OAO Scientific Production Corporation "Irkut"

Consolidated Financial Statements

for the year ended 31 December 2009

Contents

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Independent Auditors' Report

The Board of Directors

OAO Scientific Production Corporation "Irkut"

We have audited the accompanying consolidated financial statements of OAO Scientific Production Corporation "Irkut" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

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12 May 2010

	Notes	2009 '000 USD	2008 '000 USD
Revenues	9	1,313,651	1,247,971
Cost of sales		(908,572)	(847,949)
Gross profit		**405,079**	**400,022**
Other income		1,384	7,381
Research and development costs		(9,686)	(8,896)
Distribution expenses		(181,047)	(165,229)
Administrative expenses		(123,921)	(131,326)
Taxes, other than on profit		(8,242)	(9,501)
Other expenses	11	(30,350)	(17,175)
Profit from operating activities		**53,217**	**75,276**
Finance income	12	11,837	12,892
Finance costs	12	(85,080)	(119,391)
Share of loss of equity accounted investees		(9,541)	(10,166)
Loss before tax		**(29,567)**	**(41,389)**
Income tax benefit	13	10,182	6,503
Loss for the year		**(19,385)**	**(34,886)**
Attributable to:			
Owners of the parent company		(19,688)	(40,620)
Non-controlling interest		303	5,734
		(19,385)	**(34,886)**
Basic and diluted loss per share (USD)	23	(0.020)	(0.042)

The consolidated financial statements were authorised for issuance on 12 May 2010 by management and signed on its behalf.

D.V. Polevshchikov
Vice-President for Corporate Finance

	Notes	2009 '000 USD	2008 '000 USD
Loss for the year		(19,385)	(34,886)
Other comprehensive income:			
Foreign exchange differences		(1,870)	(22,331)
Total comprehensive income for the year		(21,255)	(57,217)
Attributable to:			
Owners of the parent company		(21,162)	(56,606)
Non-controlling interest		(93)	(611)
		(21,255)	(57,217)

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

	Note	2009 '000 USD	2008 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	14	328,663	313,530
Intangible assets	15	159,848	149,546
Investments in equity accounted investees	16	-	9,577
Investments and non-current financial assets	17	37,750	40,655
Other non-current assets	8	178,366	-
Deferred tax assets	18	2,065	2,333
		706,692	**515,641**
Current assets			
Assets held for sale	7	13,493	-
Investments	17	201	5,674
Inventories	19	394,066	556,141
Trade and other receivables	20	247,136	510,922
Cash and cash equivalents	21	535,096	611,037
		1,189,992	**1,683,774**
Total assets		**1,896,684**	**2,199,415**
EQUITY AND LIABILITIES			
Equity	22		
Share capital		103,811	103,811
Share premium		97,532	97,532
Foreign currency translation reserve		(4,512)	(3,038)
Retained earnings		134,289	153,977
Total equity attributable to shareholders of the parent company		**331,120**	**352,282**
Non-controlling interest		15,077	15,170
Total equity		**346,197**	**367,452**
Non-current liabilities			
Loans and borrowings	24	486,264	903,829
Deferred tax liabilities	18	22,565	29,344
		508,829	**933,173**
Current liabilities			
Loans and borrowings	24	753,260	298,274
Trade and other payables	25	281,366	591,322
Provisions	26	7,032	9,194
		1,041,658	**898,790**
Total equity and liabilities		**1,896,684**	**2,199,415**

	2009 '000 USD	2008 '000 USD
OPERATING ACTIVITIES		
Loss before tax	(29,567)	(41,389)
Adjustments for:		
Depreciation and amortisation	42,228	40,062
Unrealised foreign exchange (gain) /loss	(2,526)	14,425
Impairment / (reverse of impairment) of loans and bad debts	2,014	(98)
Impairment of non-current assets	12,200	-
Loss on disposal of subsidiary	-	2,600
(Gain)/loss on disposal of property, plant and equipment	(429)	650
(Income)/loss from investments	(2,414)	15,998
Loss from associates	9,541	10,166
Interest expense	105,827	95,916
Government grant related to compensation of interest expense	(41,924)	(28,576)
Interest income	(9,423)	(12,892)
Development costs	9,686	8,896
Operating profit before changes in working capital and provisions	**95,213**	**105,758**
Change in inventories	(16,291)	117,197
Change in trade and other receivables	251,979	(261,071)
Change in trade and other payables	(313,517)	293,345
Change in deferred income	-	(3,863)
Change in provisions	(2,162)	(4,003)
Cash flows from operations before income taxes and interest paid	**15,222**	**247,363**
Income taxes paid	-	(34,165)
Cash flows from operating activities	**15,222**	**213,198**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and assets held for sale	459	806
Proceeds from disposal of subsidiary, net of cash disposed of	-	(784)
Acquisition of property, plant and equipment	(39,559)	(81,824)
Acquisition of intangible assets and development expenditure	(27,852)	(45,004)
Loans advanced to related parties	(10,208)	-
Proceeds from investments	7,543	(45,942)
Interest received	9,423	12,892
Cash flows utilised by investing activities	**(60,194)**	**(159,856)**
FINANCING ACTIVITIES		
Proceeds from borrowings	575,155	617,536
Repayment of borrowings	(546,211)	(347,632)
Interest paid, net of grant received	(56,145)	(62,676)
Dividends paid	-	(5,539)
Cash flows (utilised by) / from financing activities	**(27,201)**	**201,689**
Net (decrease) / increase in cash and cash equivalents	**(72,173)**	**255,031**
Cash and cash equivalents at beginning of year	611,037	363,783
Effect of exchange rates fluctuations on cash and cash equivalents	(3,768)	(7,777)
Cash and cash equivalents at end of year (note 21)	**535,096**	**611,037**

