	295,532	320,434
Effect of exchange rates fluctuations on cash and cash equivalents	13,343	6,887
Cash and cash equivalents at end of year (note 19)	**413,451**	**295,532**

'000 USD	Share capital	Share premium	Hedging reserve	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to the equity holders of the Company								
Balance at 1 January 2011	122,124	227,118	(462)	24,358	(4,968)	204,861	573,031	15,755	588,786
Restatement (note 2(e)(i))	-	-	-	-	-	(10,450)	(10,450)	-	(10,450)
Restatement (note 2(e)(iii))	-	-	-	-	-	(2,847)	(2,847)	-	(2,847)
Balance at 1 January 2011 (restated)	**122,124**	**227,118**	**(462)**	**24,358**	**(4,968)**	**191,564**	**559,734**	**15,755**	**575,489**
Profit for the year (restated, note 2(e))	-	-	-	-	-	72,889	72,889	583	73,472
Other comprehensive income									
Defined benefit plan actuarial gain net of tax (restated, note 2(e)(i))						258	258	-	258
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							97,526	(305)	97,221
Transactions with owners, recorded directly in equity									
Contribution, net of related income tax effect of USD 37,219 thousand (Note 22)	-	-	-	148,876	-	-	148,876	-	148,876
Dividends to shareholders	-	-	-	-	-	(15,950)	(15,950)	(114)	(16,064)
Transactions with owners, recorded directly in equity	-	-	-	148,876	-	(15,950)	132,926	(114)	132,812
Balance at 31 December 2011 (restated)	**122,124**	**227,118**	**27,386**	**173,234**	**(8,437)**	**248,761**	**790,186**	**15,336**	**805,522**

'000 USD	Share capital	Share premium	Hedging reserve	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to the equity holders of the Company								
Balance at 1 January 2012	122,124	227,118	27,386	173,234	(8,437)	311,771	853,196	15,336	868,532
Restatement (note 2(e)(i))	-	-	-	-	-	(10,192)	(10,192)	-	(10,192)
Restatement (note 2 (e)(iii))	-	-	-	-	-	(52,818)	(52,818)	-	(52,818)
Balance at 1 January 2012 (restated)	**122,124**	**227,118**	**27,386**	**173,234**	**(8,437)**	**248,761**	**790,186**	**15,336**	**805,522**
Profit for the year	-	-	-	-	-	31,608	31,608	528	32,136
Other comprehensive income									
Defined benefit plan actuarial gain net of tax						(4,770)	(4,770)	-	(4,770)
Effective portion of changes in fair value of cash flow hedges, net of related income tax effect of USD 7,463 thousand	-	-	(29,852)	-	-		(29,852)	-	(29,852)
Foreign exchange differences	-	-	-	-	3,676	-	3,676	942	4,618
Total comprehensive income for the year							662	1,470	2,132
Transactions with owners, recorded directly in equity									
Contribution, net of related income tax effect of USD 198 thousand (Note 22)	-	-	-	793	-	-	793	-	793
Dividends to shareholders	-	-	-	-	-	(15,589)	(15,589)	(75)	(15,664)
Transactions with owners, recorded directly in equity	-	-	-	793	-	(15,589)	(14,796)	(75)	(14,871)
Balance at 31 December 2012	**122,124**	**227,118**	**(2,466)**	**174,027**	**(4,761)**	**260,010**	**776,052**	**16,731**	**792,783**

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 manufacturing of military and civil aircraft under contracts with Russian and foreign governments. The Company and its subsidiaries (“the Group”) are also engaged in rendering services related to research and development of military and civil aircraft. This research and development is carried out both for the Group’s own purposes and for the purposes of the government of Russian Federation.

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(n) and 7 – Revenues;
- Note 4(c) and 15 – Investments and non-current financial assets;
- Note 13 – Intangible assets;
- Note 24 - Employee benefits;
- Note 25 – Provisions;
- Note 28 – Contingencies.

(e) Changes in presentation of assets and liabilities and corrections related to previous reporting periods

(i) Defined benefit plans

In 2012 management made a decision to formally determine and recognise a defined benefit plan obligation which had previously not been recognised on the basis of its materiality to the consolidated financial statements as a whole. The defined benefit plan obligation was recognised retrospectively. As part of the revision described, the Group has early adopted amended IAS 19 (2011) Employee Benefits.

(ii) Change in presentation of costs incurred in excess of billings under construction contracts

During 2012 management reclassified construction contracts in progress which reflects costs incurred in excess of billings under construction contracts net of advances received from inventories to trade and other receivables. The presentation in the comparative period was similarly corrected. The change in presentation had no impact on earnings per share for the current and comparative periods.

(iii) Distribution expenses related to export sales

Management recognise that the application of the Group's accounting policy related to marketing costs (refer paragraph 3(n) of significant accounting policies) is subjective and depends on different facts and circumstances. Thus there is an ongoing process of review of distribution expenses, in particular, with regard to the timing of recognition. During the reporting period management performed a review of sales contracts related to export activities. Previously, distribution expenses were primarily recognised after settlement and upon receipt of relevant export report provided by sales agent (Rosoboronexport). As a result of the latest review management identified instances when events triggering recognition of distribution expenses occurred before settlement and receipt of export agent report. On this basis, management recognised accruals for distribution expenses as at the reporting date. To ensure consistency with previous reporting periods, concluded that accruals for distribution expenses should have been made in similar circumstances at previous reporting dates.

