JSC “United Aircraft Corporation”

Consolidated Financial Statements

for the year ended 31 December 2010

Contents

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Independent Auditors' Report

The Board of Directors

JSC "United Aircraft Corporation"

We have audited the accompanying consolidated financial statements of JSC "United Aircraft Corporation" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2010 and 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Because we were denied access to the financial information, management, and the auditors of the Company's subsidiary JSC "Finance Leasing Company" (or "FLC"), we were unable to complete our audit procedures regarding this subsidiary, representing total assets of RUB 7,863 million and RUB 11,131 million as at 31 December 2010 and 2009, respectively, negative net assets of RUB 5,114 million and RUB 3,925 million as at 31 December 2010 and 2009, respectively, and loss for the year ended 31 December 2010 and 2009 of RUB 1,189 million and RUB 1,476 million, respectively. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the Group's consolidated financial position, consolidated financial performance and cash flows as at and for the years ended 31 December 2010 and 2009.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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17 January 2012

Mln RUB	Notes	2010	2009
Revenue	9	**140,682**	**98,572**
Cost of sales		(104,243)	(76,482)
Gross profit		**36,439**	**22,090**
Government grants related to income	26	484	1,391
Research and development costs		(2,973)	(1,439)
Distribution expenses		(16,086)	(14,928)
Administrative expenses		(17,695)	(15,185)
Non-current asset impairment		(3,352)	(2,508)
Other operating income		150	338
Other operating expenses	11	(8,812)	(4,745)
Loss from operations		**(11,845)**	**(14,986)**
Finance income	12	3,881	1,959
Finance costs	12	(11,749)	(12,012)
Loss on acquisition of JSC "NAZ "Sokol"	7	-	(4,571)
Share of loss in equity accounted investees	16	(349)	(254)
Loss before tax		**(20,062)**	**(29,864)**
Income tax (expense) benefit	13	(104)	2,145
Loss for the year		**(20,166)**	**(27,719)**
Attributable to:			
Shareholders of the Parent company		(18,946)	(25,984)
Non-controlling interest		(1,220)	(1,735)
		(20,166)	**(27,719)**
Basic and diluted loss per share (RUB)	23	0.12	0.23

The consolidated financial statements were authorised for issue on 17 January 2012:

«ОБЪЕДИНЕННАЯ
АВИАСТРОИТЕЛЬНАЯ
КОРПОРАЦИЯ»

Mikhail Pogosyan,
President

Sergei Morozov,
Chief Accountant

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

Mln RUB	**2010**	**2009**
Loss for the year	**(20,166)**	**(27,719)**
Other comprehensive income:		
Defined benefit plan actuarial (loss)/gain net of tax	(320)	81
Effective portion of changes in fair value of cash flow hedges, net of tax	(14)	-
Foreign exchange differences	1,067	215
Total comprehensive income for the year	**(19,433)**	**(27,423)**
Attributable to:		
Owners of the Parent company	(18,221)	(25,701)
Non-controlling interest	(1,212)	(1,722)
	(19,433)	**(27,423)**

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

Mln RUB	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	14	87,365	85,575
Intangible assets	15	36,970	26,722
Investments in associates	16	9,035	9,500
Investments and non-current financial assets	17	3,432	3,139
Finance lease receivables		524	2,950
Deferred tax assets	18	2,107	3,623
Other non-current assets	8	6,051	7,756
Other receivables, non-current		853	1,353
Total non-current assets		**146,337**	**140,618**
Current assets			
Investments	17	4,119	5,938
Inventories	19	62,987	76,448
Trade and other receivables	20	70,383	59,644
Finance lease receivables		43	294
Current income tax receivable		-	441
Cash and cash equivalents	21	47,784	60,122
Total current assets		**185,316**	**202,887**
Total assets		**331,653**	**343,505**
EQUITY AND LIABILITIES			
Equity			
Share capital	22	188,633	131,605
Share premium	22	4,566	2,416
Revaluation reserve		207	207
Prepaid shares reserve	22	-	23,518
Treasury shares	22	(410)	(410)
Foreign currency translation reserve		3,261	2,202
Hedging reserve		(14)	-
Accumulated loss		(114,263)	(95,563)
Total equity attributable to shareholders of the Parent company		**81,980**	**63,975**
Non-controlling interest		3,228	4,250
Total equity		**85,208**	**68,225**
Non-current liabilities			
Loans, borrowings and finance lease liabilities	24	75,723	67,039
Deferred tax liabilities	18	1,352	3,566
Employee benefits	27	2,408	1,797
Trade and other payables	25	1,536	9,370
Total non-current liabilities		**81,019**	**81,772**
Current liabilities			
Loans, borrowings and finance lease liabilities	24	78,948	95,992
Income tax payable		301	351
Trade and other payables	25	84,504	95,218
Employee benefits	27	53	389
Provisions	28	1,620	1,558
Total current liabilities		**165,426**	**193,508**
Total equity and liabilities		**331,653**	**343,505**

Mln RUB	2010	2009
OPERATING ACTIVITIES		
Loss before tax	**(20,062)**	**(29,864)**
Adjustments for:		
Depreciation and amortisation	8,409	5,882
Unrealised foreign exchange gains	(180)	(523)
Share of losses in equity accounted investees	349	254
Impairment of Mezhprombank deposit	4,584	-
Non-current asset impairment	3,352	2,508
Change in bad debt provision	245	291
Loss on disposal of property, plant and equipment	601	487
Interest expense	14,028	12,352
Loss on acquisition of JSC “NAZ “Sokol”	-	4,571
Government grant related to compensation of interest expense	(3,043)	(1,634)
Interest income	(2,129)	(1,778)
Operating profit before changes in working capital and provisions	**6,154**	**(7,454)**
Change in inventories	11,545	1,316
Change in trade and other receivables	(12,141)	12,924
Change in trade and other payables	(18,766)	240
Change in lease receivable	2,677	(420)
Change in employee benefits	275	1,268
Change in provisions	(258)	381
Cash flows utilised by operations before income taxes and interest paid	**(10,514)**	**8,255**
Income taxes paid	(405)	(153)
Interest paid, net of grant received	(10,922)	(10,579)
Cash flows utilised by operating activities	**(21,841)**	**(2,477)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	287	91
Acquisition of property, plant and equipment	(8,927)	(10,390)
Contribution to equity of associates	74	(257)
Acquisition of intangible assets	(8,333)	(4,768)
Change in loans granted and cash deposits	1,541	500
Grant received related to assets	811	1,867
Interest received	2,129	1,771
Cash flows utilised by investing activities	**(12,418)**	**(11,186)**
FINANCING ACTIVITIES		
Proceeds from borrowings	153,088	59,503
Repayment of borrowings	(163,100)	(76,213)
Paid in capital	35,660	29,818
Contributions to equity of subsidiaries by non-controlling shareholders	830	25,160
Acquisition of subsidiaries (cash acquired)	-	6,305
Dividends paid	(74)	(35)
Cash flows from financing activities	**26,404**	**44,538**
Net (decrease)/increase in cash and cash equivalents	**(7,855)**	**30,875**
Cash and cash equivalents at beginning of year	60,122	28,464
Impairment of Mezhprombank deposit	(4,584)	-
Effect of exchange rates fluctuations on cash and cash equivalents	101	783
Cash and cash equivalents at end of year (note 21)	**47,784**	**60,122**

