Joint Stock Company "United Aircraft Corporation"

Consolidated Financial Statements

for the year ended 31 December 2011

Contents

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Independent Auditors' Report

The Board of Directors

Joint Stock Company "United Aircraft Corporation"

We have audited the accompanying consolidated financial statements of Joint Stock Company "United Aircraft Corporation" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Because we were denied access to the financial information, management, and the auditors of the Company's subsidiary Joint Stock Company "Finance Leasing Company" (or "FLC"), we were unable to complete our audit procedures regarding this subsidiary, representing total assets of RUB 5,924 million as at 31 December 2011 (31 December 2010: RUB 7,863 million), negative net assets of RUB 8,732 million as at 31 December 2011 (31 December 2010: negative net assets of RUB 5,114 million) and loss for the year ended 31 December 2011 of RUB 3,618 million (2010: loss of RUB 1,189 million). As a result, we were unable to determine whether adjustments might have been found necessary in respect of the Group's consolidated financial position, consolidated financial performance and cash flows as at and for the year ended 31 December 2011. Our opinions on the consolidated financial statements of the Group as at and for the year ended 31 December 2010 and on the current year's figures have been modified accordingly.

Qualified Opinion

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

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31 August 2012

Mln RUB	Note	2011	2010
Revenue	8	161 653	140 682
Cost of sales		(114 317)	(104 243)
Gross profit		**47 336**	**36 439**
Government grants related to income	26	2 661	484
Research and development costs		(670)	(2 973)
Distribution expenses		(18 285)	(16 086)
Administrative expenses		(20 380)	(17 695)
Non-current asset impairment		(2 803)	(3 352)
Other operating income	11	1 121	150
Other operating expenses	10	(7 141)	(8 812)
Profit/(loss) from operations		**1 839**	**(11 845)**
Finance income	12	3 068	3 881
Finance costs	12	(13 352)	(11 749)
Share of loss of equity accounted investees	16	(363)	(349)
Loss before income tax		**(8 808)**	**(20 062)**
Income tax expense	13	(3 069)	(104)
Loss for the year		**(11 877)**	**(20 166)**
Loss attributable to:			
Shareholders of the Company		(8 667)	(18 946)
Non-controlling interest		(3 210)	(1 220)
Loss for the year		**(11 877)**	**(20 166)**
Basic and diluted loss per share (RUB)	23	(0,04)	(0,12)

The consolidated financial statements were authorised for issue on 31 August 2012:

Mikhail Pogosyan,
President

Vladimir Chirkov,
Vice-president for Economics and Finance

Mln RUB	**2011**	**2010**
Loss for the year	(11 877)	(20 166)
Other comprehensive income		
Defined benefit plan actuarial loss, net of tax	(99)	(320)
Effective portion of changes in fair value of cash flow hedges, net of tax	850	(14)
Foreign exchange differences	811	1 067
Total comprehensive loss for the year	**(10 315)**	**(19 433)**
Total comprehensive income/(loss) attributable to:		
Shareholders of the Company	(7 185)	(18 221)
Non-controlling interest	(3 130)	(1 212)
	(10 315)	**(19 433)**

Mln RUB	Note	31 December 2011	31 December 2010 Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	14	96 107	87 365
Intangible assets	15	44 927	36 970
Investments in associates	16	9 220	9 035
Investments and non-current financial assets	17	3 436	3 432
Finance lease receivables		505	524
Deferred tax assets	18	4 869	2 107
Other non-current assets	7	4 165	6 051
Other receivables, non-current	20	4 140	853
Total non-current assets		**167 369**	**146 337**
Current assets			
Investments	17	2 792	4 119
Inventories	19	124 032	118 009
Trade and other receivables	20	79 935	70 383
Finance lease receivables		34	43
Current income tax receivables		109	-
Cash and cash equivalents	21	46 002	47 784
Other current assets		1 149	-
Total current assets		**254 053**	**240 338**
Total assets		**421 422**	**386 675**
EQUITY AND LIABILITIES			
Equity			
Share capital	22	201 926	188 633
Share premium	22	4 566	4 566
Revaluation reserve		207	207
Prepaid shares reserve	22	2 698	-
Treasury shares	22	(410)	(410)
Foreign currency translation reserve		3 947	3 261
Hedging reserve		881	(14)
Accumulated loss		(120 048)	(110 434)
Total equity attributable to shareholders of the Company		**93 767**	**85 809**
Non-controlling interest		2 452	3 228
Total equity		**96 219**	**89 037**
Non-current liabilities			
Loans, borrowings and finance lease liabilities	24	115 278	75 723
Deferred tax liabilities	18	5 420	1 352
Employee benefits	27	2 492	2 408
Trade and other payables	25	4 749	1 536
Total non-current liabilities		**127 939**	**81 019**
Current liabilities			
Loans, borrowings and finance lease liabilities	24	79 707	78 948
Income tax payable		1 208	301
Trade and other payables	25	112 952	135 697
Employee benefits	27	248	53
Provisions	28	3 149	1 620
Total current liabilities		**197 264**	**216 619**
Total equity and liabilities		**421 422**	**386 675**

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

Mln RUB	2011	2010
OPERATING ACTIVITIES		
Loss before income tax	**(8 808)**	**(20 062)**
Adjustments for:		
Depreciation and amortisation	12 544	8 409
Unrealised foreign exchange gain	(991)	(180)
Share of losses in equity accounted investees	363	349
Impairment of Mezhprombank deposit	-	4 584
Non-current asset impairment	2 803	3 352
Change in bad debt provision	572	245
Loss on disposal of property, plant and equipment	9	601
Interest expense	13 109	14 028
Government grant related to compensation of interest expense	(486)	(3 043)
Interest income	(2 049)	(2 129)
Operating profit before changes in working capital and provisions	**17 066**	**6 154**
Change in inventories	(11 053)	11 545
Change in trade and other receivables	(11 883)	(12 141)
Change in trade and other payables	(24 903)	(18 766)
Change in lease receivable	28	2 677
Change in employee benefits	279	275
Change in other current and non-current assets	948	-
Change in provisions	1 514	(258)
Cash flows utilized by operations before income taxes and interest paid	**(28 004)**	**(10 514)**
Income taxes paid	(1 412)	(405)
Interest paid, net of grant received	(12 078)	(10 922)
Cash flows utilized by operating activities	**(41 494)**	**(21 841)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	213	287
Acquisition of property, plant and equipment	(13 945)	(8 927)
Acquisition of intangible assets	(15 352)	(8 333)
Contribution to equity of associates	(609)	74
Change in loans granted and cash deposits	1 508	1 541
Grant received related to assets	10 939	811
Interest received	2 049	2 129
Cash flows utilized by investing activities	**(15 197)**	**(12 418)**
FINANCING ACTIVITIES		
Proceeds from borrowings	158 061	153 088
Repayment of borrowings	(119 957)	(163 100)
Paid in capital	15 307	35 660
Contributions to equity of subsidiaries by non-controlling shareholders	1 240	830
Cash of subsidiary acquired under common control	18	-
Dividends paid	(34)	(74)
Cash flows from financing activities	**54 635**	**26 404**
Net decrease in cash and cash equivalents	**(2 056)**	**(7 855)**
Cash and cash equivalents at beginning of year	47 784	60 122
Impairment of Mezhprombank deposit	-	(4 584)
Effect of exchange rates fluctuations on cash and cash equivalents	274	101
Cash and cash equivalents at end of year (note 21)	**46 002**	**47 784**

Mln RUB	Attributable to equity holder of the Company										
	Share capital	**Share premium**	**Prepaid shares reserve**	**Treasury shares**	**Revaluation reserve**	**Hedge reserve**	**Foreign currency translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010 as previously reported	**131 605**	**2 416**	**23 518**	**(410)**	**207**	**-**	**2 202**	**(95 563)**	**63 975**	**4 250**	**68 225**
Corrections related to previous periods (note 2(e))	-	-	-	-	-	-	-	3 829	3 829	-	3 829
Balance at 1 January 2010 as restated	**131 605**	**2 416**	**23 518**	**(410)**	**207**	**-**	**2 202**	**(91 734)**	**67 804**	**4 250**	**72 054**
Total comprehensive income for the year											
Loss for the year	-	-	-	-	-	-	-	(18 946)	(18 946)	(1 220)	(20 166)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	-	-	-	(320)	(320)	-	(320)
Cash flow hedges	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Foreign exchange differences	-	-	-	-	-	-	1 059	-	1 059	8	1 067
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(14)**	**1 059**	**(19 266)**	**(18 221)**	**(1 212)**	**(19 433)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
satisfied in cash	57 028	2 150	(23 518)	-	-	-	-	-	35 660	-	35 660
	57 028	**2 150**	**(23 518)**	**-**	**-**	**-**	**-**	**-**	**35 660**	**-**	**35 660**
Other transactions with owners											
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	773	773	57	830
Dilution of equity interest in subsidiaries	-	-	-	-	-	-	-	(207)	(207)	207	-
Dividends	-	-	-	-	-	-	-	-	-	(74)	(74)
Balance at 31 December 2010	**188 633**	**4 566**	**-**	**(410)**	**207**	**(14)**	**3 261**	**(110 434)**	**85 809**	**3 228**	**89 037**