The results of changes in presentation of assets and liabilities and corrections related to previous reporting periods as follows:

Consolidated Income Statement

'000 USD	**2011**	**2 (e)(i)**	**2 (e)(ii)**	**2 (e)(iii)**	**Restated 2011**
Distribution expenses	(108,135)	-	-	(62,464)	(170,599)
Profit from operating activities	**203,100**	**-**	**-**	**(62,464)**	**140,636**
Profit before tax	**164,306**	**-**	**-**	**(62,464)**	**101,842**
Income tax expense	(40,863)	-	-	12,493	(28,370)
Profit for the year	**123,443**	-	-	**(49,971)**	**73,472**

Consolidated Statement of Comprehensive Income

'000 USD	**2011**	**2 (e)(i)**	**2 (e)(ii)**	**2 (e)(iii)**	**Restated 2011**
Defined benefit plan actuarial gain net of tax	-	258	-	-	258
Total comprehensive income	**146,934**	**258**	**-**	**(49,971)**	**97,221**

Consolidated Statement of Financial Position

'000 USD	31 December 2010	2 (e)(i)	2 (e)(ii)	2 (e)(iii)	Restated 31 December 2010
Current assets					
Inventories	611,178	-	(87,923)	-	523,255
Trade and other receivables	355,777	-	87,923	-	443,700
	1,320,190	-	-	-	**1,320,190**
Total assets	**1,957,810**	-	-	-	**1,957,810**
Equity					
Retained earnings	204,861	(10,450)	-	(2,847)	191,564
Total equity	**588,786**	**(10,450)**	**-**	**(2,847)**	**575,489**
Non-current liabilities					
Deferred tax liabilities	40,615	(2,612)	-	(712)	37,291
Employee benefits	-	13,062	-	-	13,062
	720,345	**10,450**	**-**	**(712)**	**730,083**
Current liabilities					
Trade and other payables	305,349	-	-	3,559	308,908
	648,679	**-**	**-**	**3,559**	**652,238**
Total equity and liabilities	**1,957,810**	**-**	**-**	**-**	**1,957,810**

'000 USD	31 December 2011	2 (e)(i)	2 (e)(ii)	2 (e)(iii)	Restated 31 December 2011
Current assets					
Inventories	836,702	-	(219,096)	-	617,606
Trade and other receivables	767,062	-	219,096	-	986,158
	1,915,516	-	-	-	**1,915,516**
Total assets	**2,601,355**	-	-	-	**2,601,355**
Equity					
Retained earnings	311,771	(10,192)	-	(52,818)	248,761
Total equity	**868,532**	**(10,192)**	**-**	**(52,818)**	**805,522**
Non-current liabilities					
Deferred tax liabilities	112,406	(2,547)	-	(13,205)	96,654
Employee benefits	-	12,072	-	-	12,072
	968,987	**9,525**	**-**	**(13,205)**	**965,307**
Current liabilities					
Trade and other payables	518,690	-	-	66,023	584,713
Employee benefits	-	667	-	-	667
	763,836	**667**	**-**	**66,023**	**830,526**
Total equity and liabilities	**2,601,355**	**-**	**-**	**-**	**2,601,355**

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 acquire.

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(n)), 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 number of 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(j)(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 companies under common control (UAC), 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) Construction contracts in progress

Construction contracts in progress represents the gross amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date less progress billings, recognised losses. 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. Construction contracts in progress net of advances received from customers for construction contracts is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings and recognised losses. If progress billings and recognised losses exceed costs incurred plus recognised profits, then the difference is presented as deferred income/revenue in the statement of financial position.

(i) Inventories

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.

(j) 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.

(k) Dividends

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

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method. Net interest on the net defined benefit plan liability (asset), current and past service costs, including gains or losses arising on improving of plan benefits, plan curtailment or settlement, are recognised in profit or loss.

The effects of remeasurement of net defined benefit plan liabilities (assets), including actuarial gains and losses and return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), are recognised in other comprehensive income.

(m) 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.

(n) Revenues

(i) Construction contracts

The operations of the Group substantially comprise of building aircraft under fixed price contract where particular aircraft item (or items) undergoes significant modification in development and/or production to meet customer requirements under contracts. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract, 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.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined and are recognised immediately in profit or loss. 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.

(ii) Goods sold

Revenue from the sale of goods, primarily related to production of serial aircraft not requiring substantial customer-related modification and separate military and civil aircraft components, is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Services

Revenue from services rendered, which primarily relate to customer-specified aircraft-related development activities, aircraft modernisation, overhaul and repair, is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(o) 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.

(p) 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.

(q) Income tax

Income tax for the year comprises current and deferred tax and tax credits utilized during the year. 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.

