



**Joint Stock Company “United Aircraft Corporation”**

**Consolidated Financial Statements**  
for the year ended 31 December 2014

## **Contents**

|  |    |
|--|----|
| Auditors' Report                               | 3  |
| Consolidated Statement of Income               | 6  |
| Consolidated Statement of Comprehensive Income | 7  |
| Consolidated Statement of Financial Position   | 8  |
| Consolidated Statement of Cash Flows           | 9  |
| Consolidated Statement of Changes in Equity    | 10 |
| Notes to the Consolidated Financial Statements | 12 |

## INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of directors  
Joint Stock Company "United Aircraft Corporation"

We have audited the accompanying consolidated financial statements of Joint Stock Company "United Aircraft Corporation" and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for 2014, and notes comprising the 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Standards on Auditing 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

### Basis for qualified opinion

1. 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 16,304 million for the year ended 31 December 2014 (31 December 2013: RUB 15,090 million), cost of sales would have been reduced by RUB 13,108 million for the year ended 31 December 2014 (31 December 2013: RUB 11,344 million), and government grants related to income in the consolidated income statement would have been increased by RUB 3,196 million for the year ended 31 December 2014 (31 December 2013: RUB 3,746 million).

**Global in Reach, Local in Touch**

3

ЗАО "Эйч Эл Би Внешаудит"

Россия, 123610, Москва, Краснопресненская наб., 12, подъезд 3, офис 701, Тел.: (495) 967-04-95, факс: (495) 967-04-97, e-mail: info@vneshaudit.ru, www.vneshaudit.ru  
ИНН 7706118254 Р/с 40702810538040102385 в Московском банке Сбербанка России ОАО г. Москва К/с 30101810400000000225 БИК 044525225

2. Property, plant and equipment is stated in the amount of RUB 151,955 million in the statement of financial position as at December 31, 2014. We were unable to obtain sufficient appropriate audit evidence about the recoverable amount of property, plant and equipment related to certain Group subsidiaries which might be lower than their carrying amount stated at RUB 55,433 million as at 31 December 2014 (31 December 2013: RUB 35,194 million). International Financial Reporting Standard IAS 36 Impairment of Assets requires that where such indicators exist, management makes a formal estimate of the recoverable amount. No such estimate has been made. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

### Qualified opinion

In our opinion, except for the effects of the matter described in the paragraph 1 of the basis for qualified opinion and except for the possible effects of the matter described in the paragraph 2 of the basis for qualified opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

General Director of CJSC “HLB Vneshaudit”

(auditor qualification certificate № 02-000366 dated of 27.12.2012,  
registration number of record at the Registry of auditors  
and audit organizations – 29702002487)



L.M. Mitrofanov

Date of the audit report – April 15, 2015

#### Audited Entity:

Joint Stock Company “United Aircraft Corporation”

State Registration Number: 1067759884598 (Certificate on the recording at the Uniform State Register of Legal Entities Series 77 № 008502150 as of 20 November 2006 issued by the Moscow Interdistrict Inspectorate of the Federal Tax Service No. 46 )

Address: Bld. 1, 22, Ulansky pereulok, Moscow, Russia

#### Independent Auditor:

Closed Joint-Stock Company «HLB Vneshaudit»

State Registration Number: 1027739314448 (State Registration Certificate No. 470.740 as of 17 February 1992 issued by the Moscow registration Chamber; Certificate on the recording at the Uniform State Register of Legal Entities Series 77 No. 007858681 as of 4 October 2002 issued by the Moscow Interdistrict Inspectorate of the Federal Tax Service No. 39)

Address: 25-27/2, Bolshaya Yakimanka Str., Moscow, Russia

The name of the self-regulatory organization of auditors, where CJSC “HLB Vneshaudit” is the member: non-profit partnership “Institute of Professional Auditors”

The Registration Number of record at the Registry of auditors and audit organizations is 10202000095



Joint Stock Company "United Aircraft Corporation"  
Consolidated Statement of Income for the year ended 31 December 2014

| Mln RUB                                     | Note | 2014            | 2013 Restated*  |
|---|------|-----------------|-----------------|
| Revenue                                     | 7    | 294 538         | 220 065         |
| Cost of sales                               |      | (246 786)       | (176 713)       |
| <b>Gross profit</b>                         |      | <b>47 752</b>   | <b>43 352</b>   |
| Government grants related to income         | 26   | 332             | 636             |
| Research and development costs              |      | (651)           | (370)           |
| Distribution expenses                       |      | (7 785)         | (12 112)        |
| Administrative expenses                     |      | (26 636)        | (25 511)        |
| Other operating income                      | 10   | 3 258           | 638             |
| Other operating expenses                    | 9    | (12 058)        | (5 498)         |
| <b>Profit from operations</b>               |      | <b>4 212</b>    | <b>1 135</b>    |
| Finance income                              | 11   | 6 026           | 2 821           |
| Finance costs                               | 11   | (20 045)        | (17 341)        |
| Share of loss of equity accounted investees | 15   | (2 093)         | (733)           |
| <b>Loss before income tax</b>               |      | <b>(11 900)</b> | <b>(14 118)</b> |
| Income tax benefit/(expense)                | 12   | (1 754)         | 610             |
| <b>Loss for the year</b>                    |      | <b>(13 654)</b> | <b>(13 508)</b> |
| <i>Loss attributable to:</i>                |      |                 |                 |
| Shareholders of the Company                 |      | (7 891)         | (9 418)         |
| Non-controlling interest                    |      | (5 763)         | (4 090)         |
| <b>Loss for the year</b>                    |      | <b>(13 654)</b> | <b>(13 508)</b> |
| Basic and diluted loss per share (RUB)      | 23   | (0,0359)        | (0,0429)        |

The consolidated financial statements were authorised for issue on 15 April 2015:

Yury Slyusar  
President



Dmitry Eliseev,  
Vice-president for Economics  
and Finance

\* See note 2(e)

Joint Stock Company "United Aircraft Corporation"  
 Consolidated Statement of Comprehensive Income for the year ended 31 December 2014

---

| Mln RUB  | <u>2014</u>           | <u>2013 Restated*</u>  |
|--|-----------------------|------------------------|
| Loss for the year  | (13 654)              | (13 508)               |
| <b>Items that are or may be reclassified to profit or loss:</b>            |                       |                        |
| Foreign currency translation differences                                   | 9 379                 | 1 345                  |
| Effective portion of changes in fair value of cash flow hedges, net of tax | -                     | 75                     |
| <b>Items that will never be reclassified to profit or loss:</b>            |                       |                        |
| Remeasurement of defined benefit plan liability                            | <u>(43)</u>           | <u>(86)</u>            |
| <b>Total comprehensive loss for the year</b>                               | <b><u>(4 318)</u></b> | <b><u>(12 174)</u></b> |
| <br><i>Total comprehensive loss attributable to:</i>                       |                       |                        |
| Shareholders of the Company  | 1 517                 | (7 910)                |
| Non-controlling interest   | <u>(5 835)</u>        | <u>(4 265)</u>         |
|  | <b><u>(4 318)</u></b> | <b><u>(12 174)</u></b> |

---

\* See note 2(e)

Joint Stock Company "United Aircraft Corporation"  
Consolidated Statement of Financial Position as at 31 December 2014

| Mln RUB   | Note | 31 December 2014 | 31 December 2013<br>Restated* |
|---|------|------------------|-------------------------------|
| <b>ASSETS</b>   |      |                  |                               |
| <b>Non-current assets</b>                                       |      |                  |                               |
| Property, plant and equipment                                   | 13   | 151 955          | 121 959                       |
| Intangible assets   | 14   | 93 517           | 60 018                        |
| Investments in associates and joint ventures                    | 15   | 8 205            | 722                           |
| Investments and non-current financial assets                    | 16   | 3 480            | 3 487                         |
| Finance lease receivables                                       |      | 1 916            | 3 260                         |
| Deferred tax assets   | 17   | 9 608            | 8 762                         |
| Other non-current assets  |      | 655              | 423                           |
| Other receivables, non-current                                  | 19   | 2 187            | 1 056                         |
| <b>Total non-current assets</b>                                 |      | <b>271 523</b>   | <b>199 687</b>                |
| <b>Current assets</b>   |      |                  |                               |
| Investments   | 16   | 752              | 1 530                         |
| Assets classified as held for sale                              | 21   | -                | 9 028                         |
| Inventories   | 18   | 250 895          | 169 949                       |
| Trade and other receivables                                     | 19   | 158 665          | 106 821                       |
| Finance lease receivables                                       |      | 107              | 408                           |
| Current income tax receivables                                  |      | 379              | 428                           |
| Cash and cash equivalents                                       | 20   | 92 667           | 59 098                        |
| Other current assets  |      | 4 150            | 518                           |
| <b>Total current assets</b>                                     |      | <b>507 615</b>   | <b>347 780</b>                |
| <b>Total assets</b>   |      | <b>779 138</b>   | <b>547 467</b>                |
| <b>EQUITY AND LIABILITIES</b>                                   |      |                  |                               |
| <b>Equity</b>   |      |                  |                               |
| Share capital   | 22   | 188 903          | 188 903                       |
| Share premium   |      | 4 566            | 4 566                         |
| Revaluation reserve   |      | 207              | 207                           |
| Prepaid shares reserve  |      | 12 343           | 4 198                         |
| Treasury shares   |      | (410)            | (410)                         |
| Foreign currency translation reserve                            |      | 13 870           | 4 420                         |
| Accumulated loss  |      | (90 949)         | (93 056)                      |
| <b>Total equity attributable to shareholders of the Company</b> |      | <b>128 530</b>   | <b>108 828</b>                |
| Non-controlling interest  |      | 9 671            | (4 272)                       |
| <b>Total equity</b>   |      | <b>138 201</b>   | <b>104 556</b>                |
| <b>Non-current liabilities</b>                                  |      |                  |                               |
| Loans and borrowings  | 24   | 204 228          | 157 978                       |
| Deferred tax liabilities  | 17   | 10 020           | 4 616                         |
| Employee benefits   | 27   | 3 598            | 3 453                         |
| Trade and other payables  | 25   | 44 940           | 37 748                        |
| SWOP liability  |      | 1 081            | -                             |
| Provisions  | 28   | -                | 831                           |
| <b>Total non-current liabilities</b>                            |      | <b>263 867</b>   | <b>204 626</b>                |
| <b>Current liabilities</b>                                      |      |                  |                               |
| Loans and borrowings  | 24   | 150 785          | 102 802                       |
| Income tax payable  |      | 118              | 21                            |
| Trade and other payables  | 25   | 222 393          | 132 452                       |
| Employee benefits   | 27   | 873              | 723                           |
| Provisions  | 28   | 2 901            | 2 287                         |
| <b>Total current liabilities</b>                                |      | <b>377 070</b>   | <b>238 285</b>                |
| <b>Total equity and liabilities</b>                             |      | <b>779 138</b>   | <b>547 467</b>                |

\* See note 2(e)

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

Joint Stock Company "United Aircraft Corporation"  
Consolidated Statement of Cash Flows for the year ended 31 December 2014

| Mln RUB  | 2014            | 2013<br>Restated* |
|--|-----------------|-------------------|
| <b>OPERATING ACTIVITIES</b>  |                 |                   |
| Loss before income tax   | (11 900)        | (14 118)          |
| Adjustments for:   |                 |                   |
| Depreciation and amortisation  | 21 786          | 16 085            |
| Foreign exchange differences not related to operating activities               | 12 070          | 1 169             |
| Share of losses in equity accounted investees                                  | 2 093           | 733               |
| Change in bad debt provision   | 1 282           | 1 307             |
| Loss on disposal of property, plant and equipment and intangible assets        | 1 420           | (171)             |
| Interest expense   | 22 633          | 16 652            |
| Government grant related to compensation of interest expense                   | (6 377)         | (2 763)           |
| Interest income  | (5 917)         | (2 638)           |
| <b>Operating profit before changes in working capital and provisions</b>       | <b>37 090</b>   | <b>16 256</b>     |
| Change in inventories  | (80 946)        | (14 644)          |
| Change in trade and other receivables  | (46 551)        | (28 319)          |
| Change in trade and other payables   | 97 132          | 28 876            |
| Change in lease receivable   | 1 645           | (2 816)           |
| Change in employee benefits  | 294             | 461               |
| Change in other current and non-current assets                                 | (4 100)         | 762               |
| Change in provisions   | (217)           | 542               |
| <b>Cash flows utilized by operations before income taxes and interest paid</b> | <b>4 347</b>    | <b>1 118</b>      |
| Income taxes (paid)/received   | (314)           | 327               |
| Interest paid, net of grant received   | (17 140)        | (13 012)          |
| <b>Cash flows utilized by operating activities</b>                             | <b>(13 107)</b> | <b>(11 567)</b>   |
| <b>INVESTING ACTIVITIES</b>  |                 |                   |
| Proceeds from disposal of property, plant and equipment                        | 438             | 724               |
| Acquisition of property, plant and equipment                                   | (30 020)        | (26 088)          |
| Acquisition of investments   | 250             | 212               |
| Contribution to equity of associates   | -               | (783)             |
| Acquisition of intangible assets   | (8 979)         | (8 774)           |
| Change in loans granted and cash deposits                                      | 778             | 1 747             |
| Government grant received related to assets                                    | 332             | 1 251             |
| Interest received  | 5 917           | 2 638             |
| Dividends received   | 72              | 81                |
| <b>Cash flows utilized by investing activities</b>                             | <b>(31 212)</b> | <b>(28 992)</b>   |
| <b>FINANCING ACTIVITIES</b>  |                 |                   |
| Proceeds from borrowings   | 236 826         | 164 577           |
| Repayment of borrowings  | (208 763)       | (126 225)         |
| Paid in capital  | 8 145           | 4 198             |
| Contributions to equity of subsidiaries by non-controlling shareholders        | 30 147          | 3 838             |
| Acquisition of non-controlling interest  | 191             | -                 |
| Dividends paid   | (329)           | (258)             |
| <b>Cash flows from financing activities</b>                                    | <b>66 217</b>   | <b>46 130</b>     |
| <b>Net increase in cash and cash equivalents</b>                               | <b>21 898</b>   | <b>5 571</b>      |
| Cash and cash equivalents at beginning of year                                 | 59 098          | 52 453            |
| Effect of exchange rates fluctuations on cash and cash equivalents             | 11 671          | 1 074             |
| <b>Cash and cash equivalents at end of year (note 20)</b>                      | <b>92 667</b>   | <b>59 098</b>     |