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

Mln RUB	**Attributable to equity holder of the Company**										
	Share capital	**Share premium**	**Prepaid shares reserve**	**Treasury shares**	**Revaluation reserve**	**Hedge reserve**	**Foreign currency translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011 as previously reported	**188 633**	**4 566**	**-**	**(410)**	**207**	**(14)**	**3 261**	**(114 263)**	**81 980**	**3 228**	**85 208**
Corrections related to previous periods (note 2(e))	-	-	-	-	-	-	-	3 829	3 829	-	3 829
Balance at 1 January 2011 as restated	**188 633**	**4 566**	**-**	**(410)**	**207**	**(14)**	**3 261**	**(110 434)**	**85 809**	**3 228**	**89 037**
Total comprehensive income for the year											
Loss for the year	-	-	-	-	-	-	-	(8 667)	(8 667)	(3 210)	(11 877)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	-	-	-	(99)	(99)	-	(99)
Cash flow hedges	-	-	-	-	-	803	-	-	803	47	850
Foreign exchange differences	-	-	-	-	-	92	686	-	778	33	811
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**895**	**686**	**(8 766)**	**(7 185)**	**(3 130)**	**(10 315)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
Satisfied in cash	12 609	-	2 698	-	-	-	-	-	15 307	-	15 307
Satisfied by contributions of equity interest in subsidiaries	684	-	-	-	-	-	-	300	984	-	984
	13 293	-	2 698	-	-	-	-	300	16 291	-	16 291
Other transactions with owners											
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	246	246	994	1 240
Dilution of equity interest in subsidiaries	-	-	-	-	-	-	-	(1 394)	(1 394)	1 394	-
Dividends	-	-	-	-	-	-	-	-	-	(34)	(34)
Balance at 31 December 2011	**201 926**	**4 566**	**2 698**	**(410)**	**207**	**881**	**3 947**	**(120 048)**	**93 767**	**2 452**	**96 219**

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

1 Background

(a) Organisation and operations

Joint Stock Company "United Aircraft Corporation" (hereinafter the "Company" or "UAC") was incorporated on 20 November 2006 following the Decree of the President of the Russian Federation No.140 dated 20 February 2006.

The principal activity of the Company is the construction of military and civil aircraft under contracts with Russian and foreign governments. The Company and its subsidiaries ("the Group") are also engaged in research and development works for military and civil aircraft.

The Group comprises a number of entities, including leading aircraft plants and design bureaus located in the Russian Federation. The main components of the UAC's business are as follows:

- Civil aircraft development and construction;
- Military aircraft development and construction;
- Aircraft sales financing and other activities.

In accordance with Russian legislation the supply of military equipment to foreign governments is the competence of the Russian government or entities holding appropriate licence and, therefore, certain contracts with foreign governments are concluded through the Russian state organization FGUP "Rosoboronexport" ("Rosoboronexport").

The Company's office is located at Bld. 1, 22 Ulansky pereulok, Moscow, 101000, Russia.

The shareholding structure of the Company as at 31 December 2011 and 31 December 2010 was as follows:

Shareholders	2011	2010
Russian Federation (Federal Agency for State property management)	83%	82%
Vneshekonombank (VEB)	10%	11%
Private shareholders	7%	7%

The Group is ultimately controlled by the government of Russian Federation.

Since November 2009 the Company's shares are traded on the Russian stock exchanges RTS and MICEX with UNAC and UNACG tickers.

(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 policy, military activities and 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 14(d)) 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 primarily 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:

- derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value; and
- defined benefit plan liability is recognised as the net total of the plan assets less the present value of the defined benefit obligation.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Group entities, except for JSC Irkut Corporation, whose functional currency is the United States Dollar ("USD"). RUB is the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(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 8 – Revenue;
- Note 15 – Intangible assets;
- Note 18 - Deferred tax assets and liabilities;
- Note 28 – Provisions;
- Note 32 – Contingencies.

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

In preparation of these consolidated financial statement the Group changed certain corresponding figures related to previous reporting periods. The summary of changes and related explanatory information is presented below. These changes have been applied retrospectively and have had an insignificant impact on earnings per share.

The following table summarises the adjustments made to the reported statement of financial position as at 31 December 2010.

Mln RUB	Balance as reported at 31 December 2010	2(e)(i)	2(e)(ii)	**Restated balance on 31 December 2010**
Current assets				
Inventories	62 987	51 193	3 829	118 009
including:				
Cost incurred and recognized profits on construction contracts	29 468	5 747	3 829	39 044
Advances received under construction contracts	(66 133)	45 446	-	(20 687)
Total current assets	**185 316**	**51 193**	**3 829**	**240 338**
Equity				
Accumulated loss	(114 263)	-	3 829	(110 434)
Total equity attributable to shareholders of the Company	**81 980**	**-**	**3 829**	**85 809**
Current liabilities				
Trade and other accounts payable	84 504	51 193	-	135 697
including:				
Advances from customers	44 826	51 193	-	96 019
Total current liabilities	**165 426**	**51 193**	**-**	**216 619**

(i) Presentation of progress payments received from customers under construction contracts

In the current reporting period management was able to analyse the gross amount due from and due to customers under IAS 11.42 using improved quality of source information derived from contract-by-contract analysis of costs and profits recognised and related progress payments received from customers. This resulted in improved quality presentation of related assets and liabilities in the consolidated financial statements. In order to provide consistency with current year presentation the Group revised presentation with respect to the advances received under construction contracts so that only those progress advance payments that were attributable to contracts in progress are credited to inventories. In previous years progress payments that exceeded the balance of recognised progress costs and profits for certain contracts were credited to inventories instead of being presented as trade and other payables.

The impact of the same adjustment as at 31.12.2009 has not been considered as material.

(ii) Sales revenue recognised under certain construction contracts commenced before 1 January 2010

In previous reporting periods the Group misinterpretated the nature of certain design and development costs incurred in 2009 and earlier periods and did not consider such costs in the calculation of sales revenue recognised under IAS 11 where the percentage of completion method was applied. As a result, the balance of costs and profits recognised under construction contracts and accumulated losses were understated by RUB 3 829 million equally for both reporting dates as at 31 December 2010 and 2009. The respective adjustment made in the reporting period had no deferred income tax effect since resulting deferred tax liability was compensated by existence of related deductible temporary differences which the Group did not recognise because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

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, except as disclosed in note 2(e).

(a) Basis of consolidation

(i) Subsidiaries

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

When necessary the accounting policies of subsidiaries have been changed to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The acquisition of subsidiaries from third parties is accounted for using the acquisition method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition.

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. Non-controlling interest is measured at its proportionate interest in the identifiable net assets of the acquiree.

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

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

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 commences until the date that significant influence 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 zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(iv) Acquisitions from entities under common control

The assets and liabilities acquired in business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are recognised at the carrying amounts recognised previously in the financial statements of the entities. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity. Comparatives are not restated.

(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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. 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 which are recognised in other comprehensive income.

(c) Operations with the functional currency other than functional currency of the Parent 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 RUB at exchange rates at the reporting date. The income and expenses of these operations are translated into RUB 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 subsidiary, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the subsidiary 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 capitalized as part of the cost of the asset.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(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 the 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 20-39 years
- Machinery and equipment 6-28 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(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) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the aquiree; plus
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amountof the equity accounted investee as a whole.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss 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(l)), 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 profit or loss as incurred.

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

(iii) Other intangible assets

Other intangible assets are recorded at cost less accumulated amortisation and 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 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 financial assets. 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.

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.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 20 and cash and cash equivalents as presented in note 21.

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(h)(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. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities 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 liability when its contractual obligations are discharged or cancelled or expire.

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 liabilities as the other financial liabilities. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Derivative financial instruments

Derivative financial instruments, including hedge accounting

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

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the 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 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.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(g) Inventories

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

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

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

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date (see note 3(l)(i)). It is measured at cost plus profit recognised to date less progress billings (progress advance payments received from customers) and 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 is presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings (progress advance payments received from customers). If progress billings (progress advance payments received) exceed costs incurred plus recognised profits, then the difference is presented as trade and other payables (advances from customers) in the statement of financial position.

(h) Impairment

(i) Non-derivative 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.

(i) Dividends

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

(j) 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.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

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.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Revenues

(i) Contruction 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 civil 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.

(m) 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.

(n) 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 investments. 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.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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 by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Government grants

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

(q) Earnings per share

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

(r) 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 President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements:

- IAS 28 (2011*) Investments in Associates and Joint Ventures* prescribes the accounting of investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with earlier application permitted. The Group is currently assessing the impact of the standard on the consolidated financial statement.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. The Group is currently assessing the impact of the standard on the consolidated financial statement.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations or as joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not anticipate significant impact of the standard on the consolidated financial statements.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group is currently assessing the impact of the standard on the consolidated financial statement.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The Group is currently assessing the impact of the standard on the consolidated financial statement.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted.