Income tax credit is granted in the form of increases in tax-deductible expenses. Tax credit is presented in profit or loss as a deduction in current tax expense to the extent that an entity is entitled to claim the credit in the tax current reporting period. If the additional deduction exceeds taxable income, then the resulting tax loss can be carried forward and utilised in future periods by recognising as a deferred tax asset.

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.

(r) 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.

(s) 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.

(t) 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.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, 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 Federal Government of Russian Federation (represented by ministries and agencies) and 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 3,161.5 million (USD 104,090 thousand) under contracts with Government for rendering services and supplying goods (2011: USD 64,029 thousand). As at 31 December 2012 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 2012:

- RUB 1,285 million short-term credit lines secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 7%-9.65%;
- RUB 13,563 million long-term credits lines secured by state guarantee of Russian Government. Interest would be payable at the fixed rate of 10,19%;
- RUB 2,000 million short-term unsecured credit line. Interest would be payable at the fixed rate of 12%;
- USD 206 million short-term credit line secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 5.3%-5.75%;
- USD 300 million long-term credit line secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 4.45%;
- USD 125 million long-term credit line secured by fixed assets. Interest would be payable at the fixed rate of 9.25%;
- USD 187 million long-term unsecured credit lines. Interest would be payable at the fixed rate of 7%-7.25%;

- USD 100 million long-term unsecured credit lines. Interest would be payable at the fixed rate of 9%-9.5%;
- USD 95 million long-term unsecured credit line. Interest would be payable at the fixed rate of 4.25%;
- USD 963 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, expect 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 4.05% in 2012 (2011: 9.12%). 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 7.67% (2011: 7.3%).

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

	2012 '000 USD	Restated 2011 '000 USD
Total debt	941,798	1,091,848
Less: cash and cash equivalents	(413,451)	(295,532)
Net debt	**528,347**	**796,316**
Total equity	792,783	805,522
Debt to capital ratio at 31 December	**0.67**	**0.99**

Under certain loan agreements the Company has to comply with financial covenants which require maintaining minimum levels of Net Debt to adjusted EBITDA ratios determined on the basis of consolidated IFRS amounts.

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 2012 or 2011.

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.

Information about reportable segments

’000 USD	SU-30 Program		YAK-130 Program		MC-21 Program		Cooperation		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
External revenue	894,054	1,061,143	196,434	258,481	401,220	255,881	8,110	6,245	88,116	90,056	1,587,934	1,671,806
Segment direct costs	(437,605)	(535,846)	(158,718)	(155,093)	(313,224)	(190,138)	(7,746)	(5,901)	(66,429)	(69,962)	(983,722)	(956,940)
Direct distribution expenses	(131,485)	(127,914)	(6,171)	(65,336)	-	-	(316)	(271)	(880)	(753)	(138,852)	(194,274)
Design and development	(3,565)	-	(4,110)	(4,384)	-	-		-	-	(1,329)	(7,675)	(5,713)
Reportable segment gross profit	**321,399**	**397,383**	**27,435**	**33,668**	**87,996**	**65,743**	**48**	**73**	**20,807**	**18,012**	**457,685**	**514,879**

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

	2012 '000 USD	2011 '000 USD
Total revenue for reportable segments	1,587,934	1,671,806
Difference in timing of revenue recognition	(57,079)	(45,778)
Consolidated revenue	**1,530,855**	**1,626,028**
Reportable segments total gross profit	457,685	514,879
Direct distribution expenses	138,852	194,274
Difference in timing of recognition and presentation of expenses	(228,874)	(190,919)
Gross profit	**367,663**	**518,234**
Other income	706	1,527
Research and development costs	(1,243)	(21,232)
Distribution expenses	(155,215)	(170,599)
Administrative expenses	(158,780)	(155,629)
Taxes, other than on profit	(8,628)	(9,226)
Other expenses	(31,537)	(22,439)
Profit from operating activities	**12,966**	**140,636**
Finance income	42,682	10,452
Finance costs	(58,667)	(49,246)
Consolidated (loss)/profit before income tax	**(3,019)**	**101,842**

7 Revenues

	2012 '000 USD	2011 '000 USD
Revenue earned on military aircraft construction contracts	748,359	841,399
Revenue on sales of military aircraft components and related products	296,782	444,404
Revenue from services on research and development of MC-21 project	402,620	274,143
Revenue earned on civil aircraft construction contracts	-	1,814
Revenue on sales of civil aircraft components and related products	31,083	11,539
Other revenues	52,011	52,729
	1,530,855	**1,626,028**

8 Personnel expenses

	2012 '000 USD	2011 '000 USD
Wages and salaries	244,826	216,155
Compulsory social security contributions	64,134	58,865
	308,960	**275,020**

9 Other expenses

	2012 '000 USD	2011 '000 USD
Impairment of capitalised development costs (Note 13)	-	(2,536)
Loss on disposal of property, plant and equipment	(279)	-
Previously unrecognised unused vacation provision	(8,766)	-
Social costs	(9,629)	(15,949)
Impairment of loans given and receivables	(706)	-
Banking charges	(1,700)	(2,767)
Provision for inventories obsolescence and inventory write-off	(6,748)	-
Impairment of current assets	(153)	-
Expenses related to ceased business	(1,243)	-
Other	(2,313)	(1,187)
	(31,537)	**(22,439)**