	Attributable to the equity holders of the Company						Non-controlling interest	Total equity
’000 USD	**Share capital**	**Share premium**	**Revaluation reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2008	103,811	97,532	17,741	12,684	184,971	416,739	33,166	449,905
Loss for the year	-	-	-	-	(40,620)	(40,620)	5,734	(34,886)
Foreign exchange differences	-	-	-	(15,986)	-	(15,986)	(6,345)	(22,331)
Total comprehensive income for the year						(56,606)	(611)	(57,217)
Dividends to equity holders	-	-	-	-	(5,515)	(5,515)	(24)	(5,539)
Disposal of subsidiary	-	-	(17,741)	264	15,141	(2,336)	(17,361)	(19,697)
Balance at 31 December 2008	**103,811**	**97,532**	**-**	**(3,038)**	**153,977**	**352,282**	**15,170**	**367,452**
Loss for the year	-	-	-		(19,688)	(19,688)	303	(19,385)
Foreign exchange differences	-	-	-	(1,474)	-	(1,474)	(396)	(1,870)
Total comprehensive income for the year						(21,162)	(93)	(21,255)
Balance at 31 December 2009	**103,811**	**97,532**	**-**	**(4,512)**	**134,289**	**331,120**	**15,077**	**346,197**

1 Background

(a) Organisation and operations

OAO Scientific Production Corporation “Irkut” (“the Company”) was formed as an open joint stock company following the President Decree and State Privatization Programme of 1992. The principal activity of the Company is the 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. This research and development is carried out for the Group’s own purposes.

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

The Company’s operations are subject to license for production and repair of aviation equipment awarded by FGUP “Rosaviacosmos”. The current license is valid until January 2013.

The Company’s office is located at bld. 1, 68, Leningradsky prospect, Moscow, 125315, Russia.

(b) State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the foreign economic activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. Access to information classified as a state secret can be granted by the appropriate authorities only to organizations and individuals holding security licenses with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up the mobilization capacity of the state (refer note 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 Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the continued contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investment property, instruments held for trading, designated at fair value through profit and loss and available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). The Parent Company's functional currency is the United States Dollar ("USD") because it reflects the economic substance of the underlying events and circumstances of the company.

USD is also the currency in which the consolidated financial statements are presented. All financial information presented in USD has been rounded to the nearest thousand.

The RUR is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of RUR to USD should not be construed as a representation that the RUR amounts have been, could be, or will be in the future, convertible into USD at the exchange rate disclosed, or at any other exchange rate.

(d) Use of estimates and judgements

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

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

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

- Note 3(o) and 9 – Revenues;
- Note 7 – Assets held for sale
- Note 4(d) and 17 – Investments and non-current financial assets
- Note 15 – Intangible assets;
- Note 26 – Provisions;
- Note 29 – Contingencies.

(e) Changes in accounting policies

(i) Overview

Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations
- Accounting for acquisitions on non-controlling interests
- Determination and presentation of operating segments
- Presentation of financial statements.

(ii) Accounting for business combinations

The Group has adopted early IFRS 3 *Business Combinations (2008)* and IAS 27 *Consolidated and Separate Financial Statements (2008)* for all business combinations occurring in the financial year starting 1 January 2009. All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method. The change in accounting policy in applied prospectively and had no material impact on earnings per share.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

(iii) Accounting for acquisitions of non-controlling interests

The Group has adopted early IFRS 3 Business Combinations (2008) and IAS 27 Consolidated and Separate Financial Statements (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 January 2009.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

(iv) Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows. As part of the adoption of the IFRS 8 *Operating Segments* the Group has early adopted amendments to IFRS 8 paragraph 23 introduced by Improvements to IFRSs issued in April 2009 which are effective for annual periods beginning on or after 1 January 2010.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise fixed assets, administrative expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

In 2009 the Group decided to present cash flows related to interest paid within financing activities instead of presenting those with operating activities of the consolidated statement of cash flows in previous periods. The change in presentation reflects management's believe that such presentation better reflects economic substance of Group financing activities and is going to be further consistently applied as required by IAS 7 *Statement of Cash Flows*. Comparative information in the consolidated statement of cash flows for the reporting year has been re-presented for consistency.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied, except as explained in note 2(e) which addresses changes in accounting policies.

(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.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(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.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When a foreign 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 foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(d) Classification of assets and liabilities

The operating cycle for aircraft construction contracts exceeds one year. Assets, which are reasonably expected to be realised in cash or sold or consumed during the operating cycle of the business are shown under current assets. Liabilities whose liquidation is reasonably expected within the operating cycle of the business are also shown under current liabilities.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- Buildings 40-50 years
- Plant and equipment 5-20 years

(iv) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(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.

(f) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, rather than for use in production or supply of goods or services, or for administrative purpose or for sale in the ordinary course of business. Investment property is measured at fair value with any change therein recognised in profit or loss.

(g) Intangible Assets

(i) Research and development

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

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

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement 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.

(ii) Other intangible assets

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

(h) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

(i) 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.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group’s contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and costs is discussed in note 3(q).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred 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.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(ii) Financial guarantees

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

(j) 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 balance sheet net of advance payments received for construction contracts.

(k) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

(ii) Non-financial assets

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

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

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

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

(l) Dividends

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

(m) Employee benefits

Employees receive pension benefits from the government of the Russian Federation and the Group makes contributions on their behalf in accordance with the appropriate laws and regulations which are expensed as incurred.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(o) 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.

(p) 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.

(q) 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.

(r) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Government grants

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

(t) 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.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial is available (see note 2(e)(iv).

(v) New Standards and Interpretations not yet adopted

Other than those adopted early as explained in note 2(e), a number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an impact on the Group’s financial reporting.

4 Determination of fair values

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group’s investment property portfolio annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the 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.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. If the market for an investment is not active, the fair value is determined by reference to the observable market transactions with the same or comparable instrument or by using a valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) 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.

