Joint Stock Company “United Aircraft Corporation”

Consolidated Financial Statements

for the year ended 31 December 2012

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Auditors' Report

To the Shareholders and 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 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: Joint Stock Company «United Aircraft Corporation»

Registered by the Moscow Inter-Regional Inspectorate No. 46 of the Federal Tax Inspection , Registration on 20 November 2006, Registration No. 70 008502151.

Registered in the Unified State Register of Legal Entities/Entered in the Unified State Register of Legal Entities on 20 November 2006 by the Moscow Inter-Regional Inspectorate No. 46 of the Federal Tax Inspection , Registration No. 1067759884598, Certificate series 77 No. 008502150.

22, bld.1, Ulansky side-street, Moscow, Russia, 101000

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

We believe that the audit evidence we have obtained is sufficient and appropriate to express a qualified opinion on the fair presentation of these consolidated financial statements.

Basis for Qualified Opinion

1 As explained in Note 7 to the consolidated financial statements, the Group lost control of Open Joint Stock Company "Finance Leasing Company" (or "FLC"), a subsidiary of the Group, in 2012 following a court ruling on its bankruptcy. Because we were unable to obtain access to the financial information of FLC, we were unable to complete our audit procedures regarding this subsidiary, which contributed to these consolidated financial statements a net gain to the date of disposal of RUB 883 million and a gain on disposal of the subsidiary of RUB 7 849 million (2011: FLC contributed a net loss of RUB 3 618 million for the year resulting in negative net assets of RUB 8 732 million as at 31 December 2011). As a result, we were unable to determine whether adjustments might have been necessary with respect to the Group's consolidated financial position as at 31 December 2011 and 31 December 2012, and consolidated financial performance and cash flows for 2011 and 2012.

2 As presented in Note 16 to the consolidated financial statements, the Group has estimated its share of profit of its associate, Open Joint-Stock Company "Ilyushin Finance Co." (or "Ilyushin Finance Co"), for the year ended 31 December 2012. We were unable to obtain sufficient appropriate audit evidence in relation to the Group's estimate of the share of profit of Ilyushin Finance Co of RUB 121 million for the year ended 31 December 2012, and the carrying value of the Group's investment in Ilyushin Finance Co of RUB 9 072 million as at 31 December 2012 and the summary financial information of associates disclosed in Note 16. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the Group's consolidated financial position as at 31 December 2012, consolidated financial performance and cash flows for 2012.

3 The Group has accounted for certain Government grants as revenue and the related costs as cost of sales which is not in compliance with International Financial Reporting Standard IAS 20 *Accounting for Government grants and Disclosure of Government Assistance.* Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have been reduced by RUB 12 514 million, cost of sales would have been reduced by RUB 9 558 million, and government grants related to income would have been increased by RUB 2 956 million for 2012.

4 There are indications that the recoverable amount of property, plant and equipment and capitalised development costs related to certain Group subsidiaries might be lower than their carrying amounts stated at RUB 28 079 million and RUB 622 million, respectively. International Financial Reporting Standard IAS 36 *Impairment of Assets* requires that, where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made. The effects of this departure from International Financial Reporting Standards, on the consolidated financial statements have not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the first and second paragraphs of the Basis for Qualified Opinion and except for the effects of the matters described in the third and fourth paragraphs of the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

Ilya O. Belyatski

Director, power of attorney dated 3 October 2011 No. 35/11

ZAO KPMG

30 April 2013

Moscow, Russian Federation

Mln RUB	Note	2012	2011 Restated*
Revenue	8	171 019	161 653
Cost of sales		(135 132)	(111 336)
Gross profit		**35 887**	**50 317**
Government grants related to income	26	456	2 661
Research and development costs		(124)	(670)
Distribution expenses		(15 923)	(20 121)
Administrative expenses		(23 319)	(20 380)
Non-current asset impairment		-	(2 803)
Other operating income	11	9 783	1 130
Other operating expenses	10	(6 158)	(10 131)
Profit from operations		**602**	**3**
Finance income	12	6 110	3 068
Finance costs	12	(13 397)	(13 352)
Share of loss of equity accounted investees	16	(385)	(363)
Loss before income tax		**(7 070)**	**(10 644)**
Income tax benefit (expense)	13	1 420	(2 702)
Loss for the year		**(5 650)**	**(13 346)**
Loss attributable to:			
Shareholders of the Company		(819)	(10 136)
Non-controlling interest		(4 831)	(3 210)
Loss for the year		**(5 650)**	**(13 346)**
Basic and diluted loss per share (RUB)	23	(0,00)	(0,05)

The consolidated financial statements were authorised for issue on 30 April 2013:

Mikhail Pogosyan,
President

Vladimir Chirikov,
Vice-president for Economics and Finance

«ОБЪЕДИНЕННАЯ АВИАСТРОИТЕЛЬНАЯ КОРПОРАЦИЯ»

*See note 2(e)

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

Mln RUB	2012	2011 Restated*
Loss for the year	(5 650)	(13 346)
Other comprehensive income		
Defined benefit plan actuarial loss, net of tax	(203)	(91)
Effective portion of changes in fair value of cash flow hedges, net of tax	(1 216)	850
Foreign exchange differences	(758)	655
Total comprehensive loss for the year	**(7 827)**	**(11 932)**
Total comprehensive loss attributable to:		
Shareholders of the Company	(2 836)	(8 802)
Non-controlling interest	(4 991)	(3 130)
	(7 827)	**(11 932)**

*See note 2(e)

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

Mln RUB	Note	31 December 2012	31 December 2011 Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	14	112 056	96 107
Intangible assets	15	51 733	44 927
Investments in associates and joint ventures	16	9 691	9 220
Investments and non-current financial assets	17	3 698	3 436
Finance lease receivables		784	505
Deferred tax assets	18	6 677	4 612
Other non-current assets		61	4 165
Other receivables, non-current	20	5 811	4 140
Total non-current assets		**190 511**	**167 112**
Current assets			
Investments	17	3 277	2 792
Inventories	19	155 306	123 043
Trade and other receivables	20	71 454	79 935
Finance lease receivables		68	34
Current income tax receivables		1 057	109
Cash and cash equivalents	21	52 453	46 002
Other current assets		1 389	1 149
Total current assets		**285 004**	**253 064**
Total assets		**475 515**	**420 176**
EQUITY AND LIABILITIES			
Equity	22		
Share capital		219 655	201 926
Share premium		4 566	4 566
Revaluation reserve		207	207
Prepaid shares reserve		-	2 698
Treasury shares		(410)	(410)
Foreign currency translation reserve		2 915	3 783
Hedging reserve		(75)	881
Accumulated loss		(116 139)	(123 150)
Total equity attributable to shareholders of the Company		**110 719**	**90 501**
Non-controlling interest		(1 769)	2 452
Total equity		**108 950**	**92 953**
Non-current liabilities			
Loans and borrowings	24	122 191	115 278
Deferred tax liabilities	18	3 266	4 913
Employee benefits	27	3 296	2 889
Trade and other payables	25	5 624	4 749
Total non-current liabilities		**134 377**	**127 829**
Current liabilities			
Loans and borrowings	24	93 008	79 707
Income tax payable		479	1 192
Trade and other payables	25	135 701	115 078
Employee benefits	27	423	268
Provisions	28	2 577	3 149
Total current liabilities		**232 188**	**199 394**
Total equity and liabilities		**475 515**	**420 176**

*See note 2(e)