Mln RUB	Attributable to equity holder of the Company								Non-controlling interest	Total equity
	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Revaluation reserve	Foreign currency translation reserve	Accumulated losses	Total		
Balance at 1 January 2009	**104,970**	**660**	**6,000**	**(410)**	**207**	**2,000**	**(68,036)**	**45,391**	**3,077**	**48,468**
Total comprehensive income for the year										
Loss for the year	-	-	-	-	-	-	(25,984)	(25,984)	(1,735)	(27,719)
Defined benefit plan actuarial gains net of tax	-	-	-	-	-	-	81	81	-	81
Foreign exchange differences	-	-	-	-	-	202	-	202	13	215
Total comprehensive income for the year								**(25,701)**	**(1,722)**	**(27,423)**
Transactions with owners recognised directly in equity										
Share issues of the Company:										
satisfied in cash	11,310	990	17,518	-	-	-	-	29,818	-	29,818
satisfied by contributions of equity interests in subsidiaries	12,231	611	-	-	-	-	(22,824)	(9,982)	(731)	(10,713)
satisfied by contributions of equity interests in associates	3,094	155	-	-	-	-	(299)	2,950	-	2,950
	26,635	**1,756**	**17,518**	**-**	**-**	**-**	**(23,123)**	**22,786**	**(731)**	**22,055**
Other transactions with owners										
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	-	21,499	21,499	3,661	25,160
Dividends	-	-	-	-	-	-	-	-	(35)	(35)
Balance at 31 December 2009	**131,605**	**2,416**	**23,518**	**(410)**	**207**	**2,202**	**(95,563)**	**63,975**	**4,250**	**68,225**

Mln RUB	Attributable to equity holder of the Company										
	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Revaluation reserve	Hedge reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	**131,605**	**2,416**	**23,518**	**(410)**	**207**	**-**	**2,202**	**(95,563)**	**63,975**	**4,250**	**68,225**
Total comprehensive income for the year											
Loss for the year	-	-	-	-	-	-	-	(18,946)	(18,946)	(1,220)	(20,166)
Defined benefit plan actuarial loss net of tax	-	-	-	-	-	-	-	(320)	(320)	-	(320)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Foreign exchange differences	-	-	-	-	-	-	1,059	-	1,059	8	1,067
Total comprehensive income for the year									**(18,221)**	**(1,212)**	**(19,433)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
satisfied in cash	57,028	2,150	(23,518)	-	-	-	-	-	35,660	-	35,660
	57,028	**2,150**	**(23,518)**	**-**	**-**	**-**	**-**	**-**	**35,660**	**-**	**35,660**
Other transactions with owners											
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	-	-	773	773	57	830
Dilution of equity interest in subsidiaries	-	-	-	-	-	-	-	(207)	(207)	207	-
Dividends	-	-	-	-	-	-	-	-	-	(74)	(74)
Balance at 31 December 2010	**188,633**	**4,566**	**-**	**(410)**	**207**	**(14)**	**3,261**	**(114,263)**	**81,980**	**3,228**	**85,208**

1 Background

(a) Organisation and operations

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

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

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

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

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

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

The shareholding structure of the Company as at 31 December 2010 and 31 December 2009 was as follows:

Shareholders	2010	2009
Russian Federation (Federal Agency for State property management)	82%	89%
Vneshekonombank (VEB)	11%	-
Private shareholders	7%	11%

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

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

(b) State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the foreign policy, military activities and economic activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. Access to information classified as a state secret can be granted by the appropriate authorities only to organizations and individuals holding security licenses with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up the mobilization capacity of the state (refer note 14(c)) and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of these assets.

(c) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

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

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

- Note 9 – Revenue;
- Note 8 – Non-current financial assets;
- Note 15 – Intangible assets;

- Note 0 – Provisions;
- Note 31 – Contingencies.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

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

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(iv) Acquisitions from entities under common control

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

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Operations with the functional currency other than functional currency of the Parent company

For subsidiaries whose functional currency is different from the functional currency of the Company, the assets and liabilities of such operations, including goodwill and fair value adjustments arising on acquisition, are translated into RUB at exchange rates at the reporting date. The income and expenses of these operations are translated into RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When an operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a such subsidiary, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the subsidiary and are recognised directly in equity in the foreign currency translation reserve.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of the asset.

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

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is determined using the straight-line method based on the estimated useful lives of the individual assets and is recognised in profit or loss.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Leased assets are depreciated over the period of useful life which is determined in line with one applied to similar owned assets.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20-39 years
- Machinery and equipment 6-28 years

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

(iv) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(v) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. 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 an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Research and development

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, other than development carried out as part of construction contracts (refer accounting policy 3(l)), is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour, an appropriate proportion of overheads and borrowing costs that are directly attributable to the development activity. Other development expenditure is recognised in the profit or loss as incurred.

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

(iii) Other intangible assets

Other intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets that have limited useful lives are amortised on a straight-line basis over the estimated useful lives of the individual assets, which are in the range of 3-5 years. Intangible assets with indefinite useful lives are not amortised but are instead tested for impairment at least annually.

(f) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

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

Available-for-sale financial assets

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

(iii) Derivative financial instruments

Derivative financial instruments, including hedge accounting

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

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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

Cash flow hedges

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

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

(iv) Financial guarantees

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of its suppliers or affiliates, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats a guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(v) 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.

Inventories are presented in the statement of financial position net of advance payments received for construction contracts.

(h) Impairment

(i) Non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed where there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Dividends

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

(j) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(iii) Short-term benefits

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

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for estimated standard warranty costs is recognised in the period in which the related product sales occur. An accrual for warranty costs is recognised based on the Group's historical experience on previous deliveries of aircrafts. Estimates are adjusted as necessary based on subsequent experience.

(ii) Onerous contracts

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

(l) Revenues

The operations of the Group principally consist of building aircraft under fixed-price contracts. Revenues under such contracts are recognised on a percentage of completion basis, measured by the ratio of total direct materials, labour and contract related design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. Marketing costs that are incurred for a specific contract may be included in contract costs, but only if these costs can be directly associated with a specific contract and if their recoverability from that contract is probable.

Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. Changes in job performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, if any, and final contract settlements may result in revisions to costs and income and are recognised in the period in which the revisions are determined.

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(m) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(n) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs, which are not directly attributable to the qualifying assets, are recognised in profit or loss using the effective interest method, except for borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are recognized as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(o) Income tax

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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

(p) Government grants

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

(q) Earnings per share

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

(r) Segment reporting

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

(s) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. The new Standards are not expected to have a significant effect on the consolidated financial statements of the Group.

4 Determination of fair values

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(d) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Board, a Group operational management body, and the Group President are responsible for developing and monitoring the Group's risk management policies. The Executive Board and President report regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

Main customers of the Group are the government of Russian Federation and governments of other countries. The Group's exposure to credit risk is influenced mainly by the economical 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 occurs 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 of 31 December 2010 the Group did not have any contractual commitments to extend financial guarantees, credit and other assistance.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Commission.

(i) Currency risk

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

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

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

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

(ii) Interest rate risk

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

(iii) 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 2010 (2009: negative). The weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest and excluding effect of government grants related to interest expense) was 8.36% (2009: 9.67%).

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

Mln RUB	**2010**	**2009**
Total debt	154,671	163,031
Less: cash and cash equivalents	(47,784)	(60,122)
Net debt	**106,887**	**102,909**
Total equity	85,208	68,225
Debt to capital ratio at 31 December	1.25	1.51

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

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

6 Operating segments

The Group has tree 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 MS-21.
- *Other units*. Includes designing and manufacturing of various types of aircraft as well as repair and maintenance of existing civil and military aircraft produced in Russia and the former Soviet Union.