(f) Non-derivative financial liabilities

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

5 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has recently established the Risk Management Commission, which is responsible for developing and monitoring the Group's risk management policies. The commission reports regularly to the Board of Directors on its activities.

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

(b) Credit risk

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

(i) Trade and other receivables

Main customers of the Group are governments of other countries and Group's exposure to credit risk is influenced mainly by the economical and political situation in these countries. Approximately 90% of the Group's revenue is attributable to sales transactions with a group of three main customers. Therefore, geographically there is high concentration of credit risk. Group monitors all changes which occur in the target countries.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and related entities.

(iii) Guarantees

As of 31 December 2009 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(c) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit, which were undrawn as at 31 December 2009:

- USD 20 million long-term credit line that is unsecured. Interest would be payable at the variable rate of Libor+4.6%;
- USD 112.5 million short-term credit line that is secured by future cash receipts under existing contract. Interest would be payable at the variable rate of Libor+7.5%;
- USD 47.7 million short-term credit line that is secured by future cash receipts under existing contract. Interest would be payable at the fixed rate of 10.5%;

(d) Market risk

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

The Group incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Commission. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

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

In 2009 the Group hedged approximately 85% to 100% of its estimated foreign currency exposure in respect of forecast expenses over the following twelve months. The Group uses put options on foreign exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. (in 2008 the Group used forward exchange contracts).

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

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

(ii) Interest rate risk

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

(iii) Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

(iv) Capital management

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

The Group's return on capital was negative in 2009 (2008: 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 8.2% (2008: 8.8%).

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

	2009 ’000 USD	**2008 ’000 USD**
Total debt	1,239,524	1,202,103
Less: cash and cash equivalents	(535,096)	(611,037)
Net debt	704,428	591,066
Total equity	346,197	367,452
Debt to capital ratio at 31 December	2.03	1.61

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business programs. The strategic business programs offer different products and complied services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business programs, the Group's CEO reviews internal management reports on a half-yearly basis. The following summary describes the operations in each of the Group's reportable segments:

- *SU-30 Program*. Includes development, manufacturing and distributing SU-30 aircrafts, components and service equipment.
- *YAK-130 Program*. Includes development, manufacturing and distribution of YAK-130 aircrafts components and service equipment.
- *Cooperation*. Includes products which are developed and manufactured in cooperation with Airbus.
- *MC*-21 *Program*. Includes development of a new civil aircraft with silicon wing.

Other operations include repair and modernization of aircrafts sold in the past but not currently produced, supply of utilities, design and development work under contract with client and other. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2009 or 2008.

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

- Timing differences related when revenue and costs are recognised.
- Differences related to allocation of types of expenses to cost of sales and distribution cost.
- Differences related to design and development costs and subsequent amortisation of such costs.

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

Information about reportable segments

'000 USD	SU-30 Program		YAK-130 Program		Cooperation		MC-21 Program		Other		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
External revenue	1,143,803	1,062,252	1,477	3,518	12,847	3,759	50,824	62,261	66,642	201,646	1,275,593	1,333,436
Segment direct costs	554,483	593,706	713	1,480	7,605	2,291	28,571	46,700	51,763	118,286	643,135	762,463
Direct distribution expenses	153,894	120,631	-	-	648	156	-	-	608	1,652	155,150	122,439
Design and development	56,000	57,000	-	-	-	-	-	-	21	1,296	56,021	58,296
Reportable segment gross profit	**379,426**	**290,915**	**764**	**2,038**	**4,594**	**1,312**	**22,253**	**15,561**	**14,250**	**80,412**	**421,287**	**390,238**

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

	2009 '000 USD	2008 '000 USD
Total revenue for reportable segments	1,275,593	1,333,436
Change in timing of revenue recognition	38,058	(80,465)
Consolidated revenue	1,313,651	1,247,971
Reportable segment gross profit	421,287	390,238
Direct distribution expenses	155,150	122,439
Change in timing of recognition and allocation	(171,358)	(112,655)
Gross profit	**405,079**	**400,022**
Other income	1,384	7,381
Research and development costs	(9,686)	(8,896)
Distribution expenses	(181,047)	(165,229)
Administrative expenses	(123,921)	(131,326)
Taxes, other than on profit	(8,242)	(9,501)
Other expenses	(30,350)	(17,175)
Profit from operating activities	**53,217**	**75,276**
Finance income	11,837	12,892
Finance costs	(85,080)	(119,391)
Share of loss of equity accounted investees	(9,541)	(10,166)
Consolidated loss before income tax	**(29,567)**	**(41,389)**

7 Non-current assets held for sale

In 2009 the board of directors of the parent company (UAC) made a decision to perform a restructuring of the UAC group by establishing of three integrated structures (business units or division): “UAC – Combat Aircraft”, “UAC – Commercial Aircraft” and “UAC – Special-purpose Aircraft”. As part of the restructuring process all ownership interests in UAC subsidiaries attributable to a particular Business Unit shall be legally consolidated under a dedicated holding subsidiary leading the Business Unit.

OAO Scientific Production Corporation “Irkut” (the Company) was determined as a holding company for the Business Unit “UAC – Commercial Aircraft”. The main activity of the Business Unit “UAC – Commercial Aircraft” will be development and manufacturing of civil aircraft and aircraft components. As part of the restructuring, the Company shall dispose of the ownership interests in subsidiaries and associates which were determined to be part of a different Business Unit and acquire those ownership interests in UAC subsidiaries which were allocated to “UAC – Commercial Aircraft” Business Unit which are not currently owned by the Company. The acquisition and disposal of relevant interests are expected to be exercised in two steps: at first all UAC subsidiaries holding ownership interests in non-profile entities will transfer those to UAC, on the second stage all relevant ownership interests (which are not yet held by dedicated holding companies) will be contributed by UAC to the share capital of those holding companies.