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

Mln RUB	**2012**	**2011 Restated***
OPERATING ACTIVITIES		
Loss before income tax	**(7 070)**	**(10 644)**
Adjustments for:		
Depreciation and amortisation	12 115	12 544
Unrealised foreign exchange gain	(3 275)	(1 055)
Share of losses in equity accounted investees	385	363
Gain on disposal of subsidiary	(7 849)	-
Non-current asset impairment	-	2 803
Change in bad debt provision	1 080	572
(Gain)/loss on disposal of property, plant and equipment	(431)	9
Interest expense	14 762	13 109
Government grant related to compensation of interest expense	(1 174)	(486)
Interest income	(2 669)	(2 049)
Operating profit before changes in working capital and provisions	**5 874**	**15 166**
Change in inventories	(33 540)	(11 053)
Change in trade and other receivables	3 513	(11 883)
Change in trade and other payables	25 829	(23 067)
Change in lease receivable	(837)	28
Change in employee benefits	558	279
Change in other current and non-current assets	3 849	948
Change in provisions	(572)	1 514
Cash flows utilized by operations before income taxes and interest paid	**4 674**	**(28 068)**
Income taxes paid	(3 448)	(1 412)
Interest paid, net of grant received	(13 588)	(12 078)
Cash flows utilized by operating activities	**(12 362)**	**(41 558)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1 315	213
Acquisition of property, plant and equipment	(20 728)	(13 945)
Acquisition of intangible assets	(9 602)	(15 352)
Contribution to equity of associates	(1 020)	(609)
Change in loans granted and cash deposits	(485)	1 508
Government grant received related to assets	126	10 939
Interest received	2 669	2 049
Dividends received	169	64
Cash flows utilized by investing activities	**(27 556)**	**(15 133)**
FINANCING ACTIVITIES		
Proceeds from borrowings	131 314	158 061
Repayment of borrowings	(100 323)	(119 957)
Paid in capital	14 441	15 307
Contributions to equity of subsidiaries by non-controlling shareholders	1 850	1 240
Cash of subsidiary acquired under common control	37	18
Acquisition of non-controlling interest	(197)	-
Dividends paid	(160)	(34)
Cash flows from financing activities	**46 962**	**54 635**
Net increase/(decrease) in cash and cash equivalents	**7 044**	**(2 056)**
Cash and cash equivalents at beginning of year	46 002	47 784
Effect of exchange rates fluctuations on cash and cash equivalents	(592)	274
Cash and cash equivalents at end of year (note 21)	**52 454**	**46 002**

*See note 2(e)

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**	**(110 434)**	**85 809**	**3 228**	**89 037**
Corrections related to previous periods (note 2(e))	-	-	-	-	-	-	(1)	(1 648)	(1 649)	-	(1 649)
Balance at 1 January 2011 as restated	**188 633**	**4 566**	**-**	**(410)**	**207**	**(14)**	**3 260**	**(112 082)**	**84 160**	**3 228**	**87 388**
Total comprehensive loss for the year											
Loss for the year	-	-	-	-	-	-	-	(8 667)	(8 667)	(3 210)	(11 877)
Corrections loss for the year							(7)	(1 462)	(1 469)	-	(1 469)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	-	-	-	(99)	(99)	-	(99)
Corrections defined benefit plan actuarial loss, net of tax								8	8	-	8
Cash flow hedges	-	-	-	-	-	803	-	-	803	47	850
Foreign exchange differences	-	-	-	-	-	92	530	-	622	33	655
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**895**	**523**	**(10 220)**	**(8 802)**	**(3 130)**	**(11 932)**
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**	**3 783**	**(123 150)**	**90 501**	**2 452**	**92 953**

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 2012 as previously reported	**201 926**	**4 566**	**2 698**	**(410)**	**207**	**881**	**3 947**	**(120 048)**	**93 767**	**2 452**	**96 219**
Corrections related to previous periods (note 2(e))	-	-	-	-	-	-	(164)	(3 101)	(3 265)	-	(3 265)
Balance at 1 January 2012 as restated	**201 926**	**4 566**	**2 698**	**(410)**	**207**	**881**	**3 783**	**(123 150)**	**90 501**	**2 452**	**92 953**
Total comprehensive loss for the year											
Loss for the year	-	-	-	-	-	-	-	(819)	(819)	(4 831)	(5 650)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	-	-	-	(193)	(193)	(10)	(203)
Cash flow hedges	-	-	-	-	-	(1 159)	-	-	(1 159)	(57)	(1 216)
Foreign exchange differences	-	-	-	-	-	203	(868)	-	(665)	(93)	(758)
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(956)**	**(868)**	**(1 012)**	**(2 836)**	**(4 991)**	**(7 827)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
Satisfied in cash	17 139	-	(2 698)	-	-	-	-	-	14 441	-	14 441
Satisfied by contributions of equity interest in subsidiaries	590	-	-	-	-	-	-	7 300	7 890	-	7 890
	17 729	**-**	**(2 698)**	**-**	**-**	**-**	**-**	**7 300**	**22 331**	**-**	**22 331**
Other transactions with owners											
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	1 390	1 390	460	1 850
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(194)	(194)	(3)	(197)
Derecognition of subsidiary JSC "FLC" (note 7)	-	-	-	-	-	-	-	(473)	(473)	473	-
Dividends	-	-	-	-	-	-	-	-	-	(160)	(160)
Balance at 31 December 2012	**219 655**	**4 566**	**-**	**(410)**	**207**	**(75)**	**2 915**	**(116 139)**	**110 719**	**(1 769)**	**108 950**

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 manufacturing 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 OJSC "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 2012 and 31 December 2011 was as follows:

Shareholders	2012	2011
Russian Federation (Federal Agency for State property management)	84%	83%
Vneshekonombank (VEB)	9%	10%
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 MICEX with UNAC 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 3(m) and 8 – Revenue;
- Note 15 – Impairment of intangible assets;
- Note 3(e)(ii) and 15 – Research and development
- Note 18 - Deferred tax assets;
- Note 28 – Provisions;
- Note 32 – Contingencies.

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

(i) Distribution expenses related to export sales

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

(ii) Correction of assessment of net realisable value of inventories

The assessment of the net realisable value of inventories (work-in-progress) made by Group management in preparing consolidated financial statements for the years ended 31 December 2011 and 31 December 2010 contained an error which resulted in an overstatement of respective work-in-progress balances by RUB 989 million. As a result of the recalculation performed within preparation of these consolidated financial statements, the net realisable value of inventories was decreased and accumulated losses were increased as at 1 January 2011. Related tax effect for the years ended 31 December 2011 and 31 December 2010 RUB amounted to 198 million.

(iii) Correction of deferred tax liabilities

At 31 December 2010 and 31 December 2011 the Group has understated deferred tax liabilities by RUB 454 million, relating to taxable temporary differences arising from allocation of production overhead expenses on inventory balances. As a result, deferred tax liabilities and accumulated losses were understated.

(iv) Presentation of items in the Consolidated Statement of Income

In 2012, Management revised accounting policy in relation to presentation of the profit and loss effect of the write-down of inventories due to obsolescence. In 2011 relevant expenses were included in Cost of sales. In 2012 these expenses are included in Other operating expenses "Impairment of inventory".

(v) Defined benefit plans

In 2012 management made a decision to formally determine and recognise a defined benefit plan obligation which had previously not been recognised on the basis of its significance to the consolidated financial statements as a whole. The defined benefit plan obligation was recognised retrospectively.

(vi) Presentation of accumulated impairment loss of Property, Plant and Equipment

At 1 January 2011, the Group changed the presentation of property, plant and equipment which was recognised as at 1 January 2009 as impairment previously had been netted against the cost of property, plant and equipment instead of being included in accumulated depreciation and impairment (Note 14).

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

Consolidated Statement of Income

RUB million	**2011**	**2 (e)(i)**	**2 (e)(iv)**	**2 (e)(v)**	**Restated 2011**
Cost of sales	(114 317)	-	2 981	-	(111 336)
Distribution expenses	(18 285)	(1 836)	-	-	(20 121)
Other operating income	1 121	-	9	-	1 130
Other operating expenses	(7 141)	-	(2 990)	-	(10 131)
Profit from operating activities	**1 839**	**(1 836)**	**-**	**-**	**3**
Loss before income tax	**(8 808)**	**(1 836)**	**-**	**-**	**(10 644)**
Income tax expense	(3 069)	367	-	-	(2 702)
Loss for the year	**(11 877)**	**(1 469)**	**-**	**-**	**(13 346)**
Basic and diluted earnings/(loss) per share (RUB)	(0,04)	(0,01)			(0,05)

Consolidated Statement of Comprehensive Income

RUB million	**2011**	**2 (e)(i)**	**2 (e)(iv)**	**2 (e)(v)**	**Restated 2011**
Defined benefit plan actuarial gain net of t	(99)	-	-	8	(91)
Total comprehensive loss	**(10 315)**	**(1 469)**	**-**	**8**	**(11 776)**

Consolidated Statement of Financial Position:

RUB million	31 December 2010	2 (e)(i)	2 (e)(ii)	2 (e)(iii)	2 (e)(v)	31 December Restated 2010
Non-current assets						
Deferred tax assets	2 107	-	198	(454)	-	1 851
Total non-current assets	**146 337**	**-**	**198**	**(454)**	**-**	**146 081**
Current assets						
Inventories	118 009	-	(989)	-	-	117 020
Total current assets	**240 338**	**-**	**(989)**	**-**	**-**	**239 349**
Total assets	**386 675**	**-**	**(791)**	**(454)**	**-**	**385 430**
Equity						
Accumulated losses	(110 434)	(86)	(791)	(454)	(317)	(112 082)
Foreign currency translation reserve	3 261	-	-	-	(1)	3 260
Non-controlling interest	3 228	-	-	-	-	3 228
Total equity	**89 037**	**(86)**	**(791)**	**(454)**	**(318)**	**87 388**
Non-current liabilities						
Deferred tax liabilities	1 352	(22)	-	-	(80)	1 250
Employee benefits	2 408	-	-	-	398	2 806
Total non-current liabilities	**81 019**	**(22)**	**-**	**-**	**318**	**81 315**
Current liabilities						
Trade and other payable	135 697	108	-	-	-	135 805
Total current liabilities	**216 619**	**108**	**-**	**-**	**-**	**216 727**
Total equity and liabilities	**386 675**	**-**	**(791)**	**(454)**	**-**	**385 430**

Consolidated Statement of Financial Position:

RUB million	31 December 2011	2 (e)(i)	2 (e)(ii)	2 (e)(iii)	2 (e)(v)	Restated 31 December 2011
Non-current assets						
Deferred tax assets	4 869	-	198	(454)	(1)	4 612
Total non-current assets	**167 369**	**-**	**198**	**(454)**	**(1)**	**167 112**
Current assets						
Inventories	124 032	-	(989)	-	-	123 043
Total current assets	**254 053**	**-**	**(989)**	**-**	**-**	**253 064**
Total assets	**421 422**	**-**	**(791)**	**(454)**	**(1)**	**420 176**
Equity						
Accumulated losses	(120 048)	(1 553)	(791)	(454)	(304)	(123 150)
Foreign currency translation reserve	3 947	(148)	-	-	(16)	3 783
Non-controlling interest	2 452	-	-	-	-	2 452
Total equity	**96 219**	**(1 701)**	**(791)**	**(454)**	**(320)**	**92 953**
Non-current liabilities						
Deferred tax liabilities	5 420	(425)		-	(82)	4 913
Employee benefits	2 492	-	-	-	397	2 889
Total non-current liabilities	**127 939**	**(425)**	**-**	**-**	**315**	**127 829**
Current liabilities						
Trade and other payable	112 952	2 126	-	-	-	115 078
Income tax payable	1 208	-	-	-	(16)	1 192
Employee benefits	248				20	268
Total current liabilities	**197 264**	**2 126**			**4**	**199 394**
Total equity and liabilities	**421 422**	**-**	**(791)**	**(454)**	**(1)**	**420 176**

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group 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.

(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 amount of 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 the income statement as an expense as incurred.

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

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised development costs is charged to the statement of comprehensive income based on the unit-of-production method. 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.

Management uses judgement in determination whether proceeds related to externally financed research and development contracts with government related entities should be accounted as government grants (Note 3(q)). In making this judgment, management considers a number of factors, including: the significance of external financing in total estimated costs of the contract, stage of research and development project at which the government related entity commences participation, whether all substantial risks and rewards attributable to the result of research and development activities are transferred to the counterparty.

(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 related 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; related 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.

(h) Construction contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date (see note 30). It is measured at cost incurred plus profit recognised to date less progress billings 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 are presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as trade and other payables as liability in the statement of financial position.

(i) 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.

(j) Dividends

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

(k) 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.

(l) 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.

(m) Revenues

Management uses judgement in determination whether revenue from manufacturing of an aircraft should be accounted for in accordance with IAS 11 as construction contracts or IAS 18 as goods sold. In making this judgment, management considers a number of factors, including: timing required to complete the contract, length of operating cycle required to deliver an item or set of items, extent of customer-driven modifications of an aircraft as compared to known specifications, existence of requirements for formal certification and benchmark tests to meet customer's specific needs.

(i) Construction contracts

The operations of the Group include manufacturing aircraft under fixed price contracts where particular aircraft item (or items) undergoes significant modification in development and/or production to meet customer requirements, thus such contracts are accounted for under IAS 11 as construction 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. The method places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the construction contract significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgements. Costs that are incurred to secure 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.

(n) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(o) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on 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.

(p) Income tax

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

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

A deferred tax asset is recognised 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.

(q) 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.

(r) Earnings per share

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

(s) Segment reporting

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

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. The Group has not yet analysedthe likely impact of these new Standarts and Interpretations. Group plans to adopt these pronouncements when they become effective.

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 Federal 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 2012 and 31 December 2011 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 Board of Directors.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated primarily in US Dollars (USD) and Euro (EUR), 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 EUR. This provides an economic hedge and no derivatives are entered into.

In 2010 the Group subsidiary 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 positive in 2012 (2011: 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 6,76 % (2011: 8,06%)

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

Mln RUB	2012	2011 Restated*
Total debt	215 199	194 985
Less: cash and cash equivalents	(52 453)	(46 002)
Net debt	**162 746**	**148 983**
Total equity	108 950	92 953
Debt to capital ratio at 31 December	1,49	1,60

*See Note 2(e)

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

Under certain loan agreements the Group subsidiaries have to comply with financial covenants which require maintaining minimum levels of Net Debt to EBITDA, have to maintain a minimum level of net assets which is considered in managing capital of those entities. As at 31 December 2012 the Group subsidiary CJSC "Sukhoi Civil Aircraft" was in breach of certain financial covenants, although the Company obtained relevant waivers before the reporting date (Note 24 (d)).

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**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External revenue for reportable segments	83 859	83 017	42 139	36 656	51 853	47 121	177 851	166 794
Inter-segment revenue for reportable segments	2 038	1 397	6 645	12 446	3 565	2 214	12 249	16 057
Reportable segment gross profit	18 748	16 646	7 830	15 227	1 356	2 422	27 933	34 295

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

Mln RUB	**2012**	**2011**
Total revenue for reportable segments	190 100	182 851
Elimination of inter-segment revenue	(12 249)	(16 057)
Difference in timing and principles of revenue recognition	(6 832)	(5 141)
Consolidated revenue	**171 019**	**161 653**

	2012	**2011**
Reportable segment gross profit	27 933	34 295
Adjustments for:		
Net realizable value of inventories	(6 955)	3 909
Onerous contracts	-	2 229
Fair value of assets related to SSJ-100 programme	2 325	1 147
Presentation of certain types of administrative expenses	7 948	9 723
Adjustments to fair value of intangible assets and property, plant and equipment	(54)	(1 528)
Difference in timing of recognition of revenue and cost of sales	4 059	4 082
Government grants related to development costs	80	(2 250)
Other	551	(1 290)
Gross profit	**35 887**	**50 317**

(iii) Major customer

In 2012 and 2011, revenue from one customer, the Ministry of Defence of the Russian Federation, represented approximately 23% and 13%, respectively, of the Group's total revenue.

7 Disposal of subsidiary

In September 2012 Moscow Arbitration Court declared the Group’s subsidiary JSC “FLC” as bankrupt by Moscow Arbitration Court. Bankruptcy proceedings were initiated for a 6 months term and the Group lost control over JSC “FLC” from September 2012 and ceased consolidation of the entity. Net liabilities of JSC “FLC” as of the date the loss of the control amounted RUB 7 849 million.

8 Revenue

Mln RUB	2012	2011
Revenue earned on aircraft construction contracts	88 936	81 254
Revenue on sales of aircraft components and related products	24 117	43 087
Revenue earned on research and development services	32 265	19 604
Revenue earned on modernisation and overhaul services	19 473	11 178
Other	6 228	6 530
Total	**171 019**	**161 653**

9 Personnel costs

Mln RUB	2012	2011
Wages and salaries	32 767	27 858
Compulsory social security contributions	8 741	7 622
Expenses related to defined benefit plans	24	148
Total	**41 532**	**35 628**

10 Other operating expenses

Mln RUB	2012	2011 Restated*
Property and other tax expense	1 004	1 213
Bank charges	539	726
Loss on disposal of property, plant and equipment and intangible assets	-	9
Charity and social expenses	752	629
Write-off and change in allowance for doubtful receivables	1 080	572
Fines and penalties paid	162	390
Expenses attributed to JSC “FLC”	-	2 941
Net loss on reimbursement of insurance AN-148	-	106
Impairment of inventory	2 009	2 981
Other expenses	612	564
Total	**6 158**	**10 131**

*See note 2(e)(iv)

