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Note:

In this annual report, the terms "UAC", "the Company" refer to Public Joint Stock Company "United Aircraft Corporation".

In this annual report "UAC Group of Companies", "UAC Group", "the Corporation", "UAC", "United Aircraft Corporation" shall mean PJSC "UAC" and its subsidiaries.

**416.9**

**RUB bln**

revenue of the Corporation  
in 2016

**78.6**

**RUB bln**

gross profit of the Corporation  
in 2016

**33.2**

**RUB bln**

EBITDA of the Corporation  
in 2016

# UAC TODAY

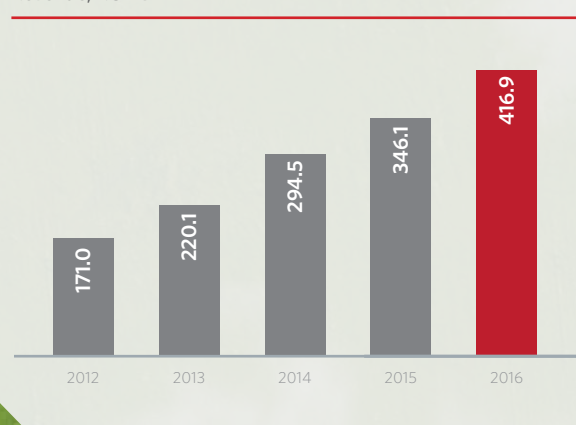
THE UNITED AIRCRAFT CORPORATION IS AMONG THE LEADING GLOBAL MANUFACTURERS OF CIVIL AND MILITARY AIRCRAFT

PJSC "UAC" was established in 2006 to preserve and further develop the scientific and production potential of Russia's aviation industry, to contribute to safeguarding the country's national security and defence capability, and to ensure the concentration of intellectual, industrial and financial resources, with a view to implementing prospective aircraft development programmes. The Corporation is among the integrated structures representing Russia's defence and industrial complex. Since 2007 the Corporation has been included in the list of strategic companies of the Russian Federation.

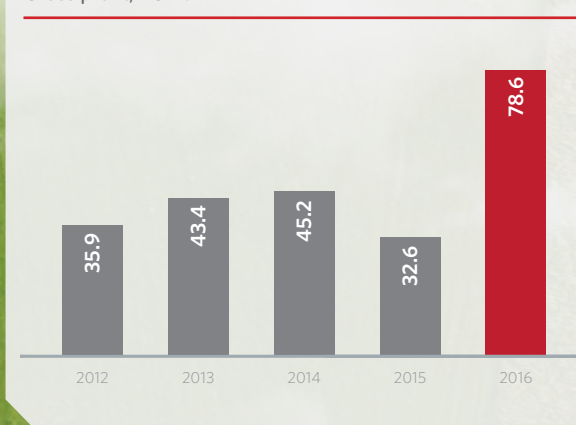
The key activities of the Corporation are the development, construction and testing of military and civil aircraft, along with maintenance and service support, as well as aircraft equipment modernisation, overhauling and recycling, training and retraining of human resources, and the professional development of flying personnel. The Corporation's product portfolio includes aircraft brands such as Su, MiG, Il, Tu, Yak, MC-21, SSJ 100, Be and others.

The main shareholder of PJSC "UAC" is the Russian Federation, represented by the Federal Agency for State Property Management, which holds a stake of over 90%. The shares of PJSC "UAC" are traded on the Moscow Exchange under ticker UNAC.

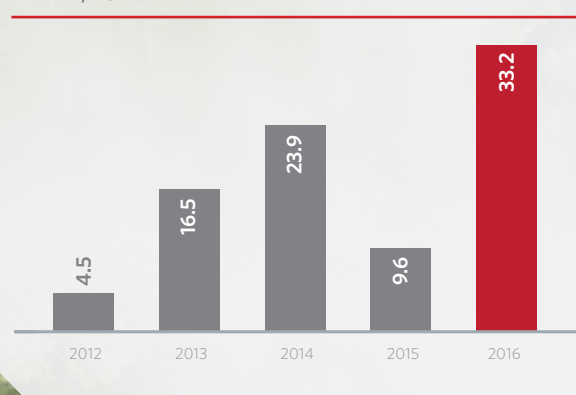
Revenue, RUB bln



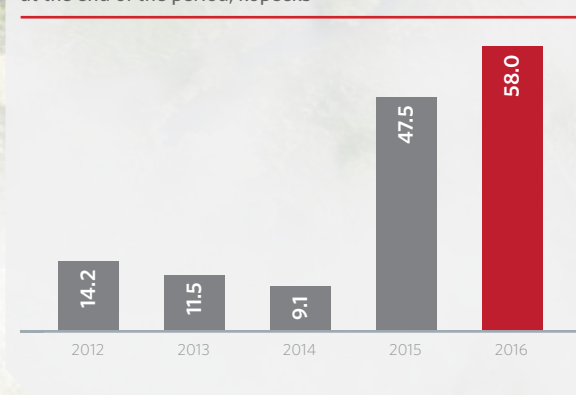
Gross profit, RUB bln



EBITDA, RUB bln



Market price of one share on the Moscow Exchange at the end of the period, kopecks





**104**

military and transport  
aircraft delivered to customers  
in 2016

**37**

civil aircraft  
delivered to customers  
in 2016

**141**

aircraft of all types  
delivered to customers  
in 2016

# AIRCRAFT SUPPLY TREND

## » MILITARY AIRCRAFT



Aircraft type	2012	2013	2014	2015	2016
<b>Military aircraft*:</b>	<b>71</b>	<b>79</b>	<b>124</b>	<b>124</b>	<b>103</b>
Domestic market	35	54	102	90	<b>72</b>
Export	36	25	22	34	<b>31</b>

## » CIVIL AIRCRAFT



<b>Civil aircraft**:</b>	<b>21</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>37</b>
Domestic market	18	18	26	25	<b>26</b>
Export	3	14	9	5	<b>11</b>

## » TRANSPORT AIRCRAFT



<b>Transport aircraft:</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>
Domestic market	2	-	-	2	<b>1</b>
Export	-	-	-	-	-

<b>TOTAL:</b>	<b>94</b>	<b>111</b>	<b>159</b>	<b>156</b>	<b>141</b>
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\* including prototypes aircraft.

\*\* including prototypes aircraft, remarketing and special-purpose state aviation.













# GEOGRAPHY OF OPERATIONS







## Joint ventures abroad


### 1 MOSCOW

-  PJSC "UAC" Headquarters
-  PJSC "Company Sukhoi"
-  JSC "Sukhoi Civil Aircraft"
-  PJSC "Irkut Corporation"
-  OJSC "OKB Imeni A.S. Yakovlev"
-  JSC "UAC-TS"
-  PJSC "Tupolev"
-  OJSC "Aviation complex named after S. V. Ilyushin"
-  LLC "UAC-Purchases"
-  JSC "Aerocomposit"
-  LLC "UAC- Integration Center"
-  JSC "RSK "MiG"


### 2 ZHUKOVSKY (MOSCOW REGION)

-  OJSC "Myasishchev Design Bureau"
-  JSC "M. M. Gromov Flight Research Institute"


### 3 LUKHOVITSY (MOSCOW REGION)

-  Production Centre No. 1 — Branch of JSC "RSK "MiG"




### 4 KUBINKA (MOSCOW REGION)

-  JSC "121 ARZ"



### 5 LYUBERZY (MOSCOW REGION)

-  JSC "Aviaremont"

### 6 KAZAN (TATARSTAN)

-   PJSC "Tupolev" Branch KAZ named after C. P. Gorbunov
-  JSC "KAPO-Composit"

### 7 ULYANOVSK (ULYANOVSK REGION)

-   JSC "Aviastar-SP"
-  JSC "Aerocomposit-Ulyanovsk"




### 8 VORONEZH (VORONEZH REGION)

-  PJSC "VASO"



### 9 TAGANROG (ROSTOV REGION)

-   PJSC "TANTK Imeni G.M. Berieva"
-  OJSC "325 ARZ"



### 10 NIZHNY NOVGOROD (NIZHNY NOVGOROD REGION.)

-   JSC "RSK "MiG" Branch "NAZ "Sokol"
-  OJSC "170 RZ SOP"




### 11 NOVOSIBIRSK (NOVOSIBIRSK REGION)

-   PJSC "Company Sukhoi" Branch NAZ named after V. P. Chkalov


### 12 IRKUTSK (IRKUTSK REGION)

-   Irkutsk Aircraft Building Plant — Branch of PJSC "Irkut Corporation"


### 13 KOMSOMOLSK-ON-AMUR (KHABAROVSK REGION)

-   PJSC "Company Sukhoi" Branch KNAAZ named after Y. A. Gagarin
-  Komsomolsk-on-Amur Branch of JSC "Sukhoi Civil Aircraft"


### 14 PUSHKIN (SAINT PETERSBURG)

-  OJSC "20 ARZ"


### 15 BELOGORSK (AMUR REGION)

-  OJSC "680 ARZ"


### 16 STARAYA RUSSA (NOVGOROD REGION)

-  JSC "123 ARZ"

### 17 KRASNODAR (KRASNODAR TERRITORY)

-  OJSC "275 ARZ"


### 18 IVANOVO (IVANOVO REGION)

-  OJSC "308 ARZ"


### 19 VOZDVIZHENKA (PRIMORSKY TERRITORY)

-  OJSC "322 ARZ"


### 20 ROSLAVL (SMOLENSK REGION)

-  OJSC "720 RZ SOP"


### 21 VOLGOGRAD (VOLGOGRAD REGION)

-  OJSC "VZRT0"

### 22 NOVOCHERKASSK (ROSTOV REGION)

-  OJSC "31 ZATO"


### 23 RYAZAN (RYAZAN REGION)

-  JSC "360 ARZ"

### 24 RZHEV-3 (TVER REGION)

-  JSC "514 ARZ"

### 25 SPASSK-DALNIY (PRIMORSKY TERRITORY)

-  OJSC "32 RZ SOP"

#### LEGEND

-  DESIGN BUREAU
-  PLANT
-  MC (management company)



# CIVIL AIRCRAFT

## MODEL RANGE

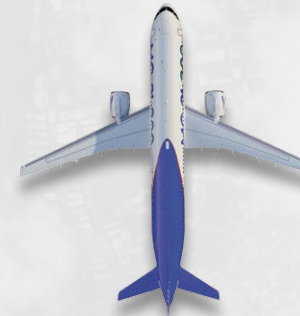
### Sukhoi Superjet 100



- Short-medium haul narrow-body aircraft
- 87-103 seats

Serial production

### MC-21



- Medium-haul narrow-body aircraft
- 132-211 seats

Assembly of first flight models

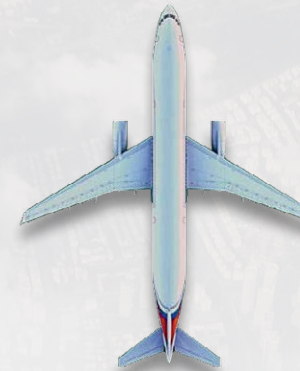
### Il-96-400M



- Long-haul wide-body aircraft
- 305-370 seats

Modernisation and reinitiation of production

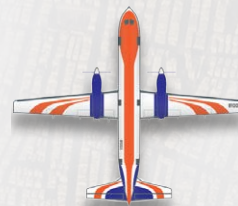
### Wide-body long-haul aircraft



- Wide-body long-haul aircraft
- 210-350 seats

Initiation<sup>1</sup>

### Il-114



- Turboprop regional aircraft
- 52-64 seats

Modernisation and reinitiation of production

<sup>1</sup> Agreement upon a format of partnership with COMAC.