The Company's associates JSC "Beriev Aircraft Company" and JSC "NAZ "Sokol" involved in development and manufacturing activities which do not relate to the Business Unit "UAC – Commercial Aircraft" main products and are expected to go under "UAC – Special-purpose aircraft" and "UAC – Combat aircraft" respectively. The Company management has undertaken relevant steps to prepare the ownership interest for disposal in accordance with the restructuring plan and an actual transfer is expected in October 2010. Since the sale transactions will represent transactions under common control the related result will be charged directly to equity.

Since JSC "NAZ "Sokol" shares were acquired in July 2009 in anticipation of further exchange for another asset this investment was classified as held for disposal upon its initial recognition. Subsequently, upon approval of the UAC restructuring plan, the Company management decided not to sell those shares but to transfer those under the restructuring plan in 2010. Therefore the investment in JSC "NAZ "Sokol" was not accounted as an equity accounted investee in 2009.

As at 31 December 2009 non-current assets held for sale included 22% ownership interest in JSC "NAZ "Sokol" with the carrying amount of USD 13,493 thousand which are also pledged as a collateral for secured bank loans (see note 24) and 41% interest in equity accounted investee JSC "TANTK imeni Berieva" with carrying amount of USD nil (see note 16).

8 Other non-current assets

Other non-current assets include a number of SU-30K aircrafts acquired as trade-in by the Group in 2008 with anticipated subsequent sale in 2009. During 2009 Company management expectations with regard to the timing of sale of those aircraft changed to 2011. As at the balance sheet date the aircraft is measured at cost less impairment loss recognised amounting to USD 12,200 thousand which reflects management current expectations of the future contract price for the assets and time value of money.

9 Revenues

	2009 '000 USD	2008 '000 USD
Revenue earned on military aircraft construction contracts	874,699	838,539
Revenue on sales of military aircraft components and related products	326,775	280,856
Revenue earned on civil aircraft construction contracts	-	8,936
Revenue on sales of civil aircraft components and related products	21,460	12,424
Other revenues	90,717	107,216
	1,313,651	**1,247,971**

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date on construction contracts in progress is USD 3,602,383 thousand (2008: USD 3,481,149 thousand).

10 Personnel expenses

	2009 '000 USD	2008 '000 USD
Wages and salaries	183,832	163,997
Compulsory social security contributions	37,432	36,126
	221,264	**200,123**

11 Other expenses

	2009 '000 USD	2008 '000 USD
Loss on disposal of property, plant and equipment and assets held for sale	-	(650)
Loss on disposal of current assets	(725)	-
Social costs	(6,533)	(10,736)
Impairment of loans given and bad debts and write-off trade and other receivables	(2,014)	(4,073)
Impairment of other non-current assets	(12,200)	-
Banking expenses	(1,111)	(1,716)
Other	(7,767)	-
	(30,350)	**(17,175)**

12 Finance income and costs

During 2009, the Company used put option exchange contracts for hedging a part of expenses nominated in RUR (in 2008 the Company used forward exchange contracts).

	2009 '000 USD	2008 '000 USD
Finance income		
Interest income on amounts due from tax authorities	-	808
Other interest income	9,423	12,084
Gain on disposal of investments	2,414	-
	11,837	**12,892**
Finance costs		
Interest expense	(105,827)	(95,916)
Government grant related to compensation of interest expense	41,924	28,576
Interest expense, net	(63,903)	(67,340)
Foreign exchange loss	(20,527)	(27,539)
Loss from options / forward exchange contract	(650)	(8,514)
Loss from impairment of investments	-	(15,998)
	(85,080)	**(119,391)**

13 Income tax benefit

	2009 '000 USD	2008 '000 USD
Current tax (benefit)/expense		
Current income tax	2,037	761
Adjustment for prior periods	(5,927)	(550)
	(3,890)	**211**
Deferred tax benefit		
Origination and reversal of temporary differences	(6,292)	479
Change in tax rate	-	(7,206)
Change in unrecognised deferred tax assets	-	13
	(6,292)	(6,714)
Income tax benefit	**(10,182)**	**(6,503)**

The Group's applicable tax rate is the corporate income tax rate of 20% (2008: 24%).

Reconciliation of effective tax rate:

	2009 '000 USD	%	2008 '000 USD	%
Loss before income tax	(29,567)	100	(41,389)	100
Income tax benefit at applicable tax rate	(5,913)	20	(9,933)	24
Non-deductible/non-taxable items, net	667	(2)	1,884	(4)
Foreign currency translation	991	(3)	9,289	(22)
Overprovided in prior years	(5,927)	20	(550)	1
Change in tax rate	-	-	(7,206)	17
Change in unrecognised deferred tax assets	-	-	13	0
	(10,182)	**34**	**(6,503)**	**16**

14 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2008	**176,446**	**338,568**	**85,042**	**600,056**
Additions	4,591	28,203	49,030	81,824
Transfers	9,550	36,803	(46,353)	-
Disposals	(1,119)	(4,508)	(30)	(5,657)
Disposal of subsidiary	(22,071)	(25,745)	(10,369)	(58,185)
Foreign exchange differences	(4,823)	(4,392)	(2,169)	(11,384)
At 31 December 2008	**162,574**	**368,929**	**75,151**	**606,654**
Additions	-	18,220	32,969	51,189
Transfers	8,010	69,144	(77,154)	-
Disposals	(495)	(3,848)	(4)	(4,347)
Foreign exchange differences	(64)	198	40	174
At 31 December 2009	**170,025**	**452,643**	**31,002**	**653,670**
Depreciation				
At 1 January 2008	**(94,020)**	**(188,036)**	-	**(282,056)**
Depreciation charge	(5,271)	(28,891)	-	(34,162)
Disposals	806	3,472	-	4,278
Disposal of subsidiary	2,538	12,851	-	15,389
Foreign exchange differences	526	2,901	-	3,427
At 31 December 2008	**(95,421)**	**(197,703)**	-	**(293,124)**
Depreciation charge	(3,377)	(32,819)	-	(36,196)
Disposals	469	3,848	-	4,317
Foreign exchange differences	3	(7)	-	(4)
At 31 December 2009	**(98,326)**	**(226,681)**	-	**(325,007)**
Net book value				
At 1 January 2008	**82,426**	**150,532**	**85,042**	**318,000**
At 31 December 2008	**67,153**	**171,226**	**75,151**	**313,530**
At 31 December 2009	**71,699**	**225,962**	**31,002**	**328,663**