11 Other operating income

Mln RUB	2012	2011
Fines and penalties received	206	63
Rental income	160	83
Gain on disposal of property, plant and equipment and intangible assets	158	-
Gain on disposal of other assets	254	190
Reimbursement of insurance	273	794
Gain on disposal of JSC “FLC”	7 849	-
Income attributed to JSC “FLC”	883	-
Total	**9 783**	**1 130**

12 Finance income and finance costs

Mln RUB	2012	2011
Finance income		
Interest income	2 669	2 049
Foreign exchange gain	3 382	858
Other finance income	59	161
	6 110	**3 068**
Finance costs		
Interest expense	(14 762)	(13 109)
Government grant related to compensation of interest expense	1 174	486
	(13 588)	**(12 623)**
Net loss from finance lease contracts	(11)	(366)
Impairment/reversal of impairment on loss on investments	231	(331)
Other finance costs	(29)	(32)
	(13 397)	**(13 352)**

13 Income tax expense

Mln RUB	2012	2011 Restated*
Current tax expense		
Current income tax	(1 536)	(2 057)
Adjustments of prior years	734	(153)
	(802)	(2 210)
Deferred tax benefit		
Origination and reversal of temporary differences	2 222	(492)
	2 222	(492)
Total	**1 420**	**(2 702)**

*See note 2(e)

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

Reconciliation of effective tax rate:

Mln RUB	**2012**	**%**	**2011 Restated***	**%**
Loss before income tax	(7 070)	100	(10 644)	100
Income tax at applicable tax rate	1 414	(20)	2 129	(20)
Non-deductible/ non-taxable items, net	(590)	26	(2 162)	20
Adjustments of prior years	151	(2)	(153)	(1)
Unused tax credit relating to R&D expenses of the reporting period	377	(5)	-	-
Utilization of previously unrecognised tax credit related to R&D expenses of prior years	800	(11)	-	-
Change in recognised deferred tax assets/liabilities	(359)	(5)	-	-
Unrecognised deferred tax assets	(372)	(5)	(2 516)	18
Total	**1 420**	(20)	**(2 702)**	25

*See note 2(e)

14 Property, plant and equipment

Mln RUB	**Land and buildings**	**Plant and equipment**	**Other**	**Construction in progress**	**Total**
Cost					
At 1 January 2011	54 584	45 859	4 471	6 437	111 351
Change in presentation (Note 2(e)(vi))	1 051	(321)	437	872	2 039
At 1 January 2011 restated	55 635	45 538	4 908	7 309	113 390
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	**57 792**	**55 293**	**10 307**	**12 691**	**136 083**
Acquisition under common control	6 875	757	120	106	7 858
Additions and transfers	4 158	8 835	(1 057)	8 791	20 727
Reclassifications	72	(72)	-	-	-
Disposals	(1 018)	(2 507)	(1 248)	-	(4 773)
Foreign exchange differences	(10)	(199)	(48)	(143)	(400)
At 31 December 2012	**67 869**	**62 107**	**8 074**	**21 445**	**159 495**
Depreciation					
At 1 January 2011	(5 859)	(16 694)	(1 433)	-	(23 986)
Change in presentation Note 2(e)(vi))	(1 116)	(584)	(340)	-	(2 040)
At 1 January 2011 restated	(6 975)	(17 278)	(1 773)	-	(26 026)
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	**(8 629)**	**(27 073)**	**(4 275)**	**-**	**(39 977)**
Depreciation charge	(1 404)	(7 945)	(1 053)	-	(10 402)
Reclassifications	(4)	(13)	17	-	-
Disposals	395	1 474	1 001	-	2 870
Foreign exchange differences	(3)	64	9	-	70
At 31 December 2012	**(9 645)**	**(33 493)**	**(4 301)**	**-**	**(47 439)**
Carrying amounts					
At 1 January 2011	**48 725**	**29 165**	**3 038**	**6 437**	**87 365**
At 31 December 2011	**49 164**	**28 220**	**6 032**	**12 691**	**96 107**
At 31 December 2012	**58 224**	**28 614**	**3 773**	**21 445**	**112 056**

(a) Aircraft in operating lease

In 2011 the Group revised the sales contract with Aeroflot to supply SSJ-100 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. As at 31 December 2012, ten completed aircraft with a book value of RUB 8 587 million were delivered to Aeroflot (31 December 2011: four completed aircraft with book value of RUB 6 030 million were delivered to Aeroflot).

As at 31 December 2012 the cost of the aircraft in operating lease was tested for impairment. As at 31 December 2012 no impairment loss was recognised (2011: 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 2012 the net carrying amount of leased plant and machinery was RUB 4 511 million (2011: RUB 4 434 million).

(c) Security

At 31 December 2012 property, plant and equipment with a carrying amount of RUB 4 872 million (31 December 2011: RUB 4 243 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 9 567 million (2011: RUB 12 726 million).

(e) Capitalised borrowing costs

Additions to property, plant and equipment for the year ended 31 December 2012 include RUB 398 million of capitalised borrowing costs (2011: RUB nil million).

15 Intangible assets

Mln RUB	Goodwill	Development costs	Software	Advances given for development costs	Total
Cost					
At 1 January 2011	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 property, 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**
Acquisition under common control	-	-	2	-	2
Additions and transfers	-	8 167	1 316	236	9 719
Disposals	-	(344)	(358)	(37)	(739)
Government grants	-	(126)	-	-	(126)
Foreign exchange differences	(117)	(538)	38	-	(617)
At 31 December 2012	**1 943**	**55 856**	**3 756**	**2 375**	**63 930**
Amortisation and impairment losses					
At 1 January 2011	-	(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)**
Amortisation charge	-	(943)	(771)	-	(1 714)
Impairment loss	-	(89)	-	-	(89)
Disposals/reclassification	-	103	267	-	370
At 31 December 2012	**-**	**(10 888)**	**(1 309)**	**-**	**(12 197)**
Carrying amounts					
At 1 January 2011	**1 950**	**32 455**	**1 597**	**968**	**36 970**
At 31 December 2011	**2 060**	**38 738**	**1 953**	**2 176**	**44 927**
At 31 December 2012	**1 943**	**44 968**	**2 447**	**2 375**	**51 733**

(a) Goodwill

Goodwill relates to the acquisition of JSC “Irkut Corporation” and its subsidiaries (“Irkut Group”) in 2007.
As at 31 December 2012 management tested the acquired goodwill for impairment. The recoverable amount of Irkut group’s CGU was determined with reference to its fair value. Applying disounted cashflow approach cash flow projections were based on financial budgets and forecast approved by management covering a period until 2026 as the projected cash flows are primarily based on the lifecycle of MC-21 programme which is expected to reach maturity in 2023. Terminal value, representing the cash flows beyond 2026, was calculated applying a growth rate of 2,5%. The cash flows were discounted using a post-tax discount rate of 14,0% in each forecast year. As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as at 31 December 2012.

(b) Development costs

Capitalised development costs comprise of the following programmes:

Mln RUB	2012	2011
Sukhoi Super Jet – 100 aircraft (“SSJ-100”)	25 269	22 456
Yak-130 aircraft	5 470	4 677
MC-21 aircraft	3 710	1 036
Other	10 528	10 569
Total	**44 977**	**38 738**

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” (“SSJ-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.

Management concluded that development costs capitalised up to the date of the Type Certificate met the requirement of IAS 38 Intangible assets as ‘available for use’ which triggered commencement of amortisation of these costs based on the unit-of-production method. Management expects that certain development activities are still required to complete the development of the aircraft to ensure its operating capabilities and required aviation standards in the target markets.

As a consequence of substantial completion of development of the SSJ-100 programme management ceased capitalisation of borrowing costs in relation to assets capitalised before January 2011. Additions to development costs for the year ended 31 December 2012 do not include capitalised borrowing costs (2011: RUB 111 million).

Management constantly monitors the SSJ-100 program for signs of impairment. As at 31 December 2012, management performed an impairment test taking into account the current financial position of the Company as an indicator for potential impairment.

Following the requirements of IAS 36 *Impairment of assets* and taking into account that the related development costs were considered substantially ‘available for use’, in measuring value in use management calculated the cash flow projections for a period of 10 years as the program is expected to mature in 2022. The terminal value, representing the cash flows beyond the ten-year period, was calculated based on the 10^{th} forecasted year with zero growth rate.

Forecasted cash flow projections used for impairment test were based on the latest business plan which was revised in December 2012. The cash flow model is particularly sensitive to changes in key assumptions. Below is the analysis of the sensitivity of the cash flow model to changes in the production capacity, sales price per aircraft and discount rate.