\* See note 2(e)

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



Joint Stock Company “United Aircraft Corporation”  
 Consolidated Statement of Changes in Equity for the year ended 31 December 2014

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   |
| <b>Balance at 1 January 2013</b>  | <b>219 655</b>                               | <b>4 566</b>  | -                      | (410)           | 207                 | (75)          | 2 915                                | (116 139)          | 110 719        | (1 769)                  | 108 950        |
| <b>Total comprehensive loss for the year</b>                            |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Loss for the year   | -  | -             | -                      | -               | -                   | -             | -                                    | (8 733)            | (8 733)        | (3 677)                  | (12 410)       |
| Adjustment of loss for the year (Restated*)                             | -  | -             | -                      | -               | -                   | -             | (25)                                 | (686)              | (711)          | (412)                    | (1 122)        |
| Defined benefit plan actuarial loss, net of tax                         | -  | -             | -                      | -               | -                   | -             | -                                    | (71)               | (71)           | (15)                     | (86)           |
| Cash flow hedges  | -  | -             | -                      | -               | -                   | 75            | -                                    | -                  | 75             | -                        | 75             |
| Foreign exchange differences  | -  | -             | -                      | -               | -                   | -             | 1 530                                | -                  | 1 530          | (159)                    | 1 371          |
| <b>Total comprehensive loss for the year</b>                            | -  | -             | -                      | -               | -                   | 75            | 1 505                                | (9 490)            | (7 910)        | (4 262)                  | (12 172)       |
| <b>Transactions with owners recognised directly in equity</b>           |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| <i>Share issues of the Company:</i>                                     |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Reduction of share capital by reducing the par value of shares          | (30 752)                                     | -             | -                      | -               | -                   | -             | -                                    | 30 752             | -              | -                        | -              |
| Prepayment of share issue   | -  | -             | 4 198                  | -               | -                   | -             | -                                    | -                  | 4 198          | -                        | 4 198          |
|   | <b>(30 752)</b>                              | -             | <b>4 198</b>           | -               | -                   | -             | -                                    | <b>30 752</b>      | <b>4 198</b>   | -                        | <b>4 198</b>   |
| <i>Other transactions with owners:</i>                                  |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Contributions to equity of subsidiaries by non-controlling shareholders | -  | -             | -                      | -               | -                   | -             | -                                    | 1 110              | 1 110          | 2 728                    | 3 838          |
| Reorganization of subsidiaries  | -  | -             | -                      | -               | -                   | -             | -                                    | 711                | 711            | (711)                    | -              |
| Dividends   | -  | -             | -                      | -               | -                   | -             | -                                    | -                  | -              | (258)                    | (258)          |
| <b>Balance at 31 December 2013</b>                                      | <b>188 903</b>                               | <b>4 566</b>  | <b>4 198</b>           | <b>(410)</b>    | <b>207</b>          | -             | <b>4 420</b>                         | <b>(93 056)</b>    | <b>108 828</b> | <b>(4 272)</b>           | <b>104 556</b> |

\* See note 2(e)

Joint Stock Company "United Aircraft Corporation"  
Consolidated Statement of Changes in Equity for the year ended 31 December 2014

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   |
| <b>Balance at 1 January 2014</b>  | <b>188 903</b>                               | <b>4 566</b>  | <b>4 198</b>           | <b>(410)</b>    | <b>207</b>          | <b>-</b>      | <b>4 445</b>                         | <b>(92 370)</b>    | <b>109 539</b> | <b>(3 861)</b>           | <b>105 678</b> |
| Adjustment of prior periods (Restated*)                                 |  |               |                        |                 |                     |               | (25)                                 | (686)              | (711)          | (411)                    | (1 122)        |
| <b>Balance at 1 January 2014</b>  | <b>188 903</b>                               | <b>4 566</b>  | <b>4 198</b>           | <b>(410)</b>    | <b>207</b>          | <b>-</b>      | <b>4 420</b>                         | <b>(93 056)</b>    | <b>108 828</b> | <b>(4 272)</b>           | <b>104 556</b> |
| <b>Total comprehensive loss for the year</b>                            |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Loss for the year   | -  | -             | -                      | -               | -                   | -             | -                                    | (7 891)            | (7 891)        | (5 763)                  | (13 654)       |
| Defined benefit plan actuarial loss, net of tax                         | -  | -             | -                      | -               | -                   | -             | -                                    | (43)               | (43)           | -                        | (43)           |
| Foreign exchange differences  | -  | -             | -                      | -               | -                   | -             | 9 450                                | -                  | 9 450          | (71)                     | 9 379          |
| <b>Total comprehensive loss for the year</b>                            | <b>-</b>                                     | <b>-</b>      | <b>-</b>               | <b>-</b>        | <b>-</b>            | <b>-</b>      | <b>9 450</b>                         | <b>(7 934)</b>     | <b>1 516</b>   | <b>(5 834)</b>           | <b>(4 318)</b> |
| <b>Transactions with owners recognised directly in equity</b>           |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| <i>Share issues of the Company:</i>                                     |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Prepayment of share issue   | -  | -             | 8 145                  | -               | -                   | -             | -                                    | -                  | 8 145          | -                        | 8 145          |
|   | -  | -             | <b>8 145</b>           | -               | -                   | -             | -                                    | -                  | <b>8 145</b>   | -                        | <b>8 145</b>   |
| <i>Other transactions with owners:</i>                                  |  |               |                        |                 |                     |               |                                      |                    |                |                          |                |
| Contributions to equity of subsidiaries by non-controlling shareholders | -  | -             | -                      | -               | -                   | -             | -                                    | 10 232             | 10 232         | 19 915                   | 30 147         |
| Acquisition of non-controlling interest                                 | -  | -             | -                      | -               | -                   | -             | -                                    | (191)              | (191)          | 191                      | -              |
| Dividends   | -  | -             | -                      | -               | -                   | -             | -                                    | -                  | -              | (329)                    | (329)          |
| <b>Balance at 31 December 2014</b>                                      | <b>188 903</b>                               | <b>4 566</b>  | <b>12 343</b>          | <b>(410)</b>    | <b>207</b>          | <b>-</b>      | <b>13 870</b>                        | <b>(90 949)</b>    | <b>128 530</b> | <b>9 671</b>             | <b>138 201</b> |

\* See note 2(e)

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

| Note |  | Page reference |
|------|--|----------------|
| 1    | Background                                   | 12             |
| 2    | Basis of preparation                         | 13             |
| 3    | Significant accounting policies              | 21             |
| 4    | Determination of fair values                 | 32             |
| 5    | Financial risk management                    | 33             |
| 6    | Operating segments                           | 37             |
| 7    | Revenue                                      | 38             |
| 8    | Personnel costs                              | 39             |
| 9    | Other operating expenses                     | 39             |
| 10   | Other operating income                       | 39             |
| 11   | Finance income and finance costs             | 40             |
| 12   | Income tax benefit/(expense)                 | 40             |
| 13   | Property, plant and equipment                | 42             |
| 14   | Intangible assets                            | 44             |
| 15   | Investments in associates and joint ventures | 46             |
| 16   | Investments and non-current financial assets | 49             |
| 17   | Deferred tax assets and liabilities          | 50             |
| 18   | Inventories                                  | 52             |
| 19   | Trade and other receivables                  | 53             |
| 20   | Cash and cash equivalents                    | 53             |
| 21   | Disposal asset held for sale                 | 53             |
| 22   | Equity                                       | 54             |
| 23   | Loss per share                               | 59             |
| 24   | Loans and borrowings                         | 59             |
| 25   | Trade and other payables                     | 62             |
| 26   | Government grants                            | 62             |
| 27   | Employee benefits                            | 63             |
| 28   | Provisions                                   | 64             |
| 29   | Financial instruments                        | 65             |
| 30   | Operating lease                              | 69             |
| 31   | Contingencies                                | 69             |
| 32   | Related party transactions                   | 71             |
| 33   | Significant subsidiaries                     | 72             |
| 34   | EBITDA                                       | 73             |
| 35   | Events subsequent to the reporting date      | 73             |



## 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 2014 and 31 December 2013 was as follows:

| Shareholders  | 2014 | 2013 |
|---|------|------|
| Russian Federation (Federal Agency for State property management) | 85%  | 84%  |
| Vneshekonombank (VEB)   | 9%   | 9%   |
| Private shareholders  | 6%   | 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 13(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.

Decline in oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Rouble and making it harder to raise international funding. During 2014 year:

- exchange rate set by the Central Bank of the Russian Federation fluctuated between RR 32.6587 and RR 67.7851 per USD and between RR 45.0559 and RR 84.5890 per Euro;
- key interest rate set by the Central Bank of the Russian Federation increased from 5.5 percent p.a. to 17.0 percent p.a. including an increase from 12.0 percent p.a. to 17.0 percent p.a. on 16 December 2014.

Currently the financial markets continue to be volatile. Subsequent to 31 December 2014:

- exchange rate set the Central Bank of the Russian Federation fluctuated between RR 51.0678 per USD and RR 69.6640 per USD and between RR 54,2749 and RR 78,7900 per Euro;
- key interest rate set by the Central Bank of the Russian Federation decreased from 17.0 percent p.a. to 14.0 percent p.a.;
- bank lending activity decreased due to increased lending and exchange rates;
- in January 2015 Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. In February 2015 Moody's Investors Service also downgraded Russia's sovereign rating below investment grade to Ba1. Fitch Ratings still have Russia as investment grade.

These and other events may have a material impact on the Group's operations, its prospective financial position, operational results and business perspectives. Management is unable to foresee the outcome of such an impact at this stage, but believes it takes all the necessary measures to support the sustainability and development of the Group's business.

## **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.

**(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” and CJSC “Sukhoi Civil Aircraft”, whose functional currency is the United States Dollar (“USD”) because it reflects the economic substance of the underlying events and circumstances of these subsidiaries. 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.

*Change of CJSC “Sukhoi Civil Aircraft” functional currency*

As part of the process of preparation of the financial statements management constantly monitors and assesses internal and external information relevant for the decision on selection of the most appropriate functional currency. In this assessment, management considers key circumstances and events that have the most impact as well as seeks for the evidence of any variations or expected changes in those events and circumstances that may collectively indicate on a strong case for transition to a different functional currency. As regards to the result of the most recent analysis, the influence of some factors contributing to the decision evolved over time and became more evident only with 2012-2013 perspective, others were generally assumed to be important in the previous reporting periods but only crystallised in 2013 in light of more factual evidence and thus supported the need for transition. The key factors are described below.

- Management thoroughly assessed the impact of the USD on the CJSC “Sukhoi Civil Aircraft” cost base and concluded that USD will be the currency with the largest impact in the foreseeable future – giving regard to an international cooperation status of the SSJ-100 program.
- The pattern of financing of the CJSC “Sukhoi Civil Aircraft” demonstrated a permanent drift from targeted government support in the form of government grants towards direct contributions from shareholders and attracting external debt denominated in USD.
- SSJ-100 program life-cycle phase became solidly operating and the CJSC “Sukhoi Civil Aircraft” demonstrated ability to reach target export markets by selling a substantial number of aircraft where pricing is driven by international market which is commonly based on USD.

As a result of the internal reassessment of the economic effects of transactions, events and conditions relevant for CJSC “Sukhoi Civil Aircraft” operations, management concluded that the nature of the operations and transactions were changed so that its functional currency also changed from RUB to USD as of 1 January 2013 with prospective effect.

The key impact of the change in the functional currency would be in reduction of foreign currency exposures to USD, therefore it is generally expected that fluctuations of Russian Rouble against USD would no longer have a significant impact on the CJSC “Sukhoi Civil Aircraft” performance.

**(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:

- Notes 3(m) and 7 – Revenue;
- Note 14 – Impairment of intangible assets;
- Notes 3(e)(ii) and 14 – Research and development
- Note 17 - Deferred tax assets;



**Joint Stock Company “United Aircraft Corporation”**  
**Notes to the Consolidated Financial Statements for the year ended 31 December 2014**

---

- Note 28 – Provisions;
- Note 31 – Contingencies;
- Note 2(c) - Functional currency.

**(e) Change in presentation**

In a course of preparation of these consolidated financial statements for the year ended 31 December 2014 management of the Group determined unaccounted expenses (selling commissions and costs of production components, as well as other operating costs) related to 2013 amounting to RUB 1 691 million. The Group also identified expenses associated with the development of intangible assets incurred in 2013, which should have been treated as qualified asset and related interest expenses amounted to RUB 405 million which should have been capitalised. Negative effect on the financial result after tax was recognized in the consolidated income statement for the year ended 31 December 2013 in amount of RUB 1 098 million.