(a) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 24). At 31 December 2009 the net carrying amount of leased plant and machinery was USD 46,200 thousand (2008: USD 23,866 thousand).

(b) Security

At 31 December 2009 properties with a carrying amount of with a carrying amount of USD 14,648 thousand (31 December 2008: USD 6,603 thousand) are pledged as a collateral for secured bank loans (see note 24).

(c) Other restrictions

The net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to USD 86,804 thousand (2008: USD 36,461 thousand).

15 Intangible assets

'000 USD	**Development costs**	**Other intangibles**	**Total**
Cost			
At 1 January 2008	**165,982**	**16,953**	**182,935**
Additions	26,054	10,054	36,108
Disposals	-	(2,501)	(2,501)
Disposal of subsidiary	(34,240)	(2,908)	(37,148)
Foreign exchange differences	(18,911)	(677)	(19,588)
At 31 December 2008	**138,885**	**20,921**	**159,806**
Additions	16,989	1,177	18,166
Disposals	-	(26)	(26)
Foreign exchange differences	(1,807)	(8)	(1,815)
At 31 December 2009	**154,067**	**22,064**	**176,131**
Amortisation and impairment			
At 1 January 2008	**(4,730)**	**(6,898)**	**(11,628)**
Amortisation charge	(1,180)	(4,720)	(5,900)
Disposal	-	2,424	2,424
Disposal of subsidiary	2,254	1,780	4,034
Foreign exchange differences	429	381	810
At 31 December 2008	**(3,227)**	**(7,033)**	**(10,260)**
Amortisation charge	(3,191)	(2,841)	(6,032)
Disposals	-	10	10
Foreign exchange differences	-	(1)	(1)
At 31 December 2009	**(6,418)**	**(9,865)**	**(16,283)**
Net book value			
At 1 January 2008	**161,252**	**10,055**	**171,307**
At 31 December 2008	**135,658**	**13,888**	**149,546**
At 31 December 2009	**147,649**	**12,199**	**159,848**

Capitalised development costs comprise the following items:

	2009 '000 USD	2008 '000 USD
Intellectual property rights related to the development of:		
Be-200 aircraft	34,823	34,823
Yak-130 aircraft	100,961	89,798
SUV-30K modernisation set	9,265	9,265
Others	2,600	1,772
	147,649	**135,658**

Production of aircraft and provision of services to customers under Be-200 and SUV-30K programs will commence in 2010-2011 and therefore related intangible assets are not amortised. Instead, management tested those assets for impairment as at 31 December 2009. The recoverable amount was determined by discounting the future cash flows from the continuing use of the assets and from their ultimate disposal. A pre-tax discount rate of 30%, which reflects current market assessments of the time value of money and the risks specific to the assets, was applied in determining the recoverable amount. Based on this analysis, the recoverable amount exceeded the carrying amount of related intangible assets.

16 Investments in equity accounted investees

In December 2009, as part of the UAC restructuring program (see note 7), management decided to dispose of its total 41% ownership interest in JSC "TANTK imeni Berieva", a Company associate, therefore as at 31 December 2009 the investment was classified as an asset held for sale. However, due to the fact JSC "TANTK imeni Berieva" reported a net loss which resulted in negative net assets of this entity as at 31 December 2009, the carrying value of the investment was reduced to nil. The Group did not recognise any share in losses of JSC "TANTK imeni Berieva" in addition to reducing the carrying value of investment to nil since the Group has no obligations in respect of these losses.

Below is the summary of financial information, not adjusted for the percentage ownership held by the Group.

	2009 '000 USD	2008 '000 USD
Current assets	62,205	67,980
Non-current assets	76,454	66,516
Total assets	138,659	134,496
Current liabilities	117,126	106,741
Non-current liabilities	36,507	7,167
Total liabilities	153,633	113,908

	2009 '000 USD	2008 '000 USD
Revenue	36,073	82,356
Expenses	(71,045)	(95,057)
Net loss	(34,972)	(12,701)

17 Investments and non-current financial assets

	2009 '000 USD	2008 '000 USD
Non-current		
Available-for-sale investments, stated at cost	27,282	38,194
Loans to related parties – long term	10,208	-
Investments held to maturity	183	-
Other non-current financial assets	77	2,461
	37,750	**40,655**
Current		
Investments held to maturity	-	5,674
Loans to third companies – current	201	-
	201	**5,674**