10 Finance income and costs

	2012 '000 USD	2011 '000 USD
Finance income		
Interest income	10,500	6,087
Foreign exchange gain	32,182	4,365
	42,682	**10,452**
Finance costs		
Interest expense	(58,428)	(62,245)
Government grant related to compensation of interest expense	-	16,156
Interest expense, net	(58,428)	(46,089)
Loss from impairment of investments	(239)	(3,157)
	(58,667)	**(49,246)**

11 Income tax (benefit)/expense

	2012 '000 USD	Restated * 2011 '000 USD
Current tax (benefit)/expense		
Current income tax	490	12,271
Adjustment of prior periods	(18,752)	404
	(18,262)	**12,675**
Deferred tax (benefit)/ expense		
Origination and reversal of temporary differences	(9,921)	15,695
Recognition of previously unrecognised tax losses credits	(6,972)	-
	(16,893)	15,695
Income tax (benefit)/expense	**(35,155)**	**28,370**

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

Reconciliation of effective tax rate:

	2012 '000 USD	%	Restated * 2011 '000 USD	%
(Loss)/profit before income tax	(3,019)	100	101,842	100
Income tax (benefit)/expense at applicable tax rate	(604)	20	20,368	20
Non-deductible/non-taxable items, net	2,021	(67)	4,639	5
Unused tax credit relating to R&D expenses of the reporting period	(12,121)	401	-	-
Foreign currency translation	1,273	(42)	2,959	3
Utilisation of previously unrecognised tax credit related to R&D expenses of prior years	(25,724)	852	404	0
	(35,155)	**1,164**	**28,370**	**28**

*See note 2(e)(iii)

The Company is eligible to income tax credit which is granted for research and development expenditures incurred. The Company starts to utilize the tax credit in 2012 with respective adjustments of prior periods income tax expense and recognition of tax credit carried forward as a deferred tax asset.

12 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2011	**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**
Additions	-	9,647	59,901	69,548
Transfers	7,205	23,681	(30,886)	-
Disposals	(7,451)	(4,933)	-	(12,384)
Foreign exchange differences	160	563	(1,216)	(493)
At 31 December 2012	**179,156**	**521,560**	**78,693**	**779,409**
Depreciation				
At 1 January 2011	**(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)**
Depreciation charge	(3,718)	(41,981)	-	(45,699)
Disposals	7,253	4,404	-	11,657
Foreign exchange differences	(19)	(316)	-	(335)
At 31 December 2012	**(100,686)**	**(321,243)**	-	**(421,929)**
Net book value				
At 1 January 2011	**75,145**	**234,133**	**22,314**	**331,592**
At 31 December 2011	**75,040**	**209,252**	**50,894**	**335,186**
At 31 December 2012	**78,470**	**200,317**	**78,693**	**357,480**

(a) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see Note 22). At 31 December 2012 the net carrying amount of leased plant and machinery was USD 17,407 thousand (2011: USD 31,754 thousand).

(b) Security

At 31 December 2012 properties with a carrying amount of USD 8,006 thousand (31 December 2011: USD 4,221 thousand) are pledged as a collateral for secured bank loans (see Note 22).

(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 77,527 thousand (2011: USD 79,630 thousand).

13 Intangible assets

'000 USD	Development costs	Other intangibles	Advances related to development costs	Total
Cost				
At 1 January 2011	**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**
Additions	81,046	1,689	-	82,735
Transfers	30,000	-	(30,000)	-
Government grant related to development	(2,940)	-	-	(2,940)
Disposals	-	(1,902)	-	(1,902)
Foreign exchange differences	3,370	42	-	3,412
At 31 December 2012	**351,996**	**15,107**	**-**	**367,103**
Amortisation and impairment				
At 1 January 2011	**(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)**
Amortisation charge	(14,164)	(3,729)	-	(17,893)
Disposals	-	1,593	-	1,593
Foreign exchange differences	(25)	(4)	-	(29)
At 31 December 2012	**(69,890)**	**(6,644)**	**-**	**(76,534)**
Net book value				
At 1 January 2011	**171,856**	**10,764**	**-**	**182,620**
At 31 December 2011	**184,819**	**10,774**	**30,000**	**225,593**
At 31 December 2012	**282,106**	**8,463**	**-**	**290,569**

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

	2012 '000 USD	2011 '000 USD
Intellectual property rights related to the development of:		
Yak-130 aircraft	157,968	145,280
MC-21	116,762	62,163
SUV-30K modernisation set	6,772	6,772
Others	604	604
	282,106	**214,819**

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 2012. 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 2012. The recoverable amount determined as discounted future cash flows from the continuing use of the asset does not exceed the carrying amount of related intangible asset as at 31 December 2012.

14 Investments in equity accounted investees

As at 31 December 2012 the Group has the associate JSC "TANTK imeni Berieva" (TANTK). The entity is a subsidiary of the Group parent company UAC. TANTK - carries out production and research-and-development works on hydroplanes Be-200.