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

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

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

(i) *Information about reportable segments*

Mln RUB	Sukhoi holding		Irkut Corporation		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
External revenue for reportable segments	46,688	49,060	45,770	41,042	38,518	28,980	130,976	119,082
Inter-segment revenue for reportable segments	1,118	961	1,243	10,515	1,730	536	4,091	12,012
Reportable segment gross profit	9,078	12,671	18,889	11,819	713	(2,359)	28,680	22,131

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

Mln RUB	2010	2009
Total revenue for reportable segments	135,067	131,094
Elimination of inter-segment revenue	(4,091)	(12,012)
Difference in timing and principles of revenue recognition	9,706	(20,510)
Consolidated revenue	**140,682**	**98,572**
Reportable segment gross profit	28,680	22,131
Adjustments for:		
Net realisable value of inventories	(2,928)	(3,291)
Onerous contracts	290	(293)
Presentation of certain types of administrative expenses	7,783	12,808
Adjustments to fair value of intangible assets and property, plant and equipment	(1,092)	(111)
Difference in timing of recognition of revenue and cost of sales	5,330	(6,286)
Government grants related to income	(484)	(1,391)
Other	(1,140)	(1,477)
Gross profit	**36,439**	**22,090**

7 Acquisition of subsidiary

In May 2009 the Group obtained control over JSC “NAZ “Sokol” since the Group’s subsidiary JSC “Irkut Corporation” obtained a 22% interest in JSC “NAZ” Sokol” from a third party as collateral for promissory notes of this third party purchased by JSC “Irkut Corporation” in 2008 for a total amount of RUB 826 million. As a result of this transaction the Group obtained 60% control over JSC “NAZ “Sokol”, and therefore this transaction was accounted for in accordance with IFRS 3 *Business combinations* which requires that assets, liabilities and contingent liabilities are recorded at their respective fair values on the date of acquisition, with any excess of the cost of acquisition over the fair value of net assets acquired being recorded as goodwill. Due to the fact that the fair value of net assets acquired was negative and giving regard to the Group’s commitment to sustain “NAZ “Sokol” operations which were expected to be loss making in the foreseeable future, the resulting difference between the cost of controlling stake acquired and the amount of net assets (negative) was recognised immediately in profit or loss. A summary of the effect of the acquisition on the Group’s financial position at the date of acquisition is presented below.

Mln RUB	**JSC “NAZ “Sokol”**
Property, plant and equipment	1,412
Intangible assets	56
Short-term investments	696
Inventories	4,968
Trade and other receivables	1,243
Cash and cash equivalents	319
Long-term borrowings	(6,302)
Short-term borrowings	(1,222)
Employee benefits	(263)
Trade and other accounts payable	(1,742)
Advances from customers	(2,910)
Fair value of net assets acquired	**(3,745)**
Cost of investment	**(826)**
Loss on acquisition	**(4,571)**

8 Other non-current assets

Other non-current assets, inter alia, include a number of SU-30K military aircraft acquired as trade-in by the Group in 2008. Management initially anticipated resale of these aircraft in 2009. Due to the nature of the asset, management is limited in its marketing efforts and there is high uncertainty regarding timing and amount of proceeds until negotiations with potential customers are finalized.

As at 31 December 2010 and 31 December 2009, the carrying value of the asset before recognition of impairment losses exceeded the recoverable amount by RUB 2,742 million and RUB 369 million, respectively. The recoverable amount is based on the state and progress of negotiations with specific customers as at the reporting date and reflects management assessment of the most likely scenario of the future sale in 2013 (2009: in 2011). Future proceeds are discounted using a pre-tax discount rate of 17%, which reflects management's assessments of uncertainties relating to the expected sale as well as the time value of money. As at the reporting date, the carrying amount of the aircraft is RUB 3,065 million net of accumulated impairment losses of RUB 2,742 million (2009: RUB 5,395 million net of accumulated impairment losses of RUB 369 million).

9 Revenue

Mln RUB	2010	2009
Revenue earned on aircraft construction contracts	76,027	46,437
Revenue on sales of aircraft components and related products	26,204	21,121
Revenue earned on research and development services	20,560	19,201
Revenue earned on modernisation and overhaul services	11,337	6,529
Other	6,554	5,284
Total	**140,682**	**98,572**

10 Personnel expenses

Mln RUB	2010	2009
Wages and salaries	28,263	25,321
Compulsory social security contributions	6,399	5,566
Expenses related to defined benefit plans	76	198
Total	**34,738**	**31,085**

11 Other operating expenses

Mln RUB	**2010**	**2009**
Impairment of cash deposits in Mezhprombank	4,584	-
Property and other tax expense	1,347	1,302
Bank charges	146	100
Loss on disposal of property, plant and equipment	601	487
Charity and social expenses	565	485
Write-off and change in allowance for doubtful trade and other receivables	245	104
Fines and penalties paid	147	765
Net loss on sale of other assets	308	-
Expenses attributed to JSC “FLC”	677	316
Other expenses	192	1,186
Total	**8,812**	**4,745**

As at 31 December 2009 the Group held RUB 1,584 million of current accounts and deposits in Mezhprombank. Subsequent to the reporting date the Group increased its cash account in Mezhprombank balances and accrued related interest up to RUB 4,584 million. In the second quarter of 2010 Mezhprombank faced financial difficulties which subsequently led to cancellation of Mezhprombank’s license for banking activity by the Central Bank of the Russian Federation in October 2010 and initiation of bankruptcy procedure. In September 2010, the Group filed claims in Moscow Arbitral Court for deposit repayment, including interest accrued which was satisfied on 2 November 2010. Nevertheless, management of the Company estimates the likelihood of debt repayment as low, and, accordingly, has considered the total receivable from the bank be fully impaired in 2010.

12 Finance income and finance costs

Mln RUB	**2010**	**2009**
Finance income		
Interest income	2,129	1,778
Foreign exchange gain	1,061	-
Other finance income	691	181
Total	**3,881**	**1,959**
Finance costs		
Interest expense	(14,028)	(12,352)
Government grant related to compensation of interest expense	3,043	1,634
	(10,985)	**(10,718)**
Foreign exchange loss	-	(1,102)
Net loss from finance lease contracts	(105)	(92)
Impairment loss on investments	(647)	(21)
Other finance costs	(12)	(79)
Total	**(11,749)**	**(12,012)**

13 Income tax (expense)/benefit

Mln RUB	**2010**	**2009**
Current tax expense		
Current income tax	(654)	(833)
Adjustments of prior years	(174)	120
	(828)	**(713)**
Deferred tax benefit		
Origination and reversal of temporary differences	724	2,858
	724	**2,858**
Total	**(104)**	**2,145**

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

Reconciliation of effective tax rate:

Mln RUB	**2010**	**%**	**2009**	**%**
Loss before income tax	(20,062)	100	(29,864)	100
Income tax at applicable tax rate	4,012	(20)	5,973	(20)
Non-deductible/ non-taxable items, net	(686)	3	(1,876)	6
Adjustments of prior years	(174)	1	120	(0)
Recognition of previously unrecognised tax losses	437	(2)	-	-
Change in recognised deferred tax assets	(295)	(1)	-	-
Unrecognised deferred tax assets	(3,398)	18	(2,072)	7
Total	**(104)**	**-**	**2,145**	**(7)**

14 Property, plant and equipment

Mln RUB	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2009	25,881	23,758	3,707	6,464	59,810
Acquisition under common control	26,010	2,407	88	722	29,227
Acquisition through business combination	697	456	56	203	1,412
Additions and transfers	1,338	10,063	576	(1,409)	10,568
Reclassification from intangible assets	-	2,606	-	-	2,606
Disposals	(70)	(665)	(241)	(23)	(999)
Foreign exchange differences	284	108	42	117	551
At 31 December 2009	**54,140**	**38,733**	**4,228**	**6,074**	**103,175**
Additions and transfers	780	7,103	427	618	8,928
Reclassification from intangible assets	-	1,222	-	-	1,222
Disposals	(413)	(1,285)	(196)	(269)	(2,163)
Foreign exchange differences	77	86	12	14	189
At 31 December 2010	**54,584**	**45,859**	**4,471**	**6,437**	**111,351**
Depreciation					
At 1 January 2009	(2,379)	(7,898)	(730)	-	(11,007)
Acquisition under common control	(904)	(312)	(14)	-	(1,230)
Depreciation charge	(1,108)	(4,309)	(321)	-	(5,738)
Disposals	26	361	34	-	421
Foreign exchange differences	(2)	(42)	(2)	-	(46)
At 31 December 2009	**(4,367)**	**(12,200)**	**(1,033)**	**-**	**(17,600)**
Depreciation charge	(1,869)	(5,732)	(593)	-	(8,194)
Disposals	386	1,273	196	-	1,855
Foreign exchange differences	(9)	(35)	(3)	-	(47)
At 31 December 2010	**(5,859)**	**(16,694)**	**(1,433)**	**-**	**(23,986)**
Net book value					
At 1 January 2009	**23,502**	**15,860**	**2,977**	**6,464**	**48,803**
At 31 December 2009	**49,773**	**26,533**	**3,195**	**6,074**	**85,575**
At 31 December 2010	**48,725**	**29,165**	**3,038**	**6,437**	**87,365**

(a) 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(c)). At 31 December 2010 the net carrying amount of leased plant and machinery was RUB 5,350 million (2009: RUB 4,955 million).