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

Loans to related parties consist of the zero-interest rouble loan given to the Parent company of the Company (UAC) repayable in 2010 year.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 USD	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	66	59	(11,824)	(10,536)	(11,758)	(10,477)
Intangible assets	6,959	7,757	(19,872)	(21,673)	(12,913)	(13,916)
Investments	2,083	6,997	(2,749)	(2,529)	(666)	4,468
Other non-current assets	2,440	-	-	-	2,440	-
Inventories	7,074	7,480	(14,690)	(45,586)	(7,616)	(38,106)
Trade and other receivables	3,341	274	(1,359)	(9,410)	1,982	(9,136)
Loans and borrowings	8,275	2,471	-	(10)	8,275	2,461
Trade and other payables	27	7,778	(2,313)	(2,029)	(2,286)	5,749
Provisions	1,247	568	(97)	(1,373)	1,150	(805)
Tax loss carry-forwards	906	32,830	(14)	(79)	892	32,751
Total tax assets/(liabilities)	**32,418**	**66,214**	**(52,918)**	**(93,225)**	**(20,500)**	**(27,011)**
Offset of tax	(30,353)	(63,881)	30,353	63,881	-	-
Net tax assets/(liabilities)	**2,065**	**2,333**	**(22,565)**	**(29,344)**	**(20,500)**	**(27,011)**

(b) Movement in temporary differences during the year

'000 USD	1 January 2008	Recognised in income	Foreign currency translation	Change in rate	Transferred to disposal group	31 December 2008
Property, plant and equipment	5,028	(24,198)	935	3,039	4,719	(10,477)
Investment property	(4,965)	(255)	996	704	3,520	-
Intangible assets	(8,586)	(21,053)	5,279	4,060	6,384	(13,916)
Investments	(205)	5,567	-	(894)	-	4,468
Inventories	(39,196)	(650)	(4,060)	7,318	(1,518)	(38,106)
Trade and other receivables	(8,746)	(3,659)	281	2,021	967	(9,136)
Loans and borrowings	(93)	3,632	(147)	(565)	(366)	2,461
Trade and other payables	7,745	(975)	204	(1,207)	(18)	5,749
Provisions	(1,570)	947	(27)	108	(263)	(805)
Tax loss carry-forwards	4,093	40,152	21	(7,378)	(4,137)	32,751
	(46,495)	**(492)**	**3,482**	**7,206**	**9,288**	**(27,011)**

'000 USD	1 January 2009	Recognised in income	Foreign currency translation	Change in rate	Transferred to disposed subsidiary	31 December 2009
Property, plant and equipment	(10,477)	(1,282)	1	-	-	(11,758)
Intangible assets	(13,916)	689	315	-	-	(12,912)
Other non-current assets	-	2,440	-	-	-	2,440
Investments	4,468	(5,134)	-	-	-	(666)
Inventories	(38,106)	30,620	(130)	-	-	(7,616)
Trade and other receivables	(9,136)	11,097	21	-	-	1,982
Loans and borrowings	2,461	5,814	-	-	-	8,275
Trade and other payables	5,749	(8,033)	(2)	-	-	(2,286)
Provisions	(805)	1,956	(2)	-	-	1,149
Tax loss carry-forwards	32,751	(31,875)	16	-	-	892
	(27,011)	**6,292**	**219**	**-**	**-**	**(20,500)**

The tax losses expire in 2019.

(c) Unrecognized deferred tax liability

A temporary difference of USD 35 thousand (31 December 2008: USD 6,415 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

19 Inventories

	2009 '000 USD	2008 '000 USD
Advance payments to suppliers	153,273	205,380
Raw materials and other supplies	109,266	129,167
Aircraft components	102,284	169,238
Goods for sale (see note 8)	1,368	170,710
Amounts due from customers for contract work	260,012	213,425
Other work in progress	76,680	70,643
	702,883	**958,563**
Advance payments received	(308,817)	(402,422)
	394,066	**556,141**

20 Trade and other receivables

	2009 '000 USD	2008 '000 USD
Accounts receivable – trade due from related parties	14,356	16,922
Accounts receivable – trade due from third parties	103,040	367,969
Allowance for doubtful accounts	(37)	(137)
	117,359	**384,754**
VAT recoverable	87,238	81,127
Due from tax authorities	6,754	791
Prepaid taxes	14,844	12,209
Other receivables and originated loans	20,941	32,041
	247,136	**510,922**

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 27.

21 Cash and cash equivalents

	2009 '000 USD	2008 '000 USD
Bank balances, US Dollars	123,583	540,816
Bank balances, Euro	1,466	17
Bank balances, Russian roubles	54,225	49,405
Call deposits, US Dollars	40,046	-
Call deposits, Russian roubles	315,776	20,799
	535,096	**611,037**

The Group's exposure to currency risk, interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

22 Equity

(a) Share capital

As at 31 December 2009 and 2008, authorised, issued and fully paid capital stock consisted of 978,131,612 ordinary shares. All ordinary shares have a nominal value of RUR 3 each.

(b) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2009 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 7,295,392 thousand (USD 241,216 thousand translated at the closing RUR/USD exchange rate of 30,2442).

Before these consolidated financial statements were authorised for issue, no recommendation has been made by the Board of Directors with regard to dividend distribution for 2009**.** In accordance with the Group's dividend policy, the amount of distribution is limited to 25% of the net profit for the year attributable to the shareholders of the Parent Company determined in accordance with IFRS.

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

	23 June 2009	**20 June 2008**
Amount per share, RUR	-	0.14
Amount per share, USD	-	0.0056
Total amount, '000 USD	-	5,515

23 Earnings per share

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

Number of shares	**2009**	**2008**
Issued ordinary shares at 1 January	978,131,612	978,131,612
Weighted average number of ordinary shares at 31 December	**978,131,612**	**978,131,612**

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 27.