## CIVIL AVIATION. 2016 KEY EVENTS



### Sukhoi Superjet 100 delivered to CityJet

The SSJ 100 aircraft was added to the fleet of an Irish regional airline CityJet on May 24, 2016. The aircraft was transferred within a contract for the supply of 15 Sukhoi Superjet 100 with an option for another 16 airplanes. The configuration of the aircraft supplied for CityJet includes 98 seats, and a high-end interior developed by Italian design bureau Pininfarina. A row of seats in SSJ 100 has five wide seats with a large interseat gaps of 32 inches wide. The height of the passenger compartment is over two meters, which makes travelling very comfortable.



### SSJ 100 takes Irish football players to UEFA EURO 2016

On June 8, 2016, CityJet made the first regular flight on the Dublin - Paris route with the Sukhoi Superjet 100, delivering the Irish national football team to the 2016 UEFA European Championship.

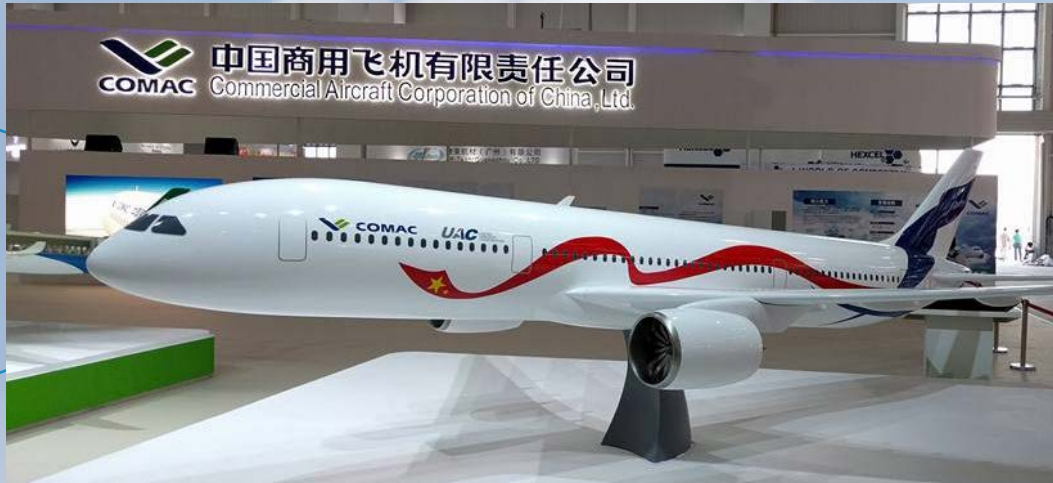


### MC-21 unveiled in Irkutsk

An official ceremony was held on June 8, 2016, unveiling the newest Russian passenger aircraft, the MC-21, one of UAC's key civil projects. The MC-21 comes with all the latest innovations in aircraft and engine engineering; composite wings, enlarged diameter of the body, and the most advanced engines and systems. These provide several competitive advantages for the airliner: reduced airline costs, more comfortable travel, and compliance with future environmental impact standards.

## CIVIL AVIATION. 2016 KEY EVENTS

### CONTINUATION



Launch of programme for new wide-body long-range passenger jet

#### Promising Russian-Chinese wide-body long-range passenger jet

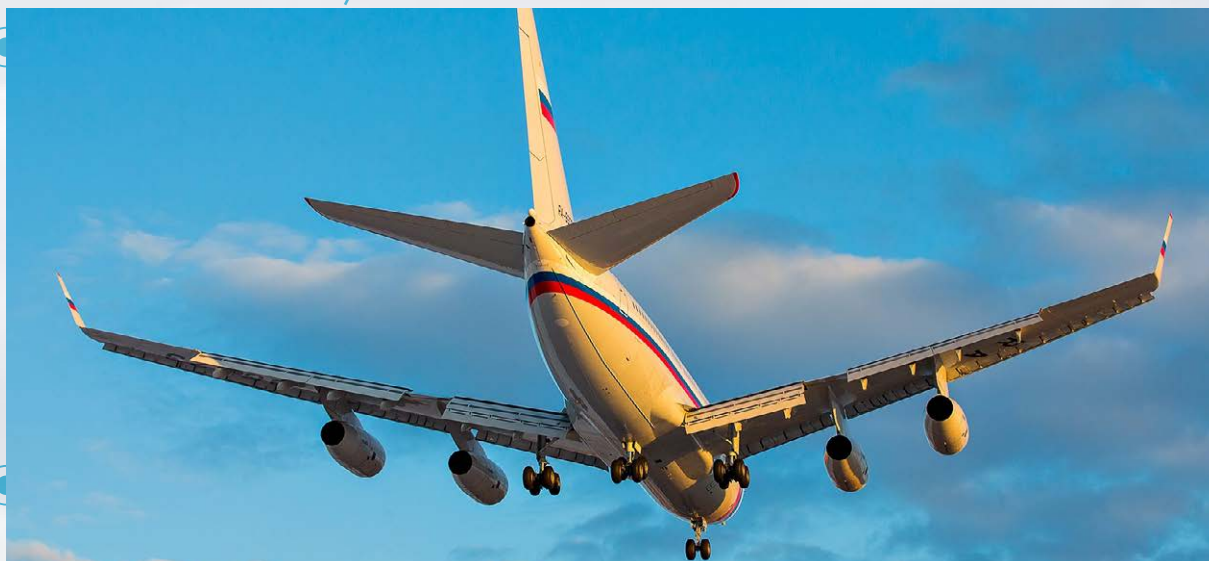
A number of documents launching a project to develop a new wide-body long-range passenger jet were signed during Russian President Vladimir Putin's official visit to China on June 25, 2016. Documents establishing a joint venture, required for the implementation of the programme, were also signed during the visit.



#### Sukhoi Business Jet transferred to the Thai Air Force

Two Sukhoi Business Jets were transferred to the Royal Thai Air Force (RTAF) on July 15, 2016. The ceremony handing over the aircraft was held in Venice where the headquarters of Superjet International is located.

Organisation of the production of modernised Il-96 and Il-114 aircraft



**First flight of the MC-21**

The first flight of the newest short- and medium-range passenger airliner MC-21-300 was conducted at the airfield of the Irkutsk Aviation Plant on May 28, 2017. The flight lasted 30 minutes and the aircraft flew at a height of 1,000 m and at the speed of 300 km/h. The flight plan included checking the aircraft for stability and controllability, as well as the controllability of the engines. The first flight of the MC-21 was a success.

**Il-96 and Il-114 modernisation projects**

A decision to support the modernisation of the Il-96 and Il-114 was made on December 26, 2016, to encourage the production of the range of aircraft most sought after by national air companies, which also has significant export potential.

# SPECIAL-PURPOSE STATE AVIATION

## MODEL RANGE

### An-148



- Regional aircraft
- 68-80 seats

Serial production

### Tu-204/214/204CM



- Medium-haul narrow-body aircraft
- 182-210 seats

Serial production

### Il-96



- Long-haul wide-body aircraft
- 257-289 seats

Serial production

## SPECIAL-PURPOSE STATE AVIATION. 2016 KEY EVENTS



### **New Il-96-300 for Special Air Detachment "Russia"**

New Il-96-300 have been handed over to the Special Air Detachment "Russia" at the Administrative Department of the President of the Russian Federation: the airplanes which are equipped with an improved system of protection against external threats and upgraded flight control equipment, as well as the airplanes which as the most advanced three-class arrangement in the passenger compartment.



### **Il-96-400 handed over to Ministry of Defence**

Il-96-400 has been handed over for operations to the Russian Ministry of Defence. The special-assembly aircraft was manufactured by VASO, which is part of UAC Group.

# MILITARY AIRCRAFT

## MODEL RANGE

### Su-35



- Heavy multifunction fighter aircraft, generation 4 ++
- Maximum load — 8 t

Serial production

### MiG-29



- Medium multifunction fighter aircraft, generation 4 +
- Maximum load — 4.5 t

Serial production

### Su-34



- Heavy fighter bomber aircraft, generation 4 +
- Maximum load — 8 t

Serial production

### MiG-35



- Medium multifunction fighter aircraft, generation 4 ++
- Maximum load — 4.5 t

Development and testing

### Su-30



- Heavy multifunction fighter aircraft, generation 4 +
- Maximum load — 8 t

Serial production

### PAK FA



- Heavy multifunction fighter aircraft, generation 5

Development and testing

### Tu-160



- Strategic missile-carrying bomber aircraft

Modernisation and restarting of production

### PAK DA



- Strategic missile-carrying bomber aircraft

Development

### Yak-130



- Combat training aircraft
- Maximum load — 3 t

Serial production

### Yak-152



- Combat training aircraft

Production launching



## MILITARY AVIATION. 2016 KEY EVENTS



Tu-160 — a supersonic strategic missile-carrier with variable airfoil geometry. Tu-160 broke 44 world records.

### Modernised Tu-160 handed over to Russian Aerospace Forces

A supersonic strategic missile-carrier Tu-160 named Vasily Senko was delivered to the Russian Aerospace Forces on January 28, 2016, following its overhaul and modernisation at the Gorbunov Kazan Aviation Plant. Commander-in-Chief of the Russian Aerospace Forces Col. Gen. Victor Bondarev stated that the Tu-160's performance characteristics are still second to none.



### Su-30SM becomes the most numerous Russian fighter aircraft

The Russian Ministry of Defence and the Irkut Corporation agreed a contract for the supply of the highly manoeuvrable multi-mission Su-30SM fighter on April 4, 2016. Taking into account the new agreement, the Su-30SM will become the most numerous fighter aircraft in the Russian Military.

## MILITARY AVIATION. 2016 KEY EVENTS

### CONTINUATION



#### **Yak-152 made its first trial flight**

The Yak-152 primary training aircraft went aloft for the first time from the airfield of the Irkutsk Aviation Plant, a branch of Irkut Corporation, on September 29, 2016. Vasily Sevastyanov, a test pilot of the Yakovlev Development Design Bureau, flew the aircraft.



#### **Maintenance, service and repair of military equipment on a global scale**

UAC was granted the right to conduct foreign trade activities with regard to military products on December 15, 2016. The certificate allows UAC to service and repair technology that has previously been supplied abroad, including all aircraft with the trademarks Su, MiG, Il, Yak, and Tu. In addition, UAC is permitted to modernise such equipment and train foreign specialists in the service, maintenance and repair of products from UAC enterprises.



**Unveiling the latest fighter MiG-35**

A world unveiling of the latest multi-purpose aircraft system MiG-35 of the 4++ generation was held at the production complex Russian Aircraft Corporation MiG on January 27, 2017.



**MiG-35 - the greatest fighter in the MiG family**

The MiG-35 is the greatest aircraft in the MiG family as of today. All of its systems have been developed and produced in Russia, including the inertial and helmet pointing systems. The fighter has a new optical locating station and a mid-air refuelling function.



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



CORPORATE GOVERNANCE



SUPPLEMENTS

# TRANSPORT AND SPECIAL-PURPOSE AIRCRAFT

## MODEL RANGE

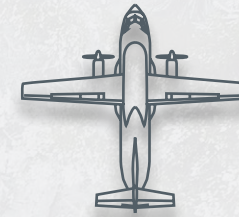
### Il-76MD-90A



- Heavy military transport aircraft
- Maximum load — 60 t

Serial production

### Il-112V



- Light military transport aircraft
- Maximum load — 5 t

Assembly of first flight models

### Be-200



- Multifunction amphibious aircraft
- Maximum load — 12 t

Serial production

### SVTS



- Medium military transport aircraft
- Maximum load — 20 t

Design

## TRANSPORT AND SPECIAL AVIATION. 2016 KEY EVENTS



### First flight of the modernised Il-76MD-M

A flight of the first modernised Il-76MD-M military transport aircraft was conducted on February 28, 2016. The modernisation included upgrades to flight control, radio communication, lighting and furnishings, as well as defensive means.