***Consolidation incomestatement***

**MIn RUB**

|   | <u>2013</u>            | <u>2 (e)</u>          | <u>2013 Restated</u>   |
|---|------------------------|-----------------------|------------------------|
| Cost of sales                                       | (175 664)              | (1 049)               | (176 713)              |
| Distribution expenses                               | (11 997)               | (115)                 | (12 112)               |
| Other operating expenses                            | (4 890)                | (527)                 | (5 417)                |
| <b>Profit.(loss) from operations</b>                | <b>2 826</b>           | <b>(1 691)</b>        | <b>1 135</b>           |
| Finance costs                                       | (17 746)               | 405                   | (17 341)               |
| <b>Loss before income tax</b>                       | <b>(12 832)</b>        | <b>(1 286)</b>        | <b>(14 118)</b>        |
| Income tax benefit                                  | 422                    | 188                   | 610                    |
| <b>Loss for the year from continuing operations</b> | <b><u>(12 410)</u></b> | <b><u>(1 098)</u></b> | <b><u>(13 508)</u></b> |
| Basic and diluted loss per share (RUB)              | <u>0,0398</u>          | <u>0,0031</u>         | <u>0,0429</u>          |

Joint Stock Company "United Aircraft Corporation"  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

*Consolidated statement of financial position*

Mln RUB

|   | <u>31 December<br/>2013</u>  | <u>2 (e)</u>             | <u>31 December 2013<br/>Restated</u> |
|---|------------------------------|--------------------------|--------------------------------------|
| <b>ASSETS</b>   |                              |                          |                                      |
| <b>Nob-current assets</b>                                       |                              |                          |                                      |
| Intangible assets   | 59 061                       | 957                      | 60 018                               |
| Deferred tax assets   | <u>8 533</u>                 | <u>229</u>               | <u>8 762</u>                         |
| <b>Total non-current assets</b>                                 | <u><b>198 501</b></u>        | <u><b>1 186</b></u>      | <u><b>199 687</b></u>                |
| <b>Current assets</b>   |                              |                          |                                      |
| Inventories   | 170 594                      | (645)                    | 169 949                              |
| Trade and other receivables                                     | <u>106 904</u>               | <u>(83)</u>              | <u>106 821</u>                       |
| <b>Total current assets</b>                                     | <u><b>348 508</b></u>        | <u><b>(728)</b></u>      | <u><b>347 780</b></u>                |
| <b>Total assets</b>   | <u><u><b>547 009</b></u></u> | <u><u><b>458</b></u></u> | <u><u><b>547 467</b></u></u>         |
| <b>EQUITY AND LIABILITIES</b>                                   |                              |                          |                                      |
| <b>Equity</b>   |                              |                          |                                      |
| Foreign currency translation reserve                            | 4 445                        | (25)                     | 4 420                                |
| Accumulated loss  | <u>(92 370)</u>              | <u>(686)</u>             | <u>(93 056)</u>                      |
| <b>Total equity attributable to shareholders of the Company</b> | <u><b>109 539</b></u>        | <u><b>(711)</b></u>      | <u><b>108 828</b></u>                |
| Non-controlling interest  | <u>(3 861)</u>               | <u>(411)</u>             | <u>(4 272)</u>                       |
| <b>Total equity</b>   | <u><b>105 678</b></u>        | <u><b>(1 122)</b></u>    | <u><b>104 556</b></u>                |
| <b>Non-current liabilities</b>                                  |                              |                          |                                      |
| Trade and other payables  | 37 120                       | 628                      | 37 748                               |
| Provisions  | <u>134</u>                   | <u>697</u>               | <u>831</u>                           |
| <b>Total non-current liabilities</b>                            | <u><b>203 301</b></u>        | <u><b>1 325</b></u>      | <u><b>204 626</b></u>                |
| <b>Current liabilities</b>                                      |                              |                          |                                      |
| Trade and other payables  | <u>132 197</u>               | <u>255</u>               | <u>132 452</u>                       |
| <b>Total current liabilities</b>                                | <u><b>238 030</b></u>        | <u><b>255</b></u>        | <u><b>238 285</b></u>                |
| <b>Total equity and liabilities</b>                             | <u><u><b>547 009</b></u></u> | <u><u><b>458</b></u></u> | <u><u><b>547 467</b></u></u>         |



**(f) Adoption of new and revised standards and interpretations**

The following new standards and interpretations became effective from 1 January 2014:

*“Offsetting Financial Assets and Financial Liabilities” – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have any material impact on the Group’s consolidated financial statements.

*“Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities” (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).*

The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity’s investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have any material impact on the Group’s consolidated financial statements.

*IFRIC 21 – “Levies” (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).*

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Group’s consolidated financial statements.

*Amendments to IAS 36 – “Recoverable amount disclosures for non-financial assets” (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).*

The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have any material impact on the Group’s consolidated financial statements.

*Amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting” (issued in June 2013 and effective for annual periods beginning 1 January 2014).*

The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have any material impact on the Group’s consolidated financial statements.



The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later approved for adoption in the Russian Federation and which the Group has not early adopted:

*Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11*

*(issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).* This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group does not expect the amendment to have significant impact on its consolidated financial statements.

*Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation –*

*(issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).* In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group does not expect the amendment to have significant impact on its consolidated financial statements.

*Amendments to IAS 19 – “Defined benefit plans: Employee contributions”*

*(issued in November 2013 and effective for annual periods beginning 1 July 2014).* The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any significant impact on the Group’s consolidated financial statements.

*Annual Improvements to IFRSs 2012*

*(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).* The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a “vesting condition” and to define separately “performance condition” and “service condition”. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (i) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (ii) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (i) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (ii) a reconciliation of segment assets to the entity’s assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (“the management entity”), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.



*Annual Improvements to IFRSs 2013*

(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

*IFRS 15, Revenue from Contracts with Customers*

(issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amendment is not expected to have any significant impact on the Group’s consolidated financial statements. The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later that are not yet adopted in the Russian Federation and which the Group has not early adopted.

*IFRS 9 “Financial Instruments: Classification and Measurement”*

(amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the



effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

#### *Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

*(issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).* These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

#### *Annual Improvements to IFRSs 2014*

*(issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).* The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

#### *Disclosure Initiative Amendments to IAS 1*

*(issued in December 2014 and effective for annual periods on or after 1 January 2016).* The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS



standards. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

*Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28*

(issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

**(g) 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 2014, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group anticipates the likely impact of these new Standards and Interpretations will not be significant.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

**(a) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control 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. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures 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 profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to 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 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 acquiree; 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 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 19, cash and cash equivalents as presented in note 20 and loans and deposits as presented in note 16.



*Available-for-sale financial assets*

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

Revenue from sales of aircraft that include underlying asset value guarantee commitments are generally accounted for as sale of goods, i.e. revenue is recognised in profit and loss in full contracted amount upon aircraft delivery, which normally represents the point of substantial transfer of significant risks and rewards of ownership of the aircraft to the customer airline. In order to justify full revenue recognition at the delivery date is the one of the key criteria shall be satisfied: at the date of delivery the estimated fair value of the aircraft at a future exercise date is expected to sufficiently exceed the guaranteed amount. If the aforementioned criterion is not satisfied, the sale is accounted for as an operating lease.

For sales deliveries accounted for as an operating lease upon the initial sale of these aircraft to the customer, the total cost of the aircraft previously recognised in inventory is transferred to “Property, plant and equipment” and depreciated over the estimated useful economic life of the aircraft, with the proceeds received from the customer being recorded as deferred income and recognised in profit or loss evenly over the period till the expected date of guarantee exercise date.

**(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 are recognised in profit or loss using the effective interest method.

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 calculated 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 income in the statement of income 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.

**(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.

## **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.

The majority of the Group’s property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. Except for land, which was appraised on the basis of recent market transactions, the market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(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 2014 and 31 December 2013 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.

In 2010 the Group’s 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. As at 31 December 2013 the forward contract has expired.

In 2014 the Group’s subsidiary entered into interest-currency SWOP maturing in three years to hedge foreign currency revenue contracts. This hedge was primarily accounted for as a cash flow hedge but as at 31 December 2014 the hedging instrument no longer meet the requirements for hedge accounting

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**(ii) Interest rate risk**

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**(iii) Operational risk**

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans



- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

(iv) *Capital management*

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

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group's return on capital was negative in 2014 (2013: negative). The weighted average interest expense on interest-bearing loans and borrowings (excluding liabilities with imputed interest and excluding effect of government grants related to interest expense) was 8,01 % (2013: 7,01 %)

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

| Mln RUB                              | 2014           | 2013           |
|--------------------------------------|----------------|----------------|
| Total debt                           | 355 013        | 260 780        |
| Less: cash and cash equivalents      | (92 667)       | (59 098)       |
| <b>Net debt</b>                      | <b>262 346</b> | <b>201 682</b> |
| Total equity                         | 138 201        | 104 556        |
| Debt to capital ratio at 31 December | 1,90           | 1,93           |

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 a minimum level of Net Debt to EBITDA and a certain level of net assets which are considered in managing capital of those entities. As at 31 December 2014 the Group's subsidiary (CJSC "Sukhoi Civil Aircraft") violated a number of financial and non-financial loan covenants with the following banks: EBRD, JSC "VTB" VTB Bank (Austria), VTB (France) OJSC "Sberbank", JSC "Eurasian Development Bank" Accordingly, the Group recorded these loans under current liabilities as at 31 December 2014. The Group is currently in the process of obtaining a permanent waiver from creditor banks from fulfilment of conditions of financial and non-financial covenants. (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.

All the Group's assets are located in the territory of the Russian Federation.

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 gross 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   |         |
|---|--------------|--------|-------------------|--------|---------|--------|---------|---------|
|   | 2014         | 2013   | 2014              | 2013   | 2014    | 2013   | 2014    | 2013    |
| External revenue for reportable segments      | 103 093      | 89 536 | 59 260            | 57 867 | 121 635 | 65 755 | 283 988 | 213 158 |
| Inter-segment revenue for reportable segments | 6 678        | 1 620  | 502               | 456    | 7 234   | 5 046  | 14 414  | 7 122   |
| Reportable segment gross profit               | 14 414       | 12 060 | 10 141            | 13 442 | 7 801   | 5 747  | 32 356  | 31 249  |

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

| Mln RUB  | 2014           | 2013 Restated* |
|--|----------------|----------------|
| Total revenue for reportable segments  | 298 402        | 220 280        |
| Elimination of inter-segment revenue   | (14 414)       | (7 122)        |
| Difference in timing and principles of revenue recognition                       | 10 550         | 6 907          |
| <b>Consolidated revenue</b>  | <b>294 538</b> | <b>220 065</b> |
|  | <b>2014</b>    | <b>2013</b>    |
| Reportable segment gross profit  | 32 356         | 31 249         |
| Adjustments for:   |                |                |
| Net realizable value of inventories  | 1 453          | 5 384          |
| Fair value of assets related to SSJ-100 programme                                | 1 759          | 1 286          |
| Reclassification of certain types of administrative expenses                     | 12 993         | 7 347          |
| Adjustments to fair value of intangible assets and property, plant and equipment | 241            | (122)          |
| Difference in timing of recognition of revenue and cost of sales                 | 6 487          | (722)          |
| Other  | (7 536)        | (1 070)        |
| <b>Gross profit</b>  | <b>47 753</b>  | <b>43 352</b>  |

(iii) *Major customer*

In 2014 and 2013, revenue from one customer, the Ministry of Defence of the Russian Federation, represented approximately 49% and 29%, respectively, of the Group’s total revenue.

## 7 Revenue

| Mln RUB  | 2014           | 2013           |
|--|----------------|----------------|
| Revenue earned on aircraft construction contracts            | 127 520        | 125 795        |
| Revenue on sales of aircraft components and related products | 43 194         | 26 266         |
| Revenue earned on research and development services          | 43 330         | 33 397         |
| Revenue earned on modernisation and overhaul services        | 64 661         | 29 467         |
| Other  | 15 833         | 5 140          |
| <b>Total</b>   | <b>294 538</b> | <b>220 065</b> |

\* See note 2(e)

## 8 Personnel costs

| Mln RUB                                   | 2014          | 2013          |
|---|---------------|---------------|
| Wages and salaries                        | 38 572        | 33 312        |
| Compulsory social security contributions  | 9 885         | 8 214         |
| Expenses related to defined benefit plans | 382           | 19            |
| <b>Total</b>                              | <b>48 839</b> | <b>41 545</b> |

## 9 Other operating expenses

| Mln RUB   | 2014          | 2013 Restated* |
|---|---------------|----------------|
| Write-off and change in allowance for doubtful receivables              | 2 762         | 927            |
| Write-off and change in impairment provision of inventory               | 2 506         | 1 212          |
| Charity and social expenses   | 1 340         | 853            |
| Loss on disposal of property, plant and equipment and intangible assets | 1 184         | -              |
| Property and other tax expense  | 721           | 1 017          |
| Bank charges  | 641           | 498            |
| Loss on disposal of other assets  | 236           | -              |
| Fines and penalties   | 208           | -              |
| Write-off and impairment of other assets                                | 2 287         | -              |
| Expenses attributed to loss-making projects                             | 173           | -              |
| Other expenses  | -             | 991            |
| <b>Total</b>  | <b>12 058</b> | <b>5 498</b>   |

## 10 Other operating income

| Mln RUB   | 2014         | 2013       |
|---|--------------|------------|
| Other reserves reversal   | 2 576        | -          |
| Rental income   | 339          | 253        |
| Reversal of accounts payable overdue                                    | 255          | -          |
| Dividends received from associated companies                            | 72           | 81         |
| Gain on disposal of property, plant and equipment and intangible assets | -            | 171        |
| Gain on disposal of other assets  | -            | 133        |
| Other income  | 16           | -          |
| <b>Total</b>  | <b>3 258</b> | <b>638</b> |

\* See note 2(e)