(b) Security

At 31 December 2010 property, plant and equipment with a carrying amount of RUB 3,955 million (31 December 2009: RUB 3,756 million) is pledged as collateral for secured loans (see note 24(b)).

(c) Other restrictions

The net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to RUB 11,812 million (2009: RUB 12,422 million).

(d) Capitalised borrowing costs

Additions to property, plant and equipment for the year ended 31 December 2010 include RUB 34 million of capitalised borrowing costs (2009: RUB 33 million).

15 Intangible assets

Mln RUB	**Goodwill**	**Development costs**	**Software**	**Advances given for development costs**	**Total**
Cost					
At 1 January 2009	1,880	26,452	2,388	532	31,252
Acquisition through business combination	-	-	56	-	56
Additions and transfers	-	7,272	369	64	7,705
Disposals	-	(30)	(343)	-	(373)
Reclassification to plant and equipment	-	(2,606)	-	-	(2,606)
Government grants	-	(1,867)	-	-	(1,867)
Foreign exchange differences	55	280	3	-	338
At 31 December 2009	**1,935**	**29,501**	**2,473**	**596**	**34,505**
Additions and transfers	-	9,498	653	382	10,533
Disposals	-	(79)	(635)	(10)	(724)
Reclassification to plant and equipment	-	(1,222)	-	-	(1,222)
Reclassification from inventory	-	4,283	-	-	4,283
Government grants	-	(812)	-	-	(812)
Foreign exchange differences	15	95	3	-	113
At 31 December 2010	**1,950**	**41,264**	**2,494**	**968**	**46,676**
Amortisation and impairment losses					
At 1 January 2009	-	(3,665)	(561)	-	(4,226)
Amortization charge	-	(1,313)	(318)	-	(1,631)
Impairment loss	-	(2,119)	-	-	(2,119)
Disposals	-	17	201	-	218
Foreign exchange differences	-	(27)	2	-	(25)
At 31 December 2009	**-**	**(7,107)**	**(676)**	**-**	**(7,783)**
Amortization charge	-	(1,711)	(497)	-	(2,208)
Disposals	-	44	278	-	322
Foreign exchange differences	-	(35)	(2)	-	(37)
At 31 December 2010	**-**	**(8,809)**	**(897)**	**-**	**(9,706)**
Net book value					
At 31 December 2008	**1,880**	**22,787**	**1,827**	**532**	**27,026**
At 31 December 2009	**1,935**	**22,394**	**1,797**	**596**	**26,722**
At 31 December 2010	**1,950**	**32,455**	**1,597**	**968**	**36,970**

(a) Goodwill

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

As at 31 December 2010 management tested the acquired goodwill for impairment. For that purpose a fair value of Irkut Group's CGU was determined with reference to its enterprise value. The enterprise value of Irkut Group was calculated both on the basis of market data for equity instruments of Irkut Group as well as with reference to comparative information using market multiples approach. As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as of 31 December 2010 and as of 31 December 2009.

(b) Development costs

Capitalised development costs comprise of the following programmes:

Mln RUB	**2010**	**2009**
Sukhoi Super Jet – 100 aircraft (SSJ-100)	17,603	13,828
Yak-130 aircraft	4,141	3,053
MS-21 aircraft	795	-
Other	9,916	5,513
Total	**32,455**	**22,394**

Production of SSJ-100 and MC-21 aircraft and provision of services to customers under certain military programmes will commence in 2011 and 2016, respectively. Consequently, the related intangible assets are not amortised. Instead, management tested those assets for impairment both as at the reporting date.

SSJ-100

For impairment purposes the recoverable amount was determined in aggregate for the Company as a whole since it comprises a single cash-generating unit. The recoverable amount was determined by discounting the future cash flows from continuing use of the assets and from their ultimate disposal using a discount rate reflecting current market assessments of the time value of money and the risks specific to the asset. Based on this analysis, the recoverable amount exceeded the carrying amount of the capitalised development costs.

In arriving at the impairment test results in 2010 management used a new business plan approved by the shareholders and which reflected revised expectations of the projected future cash flows. The most significant changes impacting the cash flows expectations were:

- In 2010, management re-estimated the total number of aircrafts projected to be produced from 800 aircraft as projected in 2009 to 893 aircraft in 2010.
- Further, management redeveloped the marketing strategy. One of the key changes related to the new-market entrance discount rate strategy and prices to be applied after entrance on the particular market. Consequently, the base (catalogue) price increased in average from RUB 711 million to RUB 844 million for SSJ-100 "B" and from RUB 726 million to RUB 862 million for SSJ-100 "LR".

The impairment test calculation was sensitive to the number of key factors and particularly to the expected number of aircraft to be sold through the lifetime of the SSJ program, the quantity to be produced as well as to the applied discount rate. The impact of each individual factor is calculated on the assumption that all other factors remain unchanged.

A 5% decrease in future actual sales price of aircraft compared to the expected sales price would result in an impairment loss of RUB 1,495 million assuming the decrease is evenly spread over the lifetime of the program except for the first deliveries which are contracted as at 31 December 2010 and cover projected sales up to 2014. A 4% decrease in future sales prices would not result in impairment.

A 15% decrease in future actual aircraft sales quantity would result in an impairment loss of RUB 1,903 million assuming the decrease is evenly spread over the lifetime of the program except for the first deliveries which are contracted as at 31 December 2010 and cover projected sales up to 2014. A 10% decrease in the projected number of aircraft sales would not result in impairment.

In 2010 management applied a pre-tax discount rate of 10% (as at 31 December 2009 a pre-tax rate of 12.5% was used). An application of a higher or lower discount rate is analysed below:

- An application of a 9% pre-tax discount rate would result in additional excess of discounted cash flows over the carrying amount of the asset by RUB 5,602 million.
- An application of a 13% pre-tax discount rate would not result in impairment loss.
- An application of a 14% pre-tax discount rate would result in impairment loss of RUB 3,416 million.

(c) Capitalised borrowing costs

Management monitors the “Sukhoi Super Jet -100” development program against the capitalisation criteria in IAS 38 Intangible Assets. Based on the ongoing analysis, management concluded that the criteria in IAS 38 were collectively met in October 2004 which was the date when capitalisation of development costs for the program commenced. Additions to capitalised development costs for the year ended 31 December 2010 include RUB 1,279 million of capitalised borrowing costs (2009: RUB 1,867 million).

16 Investments in associates

As at 31 December 2010 the Group owned significant influence interests in JSC “Ilyushin Finance Co” (“IFC”), “SuperJet International” S.p.A (“SJI”) and "Airbus Freighter Conversion" GmbH ("AFC").

IFC

IFC is providing lease finance services of civil aircraft and is engaged in investing in construction, sales and maintenance of aircrafts. In 2010, IFC distributed RUB 12 million (2009: Nil) in dividends.

SJI

SJI is established by the Group together with Alenia Aeronautica S.P.A and incorporated in Italy to provide services to European airlines operating Superjet-100.