The amendment shall be applied from 1 July 2012. The Group is currently assessing the impact of the standard on the consolidated financial statements.

4 Determination of fair values

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) 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. 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 Executive Board, a Group operational management body, and the Group President are responsible for developing and monitoring the Group's risk management policies. The Executive Board and President report 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 the government of Russian Federation and governments of other countries. The Group's exposure to credit risk is influenced mainly by the economic and political situation in Russian Federation and these countries. Approximately 73% of the Group's revenue is attributable to sales transactions with a group of five 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 liquid securities.

(iii) Guarantees

As at 31 December 2011 and 31 December 2010 the Group did not have any contractual commitments to extend financial guarantees, credit and 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.

(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.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated primarily in U.S. Dollars (USD) and (EURO), currencies other than the respective functional currency of Group entities.

Interest on borrowings is 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 for as a cash flow hedge and the effective part of the hedge net of related tax is recognised directly in hedging reserve in other comprehensive income.

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

The Company’s long-term objectives in managing capital are to safeguard the Group ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders. In the medium and short-term, the Group objectives are to maintain an optimal capital structure to reduce the cost of capital.

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 negative in 2011 (2010: negative). 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 8,06 % (2010: 8,36%)

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

Mln RUB	**2011**	**2010 Restated***
Total debt	194 985	154 671
Less: cash and cash equivalents	(46 002)	(47 784)
Net debt	**148 983**	**106 887**
Total equity	96 219	89 037
Debt to capital ratio at 31 December	1.55	1.20

*See Note 2(e)

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

Neither the Company nor any of its subsidiaries, except for CJSC “Sukhoi Civil Aircraft” and JSC Nizhniy Novgorod Aircraft Plant Sokol, are subject to externally imposed capital requirements. Under certain loan agreements of CJSC “Sukhoi Civil Aircraft” it has to maintain a minimum level of net assets which is considered in managing capital of this entity.

6 Operating segments

The Group has three reportable segments, as described below. The segments represent the sub-holdings which develop and produce different products, and are managed separately because they require different technology and marketing strategies. For each of the segments, the Group’s President reviews internal management reports on annual basis. The following summary describes the operations in each of the Group’s reportable segments:

- *Sukhoi holding*. Primarily includes development and production of military combat aircraft as well as development of the civil aircraft programme SSJ-100.
- *Irkut Corporation*. Primarily includes production of military combat aircraft as well as development of the training military aircraft Yak-130 and civil aircraft programme MC-21.
- *Other units*. Includes designing and manufacturing of various types of aircraft as well as repair and maintenance of existing civil and military aircraft produced in Russia and the former Soviet Union.

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

- Timing differences relating to when revenue and costs are recognised.
- Adjustments for net realisable value of inventories and change in onerous contracts.
- Administrative expenses.
- Adjustments to fair value of intangible assets and property, plant and equipment.

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 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.

(i) Information about reportable segments

Mln RUB	**Sukhoi Group**		**Irkut Corporation**		**Other**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
External revenue for reportable segments	83 017	46 688	36 656	45 770	47 121	38 518	166 794	130 976
Inter-segment revenue for reportable segments	1 397	1 118	12 446	1 243	2 214	1 730	16 057	4 091
Reportable segment gross profit	16 646	9 078	15 227	18 889	2 422	713	34 295	28 680

(ii) Reconciliation of reportable segments’ revenues and reportable segments’ measure of profit

Mln RUB	**2011**	**2010**
Total revenue for reportable segments	182 851	135 067
Elimination of inter-segment revenue	(16 057)	(4 091)
Difference in timing and principles of revenue recognition	(5 141)	9 706
Consolidated revenue	**161 653**	**140 682**

Mln RUB	**2011**	**2010**
Reportable segment gross profit	34 295	28 680
Adjustments for:		
Net realizable value of inventories	928	(2 928)
Onerous contracts	2 229	290
Presentation of certain types of administrative expenses	9 723	7 783
Adjustments to fair value of intangible assets and property, plant and equipment	(1 528)	(1 092)
Difference in timing of recognition of revenue and cost of sales	4 082	5 330
Government grants related to development costs	(2 250)	(484)
Other	(143)	(1 140)
Gross profit	**47 336**	**36 439**

(iii) Major customer

In 2011 and 2010, revenue from one customer, the Ministry of Defence of the Russian Federation, represented approximately 13% and 18.6%, respectively, of the Group’s total revenue.

7 Other non-current assets

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

Management initially anticipated resale of these aircraft in 2009. Due to the nature of the asset, management is limited in its marketing efforts and there is high uncertainty regarding timing and amount of proceeds until negotiations with potential customers are finalized.

8 Revenue

Mln RUB	**2011**	**2010**
Revenue earned on aircraft construction contracts	81 254	76 027
Revenue on sales of aircraft components and related products	43 087	26 204
Revenue earned on research and development services	19 604	20 560
Revenue earned on modernisation and overhaul services	11 178	11 337
Other	6 530	6 554
Total	**161 653**	**140 682**

9 Personnel costs

Mln RUB	2011	2010
Wages and salaries	27 858	28 263
Compulsory social security contributions	7 622	6 399
Expenses related to defined benefit plans	148	76
Total	**35 628**	**34 738**

10 Other operating expenses

Mln RUB	2011	2010
Impairment of Mezhprombank deposit	-	4 584
Property and other tax expense	1 213	1 347
Bank charges	726	146
Loss on disposal of property, plant and equipment	9	601
Charity and social expenses	629	565
Write-off and change in allowance for doubtful trade and other receivables	572	245
Fines and penalties paid	390	147
Expenses attributed to JSC FLC	2 941	677
Net loss on sale of other assets	-	308
Net loss on reimbursement of insurance AN-148	106	-
Other expenses	555	192
Total	**7 141**	**8 812**

11 Other operating income

Mln RUB	2011	2010
Fines and penalties received	63	94
Rental income	83	56
Gain on disposal of other assets	181	-
Reimbursement of insurance	794	-
Total	**1 121**	**150**

12 Finance income and finance costs

Mln RUB	**2011**	**2010**
Finance income		
Interest income	2 049	2 129
Foreign exchange gain	858	1 061
Other finance income	161	691
	3 068	**3 881**
Finance costs		
Interest expense	(13 109)	(14 028)
Government grant related to compensation of interest expense	486	3 043
	(12 623)	**(10 985)**
Net loss from finance lease contracts	(366)	(105)
Impairment loss on investments	(331)	(647)
Other finance costs	(32)	(12)
	(13 352)	**(11 749)**

13 Income tax expense

Mln RUB	**2011**	**2010**
Current tax expense		
Current income tax	(2 057)	(654)
Adjustments of prior years	(153)	(174)
	(2 210)	**(828)**
Deferred tax benefit		
Origination and reversal of temporary differences	(859)	724
	(859)	**724**
Total	**(3 069)**	**(104)**

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

Reconciliation of effective tax rate:

Mln RUB	**2011**	**%**	**2010**	**%**
Loss before income tax	(8 808)	100	(20 062)	100
Income tax at applicable tax rate	1 762	(20)	4 013	(20)
Non-deductible/ non-taxable items, net	(2 162)	25	(687)	3
Adjustments of prior years	(153)	2	(174)	1
Unrecognised deferred tax assets	(2 516)	29	(3 256)	16
Total	**(3 069)**	**-**	**(104)**	**-**

14 Property, plant and equipment

Mln RUB

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2010	54 140	38 733	4 228	6 074	103 175
Additions and transfers	780	7 103	427	618	8 928
Reclassification from intangible assets	-	1 222	-	-	1 222
Disposals	(413)	(1 285)	(196)	(269)	(2 163)
Foreign exchange differences	77	86	12	14	189
At 31 December 2010	**54 584**	**45 859**	**4 471**	**6 437**	**111 351**
Acquisition under common control	1 084	16	-	-	1 100
Additions and transfers	215	4 900	5 550	3 652	14 317
Reclassifications	414	(1 090)	28	648	-
Transfers from other assets	-	6 329	141	845	7 315
Transfer to finance lease	-	(784)	-	-	(784)
Reclassification from intangible assets	-	-	-	282	282
Disposals	(150)	(295)	(461)	(102)	(1 008)
Foreign exchange differences	594	679	141	57	1 471
At 31 December 2011	**56 741**	**55 614**	**9 870**	**11 819**	**134 044**
Depreciation					
At 1 January 2010	(4 367)	(12 200)	(1 033)	-	(17 600)
Depreciation charge	(1 869)	(5 732)	(593)	-	(8 194)
Disposals	386	1 273	196	-	1 855
Foreign exchange differences	(9)	(35)	(3)	-	(47)
At 31 December 2010	**(5 859)**	**(16 694)**	**(1 433)**	**-**	**(23 986)**
Depreciation charge	(1 592)	(7 072)	(2 618)	-	(11 282)
Reclassifications	(55)	55	-	-	-
Impairment charge	-	(2 670)	-	-	(2 670)
Disposals	104	295	181	-	580
Foreign exchange differences	(111)	(403)	(65)	-	(579)
At 31 December 2011	**(7 513)**	**(26 489)**	**(3 935)**	**-**	**(37 937)**
Carrying amounts					
At 1 January 2010	**49 773**	**26 533**	**3 195**	**6 074**	**85 575**
At 31 December 2010	**48 725**	**29 165**	**3 038**	**6 437**	**87 365**
At 31 December 2011	**49 228**	**29 125**	**5 935**	**11 819**	**96 107**

(a) Aircraft in operating lease

In 2011 the Group revised the sales contract with Aeroflot to supply aircraft. According to the revised terms the Group has a firm obligation to repurchase at later dates the first ten aircraft out of forty to be delivered. Accordingly, the first ten deliveries are accounted for as operating lease and the carrying amount of RUB 4 488 million relating to these aircraft was transferred from inventory to property, plant and equipment.