### Unveiling of the first commercial amphibian aircraft, the Be-200ChS

The Be-200ChS, the first multi-purpose jet amphibian aircraft, manufactured by Beriev Aircraft for the Russian Emergency Ministry, was unveiled on May 30, 2016. The Be-200 is unrivaled throughout the world regarding its performance and is in a league of its own in firefighting, search and rescue operations, and environmental missions. The first Be-200ChS was supplied to the Russian Emergency Ministry in 2017.



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



CORPORATE GOVERNANCE



SUPPLEMENTS

## TRANSPORT AND SPECIAL AVIATION. 2016 KEY EVENTS

### CONTINUATION



#### **Il-76MD-90A delivered to Russian Aerospace Forces**

Heavy military transport aircraft, the Il-76MD-90A, was handed over to the Military Transport Aviation division of the Russian Aerospace Forces. It was relocated to its home base at the Military Transport Aviation Centre in Ivanovo, on January 27, 2016. The airplane was built to order for the Russian Defence Ministry. This is the sixth Russian Il-76MD-90A developed by the Ilyushin Aviation Complex.



#### **Il-76MD-90A confirms its structural performance**

A static strength test for the outerwing panel of the Il-76MD-90A, a heavy military transport aircraft, was conducted on February 21, 2017. The testing confirmed the stated specifications regarding static strength.

# TECHNOLOGY, INNOVATIONS AND R&D

## KEY EVENTS IN 2016



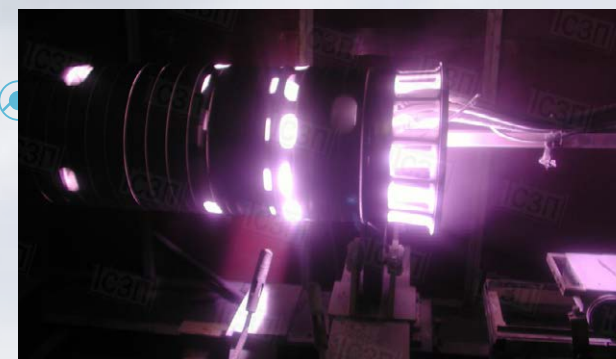
### UAC implements technologies to improve performance and quality

As a result of the transfer to paperless design technologies and new materials used in aircraft production, new robotic installations manufactured by UAC (more than 50 pieces started operating in 2016) improve and minimise the production cycle, which is essential when producing wing box panels, the centre wing, and composite items for aircraft.



### Joint group from UAC and the Russian Academy of Sciences sets world record in piloting octocopter

On April 22, 2016, during testing, an octocopter manufactured by a Russian firm R&D Centre NELK and equipped with air hydrogen fuel cells, created by the specialists of the Institute of Problems of Chemical Physics of RAS, UAC and the Baranov Central Institute of Aviation Motors, set a world record for duration of a flight in open spaces. The fuel system of the remotely piloted aircraft is a very promising technology, since its components may be used in the creation of new UAC aircraft.



### UAC implements innovative coatings for repair

UAC's subsidiaries and partners employ a method using a high-velocity flame powder coating based on hard alloys, instead of traditional chromium coating (hexed chrome is the 1st hazard class cancerogene). This extends the service life of critical units and parts of accessories to 6,000 landings, and also eliminates time-consuming environmentally unsound production methods.



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



CORPORATE GOVERNANCE



SUPPLEMENTS



**Testing new aircraft engine PD-14  
by Gromov Flight Research Institute**

Testing of the PD-14, a new domestic engine for civil aviation, started on April 21, 2016 in the Gromov Flight Research Institute. The engine will be a direct competitor of similar foreign engines installed on Boeing and Airbus aircraft. Moreover, Russian aviation workers succeeded not only in mastering new technologies in aircraft and engine production, but they also significantly improved the method of flight testing.



**Onboard trajectory measurements system  
and new flight test technologies**

In 2016, Gromov Flight Research Institute developed and implemented an onboard trajectory measurements system and new technologies for test flight avionics using the system. This allows the processing of flight data and produces final results from the avionics evaluation within hours. Aviation specialists from a number of countries, including the US, China and India, are interested in buying these new test technologies.



**Centralised design bureau**

UAC united several large national design bureaus and began operating one centralised design bureau, with a geographically dispersed production structure. Simultaneously, UAC completed the transfer of all design bureaus to the use of paperless technology.





**Joint project developing modular avionics for upgraded Tu-160**

The State Research Institute of Aviation Systems and PJSC "Tupolev" are conducting systemic integration of aircraft hardware for a new strategic bomber aircraft, the Tu-160. The aircraft electronics and an innovative arrangement system – modular avionics – will be a signature feature of the upgraded aircraft system. It is intended that a system of augmented and virtual reality, will enable flying in reduced visibility conditions, and voice commands to reduce the burden on the crew during long-duration flights will be implemented in the Tu-160.



**New onboard cable networks and piping**

UAC transfers to a new industrial model that facilitates development in new areas. These areas include the development and production of high-tech, light and reliable onboard cable networks and pipelines systems in aircraft. Industrial Technologies Group has established enterprises specialised in this field near UAC plants. The cooperation between UAC and Industrial Technologies has grown, which explains why the new system of onboard cable networks and piping on the MC-21 is the first to be designed and supplied by a Russian enterprise that is not part of the UAC Group.



**Composite components and out-of-autoclave method of vacuum infusion**

The Aerocomposit Plant in Ulyanovsk has become the first plant in global civil aviation to use vacuum assisted resin transfer moulding (VARTM), for the manufacture of large integrated structures of the first level of polymeric composite materials. Optimal use of composites in the MC-21 design reduces the weight of the liner, cuts production costs by 45%, reduces energy consumption, and produces a one-piece panel of a high-aspect wing – up to 20 meters long.

# CORPORATE DEVELOPMENT

## KEY EVENTS IN 2016



### Chairman of UAC Board of Directors elected

The Board of Directors with new members elected Denis Manturov, the minister of the Russian Ministry of Industry and Trade, as the Chairman on August 5, 2016. In addition, during the meeting of the Board of Directors on August 4, members of Committees were chosen and their Chairmen were elected. The Board of Directors also considered a number of initiatives aimed at improving the efficiency of the Corporation and approved a range of interested party transactions.



### Transformation of corporate structure

UAC's Board of Directors considered the transformation of UAC's corporate structure on December 12, 2016. The target model suggests a stepwise transition to a unified Corporation with four business units, i.e. Civil, Military, Transport, Strategic and Special Aviation Divisions.



### Updated Development Strategy up to 2035 adopted

On December 15, 2016, UAC declared an updated Strategy of the Corporation, adopted by Board of Directors. In accordance with the Strategy, the purpose of the Corporation is to increase the share of proceeds from the sales of civil aircraft to 45% by 2035 (as compared to 20% in 2015) and to build up the share of military aviation in the global market from 5.6% in 2015 to 8% by 2035. In order to improve the efficiency of the business, the Strategy outlines changes to the industrial model of the Corporation, as well as restructuring the management system by forming a divisional structure.



### UAC's shares in RII-Prime segment

From February 1, 2017, UAC's ordinary shares, included into the second level of the list of securities of the Moscow Exchange, were transferred from the Innovations and Investment Market sector to the RII-Prime segment.

# STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



## DEAR COLLEAGUES,

UAC group of companies is a highly strategic business within Russia's industrial sector and is one of the key corporations in the global aircraft industry. UAC's activities are of strategic importance, both for Russia's defence and for the development of advanced and innovative technology that ensures Russia's competitiveness in the global market.

Since its establishment in 2006, the United Aircraft Corporation has managed to fulfil extremely important tasks: maintaining world class aviation companies and design bureaus, and retaining the best professionals, while consolidating efforts and resources to design and produce modern aircraft.

Currently UAC's key objectives is enhanced efficiency and competitiveness, which is particularly relevant given the current challenges resulting from the difficult macroeconomic and geopolitical situation.

The Board of Directors has actively participated in developing a vision for UAC's corporate development and in implementing changes aimed at improving operational efficiency. These changes were already underway by the end of 2015, when we decided to improve the organisational structure of PJSC "UAC". In 2016 the formation of UAC's new Development Strategy entered its active phase. The Corporation's brightest minds were deployed for this task, supported by leading industry and economy experts. Furthermore, the Strategy was thoroughly examined and repeatedly discussed in the committees and meetings of the Board of Directors.

As a result, the Strategy of United Aircraft Corporation, running until 2025 and until 2035 was developed and approved. According to the Strategy, the share of the Corporation's revenues from the sale of civil aircraft must grow from less than 20% in 2015 to 45% by 2035; UAC's share in the global civil aviation market must grow from less than 1% to 4.5% by 2025. The share of UAC products in the military aviation market must grow from 5.6% in 2015 to 8% by 2035.

The main objectives of the Strategy are, first, to meet the national security demands of the State, including transport requirements; second, to maximise sales in the global civil market, specifically in the regional jet, narrow-body and wide-body aircraft segments; and third, to balance the product line through life cycle stages.

UAC's Strategy must be constantly updated to reflect recent developments. It is already time to carry out this work, as the new State Weapons Programme to 2025 has been issued. However, the key objectives will remain unchanged: UAC must become profitable and attractive to investors, thereby reducing its dependence on public funds.

To achieve its ambitious goals, UAC has begun to modify the industrial model of the Corporation and has continued to improve the management structure. This will enhance the quality of UAC's programme management, improving the execution of corporate tasks and the fulfilment of clients' orders. Four divisions have been created, based on the main UAC companies and organised by sector: military aviation, civil aviation, transport aviation and strategic and special aviation. Under the sole corporate scientific and technical supervision of the General Constructor and Vice President for Innovation, a single unified UAC design and development centre is being established to take the next step towards greater integration, by pooling design and laboratory resources and concentrating efforts in the creation and production of modern airplanes.

PJSC "UAC" has an efficient corporate governance system, developed in accordance with all applicable laws and based on the best practices of Russian and foreign companies. All committees of the Board of Directors (Strategy, Audit, Budget, HR and Remuneration Committees) worked actively in 2016. UAC will continue to enhance the efficiency and transparency of its corporate governance system.

In 2017 and beyond, UAC will continue to face huge challenges that will require significant effort and resources to overcome. Together we will make every effort to ensure the sustainable development of the Corporation and to strengthen its position in the global market.

### **D.V. MANTUROV**

Chairman of the Board of Directors



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# STATEMENT BY THE PRESIDENT AND CHAIRMAN OF THE MANAGEMENT BOARD



## DEAR COLLEAGUES,

2016 has been a fruitful and productive year for the United Aircraft Corporation. UAC's consolidated revenue for 2016 amounted to RUB 417 bln, a new record. The increase in revenue by more than 20% versus the previous year is primarily due to a 60% increase in the volume of after-sales assistance and upgrades of aviation equipment, including the supply of spare parts. During the accounting year, export revenues increased more than twofold to RUB 203 bln, and the revenue of the civil segment reached over RUB 69 bln. The increase in both indicators is an important result of the implementation of UAC's Strategy.