TANTK continue to be carried at nil carrying amounts.

'000 USD	Ownership	Total assets	Total liabilities	Revenues	Loss
2012					
JSC "TANTK imeni Berieva"	33%	489,527	(580,202)	62,143	31,113
2011					
JSC "TANTK imeni Berieva"	33%	369,280	(392,391)	167,651	12,536

The reporting date for TANTK is 31 December.

15 Investments and non-current financial assets

	2012 '000 USD	2011 '000 USD
Non-current		
Available-for-sale investments, stated at cost	15,313	13,475
Loans to related parties	3,203	3,021
Loans to third parties	4,427	-
Forward contracts used for hedging	-	5,902
Other non-current financial assets	-	89
	22,943	**22,487**
Current		
Forward contracts used for hedging	13,027	15,820
Rouble promissory notes fixed at 9%	40,332	-
Loans to third parties	640	225
Other current financial assets	-	175
	53,999	**16,220**

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

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 USD	Assets		Liabilities		Net	
	2012	Restated* 2011	2012	Restated* 2011	2012	Restated* 2011
Property, plant and equipment	32	29	(20,543)	(21,515)	(20,511)	(21,486)
Intangible assets	4,724	1,863	(56,952)	(25,919)	(52,228)	(24,056)
Investments	6,205	4,247	(3)	(10)	6,202	4,237
Other non-current assets	-	17,997	-	-	-	17,997
Inventories and other current assets	47,573	4,524	(21)	(7,008)	47,552	(2,484)
Trade and other receivables	72	119	(114,490)	(56,294)	(114,418)	(56,175)
Loans and borrowings	16	14	(32,274)	(34,018)	(32,258)	(34,004)
Trade and other payables	11,125	17,632	(534)	(23)	10,591	17,609
Provisions	-	534	(2,723)	-	(2,723)	534
Employee benefits	3,740	2,548	-	-	3,740	2,548
Tax credit for R&D expenses	12,121	-	-	-	12,121	-
Tax loss carry-forwards	71,957	619	-	-	71,957	619
Total tax assets/(liabilities)	**157,565**	**50,126**	**(227,540)**	**(144,787)**	**(69,975)**	**(94,661)**
Offset of tax	(156,332)	(48,133)	156,332	48,133	-	-
Net tax assets/(liabilities)	**1,233**	**1,993**	**(71,208)**	**(96,654)**	**(69,975)**	**(94,661)**

See notes 2(e)(i), 2(e)(iii).

Tax credit related to R&D expenses can be carried forward and utilised in a future period of up to three years

(b) Movement in temporary differences during the year

'000 USD	Restated* 1 January 2011	Recognised in profit or loss	Foreign currency translation	Recognised in equity	Recognised in other comprehen-sive income	Restated* 31 December 2011
Property, plant and equipment	(16,200)	(5,294)	8	-	-	(21,486)
Intangible assets	(11,649)	(12,854)	447	-	-	(24,056)
Other non-current assets	17,997	-	-	-	-	17,997
Investments	3,240	7,959	-	-	(6,962)	4,237
Inventories and other current assets	25,317	(27,610)	(191)	-	-	(2,484)
Trade and other receivables	(60,082)	3,873	34	-	-	(56,175)
Loans and borrowings	971	2,245	(1)	(37,219)	-	(34,004)
Trade and other payables	(1,919)	19,526	2	-	-	17,609
Provisions	3,425	(2,888)	(3)	-	-	534
Employee benefits	2,612	-	-	(64)	-	2,548
Tax loss carry-forwards	1,271	(652)	-	-	-	619
	(35,017)	**(15,695)**	**296**	**(37,283)**	**(6,962)**	**(94,661)**

’000 USD	Restated* 1 January 2012	Recogni-sed in profit or loss	Foreign currency translation	Recognised in equity	Recogni-sed in other comprehens ive income	31 December 2012
Property, plant and equipment	(21,486)	904	71	-	-	(20,511)
Intangible assets	(24,056)	(27,699)	(473)	-	-	(52,228)
Other non-current assets	17,997	(17,997)	-	-	-	-
Investments	4,237	(5,498)	-	-	7,463	6,202
Inventories and other current assets	(2,484)	49,900	136	-	-	47,552
Trade and other receivables	(56,175)	(58,199)	(44)	-	-	(114,418)
Loans and borrowings	(34,004)	1,943	1	(198)	-	(32,258)
Trade and other payables	17,609	(7,029)	11	-	-	10,591
Provisions	534	(3,257)	-	-	-	(2,723)
Employee benefits	2,548	-	-	-	1,192	3,740
Tax credit for R&D expenses	-	12,121	-	-	-	12,121
Tax loss carry-forwards	619	71,704	(366)	-	-	71,957
	(94,661)	**16,893**	**(664)**	**(198)**	**8,655**	**(69,975)**

See notes 2(e)(i), 2(e)(iii).