## 11 Finance income and finance costs

| Mln RUB  | 2014            | 2013 Restated*  |
|--|-----------------|-----------------|
| <i>Finance income</i>  |                 |                 |
| Interest income  | 5 917           | 2 638           |
| Net income on finance leases                                 | 109             | 33              |
| Other finance income   | -               | 150             |
|  | 6 026           | 2 821           |
| <i>Finance costs</i>   |                 |                 |
| Interest expense   | (22 633)        | (16 652)        |
| Government grant related to compensation of interest expense | 6 377           | 2 763           |
|  | (16 256)        | (13 889)        |
| Foreign exchange loss  | (3 284)         | (2 986)         |
| Other finance costs  | (505)           | (466)           |
| <b>Total</b>   | <b>(20 045)</b> | <b>(17 341)</b> |

## 12 Income tax benefit/(expense)

| Mln RUB   | 2014           | 2013 Restated* |
|---|----------------|----------------|
| <i>Current tax benefit</i>                        |                |                |
| Current income tax                                | (527)          | (122)          |
| Adjustments of prior years                        | 354            | 109            |
|   | (173)          | (13)           |
| <i>Deferred tax benefit/(expense)</i>             |                |                |
| Origination and reversal of temporary differences | (1 627)        | 571            |
| Change in recognised deferred tax assets          | 46             | 51             |
|   | (1 581)        | 622            |
| <b>Total</b>                                      | <b>(1 754)</b> | <b>609</b>     |

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

\* See note 2(e)

Joint Stock Company “United Aircraft Corporation”  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

---

Reconciliation of effective tax rate:

| Mln RUB  | <u>2014</u>           | <u>%</u>           | <u>2013 Restated*</u> | <u>%</u>          |
|--|-----------------------|--------------------|-----------------------|-------------------|
| Loss before income tax   | <u>(11 900)</u>       | 100                | <u>(14 118)</u>       | 100               |
| Income tax at applicable tax rate                                  | 2 380                 | (20)               | 2 824                 | (20)              |
| Non-deductible/ non-taxable items, net                             | (1 204)               | (10)               | (1 765)               | 13                |
| Adjustments of prior years   | 354                   | 3                  | 109                   | (1)               |
| Foreign exchange gain/(loss)                                       | 195                   | 2                  | 231                   | (2)               |
| Unused tax credit relating to R&D expenses of the reporting period | 99                    | 1                  | -                     | -                 |
| Utilization of previously unrecognised tax losses carried forward  | 270                   | 2                  | -                     | -                 |
| Change in recognised deferred tax assets                           | 46                    | 0                  | 51                    | -                 |
| Unrecognised deferred tax assets                                   | <u>(3 894)</u>        | <u>(33)</u>        | <u>(841)</u>          | <u>6</u>          |
| <b>Total</b>   | <u><b>(1 754)</b></u> | <u><b>(15)</b></u> | <u><b>609</b></u>     | <u><b>(4)</b></u> |

---

\* See note 2(e)



### 13 Property, plant and equipment

| Mln RUB                          | Land and buildings | Plant and equipment | Other           | Construction in progress | Total           |
|----------------------------------|--------------------|---------------------|-----------------|--------------------------|-----------------|
| <i>Cost</i>                      |                    |                     |                 |                          |                 |
| At 1 January 2013                | 67 869             | 62 107              | 8 074           | 21 445                   | 159 495         |
| Acquisition under common control |                    |                     |                 |                          |                 |
| Additions and transfers          | 1 573              | 8 655               | 3 546           | 8 195                    | 21 969          |
| Reclassifications*               | (5 132)            | 5 132               | -               | -                        | -               |
| Disposals                        | (267)              | (2 513)             | (994)           | -                        | (3 774)         |
| Foreign exchange differences     | 1 048              | 2 277               | 98              | 120                      | 3 543           |
| <b>At 31 December 2013</b>       | <b>65 091</b>      | <b>75 658</b>       | <b>10 724</b>   | <b>29 760</b>            | <b>181 233</b>  |
| Additions and transfers          | 6 452              | 2 569               | 7 703           | 13 280                   | 30 004          |
| Reclassifications*               | (106)              | 201                 | 1               | (80)                     | 16              |
| Disposals                        | (792)              | (1 248)             | (1 986)         | (8 635)                  | (12 661)        |
| Foreign exchange differences     | 11 210             | 21 326              | 2 993           | 1 693                    | 37 222          |
| <b>At 31 December 2014</b>       | <b>81 855</b>      | <b>98 506</b>       | <b>19 435</b>   | <b>36 018</b>            | <b>235 814</b>  |
| <i>Depreciation</i>              |                    |                     |                 |                          |                 |
| At 1 January 2013                | (9 645)            | (33 493)            | (4 301)         | -                        | (47 439)        |
| Depreciation charge              | (1 543)            | (9 105)             | (1 998)         | -                        | (12 646)        |
| Disposals                        | 110                | 1 426               | 701             | -                        | 2 237           |
| Foreign exchange differences     | (206)              | (1 159)             | (61)            | -                        | (1 426)         |
| <b>At 31 December 2013</b>       | <b>(11 284)</b>    | <b>(42 331)</b>     | <b>(5 659)</b>  | <b>-</b>                 | <b>(59 274)</b> |
| Depreciation charge              | (3 087)            | (9 674)             | (5 155)         | -                        | (17 916)        |
| Disposals                        | 28                 | 2 672               | 367             | -                        | 3 067           |
| Reclassifications*               | 66                 | (24)                | -               | -                        | 42              |
| Foreign exchange differences     | (898)              | (6 283)             | (2 597)         | -                        | (9 778)         |
| <b>At 31 December 2014</b>       | <b>(15 175)</b>    | <b>(55 640)</b>     | <b>(13 044)</b> | <b>-</b>                 | <b>(83 859)</b> |
| <i>Carrying amounts</i>          |                    |                     |                 |                          |                 |
| At 1 January 2013                | 58 224             | 28 614              | 3 773           | 21 445                   | 112 056         |
| At 31 December 2013              | 53 807             | 33 327              | 5 065           | 29 760                   | 121 959         |
| At 31 December 2014              | 66 680             | 42 866              | 6 391           | 36 018                   | 151 955         |

\* In 2013 year the Group has revised the purpose of a number of production assets which have resulted in reclassification of these objects. Accumulated depreciation on these assets is insignificant.

#### (a) Aircraft in operating lease

The aircraft in operating leases as at 31 December 2014 include aircraft provided to customers under operating lease agreements. Such planes are recorded as operating leases and are included in fixed assets in the amount of RUB 4 783 million (31 December 2013: RUB 5 614 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 2014 the net carrying amount of leased plant and machinery was RUB 4 765 million (2013: RUB 4 322 million).

**(c) Security**

As at 31 December 2014 property, plant and equipment with a carrying amount of RUB 5 527 million (31 December 2013: RUB 2 957 million) is pledged as collateral for secured loans and borrowings (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 13 169 million (2013: RUB 12 997 million).

**(e) Capitalised borrowing costs**

Additions to property, plant and equipment for the year ended 31 December 2014 include RUB 883 million of capitalised borrowing costs (2013: RUB 337 million).



## 14 Intangible assets

| Mln RUB                                     | Goodwill     | Development costs | Software       | Advances given for development costs | Total           |
|---|--------------|-------------------|----------------|--------------------------------------|-----------------|
| <i>Cost</i>                                 |              |                   |                |                                      |                 |
| At 1 January 2013                           | 1 943        | 55 856            | 3 756          | 2 375                                | 63 930          |
| Reclassification from inventories           | -            | -                 | 21             | -                                    | 21              |
| Additions and transfers                     | -            | 9 478             | 421            | 103                                  | 10 002          |
| Disposals                                   | -            | (15)              | (336)          | (58)                                 | (409)           |
| Government grants                           | -            | (1 251)           | -              | -                                    | (1 251)         |
| Foreign exchange differences                | 152          | 3 682             | 44             | -                                    | 3 878           |
| <b>At 31 December 2013 (Restated*)</b>      | <b>2 095</b> | <b>67 750</b>     | <b>3 906</b>   | <b>2 420</b>                         | <b>76 171</b>   |
| Additions and transfers                     | -            | 7 478             | 1 300          | 506                                  | 9 284           |
| Disposals/Reclassification from inventories | -            | (203)             | (486)          | (11)                                 | (700)           |
| Government grants                           | -            | (305)             | -              | -                                    | (305)           |
| Foreign exchange differences                | 1 505        | 36 064            | 739            | -                                    | 38 308          |
| <b>At 31 December 2014</b>                  | <b>3 600</b> | <b>110 784</b>    | <b>5 459</b>   | <b>2 915</b>                         | <b>122 758</b>  |
| <i>Amortisation and impairment losses</i>   |              |                   |                |                                      |                 |
| At 1 January 2013                           | -            | (10 888)          | (1 309)        | -                                    | (12 197)        |
| Amortisation charge                         | -            | (2 909)           | (530)          | -                                    | (3 439)         |
| Foreign exchange differences                | -            | (782)             | (3)            | -                                    | (785)           |
| Disposals/reclassification                  | -            | 140               | 128            | -                                    | 268             |
| <b>At 31 December 2013 (Restated*)</b>      | <b>-</b>     | <b>(14 439)</b>   | <b>(1 714)</b> | <b>-</b>                             | <b>(16 153)</b> |
| Amortisation charge                         | -            | (2 886)           | (984)          | -                                    | (3 870)         |
| Disposals/reclassification                  | -            | 300               | 291            | -                                    | 591             |
| Foreign exchange differences                | -            | (9 585)           | (224)          | -                                    | (9 809)         |
| <b>At 31 December 2014</b>                  | <b>-</b>     | <b>(26 610)</b>   | <b>(2 631)</b> | <b>-</b>                             | <b>(29 241)</b> |
| <i>Carrying amounts</i>                     |              |                   |                |                                      |                 |
| At 1 January 2013                           | 1 943        | 44 968            | 2 447          | 2 375                                | 51 733          |
| At 31 December 2013 (Restated*)             | 2 095        | 53 311            | 2 192          | 2 420                                | 60 018          |
| At 31 December 2014                         | 3 600        | 84 174            | 2 828          | 2 915                                | 93 517          |

\* See note 2(e)

(a) **Goodwill**

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

As at 31 December 2014 management tested the acquired goodwill for impairment. The recoverable amount of Irkut group’s CGU was determined with reference to its fair value. Applying discounted cash flow approach cash flow projections were based on financial budgets and forecast approved by management covering a period until 2023 as the projected cash flows are primarily based on the lifecycle of MC-21 programme which is expected to reach maturity in 2021-2023. As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as at 31 December 2014 and 31 December 2013.

Terminal value, representing the cash flows was calculated applying a growth rate of 3,5%. The cash flows were discounted using a post-tax discount rate of 17% 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 2014 and 31 December 2013. The impairment was not recognized in any of the previous periods.

(b) **Development costs**

Capitalised development costs comprise of the following programmes:

| Mln RUB                                     | 2014          | 2013          |
|---|---------------|---------------|
| Sukhoi Super Jet – 100 aircraft (“SSJ-100”) | 53 680        | 29 953        |
| Yak-130 aircraft                            | 7 415         | 5 490         |
| MC-21 aircraft                              | 10 644        | 5 499         |
| Other                                       | 10 798        | 11 412        |
| <b>Total</b>                                | <b>82 537</b> | <b>52 354</b> |

The development of the “Sukhoi Super Jet – 100” (“SSJ-100”) t and MC-21aircrafts is included in both Federal Target Program “Development of the civil aircraft for 2002-2011 and for the period until 2015” approved by the Decision of the Federal Government of the Russian Federation No. 728 dated 15 October 2001 and in a State program of the Russian Federation “Development of the aircraft industry for 2013-2025”. In accordance with these programs, the Group is the subject to financing from the Federal Government. Appropriate funds are being 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.

*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 15% was applied in determining the recoverable amount.

*SSJ-100*

On 28 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.

Management plans to analyze future development costs for compliance with the capitalization criteria of IAS 38. If these costs meet the criteria for capitalization, an accumulated value of the intangible asset would be increased. The increase in development costs in the amount of RUB 2 462 million due to the expansion of the Type Certificate.

Management constantly monitors the SSJ-100 program for signs of impairment. As at 31 December 2014, management performed an impairment test taking into account the current financial position of the Company as a main indicator for potential impairment.

In accordance with the requirements of IAS 36 “Impairment of Assets” and taking into account the fact that the relevant development costs are considered to be “available for use” while valuing the asset mentioned above, management of the Group has prepared forecast cash flow model for the entire duration of the program SSJ- 100 until 2051.

The cash flow projections for the impairment test for the period 2015 - 2017 are based on the medium term business plan prepared in January 2015 cash flow. Projections for the period 2018 – 2051 are based on long-term business plan prepared for the entire program SSJ-100.

Hereinafter is the analysis of the sensitivity of the cash flow model to changes in the production capacity, sales price per aircraft and discount rate.

- *Sales volume.* No impairment of fixed assets and intangible assets of the Group is recognised in case of supply reduction by 40%. . Supply reduction by 50% will result in impairment of fixed assets and intangible assets of the Group amounting to RUB 2 295 million.
- *EBITDA.* 5% reduction in forecast EBITDA results in no impairment of fixed assets and intangible assets of the Group. 10% reduction in . forecast EBITDA will result in impairment of fixed assets and intangible assets amounting to RUB 9 961 million.
- *The discount rate.* After-tax rate (WACC) of 15.4% was applied as a discount rate. If discount rate increase by 5% takes place there is no impairment of fixed assets and intangible asset of the Group

#### *Other projects*

By the end of the year 2012 the assets were 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 assets for signs of impairment and tests them for impairment, as necessary. As at 31 December 2014 there were no signs of impairment.

#### **(c) Capitalised borrowing costs**

Additions to development costs for the year ended 31 December 2014 include RUB 683 million of capitalised borrowing costs (2013: RUB 161 million).