	2009 '000 USD	2008 '000 USD
Non-current		
Secured bank loans	141,823	183,703
Unsecured bank loans	336,487	603,274
Unsecured bond issue	-	112,761
Finance lease liabilities	7,954	4,091
	486,264	**903,829**
Current		
Secured bank loans	22,213	3,404
Unsecured bank loans	-	40,552
Current portion of non-current secured bank loans	273,347	67,848
Current portion of non-current unsecured bank loans	336,385	52,606
Current portion of unsecured bond issue	109,846	127,304
Current portion of finance lease liabilities	11,469	6,537
Other loans	-	23
	753,260	**298,274**

(a) Security

The loans are secured over property, plant and equipment with a carrying amount of USD 14,648 thousand (31 December 2008: USD 6,603 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

’000 USD	Nominal interest rate	Year of maturity	Face value 2009	Carrying amount 2009	Face value 2008	Carrying amount 2008
Secured bank loans:						
RUR	11%-12%	2010	21,405	22,213	-	-
RUR	15%	2009	-	-	3,404	3,404
USD	9.75%-11,75%	2009-2012	225,017	228,046	225,000	229,573
USD	Libor+2.8%	2009	-	-	20,000	20,300
USD	Libor+6.5%	2010	182,473	182,212	-	-
EURO	Euribor+5%	2010-2013	4,942	4,912	1,678	1,678
Unsecured bank loans:						
USD	8.50%	2009-2011	45,000	45,035	75,000	75,088
USD	10%	2012-2013	290,000	291,890	222,955	224,975
USD	Libor+2.4%-6.5%	2010	337,000	335,508	387,080	386,659
EURO	Euribor+1.25%-6%	2009-2011	448	439	9,768	9,710
Unsecured bond issues:						
RUR	8.74%	2010	107,459	109,846	110,618	112,761
USD	8.25%	2009	-	-	125,000	127,304
Finance lease liabilities	10.2%-14%	2009-2012	19,423	19,423	10,628	10,628
Other loans	5%	2009	-	-	23	23
Total interest-bearing liabilities			**1,233,167**	**1,239,524**	**1,191,154**	**1,202,103**

(c) Finance lease liabilities are payable as follows:

’000 USD	Future minimum lease payments 2009	Interest 2009	Present value of minimum lease payments 2009	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008
Less than one year	12,656	1,187	11,469	7,449	912	6,537
Between one and five years	8,355	401	7,954	4,318	227	4,091
	21,011	**1,588**	**19,423**	**11,767**	**1,139**	**10,628**

For more information about the Group’s exposure to interest rate and foreign currency risk, see note 27.

25 Trade and other payables

	2009 '000 USD	2008 '000 USD
Accounts payable – trade due to related parties	36,935	23,225
Other trade payables	115,472	211,975
Accrued expenses	6,153	2,790
Advances from customers	92,180	308,566
Income and other taxes payable	16,756	24,684
Other payables	13,870	20,082
	281,366	**591,322**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

26 Provisions

	Warranties	
	2009 '000 USD	2008 '000 USD
Balance at 1 January	9,194	13,197
Provisions made during the year	8,127	6,780
Provisions used during the year	(8,448)	(10,297)
Provisions reversed during the year	(1,841)	(486)
Balance at 31 December	**7,032**	**9,194**

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.

27 Financial instruments

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

(a) Credit risk

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

’000 USD	Carrying Amount 2009	Carrying amount 2008
Available-for-sale financial assets	27,282	38,194
Held-to-maturity investments	183	5,674
Other non-current financial assets	77	2,461
Trade receivables	117,359	384,754
Amounts due from customers for contract work	260,012	213,425
Loans to related parties	10,208	-
Loans to third parties	201	-
Other receivables and originated loans	20,941	32,041
Cash and cash equivalents	535,096	611,037
	971,359	**1,287,586**

(b) Impairment losses

The aging of trade receivables at the reporting date was:

’000 USD	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	95,033	-	368,578	-
Past due 0-360 days	22,289	-	16,176	-
More than one year	37	(37)	137	(137)
	117,359	**(37)**	**384,891**	**(137)**

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

’000 USD	2009 ’000 USD	2008 ’000 USD
Balance at 1 January	137	325
Impairment loss recognised	(100)	(188)
Balance at 31 December	**37**	**137**

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

The allowance accounts in respect of trade receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2009 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2008: 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 2009

’000 USD	Carrying amount	Contractual cash flows	12 month or less	1-2 years	3-5 years
Secured bank loans	437,383	485,458	328,601	156,643	214
Unsecured bank loans	672,872	788,508	388,359	222,853	177,296
Unsecured bond issues	109,846	116,748	116,748	-	-
Finance lease liabilities	19,423	21,011	12,656	8,355	-
Trade and other payables	189,186	189,186	189,186	-	-
	1,428,710	**1,600,911**	**1,035,550**	**387,851**	**177,510**

31 December 2008

’000 USD	Carrying amount	Contractual cash flows	12 month or less	1-2 years	3-5 years
Secured bank loans	254,955	306,867	91,834	63,648	151,385
Unsecured bank loans	696,432	821,788	122,333	388,311	311,144
Unsecured bond issues	240,065	260,147	139,967	120,180	-
Finance lease liabilities	10,628	11,767	7,449	3,933	385
Other loans	23	23	23	-	-
Trade and other payables	282,756	282,756	282,756	-	-
	1,484,859	**1,683,348**	**644,362**	**576,072**	**462,914**

(d) Currency risk

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

	31 December 2009			31 December 2008		
’000 USD	USD	RUR	EURO	USD	RUR	EURO
Cash and cash equivalents	163,629	370,001	1,466	540,816	70,204	17
Trade receivables	91,883	25,443	33	369,245	15,243	266
Other receivables and originated loans	-	20,941	-	-	32,041	-
Amounts due from customers for contract work	225,630	34,382	-	206,620	6,805	-
Secured bank loans	(410,258)	(22,213)	(4,912)	(249,873)	(3,404)	(1,678)
Unsecured bank loans	(672,433)	-	(439)	(686,722)	-	(9,710)
Unsecured bond issues	-	(109,846)	-	(127,304)	(112,761)	-
Finance lease liabilities	(13,137)	(2,568)	(3,718)	(2,534)	(3,128)	(4,966)
Other loans	-	-	-	-	(23)	-
Trade and other payables	(117,192)	(60,552)	(11,442)	(196,150)	(81,027)	(5,579)
Gross balance sheet exposure	**(731,878)**	**255,588**	**(19,012)**	**(145,902)**	**(76,050)**	**(21,650)**