17 Inventories

	2012 ’000 USD	Restated*,** 2011 ’000 USD
Raw materials and other supplies, gross	159,993	130,458
Aircraft components	177,100	111,104
Provision for obsolescence of inventories	(7,507)	(6,654)
	329,586	234,908
Advance payments to suppliers	216,420	182,636
Goods for sale	107,153	16,238
Work in progress	229,845	179,319
	883,004	**613,101**

Goods for sale 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 (as at 31 December 2011 the aircrafts were classified as non-current assets).

*Construction contracts in progress were reclassified as trade and other receivables (see note 2(e)(ii)).

**During 2012 management reclassified prepaid expenses in the amount of USD 4,505 thousand from inventories to trade and other receivables. The presentation in the comparative period was similarly corrected.

18 Trade and other receivables

	2012 '000 USD	Restated* 2011 '000 USD
Accounts receivable – trade	74,588	622,958
Allowance for doubtful accounts	(1,569)	(615)
	73,019	**622,343**
Construction contracts in progress	374,495	219,096
Prepaid expenses	33,911	4,505
VAT recoverable	77,937	93,454
Income tax receivable	26,644	2,932
Other prepaid taxes	2,223	1,036
Other receivables	45,043	47,297
	633,272	**990,663**

*See note 2(e)(ii)).

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date on construction contracts in progress is USD 877,176 thousand (2011: USD 3,826,680 thousand).

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.

19 Cash and cash equivalents

	2012 '000 USD	2011 '000 USD
Bank balances, US Dollars	48,515	75,624
Bank balances, Euro	16,040	7,668
Bank balances, Russian roubles	110,885	19,342
Call deposits, US Dollars	50,152	75,544
Call deposits, Euro	79,639	-
Call deposits, Russian roubles	108,220	117,354
	413,451	**295,532**

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

20 Equity

(a) Share capital

As at 31 December 2012 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 793 thousand (31 December 2011: USD 148,876 thousand) represents a fair value adjustment relating to a zero-interest loan received from the parent company (see note 22).

(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 2012 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUB 9,363,174 thousand (USD 308,276 thousand translated at the closing RUB/USD exchange rate of 30.3727).

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

	1 June 2012	8 June 2011
Amount per share, RUB	0.44	0.38
Amount per share, USD	0.0134	0.0137
Total amount, ’000 USD	15,588	15,950

21 Earnings per share

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

Number of shares	**2012**	**2011**
Issued ordinary shares at 1 January	1,166,009,086	1,166,009,086
Weighted average number of ordinary shares at 31 December	**1,166,009,086**	**1,166,009,086**

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

	2012 '000 USD	2011 '000 USD
Non-current		
Secured bank loans	13,923	297,055
Unsecured bank loans	168,095	165,218
Unsecured bond issue	-	159,543
Finance lease liabilities	7,210	10,181
Loans from parent company (see below)	251,391	224,584
	440,619	**856,581**
Current		
Secured bank loans	168,035	45,607
Unsecured bank loans	54,774	60,019
Current portion of non-current secured bank loans	54,692	64,146
Current portion of non-current unsecured bank loans	50,062	60,022
Current portion of unsecured bond issue	169,207	-
Current portion of finance lease liabilities	4,409	5,473
	501,179	**235,267**

The loan from the parent company represents a number of zero-interest loans received from OAO "United Aircraft Corporation". The loans were 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 present value of the loans calculated as the amount payable in 9 years discounted at 7.3% (average borrowing rate of the Company on comparable loans) and were classified as a loan from parent company in non-current borrowings. The fair value adjustment in respect of the loan, net of related income tax effect, was recognized directly in equity.

(a) Security

The loans are secured over property, plant and equipment with a carrying amount of USD 8,006 thousand (31 December 2011: USD 4,221 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

'000 USD	Nominal interest rate	Year of maturity	Face value 2012	Carrying amount 2012	Face value 2011	Carrying amount 2011
Secured bank loans:						
RUB	6.8-7%	2012	-	-	270,825	270,856
RUB	9.3%-9.65%	2013-2015	37,278	37,144		
USD	6%	2012	-	-	108,814	108,996
USD	5.75%-6.3%	2013	199,129	199,325	26,031	26,009
EURO	Euribor+3.25-5%	2012-2013	193	181	1,357	947
Unsecured bank loans:						
USD	7.2-8.5%	2016-2017	108,656	103,306	66,627	66,441
USD	2.9%	2012	-	-	60,000	60,019
RUB	8.8%-9.25%	2013	24,774	24,760	-	-
RUB	8.50%	2015	793	788	16,166	16,176
USD	5.5-10%	2012-2015	6,640	6,695	6,618	6,686
USD	5.75-7.8%	2012-2013	50,000	50,058	110,000	110,053
USD	7%	2014	10,033	10,001	-	-
USD	7.04%-9%	2022-2023	77,494	77,323	-	-
EURO	8%	2012	-	-	25,886	25,884
Unsecured bond issue:						
RUB	8.74%-9.25%	2013	165,160	169,207	155,298	159,543
Finance lease liabilities	10.2%-14%	2012-2017	11,619	11,619	15,654	15,654
Other loans RUB	0%-5%	2019-2020	423,630	251,391	406,509	224,584
Total interest-bearing liabilities			**1,115,399**	**941,798**	**1,269,785**	**1,091,848**