## **15 Investments in associates and joint ventures**

As at 31 December 2014 the Group owned significant influence interests in JSC “Ilyushin Finance Co” (“IFC”), “SuperJet International” S.p.A (“SJI”) and Multirole Transport Aircraft Ltd (“MTAL”).

#### *IFC*

IFC provides lease financing of civil aircraft and invests in the construction, sale and repair of aircrafts.

**Joint Stock Company “United Aircraft Corporation”**  
**Notes to the Consolidated Financial Statements for the year ended 31 December 2014**

In late 2013 the Group took a firm decision to sell its share in IFC, whereby the investment was reclassified to assets held for sale (see note 21). However, at the end of 2014 this decision was revised and this asset was accounted as investments in associates and joint ventures.

*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 2014 cash contribution was not made to the capital of “SuperJet International” S.p.A. (in 2013 - RUB 783 million). In 2014, the Group’s share of loss in “SuperJet International” S.p.A. amounted to RUB 653 million (2013: RUB 602 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 and the Republic of India. Following the Regulation of the President of the Russian Federation dated 10 March, 2010 the Group's subsidiary JSC "UAC-TS" is authorized to trade military products to foreign governments.

The following is summarised financial information for equity accounted investees:

**2014**

| <b>MIn RUB</b>                              | <b>IFC*</b>    | <b>SJI</b>     | <b>MTAL</b>  | <b>Total</b>   |
|---|----------------|----------------|--------------|----------------|
| Ownership interest, %                       | 49,48          | 27,96          | 48,35        |                |
| Current assets                              | 27 819         | 15 597         | 770          | 44 186         |
| Non-current assets                          | 19 430         | 5 118          | 1 150        | 25 698         |
| <b>Total assets</b>                         | <b>47 249</b>  | <b>20 715</b>  | <b>1 920</b> | <b>69 884</b>  |
| Current liabilities                         | 15 977         | 21 621         | 7            | 37 605         |
| Non-current liabilities                     | 11 382         | 1 841          | -            | 13 223         |
| <b>Total liabilities</b>                    | <b>27 359</b>  | <b>23 462</b>  | <b>7</b>     | <b>50 828</b>  |
| Revenue and gross finance income from lease | 10 311         | 9 297          | 30           | 19 638         |
| Expenses                                    | (13 239)       | (10 951)       | (13)         | (24 203)       |
| Other comprehensive income/(loss)           | -              | (677)          | -            | (677)          |
| <b>Loss for the year</b>                    | <b>(2 928)</b> | <b>(2 331)</b> | <b>17</b>    | <b>(5 242)</b> |
| <b>Group share of profit/(loss)</b>         | <b>(1 449)</b> | <b>(653)</b>   | <b>8</b>     | <b>(2 093)</b> |



Joint Stock Company "United Aircraft Corporation"  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

2013

| Mln RUB                                     | SJI            | MTAL         | Total          |
|---|----------------|--------------|----------------|
| Ownership interest, %                       | 40,76          | 48,35        |                |
| Current assets                              | 9 056          | 1 222        | 10 278         |
| Non-current assets                          | 3 835          | 2            | 3 837          |
| <b>Total assets</b>                         | <b>12 891</b>  | <b>1 224</b> | <b>14 115</b>  |
| Current liabilities                         | 11 265         | 1            | 11 266         |
| Non-current liabilities                     | 1 370          | -            | 1 370          |
| <b>Total liabilities</b>                    | <b>12 635</b>  | <b>1</b>     | <b>12 636</b>  |
| Revenue and gross finance income from lease | 4 986          | 29           | 5 015          |
| Expenses                                    | (6 463)        | (31)         | (6 494)        |
| <b>Loss for the year</b>                    | <b>(1 477)</b> | <b>(2)</b>   | <b>(1 479)</b> |
| <b>Group share of profit/(loss)</b>         | <b>(602)</b>   | <b>(1)</b>   | <b>(603)</b>   |

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        |
|--|--------------|--------------|------------|--------------|
| <b><i>Investments in associates as at 1 January 2012</i></b>   | <b>9 072</b> | <b>-</b>     | <b>619</b> | <b>9 691</b> |
| Acquisition of additional shares/increase of investment        | -            | 783          | -          | 783          |
| Reclassification to assets held for sale                       | (9 028)      | -            | -          | (9 028)      |
| <b>Group share loss</b>  | <b>(44)</b>  | <b>(602)</b> | <b>(1)</b> | <b>(647)</b> |
| Foreign exchange differences                                   | -            | (77)         | -          | (77)         |
| <b><i>Investments in associates as at 31 December 2013</i></b> | <b>-</b>     | <b>104</b>   | <b>618</b> | <b>722</b>   |
| Group's share of profit/(loss)                                 | (1 449)      | (652)        | 8          | (2 093)      |
| Reclassification to assets held for sale                       | 9 028        | -            | -          | 9 028        |
| Recognition of liabilities associated with the share of losses | -            | 1 346        | -          | 1 346        |
| Foreign exchange differences                                   | -            | (798)        | -          | (798)        |
| <b><i>Investments in associates as at 31 December 2014</i></b> | <b>7 579</b> | <b>0</b>     | <b>626</b> | <b>8 205</b> |

## 16 Investments and non-current financial assets

| Mln RUB   | 2014         | 2013         |
|---|--------------|--------------|
| <i>Non-current</i>                              |              |              |
| Available-for-sale investments measured at cost | 3 325        | 3 165        |
| Loans given                                     | 146          | 280          |
| Promissory notes                                | 9            | 42           |
| <b>Total</b>                                    | <b>3 480</b> | <b>3 487</b> |
| <i>Current</i>                                  |              |              |
| Deposits  | 564          | 1 062        |
| Loans given                                     | 176          | 321          |
| Promissory notes                                | 7            | 10           |
| Other current financial assets                  | 5            | 137          |
| <b>Total</b>                                    | <b>752</b>   | <b>1 530</b> |

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 both as at 31 December 2014 and 31 December 2013 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” is 5,01% (2013: 5,01%).



## 17 Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

| Mln RUB                               | Assets        |                   | Liabilities     |                   | Net          |                   |
|---------------------------------------|---------------|-------------------|-----------------|-------------------|--------------|-------------------|
|                                       | 2014          | 2013<br>Restated* | 2014            | 2013<br>Restated* | 2014         | 2013<br>Restated* |
| Property, plant and equipment         | 384           | 1 748             | (14 278)        | (8 704)           | (13 894)     | (6 956)           |
| Intangible assets                     | 3 684         | 3 306             | (9 470)         | (4 888)           | (5 786)      | (1 582)           |
| Investments                           | 1 279         | 3 088             | (1 523)         | (1 099)           | (244)        | 1 989             |
| Inventories                           | 17 631        | 15 451            | (11 286)        | (10 120)          | 6 345        | 5 331             |
| Trade and other receivables           | 3 042         | 585               | (9 222)         | (8 316)           | (6 180)      | (7 731)           |
| Trade and other payables              | 3 322         | 1 621             | (7 367)         | (1 995)           | (4 045)      | (374)             |
| Loans and borrowings                  | 5 809         | 1 172             | (1 208)         | (493)             | 4 601        | 679               |
| Provisions and employee benefits      | 1 522         | 992               | (141)           | (219)             | 1 381        | 773               |
| Tax credit for R&D expenses           | 99            | -                 | -               | -                 | 99           | -                 |
| Tax loss carry-forwards               | 17 311        | 12 017            | -               | -                 | 17 311       | 12 017            |
| <b>Total tax assets/(liabilities)</b> | <b>54 083</b> | <b>39 980</b>     | <b>(54 495)</b> | <b>(35 834)</b>   | <b>(412)</b> | <b>4 146</b>      |
| Offset of tax                         | (44 475)      | (31 218)          | 44 475          | 31 218            | -            | -                 |
| <b>Net tax assets/(liabilities)</b>   | <b>9 608</b>  | <b>8 762</b>      | <b>(10 020)</b> | <b>(4 616)</b>    | <b>(412)</b> | <b>4 146</b>      |

Movement in temporary differences during the year

| Mln RUB                          | 1 January 2013 | Recognised in other  | Recognised in  | Foreign              | 31 December  |
|----------------------------------|----------------|----------------------|----------------|----------------------|--------------|
|                                  | Restated*      | comprehensive income | profit or loss | currency translation | 2013         |
| Property, plant and equipment    | (6 870)        | -                    | 579            | (665)                | (6 956)      |
| Intangible assets                | (3 980)        | -                    | 2 686          | (288)                | (1 582)      |
| Investments                      | 178            | -                    | 1 811          | -                    | 1 989        |
| Inventories                      | 7 603          | -                    | (2 868)        | 596                  | 5 331        |
| Trade and other receivables      | (5 701)        | -                    | (1 401)        | (629)                | (7 731)      |
| Trade and other payables         | 221            | -                    | (812)          | 217                  | (374)        |
| Loans and borrowings             | 204            | -                    | 460            | 15                   | 679          |
| Provisions and employee benefits | 450            | (21)                 | 338            | 6                    | 773          |
| Tax credit for R&D expenses      | 377            | -                    | (377)          | -                    | -            |
| Tax loss carry-forwards          | 10 929         | -                    | 206            | 882                  | 12 017       |
| <b>Total</b>                     | <b>3 411</b>   | <b>(21)</b>          | <b>622</b>     | <b>135</b>           | <b>4 146</b> |

\* See note 2(e)

**Joint Stock Company “United Aircraft Corporation”**  
**Notes to the Consolidated Financial Statements for the year ended 31 December 2014**

| Mln RUB                          | 1 January<br>2014 | Recognised in other<br>compre-hensive<br>income | Recognised in<br>profit or loss | Foreign<br>currency<br>translation | 31<br>December<br>2014 |
|----------------------------------|-------------------|---|---------------------------------|------------------------------------|------------------------|
| Property, plant and equipment    | (6 956)           | -   | (4 297)                         | (2 641)                            | (13 894)               |
| Intangible assets                | (1 582)           | -   | (2 330)                         | (1 874)                            | (5 786)                |
| Investments                      | 1 989             | -   | (2 177)                         | (56)                               | (244)                  |
| Inventories                      | 5 331             | -   | 1 241                           | (227)                              | 6 345                  |
| Trade and other receivables      | (7 731)           | -   | 2 663                           | (1 112)                            | (6 180)                |
| Trade and other payables         | (374)             | -   | (4 243)                         | 572                                | (4 045)                |
| Loans and borrowings             | 679               | -   | 3 144                           | 778                                | 4 601                  |
| Provisions and employee benefits | 773               | (10)  | 596                             | 22                                 | 1 381                  |
| Tax credit for R&D expenses      | -                 | -   | 99                              | -                                  | 99                     |
| Tax loss carry-forwards          | 12 017            | -   | 3 723                           | 1 571                              | 17 311                 |
| <b>Total</b>                     | <b>4 146</b>      | <b>(10)</b>                                     | <b>(1 581)</b>                  | <b>(2 967)</b>                     | <b>(412)</b>           |

Tax loss carry-forwards expire in the future as follows:

| Mln RUB   | 2014          | 2013          |
|-----------|---------------|---------------|
| 2014      | -             | 5             |
| 2015-2016 | 89            | 89            |
| 2017-2020 | 1 469         | 89            |
| 2017-2020 | 158           | 1 651         |
| 2021      | 158           | 158           |
| 2022      | 2 695         | 2 713         |
| 2023      | 3 776         | 4 783         |
| 2024      | 2 618         | 2 618         |
|           | <b>10 805</b> | <b>12 017</b> |

The sufficient part of tax losses carried forward expires in 2015-2024. Deferred tax assets including unused tax losses carried forward are recognized as the Management of the Group expects sufficient taxable profit to set off the tax in a foreseeable future before it expires.

**(b) Unrecognized deferred tax assets**

| Mln RUB                          | 2014          | 2013          |
|----------------------------------|---------------|---------------|
| Deductible temporary differences | 3 956         | 3 901         |
| Tax loss carry-forwards          | 20 204        | 17 382        |
| <b>Total</b>                     | <b>24 160</b> | <b>21 283</b> |

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   | 2014          | 2013          |
|-----------|---------------|---------------|
| 2018-2023 | 13 150        | 14 829        |
| 2015-2017 | 6 079         | 1 864         |
| 2014      | 975           | 689           |
|           | <b>20 204</b> | <b>17 382</b> |



(c) **Unrecognised deferred tax liability**

A temporary difference as at 31 December 2014 of RUB 1 681 million (2013: RUB 1 500 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.

**18 Inventories**

| Mln RUB  | 2014           | 2013 Restated* |
|--|----------------|----------------|
| Advance payments to suppliers  | 78 608         | 53 123         |
| Raw materials and other supplies   | 34 569         | 22 052         |
| Aircraft components  | 50 184         | 39 262         |
| Goods for sale   | 5 031          | 9 868          |
| Impairment of inventories  | (3 556)        | (4 018)        |
|  | <b>164 836</b> | <b>120 287</b> |
| Other work in progress   | 66 894         | 41 911         |
| Impairment of work in progress   | (8 771)        | (8 389)        |
|  | <b>222 959</b> | <b>153 809</b> |
| Costs incurred and recognised profits on construction contracts less progress billings | 27 936         | 16 140         |
| <b>Total</b>   | <b>250 895</b> | <b>169 949</b> |

(a) **Security**

Inventory with a carrying amount as at 31 December 2014 of RUB 84 million (31 December 2013 of RUB 184 million) is pledged as collateral for secured loans (see note 24(b)).