- Revised sales volume for 2013 is 27 aircraft with expected increase to maximum production capacity of 70 aircraft in 2016 (under previous year business plan maximum production capacity of 70 aircraft was also expected to be achieved in 2016, however expected sales volume for 2013 was 41 aircraft). This expectation is based on the result of recent review of achievable production capacity which will be fully utilised in 2016. An even decrease of annual production volumes by 10% after full utilisation of production capacity (i.e. annual sales volumes would be less than expected by 10% in each forecasted year starting from 2016, assuming that actual sales volumes in 2013-2015 will be as expected) would result in an impairment loss of RUB 4 400 million. If, in addition to lower utilisation of production capacity after 2016, an annual sales volume in 2013-2015 would be lower than expected by 5 aircraft in each of these years, an additional impairment loss of RUB 6 414 million would be required.
- The overall market demand for SSJ-100 aircraft is expected to remain the same. An annual increase in future real sales prices by 3% starting from 2013 would result in additional excess of discounted cash flows over the carrying amount of the asset by RUB 26 581 million. An annual decrease in future real sales prices by 3% starting from 2013 would result in an impairment loss of RUB 3 725 million.
- As a key assumption, the Company expects to be able to increase real sales prices by 10% starting from 2018 after introduction of the enhanced versions of basic and long-range modification of the aircraft to achieve an average real sales price of RUB 863 million for SSJ-100 "B" and RUB 884 million for SSJ-100 "LR". By this time the Company would be able to demonstrate an operating usage history of SSJ-100 fleet by airline customers which should further support expected demand for existing and newer modifications of SSJ-100 family. Failure to enjoy advantage of increase in future real sales prices in 2018 and beyond would result in an impairment loss of RUB 20 303 million.
- Due to adverse change in macroeconomic indicators, the pre-tax nominal rate applied for discounting of expected cash flows increased to 15,6% as compared to prior year (2011: 15,39%). An application of 14,6% pre-tax nominal discount rate would result in additional excess of discounted cash flows over the carrying amount of the asset by RUB 18 624 million. An application of 16,6% pre-tax nominal discount rate would not result in impairment loss.

Other projects

By the end of the year 2012 an asset was substantially completed and became available for use, which triggered commencement of amortisation of these costs based on the unit-of-production method. Management continues to monitor the asset for signs of impairment and tests it 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 21%, 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. As a result of impairment test, the recoverable amount exceeded the carrying amount of the capitalised development costs by RUB 10 728 million.

(c) Capitalised borrowing costs

No borrowing costs have been capitalised into development costs in the year ended 31 December 2012 (2011: RUB 111 million).

16 Investments in associates and joint ventures

As at 31 December 2012 the Group owned significant influence interests in JSC "Ilyushin Finance Co" ("IFC"), "SuperJet International" S.p.A ("SJI"), "Airbus Freighter Conversion" GmbH ("AFC") and Multirole Transport Aircraft Ltd ("MTAL").

IFC

IFC is providing lease finance services of civil aircraft and is engaged in investing in construction, sales and maintenance of aircrafts. In 2012, IFC distributed RUB 169 million (2011: RUB 64 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 2012 cash contribution was made to the capital of “SuperJet International” S.p.A. in the amount of RUB 392 million. In 2012, the Group’s share of loss in “SuperJet International” S.p.A. amounted to RUB 450 million (2011: RUB 785 million).

MTAL

In 2012 the Group contributed RUB 618 million to the share capital of the newly established joint venture Multirole Transport Aircraft Ltd. (MTAL). MTS Program is being executed by MTAL under the Agreement on cooperation in the development and production of multirole transport aircraft between the Government of the Russian Federation (share of ownership - 25%) and the Republic of India (share of ownership 50%). Following the Regulation of the President of the Russian Federation dated March, 2010 the Group's subsidiary JSC "UAC-TS" is authorized to trade military products to foreign governments. The Group’s share in MTAL as at 31 December 2012 composed 25%.

AFC

In June 2012 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. Moreover, fulfilling the provisions of the Shareholders’ Agreement and subsequent resolutions as well as following the rules by law for the liquidation of the company Liquidation Closing Balance Statement were prepared as at 30 December 2012. As per German Law, the Shareholder’s Meeting should approve AFC’s accounts by formal Shareholder’s resolution.

The Group does not expect future losses in respect to AFC to be recorded in financial statements. Moreover, AFC is liable to the Group in the amount RUB 4 million.

The following is summarised financial information for equity accounted investees:

2012

Mln RUB	**IFC**	**SJI**	**MTAL**	**Total**
Ownership interest	49,48%	42,59%	25%	
Current assets	14 621	5 019	882	20 522
Non-current assets	19 226	2 367	189	21 782
Total assets	**33 847**	**7 386**	**1 071**	**42 304**
Current liabilities	7 042	(822)	(1)	6 219
Non-current liabilities	10 678	(6 774)	-	3 904
Total liabilities	**17 720**	**(7 596)**	**(1)**	**10 123**
Revenue and gross finance income from lease	8 206	381	8	8 595
Expenses	(7 962)	(1 438)	(3)	(9 403)
Profit/(loss) for the year	**244**	**(1 057)**	**5**	**(808)**
Group share of profit/(loss)	**121**	**(450)**	**1**	**(328)**

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)**

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**	**MTAL**	**Total**
Investments in associates as at 1 January 2011	**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**
Acquisition of additional shares/increase of investment	-	392	618	1 010
Dividends	(169)	-	-	(169)
Share of profit/(loss) of equity accounted investees (net of income tax) before impairment	121	(450)	1	(328)
Impairment of investment	-	(57)	-	(57)
Group share of profit/(loss)	**121**	**(507)**	**1**	**(385)**
Foreign exchange differences	-	15	-	15
Investments in associates as at 31 December 2012	**9 072**	**-**	**619**	**9 691**

17 Investments and non-current financial assets

Mln RUB	**2012**	**2011**
Non-current		
Available-for-sale investments measured at cost	3 454	3 033
Loans given	208	165
Promissory notes	33	33
Held-to-maturity investments	3	205
Total	**3 698**	**3 436**
Current		
Deposits	1 394	1 532
Loans given	204	562
Promissory notes	58	174
Other current financial assets	1 621	524
Total	**3 277**	**2 792**

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 2012 and 31 December 2011 are mostly attributable to equity securities in JSC “Oboronprom” held by the Group`s subsidiary JSC “RSK “MIG” in the amount of RUB 2 698 million. The ownership interest of RSK MIG in JSC “Oboronprom” decreased to 5,79% as a result of a dilution of share ownership in 2012 (2011: 6%).

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Mln RUB	**Assets**		**Liabilities**		**Net**	
	2012	**2011 Restated***	**2012**	**2011 Restated***	**2012**	**2011 Restated***
Property, plant and equipment	1 176	416	(8 046)	(6 640)	(6 870)	(6 224)
Intangible assets	1 013	741	(4 993)	(4 109)	(3 980)	(3 368)
Investments	1 043	653	(865)	(548)	178	105
Inventories	9 504	9 709	(1 901)	(2 985)	7 603	6 724
Trade and other receivables	957	2 853	(6 658)	(6 723)	(5 701)	(3 870)
Trade and other payables	4 050	2 260	(3 829)	(1 438)	221	822
Loans and borrowings	204	6	-	-	204	6
Provisions and employee benefits	554	640	(104)	(26)	450	614
Tax credit for R&D expenses	377	-		-	377	0
Tax loss carry-forwards	10 929	4 891	-	-	10 929	4 891
Total tax assets/(liabilities)	**29 807**	**22 169**	**(26 396)**	**(22 469)**	**3 411**	**(300)**
Offset of tax	(23 130)	(17 556)	23 130	17 556	-	-
Net tax assets/(liabilities)	**6 677**	**4 613**	**(3 266)**	**(4 913)**	**3 411**	**(300)**

*See note 2(e)

Movement in temporary differences during the year

Mln RUB	Restated* 1 January 2011	Recognised in other compre-hensive income	Acquisition under common control	Recognised in profit or loss	Foreign currency transla-tion	Restated* 31 December 2011
Property, plant and equipment	(3 969)		(62)	(2 116)	(77)	(6 224)
Intangible assets	1 928			(5 198)	(98)	(3 368)
Investments	202			(34)	(63)	105
Inventories	346		74	6 451	(147)	6 724
Trade and other receivables	(55)		(41)	(3 719)	(55)	(3 870)
Trade and other payables	242			573	7	822
Loans and borrowings	(306)			274	38	6
Provisions and employee benefits	623	24		(42)	9	614
Tax loss carry-forwards	1 571			3 320		4 891
Total	**582**	**24**	**(29)**	**(491)**	**(386)**	**(300)**