Revenue from operations in the accounting year amounted to RUB 11 bln, compared to losses of RUB 69 bln in 2015. The positive results from operating activities allowed UAC to cover most financial costs. This led to a significant, 25-fold reduction of losses to RUB 4.5 bln, which is the best IFRS indicator achieved by UAC since 2007.

In 2016, UAC supplied 141 aircrafts, including 7 prototypes. The slight decrease in deliveries compared to 2015 is a consequence of the planned curtailment of the State defence order volume. In the remaining segments, including domestic and export deliveries, the number of aircraft transferred to customers increased.

The most important event of 2016 was the unveiling of the new MC-21 passenger aircraft. Our workers and our main shareholder, i.e. the government, invested considerable energy and resources in the promotion of this programme. The aircraft still requires flight testing and certification, but we believe there are substantial prospects for such a sought after aircraft. The success of MC-21 will enable us to achieve one of our strategic goals: a significant increase in the share of civil products in UAC's portfolio.

In 2016, the implementation of all current aircraft manufacturing programmes continued, and were accompanied by the creation of new upgraded aircraft based on the Il-114 and Il-96. The programme for the overhaul of strategic bomber Tu-160 began; significant progress was made in the creation of the Il-112V transport aircraft; the amphibian aircraft Be-200, manufactured in Taganrog, made its first flight; and training aircraft Yak-152 made its first flight in Irkutsk.

In 2016 the European market discovered our Sukhoi Superjet 100 aircraft, with the first jets being delivered to the Irish company CityJet. In addition to the increase in the sales of SSJ 100, we are working to improve the after-sales maintenance system for this aircraft; the system will then be implemented for the maintenance of the MC-21 and other UAC aircraft in service.

Maintenance services are being developed and improved for all segments of the Russian Ministry of Defence's combat aircraft; modernisation of aircraft is being carried out, taking into account the experience gained during the special operation in Syria.

The updated Development Strategy adopted by UAC in 2016 outlines a clear business development trajectory and sets objectives for management and UAC employees to optimise the industrial model, increase productivity and the efficiency of business processes in all areas. The creation of four divisions for all business areas, approved by the Board of Directors, will enhance the governance of the Corporation's programmes.

UAC will only be able to achieve these goals thanks to the hard work and dedication of our employees across our production sites, design bureaus and corporate headquarters. Retaining important specialists, attracting and training young employees, and increasing the number of hi-tech jobs with good salaries, are the foundations of our HR policies. Other important tasks for management include the improvement of communications and the development of a common corporate culture. It's only by acting as one united team that we will be able to work more efficiently and successfully compete in the global market.

**Yu.B. SLYUSAR**

President

And Chairman of the Management Board



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# STRATEGIC REPORT

## UAC'S MARKET POSITION



UAC IS ONE OF THE KEY PLAYERS IN THE WORLD MARKET OF CIVIL AND MILITARY AIRCRAFT CONSTRUCTION. THE CORPORATION'S SALES IN 2016 AMOUNTED TO RUB 417 BLN. ON THIS BASIS, UAC CURRENTLY RANKS SIXTH AMONG THE WORLD'S LEADING AIRCRAFT PRODUCERS, IN TERMS OF SALES

### » CIVIL AIRCRAFT

#### International Market

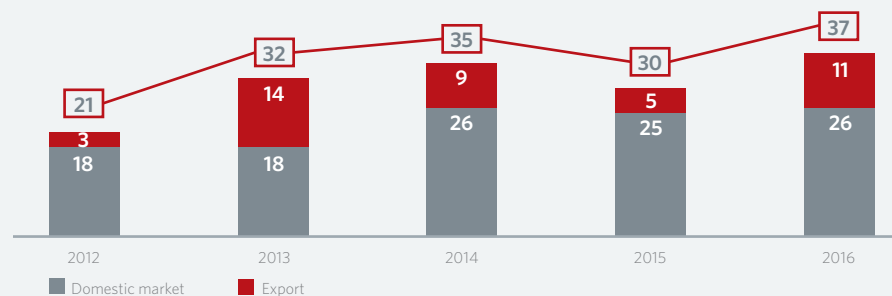
In 2016 the Corporation continued to strengthen its position in the international market. UAC's main competitors in this market are Boeing, Airbus, Embraer and Bombardier. It should be noted that recent trends in the global passenger transport market support increased demand for new civilian aircraft from international airlines. For instance, in 2016 global passenger traffic increased by 6.3%, 0.4 p.p. higher than the average level of the last decade, due in large part to low jet fuel prices. The increased supply of passenger transport (available seat-kilometres) was 0.1 p.p. than the growth of actual passenger traffic. Regular cargo flights expressed in cargo tonne-kilometres have increased by 2.7% according to ICAO data, which is 1 p.p. higher than in 2015.

Following the overall growth of the global civil aircraft market, 1,636 new aircraft were supplied in UAC presence segments in 2016. It should be noted that the largest number of aircraft supplied are narrow-body long-haul aircraft - 1,045 or 64% of the total number of deliveries. In addition, 404 wide-body aircraft were sold. The total number of regional jet aircraft supplied was 187.

In the civil aircraft segment the Corporation supplied 37 aircraft in the reporting year, including 28 new SSJ 100. As part of export contracts the Corporation supplied two SSJ 100 aircraft for the Royal Thai Air Force and one SSJ 100 aircraft for Kazakhstan Border Guard. It also delivered eight SSJ 100 aircraft to Venice for Superjet International for customisation - four SSJ 100 aircraft for the Mexican Interjet airline and four SSJ 100 aircraft for CityJet - the first European customer of SSJ 100.

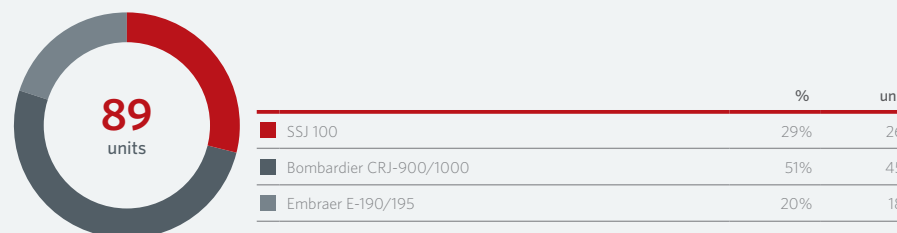
The Corporation holds a strong position in the 100-seat passenger jet segment - UAC's share of the total number of new aircraft supplied to the world market in this segment in 2016 was 29%.

UAC civil aircraft supplies in 2012-2016, units\*



\* Including prototypes aircraft, remarketing and special-purpose state aviation.

Supply of 100-seat passenger jets to commercial customers in 2016, units, %







According to UAC's updated long-term forecast, the average annual growth rate of world passenger traffic in the next 20 years will be 4.5%. The total demand for new passenger aircraft is estimated at 41.6 thousand aircraft, or 39 thousand aircraft excluding the regional turboprop aircraft segment. 28.2 thousand aircraft are expected to be supplied in the narrow-body aircraft segment, 7.1 thousand aircraft in the wide-body aircraft segment, and 3.7 thousand aircraft in the regional jet aircraft segment with 20-112 seat capacity.

In view of the development trends in the industry, UAC is seeking to expand its presence in the most significant segments of the world civil aircraft market. In addition to the Sukhoi Superjet 100 (SSJ 100) short-haul jet aircraft supplied to customers since 2011, supply of the new MC-21 aircraft is scheduled to commence in 2019. The market entry strategy for the MC-21 aircraft is centred on the key advantages it holds compared to its main competitors, which were implemented in the early design stages.

UAC also plans to bring a new wide-body aircraft to the market in cooperation with the Chinese aircraft industry before 2025. The aircraft will be based on a new technological platform and developed through a risk-sharing partnership, which will contribute to shaping a substantial protected sales market, help optimise investment, and reduce investment, technological and temporary project risks.

» MAJOR FOREIGN OPERATORS OF SSJ 100



» UNVEILING OF THE FIRST MC-21-300 AIRCRAFT



MC-21 IS A NEW GENERATION OF PASSENGER AIRCRAFT, AIMED AT THE LARGEST SEGMENT OF THE GLOBAL AIRLINER MARKET. THE MC-21 AIRCRAFT FEATURES A HIGH-ASPECT-RATIO COMPOSITE WING AND A LARGER DIAMETER OF THE FUSELAGE. MOST ADVANCED ENGINES AND SYSTEMS ENSURE LOWER OPERATING COSTS.

On June 8, 2016, an official unveiling ceremony was held for the newest Russian MC-21 short-medium haul narrow-body passenger aircraft at the Irkutsk Aviation Plant. As one of the Corporation's key commercial aircraft projects it was attended by Dmitry Medvedev, Chairman of the Government of the Russian Federation, representatives of the federal and regional authorities, the leaders of participating companies, as well as the delegations of current and potential customers of MC-21 aircraft.

A unique assembly line used for the construction of MC-21 aircraft was exhibited to the Prime Minister before the unveiling. Dmitry Medvedev also inspected the cockpit of the new aircraft.

"There are very few nations that have aircraft-manufacturing industries. They represent the top league globally and we mustn't drop out of that group, so we are working for the future and we will continue to update the Russian civil aircraft fleet. The technological level of MC-21 surpasses other civil aircraft of the same class that are currently in use. I'm sure it will be a great economical, reliable aircraft", the Prime Minister noted.

"The creation of MC-21 aircraft is the result of a tremendous joint effort. This is the first programme where leading UAC companies, including Aviastar-SP, the newly created Aerocomposit and the UAC Integration Centre worked together according to a single unified plan", stressed Yury Slyusar, President of the United Aircraft Corporation. "Advanced high-tech production infrastructure is being created on the basis of the UAC, including competence centres for key assemblies and systems, and digital design capabilities to facilitate large-scale cooperation in the creation of new products. MC-21 is a product of this modernisation programme for the Russian aircraft industry."

MC-21 is a new generation of passenger aircraft, aimed at the largest segment of the global airliner market. The advantages of MC-21 aircraft, compared to its main competitors, were implemented in the early design stages. The MC-21 has direct operating costs 12-15% lower than its foreign counterparts, significantly more comfortable passenger cabins, reduced in-transit service time at airports, improved basing characteristics and increased flight range.

The development of the MC-21 aircraft has provided a powerful technological boost to most UAC companies. A large-scale re-equipment of production capacities in Irkutsk, Ulyanovsk, Voronezh and Kazan was carried out as part of the implementation of the MC-21 programme. The most advanced automated line in Russia, for the assembly of aggregate and final aircraft, was installed at the Irkutsk Aircraft Plant.

## » THE IRISH NATIONAL FOOTBALL TEAM TRAVELLED TO UEFA EURO 2016 ON A SUKHOI SUPERJET



On June 9, 2016 CityJet performed the first regular flight on the Sukhoi Superjet 100 transporting the Irish national team to the UEFA EURO 2016 football championship.

Martin O'Neill, head coach of the Irish team, assistant coach Roy Keane, and 23 members of the national squad arrived at Paris-Le Bourget Airport on flight WX9380 with CityJet Airlines, the official partner of the Football Association of Ireland (FAI).

The Dublin-Paris flight was the first commercial CityJet flight performed by a Sukhoi Superjet 100. The aircraft, with serial number 95102, arrived from Venice to Dublin and became the first of three SSJ 100 that replenished the airline's fleet before the end of 2016.

"We were delighted to have the opportunity to come on board as official airline to the FAI in March and we look forward to working with the FAI as their ongoing partner following Euro16. CityJet is a pan-European airline with services across the continent, ranging from the Nordic regions down to Italy and a major operation in France, so it is wonderful working with the FAI at a time when the world of football focuses on Europe."