---

\* See note 2(e)

## 19 Trade and other receivables

| Mln RUB                                  | 2014           | 2013 Restated* |
|--|----------------|----------------|
| <i>Current</i>                           |                |                |
| Trade receivables                        | 84 661         | 43 919         |
| Impairment                               | (6 011)        | (3 757)        |
|  | <b>78 650</b>  | <b>40 162</b>  |
| VAT recoverable                          | 27 877         | 27 115         |
| Prepayments                              | 43 367         | 34 541         |
| Due from tax authorities                 | 2 245          | 1 091          |
| Other receivables and originated loans   | 11 441         | 9 799          |
| Impairment of other receivables          | (4 915)        | (5 887)        |
| <b>Total</b>                             | <b>158 665</b> | <b>106 821</b> |
| <i>Non-current</i>                       |                |                |
| Other advances                           | 1 979          | 317            |
| VAT receivable                           | 136            | 439            |
| Trade and other receivables, non-current | 72             | 300            |
| <b>Total</b>                             | <b>2 187</b>   | <b>1 056</b>   |

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.

## 20 Cash and cash equivalents

| Mln RUB                         | 2014          | 2013          |
|---------------------------------|---------------|---------------|
| Bank balances, RUB              | 39 851        | 36 866        |
| Bank balances, Foreign currency | 46 251        | 17 635        |
| Deposits                        | 5 652         | 3 090         |
| Other cash and cash equivalents | 913           | 1 507         |
| <b>Total</b>                    | <b>92 667</b> | <b>59 098</b> |

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

## 21 Reclassification of an asset held for sale

As a result of measures to provide financial support to a subsidiary of JSC “Sukhoi Civil Aircraft”, in December 2013 the Group management decided to sell the entire share (49,48%) in JSC “Ilyushin Finance” to the Bank of development “VEB”. The expected date of sale is first half of 2014. The investment was valued at the lower of anticipated sale price and its carrying amount of RUB 9 028 million and was reclassified into the category of assets held for sale.

At the of 2014 year, the decision above was reviewed. Thus, the Group's investment in IFC was reclassified from assets held for sale and included in the investments in associates as at 31 December 2014.

\* See note 2(e)



## 22 Equity

### (a) Share capital and share premium

| <i>Thousands of shares</i>                  | Ordinary shares             |                    |
|---|-----------------------------|--------------------|
|   | 2014                        | 2013               |
| Issued shares                               | 219 654 789                 | 219 654 789        |
| Par value, RUB                              | 0,86                        | 0,86               |
| Issued shares as at 1 January               | 219 654 789                 | 219 654 789        |
| Issued shares as at 31 December, fully paid | <u>219 654 789</u>          | <u>219 654 789</u> |
|   | The nominal value of shares |                    |
| <i>RUB</i>                                  | 2014                        | 2013               |
| At the beginning of the year                | 0,86                        | 1,00               |
| Reduction of the nominal share price        | -                           | (0,14)             |
| At the end of the year                      | <u>0,86</u>                 | <u>0,86</u>        |

As at 31 December 2014 issued capital amounted to RUB 188 903 million.

In accordance with the requirements of paragraph 6 of Article 35 of the Federal Law of 26 December 1995 № 208-FZ "On Joint Stock Companies", the Extraordinary General Meeting of Shareholders of JSC "UAC", which was held on 18 March 2013 ( Minutes № 19 of 19 March 2013) decided to reduce the share capital of JSC "UAC" by reducing the par value of the shares in order to bring the amount of authorized capital to an amount not exceeding the value of the net assets of JSC "UAC".

To implement this decision, the Company carried out placement of ordinary registered shares with a par value of 0.86 rubles. (GRN 1-02-55306 -E from 26 April 2013) by converting the shares of the same category (type) of the par value of 1 ruble. Conversion date – 30 April 2013. As a result, the value of the authorized capital of JSC "UAC" amounted to RUB 188 903 million.

At the date these consolidated financial statements were authorised for issue share capital of the Company consisted of 219 654 789 thousand shares, offered shares amounted to 100 000 000 thousand shares both as of 31 December 2013 and 31 December 2014.

### (b) Prepaid shares reserve

The decision to increase the authorized capital by issuing additional shares was taken by the Board of Directors of JSC «UAC» in 2013 (Minutes № 87 dated 29 July 2013).

Decision on the issue of 33 000 000 additional shares of JSC "UAC" with par value of 0.86 rubles was registered by FFMS of Russia in 29 August 2013 with the state registration number 1-02-55306-E-001D. Face value of securities is RUB 28 380 million.

As at 31 December 2014 the amount of cash contribution received by JSC "UAC" was 14 352 332 thousand shares amounting to RUB 12 343 million. (31 December 2013: RUB 4 198 million).

**(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 thousand (2013: 309 894 thousand) 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 2014 the Company had accumulated losses amounting to RUB 6 654 million, including the loss for the current year of RUB 8 408 million (31 December 2013: accumulated loss of RUB 1 498 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**

*JSC "Company Sukhoi"*

In February 2014 Group's subsidiary JSC "Company Sukhoi" initiated a closed subscription issue of 36 000 000 ordinary shares with a par value of RUB 1 000 each for the benefit of the JSC "Vnesheconombank" and Federal Agency for State Property Management (Rosimushestvo).

The consideration in amount of RUB 28 745 million was fully paid in cash in 2014. Placement of shares was completed in January 2015. Consideration was used for the purpose of increase in equity of Group's subsidiary JSC "Company Sukhoi".

The Group opened two credit lines with OJSC "Sberbank of Russia" in frames of Federal Target Programme with maturity date on 31 December 2016 and 31 December 2017. Moreover, the Group signed trilateral agreement with Rosimushestvo and Minpromtorg. According to the trilateral agreement Rosimushestvo will provide the Group with RUB 646 million to repay the loans to OJSC "Sberbank of Russia" under the terms of sale the Group's ordinary shares to Rosimushestvo in the equal amount.

As a result of additional shares issue the Group's share decreased to 57,06% as at 31 December 2014.

*CJSC "M. M. Gromov Flight Research Institute"*

During 2014 in favor of Rosimushestvo 952 780 shares with a par value of 1 000 rubles were issued. As a result, the Group's share composed 86,85% as at 31 December 2014.

*JSC "Tupolev"*

Group took a decision on additional share issue (state registration number of issue 1-01-04640-A-002D dated 29 April 2014) of nominal ordinary shares with a par value of 1 (one) ruble in amount of 15 000 000 000 (fifteen billion). Used by the Group method of placement was to convert the shares of a merged company to additional shares of joint-stock company upon reorganization.

As a result, reorganization of JSC "Tupolev» by merging JSC "KAPO".was completed as at 1 June 1 2014.

Group's share increased to 94.37% as at 31 December 2014.



**(h) NCI**

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI:

Joint Stock Company “United Aircraft Corporation”  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

31 December 2014

| Mln RUB   | CJSC “Sukhoi Civil Aircraft” | JSC “Corporation Irkut” | JSC “Company Sukhoi” | JSC “RSK MIG”   | Other individually immaterial subsidiaries | Total          |
|---|------------------------------|-------------------------|----------------------|-----------------|--|----------------|
| <b>NCI percentage</b>                                       | <b>46,31%</b>                | <b>8,63%</b>            | <b>42,94%</b>        | <b>33,14%</b>   |  |                |
| Non-current assets  | 81 682                       | 42 463                  | 38 861               | 33 339          |  |                |
| Current assets  | 64 325                       | 107 735                 | 82 036               | 81 763          |  |                |
| Non-current liabilities                                     | (35 234)                     | (43 230)                | (21 606)             | (66 235)        |  |                |
| Current liabilities   | (109 056)                    | (63 263)                | (64 606)             | (72 720)        |  |                |
| <b>Net assets</b>   | <b>1 717</b>                 | <b>43 705</b>           | <b>34 685</b>        | <b>(23 853)</b> |  |                |
| Carrying amount of NCI                                      | <b>(11 973)</b>              | <b>4 065</b>            | <b>23 940</b>        | <b>(7 904)</b>  | 1 543                                      | <b>9 671</b>   |
| Revenue   | 24 036                       | 65 585                  | 82 998               | 36 108          |  |                |
| Gross profit/(loss)   | (3 367)                      | 17 875                  | 19 376               | 13 001          |  |                |
| Profit/(loss)   | (8 592)                      | 72                      | 549                  | (13 956)        |  |                |
| OCL   | (627)                        | -                       | (569)                | -               |  |                |
| <b>Total comprehensive profit/(loss)</b>                    | <b>(9 219)</b>               | <b>72</b>               | <b>(20)</b>          | <b>(13 956)</b> |  |                |
| Profit allocated to NCI                                     | (3 978)                      | 6                       | 236                  | (4 625)         | 2 598                                      | <b>(5 763)</b> |
| OCL allocated to NCI  | <b>(562)</b>                 | -                       | <b>491</b>           | -               | -  | <b>(71)</b>    |
| Cash flows from operating activities                        | (13 484)                     | 1 381                   | 4 557                | 290             |  |                |
| Cash flows from investment activities                       | (2 421)                      | (3 108)                 | (5 458)              | (230)           |  |                |
| Cash flows from financing activities                        | 15 747                       | 9 104                   | 328                  | 2 822           |  |                |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>296</b>                   | <b>7 377</b>            | <b>(573)</b>         | <b>2 882</b>    |  |                |



Joint Stock Company “United Aircraft Corporation”  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

31 December 2013

| Mln RUB   | CJSC “Sukhoi Civil Aircraft” | JSC “Corporation Irkut” | JSC “ Company Sukhoy” | JSC “RSK MIG”   | Other individually immaterial subsidiaries | Total Restated* |
|---|------------------------------|-------------------------|-----------------------|-----------------|--|-----------------|
| <b>NCI percentage</b>                                       | <b>37,61%</b>                | <b>6,18%</b>            | <b>16,81%</b>         | <b>37,23%</b>   |  |                 |
| Non-current assets  | 51 584                       | 23 941                  | 49 046                | 29 300          |  |                 |
| Current assets  | 31 668                       | 52 677                  | 76 646                | 65 343          |  |                 |
| Non-current liabilities                                     | (49 772)                     | (24 322)                | (40 825)              | (23 899)        |  |                 |
| Current liabilities   | (47 234)                     | (25 396)                | (56 000)              | (82 529)        |  |                 |
| <b>Net assets</b>   | <b>(13 754)</b>              | <b>26 900</b>           | <b>28 867</b>         | <b>(11 785)</b> |  |                 |
| Carrying amount of NCI                                      | <b>(7 238)</b>               | <b>1 867</b>            | <b>3 432</b>          | <b>(4 363)</b>  | 2 030                                      | <b>(4 272)</b>  |
| Revenue   | 16 362                       | 60 694                  | 65 229                | 33 851          |  |                 |
| Gross profit/(loss)   | (3 235)                      | 15 870                  | 13 970                | 9 770           |  |                 |
| Profit/(loss)   | (8 108)                      | 1 166                   | (115)                 | (2 788)         |  |                 |
| OCL   | -                            | (117)                   | (902)                 | (963)           |  |                 |
| <b>Total comprehensive profit/(loss)</b>                    | <b>(7 010)</b>               | <b>1 049</b>            | <b>(256)</b>          | <b>(3 751)</b>  |  |                 |
| Profit allocated to NCI                                     | (3 050)                      | 72                      | (19)                  | (1 038)         | (55)                                       | <b>(4 090)</b>  |
| OCI allocated to NCI  | -                            | (7)                     | (152)                 | -               | (16)                                       | <b>(175)</b>    |
| Cash flows from operating activities                        | (13 279)                     | 5 942                   | (5 782)               | 2 834           |  |                 |
| Cash flows from investment activities                       | (2 706)                      | (2 868)                 | (7 616)               | (2 824)         |  |                 |
| Cash flows from financing activities                        | 11 174                       | (3 408)                 | 11 426                | 1 037           |  |                 |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>(4 811)</b>               | <b>(334)</b>            | <b>(1 972)</b>        | <b>1 047</b>    |  |                 |

\* See note 2(e)

## 23 Loss per share

The calculation of basic loss per share at 31 December 2014 is based on the loss attributable to ordinary shareholders of RUB 7 891 million (2013: RUB 9 418 million), and a weighted average number of ordinary shares outstanding of 219 344 894 thousand shares (2013: 219 344 894 thousand shares), calculated as shown below. The Company has no dilutive potential ordinary shares.

| <i>Thousands of shares</i>  | <u>2014</u>               | <u>2013</u>               |
|---|---------------------------|---------------------------|
| Issued shares at 1 January  | 219 654 789               | 219 654 789               |
| Treasury shares at 1 January  | (309 895)                 | (309 895)                 |
| <b>Weighted average number of shares for the year ended 31 December</b> | <b><u>219 344 894</u></b> | <b><u>219 344 894</u></b> |

## 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.

| <b>Mln RUB</b>                 | <u>2014</u>           | <u>2013</u>           |
|--------------------------------|-----------------------|-----------------------|
| <i>Non-current liabilities</i> |                       |                       |
| Secured bank loans             | 83 175                | 56 892                |
| Unsecured bank loans           | 67 829                | 49 134                |
| Unsecured bonds issued         | 46 280                | 46 280                |
| Secured bonds issued           | 5 051                 | 5 052                 |
| Finance lease liabilities      | 1 857                 | 508                   |
| Other loans                    | 36                    | 112                   |
| <b>Total</b>                   | <b><u>204 228</u></b> | <b><u>157 978</u></b> |

| <b>Mln RUB</b>             | <u>2014</u>           | <u>2013</u>           |
|----------------------------|-----------------------|-----------------------|
| <i>Current liabilities</i> |                       |                       |
| Secured bank loans         | 67 241                | 32 928                |
| Unsecured bank loans       | 72 753                | 60 695                |
| Unsecured borrowings       | 2 476                 | 1 008                 |
| Secured bonds issued       | 6 025                 | 1 146                 |
| Unsecured bonds issued     | 1 031                 | 5 968                 |
| Finance lease liabilities  | 1 054                 | 896                   |
| Other loans                | 205                   | 161                   |
| <b>Total</b>               | <b><u>150 785</u></b> | <b><u>102 802</u></b> |