*See note 2(e)

Mln RUB	1 January 2012	Recognised in other compre-hensive income	Acquisition under common control	Recognised in profit or loss	Foreign currency transla-tion	31 December 2012
Property, plant and equipment	(6 224)		189	(1 916)	1 081	(6 870)
Intangible assets	(3 368)			(704)	92	(3 980)
Investments	105			62	11	178
Inventories	6 724		16	857	6	7 603
Trade and other receivables	(3 870)			(1 957)	126	(5 701)
Trade and other payables	822			(576)	(25)	221
Loans and borrowings	6			224	(26)	204
Provisions and employee benefits	614	44		(190)	(18)	450
Tax credit for R&D expenses		-	-	377	-	377
Tax loss carry-forwards	4 891			6 045	(7)	10 929
Total	**(300)**	**44**	**205**	**2 222**	**1 240**	**3 411**

(b) Unrecognized deferred tax assets

Mln RUB	2012	2011
Deductible temporary differences	7 577	7 774
Tax loss carry-forwards	16 645	16 076
Total	**24 222**	**23 850**

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	2012	2011
2018-2023	14 301	13 402
2015-2017	1 616	1 912
2013-2014	728	762
	16 645	**16 076**

(c) Unrecognised deferred tax liability

A temporary difference as at 31 December 2012 of RUB 1 733 million (2011: RUB 1 099 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	2012	2011 Restated*
Advance payments to suppliers	43 337	29 313
Raw materials and other supplies	20 499	16 529
Aircraft components	33 164	24 971
Goods for sale	6 415	6 572
Other work in progress	30 931	28 060
	134 346	**105 445**
Costs incurred and recognised profits on construction contracts less progress billings	20 960	17 598
Total	**155 306**	**123 043**

*See note 2(e)

(a) The aggregate amount of costs incurred and recognised profits

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date on construction contracts in progress is RUB 116 513 million (2011: RUB 197 499 million).

(b) Security

Inventory with a carrying amount as at 31 December 2012 of RUB 747 million (31 December 2011 of RUB 121 million) is pledged as collateral for secured loans (see note 24(b)).

(c) Write down to net realisable value

In 2012, as a result of write down of inventories to net realisable value RUB 4 929 million (2011: RUB 4 577 million) was included in cost of sales, as a result of change in the allowance for inventory obsolescence RUB 2 009 million (2011: RUB 2 981 million) was included in other operating expenses.

20 Trade and other receivables

Mln RUB	2012	2011
Current		
Trade receivables	34 261	44 290
Impairment	(2 848)	(2 562)
	31 413	**41 728**
VAT recoverable	25 064	21 466
Prepayments	6 849	8 057
Due from tax authorities	600	462
Government grant receivable	1 368	1 440
Other receivables and originated loans	11 649	11 477
Impairment of other receivables	(5 489)	(4 695)
Total	**71 454**	**79 935**
Non-current		
Other advances	657	108
VAT receivable	526	2 659
Trade and other receivables, non-current	4 628	1 373
Total	**5 811**	**4 140**

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	2012	2011
Bank balances, RUB	33 679	22 967
Bank balances, Foreign currency	10 369	14 637
Deposits	7 865	8 186
Other cash and cash equivalents	540	212
Total	**52 453**	**46 002**

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	**2012**	**2011**
Authorised shares	219 654 789	201 925 963
Par value	RUB 1	RUB 1
On issue at 1 January	201 925 962	188 632 913
Paid in cash	17 139 419	12 608 800
Issued for equity instruments of subsidiaries and associates	589 408	684 250
On issue at 31 December, fully paid	**219 654 789**	**201 925 963**

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

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 share capital of the Company consisted of 219 654 789 thousand shares.

In February 2013 the Board of Directors of JSC “UAC” decided to reduce share capital of JSC “UAC” by RUB 30 752 million by reducing the nominal value of shares of JSC “UAC".

(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 (2011: 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 financial statements of the Company prepared in accordance with the laws of the Russian Federation and Russian Accounting Principles and denominated in Russian roubles. At 31 December 2012 the Company had accumulated losses amounting to RUB 32 952 million, including the loss for the current year of RUB 70 million, (31 December 2011: accumulated loss of RUB 32 882 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 2012 and 2011 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 2011, the Federal Agency for State property management (“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 2012. The issue was completed and registered in February 2012.

In June 2012 the Group’s subsidiary JSC “Company “Sukhoi” initiated a closed-subscription issue of 626 368 ordinary shares all with par value of RUB 1 000 each for the benefit of the Russian Federation for the total consideration of RUB 1 693 million which was paid in cash in 2012. The issue was completed and registered in September 2012. The Group’s effective ownership in JSC “Company “Sukhoi” has decreased from 89,60% as at 31 December 2011 to 86,91% as at 31 December 2012.

In 2012, the Federal Agency for State property management acting on behalf of the Russian Federation further contributed RUB 157 million directly to the share capital of the Group’s subsidiary JSC “Nizhniy Novgorod Aircraft Plant Sokol”.

(h) Contribution of equity interests in entities which resulted in the Group obtaining control over the entities

In 2012, as part of the ninth additional share issue of the Company, the Russian Federation contributed 100% in the state-owned CJSC “M. M. Gromov Flight Research Institute”. The transaction was accounted for directly in equity as transaction under common control

The assets and liabilities of CJSC “M. M. Gromov Flight Research Institute”. as of the date passed under Group’s control are presented below:

Mln RUB	**JSC “M. M. Gromov Flight Research Institute”**
Date of acquisition	**6 June 2012**
Property, plant and equipment	7 858
Intangible assets	2
Deferred tax assets	206
Inventories	204
Trade and other receivables	539
Cash and cash equivalents	37
Other current assets	4
Short-term borrowings	(482)
Trade and other accounts payable	(426)
Provisions	(53)
Net assets acquired	**7 889**

23 Loss per share

The calculation of basic earnings/(loss) per share at 31 December 2012 is based on the loss attributable to ordinary shareholders of RUB 819 million (2011: RUB 10 136 million), and a weighted average number of ordinary shares outstanding of 209 565 484 thousand shares (2011: 194 150 108 thousand shares), calculated as shown below. The Company has no dilutive potential ordinary shares.

Thousands of shares	**2012**	**2011**
Issued shares at 1 January	201 925 963	188 632 913
Own shares at 1 January	(309 895)	(309 895)
Effect of shares issued in July 2011	-	5 827 090
Effect of shares issued in January 2012	2 528 466	-
Effect of shares issued in June 2012	5 420 949	-
Weighted average number of shares for the year ended 31 December	**209 565 484**	**194 150 108**

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	**2012**	**2011**
Non-current liabilities		
Secured bank loans	48 325	26 379
Unsecured bank loans	24 787	31 342
Secured borrowings	-	76
Unsecured borrowings	925	1 472
Unsecured bonds issued	-	8 161
Secured bonds issued	46 280	46 280
Finance lease liabilities	1 066	1 558
Other loans	808	10
	122 191	**115 278**

Mln RUB	**2012**	**2011**
Current liabilities		
Secured bank loans	33 445	25 402
Unsecured bank loans	44 742	40 394
Secured borrowings	-	38
Unsecured borrowings	583	500
Unsecured bonds issued	11 858	10 365
Secured bonds issued	1 136	1 116
Finance lease liabilities	1 065	971
Other loans	179	921
	93 008	**79 707**