**Pat Byrne,**

Chairman of the Board of Directors of CityJet

"SSJ first flight in Europe was very special - flying the Ireland team, the hope of the nation, for Euro 16. Sports-related air transportation grows rapidly around the world and for Sukhoi Civil Aircraft Company this sphere is a strategic one."

**Ilya Tarasenko,**

President of JSC "Sukhoi Civil Aircraft"



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### The Russian Market

Over the past decade the average annual growth rate of the Russian air transport sector has been 8.7% for passenger traffic and 8.4% for cargo traffic, which is significantly higher than the respective worldwide average rates of 5.9% and 2.2%. However, due to stagnation in the Russian economy in 2015 and 2016, Russian passenger traffic decreased in these years by 6.0% and 5.0% respectively. In the same period, the freight market continued to grow and amounted to 5.8% in 2015 and 20.0% in 2016.

Overall, domestic airlines transported 88.6 million passengers with the total number of passenger-kilometres reaching 215.6 billion during the year. The occupancy of passenger seats reached 81.1% in 2016, exceeding the occupancy rate of the previous year by 1.4 p.p. Cargo traffic amounted to 6,575 million tonnes per kilometre with a cargo load factor of 67.7%, exceeding 2015 by 1.5 p.p.

By the end of 2016 Russia had 110 operating airlines according to data from the Federal Air Transport Agency; the number in 2014 and 2015 was 121 and 115 respectively. The combined share of the five largest carriers in 2016 was 68% for passenger traffic and 67% for the number of passengers transported.

In 2014–2016 Russian airlines added 301 aircraft to their fleet, including new aircraft and aircraft from secondary markets. Of those 97 were domestically produced aircraft. In 2016, a total of 104 aircraft were supplied, of which 36 were produced domestically and 68 were of foreign origin. It should be noted that the share of new aircraft was 56%.

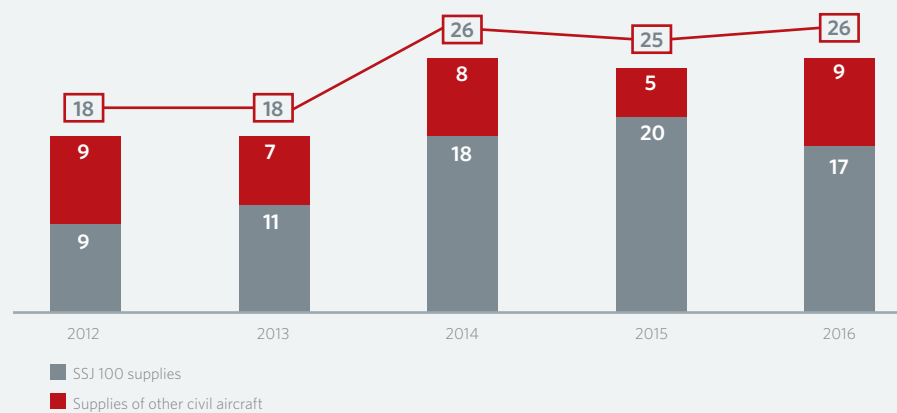
In the reporting year, the Corporation delivered to commercial and government customers in the domestic market 26 civil aircraft, among them 15 SSJ 100 aircraft – to commercial customers, two SSJ 100 aircraft – to the Administrative Directorate of the President of the Russian Federation, and nine special-purpose aircraft based on An-148, Tu-214 and Il-96 – to government customers of the Russian Federation.

In the reporting year UAC continued to develop support mechanisms for the sale and promotion of its products, including state support. This allowed to increase the number of SSJ 100 aircraft operated by Russian commercial airlines to 51 by the end of 2016 (in addition, six aircraft were operated in departmental and business aviation).

According to the UAC long-term forecast, the average annual growth rate of passenger air transport in Russia over the next 20 years will be about 4.3%, which is below the anticipated global growth rate of 4.5%. On that basis, demand for new passenger aircraft from Russian airlines during this period would be approximately 1,050 aircraft or around 1,160 aircraft when taking into account regional turboprop aircraft.

The Corporation’s prospective model range in the domestic market includes, aside from global positioning models, the Il-114-300 regional turboprop aircraft and Il-96-400M wide-body aircraft.

Supply of UAC aircraft to domestic market, units\*



\* Including prototypes aircraft, remarketing and special-purpose state aviation.

### » MAJOR RUSSIAN SSJ 100 OPERATORS



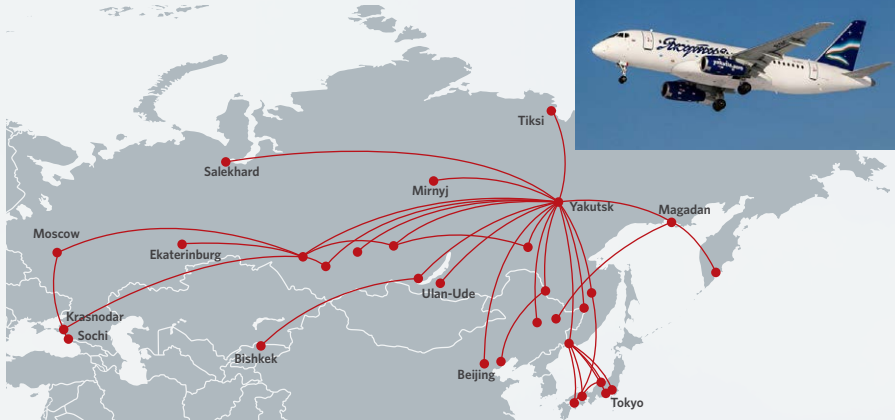
**30 SSJ 100 aircraft** As at the end of 2016



**10 SSJ 100 aircraft** As at the end of 2016



**5 SSJ 100 aircraft\*** As at the end of 2016



**9 SSJ 100 aircraft\*** As at the end of 2016



\* with a view to the aircraft for which Aircraft acceptance reports were signed in late December 2016 with State Transport Leasing Company (STLC). In 2017, STLC transferred these aircraft to Yamal Airlines (six aircraft) and Yakutia Airlines (one aircraft).



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## » UAC UPGRADES AND RESTARTS PRODUCTION OF THE IL-114 AND IL-96 AIRCRAFT



### IL-114-300

The IL-114-300 passenger aircraft, designed for local airlines, is a modernised version of the IL-114 turboprop aircraft. The aircraft will be produced at domestic aircraft production facilities.

The aircraft crew comprises a captain and a second pilot. To facilitate the successful performance of the crew's duties, IL-114-300 is equipped with a digital flight-navigation complex that enables take-off and landing in weather conditions corresponding to ICAO category II. All flight and navigational information and data on the aircraft's system status are displayed on five colour LCD displays.

The use of TV7-117SM engines will increase the flight range with the maximum number of passengers to 1,900 km, as compared to IL-114.

JSC "RSK "MiG", a member of UAC, will be the main manufacturer of the IL-114-300 (including the production of the prototype).



### IL-96-400M

The IL-96-400M long-haul passenger aircraft is based on the IL-96-300 series, improving this type of aircraft and expanding its transport capacity by extending the fuselage and installing more powerful PS-90A1 engines, in place of PS-90A engines.

IL-96-400M has capacity for up to 370 passengers. A large-diameter fuselage provides passengers with a modern level of comfort during long flights. IL-96-400M is equal to its foreign counterparts in terms of reliability, safety and economy.

Serial production of the IL-96-400M will be organised at the Voronezh Aircraft Plant.

## » MILITARY, MILITARY TRANSPORT AND SPECIAL AIRCRAFT



### International Market

In the past year UAC has maintained its leading position as a global supplier of military, military transport and special aircraft. Following the results of 2016, the Corporation's share of the number of aircraft supplied to the customers in the global military, transport and special aircraft segment was 24.2%. UAC's main competitors in the mid-term perspective are Boeing, Airbus, Lockheed Martin and AVIC.

Even though UAC produces more combat aircraft than other global competitors, the revenue generated is significantly different from that of foreign producers, primarily due to differences in pricing mechanisms, and contractual terms that do not include additional equipment, work and services in the cost of the aircraft.

Overall in 2016 the Corporation supplied 103 new combat aircraft to domestic and foreign markets. Of those, 31 military aircraft were supplied to the international market. The largest importers of Russian military aircraft are China, India, Algeria, Vietnam and Indonesia. Countries in the Middle East, Southeast Asia and Latin America are considered potential buyers.

For the period until 2035 the total amount spent on global military, military transport and special aircraft production is estimated to reach USD 1,140 billion. Of that, expenditure on military aircraft is expected to be USD 723 billion, military transport aircraft – USD 223 billion, and special aircraft – USD 194 billion. The total size of the competitive transport aircraft foreign market available to UAC for the above period is estimated at USD 37 billion.

The size of the foreign military aircraft market available to UAC for the period until 2035 is estimated to reach USD 117 billion. On that basis, UAC's corporate Development Strategy for the period until 2035 targets an increase in the Corporation's share of the domestic and foreign markets in the military aircraft segment to at least 45%, and to at least 8% of the entire market.

During the period between 2020–2025 the Corporation's main military aircraft that will be in demand from the foreign market are the generation 4++ fighters Su-35, Su-30, MiG-29, as well as the Yak-130 advance training flight trainers. Export versions of UAC aircraft correspond to the modern world class of armaments and military equipment.



## The Russian Market



At the same time UAC manufactures and intends to further develop the areas of special-purpose aviation complexes as to solving the tasks of fuelling, reconnaissance, data relay, control, location and strike, electronic warfare, patrol and anti-submarine aircraft, hydroaviation and some others.



The supply of military aircraft equipment to the Ministry of Defence of the Russian Federation is currently carried out in accordance with the State Armaments Programme for the period from 2011 to 2020, while the draft of the new programme for the period from 2018 to 2025 is being prepared. The production capacity of the Corporation to supply the Ministry of Defence of the Russian Federation with military aircraft equipment is estimated at 110 aircraft systems per year.

In 2016 the Corporation supplied 72 military aircraft and one Il-76MD-90A military transport aircraft under the orders of the Ministry of Defence of the Russian Federation. Requests from a number of domestic customers received in 2016 enable PJSC "UAC" to prepare a well-balanced manufacturing and sales programme for the Il-76MD-90A and Il-78M-90A aircraft for the period until 2025. The scheduled for 2017 transfer of the light military-transport aircraft Il-112V for flight testing makes it possible for PJSC "UAC" to substantially increase its share in this segment already in the mid-term.



In 2016 the Corporation supplied 73 military aircraft and military transport aircraft to the domestic market





## » LATEST MULTIFUNCTIONAL 4++ GENERATION JET FIGHTER MIG-35



An international presentation of the latest multifunctional 4++ generation MiG-35 jet fighter was held in January 2017, attended by representatives from over 20 countries. The Corporation is successfully negotiating with potential customers, with several countries already confirming their interest in the aircraft.

The design of the MiG-35 is an evolution of the achievements implemented in the MiG-29 jet fighters. The new aircraft will be equipped with the latest on-board equipment and advanced weaponry.

MiG-35 flight tests will begin before the end of 2017. At this point, the first prototypes of the aircraft are assembled and will be available for state joint testing in the next year.

"The fighter is designed specifically for high-intensity conflict warfare, in situations where air defence is dense. The high performance of the aircraft is achieved through using the newly installed on-board defence system and a new optical locator station. Radar visibility has been drastically reduced, and we have increased the number of hardpoints from six to eight which allows using the existing as well as the prospective air weapons, including laser weapons."