Joint Stock Company “United Aircraft Corporation”  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

(a) Terms and debt repayment schedule

| Mln RUB                    | Currency              | Nominal interest rate | Year of maturity | Face value 2014 | Carrying amount 2014 | Face value 2013 | Carrying amount 2013 |
|----------------------------|-----------------------|-----------------------|------------------|-----------------|----------------------|-----------------|----------------------|
| Secured bank loans:        | GBP                   | 9 % - 11 %            | 2019-2020        | 1 074           | 964                  | 481             | 481                  |
|                            | USD                   | 7 % - 9 %             | 2022-2027        | 28 796          | 28 894               | 29 074          | 29 072               |
|                            | USD                   | 3 % - 10 %            | 2015-2016        | 41 737          | 41 947               | 13 411          | 13 436               |
|                            | USD                   | LIBOR + 3 % - 6,5 %   | 2015-2017        | 6 099           | 6 114                | 5 968           | 5 968                |
|                            | EUR                   | Euribor + 6,5 % - 7 % | 2015             | 3 013           | 2 954                | -               | -                    |
|                            | EUR                   | 6 % - 8 %             | 2015-2018        | 13 865          | 13 850               | 8 722           | 8 739                |
|                            | RUB                   | 6 % - 16 %            | 2015-2017        | 30 563          | 30 578               | 29 815          | 29 870               |
|                            | RUB                   | 10 % - 12 %           | 2018-2022        | 25 114          | 25 115               | 2 254           | 2 254                |
| Unsecured bank loans:      | GBP                   | 9 % - 11 %            | 2019-2020        | -               | -                    | 214             | 214                  |
|                            | USD                   | 3 % - 9 %             | 2015-2018        | 49 137          | 49 144               | 51 350          | 51 387               |
|                            | USD                   | 7 % - 9 %             | 2022-2024        | 8 142           | 8 153                | 3 763           | 3 769                |
|                            | USD                   | LIBOR + 3 % - 6,5 %   | 2015-2016        | 1 361           | 1 287                | 3 674           | 3 674                |
|                            | EUR                   | Euribor + 0,9 %       | 2015             | 3 828           | 3 748                | -               | -                    |
|                            | EUR                   | Euribor + 6,5 % - 7 % | 2015-2017        | 113             | 111                  | 5 964           | 5 964                |
|                            | EUR                   | 4 % - 8 %             | 2015-2016        | 327             | 327                  | 1 141           | 1 141                |
|                            | RUB                   | 10 % - 12 %           | 2018-2020        | 11 103          | 11 104               | 3 457           | 3 457                |
|                            | RUB                   | 9 % - 20 %            | 2015-2017        | 66 708          | 66 708               | 40 194          | 40 223               |
|                            | Unsecured borrowings: | USD                   | 6 %              | 2015            | 1 830                | 1 830           | 1 006                |
| RUB                        |                       | 10 %                  | 2017             | 646             | 646                  | -               | -                    |
| Unsecured bonds issued:    | RUB                   | 8 % - 9 %             | 2020-2023        | 5 000           | 5 051                | 5 000           | 5 052                |
|                            | RUB                   | 8 % - 27 %            | 2015             | 1 031           | 1 031                | 5 968           | 5 968                |
| Secured bonds issued:      | RUB                   | 8 % - 14 %            | 2015             | 6 097           | 6 025                | -               | 1 146                |
|                            | RUB                   | 8 %                   | 2020-2023        | 46 280          | 46 280               | 46 280          | 46 280               |
| Finance lease liabilities: | USD                   | 0 %                   | 2015-2017        | 284             | 284                  | -               | -                    |
|                            | USD                   | 0 %                   | 2021-2024        | 1 738           | 1 738                | 140             | 140                  |
|                            | USD                   | 10 % - 17 %           | 2015-2017        | 118             | 118                  | 289             | 289                  |
|                            | EUR                   | 12 %                  | 2015-2016        | 375             | 375                  | 676             | 676                  |
|                            | RUB                   | 0 % - 12 %            | 2015-2020        | 396             | 396                  | 299             | 299                  |
| Other liabilities:         | EUR                   | 0 %                   | 2015             | -               | -                    | 74              | 74                   |
|                            | RUB                   | 0 %                   | 2015-2020        | 241             | 241                  | 199             | 199                  |
|                            |                       |                       |                  | <b>355 016</b>  | <b>355 013</b>       | <b>259 413</b>  | <b>260 780</b>       |

(b) Security

Group loans are secured over property, plant and equipment with a carrying amount of RUB 6 432 million (31 December 2013: RUB 2 957 million), inventory with a carrying amount of RUB 84 million (31 December 2013: RUB 184 million), titles to rent of land plots with an area of 612 square metres (2013: 684 sq.m).

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 18<sup>th</sup> 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**

As at 31 December 2014 the Group's subsidiary (CJSC "Sukhoi Civil Aircraft") violated a number of financial and non-financial loan covenants with the following banks: EBRD, JSC "VTB" VTB Bank (Austria), VTB (France) OJSC "Sberbank", JSC "Eurasian Development Bank" Accordingly, the Group accounted these loans as current ones as at 31 December 2014. The Group is currently in the process of obtaining a permanent waiver from creditor banks for fulfilment of conditions of financial and non-financial covenants.

(e) **Finance lease liabilities as at 31 December 2014 are payable as follows:**

| Mln RUB                    | <u>Future minimum<br/>lease payments</u> | <u>Interest</u> | <u>Present value of<br/>minimum lease<br/>payments</u> |
|----------------------------|--|-----------------|--|
| Less than one year         | 1 957                                    | 907             | 1 049  |
| Between one and five years | 5 324                                    | 3 465           | 1 859  |
|                            | <u>7 281</u>                             | <u>4 372</u>    | <u>2 908</u>   |
| <b>31 December 2013</b>    |  |                 |  |
| Mln RUB                    | <u>Future minimum<br/>lease payments</u> | <u>Interest</u> | <u>Present value of<br/>minimum lease<br/>payments</u> |
| Less than one year         | 988                                      | 92              | 896  |
| Between one and five years | 530                                      | 22              | 508  |
| <b>Total</b>               | <u>1 518</u>                             | <u>114</u>      | <u>1 404</u>   |

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  | 2014           | 2013 Restated* |
|--|----------------|----------------|
| <i>Current liabilities</i>                                   |                |                |
| Advances from customers, unrelated to construction contracts | 116 095        | 62 480         |
| Advances related to construction contracts                   | 12 666         | 17 133         |
| Trade payables   | 66 089         | 35 243         |
| Other payables   | 14 738         | 7 759          |
| Settlements with employees                                   | 5 919          | 5 615          |
| VAT payable  | 3 587          | 1 694          |
| Other tax payable  | 3 299          | 2 528          |
| <b>Total</b>   | <b>222 393</b> | <b>132 452</b> |
| <i>Non-current liabilities</i>                               |                |                |
| Advances from customers, unrelated to construction contracts | 41 973         | 34 474         |
| Trade payables   | 1 386          | 2 970          |
| Other payables   | 1 581          | 304            |
| <b>Total</b>   | <b>44 940</b>  | <b>37 748</b>  |
| <b>Total current and non-current liabilities</b>             | <b>267 333</b> | <b>170 200</b> |

## 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.

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

| Mln RUB   | 2014         | 2013         |
|---|--------------|--------------|
| Grants related to development costs                           | 520          | 1 307        |
| Purchase of equipment   | 248          | -            |
| <b>Total</b>  | <b>768</b>   | <b>1 307</b> |
| Government grants related to income                           | 332          | 636          |
| Government grants related to compensation of interest expense | 6 377        | 2 763        |
| <b>Total</b>  | <b>7 477</b> | <b>4 706</b> |

\* See note 2(e)

## 27 Employee benefits

| Mln RUB                                   | 2014           | 2013           |
|---|----------------|----------------|
| Fair value of plan assets                 | 911            | 850            |
| Present value of obligations              | (5 382)        | (5 026)        |
| Deficit in the plan                       | (4 471)        | (4 176)        |
| <b>Total employee benefit liabilities</b> | <b>(4 471)</b> | <b>(4 176)</b> |

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   | 2014           | 2013           |
|---|----------------|----------------|
| Defined benefit obligations at 1 January          | (5 027)        | (4 579)        |
| Current service cost                              | (286)          | (280)          |
| Benefits paid                                     | 288            | 266            |
| Actuarial gain/(loss)                             | 36             | (83)           |
| Interest cost                                     | (389)          | (347)          |
| Forex differences                                 | (4)            | (3)            |
| <b>Defined benefit obligations at 31 December</b> | <b>(5 382)</b> | <b>(5 026)</b> |

Movements in the present value of plan assets:

| Mln RUB   | 2014       | 2013       |
|---|------------|------------|
| Fair value of plan assets at 1 January          | 850        | 863        |
| Expected return on plan’s assets                | 72         | 65         |
| Benefits paid by the plan                       | (207)      | (179)      |
| Contributions paid into the plan                | 281        | 125        |
| Actuarial gain/(loss)                           | (85)       | (24)       |
| <b>Fair value of plan assets at 31 December</b> | <b>911</b> | <b>850</b> |

Plan assets comprise low-risk fixed income instruments.

Expense recognised in the statement of income:

| Mln RUB                                   | 2014         | 2013         |
|---|--------------|--------------|
| Current service cost                      | (286)        | (282)        |
| Expected return on plan’s assets          | 72           | 65           |
| Interest expenses                         | (389)        | (347)        |
| <b>Total recognised in profit or loss</b> | <b>(603)</b> | <b>(564)</b> |

Actuarial gains and losses recognised in other comprehensive income

|              |              |
|--------------|--------------|
| (49)         | (107)        |
| <b>(652)</b> | <b>(671)</b> |

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:

|   | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| Discount rate   | 8,2%        | 7,9%        |
| Expected rate of return on plans assets                         | 8,2%        | 7,9%        |
| Future pension and salary increases                             | 6%          | 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                             | <u>2014</u>               |                      |              |                           | <u>2013 Restated*</u> |              |                           |                      |
|-------------------------------------|---------------------------|----------------------|--------------|---------------------------|-----------------------|--------------|---------------------------|----------------------|
|                                     | <u>Warranty contracts</u> | <u>Onerous Other</u> | <u>Total</u> | <u>Warranty contracts</u> | <u>Onerous Other</u>  | <u>Total</u> | <u>Warranty contracts</u> | <u>Onerous Other</u> |
| Balance at 1 January                | 1 408                     | 835                  | 876          | 3 119                     | 1 503                 | 536          | 538                       | 2 577                |
| Provisions made during the year     | 1 454                     | 262                  | 627          | 2 343                     | 1 269                 | 702          | 407                       | 2 377                |
| Provisions used during the year     | (863)                     | (517)                | (543)        | (1 923)                   | (517)                 | -            | (1)                       | (518)                |
| Provisions reversed during the year | (103)                     | -                    | (535)        | (638)                     | (847)                 | (403)        | (68)                      | (1 318)              |
| <b>Balance at 31 December</b>       | <b>1 896</b>              | <b>580</b>           | <b>425</b>   | <b>2 901</b>              | <b>1 408</b>          | <b>835</b>   | <b>876</b>                | <b>3 118</b>         |

### (a) Warranty

The Group provides product warranties on 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.

\* See note 2(e)

## 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   | 2014           | 2013 Restated* |
|---|----------------|----------------|
| Finance lease receivables                                       | 2 023          | 3 668          |
| Loans given   | 322            | 601            |
| Deposits  | 564            | 1 062          |
| Trade receivables   | 78 650         | 40 162         |
| Costs incurred and recognized profits on construction contracts | 27 936         | 16 140         |
| Other receivables   | 13 757         | 5 306          |
| Cash and cash equivalents                                       | 92 667         | 59 098         |
| <b>Total</b>  | <b>215 919</b> | <b>126 037</b> |

### (b) Impairment losses

The ageing of trade receivables at the reporting date was:

| Mln RUB  | Gross<br>2014 | Impairment<br>2014 | Gross<br>2013<br>Restated* | Impairment<br>2013 |
|--|---------------|--------------------|----------------------------|--------------------|
| Not past due (with a start date up to 50 days) | 77 575        | (4)                | 39 648                     | (143)              |
| Past due 0-360 days                            | 568           | (255)              | 629                        | (95)               |
| Past due more than one year                    | 6 518         | (5 753)            | 3 642                      | (3 519)            |
|  | <b>84 661</b> | <b>(6 012)</b>     | <b>43 919</b>              | <b>(3 757)</b>     |

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

| Mln RUB                          | 2014         | 2013         |
|----------------------------------|--------------|--------------|
| Balance as at 1 January          | 3 757        | 2 848        |
| Impairment loss recognised       | 2 255        | 909          |
| <b>Balance as at 31 December</b> | <b>6 012</b> | <b>3 757</b> |

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 2014 and at 31 December 2013 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments.