(c) Finance lease liabilities are payable as follows:

'000 USD	Future minimum lease payments 2012	Interest 2012	Present value of minimum lease payments 2012	Future minimum lease payments 2011	Interest 2011	Present value of minimum lease payments 2011
Less than one year	5,543	1,134	4,409	9,168	3,695	5,473
Between one and five years	8,587	1,377	7,210	13,009	2,828	10,181
	14,130	**2,511**	**11,619**	**22,177**	**6,523**	**15,654**

23 Trade and other payables

	2012 '000 USD	Restated* 2011 '000 USD
Accounts payable	248,702	260,912
Accrued expenses	78,593	72,740
Advances from customers, unrelated to construction contracts	463,924	206,227
Income tax payable	33	240
Other taxes payable	23,568	20,053
Other payables	10,861	24,541
	825,681	**584,713**

*See note 2(e)(ii).

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

24 Employee benefits

The Group has a pension plan for long-service employees. The plan entitles a retired employee to receive a payment at the moment of retirement and a quarterly payment which sum is depended from the length of service.

(a) Movements in the present value of the defined benefit obligations

	2012 '000 USD	Restated* 2011 '000 USD
Defined benefit obligations at 1 January	12,739	13,063
Benefits paid by the plan	(1,746)	(1,455)
Current service costs	471	148
Interest	1,274	1,306
Actuarial gains and losses recognised in other comprehensive income	5,963	(323)
Defined benefit obligations at 31 December	18,701	12,739

*See note 2(e)(i).

(b) Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2012	2011
Discount rate at 31 December	8%	8%
Future salary increases	5%	5%
Future pension increases	5%	5%

Assumptions regarding future mortality are based on published statistics and mortality tables. The retirement age in Russia is currently 60 for men and 55 for women. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

	2012	**2011**
Average life expectancy of members from the date of retirement:		
Males	7	7
Females	22	22

The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above. As the actuarial estimates of mortality continue to be refined, an increase of one year in the lives shown above is considered reasonably possible in the next financial year.

25 Provisions

	Warranties	
	2012 **'000 USD**	**2011** **'000 USD**
Balance at 1 January	9,879	10,709
Provisions made during the year	9,310	9,902
Provisions used during the year	(13,409)	(10,732)
Balance at 31 December	**5,780**	**9,879**

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.

(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 2012	Carrying Amount 2011
Available-for-sale financial assets	15,313	13,475
Forward contracts used for hedging	13,027	21,722
Rouble bank promissory notes	40,332	-
Other financial assets	-	264
Trade receivables	73,019	622,343
Construction contracts in progress	374,495	219,096
Loans to related parties	3,203	3,021
Loans to third parties	5,067	225
Other receivables and originated loans	45,043	47,297
Cash and cash equivalents	413,451	295,532
	982,950	**1,222,975**

The Group monitor and assess the credit quality of trade receivables, including amounts due from customers under construction contracts in progress. As at 31 December 2012, approximately 97% of the total receivable balance was represented by one individually significant foreign customer (2011: approximately 57% and 19% of the total receivable balance was represented by two foreign customers and 20% by the related party under common control with the Group).

(b) Impairment losses

The aging of trade receivables at the reporting date was:

'000 USD	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	73,019	-	237,256	-
Past due 0-360 days	-	-	385,087	-
More than one year	1,569	(1,569)	615	(615)
	74,588	**(1,569)**	**622,958**	**(615)**

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

'000 USD	2012 '000 USD	2011 '000 USD
Balance at 1 January	615	584
Impairment loss recognised	954	31
Balance at 31 December	**1,569**	**615**

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 2012 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2011: nil).

(c) Liquidity risk

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

31 December 2012

'000 USD	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	Later
Secured bank loans	236,650	243,959	227,348	16,611	-	-
Unsecured bank loans	272,931	332,715	122,098	42,280	90,972	77,365
Unsecured bond issue	169,207	179,807	179,807	-	-	-
Finance lease liabilities	11,619	14,130	5,543	7,885	702	-
Other loans	251,391	423,630	-	-	-	423,630
Trade and other payables	361,757	361,757	361,757	-	-	-
	1,303,555	**1,555,998**	**896,553**	**66,776**	**91,674**	**500,995**

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	378,486	378,486	378,486	-	-	-
	1,470,334	**1,760,202**	**672,461**	**576,706**	**92,871**	**418,164**

As at 31 December 2012 the Group was also exposed to potential cash outflows in relation to financial guarantees given for the total contractual amount of USD 104,090 thousand (2011: USD 64,029 thousand) (see note 5(b)(iii)).