AFC

The Company and its subsidiary JSC “Scientific Production Corporation “Irkut” (referred to as “Irkut“ hereinafter) agreed with Airbus S.A.S., Toulouse (referred to as “Airbus“ hereinafter) and Elbe Flugzeugwerke GmbH Dresden (referred to as “EFW” hereinafter) to form a joint venture for development of conversion solutions, marketing, distribution and subsequent maintenance and customer support of Airbus A320 and A321 passenger aircraft converted into civil freight non-passenger planes. In March 2007, the Company, Irkut, Airbus and EFW signed a framework agreement and a shareholder agreement regarding establishment of the joint venture Airbus Freighter Conversion GmbH.

The Group has a 48.16% share in the equity of the joint venture as at 31 December 2010 (25% direct ownership by the Company and 25% by Irkut).

AFC had no revenues from conversions in 2009 and 2010, as the required conversion solutions were under development. While preparing these financial statements, management reconsidered the future prospects of this program and recognised full impairment of the carrying amount of this investment.

Subsequent to the reporting date, a decision to discontinue this operation was made (see note 34).

The following is summarised financial information for equity accounted investees:

2009

Mln RUB	**IFC**	**SJI**	**AFC**	**Total**
Ownership interest	36.41%	49%	48.58%	
Current assets	6,959	1,342	608	8,909
Non-current assets	28,388	686	248	29,322
Total assets	**35,347**	**2,028**	**856**	**38,231**
Current liabilities	(11,334)	(803)	(117)	(12,254)
Non-current liabilities	(7,071)	(23)	-	(7,094)
Total liabilities	**(18,405)**	**(826)**	**(117)**	**(19,348)**
Revenue	6,867	131	-	6,998
Expenses	(6,461)	(900)	(52)	(7,413)
Profit / (loss)	**406**	**(769)**	**(52)**	**(415)**
Share of gain (loss) in equity accounted investees	**148**	**(377)**	**(25)**	**(254)**

2010

Mln RUB	**IFC**	**SJI**	**AFC**	**Total**
Ownership interest	49.48%	49%	48.58%	
Current assets	13,286	1,042	567	14,895
Non-current assets	20,587	819	280	21,686
Total assets	**33,873**	**1,861**	**847**	**36,581**
Current liabilities	(3,006)	(1,227)	(156)	(4,389)
Non-current liabilities	(13,186)	(31)	-	(13,217)
Total liabilities	**(16,192)**	**(1,258)**	**(156)**	**(17,606)**
Revenue and gross finance income from lease	4,667	143	-	4,810
Expenses	(3,896)	(1,025)	(48)	(4,969)
Profit / (loss)	**771**	**(882)**	**(48)**	**(159)**
Share of gain (loss) of equity accounted investees	381	(432)	(23)	(74)
Impairment of investment	-	-	(275)	(275)
Net share gain (loss) in equity accounted investees	**381**	**(432)**	**(298)**	**(349)**

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

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

Mln RUB	IFC	SJI	AFC	Total
Investments in associates at 31 December 2008	**5,284**	**857**	**349**	**6,490**
Contribution of interest in associate from the shareholder of the Company	2,951	-	-	2,951
Acquisition of additional shares/increase of investment	-	256	-	256
Group share in net gains (losses) of associates	148	(377)	(25)	(254)
Foreign exchange differences	-	45	12	57
Investments in associates as at 31 December 2009	**8,383**	**781**	**336**	**9,500**
Dividends	(12)	-	-	(12)
Group share in net gains (losses) of associates	381	(432)	(23)	(74)
Impairment of investment	-	-	(275)	(275)
Share in gains (losses) in associates in the Income Statement	**381**	**(432)**	**(298)**	**(349)**
Foreign exchange differences	-	(66)	(38)	(104)
Investments in associates as at 31 December 2010	**8,752**	**283**	**-**	**9,035**

17 Investments and non-current financial assets

Mln RUB	2010	2009
Non-current		
Investments available for sale measured at cost	3,088	3,023
Promissory notes	8	-
Investments held to maturity	336	116
Total	**3,432**	**3,139**
Current		
Deposits	2,178	566
Loans given	706	4,728
Promissory notes	1,191	-
Other current financial assets	44	644
Total	**4,119**	**5,938**

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

Investments available for sale as at 31 December 2010 and 2009 is mostly attributable to equity securities in JSC “Oboronprom” held by the Group`s subsidiary JSC “RSK “MIG” in the amount of RUB 2,667 million. The ownership interest of RSK MIG in JSC “Oboronprom” is 8%.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Mln RUB	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	307	56	(4,276)	(5,604)	(3,969)	(5,548)
Intangible assets	3,357	2,461	(1,429)	(1,217)	1,928	1,244
Investments	208	114	(6)	(221)	202	(107)
Inventories	2,251	1,986	(1,649)	(163)	602	1,823
Trade and other receivables	1,736	540	(1,791)	(293)	(55)	247
Trade and other payables	584	107	(342)	(186)	242	(79)
Loans and borrowings	30	303	(336)	(50)	(306)	253
Provisions and employee benefits	629	508	(89)	(40)	540	468
Tax loss carry- forwards	1,583	1,756	(12)	-	1,571	1,756
Total tax assets/(liabilities)	**10,685**	**7,831**	**(9,930)**	**(7,774)**	**755**	**57**
Offset of tax	(8,578)	(4,208)	8,578	4,208	-	-
Net tax assets/(liabilities)	**2,107**	**3,623**	**(1,352)**	**(3,566)**	**755**	**57**

Movement in temporary differences during the year

Mln RUB	01 January 2009	Recognised in other comprehensive income	Acquisition under common control	Recognised in profit or loss	Foreign currency translation	31 December 2009
Property, plant and equipment	(3,236)	-	(2,354)	99	(57)	(5,548)
Intangible assets	(671)	-	1,492	471	(48)	1,244
Investments	(24)	-	2	(96)	11	(107)
Inventories	(761)	-	225	2,442	(83)	1,823
Trade and other receivables	(366)	-	127	515	(29)	247
Trade and other payables	194	-	-	(290)	17	(79)
Loans and borrowings	60	-	14	185	(6)	253
Provisions and employee benefits	98	(24)	330	63	1	468
Tax loss carry- forwards	2,211	-	-	(531)	76	1,756
Total	**(2,495)**	**(24)**	**(164)**	**2,858**	**(118)**	**57**

Mln RUB	01 January 2010	Recognised in other comprehensive income	Recognised in profit or loss	Foreign currency translation	31 December 2010
Property, plant and equipment	(5,548)	-	1,594	(15)	(3,969)
Intangible assets	1,244	-	693	(9)	1,928
Investments	(107)	-	310	(1)	202
Inventories	1,823	-	(1,219)	(1)	603
Trade and other receivables	247	-	(302)	(1)	(56)
Trade and other payables	(79)	-	322	-	243
Loans and borrowings	253	-	(560)	1	(306)
Provisions and employee benefits	468	80	71	(80)	539
Tax loss carry-forwards	1,756	-	(185)	-	1,571
Total	**57**	**80**	**724**	**(106)**	**755**

(b) Unrecognized deferred tax assets

Mln RUB	2010	2009
Deductible temporary differences	8,451	7,963
Tax loss carry- forwards	12,883	9,973
Total	**21,334**	**17,936**

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	2010	2009
2018 - 2020	10,321	7,411
2015 - 2017	1,790	1,790
2012 - 2014	772	772
Total	**12,883**	**9,973**

(c) Unrecognised deferred tax liability

A temporary difference as at 31 December 2010 of RUB 1,163 million (2009: RUB 1,306 million) relating to investments in subsidiaries has not been recognised because the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

19 Inventories

Mln RUB	2010	2009
Advance payments to suppliers	36,760	17,654
Raw materials and other supplies	9,386	10,341
Aircraft components	17,605	12,472
Goods for sale	6,384	5,261
Costs incurred and recognised profits on construction contracts	29,468	22,412
Other work in progress	29,517	21,577
	129,120	**89,717**
Advance payments received under construction contracts	(66,133)	(13,269)
Total	**62,987**	**76,448**

(a) Write down to net realisable value

In 2010, as a result of write down of inventories to net realisable value and change in the allowance for inventory obsolescence, RUB 1,221 million (2009: RUB 3,765 million) was included in cost of sales.