As at 31 December 2011 the cost of the aircraft in operating lease was tested for impairment. As a result the carrying amount of the aircraft was reduced to its fair value less costs of disposal which was determined based on management best estimate of the market price of the aircraft upon repurchase from Aeroflot. Related impairment loss was recognised in the reporting period in the amount of RUB 2 670 million.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures the lease obligations (see note 24(e)). At 31 December 2011 the net carrying amount of leased plant and machinery was RUB 4 434 million (2010: RUB 5 350 million).

(c) Security

At 31 December 2011 property, plant and equipment with a carrying amount of RUB 4 243 million (31 December 2010: RUB 3 955 million) is pledged as collateral for secured loans (see note 24(b)).

(d) 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 RUB 12 726 million (2010: RUB 11 812 million).

(e) Capitalised borrowing costs

Additions to property, plant and equipment for the year ended 31 December 2011 include RUB nil million of capitalised borrowing costs (2010: RUB 34 million).

15 Intangible assets

Mln RUB	Goodwill	Development costs	Software	Advances given for development costs	Total
Cost					
At 1 January 2010	1 935	29 501	2 473	596	34 505
Additions and transfers	-	9 498	653	382	10 533
Disposals	-	(79)	(635)	(10)	(724)
Reclassification to plant and equipment	-	(1 222)	-	-	(1 222)
Reclassification from inventory	-	4 283	-	-	4 283
Government grants	-	(812)	-	-	(812)
Foreign exchange differences	15	95	3	-	113
At 31 December 2010	**1 950**	**41 264**	**2 494**	**968**	**46 676**
Additions and transfers	-	12 968	798	1 586	15 352
Disposals	-	(350)	(534)	(96)	(980)
Reclassification to plant and equipment	-	-	-	(282)	(282)
Government grants	-	(6 125)	-	-	(6 125)
Foreign exchange differences	110	940	-	-	1 050
At 31 December 2011	**2 060**	**48 697**	**2 758**	**2 176**	**55 691**
Amortisation and impairment losses					
At 1 January 2010	-	(7 107)	(676)	-	(7 783)
Amortisation charge	-	(1 711)	(497)	-	(2 208)
Disposals/reclassification	-	44	278	-	322
Foreign exchange differences	-	(35)	(2)	-	(37)
At 31 December 2010	**-**	**(8 809)**	**(897)**	**-**	**(9 706)**
Amortisation charge	-	(919)	(343)	-	(1 262)
Impairment loss	-	(71)	-	-	(71)
Disposals/reclassification	-	147	435	-	582
Foreign exchange differences	-	(307)	-	-	(307)
At 31 December 2011	**-**	**(9 959)**	**(805)**	**-**	**(10 764)**
Carrying amounts					
At 1 January 2010	**1 935**	**22 394**	**1 797**	**596**	**26 722**
At 31 December 2010	**1 950**	**32 455**	**1 597**	**968**	**36 970**
At 31 December 2011	**2 060**	**38 738**	**1 953**	**2 176**	**44 927**

(a) Goodwill

Goodwill relates to acquisition of JSC "Irkut Corporation" and its subsidiaries ("Irkut Group") in 2007.

As at 31 December 2011 management tested the acquired goodwill for impairment. For that purpose recoverable amount of Irkut Group's CGU was determined with reference to its value-in-use. These calculations use cash flow projections based on financial budgets approved by management covering a period till the year 2025 with the post-forecast period 2026-2035.

The cash flows used for 2011 impairment test were based on the approved forecast till the year 2025 and assumed an increase in revenues of approximately 182% in 2025 compared to 2011 and relatively flat revenues for subsequent years (terminal period). Terminal growth was estimated at 4%. The cash flows were discounted using a post-tax discount rate of 16,0% per annum.

The impairment test performed for the year ended 31 December 2010 was based on the determination of the Irkut Group's cash-generating unit (CGU) recoverable amount. The enterprise value of Irkut Group was calculated both on the basis of market data for equity instruments of Irkut Group as well as with reference to comparative information using market multiples approach.

As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as at 31 December 2011 and as at 31 December 2010 with no impairment recognized in both reporting periods.

The increase of discount rate at 31 December 2011 by 5% or the decrease of revenues by 5% or gross profit margin by 5 percentage points would not result in impairment of the cash generating unit.

(b) Development costs

Capitalised development costs comprise of the following programmes:

Mln RUB	**2011**	**2010**
Sukhoi Super Jet – 100 aircraft (SSJ-100)	22 456	17 603
Yak-130 aircraft	4 677	4 141
MC-21 aircraft	1 036	795
Other	10 569	9 916
Total	**38 738**	**32 455**

MC-21

Production of MC-21 aircraft and provision of services to customers under certain military programmes will commence in 2017, respectively. Consequently, the related intangible assets are not amortised. Instead, management tested this asset for impairment as at the reporting date. A discount rate of 12% was applied in determining the recoverable amount.

SSJ-100

The development of the "Sukhoi Super Jet – 100" aircraft 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 contract with the Ministry of Industry and Trade (Minpromtorg) which is structured as a contract for development services, and as direct subsidies from the budget to cover certain types of expenses.

In January 2011 the Group obtained the Type Certificate for serial aircraft production and subsequently deliveries commenced to the first customers.

As a consequence of substantial completion of development of the SSJ-100 programme management ceased capitalisation of borrowing cost in relation to assets capitalised before January 2011. Additions to capitalised development costs for the year ended 31 December 2011 included RUB 111 million (2010: RUB 1 279 million) of borrowings costs.

Management constantly monitors the SSJ-100 programme for signs of impairment. As 31 December 2011, management has not identified indications of significant impairment since the end of the previous reporting period.

In measuring the value in use management calculated the cash flow projections for a period of 10 years, when the overall programme maturity will be reached (2022). The terminal value, representing the cash flows beyond the 10-year period, was calculated based on tenth forecasted year with zero growth rate.

The key changes in 2011 to the assumptions included an increase of maximum annual sales from 60 to 70 aircraft, as a result of a revised market demand analysis. This is supported by available room for an increase in production volume capacity which was reflected in the overall business plan related to the whole SSJ-100 programme and approved by the Board of Directors. Due to adverse macroeconomic indicators, the pre-tax rate applied for discounted projected cash flows increased to 15,39% (as at 31 December 2010: 10%). Below is the analysis of the sensitivity of the updated cash flow model to changes in the sale price per aircraft and the production capacity:

- A decrease of the sales price by 5% would result in an impairment loss of RUB 5 812 million.
- An even decrease of annual production volumes by 15% would result in an impairment loss of RUB 4 461 million.
- An application of pre-tax discount rate above 20% would result in an impairment loss.

Other projects

At the reporting date capitalized development costs related to other projects were not available for use and, therefore, the carrying amount of capitalized development costs was tested for impairment. The recoverable amount was determined by discounting the future cash flows from the continuing use of the assets and from their ultimate disposal. A pre-tax discount rate of 20.6%, which reflects current market assessments of the time value of money and the risks specific to the asset, was applied in determining the recoverable amount. Based on this analysis, the recoverable amount exceeded the carrying amount of the capitalized development costs.

The impairment test calculation was sensitive to a number of key factors, and particularly to the discount rate due to significant length of the projection period. The impairment analysis has shown greatest sensitivity to changes in the discount rate which is dependent on the risk specific to the asset and overall market conditions. A 1% increase of the discount rate would not result in an impairment loss at 31 December 2011. A 2% increase of the discount rate would result in additional excess of discounted cash flows over the carrying amount of the asset by RUB 1 778 million. An application of pre-tax discount rate above 25% would result in an impairment loss, where a 26% discount rate would result in an impairment of RUB 709 million.

(c) Capitalised borrowing costs

Management monitors the “Sukhoi Super Jet -100” development program against the capitalisation criteria in IAS 38 Intangible Assets. Based on the ongoing analysis, management concluded that the criteria in IAS 38 were collectively met in October 2004 which was the date when capitalisation of development costs for the program commenced. Additions to capitalised development costs for the year ended 31 December 2011 include RUB 111 million of capitalised borrowing costs (2010: RUB 1 279 million).