**Yury Slyusar,**  
President of UAC



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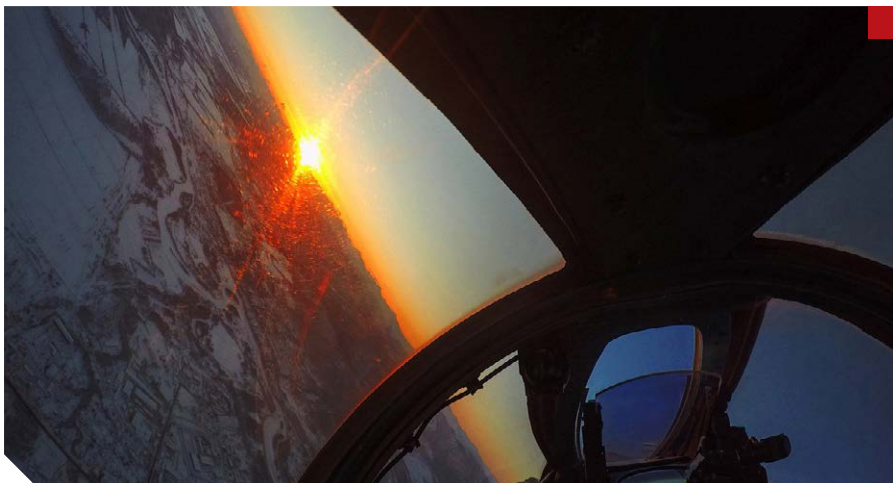


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## STRATEGY



### » MISSION

The mission of the Corporation lies in the development, production and after-sales service of civil and military aircraft with priority given to national security requirements; the achievement and maintenance of long-term competitive attractiveness of the Russian aircraft complex at the global level.

### » STRATEGIC GOALS

2025 Goals	2035 Goals
<ul style="list-style-type: none"> <li>• Achievement of 4.5% share in the civil aircraft market.</li> <li>• The share of civil aircraft in the revenue structure of at least 40%.</li> <li>• Ensuring 8% military aircraft market share.</li> <li>• Achievement of net profit break-even point.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of at least 4.5% share in the civil aircraft market.</li> <li>• Maintenance of the share of civil aircraft in the revenue structure of at least 45%.</li> <li>• Maintenance of 8% military aircraft market share.</li> <li>• Creation of a profitable business attractive to investors.</li> <li>• Reducing dependence on the state in terms of investment.</li> </ul>

The strategic priorities for PJSC "UAC" are determined by the Russian Federation as the main shareholder. In accordance with Decree of the President of the Russian Federation dated June 20, 2006 No. 140 "On Public Joint-Stock Company United Aircraft Corporation" the key areas of activity of UAC are:

- preserving and developing the scientific and industrial potential of the aircraft complex of the Russian Federation;
- ensuring the security and defence of the state;
- concentration of intellectual, industrial and financial resources to implement promising aviation programmes;
- development, production, sales, operation, support of maintenance, warranty and service, modernisation, repair and disposal of military and civil aircraft equipment for state and other customers, including foreign ones;
- introduction of new technologies and developments in the field of aircraft construction.

### » STRATEGY UPDATING

In 2015-2016 the Strategy of PJSC "UAC" was updated to account for changes in the macroeconomic condition and the external environment in general, as well as the launch of new aircraft programmes. The updated Strategy of PJSC "UAC" for the period until 2025 (the Strategy) was approved by the Board of Directors of PJSC "UAC" in September 2016 (minutes dated September 23, 2016 No. 166). In 2016 PJSC "UAC" also developed and approved an action plan for the implementation of the Strategy and commenced the implementation thereof.

The Development Strategy of PJSC "UAC" for the period until 2035 is aimed at increasing the market share of the Corporation, increasing the presence of the Corporation in the global civil aircraft market, reducing expenses and improving the operational efficiency of the Corporation. To achieve these goals UAC is working on the improvement of the product portfolio and the after-sales service system, the improvement of the operating model and the organisational structure.

## » STRATEGIC DIRECTION

### Implementation of Market and Product Strategy

The Corporation implements a balanced market and product Strategy aimed at strengthening and developing all civil aircraft segments while maintaining the positions in the military aircraft market.

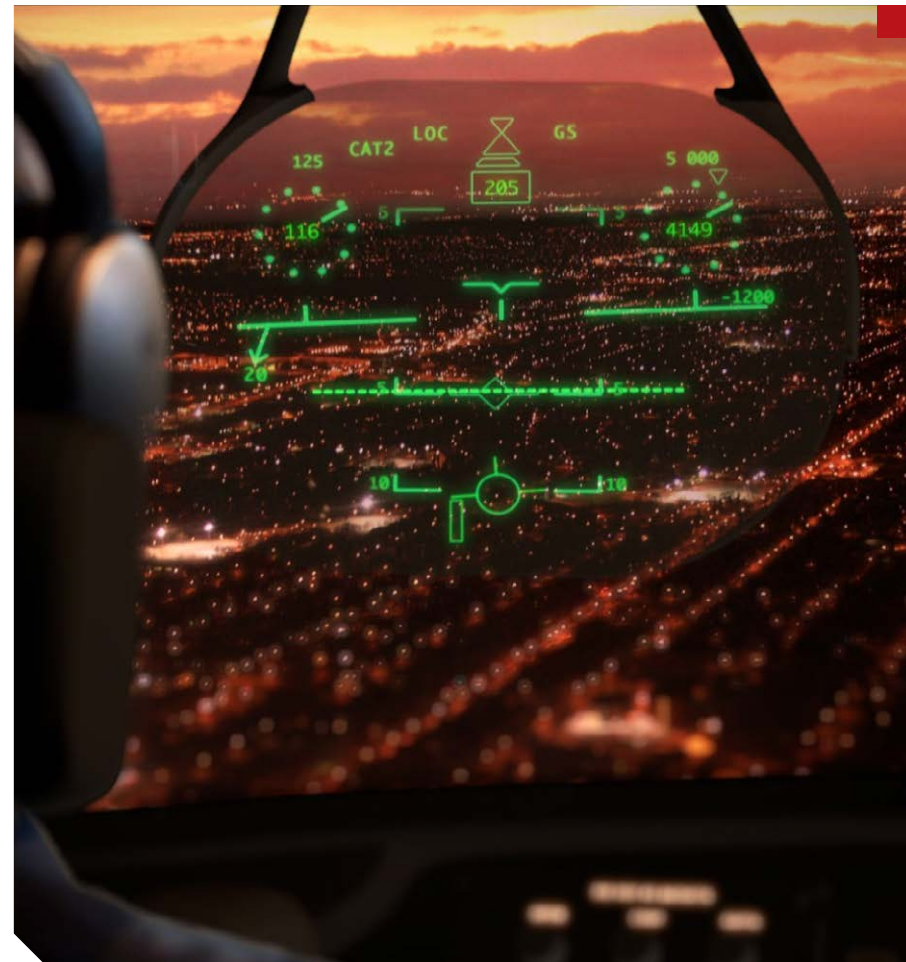
The main priorities of the UAC market and product Strategy are:

- meeting the national security requirements by meeting the demand for aircraft equipment;
- maximising sales on the global civil aircraft market in short-haul jet, narrow- and wide-body aircraft;
- maintaining the market share in the combat aircraft market and increasing the presence in the transport and special aircraft segments;
- maintaining balanced product line across life cycle stages.

The position of UAC is strong in the military aircraft industry where the Corporation is one of the world leaders and has a product line covering all areas. At present, the sales of combat, military transport and special aircraft generate over 80% of the Corporation's revenue. The strategic objective is to increase the revenue from civil aircraft programmes to at least 40% of the total sales by 2025 and at least 45% by 2035.

According to the market and product Strategy UAC seeks to:

- ensure the implementation of the national defence order;
- implement civil aircraft production programmes;
- implement programme management and balance the portfolio across life cycle stages;
- build a sales system in the civil and military aircraft markets;
- improve the after-sales service system, including the transition to life-cycle contracts.



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### Transformation of the Industrial Model

To ensure the successful development of the Corporation in the approved strategic areas UAC restructures its industrial model and arranges for the technical retooling of production facilities. To that end, the Corporation is forming specialised downstream production facilities working for the benefit of all UAC companies. PJSC "UAC" will act as the final integrator in the value chain specialising in aircraft design, testing, certification and production, as well as customer support and supply chain management. UAC objectives within the framework of industrial model transformation are as follows:

- implementing activities to improve operational efficiency;
- establishing specialisation and competence centres in production and development;
- outsourcing non-key operations and establishing a supplier management system;
- decommissioning excess capacity.

In 2017 UAC plans to focus on launching projects to transform Phase 1 industrial model, creating an investment programme for the transition to a new industrial model, implementing lean production programme in companies.

### Transformation of the organisational structure

One of the key goals of the Corporation, in accordance with the approved Strategy, is phased transformation of the organisational structure and the establishment of four business areas (divisions). UAC has the following objectives:

- improving business controllability as a united company;
- establishing divisions for the main business areas;
- form the effective management system based on the programme principle;
- implementing uniform standards and policies, development programmes for functional areas.

To meet these objectives UAC is developing a target system for managing and plans for the phased transformation of the corporate structure, and is working on the development of a global organisational and technical system for the construction of aircraft systems.

### Implementation of the Human Resources Strategy

The human resources strategy of UAC is aimed at the development and efficient use of human resources, enhancement of the Corporation's image as an attractive employer, attraction and retention of highly qualified professionals, implementation of their professional potential, improvement of business processes and productivity, and the creation of a comfortable environment for the professional and personal growth of employees. UAC seeks to maintain competitive advantage, including in regional markets, to make companies more attractive to potential employees of the aircraft industry.

### Implementation of the Financial Strategy

The financial strategy of UAC is aimed at increasing operating margin, minimising the need for additional State support for civil programmes, reducing the debt burden and increasing the efficiency and investment appeal of the business. The main goals of UAC in the field of financial management for 2017 are to develop a turnaround programme for bad assets, to improve operating margin, develop the KPIs system, manage pricing and cost and improve the UAC investment management system.

### Development of cooperation with JSC SC "Rostec"

To strengthen the cooperative links between the Russian companies involved in the development of the aircraft industry PJSC "UAC" is developing a plan for production cooperation and interaction with JSC SC "Rostec" companies, by joint order of PJSC "UAC" and JSC SC "Rostec" Corporation dated December 12, 2016 No. 241/150 a workgroup was established to organise the cooperation and achievement of the target indicators of the JSC SC "Rostec" Development Strategy for 2025 and PJSC "UAC" Strategy until 2025 and for the Period until 2035.

# BUSINESS MODEL

## MARKET

### CIVIL AIRCRAFT

Civil aircraft market is dynamic and the most receptive aircraft market. Aircraft performance and operational characteristics, sales and post-sales service system, brand and manufacturer's stability play a key role in the successful promotion of products.

### MILITARY AIRCRAFT

Military aircraft market is characterised by wavelike demand due to aircraft generation development cycles and intensely political nature of supplies. The main trend of the military aircraft market in the next ten years will be a gradual decrease in the volume of the fourth generation fighters and launch of the fifth generation fighters production. The output of aircraft in each consecutive generation is reduced, while the monetary volume of the market is constantly growing due to a sharp increase in the cost of production.

### TRANSPORT AIRCRAFT

In the ramp transport aircraft market, planes are supplied to two distinct groups of customers –government agencies and commercial airlines transporting outside cargo. Heavy military transport aircraft class is the first class of aircraft to be supplied in the course or rearmament of the Russian Aerospace Force.