(b) Security

Inventory with a carrying amount as at 31 December 2010 of RUB 274 million (31 December 2009 of RUB 8,609 million) is pledged as collateral for secured loans (see note 24(b)).

20 Trade and other receivables

Mln RUB	2010	2009
Accounts receivable	23,015	27,249
Impairment	(1,045)	(109)
	21,970	**27,140**
VAT recoverable	24,027	17,708
Prepayments	16,539	10,793
Trade receivables of JSC “FLC”	-	1,901
Due from tax authorities	1,034	628
Government grant receivable	1,104	456
Other receivables and originated loans	5,709	1,018
Total	**70,383**	**59,644**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 29.

21 Cash and cash equivalents

Mln RUB	2010	2009
Bank balances, Russian roubles	30,417	40,952
Bank balances, Foreign currency	6,088	5,352
Deposits	9,973	13,575
Other cash and cash equivalents	1,306	243
Total	**47,784**	**60,122**

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

22 Equity

(a) Share capital and share premium

	Ordinary shares	
Thousands of shares unless otherwise stated	**2010**	**2009**
Authorised shares	188,632,913	131,605,358
Par value	RUB 1	RUB 1
On issue at 1 January	131,605,358	104,970,603
Issued for cash	57,027,555	11,309,735
Issued for equity instruments of subsidiaries and associates	-	15,325,020
On issue at 31 December, fully paid	**188,632,913**	**131,605,358**

In May 2010 the Company issued 43,000,000 thousand of additional ordinary shares for the benefit of the Russian Federation and the Russian Federation State owned bank VEB - for cash.

In December 2010 the Company issued 14,027,555 thousand of additional ordinary shares for the sole benefit of the Russian Federation for cash.

Subsequent to the reporting date, in June 2011, the Company issued 13,293,050 thousand of additional ordinary shares by open subscription. 12,608,800 thousand ordinary shares were paid in cash and the residual amount was contributed by the Russian Federation in the form of 100% interest in Myasishchev Design Bureau, an entity domiciled in the Russian Federation and involved in design, experimental production and flight testing activities.

At the date these consolidated financial statements were authorised for issue the authorised and issued share capital of the Company consisted of 201,925,963 thousand shares.

In December 2011 the Company issued 2,698,014 thousands additional ordinary shares in the form of open subscription. The entire issue was satisfied in cash.

(b) Prepaid shares reserve

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

(c) Revaluation reserve

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

(d) Translation reserve

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

(e) Treasury shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At the reporting date the Group held 309,894,828 (2009: 309,894,828) of its own shares.

(f) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2010 the Company had accumulated losses, including the loss for the current year, of RUB 18,127 million (31 December 2009: accumulated loss of RUB 10,973 million).

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

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

During 2009 and 2010 non-controlling shareholders of the Group's subsidiaries made direct contributions to equity of those subsidiaries. The result of those transactions was recognised directly in equity as an adjustment to non-controlling interest and the Group's accumulated losses.

In 2008, the Federal Agency for State property management acting on behalf of the Russian Federation contributed RUB 430 million directly to the share capital of the Group's subsidiary JSC "Company "Sukhoi".

In 2009, a significant investment was made to the share capital of the Group's subsidiary CJSC "Sukhoi Civil Aircraft" from Alenia Aeronautica, an aerospace and defence division of the Italian group Finmecccanica. As a result of the contribution amounting to RUB 6,319 million, Alenia Aeronautica obtained a 25% interest in the Group's subsidiary CJSC "Sukhoi Civil Aicraft".

In December 2009, the Federal Agency for State property management acting on behalf of the Russian Federation contributed RUB 3,841 million directly to the share capital of the Group's subsidiary JSC "Company "Sukhoi" and RUB 15,000 million directly to the share capital of Group's subsidiary JSC "RSK "MiG" which decreased the Group interest in those entities to 93.64% and 58.42% respectively.

In 2010, the Federal Agency for State property management acting on behalf of the Russian Federation further contributed RUB 830 million directly to the share capital of the Group's subsidiary JSC "Company "Sukhoi".

23 Earnings per share

The calculation of basic loss per share at 31 December 2010 is based on the loss attributable to ordinary shareholders of RUB 18,946 million (2009: RUB 25,984 million), and a weighted average number of ordinary shares outstanding of 157,169,813 thousands shares (2009: 112,636,949 thousands shares), calculated as shown below. The Company has no dilutive potential ordinary shares.

In thousands of shares	**2010**	**2009**
Issued shares at 1 January	131,605,358	104,970,603
Issued shares at 1 January treasury shares	(309,895)	(309,895)
Effect of shares issue registered in February 2009	-	4,786,035
Effect of shares issue registered in September 2009	-	1,972,602
Effect of shares issue registered in December 2009	-	1,217,604
Effect of shares issue registered in May 2010	25,682,192	-
Effect of shares issue registered in December 2010	192,158	-
Weighted average number of shares for the year ended 31 December	**157,169,813**	**112,636,949**

24 Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings, which are measured at amortised cost. For more information about the Group’s exposure to interest rate, foreign currency and liquidity risk, see note 29.

Mln RUB	**2010**	**2009**
Non-current		
Secured bank loans	26,192	34,163
Unsecured bank loans	40,221	30,357
Secured loans from other companies	2,148	-
Unsecured loans from other companies	-	104
Unsecured bonds issue	5,136	-
Finance lease liabilities	2,026	2,284
Other loans	-	131
Total	**75,723**	**67,039**

Mln RUB	**2010**	**2009**
Current		
Secured bank loans	31,618	49,266
Unsecured bank loans	27,259	21,149
Secured loans from other companies	313	273
Unsecured loans from other companies	242	441
Unsecured bonds issue	17,445	22,442
Finance lease liabilities	943	1,212
Other loans	1,128	1,209
Total	**78,948**	**95,992**

(a) Terms and debt repayment schedule

Mln RUB		Nominal interest rate	Year of maturity	Face value 2010	Carrying amount 2010	Face value 2009	Carrying amount 2009
Secured bank loans:	RUB	10.2%-28%	2010	-	-	12,433	12,798
	RUB	8%-20%	2011	9,075	9,112	-	-
	RUB	9%-16%	2010-2015	9,934	10,016	17,110	17,241
	RUB	Mosprime + 3%	2010-2015	870	871	2,170	2,183
	USD	4% - 14%	2010-2013	27,725	27,808	34,781	34,925
	USD	LIBOR - 8%	2011-2013	1,446	1,488	5,511	5,522
	EUR	Euribor+4% - 6%	2013	8	8	149	149
	EUR	7%-10%	2011	3,127	3,134	-	-
	EUR	3%-16%	2010-2016	5,328	5,373	10,541	10,611
Unsecured bank loans:	RUB	9.45%-20%	2011-2012	21,074	21,299	11,065	11,267
	USD	9%-12%	2011	8,853	8,906	-	-
	USD	9%-12%	2011-2015	13,950	13,977	12,793	12,862
	USD	LIBOR+1.8% - 9%	2011-2016	6,169	6,205	14,855	14,960
	USD	Euribor+4.9%	2011-2016	2,966	3,051	-	-
	EUR	7%	2011-2014	4,574	4,578	-	-
	EUR	Euribor +0,45%	2010-2017	9,013	9,011	11,989	12,058
	GBP	9%-11%	2011-2016	465	453	356	359
Unsecured bonds issue:	RUB	9%	2010	-	-	7,444	7,695
	RUB	8%	2011	8,000	8,130	-	-
	RUB	9%	2012-2013	5,000	5,136	-	-
	USD	9-10%	2010	7,567	9,315	13,610	14,747
Finance lease liabilities:	RUB	2-27%	2010-2016	545	543	565	565
	USD	10-38%	2010-2015	640	640	938	938
	EUR	8-22%	2011-2015	1,786	1,786	1,993	1,993
Other loans:	RUB	8% - 12%	2010	1,304	1,491	2,043	2,084
	USD	20-24%	2011	2,258	2,340	108	74
Total				**151,677**	**154,671**	**160,456**	**163,031**

(b) Security

Group loans are secured over property, plant and equipment with a carrying amount of RUB 3,955 million (31 December 2009: RUB 3,756 million), inventory with a carrying amount of RUB 274 million (31 December 2009: RUB 8,609 million), titles to rent of land plots with square areas of 1,279,964 square metres, shares in JSC “Irkut Corporation” (6%) and all new shares acquired by JSC “RSK “MiG” in subsidiaries.