16 Investments in associates

As at 31 December 2011 the Group owned significant influence interests in JSC “Ilyushin Finance Co” (“IFC”), “SuperJet International” S.p.A (“SJI”). and “Airbus Freighter Conversion” GmbH (“AFC”).

IFC

IFC is providing lease finance services of civil aircraft and is engaged in investing in construction, sales and maintenance of aircrafts. In 2011, IFC distributed RUB 64 million (2010: RUB 12 million) in dividends.

SJI

SJI is established by the Group together with Alenia Aeronautica S.P.A and incorporated in Italy to provide services to European airlines operating Superjet-100. During the year ended 31 December 2011 cash contribution was made to the capital of “SuperJet International” S.p.A. in the amount of RUB 609 million.

AFC

In June 2011 the Group and its joint venture partners decided to discontinue the A320/A321 Passenger to Freighter conversion development programme. On 30 December 2011, the "Airbus Freighter Conversion GmbH" joint venture was deregistered but continued to exist for the year ended 31 December 2012 for the purpose of creditors' protection according to German Law.

The following is summarised financial information for equity accounted investees:

2010

Mln RUB	**IFC**	**SJI**	**AFC**	**Total**
Ownership interest	49,48%	49%	48,58%	-
Current assets	13 286	1 042	567	14 895
Non-current assets	20 587	819	280	21 686
Total assets	**33 873**	**1 861**	**847**	**36 581**
Current liabilities	(3 006)	(1 227)	(156)	(4 389)
Non-current liabilities	(13 186)	(31)	-	(13 217)
Total liabilities	**(16 192)**	**(1 258)**	**(156)**	**(17 606)**
Revenue and gross finance income from lease	4 667	143	-	4 810
Expenses	(3 896)	(1 025)	(48)	(4 969)
Profit/(loss) for the year	**771**	**(882)**	**(48)**	**(159)**
Group share of profit/(loss) before impairment	381	(432)	(23)	(74)
Impairment of investment	-	-	(275)	(275)
Group share of profit/(loss)	**381**	**(432)**	**(298)**	**(349)**

2011

Mln RUB	**IFC**	**SJI**	**AFC**	**Total**
Ownership interest	49,48%	43,9%	-	
Current assets	15 659	2 856	-	18 515
Non-current assets	19 513	2 328	-	21 841
Total assets	**35 172**	**5 184**	**-**	**40 356**
Current liabilities	(424)	-	-	(424)
Non-current liabilities	(12 497)	-	-	(12 497)
Total liabilities	**(12 921)**	**-**	**-**	**(12 921)**
Revenue and gross finance income from lease	4 060	274	-	4 334
Expenses	(3 207)	(2 062)	-	(5 269)
Profit/(loss) for the year	**853**	**(1 788)**	**-**	**(935)**
Group share of profit/(loss)	422	(785)	-	(363)
Group share of profit/(loss)	**422**	**(785)**	**-**	**(363)**

The reporting date for all associates listed above is 31 December.

Below is a summary of movement in the carrying amount of investments in associates:

Mln RUB	**IFC**	**SJI**	**AFC**	**Total**
Investments in associates as at 1 January 2010	**8 383**	**781**	**336**	**9 500**
Dividends	(12)	-	-	(12)
Group share of profit/(loss) before impairment	381	(432)	(23)	(74)
Impairment of investment	-	-	(275)	(275)
Group share of profit/(loss)	**381**	**(432)**	**(298)**	**(349)**
Foreign exchange differences	-	(66)	(38)	(104)
Investments in associates as at 31 December 2010	**8 752**	**283**	**-**	**9 035**
Acquisition of additional shares/increase of investment	-	609	-	609
Dividends	(64)	-	-	(64)
Group share of profit/(loss)	**422**	**(785)**	**-**	**(363)**
Foreign exchange differences	10	(7)		**3**
Investments in associates as at 31 December 2011	**9 120**	**100**	**-**	**9 220**

17 Investments and non-current financial assets

Mln RUB	**2011**	**2010**
Non-current		
Available-for-sale investments measured at cost	3 033	3 088
Loans given	165	-
Promissory notes	33	8
Held-to-maturity investments	205	336
Total	**3 436**	**3 432**
Current		
Deposits	1 532	2 178
Loans given	562	706
Promissory notes	174	1 191
Other current financial assets	524	44
Total	**2 792**	**4 119**

Available-for-sale investments stated at cost comprise unquoted equity securities in the airspace and defence industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, management believes it is unlikely that the fair value at the end of the reporting period would differ significantly from their carrying amount.

Investments available for sale as at 31 December 2011 and 31 December 2010 are mostly attributable to equity securities in JSC "Oboronprom" held by the Group`s subsidiary JSC "RSK "MIG" in the amount of RUB 2 667 million. The ownership interest of RSK MIG in JSC "Oboronprom" is 8%.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Mln RUB	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	306	307	(6 784)	(4 276)	(6 478)	(3 969)
Intangible assets	2 040	3 357	(2 915)	(1 429)	(875)	1 928
Investments	115	208	(479)	(6)	(364)	202
Inventories	2 149	2 251	(2 219)	(1 649)	(70)	602
Trade and other receivables	2 782	1 736	(2 407)	(1 791)	375	(55)
Trade and other payables	1 069	584	(283)	(342)	786	242
Loans and borrowings	326	30	(71)	(336)	255	(306)
Provisions and employee benefits	958	629	(25)	(89)	933	540
Tax loss carry-forwards	4 887	1 583	-	(12)	4 887	1 571
Total tax assets/(liabilities)	**14 632**	**10 685**	**(15 183)**	**(9 930)**	**(551)**	**755**
Offset of tax	(9 763)	(8 578)	9 763	8 578	-	-
Net tax assets/(liabilities)	**4 869**	**2 107**	**(5 420)**	**(1 352)**	**(551)**	**755**

Movement in temporary differences during the year

Mln RUB	1 January 2010	Recognised in other comprehensive income	Recognised in profit or loss	Foreign currency translation	31 December 2010
Property, plant and equipment	(5 548)	-	1 594	(15)	(3 969)
Intangible assets	1 244	-	693	(9)	1 928
Investments	(107)	-	310	(1)	202
Inventories	1 823	-	(1 219)	(1)	603
Trade and other receivables	247	-	(302)	(1)	(56)
Trade and other payables	(79)	-	322	-	243
Loans and borrowings	253	-	(560)	1	(306)
Provisions and employee benefits	468	80	71	(80)	539
Tax loss carry-forwards	1 756	-	(185)	-	1 571
Total	**57**	**80**	**724**	**(106)**	**755**

Mln RUB	1 January 2011	Recognised in other comprehen-sive income	Acquisition under common control	Recognised in profit or loss	Foreign currency transla-tion	31 December 2011
Property, plant and equipment	(3 969)	-	(62)	(2 314)	(133)	(6 478)
Intangible assets	1 928	-	-	(2 705)	(98)	(875)
Investments	202	-	-	(503)	(63)	(364)
Inventories	602	-	74	(599)	(147)	(70)
Trade and other receivables	(55)	-	(41)	526	(55)	375
Trade and other payables	242	-	-	537	7	786
Loans and borrowings	(306)	-	-	523	38	255
Provisions and employee benefits	540	24	-	360	9	933
Tax loss carry-forwards	1 571	-	-	3 316	-	4 887
Total	**755**	**24**	**(29)**	**(859)**	**(442)**	**(551)**

(b) Unrecognized deferred tax assets

Mln RUB	2011	2010
Deductible temporary differences	7 774	8 451
Tax loss carry-forwards	16 076	12 883
Total	**23 850**	**21 334**

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Unrecognised tax losses expire in the future as follows.

Mln RUB	2011	2010
2018-2021	13 402	10 321
2015-2017	1 912	1 790
2012-2014	762	772
	16 076	**12 883**

(c) Unrecognised deferred tax liability

A temporary difference as at 31 December 2011 of RUB 1 099 million (2010: RUB 1 163 million) relating to investments in subsidiaries has not been recognised because the 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.

19 Inventories

Mln RUB	2011	2010 Restated*
Advance payments to suppliers	29 313	36 760
Raw materials and other supplies	16 529	9 386
Aircraft components	24 971	17 605
Goods for sale	6 572	6 384
Other work in progress	29 049	29 517
	106 434	**99 652**
Costs incurred and recognized profits	40 842	39 044
Advance payments received from customers	(23 244)	(20 687)
Construction contracts in progress	**17 598**	**18 357**
Total	**124 032**	**118 009**

*See note 2(e)

(a) Write down to net realisable value

In 2011, as a result of write down of inventories to net realisable value and change in the allowance for inventory obsolescence, RUB 2 982 million (2010: RUB 1 221 million) was included in cost of sales.

(b) Security

Inventory with a carrying amount as at 31 December 2011 of RUB 121 million (31 December 2010 of RUB 274 million) is pledged as collateral for secured loans (see note 24(b)).