(a) Terms and debt repayment schedule

Mln RUB	Currency	Nominal interest rate	Year of maturity	Face value 2012	Carrying amount 2012	Face value 2011	Carrying amount 2011
Secured bank loans:	RUB	7% - 16%	2012-2017	23 844	23 908	26 836	26 745
	RUB	Mosprime + 3%	2012-2017	1 310	1 310	1 300	1 300
	USD	4% - 14%	2012-2015	24 474	24 518	17 241	17 271
	USD	7% - 9%	2013-2027	16 742	16 742		
	USD	Libor+3-9%	2013-2017	6 596	6 596	4 792	4 792
	EUR	3% - 7%	2014	8 187	8 202	-	-
	EUR	3% - 16%	2012-2016	-	-	1 029	1 019
	GBP	9% - 12%	2013-2020	494	494	654	654
Unsecured bank loans:	RUB	7% - 20%	2012-2017	25 487	25 504	23 088	23 221
	USD	2,9% - 12%	2012-2017	25 994	25 841	20 458	20 715
	USD	LIBOR + 1,8% - 9%	2012-2018	8 069	8 069	8 703	8 703
	USD	7,04% - 9%	2022-2023	2 354	2 348		
	EUR	2% - 8%	2012-2018	1 312	1 312	11 207	11 231
	EUR	Euribor+6%+ 3M	2013	-	-	62	62
	EUR	Euribor+0,45-7%	2012-2017	6 228	6 228	7 804	7 804
	GBP	11%	2013-2020	227	227		
Secured borrowings	USD	3%-6%	2012-2014	-	-	114	114
Unsecured borrowings	USD	3%-16%	2012-2014	1 498	1 508	1 925	1 972
Unsecured bonds issued:	RUB	7,23-9,61%	2012-2015	11 735	11 858	11 755	11 891
	USD	9% - 12%	2010-2012	-	-	4 897	6 635
Secured bonds issued:	RUB	8%	2012-2013	-	1 136	-	1 116
	RUB	8%	2020	46 280	46 280	46 280	46 280
Finance lease liabilities:	RUB	2% - 27%	2012-2016	267	268	159	159
	USD	0	2013-2016	141	141		
	USD	10% - 38%	2012-2017	347	347	734	720
	EUR	8% -22%	2012-2016	1 375	1 375	1 926	1 650
Other loans:	RUB	0%	2013-2018	186	186	-	-
	RUB	16%	2012	-	-	906	931
	USD	0%	2014	429	429	-	-
	EUR	0%	2014	372	372	-	-
				213 948	**215 199**	**191 870**	**194 985**

(b) Security

Group loans are secured over property, plant and equipment with a carrying amount of RUB 4 872 million (31 December 2011: RUB 4 243 million), inventory with a carrying amount of RUB 747 million (31 December 2011: RUB 121 million), titles to rent of land plots with an area of 1 313 106 square metres (2011: 1 287 073 sq.m) and shares in JSC "Irkut Corporation" (10%).

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 the 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 a coupon rate of 8 % per annum. The duration of the 18th coupon period is established equal to 196 days. Bonds are secured with the state guarantee of the Russian Federation. The funds raised from placement of the bonds were used for repayment and restructuring of bank loans for the purpose of financing the development and production activities of the Group.

(d) Covenants compliance

At 31 December 2012, 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 Deutschland and VTB France. Before the reporting date the EBRD granted the Company with a waiver for a grace period to 31 December 2013 allowing all related loans to be classified as non-current and disclosed in line with the principle repayment terms of related loan agreements.

JSC Nizhniy Novgorod Aircraft Plant “Sokol” is subject to imposed capital requirements. Under several loans agreements, the company must maintain a designated level of turnover in its current accounts opened with the bank in question. There has not been a breach of covenants by the company in 2012.

(e) Finance lease liabilities as at 31 December 2012 are payable as follows:

Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1 249	184	1 065
Between one and five years	1 175	109	1 066
	2 424	**293**	**2 131**

31 December 2011

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
Total	**3 023**	**494**	**2 529**

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	**2012**	**2011 Restated***
Current liabilities		
Advances from customers, unrelated to construction contracts	47 625	36 828
Advances related to construction contracts	36 675	27 482
Trade payables	32 969	32 300
Other payables	9 836	9 296
Settlements with employees	4 051	3 307
VAT payable	2 355	3 767
Other tax payable	2 190	2 098
	135 701	**115 078**
Non-current liabilities		
Advances from customers, unrelated to construction contracts	5 113	3 490
Trade payables	331	944
Other payables	180	315
	5 624	**4 749**
	141 325	**119 827**

*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.
As described in note 3(e)(ii), management applies judgement in determination of whether proceeds related to externally financed research and development contracts with government related entities should be accounted as government grants. In 2012 management of the Group concluded that costs incurred and proceeds derived from government contracts related to the MC-21 project should be recognised in revenue and cost of sales. In 2011, MC-21 related costs were included into capitalised development costs net of proceeds received recognised as government grants related to assets. The excess of proceeds over related costs was recognised in profit and loss as government grant related to income.

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

Mln RUB	**2012**	**2011**
Grants related to development costs	99	91
	99	**91**
Government grants related to income	456	2 661
Government grants related to compensation of interest expense	1 174	486
	1 729	**3 238**

27 Employee benefits

Mln RUB	2012	2011 Restated*
Fair value of plan assets	863	896
Present value of obligations	(4 579)	(4 054)
Deficit in the plan	**(3 716)**	**(3 158)**
Total employee benefit liabilities	**(3 716)**	**(3 158)**

*See note 2(e)

Certain Group subsidiaries make contributions to defined benefit plans that provide benefits for employees upon retirement in the form of life pensions, pensions with a 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	2012	2011 Restated*
Defined benefit obligations at 1 January	(4 054)	(3 798)
Current service cost	(289)	(38)
Benefits paid	229	237
Actuarial gain/(loss)	(237)	(105)
Interest cost	(264)	(320)
Forex differences	36	(30)
Defined benefit obligations at 31 December	**(4 579)**	**(4 054)**

Movements in the present value of plan assets:

Mln RUB	2012	2011
Fair value of plan assets at 1 January	896	939
Expected return on plan's assets	61	72
Benefits paid by the plan	(183)	(177)
Contributions paid into the plan	157	164
Actuarial gain/(loss)	(68)	(102)
Fair value of plan assets at 31 December	**863**	**896**

Plan assets comprise low–risk fixed income instruments.

Expense recognised in the statement of income:

Mln RUB	2012	2011 Restated*
Current service cost	(289)	(38)
Expected return on plan's assets	61	72
Interest expenses	(264)	(320)
Total recognised in profit or loss	**(492)**	**(287)**
Actuarial gains and losses recognised in other comprehensive income	(305)	(90)
	(797)	**(376)**

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

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

	2012	2011
Discount rate	7,2%	8,1%
Expected rate of return on plans assets	7,2%	8,1%
Future pension and salary increases	5,5%	5,5%
Average life expectancy of members from the date of retirement:		
Male	12 years	12 years
Female	20 years	20 years

28 Provisions

Mln RUB	2012				2011			
	Warranty	Onerous contracts	Other	Total	Warranty	Onerous contracts	Other	Total
Balance at 1 January	1 580	682	887	3 149	1 246	72	302	1 620
Provisions made during the year	869	6	481	1 356	1 308	657	698	2 663
Provisions used during the year	(867)	9	(441)	(1 299)	(879)	(10)	(94)	(983)
Provisions reversed during the year	(76)	(161)	(389)	(626)	(89)	(37)	(19)	(145)
Foreign exchange differences	(3)	-	-	(3)	(6)	-	-	(6)
Balance at 31 December	**1 503**	**536**	**538**	**2 577**	**1 580**	**682**	**887**	**3 149**

(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	2012	2011
Finance lease receivables	852	539
Loans given	412	727
Deposits	1 394	1 532
Trade receivables	31 413	41 728
Costs incurred and recognized profits on construction contracts	20 960	17 598
Other receivables	14 266	8 222

Cash and cash equivalents	52 453	46 002
Total	**121 750**	**116 348**

(b) Impairment losses

The ageing of trade receivables at the reporting date was:

Mln RUB	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due (with a start date up to 50 days)	27 551	(90)	36 005	(263)
Past due 0-360 days	4 097	(126)	5 187	(61)
Past due more than one year	2 613	(2 632)	3 098	(2 238)
	34 261	**(2 848)**	**44 290**	**(2 562)**

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

Mln RUB	2012	2011
Balance as at 1 January	2 562	1 045
Impairment loss recognised	286	1 517
Balance as at 31 December	**2 848**	**2 562**

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 owed is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2012 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2011: nil).