Also there are pledged rights to receive future revenues from export sales of Sukhoi Group, Irkut Group, JSC “RSK “MiG”, JSC “Nizhniy Novgorod Aircraft Plant “Sokol” and other Group entities, revenues generated from contracts with Ministry of Defence of Russian Federation, with Airbus S.A.S. and lease contracts of JSC “Finance Lease Company”.

Non-current loans to the amount of RUB 2,700 million obtained in 2006 for purposes of financing of the SSJ-100 project are secured by Russian Federation State guarantee to reinforce the requirements of Russian Federation government decree dated 10/09/2005 #557.

(c) Finance lease liabilities are payable as follows:

31 December 2010

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

31 December 2009

Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1,637	425	1,212
Between one and five years	2,584	300	2,284
Total	**4,221**	**725**	**3,496**

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

25 Trade and other payables

Mln RUB	2010	2009
Current		
Advances from customers	44,826	54,736
Trade payables	26,393	34,102
Other payables	4,319	355
Settlements with employees	1,959	2,215
VAT payable	4,430	1,247
Other tax payable	1,427	1,652
Accrued expenses	1,150	911
Total	**84,504**	**95,218**
Non-current		
Advances from customers	-	8,034
Trade payables	488	581
Other payables	1,048	695
Deferred income	-	60
Total	**1,536**	**9,370**

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

26 Government grants

The development of the "Sukhoi Super Jet – 100" aircraft is included in the Federal Target Program "Development of the civil aircraft for 2002-2010 and for the period until 2015" approved by the Regulation of the Federal Government of the Russian Federation No. 728 dated 15 October 2001. In accordance with this program, the Company receives financing from the Federal Government. Funds are received under the contract with the Ministry of Industry and Trade (Minpromtorg) which is structured as a contract for development services, and as direct subsidies from the budget to cover certain types of expenses.

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

Mln RUB	**2010**	**2009**
Grants related to development costs	812	1,867
Grants related to other assets	13	-
Total	**825**	**1,867**
Grants related to income	484	1,391
Government grant related to compensation of interest expense	3,043	1,634
Total	**4,352**	**4,892**

27 Employee benefits

Mln RUB	**2010**	**2009**
Fair value of plan assets	939	928
Present value of obligations	(3,400)	(3,114)
Deficit in the plan	**(2,461)**	**(2,186)**
Total employee benefit liabilities	**(2,461)**	**(2,186)**

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

Movements in the present value of the defined benefit obligations:

Mln RUB	2010	2009
Fair value at 1 January	(3,114)	(1,779)
Current service cost	(77)	(112)
Benefits paid	154	137
Actuarial (loss) / gain	(302)	99
Interest cost	(251)	(162)
Amendment to pension plan	190	-
Acquisition under the common control	-	(991)
Acquisition through business combination	-	(306)
Fair value at 31 December	**(3,400)**	**(3,114)**

Movements in the present value of plan assets:

Mln RUB	2010	2009
Fair value at 1 January	928	861
Expected return on plans assets	82	76
Benefits paid	(152)	(137)
Contributions	179	62
Actuarial (loss) gain	(98)	2
Acquisition under the common control	-	21
Acquisition through business combination	-	43
Fair value at 31 December	**939**	**928**

Plan assets comprise to low–risk fixed income instruments.

Expense recognised in the statement of comprehensive income:

Mln RUB	2010	2009
Current services costs	(77)	(112)
Amendment to pension plan	190	-
Expected return on plan's assets	82	76
Interest expenses	(251)	(162)
Total recognised in profit or loss	**(56)**	**(198)**
Actuarial (losses)/gains recognised in other comprehensive income before tax	(320)	81
Total	**(376)**	**(117)**

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

	2010	2009
Discount rate	8.0%	8.7%
Expected rate of return on plans assets	8.0%	8.7%
Future pension and salary increases	5.5%	5.5%
Average life expectancy of members from the date of retirement:		
Male	14 years	14 years
Female	22 years	22 years

28 Provisions

	2010				2009			
Mln RUB	**Warranty**	**Onerous contracts**	**Other**	**Total**	**Warranty**	**Onerous contracts**	**Other**	**Total**
Balance at 1 January	**1,054**	**354**	**150**	**1,558**	**666**	**59**	**-**	**725**
Provisions made during the year	802	71	152	1,025	545	354	150	1,049
Acquired under common control	-	-	-	-	466	-	-	466
Provisions used during the year	(473)	(353)	-	(826)	(525)	(59)	-	(584)
Provisions reversed during the year	(139)	-	-	(139)	(51)	-	-	(51)
Foreign exchange differences	2	-	-	2	(47)	-	-	(47)
Balance at 31 December	**1,246**	**72**	**302**	**1,620**	**1,054**	**354**	**150**	**1,558**

(a) Warranty

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

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

29 Financial instruments

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

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Mln RUB	Carrying amount 2010	Carrying amount 2009
Finance lease receivables	567	3,244
Loans given	706	4,728
Deposits	2,178	566
Trade receivables	23,015	27,249
Costs incurred and recognised profits on construction contracts	29,468	22,412
Other receivables	6,813	1,474
Amount due from tax authorities	1,034	628
VAT receivable	24,027	17,708
Cash and cash equivalents	47,784	60,122
Total	**135,592**	**138,131**

(b) Impairment losses

The aging of trade receivables at the reporting date was:

Mln RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	11,335	-	12,800	-
Past due 0-360 days	10,635	-	14,340	-
More than one year	1,045	(1,045)	109	(109)
Total	**23,015**	**(1,045)**	**27,249**	**(109)**

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

Mln RUB	2010	2009
Balance as at 1 January upon Group establishment	109	80
Impairment loss recognised	936	29
Balance at 31 December	**1,045**	**109**

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

The provision in respect of trade receivables and held-to-maturity investments is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2010 the Group does not have any collective impairments on its trade receivables or its held-to-maturity investments (2009: nil).