20 Trade and other receivables

Mln RUB	2011	2010
Current		
Accounts receivable	44 290	23 015
Impairment	(2 562)	(1 045)
	41 728	**21 970**
VAT recoverable	21 466	24 027
Prepayments	8 057	16 539
Due from tax authorities	462	1 034
Government grant receivable	1 440	1 104
Other receivables and originated loans	11 477	11 349
Impairment of other receivables	(4 695)	(5 640)
Total	**79 935**	**70 383**
Non-current		
Other advances	108	-
VAT receivable	2 659	-
Other receivables, non-current	1 373	853
Total	**4 140**	**853**

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 29.

21 Cash and cash equivalents

Mln RUB	**2011**	**2010**
Bank balances, Russian roubles	22 967	30 417
Bank balances, Foreign currency	14 637	6 088
Deposits	8 186	9 973
Other cash and cash equivalents	212	1 306
Total	**46 002**	**47 784**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

22 Equity

(a) Share capital and share premium

	Ordinary shares	
Thousands of shares	**2011**	**2010**
Authorised shares	201 925 963	188 632 913
Par value	RUB 1	RUB 1
On issue at 1 January	188 632 913	131 605 358
Paid in cash	12 608 800	57 027 555
Issued for equity instruments of subsidiaries and associates	684 250	-
On issue at 31 December, fully paid	**201 925 963**	**188 632 913**

In June 2011, the Company issued 13 293 050 thousand of additional ordinary shares by open subscription. 12 608 800 thousand ordinary shares were paid in cash. A 100% ownership interest in JSC "Myasishchev Design Bureau" was contributed by the Russian Federation. JSC "Myasishchev Design Bureau" is domiciled in the Russian Federation and involved in design, experimental production and flight testing activities. The carrying amount of net assets at the date of obtaining control by the Group was equal to RUB 984 million. The resulting difference between the cost of controlling stake acquired and the amount of net assets was recognised directly in equity.

Subsequent to the reporting date, in January 2012, the Company issued 2 698 014 thousand of additional ordinary shares by open subscription for cash

In June 2012 the Company issued 15 030 813 thousands additional ordinary shares in the form of open subscription. The issue was satisfied in cash amounting to RUB 14 441 million and the residual amount was contributed by the Russian Federation in the form of 100% interest in "M. M. Gromov Flight Research Institute", an entity domiciled in Russian Federation and involved in flight research and flight testing activities.

At the date these consolidated financial statements were authorised for issue the authorised and issued share capital of the Company consisted of 219 654 790 thousand shares.

(b) Prepaid shares reserve

Prepaid shares reserve represents cash contributions related to share issues not completed within the reporting period.

(c) Revaluation reserve

Revaluation reserve relates to the revaluation of pre-combination interest held by the Group before acquisition of the controlling interest in JSC “Irkut Corporation” in 2007.

(d) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of Group subsidiaries with a functional currency other than the Russian Rouble.

(e) Treasury shares

The reserve for the Company’s own shares comprises the cost of the Company’s shares held by the Group. At the reporting date the Group held 309 894 828 (2010: 309 894 828) of its own shares.

(f) 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 Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2011 the Company had accumulated losses amounting to RUB 32 832 million, including the loss for the current year of RUB 14 755 million, (31 December 2010: accumulated loss of RUB 18 127 million).

Before these consolidated financial statements were authorised for issue, no recommendation had been made by the Board of Directors with regard to dividend distribution.

(g) Cash contributions to equity of subsidiaries by non-controlling shareholders

During 2011 and 2010 non-controlling shareholders of the Group’s subsidiaries made direct contributions to equity of those subsidiaries. The result of those transactions was recognised directly in equity as an adjustment to non-controlling interest and the Group’s accumulated losses.

In 2010, FSA Rosimuschestvo acting on behalf of the Russian Federation further contributed RUB 830 million directly to the share capital of the Group’s subsidiary JSC “Company “Sukhoi”.

In December 2011 the Group’s subsidiary JSC “Company “Sukhoi” initiated a closed-subscription issue of 458 715 ordinary shares all with par value of RUB 1 000 each for the benefit of the Russian Federation for the total consideration of RUB 1 240 million which was paid in cash in 2011. The issue was completed and registered in February 2012. Effective ownership of the Group was decreased from 93,17% as at 31 December 2010 to 89,6% as at 31 December 2011.

23 Earnings per share

The calculation of basic loss per share at 31 December 2011 is based on the loss attributable to ordinary shareholders of RUB 8 667 million (2010: RUB 18 946 million), and a weighted average number of ordinary shares outstanding of 194 150 108 thousand shares (2010: 157 169 813 thousand shares), calculated as shown below. The Company has no dilutive potential ordinary shares

Thousands of shares	**2011**	**2010**
Issued shares at 1 January	188 632 913	131 605 358
Own shares at 1 January	(309 895)	(309 895)
Effect of shares issued in May 2010	-	25 682 192
Effect of shares issued in December 2010	-	192 158
Effect of shares issued in July 2011	5 827 090	-
Weighted average number of shares for the year ended 31 December	**194 150 108**	**157 169 813**

24 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 29.

Mln RUB	**2011**	**2010**
Non-current liabilities		
Secured bank loans	26 379	26 192
Unsecured bank loans	31 342	40 221
Secured borrowings	76	2 148
Unsecured borrowings	1 472	-
Unsecured bonds issued	8 161	5 136
Secured bonds issued	46 280	-
Finance lease liabilities	1 558	2 026
Other borrowings	10	-
	115 278	**75 723**

Mln RUB	**2011**	**2010**
Current liabilities		
Secured bank loans	25 402	31 618
Unsecured bank loans	40 394	27 259
Secured borrowings	38	313
Unsecured borrowings	500	242
Unsecured bonds issued	10 365	17 445
Secured bonds issued	1 116	-
Finance lease liabilities	971	943
Other borrowings	921	1 128
	79 707	**78 948**

(a) Terms and debt repayment schedule

Mln RUB	Currency	Nominal interest rate	Year of maturity	Face value 2011	Carrying amount 2011	Face value 2010	Carrying amount 2010
Secured bank loans:	RUB	8% - 20%	2011	-	-	9 075	9 112
	RUB	8% - 14%	2012	3 743	3 748	-	-
	RUB	7% - 16%	2011-2017	23 093	22 997	9 934	10 016
	RUB	Mosprime + 3%	2011-2017	1 300	1 300	870	871
	USD	5% - 12%	2012	13 873	13 900	-	-
	USD	4% - 14%	2011-2013	3 368	3 371	27 725	27 808
	USD	LIBOR - 8%	2011-2013	-	-	1 446	1 488
	USD	Libor+5,1-8%	2013-2017	1 824	1 824	-	-
	USD	LIBOR6m+ 8,0%	2013-2014	2 968	2 968	-	-
	EUR	Euribor+4%-6%	2011	-	-	8	8
	EUR	7% - 10%	2011	-	-	3 127	3 134
	EUR	6,3% - 6,4%	2012	672	674	-	-
	EUR	3% - 16%	2011-2016	357	345	5 328	5 373
	GBP	12%	2013-2019	654	654	-	-
Unsecured bank loans:	RUB	7% - 20%	2011-2012	2 243	2 269	21 074	21 299
	RUB	9% - 11%	2013-2015	20 845	20 952	-	-
	USD	9% - 12%	2011	-	-	8 853	8 906
	USD	2,9% - 11%	2012	10 045	10 303	-	-
	USD	5,5% - 12%	2012-2015	8 268	8 273	13 950	13 977
	USD	7,2%-8,5%	2016-2017	2 145	2 139	-	-
	USD	LIBOR + 1,8% - 9%	2011-2018	8 703	8 703	6 169	6 205
	USD	Euribor+4,9%	2011-2016	-	-	2 966	3 051
	EUR	Euribor+6%+ 3M	2013	62	62	-	-
	EUR	2% - 8%	2011-2018	11 207	11 231	4 574	4 578
	EUR	Euribor+0,45-7%	2011-2017	7 804	7 804	9 013	9 011
	GBP	9% - 11%	2011-2016	-	-	465	453
Secured borrowings	USD	3%-6%	2012-2014	114	114	2 461	2 461
Unsecured borrowings	USD	20% - 24%	2011	-	-	242	242
	USD	3%-6%	2012-2014	1 825	1 832	-	-
	RUB	16%	2012	100	140	-	-
Unsecured bonds issued:	RUB	8%	2011	-	-	8 000	8 130
	RUB	7-9%	2012	4 099	4 191	-	-
	RUB	8-9%	2012-2014	7 656	7 700	5 000	5 136
	USD	9% - 12%	2011-2012	4 897	6 635	7 567	9 315
Secured bonds issued:	RUB	8%	2012	-	1 116	-	-
	RUB	8%	2020	46 280	46 280	-	-
Finance lease liabilities:	RUB	2% - 27%	2011-2016	159	159	545	543
	USD	10% - 38%	2011-2016	734	720	640	640
	EUR	8% -22%	2011-2016	1 926	1 650	1 786	1 786
Other loans:	RUB	8% - 12%	2011	-	-	859	1 128
	RUB	16%	2012	906	931	-	-
				191 870	**194 985**	**151 677**	**154 671**

(b) Security

Group loans are secured over property, plant and equipment with a carrying amount of RUB 4 243 million (31 December 2010: RUB 3 955 million), inventory with a carrying amount of RUB 121 million (31 December 2010: RUB 274 million), titles to rent of land plots with a square area of 1 287 073 square metres and shares in JSC "Irkut Corporation" (10%). As at 31 December 2010 titles to rent of land plots composed 1 279 964 sq.m. and 6% of shares in JSC "Irkut Corporation".