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date spot rate**	
	2009	**2008**	**2009**	**2008**
RUR 1,000	31.53	40.23	33.07	34.04
EURO	1.39	1.47	1.43	1.41

(e) Sensitivity analysis

A 5% strengthening of the USD against the following currencies at 31 December 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008

’000 USD	**Equity/Profit or loss**
31 December 2009	
RUR	(12,171)
EURO	905
31 December 2008	
RUR	3,621
EURO	1,031

A 5% weakening of the USD against the above currencies at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(f) Interest rate risk

(i) Profile

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

’000 USD	**Carrying amount**	
	2009	**2008**
Fixed rate instruments		
Financial assets	368,747	23,908
Financial liabilities	(716,453)	(783,756)
	(347,706)	**(759,848)**
Variable rate instruments		
Financial liabilities	(523,071)	(418,347)
	(523,071)	**(418,347)**

(ii) Fair value sensitivity analysis for fixed rate instruments

The Group does not recognize any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect equity or net profit for the year.

(iii) Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates based on the Group's exposure at the balance sheet date for 2009 would have increased loss for the year by USD 5,231 thousand (2008: USD 4,183 thousand). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values

(i) Fair values versus carrying amounts

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

'000 USD	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Available-for-sale financial assets	27,282	27,282	38,194	38,194
Other non-current financial assets	77	77	2,461	2,461
Held-to-maturity investments	183	183	5,674	5,674
Loans and receivables	148,709	148,709	416,795	416,795
Cash and cash equivalents	535,096	535,096	611,037	611,037
Secured bank loans	(437,383)	(437,383)	(254,955)	(254,955)
Unsecured bank loans	(672,872)	(672,872)	(696,432)	(696,432)
Unsecured bond issues, RUR (note 24)	(109,846)	(106,384)	(112,761)	(96,790)
Unsecured bond issues, USD (note 24)	-	-	(127,304)	(116,263)
Finance lease liabilities	(19,423)	(19,423)	(10,628)	(10,628)
Other loans	-	-	(23)	(23)
Trade and other payables	(189,186)	(189,186)	(282,756)	(282,756)
	(717,363)	**(713,978)**	**(410,698)**	**(386,147)**

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

28 Commitments

(a) Capital commitments

At 31 December 2009 the Group is committed to capital expenditure of approximately USD 1,453 thousand (2008: USD 6,003 thousand).

(b) Supply commitments

Commitments with third parties for the supply of aircraft components and services after 31 December 2009 under long-term supply agreements are estimated at USD 260,756 thousand at current market prices (2008: USD 93,179 thousand).

29 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

The Group was involved in a number of disputes with tax authorities related to the results of the tax audits for 2007-2008. In 2009 the disputes were finalised in favour of the Group. According to the tax legislation the Group claimed additional deductions from the taxable profits reported in previous years and claimed an increase in tax loss reported in 2008. The claim was satisfied in Court of Arbitration in 2009.

(c) Taxation contingencies

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

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

(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.

30 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.

Upon establishment of OAO United Aircraft Corporation in December 2006, the controlling interest in the Parent Company was contributed by the shareholders to the share capital of OAO United Aircraft Corporation, which is controlled by the Federal Government of Russian Federation. Therefore, from 31 December 2006 the Federal Government of Russian Federation is the ultimate controlling party of the Group. Related parties disclosures (refer 30(c)) as at 31 December 2008 include balances with other state-controlled entities.

(b) Transactions with management

(i) Key management personnel compensation

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

	2009 '000 USD	2008 '000 USD
Wages and salaries	7,781	3,069
Compulsory social security contributions	358	589
	8,139	**3,658**

(c) Transactions with entities under common control

Transactions with entities under common control are disclosed in notes 17, 20 and 25. In addition, the Group had the following transactions and balances with related parties.

'000 USD	Transaction value 2009	Outstanding balance 2009	Transaction value 2008	Outstanding balance 2008
Purchases of raw materials and components	(1,722)	(10,617)	(7,765)	(23,871)
Sales of military aircraft components and related products	333,916	-	523,179	-
Acquisition of design and development	(14,609)	-	(19,240)	-
Accounts receivable – trade	-	13,190	-	16,922
Advance payments received	-	(5,921)	-	(26,211)
Advance payments given	-	42,116	-	59,767
Loans to related parties	10,208	10,208	-	-
Other receivables and originated loans	-	2,902	210	3,839
Bank balances	-	323,322	-	554,565
Secured loans	162,410	(407,490)	(1,056)	(225,000)
Unsecured loans	77,045	(605,000)	361,654	(548,035)

(d) Pricing policies

Prices for related party transactions are determined on a transaction-by-transaction basis, not necessarily at arm's length.

31 Significant subsidiaries

	Country of incorporation	Ownership/voting 2009	2008
OAO "OKB Imeni A.S. Yakovleva"	Russia	75%	75%
ZAO "Beta Air"	Russia	72%	72%
ZAO "Techserviceavia"	Russia	51%	51%

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

32 Events subsequent to the balance sheet date

At the end of 2009 the Government of Russian Federation made a decision to provide financial support to companies in the aircraft industry. In particular regard to the Group the assistance was realised through cash contribution made by the parent company of the Company (UAC) in the form of zero-interest loan in amount of USD 164,415 thousand (RUR 4,861 million) with maturity in 2050 and convertible to the equity instruments of the Company. In accordance with the above decision, during 2010 the Company will also receive from UAC a zero-interest loan repayable in 2018 in amount of USD 374,933 thousand (RUR 11,248 million).