(c) Liquidity risk

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

31 December 2010

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

31 December 2009

Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	83,429	96,154	55,548	34,886	3,676	2,044
Unsecured bank loans	51,506	60,347	24,501	17,171	13,694	4,981
Unsecured bond issues	22,442	23,568	23,568	-	-	-
Finance lease liabilities	3,496	4,221	1,637	1,381	1,203	-
Other loans	2,158	2,349	2,062	287	-	-
Trade and other payables	37,385	37,385	36,109	1,276	-	-
Total	**200,416**	**224,024**	**143,425**	**55,001**	**18,573**	**7,025**

(d) Currency risk

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

	31 December 2010			31 December 2009		
Mln RUB	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
Cash and cash equivalents	5,444	623	21	5,256	92	3
Trade receivables	9,400	1,847	-	10,315	5,295	-
Costs incurred and recognised profits on construction contracts	25,057	-	-	19,947	-	-
Secured bank loans	(29,296)	(8,515)	-	(40,393)	(10,760)	-
Unsecured bank loans	(32,139)	(13,589)	(453)	(27,877)	(12,058)	(359)
Secured loans from other companies	(2,235)	-	-	-	-	-
Unsecured loans from other companies	(104)	-	-	-	-	-
Unsecured bonds issue	(9,315)	-	-	(14,747)	-	-
Finance lease liabilities	(640)	(1,786)	-	(938)	(1,993)	-
Other loans	(1)	-	-	(74)	-	-
Trade and other payables	(15,193)	(3,249)	(8)	(16,585)	(2,872)	(13)
Gross exposure on financial position	**(49,022)**	**(24,669)**	**(440)**	**(65,095)**	**(22,296)**	**(369)**

The following significant exchange rates applied during the year:

RUB	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD	30.37	31.72	30.48	30.24
EUR	40.30	44.13	40.33	43.39
GBP	48.34	49.65	47.26	48.04

(e) Sensitivity analysis

A 10% strengthening (weakening) of RUB against the US dollar, EURO and GBP based on the Group's exposure at the reporting date would have increased (decreased) equity and net profit for the year by RUB 5,729 million (2009: RUB 7,021 million).

(f) Interest rate risk

(i) Profile

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

	Carrying amount	
Mln RUB	**2010**	**2009**
Fixed rate instruments		
Financial assets	14,693	18,243
Financial liabilities	(121,048)	(130,333)
Total	**(106,355)**	**(112,090)**
Variable rate instruments		
Financial liabilities	(33,623)	(32,698)
Total	**(33,623)**	**(32,698)**

(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 2010 would have increased loss for the year by RUB 220 million (31 December 2009: RUB 196 million). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Mln RUB	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Loans given and deposits	2,884	2,884	5,294	5,294
Other investments	4,667	4,667	3,783	3,783
Trade and other receivables	70,383	70,358	59,753	59,644
Finance lease receivables	567	567	3,244	3,244
Cash and cash equivalents	47,784	47,784	60,122	60,122
Secured bank loans	(57,810)	(57,512)	(83,429)	(82,694)
Unsecured bank loans	(67,480)	(67,063)	(51,506)	(51,060)
Secured loans from other companies	(2,461)	(2,374)	-	-
Unsecured loans from other companies	(242)	(244)	-	-
Unsecured bonds issue	(22,581)	(13,000)	(22,442)	(13,641)
Finance lease liabilities	(2,969)	(2,969)	(3,496)	(3,496)
Other loans	(1,128)	(1,071)	(2,158)	(2,152)
Trade and other payables	(39,255)	(39,255)	(37,385)	(40,805)
Total	**(67,641)**	**(57,228)**	**(71,464)**	**(65,005)**

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

30 Commitments

(a) Capital commitments

At 31 December 2010 the Group is committed to capital expenditure of approximately RUB 3,035 million (2009: RUB 5,427 million), which includes RUB 2,956 million necessary for completion of the "Sukhoj Super Jet - 100" program (2009: RUB 5,383 million).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2010 under long-term supply agreements are estimated at RUB 2,934 million at current market prices (2009: RUB 7,886 million).

Also the Group has commitments in its contracts with customers to meet certain performance targets, including adherence to specified delivery schedules. In case of a failure to comply with the targets, the Company will be liable to penalties of up to RUB 45 million per aircraft.

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

31 Contingencies

(a) Insurance

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

(b) Litigation

(i) Claims against JSC “Finance Leasing Company”

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

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

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

(d) Environmental contingencies

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

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.

(b) Transactions with management

(i) Key management personnel compensation

Key management received the following remuneration during the year, which is included in personnel expenses (see note 10):

Mln RUB	**2010**	**2009**
Wages and salaries	935	721
Compulsory social security contributions	95	47
Total	**1,030**	**768**

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of the Russian Federation (2010: 81.75%, 2009: 91.34%). The Group operates in an industry dominated by entities directly or indirectly controlled by the Federal Government of the Russian Federation through its government authorities, agencies, affiliation and other organizations (collectively referred to as "government related entities"). The Group has transactions with government related entities including sales and purchases of goods and ancillary materials, rendering and receiving services, lease of assets, depositing and borrowing money, and use of public utilities.

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

During the years ended 31 December 2009 and 31 December 2010 the Group did not enter into individually significant transactions with government related entities.

For the year ended 31 December 2010 management estimated that the aggregate amount of the Group's collectively significant transactions with government related entities is up to 27% (2009: up to 36%) of its revenues, at least 36% (2009: at least 32%) of its purchases of materials, equipment and services, and up to 61% of its borrowings (2009: up to 68%).

The Group also benefits from compensation of borrowing costs related to financing of long-term construction contract from the government of Russian Federation. This government grant was provided following the Regulation of the Government of Russian Federation #357 dated 6 June 2005 which provides for partial compensation of borrowing costs incurred by Russian entities engaged in export of industrial products and which obtain financing from Russian banks. Management expects that the Group will continue to qualify for further compensation during 2010 in relation to loans already secured or to be secured in 2008-2011.

The Group benefits from compensation of activities on development of the "Sukhoi Super Jet – 100" aircraft from the government of Russian Federation. This government grant was provided following the Federal Target Program "Development of the civil aircraft for 2002-2010 and for the period until 2015" approved by the Regulation of the Federal Government of the Russian Federation No. 728 dated 15 October 2001. Government grants received are disclosed in Note 26.

33 Significant subsidiaries

The list of subsidiaries as at 31 December 2010 is presented below.

	Effective ownership	
Entity of the Group	**2010**	**2009**
Sukhoi Group		
JSC “Company Sukhoi”	93.17%	93.64%
JSC “OKB Sukhogo”	52.68%	52.94%
JSC “Komsomolsk-na-Amure Aviation Production Association”	94.86%	95.26%
JSC “Novosibirsk Aviation Production Association”	94.65%	95.26%
CJSC “Sukhoi Civil Aircraft”	68.66%	69.00%
Irkut Group		
JSC “Irkut Corporation”	94.65%	93.62%
JSC “OKB Imeni A.S. Yakovleva”	78.08%	77.30%
Other subsidiaries		
JSC “Tupolev”	95.52%	95.51%
JSC “TANTK Imeni G.M. Berieva”	92.29%	91.87%
CJSC “Aviastar-SP”	99.54%	96.69%
JSC “OAK – TS” (former “JSC “MAK Ilyushin”)	100%	100%
JSC “AK Ilyushin”	87.06%	87.06%
JSC “VASO”	70.30%	70.29%
JSC “Nizhniy Novgorod Aircraft Plant “Sokol”	89.09%	88.87%
JSC “Finance Leasing Company”	89.31%	89.31%
CJSC “Aerocompozit”	98.22%	72.22%
JSC “Tavia”	87.12%	87.12%
JSC “RSK “MiG”	58.42%	58.42%
JSC “KAPO”	100%	100%

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

34 Events subsequent to the reporting date

In April 2011 the Company issued 46,280 thousand of documentary non-convertible interest bonds in the form of open subscription.

In June 2011 the Company issued 13,293,050 thousand additional ordinary shares in the form of open subscription. 12,608,800 thousand ordinary shares were paid in cash and the residual amount was contributed by the Russian Federation in the form of 100% interest in Myasishchev Design Bureau, an entity domiciled in the Russian Federation and involved in design, experimental production and flight testing activities.

In December 2011 the Company issued 2,698,014 thousand additional ordinary shares in the form of open subscription . The entire issue was statisfied in cash.

In February 2011, the Group received ARMAK Type Certificate for the Sukhoi Super Jet-100 aircraft and in April 2011, first delivery of the aircraft was made to Armavia.

In March 2011 the Company has sold to ANTONOV 50% of the entity’s "UAC - civil aircraft" registered capital. Subsequently a joint venture "UAC-Antonov" between Russia and Ukraine will be created on the basis of this entity.

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