### SPECIAL AIRCRAFT

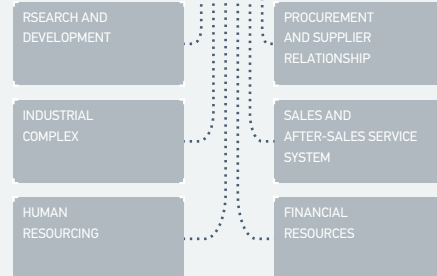
In the special aircraft business area aircraft are mainly supplied to state customers for specific purposes of certain departments

## UAC

### STAGES OF AIRCRAFT BUILDING PROCESS

- 0 Formulation of a business idea
- 1 Conceptual research. Business opportunity confirmed
- 2 Concept is feasible. Readiness "to demonstrate"
- 3 Selection of suppliers, identification of investors and starting customers. Draft design
- 4 Readiness to start the programme. Initial supply contract
- 5 Approval of aircraft configuration
- 6 Prototype production, First flight of an aircraft
- 7 Aircraft commissioning
- 8 Reaching the full capacity of mass production. Operational support

### RESOURCES



## UAC PRODUCTS

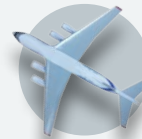
CIVIL AIRCRAFT LINEUP OF PRODUCTS WITH PASSANGER CAPACITY OVER 50 SEATS



MEDIUM AND HEAVY 4+, 4++ AND 5 GENERATION FIGHTERS, COMBAT TRAINERS, LONG-RANGE AIRCRAFT SYSTEMS



LINEUP OF RAMP TRANSPORT AIRCRAFT



SPECIAL AIRCRAFT



## SALES SCHEME

## OPERATOR

<ul style="list-style-type: none"> <li>• FINANCIAL LEASING</li> <li>• OPERATIONAL LEASING</li> <li>• DIRECT SALES</li> </ul>	<ul style="list-style-type: none"> <li>• AIRLINES</li> <li>• GOVERNMENT AGENCIES</li> <li>• PRIVATE PERSONS/ FINANCIAL AND INDUSTRIAL GROUPS</li> </ul>
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<ul style="list-style-type: none"> <li>• STATE DEFENCE ORDERS</li> <li>• SALES TO PARTNER-NATIONS IN THE FIELD OF MILITARY AND TECHNICAL COLLABORATION (VIA JSC "ROSOBORONEXPORT")</li> </ul>	<ul style="list-style-type: none"> <li>• ARMED FORCES OF THE RUSSIAN FEDERATION</li> <li>• ARMED FORCES OF PARTNER-NATIONS IN THE FIELD OF MILITARY AND TECHNICAL COLLABORATION</li> </ul>
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<ul style="list-style-type: none"> <li>• STATE DEFENCE ORDERS</li> <li>• FINANCIAL LEASING</li> <li>• OPERATIONAL LEASING</li> <li>• SALES TO PARTNER-NATIONS IN THE FIELD OF MILITARY AND TECHNICAL COLLABORATION (VIA JSC "ROSOBORONEXPORT")</li> </ul>	<ul style="list-style-type: none"> <li>• ARMED FORCES OF THE RUSSIAN FEDERATION</li> <li>• AIRLINES</li> <li>• ARMED FORCES OF PARTNER-NATIONS IN THE FIELD OF MILITARY AND TECHNICAL COLLABORATION</li> </ul>
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<ul style="list-style-type: none"> <li>• STATE ORDERS AND STATE DEFENCE ORDERS</li> <li>• DIRECT SALES</li> <li>• SALES TO PARTNER-NATIONS IN THE FIELD OF MILITARY AND TECHNICAL COLLABORATION (VIA JSC ROSOBORONEXPORT)</li> </ul>	<ul style="list-style-type: none"> <li>• GOVERNMENT AGENCIES</li> <li>• FOREIGN OPERATORS</li> </ul>
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ESTABLISHMENT OR REQUIREMENTS FOR AIRCRAFT EQUIPMENT

MARKET VOLUME DEFINITION

MARKET VOLUME DEFINITION

ESTABLISHMENT OR REQUIREMENTS FOR AIRCRAFT EQUIPMENT

MARKET VOLUME DEFINITION

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## INVESTMENT PROGRAMME



UAC Group is implementing a large-scale investment programme aimed primarily at the development of prospective aircraft programmes in the military and civil aircraft sectors, including the MC-21, PAK FA, Su-35, SSJ 100, Il-96-400, Il-114, Tu-160, Il-76/78.

In 2016 the volume of investment increased by 21.9% as compared with 2015 and amounted to RUB 86.9 bln. The largest share of the investment programme belonged to R&D projects (circa 70% of the total amount of the Corporation's investments), and the bulk of R&D investments went to the MC-21 aircraft, prospective aviation complexes, Il-76/78, SSJ 100, and others.

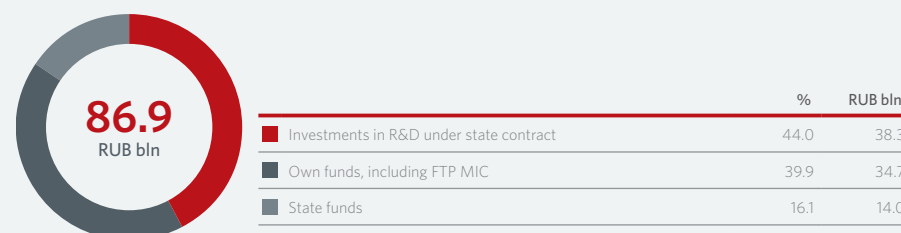
The technical refitting, as well as the reconstruction of the companies, including large-scale modernisation of the current production sites and facilities, and development of the airfield base accounted for 25% of the investment budget in 2016.

The main sources of funding for the UAC investment programme in 2016 were own and state funds (around 40%), as well as funds received under government contracts (44%).

UAC investment programme structure in 2016 by areas, RUB bln



UAC investment programme structure in 2016 by financing sources, RUB bln



In 2016 within the framework of the Federal Target Programme "Development of the Military-Industrial Complex of the Russian Federation for 2011-2020" (FTP MIC) the largest volume of investments was directed towards financing the reconstruction and technical retooling activities of subsidiaries and associates of PJSC "UAC", including PJSC "Tupolev", JSC "Aviastar-SP", PJSC "Company Sukhoi", JSC "IL", JSC "M. M. Gromov Flight Research Institute", PJSC "TANTK Imeni G.M. Berieva", PJSC "VASO", JSC "RSK "MiG".

Thus, two capital construction facilities were commissioned at PJSC "Tupolev" and PJSC "TANTK Imeni G.M. Berieva" in the reporting period.



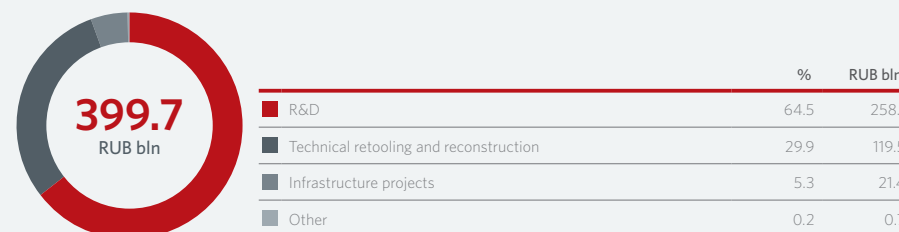
UAC's investment portfolio for 2017–2019, in accordance with the approved plan, is about RUB 400 bln. The programme includes the Corporation's own projects, projects implemented within the framework of FTP MIC, as well as R&D projects funded under government contracts. The largest volume of investment – about 65% – will be directed to R&D projects and about 30% of investments will be allocated for technical retooling.

According to the plan about 70% of all investments during 2017–2019 will be allocated for projects in the military, military transport and special aircraft sectors, 30% – for civil aircraft programmes.

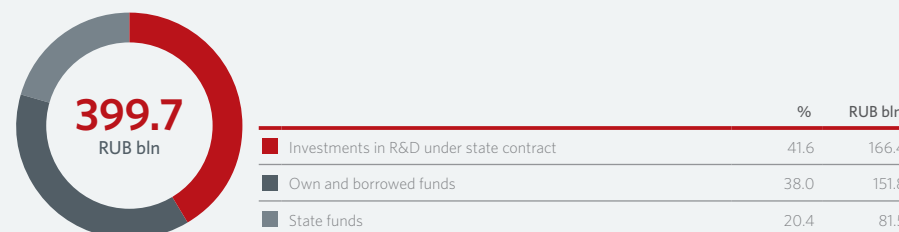
In the military aircraft sector the most capital-intensive projects are the development of advanced aircraft systems and supersonic bombers on the basis of Tu-160, PAK FA, Su-35.

In the civil aircraft segment, the investments are primarily aimed at implementing the MC-21 programme (about 20% of the Corporation's investment programme) and Il-114 (5%), and also the development of the SSJ 100 programme (2%), both for R&D and technical reequipping. Currently the MC-21 programme is in the active investment phase, the 6th stage was completed, which included the manufacturing of prototypes of the aircraft assembly units and conducting their static testing. At the next stage the assembly of the first flight prototypes of the aircraft will be completed and flight certifications tests will commence.

#### Investment programme in 2017–2019 by areas, RUB bln



#### Investment programme in 2017–2019 by financing sources, RUB bln



In the military transport aircraft sector, the priority Investment programme project is the development of Il-76MD-90A and Il-112.

In 2019 the volume of the UAC investment programme is planned to decline as compared with 2017 due to the completion of the active investment phase of a number of key programmes, such as MC-21, PAK FA, Su-35.

In 2017–2019 about 38% of the projects are initiated and financed from own funds. The share of all investments financed out of public funds in terms of government contracts (regarding R&D projects) will be 41.6%. About 20% of investment projects will be financed by public funds through contributions to the authorised capital under the federal target programme for the development of the military-industrial complex and other programmes.



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## » DEVELOPMENT OF THE PRODUCTION BASE



In 2016 UAC continued to implement a number of programmes for the development of the production base and technical retooling within the framework of FTP MIC, as well using its own and borrowed funds and under the national defence order contracts.

Work on 18 new and 42 current projects relating to 15 aircraft themes was performed within the framework of FTP MIC, including projects relating to the construction and reconstruction of production areas and airfields, technical retooling and the development of maintenance facilities.

The priority areas for the development of the production base include the creation of automated assembly lines for MC-21 aircraft production. Large-scale technical retooling programmes were implemented at all plants involved in MC-21 development.

Overall about 2,000 new technological equipment units were commissioned at UAC Group facilities during the reporting period. The share of domestic equipment procurement increased from 20% to 100%.

## » IMPLEMENTATION OF INNOVATION TECHNOLOGIES IN PRODUCTION

In 2016 UAC companies continued to expand digital design and production and introduce new innovative technologies. The Corporation made significant progress in the development of specialised production facilities and the competence centres as well as related technologies, including the production of radiotransparent radomes, fuselage panels, wings, flap systems, fins and rudders, pylons and nacelles, power units and assemblies from advanced polymer composite materials, as well as the development, integration and tuning of aircraft avionics complexes.

## » IMPLEMENTATION OF A NEW PLANNING SYSTEM

In 2016 UAC worked on introducing a new planning and monitoring system at its companies to reduce the aircraft assembly cycle, increase productivity and efficiency of operations. One of the key principles of the system is the job order production that envisages the procurement planning of thousands of components for each aircraft taking into account the characteristics of the individual product and the customer requirements. This approach enables analysis of large amounts of data in short time and quickly influence all elements of the production and logistics chain.