\* See note 2(e)

(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 2014**

| Mln RUB                   | Carrying amount | Contractual cash flows | 12 month or less | 2-3 years      | 4-5 years      | More than 5 years |
|---------------------------|-----------------|------------------------|------------------|----------------|----------------|-------------------|
| Secured bank loans        | 150 416         | 312 281                | 107 454          | 100 862        | 81 709         | 22 257            |
| Unsecured bank loans      | 140 581         | 164 155                | 82 242           | 56 007         | 12 695         | 13 211            |
| Unsecured borrowings      | 2 476           | 2 118                  | 1 986            | 132            | -              | -                 |
| Secured bonds issued      | 52 305          | 71 679                 | 9 809            | 7 405          | 7 405          | 47 061            |
| Unsecured bonds issued    | 6 082           | 8 454                  | 1 607            | 898            | 898            | 5 052             |
| Finance lease liabilities | 2 911           | 7 131                  | 1 868            | 2 169          | 1 433          | 1 660             |
| Other loans               | 241             | 1 686                  | 1 217            | 439            | 5              | 25                |
| Trade and other payables  | 87 094          | 87 094                 | 84 127           | 2 967          | -              | -                 |
|                           | <b>442 106</b>  | <b>654 598</b>         | <b>290 310</b>   | <b>170 879</b> | <b>104 145</b> | <b>89 266</b>     |

**31 December 2013**

| Mln RUB                   | Carrying amount | Contractual cash flows | 12 month or less | 2-3 years      | 4-5 years     | More than 5 years |
|---------------------------|-----------------|------------------------|------------------|----------------|---------------|-------------------|
| Secured bank loans        | 89 820          | 175 619                | 69 677           | 55 260         | 21 615        | 29 067            |
| Unsecured bank loans      | 109 829         | 138 554                | 69 342           | 42 404         | 15 502        | 11 306            |
| Unsecured borrowings      | 1 008           | 1 225                  | 1 094            | 131            | -             | -                 |
| Secured bonds issued      | 11 020          | 8 361                  | 6 595            | 883            | 883           | -                 |
| Unsecured bonds issued    | 47 426          | 70 422                 | 4 849            | 7 405          | 7 405         | 50 763            |
| Finance lease liabilities | 1 404           | 1 483                  | 965              | 499            | 8             | 11                |
| Other loans               | 273             | 712                    | 420              | 201            | 68            | 21                |
| Trade and other payables  | 48 805          | 48 805                 | 45 532           | 3 274          | -             | -                 |
| <b>Total (Restated*)</b>  | <b>309 585</b>  | <b>445 181</b>         | <b>198 474</b>   | <b>110 057</b> | <b>45 481</b> | <b>91 168</b>     |

(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” and JSC “Sukhoi Civil Aircraft”. The currencies in which these transactions primarily are dominated are USD, EUR and RUB:

\* See note 2(e)



Joint Stock Company “United Aircraft Corporation”  
Notes to the Consolidated Financial Statements for the year ended 31 December 2014

31 December 2014

MIn RUB

|  | <u>USD</u>          | <u>EUR</u>             | <u>GBP</u>            | <u>RUB</u>            |
|--|---------------------|------------------------|-----------------------|-----------------------|
| Cash and cash equivalents  | 21 267              | 3 205                  | -                     | 21 458                |
| Trade and other receivables  | 31 524              | 1 127                  | 2                     | 12 165                |
| Costs incurred and recognised profits<br>on construction contracts | 801                 | -                      | -                     | 9 529                 |
| Secured bank loans   | (4 713)             | (16 804)               | (963)                 | (8 214)               |
| Unsecured bank loans   | (33 890)            | (4 185)                | -                     | (10 944)              |
| Unsecured borrowings   | (1 830)             | -                      | -                     | -                     |
| Secured bonds issued   | -                   | -                      | -                     | (4 869)               |
| Unsecured bonds issued   | -                   | -                      | -                     | (6 082)               |
| Finance lease liabilities  | (115)               | (375)                  | -                     | (16)                  |
| Other loans  | -                   | -                      | -                     | -                     |
| Trade and other payables   | (13 428)            | (3 510)                | (39)                  | (16 077)              |
| <b>Gross exposure</b>  | <b><u>(384)</u></b> | <b><u>(20 542)</u></b> | <b><u>(1 000)</u></b> | <b><u>(3 050)</u></b> |

31 December 2013

MIn RUB

|  | <u>USD</u>             | <u>EUR</u>             | <u>GBP</u>      | <u>RUB</u>            |
|--|------------------------|------------------------|-----------------|-----------------------|
| Cash and cash equivalents  | 11 190                 | 1 677                  | -               | 8 657                 |
| Trade and other receivables  | 17 431                 | 2 930                  | -               | 7 592                 |
| Costs incurred and recognised profits<br>on construction contracts | 6 298                  | 3 476                  | -               | 3 423                 |
| Secured bank loans   | (14 711)               | (8 739)                | -               | (3 037)               |
| Unsecured bank loans   | (33 896)               | (7 105)                | -               | (5 694)               |
| Unsecured borrowings   | (1 008)                | -                      | -               | -                     |
| Unsecured bonds issued   | -                      | -                      | -               | (11 020)              |
| Finance lease liabilities  | (140)                  | (677)                  | -               | (5)                   |
| Other loans  | -                      | (74)                   | -               | -                     |
| Trade and other payables   | (15 773)               | (3 390)                | -               | (7 989)               |
| <b>Gross exposure</b>  | <b><u>(30 609)</u></b> | <b><u>(11 902)</u></b> | <b><u>-</u></b> | <b><u>(8 073)</u></b> |

The following significant exchange rates applied during the year:

| RUB | Average rate |       | Reporting date spot rate |       |
|-----|--------------|-------|--------------------------|-------|
|     | 2014         | 2013  | 2014                     | 2013  |
| USD | 38,4217      | 31,85 | 56,2584                  | 32,73 |
| EUR | 50,8187      | 42,31 | 68,3427                  | 44,97 |
| GBP | 63,3648      | 49,84 | 87,4199                  | 53,96 |

**(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 (2 193) million (2013: RUB 2 755 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  |                  |
|----------------------------------|------------------|------------------|
|                                  | 2014             | 2013             |
| <b>Fixed rate instruments</b>    |                  |                  |
| Financial assets                 | 12 951           | 4 847            |
| Financial liabilities            | (332 742)        | (230 977)        |
|                                  | <b>(319 791)</b> | <b>(226 130)</b> |
| <b>Variable rate instruments</b> |                  |                  |
| Financial liabilities            | (22 271)         | (29 803)         |
|                                  | <b>(22 271)</b>  | <b>(29 803)</b>  |

**(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 2014 would have increased loss for the year by RUB 143 million (31 December 2013: RUB 231 million). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**(g) Fair values**

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 23.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

| 31 December 2014  | Carrying amount | Fair value      |          |                 |
|---|-----------------|-----------------|----------|-----------------|
|   |                 | Level 1         | Level 2  | Total           |
| <b>Mln RUB</b>  |                 |                 |          |                 |
| <b>Financial liabilities not measured at fair value</b> |                 |                 |          |                 |
| Unsecured bond issue                                    | (46 280)        | (45 967)        | -        | (45 967)        |
|   | <u>(46 280)</u> | <u>(45 967)</u> | <u>-</u> | <u>(45 967)</u> |
| <b>Financial liabilities not measured at fair value</b> |                 |                 |          |                 |
| Unsecured bond issue                                    | (52 478)        | (52 457)        | -        | (52 457)        |
|   | <u>(52 478)</u> | <u>(52 457)</u> | <u>-</u> | <u>(52 457)</u> |

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

### 30 Operating lease

| Mln RUB                    | 2014         | 2013         |
|----------------------------|--------------|--------------|
| Less than one year         | 421          | 548          |
| Between one and five years | 1 505        | 1 718        |
| More than five years       | 7 352        | 7 675        |
| <b>Total</b>               | <u>9 278</u> | <u>9 941</u> |

### 31 Contingencies

#### (a) Insurance

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

#### (b) Taxation contingencies

The taxation system in the Russian Federation 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.

**(c) Environmental contingencies**

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

**(d) Assets value guarantee**

Certain contracts for aircraft delivery include the obligation of an asset value guarantee whereby the Company is obliged to repurchase the aircraft at a specific date after its delivery for a predetermined value at the customer's request (Note 3(m)(ii)). According to the management assessment the guarantees provided do not bear significant financial risks at the reporting date.

The following factors contribute to this assessment:

- the estimated fair values of the aircraft at the guarantee exercise date are expected to sufficiently exceed the guarantee values;
- the exercise dates of the outstanding asset value guarantees fall on the 10<sup>th</sup> anniversary after aircraft delivery which represents at least half of average aircraft useful life;
- the substantial portion of maintenance costs required to keep the aircraft in the adequate airworthiness condition are borne by the customers.

**(e) Capital commitments**

As at 31 December 2014 the Group is committed to capital expenditure of approximately RUB 49 037 million (2013: RUB 31 322 million).

## 32 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 32 (c)) as at 31 December 2014 include balances with other government related entities.

### (b) Transactions with management

#### *Key management personnel compensation*

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

| Mln RUB                                  | 2014         | 2013         |
|--|--------------|--------------|
| Wages and salaries                       | 1 305        | 897          |
| Compulsory social security contributions | 147          | 121          |
| <b>Total</b>                             | <b>1 452</b> | <b>1 018</b> |

### (c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of the Russian Federation (2014: 85.29%, 2013: 84.67%). 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 course of the Group’s business generally on terms comparable to those with other entities that are not government related. The Group has established procurement policies 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 2014 management estimated that the aggregate amount of the Group’s collectively significant transactions with government related entities is up to 47% (2013: up to 52%) of its revenues, at least 28% (2013: at least 35%) of its purchases of materials, equipment and services, and up to 40% of its borrowings (2013: up to 63%).

The Group also benefited from compensation of borrowing costs related to financing of export military goods from the government of Russian Federation. This government grant was provided following the Regulation of the Government of Russian Federation #357 and #961 dated 6 June 2005 and 25 October 2013 correspondingly for partial compensation of borrowing costs incurred by Russian entities engaged in export of industrial products and with financing obtained from Russian banks. Majority of balance of other receivables and originated loans comprises of receivable related to the program. Management expects that the Group will continue to qualify for further compensation in the future.



### 33 Significant subsidiaries

The list of significant subsidiaries as at 31 December 2014 and 31 December 2013 is presented below.

| Entity of the Group                           | Effective ownership |         |
|---|---------------------|---------|
|   | 2014                | 2013    |
| <b><i>Sukhoi Group</i></b>                    |                     |         |
| JSC “Company Sukhoi”                          | 57,06%              | 83,19%  |
| CJSC “Sukhoi Civil Aircraft”                  | 53,69%              | 62,39%  |
| CJSC “Sukhoi new civil technologies”          | 57,06%              | 83,19%  |
| <b><i>Irkut Group</i></b>                     |                     |         |
| JSC “Irkut Corporation”                       | 91,37%              | 93,82%  |
| JSC “OKB Imeni A.S. Yakovlev”                 | 78,73%              | 78,70%  |
| CJSC “Beta-Ir”                                | 83,99%              | 70,06%  |
| <b><i>Other</i></b>                           |                     |         |
| JSC “Tupolev”                                 | 94,37%              | 91,85%  |
| JSC “TANTK Imeni G.M. Berieva”                | 94,21%              | 96,67%  |
| CJSC “Aviastar-SP”                            | 99,74%              | 99,23%  |
| JSC “OAK-TS”                                  | 100,00%             | 100,00% |
| JSC “II”                                      | 89,50%              | 87,47%  |
| JSC “VASO”                                    | 98,73%              | 96,25%  |
| LLC “UAC-Antonov”                             | 50,00%              | 50,00%  |
| JSC “Nizhniy Novgorod Aircraft Plant Sokol”   | 100,00%             | 99,98%  |
| CJSC “Aerocompozit”                           | 98,69%              | 99,49%  |
| LLC “UAC- Integration Center”                 | 100,00%             | 100,00% |
| JSC “RSK MiG”                                 | 66,86%              | 62,77%  |
| JSC “KAPO” <sup>1</sup>                       | -                   | 96,57%  |
| JSC “Myasishchev Design Bureau”               | 100,00%             | 100,00% |
| CJSC “Il-Resours”                             | 89,50%              | 87,47%  |
| CJSC “KAPO-Compozit”                          | 100,00%             | 100,00% |
| CJSC “Aerocompozit-Ulyanovsk”                 | 100,00%             | 100,00% |
| CJSC “M. M. Gromov Flight Research Institute” | 86,85%              | 93,25%  |

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

<sup>1</sup> In 2014 JSC “KAPO” was merged with JSC “Tupolev”.



### 34 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                                       | 2014          | 2013 Restated |
|---|---------------|---------------|
| Loss before income tax                        | (11 900)      | (14 118)      |
| <i>Adjustments for</i>                        |               |               |
| Net finance costs                             | 14 019        | 14 519        |
| <b>EBIT</b>                                   | <b>2 119</b>  | <b>401</b>    |
| <i>Adjustments for</i>                        |               |               |
| Depreciation of property, plant and equipment | 17 916        | 12 646        |
| Amortization of intangible assets             | 3 870         | 3 439         |
| <b>EBITDA</b>                                 | <b>23 905</b> | <b>16 486</b> |

### 35 Events subsequent to the reporting date

Following by decision of the Extraordinary General Meeting of JSC "UAC" Shareholders, that took place on 6 April 2015, the amendment to the Statute of the Company was made regarding the change of its legal form.

Thus, full name of the Company is:

In Russian - Публичное акционерное общество «Объединенная авиастроительная корпорация» (ПАО «ОАК»);

In English - Public Joint Stock Company «United Aircraft Corporation».

The abbreviated name of the Company is:

In Russian- ПАО «ОАК»;

In English - JSC "UAC".

The issue of additional shares of JSC "UAC" was completed as at 15 April 2015. This resulted in additional share issue of 16 208 960 thousand shares with par value of 0.86 rubles.

The government of the Russian Federation took a decision to raise an equity of JSC "UAC" by RUB 100 000 million by means of Russian Federal loan bonds with the purpose of subsequent restructure of CJSC "Sukhoi Civil Aircraft"'s debt. This amount is included in the state budget of the Russian Federation for the year 2015.