(c) Liquidity risk

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

31 December 2012

Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	81 770	90 133	37 458	13 531	12 081	27 062
Unsecured bank loans	69 529	77 129	50 111	6 940	6 197	13 881
Unsecured borrowings	1 508	1 659	641	1 018	-	-
Unsecured bonds issued	11 858	13 044	13 044	-	-	-
Secured bonds issued	47 416	58 614	1 227	3 702	3 702	49 982
Finance lease liabilities	2 131	2 424	1 249	1 153	22	-
Other loans	987	1 086	197	889	-	-
Trade and other payables	43 319	43 319	42 807	512	-	-
	258 518	**287 407**	**146 734**	**27 745**	**22 002**	**90 925**

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	42 855	42 855	41 596	1 259	-	-
	237 840	**288 451**	**134 459**	**72 122**	**20 445**	**61 425**

(d) Currency risk

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

Mln RUB	**31 December 2012**			**31 December 2011**		
	USD	**EUR**	**RUB**	**USD**	**EUR**	**RUB**
Cash and cash equivalents	6 850	3 519	6 655	11 421	1 550	4 401
Trade and other receivables	27 750	838	1 300	21 355	4 852	3 110
Costs incurred and recognised profits on construction contracts	17 429	-	3 531	5 781	-	-
Secured bank loans	(47 856)	(8 202)	(1 128)	(17 716)	(1 019)	(8 721)
Unsecured bank loans	(36 258)	(7 540)	(776)	(21 588)	(19 097)	(521)
Secured borrowings	-	-	-	(114)	-	-
Unsecured borrowings	(1 508)	-	(7 635)	(1 832)	-	-
Unsecured bonds issued	-	-	(5 139)	(6 635)	-	(5 137)
Finance lease liabilities	(488)	(1 375)	(6)	(233)	(1 650)	(17)
Other loans	(429)	(372)	-	-	-	(7 231)
Trade and other payables	(20 444)	(4 146)	(4 201)	(15 252)	(1 370)	(3 423)
Gross exposure	**(54 527)**	**(17 278)**	**(7 399)**	**(24 813)**	**(16 734)**	**(17 539)**
Forward exchange contracts	(4 806)	-	5 201	-	-	13 953
Net exposure	**(49 333)**	**(17 278)**	**(2 198)**	**(24 813)**	**(16 734)**	**(3 586)**

The following significant exchange rates applied during the year:

RUB	**Average rate**		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
USD	31,09	29,39	30,37	32,20
EUR	39,95	40,98	40,29	41,67
GBP	49,25	47,12	48,96	49,63

(e) Sensitivity analysis

A 10% strengthening (weakening) of RUB against the USD and EUR based on the Group's exposure at the reporting date would have increased (decreased) net profit for the year by RUB 5 846 million (2011: RUB 3 037 million).

(f) Interest rate risk

(i) Profile

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

Mln RUB	**Carrying amount 2012**	**2011**
Fixed rate instruments		
Financial assets	9 776	10 740
Financial liabilities	(187 711)	(172 324)
	(177 935)	**(161 584)**
Variable rate instruments		
Financial liabilities	(27 488)	(22 661)
	(27 488)	**(22 661)**

(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 2012 would have increased loss for the year by RUB 275 million (31 December 2011: RUB 180 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 Company estimates the fair value of its financial assets and liabilities not to be materially different from their current values. For receivables and payables with a remaining useful life of less than one year their notional amount is deemed to reflect their fair value. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows.

The interest rates used to discount estimated cash flows, where applicable, are based on the market rates of instruments with similar market risk exposure and are disclosed in Note 24.

30 Commitments

(a) Capital commitments

As at 31 December 2012 the Group is committed to capital expenditure of approximately RUB 21 489 million (2011: RUB 20 239 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	2012	2011
Less than one year	241	249
Between one and five years	1 036	1 174
More than five years	10 175	6 798
Total	**11 452**	**8 221**

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"

There were no significant litigations and claims against the Group during 2012.

As for 2011, 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.

During 2011-2012 certain creditors claimed for JSC "FLC" bankruptcy and in September 2012 Moscow Arbitration Court declared the Group's subsidiary JSC "FLC" as bankrupt. Bankruptcy proceedings have been initiated for a 6 months term as a result. Thus, the Group lost control over JSC "FLC" in September 2012 and ceased consolidation of the subsidiary, thereafter.

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.

(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.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

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. Related parties disclosures (Note 33 (c)) as at 31 December 2012 include balances with other government related entities.

(b) Transactions with management

(i) Key management personnel compensation

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

Mln RUB	2012	2011
Wages and salaries	879	810
Compulsory social security contributions	122	36
Total	**1 001**	**846**

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of the Russian Federation (2012: 84,33%, 2011: 83,18%,). 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 organisations (collectively referred to as "government related entities"). The Group has transactions with other government related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, lease of assets, depositing and borrowing money, and use of public utilities.

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

For the year ended 31 December 2012 management estimated that the aggregate amount of the Group's collectively significant transactions with government related entities is up to 49% (2011: up to 51%) of its revenues, at least 32% (2011: at least 39%) of its purchases of materials, equipment and services, and up to 49% of its borrowings (2011: up to 62%).

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 2013 in relation to loans already secured or to be secured in the future.

34 Significant subsidiaries

The list of significant subsidiaries as at 31 December 2012 is presented below.

	Effective ownership	
Entity of the Group	**2012**	**2011**
Sukhoi Group		
JSC "Company Sukhoi"	86,91%	89,60%
JSC "OKB Sukhogo"	51,64%	51,18%
JSC "Komsomolsk-na-Amure Aviation Production Association"	90,15%	92,18%
JSC "Novosibirsk Aviation Production Association"	89,74%	91,85%
CJSC "Sukhoi Civil Aircraft"	64,32%	66,20%
CJSC "Sukhoi new civil technologies"	86,91%	89,60%
Irkut Group		
JSC "Irkut Corporation"	94,02%	94,29%
JSC "OKB Imeni A.S. Yakovlev"	78,61%	78,60%
CJSC "Beta-Ir"	69,97%	100,00%
Other		
JSC "Tupolev"	95,52%	95,52%
JSC "TANTK Imeni G.M. Berieva"	90,19%	89,77%
CJSC "Aviastar-SP"	99,54%	99,54%
JSC "OAK-TS"	100,00%	100,00%
JSC "Il"	87,06%	87,06%
JSC "VASO"	96,23%	95,13%
LLC "UAC-Antonov"	50%	50%
JSC "Nizhniy Novgorod Aircraft Plant Sokol"	89,33%	98,27%
JSC "Finance Leasing Company"	-	89,31%
CJSC "Aerocompozit"	99,60%	97,30%
LLC "UAC- Integration Center"	100%	-
JSC "RSK MiG"	58,42%	58,42%
JSC "KAPO"	100,00%	100,00%
JSC "Myasishchev Design Bureau"	100,00%	100,00%
CJSC "Il-Resours"	87,06%	87,06%
CJSC "KAPO-Compozit"	100,00%	100,00%
CJSC "Aerocompozit-Ulyanovsk"	100,00%	100,00%
CJSC "M. M. Gromov Flight Research Institute"	100,00%	-

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

35 EBITDA

Management assesses financial results of Group's activity according to EBITDA, which is calculated as profit (loss) before tax adjusted for net finance costs/(income), depreciation of property, plant and equipment (PPE), amortization of Intangible assets (IA), charge for impairment of PPE and IA, and extraordinary items. Since this term is not a standard IFRS measure, the Group's definition of EBITDA may differ from that of other companies.

mln RUB	**2012**	**2011**
Loss before income tax	(7 070)	(10 644)
Adjustments for		
Net finance costs	7 287	10 284
EBIT	**217**	**(360)**
Adjustments for		
Depreciation of property, plant and equipment	10 402	11 282
Impairment of other assets	-	2 803
Amortization of intangible assets	1 713	1 262
Gain on disposal of JSC "FLC"	(7 849)	-
EBITDA	**4 483**	**14 987**

36 Events subsequent to the reporting date

During 2012 management initiated reorganisation of its sub-holding Sukhoi Group which was completed in January 2013. As a result of reorganisation separate legal entities JSC "Sukhoi Design Bureau Company", JSC "Komsomolsk-on-Amur aircraft production association", JSC "Novosibirsk aircraft production association named by V.P. Chkalov" were joined to JSC "Company Sukhoi" as branches – Sukhoi Design Bureau branch, Y.A. Gagarin KnAAZ branch office and V.P.Chkalov NAZ branch office, After the conversion of the shares of the companies above, the number of shares owned by the JSC "UAC", increased to 21 305 396 shares.

In January 2013 an extraordinary shareholder's meeting of significant subsidiary CJSC "Sukhoi Civil Aircraft" approved an issue of 34 275 ordinary shares with a par value of RUB 1 000 each with offering price of RUB 73 966 per share for the benefit of the Company's subsidiary JSC "Company Sukhoi" and non-controlling shareholder of CJSC "Sukhoi Civil Aircraft" World's Wing SA.

In February 2013 Board of Directors of JSC "UAC" decided to reduce share capital of JSC "UAC" by RUB 30 752 million by reducing the nominal value of shares of JSC "UAC ".

In February 2013, the Company received EASA Type Certificate for Real Fire Simulator (FFS) SSJ-100.