(d) Currency risk

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

	31 December 2012			31 December 2011		
'000 USD	**USD**	**RUB**	**EURO**	**USD**	**RUB**	**EURO**
Cash and cash equivalents	98,667	219,105	95,679	151,168	136,696	7,668
Trade receivables	35,252	37,767	-	568,713	49,299	4,331
Other receivables	-	45,043	-	-	47,297	-
Construction contracts in progress	374,495	-	-	219,096	-	-
Secured bank loans	(199,325)	(37,145)	(181)	(135,005)	(270,856)	(947)
Unsecured bank loans	(247,383)	(25,547)	-	(243,199)	(16,176)	(25,884)
Unsecured bond issue	-	(169,207)	-	-	(159,543)	-
Finance lease liabilities	(11,432)	(187)	-	(15,123)	(531)	-
Other loans	-	(251,391)	-	-	(224,584)	-
Trade and other payables	(208,420)	(138,325)	(15,012)	(270,275)	(106,316)	(1,895)
Gross exposure	**(158,146)**	**(319,887)**	**80,486**	**275,375**	**(544,714)**	**(16,727)**
Forward exchange contracts (Note 5(d(i))	(158,227)	171,254	-	(455,100)	433,378	-
Net exposure	**(316,373)**	**(148,633)**	**80,486**	**(179,725)**	**(111,336)**	**(16,727)**

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
RUB 1,000	32.16	34.03	32.92	31.06
EURO	1.28	1.39	1.32	1.29

(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 2012	
RUB	(13,512)
EURO	7,317
31 December 2011	
RUB	(10,121)
EURO	(1,521)

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:

	Carrying amount	
'000 USD	**2012**	**2011**
Fixed rate instruments		
Financial assets	299,640	217,866
Financial liabilities	(941,617)	(1,090,901)
	(641,977)	**(873,035)**
Variable rate instruments		
Financial liabilities	(181)	(947)
	(181)	**(947)**

(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 (2011: USD 9 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 2012**	**Fair value 2012**	**Carrying amount 2011**	**Fair value 2011**
Available-for-sale financial assets	15,313	15,313	13,475	13,475
Other financial assets	-	-	3,110	3,110
Forward contracts used for hedging	13,027	13,027	21,722	21,722
Rouble promissory notes fixed at 9%	40,332	40,332	-	-
Loans and receivables	126,332	126,332	672,886	672,886
Construction contracts in progress	374,495	374,495	219,096	219,096
Cash and cash equivalents	413,451	413,451	295,532	295,532
Secured bank loans	(236,650)	(236,650)	(406,808)	(406,808)
Unsecured bank loans	(272,931)	(272,931)	(285,259)	(285,259)
Unsecured bond issue, RUB (note 22)	(169,207)	(165,464)	(159,543)	(158,715)
Finance lease liabilities	(11,619)	(11,619)	(15,654)	(15,654)
Other loans	(251,391)	(251,391)	(224,584)	(224,584)
Trade and other payables	(361,757)	(361,757)	(378,486)	(378,486)
	(320,605)	**(316,862)**	**(244,513)**	**(243,685)**

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

27 Commitments

(a) Capital commitments

At 31 December 2012 the Group is committed to capital expenditure of approximately USD 177,699 thousand for fixed assets (2011: USD 106,110 thousand) and USD 80,000 thousand for R&D (2011: USD 135,000 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2012 under long-term supply agreements are estimated at USD 7,617 thousand at current market prices (2011: USD 9,250 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) Financial guarantees

As at 31 December 2012 the Group has provided financial guarantees for rendering services and supplying goods for the total contractual amount of USD 104,090 thousand (2011: USD 64,029 thousand) (note 5(b)(iii)). The Group’s estimated maximum exposure to credit losses in the event of non-performance by the other parties to the financial guarantees is represented by the contractual amounts disclosed above. Management believes that the likelihood of material payments being required under these agreements is remote. At the reporting date the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(d) Environmental contingencies

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

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” (Parent Company) 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 2012 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 8):

	2012 '000 USD	2011 '000 USD
Wages and salaries	8,023	8,864
Compulsory social security contributions	1,021	305
	9,044	**9,169**

(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 cause 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 and approval process for purchases of products and services, which are independent of whether the counterparties are government-related entities or not. As discussed in the note 1(a), the core business of the Group is manufacturing of military and civil aircraft and rendering research and development services related to these activities under contracts with Russian and foreign governments, where substantial part such contracts is attributed to domestic Russian government. The nature and amount of related contractual arrangements with government-related entities may depend on various factors, such as complexity and quantity of product, availability of State budget financing and presence of other government objectives. The Group management monitors the size, terms and other relevant factors of related arrangements in order to determine whether those would collectively lead to a particular transaction to qualify as individually significant.

For the year ended 31 December 2012, management estimates that the aggregate amount of the Group’s collectively significant transactions with government related entities is at least 50% (2011: at least 62%) of its revenues, at least 26% (2011: at least 9%) of its purchases of materials, equipment and services, and up to 65% of its borrowings (2011: up to 60%).

The Group also benefited from compensation of borrowing costs related to financing of export 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 for partial compensation of borrowing costs incurred by Russian entities engaged in export of industrial products and with financing obtained from Russian banks. Majority of balance of other receivables and originated loans comprises of receivable related to the program. Management expects that the compensation program will be continued in 2013 and the Group will qualify for further compensation in relation to loans already secured or to be secured in future.

30 Significant subsidiaries

	Country of incorporation	**Ownership/voting 2012**	**2011**
OAO “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.