Also there are pledged rights to receive future revenues from export sales of Sukhoi Group, Irkut Group, JSC "RSK "MiG" and other Group entities.

(c) Bonds issued

As at 22 February 2011 Federal Agency on Financial Markets of Russia registered the issue of unconvertible coupon bonds of the Company in a quantity of 46 280 000 thousands with a par value of RUB 1 000. Bonds have 18 coupon periods. Duration of 1-17 coupon periods is established equal to 182 days with coupon rate 8 % per annum. Duration of the 18^{th} coupon period is established equal to 196 days. Bonds are secured with the state guarantee of the Russian Federation. The funds raised from of placement of bonds were used for repayment and restructuring of bank loans for the purpose of financing of development and production activities of the Group.

(d) Covenants compliance

At 31 December 2011, the Group's subsidiary CJSC "Sukhoi Civil Aircraft" was in breach of certain financial covenants relating to a long-term borrowings facility from EBRD, and consequently breaching cross-covenants included in agreements with West LB, VTB Deutchland and VTB France. Before the reporting date EBRD has granted the Company a waiver for a grace period of twelve months allowing all related loans to be classified as non-current and disclosed in line with the principle repayment terms of related loan agreements.

(e) Finance lease liabilities as at 31 December 2011 are payable as follows:

Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1 260	289	971
Between one and five years	1 763	205	1 558
	3 023	**494**	**2 529**

31 December 2010

Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1 218	275	943
Between one and five years	2 351	325	2 026
Total	**3 569**	**600**	**2 969**

For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

25 Trade and other payables

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

Mln RUB	2011	2010 Restated*
Current liabilities		
Advances from customers	64 310	96 019
Trade payables	32 300	26 393
Other payables	6 488	4 319
Settlements with employees	3 307	1 959
VAT payable	3 767	4 430
Other tax payable	2 098	1 427
Accrued expenses	682	1 150
	112 952	**135 697**
Non-current liabilities		
Advances from customers	3 490	-
Trade payables	944	488
Other payables	315	1 048
	4 749	**1 536**
	117 701	**137 233**

*See note 2(e)

26 Government grants

The development of the "MC-21" and "Sukhoi Super Jet – 100" aircraft 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. Relevant funds are received under contracts with the Ministry of Industry and Trade (Minpromtorg) which are structured as contracts for development services, as well as in the form of direct subsidies from the budget to cover certain types of expenses.

The summary of government grants received by the Group is presented below.

Mln RUB	2011	2010
Grants related to development costs	91	812
Grants related to other assets	-	13
	91	**825**
Government grants related to income	2 661	484
Government grant related to compensation of interest expense	486	3 043
	3 238	**4 352**

27 Employee benefits

Mln RUB	**2011**	**2010**
Fair value of plan assets	896	939
Present value of obligations	(3 636)	(3 400)
(Deficit)/surplus in the plan	**(2 740)**	**(2 461)**
Total employee benefit liabilities	**(2 740)**	**(2 461)**

Certain Group subsidiaries make contributions to defined benefit plans that provide benefits for employees upon retirement in the form of life pensions, pensions with limited number of years of payout or one-off lump-sum payments upon employee retirement. All of those plans entitle a retired employee to receive payments calculated based on the number of years of service and other factors representing individual merit of performance during individual service period. Those factors also determine whether the pension is life pension or a pension with limited number of years of payout. Amounts of lump-sum payments are also determined based on the number of years of services upon retirement.

Movements in the present value of the defined benefit obligations:

Mln RUB	**2011**	**2010**
Defined benefit obligations at 1 January	(3 400)	(3 114)
Current service cost	(34)	(77)
Benefits paid	194	154
Actuarial gain/(loss)	(114)	(302)
Interest cost	(282)	(251)
Amendment to pension plan	-	190
Defined benefit obligations at 31 December	**(3 636)**	**(3 400)**

Movements in the present value of plan assets:

Mln RUB	**2011**	**2010**
Fair value of plan assets at 1 January	939	928
Expected return on plans assets	72	82
Benefits paid by the plan	(177)	(152)
Contributions paid into the plan	164	179
Actuarial gain/(loss)	(102)	(98)
Fair value of plan assets at 31 December	**896**	**939**

Plan assets comprise low–risk fixed income instruments.

Expense recognised in the statement of income:

Mln RUB	**2011**	**2010**
Current service cost	(34)	(77)
Amendment to pension plan	-	190
Expected return on plan's assets	72	82
Interest expenses	(282)	(251)
Total recognised in profit or loss	**(244)**	**(56)**
Actuarial gains and losses recognised in other comprehensive income	(99)	(320)
	(343)	**(376)**

Principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	2011	**2010**
Discount rate	8,1%	8,0%
Expected rate of return on plans assets	8,1%	8,0%
Future pension and salary increases	5,5%	5,5%
Average life expectancy of members from the date of retirement:		
Male	12 years	14 years
Female	20 years	22 years

28 Provisions

Mln RUB	**2011**				**2010**			
	Warranty	**Onerous contracts**	**Other**	**Total**	**Warranty**	**Onerous contracts**	**Other**	**Total**
Balance at 1 January	1 246	72	302	1 620	1 054	354	150	1 558
Provisions made during the year	1 308	657	698	2 663	802	71	152	1 025
Provisions used during the year	(879)	(10)	(94)	(983)	(473)	(353)	-	(826)
Provisions reversed during the year	(89)	(37)	(19)	(145)	(139)	-	-	(139)
Foreign exchange differences	(6)	-	-	(6)	2	-	-	2
Balance at 31 December	**1 580**	**682**	**887**	**3 149**	**1 246**	**72**	**302**	**1 620**

(a) Warranty

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

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

29 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:

Mln RUB	2011	2010
Finance lease receivables	539	567
Loans given	727	706
Deposits	1 532	2 178
Trade receivables	41 728	21 970
Costs incurred and recognized profits on construction contracts	40 842	39 044
Other receivables	8 222	6 813
Cash and cash equivalents	46 002	47 784
Total	**139 592**	**119 062**

(b) Impairment losses

The ageing of trade receivables at the reporting date was:

Mln RUB	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due (with a start date up to 50 days)	36 005	(263)	11 335	-
Past due 0-360 days	5 187	(61)	10 635	-
Past due more than one year	3 098	(2 238)	1 045	(1 045)
	44 290	**(2 562)**	**23 015**	**(1 045)**

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

Mln RUB	2011	2010
Balance as at 1 January	1 045	109
Impairment loss recognised	1 517	936
Balance as at 31 December	**2 562**	**1 045**

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

The provision in respect of trade receivables and held-to-maturity investments is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2011 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2010: nil).

(c) Liquidity risk

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

31 December 2011

Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	51 781	61 075	30 573	26 256	3 255	991
Unsecured bank loans	71 736	79 707	43 026	25 109	9 437	2 135
Secured borrowings	114	120	41	79	-	-
Unsecured borrowings	1 972	2 499	510	1 858	-	131
Unsecured bonds issued	18 526	20 402	11 661	8 741	-	-
Secured bonds issued	47 396	77 796	4 818	7 405	7 405	58 168
Finance lease liabilities	2 529	3 023	1 260	1 415	348	-
Other loans	931	974	974	-	-	-
Trade and other payables	40 047	40 047	38 788	1 259	-	-
	235 032	**285 643**	**131 651**	**72 122**	**20 445**	**61 425**

31 December 2010

Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	57 810	64 181	35 355	23 340	5 008	478
Unsecured bank loans	67 480	75 431	31 495	32 995	7 264	3 677
Secured borrowings	2 461	2 912	442	258	2 212	-
Unsecured borrowings	242	252	252	-	-	-
Unsecured bonds issue	22 581	30 411	18 786	7 275	1 450	2 900
Finance lease liabilities	2 969	3 569	1 218	1 589	751	11
Other loans	1 128	1 174	1 174	-	-	-
Trade and other payables	26 945	27 097	26 549	548	-	-
Total	**181 616**	**205 027**	**115 271**	**66 005**	**16 685**	**7 066**

(d) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currencies other than the respective functional currencies of Group entities, primarily the Rubles (RUB), but also US Dollars (USD) which is the functional currency of the Group subsidiary JSC "Irkut Corporation". The currencies in which these transactions primarily are dominated are USD, EUR and RUB:

Mln RUB	31 December 2011			31 December 2010		
	USD	EUR	RUB	USD	EUR	RUB
Cash and cash equivalents	11 421	1 550	4 401	1 443	623	5 755
Trade and other receivables	21 355	4 852	3 110	7 555	1 847	3 244
Costs incurred and recognised profits on construction contracts	5 781	-	-	23 042	-	665
Secured bank loans	(17 716)	(1 019)	(8 721)	(18 815)	(8 515)	(728)
Unsecured bank loans	(21 588)	(19 097)	(521)	(20 219)	(13 589)	
Secured borrowings	(114)	-	-	(2 235)	-	-
Unsecured borrowings	(1 832)	-	-	(104)	-	-
Unsecured bonds issued	(6 635)	-	(5 137)	(9 315)	-	(5 136)
Finance lease liabilities	(233)	(1 650)	(17)	(241)	(1 786)	(37)
Other loans	-	-	(7 231)	-	-	(1 268)
Trade and other payables	(15 252)	(1 370)	(3 423)	(12 199)	(3 249)	(2 505)
Gross exposure	**(24 813)**	**(16 734)**	**(17 539)**	**(31 088)**	**(24 669)**	**(10)**
Forward exchange contracts		-	13 953	-	-	5 136
Net exposure	**(24 813)**	**(16 734)**	**(3 586)**	**(31 088)**	**(24 669)**	**5 126**

The following significant exchange rates applied during the year:

RUB	**Average rate**		**Reporting date spot rate**	
	2011	**2010**	**2011**	**2010**
USD	29.39	30.37	32.20	30.48
EUR	40.98	40.30	41.67	40.33
GBP	47.12	48.34	49.63	47.26

(e) Sensitivity analysis

A 10% strengthening (weakening) of RUB against the US dollar, EURO and GBP based on the Group's exposure at the reporting date would have increased (decreased) net profit for the year by RUB 3 037 million (2010: RUB 5 729 million).

(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	
Mln RUB	**2011**	**2010**
Fixed rate instruments		
Financial assets	10 740	14 693
Financial liabilities	(172 324)	(121 048)
	(161 584)	**(106 355)**
Variable rate instruments		
Financial liabilities	(22 661)	(33 623)
	(22 661)	**(33 623)**

(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 one percentage point in interest rates based on the Group's exposure at the reporting date for 2011 would have increased loss for the year by RUB 180 million (31 December 2010: RUB 220 million). 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:

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

Mln RUB	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Loans given and deposits	2 259	2 259	2 884	2 884
Other investments	3 969	3 969	4 667	4 667
Trade and other receivables	84 075	84 075	70 383	70 358
Finance lease receivables	539	539	567	567
Cash and cash equivalents	46 002	46 002	47 784	47 784
Secured bank loans	(51 781)	(51 852)	(57 810)	(57 512)
Unsecured bank loans	(71 736)	(71 322)	(67 480)	(67 063)
Secured borrowings	(114)	(114)	(2 461)	(2 374)
Unsecured borrowings	(1 972)	(1 925)	(242)	(244)
Unsecured bonds issued	(18 526)	(16 652)	(22 581)	(13 000)
Secured bonds issued	(47 396)	(46 280)	-	-
Finance lease liabilities	(2 529)	(2 819)	(2 969)	(2 969)
Other loans	(931)	(906)	(1 128)	(1 071)
Trade and other payables	(46 594)	(46 594)	(39 255)	(39 255)
	(104 735)	**(101 620)**	**(67 641)**	**(57 228)**

30 Commitments

(a) Capital commitments

As at 31 December 2011 the Group is committed to capital expenditure of approximately RUB 20 239 million (2010: RUB 11 562 million).

(b) Supply commitments

The Group has commitments to provide sales financing to customers. These sales financing transactions will generally be collateralised by the underlying aircraft. The company believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments.

31 Operating lease

Mln RUB	2011	2010
Less than one year	249	118
Between one and five years	1 174	1 428
More than five years	6 798	6 984
Total	**8 221**	**8 530**

32 Contingencies

(a) Insurance

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

(b) Litigation

(i) Claims against JSC "Finance Leasing Company"

Certain banks and other creditors claimed for reimbursement of losses from a Group subsidiary JSC "Finance Leasing Company" ("FLC") after FLC refused to meet its obligations as a result of significant deterioration of its financial position in 2007-2008. Responding to certain claims of management fraud within FLC and undue spending of funds the Russian authorities initiated a criminal investigation against certain individuals with management responsibilities in FLC during 2007-2008.

In accordance with Russian legislation, neither the Parent company nor other entities of the Group are liable for claims against FLC's apart from those directly related to contract obligations, which the Company's management assesses as not significant. Therefore the Company's management believes that the Group will not suffer from any additional liabilities regarding FLC and will not be exposed to any cash outflows relating to FLC as the Group does not have any plans or obligations to provide direct financial support to FLC.

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based position in their interpretation and enforcement of tax legislation.

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

(d) Environmental contingencies

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

33 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.

The Federal Government of Russian Federation is the ultimate controlling party of the Group.

(b) Transactions with management

(i) Key management personnel compensation

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

Mln RUB	**2011**	**2010**
Wages and salaries	810	935
Compulsory social security contributions	36	95
Total	**846**	**1 030**

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of the Russian Federation (2011: 83,18%, 2010: 82%). The Group operates in an industry dominated by entities directly or indirectly controlled by the Federal Government of the Russian Federation through its government authorities, agencies, affiliation and other organizations (collectively referred to as “government related entities”). The Group has transactions with government related entities including 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 on terms comparable to those with other entities that are not government related. The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2011 management estimated that the aggregate amount of the Group’s collectively significant transactions with government related entities is up to 51% (2010: up to 27%) of its revenues, at least 39% (2010: at least 36%) of its purchases of materials, equipment and services, and up to 62% of its borrowings (2010: up to 61%).

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

The Group benefits from compensation of activities on development of the “Sukhoi Super Jet – 100” aircraft from the government of Russian Federation. This government grant was provided following 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. Government grants received are disclosed in Note 26.

34 Significant subsidiaries

The list of significant subsidiaries as at 31 December 2011 is presented below.

	Effective ownership	
Entity of the Group	**2011**	**2010**
Sukhoi Group		
JSC "Company Sukhoi"	89,60%	93,17%
JSC "OKB Sukhogo"	51,18%	52,68%
JSC "Komsomolsk-na-Amure Aviation Production Association"	92,18%	94,86%
JSC "Novosibirsk Aviation Production Association"	91,85%	94,65%
CJSC "Sukhoi Civil Aircraft"	66,20%	68,66%
CJSC "Sukhoi new civil technologies"	89,60%	93,17%
Irkut Group		
JSC "Irkut Corporation"	94,29%	94,65%
JSC "OKB Imeni A.S. Yakovlev"	78,60%	78,08%
CJSC "Beta-Ir"	100,00%	100,00%
Other		
JSC "Tupolev"	95,52%	95,52%
JSC "TANTK Imeni G.M. Berieva"	89,77%	92,29%
CJSC "Aviastar-SP"	99,54%	99,54%
JSC "OAK-TS"	100,00%	100,00%
JSC "Il"	87,06%	87,06%
JSC "VASO"	95,13%	70,30%
JSC "Nizhniy Novgorod Aircraft Plant Sokol"	98,27%	89,09%
JSC "Finance Leasing Company"	89,31%	89,31%
CJSC "Aerocompozit"	97,30%	98,22%
JSC "Tavia"*	-	87,12%
JSC "RSK MiG"	58,42%	58,42%
JSC "KAPO"	100,00%	100,00%
JSC "Myasishchev Design Bureau"	100,00%	0,00%
CJSC "Il-Resours"	87,06%	87,06%
CJSC "KAPO-Compozit"	100,00%	-
CJSC "Aerocompozit-Ulyanovsk"	100,00%	-

* in 2011 JSC "Tavia" was merged with JSC "TANTK Imeni G.M. Berieva".

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

35 Events subsequent to the reporting date

In January 2012, the Company issued 2 698 014 thousand of additional ordinary shares by open subscription for cash.

In February 2012 the Group received EASA Type Certificate for Sukhoi Super Jet-100 aircraft.

In April 2012 LLC "UAC- Integration Center" was created by JSC "UAC" with the share capital RUB 50 million. The main activities of the organization above are development, production and repair of special purpose products including components of military equipment.

In May 2012, during a demonstration flight, test aircraft with 45 people on board crashed in Indonesia in bad weather conditions. Management of the Company does not believe that the catastrophe will have a significant impact on the future of the SSJ-100 program.

In June 2012 the Company issued 15 030 813 thousand additional ordinary shares in the form of open subscription 14 441 405 thousand ordinary shares were paid in cash and the residual amount was contributed by the Russian Federation in the form of 100% interest in M. M. Gromov Flight Research Institute, an entity domiciled in the Russian Federation and involved in flight research and flight testing activities.

In July 2012, the Company Subsidiary CJSC "Sukhoi Civil Aircraft” signed secured long-term loan agreement with VEB in the amount of USD 1 000 million maturing in 2024 for refinancing its existing bank loans required to support SSJ-100 program.

In August 2012, an increase in share capital to RUB 219 656 million was registered in the State register of legal entities. Besides the Company registered the right to place 30 625 548 455 additional ordinary shares.