## » IMPLEMENTATION OF KAIZEN PROPOSALS

UAC companies are encouraging continuous improvement processes through the implementation of efficiency (kaizen) proposals that help making low cost changes in all areas of production. UAC regularly holds a lean production contest among its companies. For instance, in the Komsomolsk-on-Amur Branch (KnAF) of JSC "Sukhoi Civil Aircraft" almost 80% of the engineering employees of production areas are involved in continuous improvement processes. The majority of implemented improvements are aimed at reducing losses in various areas (downtime, overproduction, excess inventories, reject, conveyance, excessive processing, transportation). Many proposals to improve workplace conditions, technological equipment and safety have also been implemented. Furthermore, 2,600 efficiency proposals from the employees of PJSC "Company Sukhoi" were registered in the past year, more than half of which were implemented in production with the total effect of about RUB 39 mln. This practice is being implemented at other companies of the Corporation.



## R&D AND INNOVATIONS

AS ONE OF THE LEADING PLAYERS IN THE GLOBAL AIRCRAFT INDUSTRY, UAC PUTS A PRIORITY ON THE IMPLEMENTATION OF NEW TECHNOLOGIES AND INNOVATIVE SOLUTIONS IN ALL AREAS OF ACTIVITY

In addition to expanding the applications of global solutions and technologies the Corporation is strengthening its own R&D competencies and implementing a wide range of innovative programmes. Creating and implementing innovative solutions are among the priorities of the Corporation.

### » INNOVATION DEVELOPMENT MANAGEMENT SYSTEM

The Innovative Development Programme of UAC Group provides for performing a set of research and development, design and experimental, technological, production and organisational measures to enhance the competitiveness of aviation equipment and the Corporation's operation efficiency in line with the implementation of the priority areas of the Corporation's Development Strategy.

According to the Innovation Development Programme the list of key mid-term innovation projects includes:

- Integrated Project "Programme for Creating the Advanced Wide-Body Long-Haul Russian-Chinese Aircraft Family (Wide-Body Long-Haul Aircraft)";
- Integrated Project "Short and Medium-Haul MC-21 aircraft";
- projects for aircraft development to fulfil the state order;
- creation of MC-21 assembly line using digital positioning and laser systems;
- reconstruction and technical retooling of production at PJSC "Tupolev";
- technical retooling and reconstruction of production of JSC "Aviastar-SP";
- technical retooling and reconstruction of the assembly and auxiliary production at PJSC "Company Sukhoi";
- creation of "Nacelles and Pylons" specialisation centre.

Since 2016 the Innovation Development Programme for the period of 2016–2020 with an outlook until 2025 has been applied (approved by the Board of Directors of PJSC "UAC" on October 5, 2016, Minutes No. 167).

An interdepartmental group under the aegis of PJSC "UAC" carries out its activities in several sections within the framework of the Innovation Development Programme of the Corporation:

<b>Intelligent aircraft/helicopter</b>	<b>Eco friendly aircraft</b>	<b>Safe aircraft</b>
Smart power aircraft, unmanned systems, decision support, smart aircraft to lower regional airfields requirements	Noise reduction, emission reduction technologies, more electric systems	New positioning principles, movement control
<b>Military issues</b>	<b>New aircraft configurations</b>	<b>Advanced materials and technologies</b>
Combat and special-purpose aircraft technologies	New aerodynamic effects, power units, aerodynamic configurations	Advanced materials technologies, airframe technologies
<b>Perspective technologies and concepts</b>	<b>Information and analytical support of innovations</b>	<b>Economic and legal aspects of innovations</b>
Foresight aircraft, sustainable hypersound, new aircraft applications, new principles to reduce icing, signature	Management of industrial engineering knowledge using artificial intelligence tools for foresight research	Issues pertaining to the protection and economic use of intellectual rights

### » CENTRALISED DESIGN OFFICE



To facilitate the upgrade of Tu-160 strategic bomber PJSC "UAC" has established a centralised design office with geographically distributed project and production structure uniting the six major domestic design offices in a single information environment performing a single task, who are located at around 40 different sites.

The development of 3D electronic design documents for the air frame in modern programmes, design and preparation for the industrial production of Tu-160 strategic bomber has commenced.

The experience of cooperation among several design offices can be seen as the first step towards the creation of a "virtual UAC design office" capable of addressing complex objectives for the development of advanced aircraft on a tight schedule in the future.

### » 3D DESIGN



Digital design began to be used in Russia relatively recently, the first 'paperless' products became the 4++ generation fighter and the SSJ 100 commercial aircraft (both created at the Sukhoi Design Bureau), and today all UAC aircraft are designed in 3D-programmes.

Aircraft design requires hundreds of thousands of drawings and documents. Using advanced digital technologies enables UAC to curtail design process from 7-8 to 3-4 years and increase technological effectiveness. After processing 3D models are transferred for component manufacturing at state-of-the-art machines with digital software. Digital design projects were developing in close collaboration with a number of partners, namely, with the computing centre of State Corporation "Rosatom" in Sarov.

UAC structural engineers are working on dozens of projects to create new and retrofit current aircraft models.

### » AUGMENTED REALITY TECHNOLOGY

MiG Corporation and MAI develop a multifunctional head-mounted augmented reality system for pilots that will create new principles and algorithms for the display of forecast information. The new technology will expand piloting objectives and increase the safety of pilots in the course of in-flight refuelling, terrain avoidance at low altitudes, take-off and landing on aircraft carriers, ultrashort flight strips and in severe weather conditions and mountain areas. The technology can be used for all fighter jets designed and produced by the UAC design offices and plants, as well as for helicopter pilots and operators of other transport systems.

### » COOPERATION WITH RAS

UAC and the Russian Academy of Sciences (RAS) have established a joint workgroup for data processing and mathematical modelling to coordinate the efforts of the dedicated RAS institutions. This will eliminate the duplication of efforts for the purchase and adaptation of assemblies and technologies, significantly accelerate and cheapen the adaptation of ready-made solutions. Another area of cooperation is creating an industrial knowledge base with the possibility of intelligent search for information and analysis of large amounts of data that will allow for efficient analysis of the development and procurement of various components and technologies.

In total the collaboration implies the participation of a number of lead institutes of the Russian Academy of Sciences in more than 20 areas both for current programmes and for prospective ones. The most crucial work areas for the nearest years include improving aircraft control systems, creating new energy sources, anti-icing systems, as well as enhancing the aircraft environmental compatibility and safety.

## » COOPERATION WITH THE ADVANCED RESEARCH FOUNDATION



UAC and the Advanced Research Foundation commenced a joint programme for introducing advanced technologies and materials into the domestic aircraft industry. A number of advanced developments in the field of lightning protection, electromagnetic compatibility of electric system components, advanced energy technologies can be implemented in the development of new domestic aircraft in the foreseeable future. UAC is implementing an extensive range of its own research and development programmes.

"At present UAC cooperates with about two dozen fundamental and sectoral institutions. We are trying not only to find and adapt domestic technologies for the needs of new programmes, but also to form a scientific tool for creating advanced aircraft."

**Vladimir Kargopoltsev,**  
Director of UAC Research and Development Centre

## » CALS-TECHNOLOGY ACADEMIC LABORATORY

In 2016, the "Digital Design and Production Technologies" laboratory was opened in MAI, which will play a key role in upgrading the training process. The main focus of the laboratory is to train students in the elements of the CALS-technology complex that provides paperless information support for the product life cycle.

The laboratory will significantly increase the level of professional education, bring learning tasks closer to practical issues encountered at the plants. The project envisages the arrangement of internship training for students at UAC.

The Corporation also participates in intersectoral information and analytical interactions, in the development of strategic research programmes for technological platforms, and in the development of innovative territorial clusters.

## » INTERACTION WITH THE EXTERNAL INNOVATION ENVIRONMENT

In 2016 the mechanisms for interaction with the external innovation environment were thoroughly reformulated and expanded, and the functions of the single-window information portal were significantly expanded as a key tool for such interaction. Cooperation in the field of innovation is developing primarily in the field of security, flight performance development, design, ecology, flight expert system technologies, avionics systems, production technologies, technologies and the means of flight research and testing of aircraft and aircraft systems.

In 2016 the "Regulation on the Procedure and Rules for Implementing Innovative Solutions for the External Innovation Environment at PJSC "UAC", which establishes the procedure for cooperation with external partners regarding the use of the results of intellectual activity, was developed and approved.



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## IMPLEMENTATION OF MAJOR ADVANCED AIRCRAFT PROJECTS

### » CIVIL AIRCRAFT

#### SSJ 100



NEXT GENERATION SHORT-HAUL NARROW-BODY JETS. SUPPLIED SINCE 2011

#### Main activities and developments in 2016

- Implementation of the "SSJ 100 improvement" programme to further enhance the competitive attractiveness of the aircraft in the world market.
- Update the business plan of the SSJ 100 production programme.
- Increasing sales and stimulation of demand, entering into new firm contracts for the supply of aircraft to the Russian and

foreign customers, including CityJet, Royal Thai Air Force, PJSC "STLC".

- Development of after-sales service system, including improved product life-cycle management and logistic support. Following the results of the year, spare parts storage stocks have been increased, the staffing of the guarantee team at the Sheremetyevo airport has been increased, and new agreements have been concluded with the companies providing component repair services.
- Development of sales financing tools, implementation of the residual value guarantee mechanism on the basis of LLC "UAC-Capital" subsidiary.

#### Priorities for 2017

- Supply of SSJ 100 in accordance with the approved production programme.
- Approval of SSJ 100 development programme.

#### MC-21



NEXT GENERATION MEDIUM-HAUL NARROW-BODY AIRCRAFT TARGETING THE LARGEST SEGMENT OF THE WORLD MARKET. THE COMMENCEMENT OF SUPPLY IS SCHEDULED FOR 2019

#### Main activities and developments in 2016

- The unveiling of the first MC-21-300 prototype was held on June 8, 2016 in Irkutsk.
- Bench testing of aircraft assemblies and systems, including static tests of the fin box, tailplane torsion box, inboard flap, speed brake, aileron, interceptor, ruddvators; testing of electronic and in-line simulation of the Integrated management system (IMS), hydraulic system and mechanisms with in-line IMS simulation on integration benches, testing of on-board equipment.

- Production a static MC-21-300 prototype: In 2016, the fuselage assembly of the static airplane was completed and the butting of the wing and fuselage commenced.

#### Priorities for 2017

- The first flight of MC-21-300.
- The beginning of the ground and flight certification testing phase of MC-21-300.

## » CIVIL AIRCRAFT

## WIDE-BODY LONG-HAUL AIRCRAFT



WIDE-BODY AIRCRAFT ON A NEW TECHNOLOGICAL PLATFORM

### Main activities and developments in 2016

- Completion of baseline data determination for the design of the aircraft, including the approval of the preliminary characteristics, the composition of functional systems, devices and equipment, geometric lines and skeleton diagram options. Final schedule of engineering and design operations for the next phase of the Programme will be approved after the distribution of work and

distribution of responsibilities between PJSC "UAC" and COMAC.

- Addressing policy issues of the programme, such as the identification of funding sources, the format of cooperation with the project partner COMAC.
- Entering into an intergovernmental agreement with the People's Republic of China on June 25, 2016 on the implementation of the wide-body long-haul aircraft development programme.
- Commencement of joint-venture registration under the wide-body long-haul aircraft development programme in 2016.
- An official unveiling ceremony of the wide-body long-haul aircraft prototype with the participation of D.V. Manturov, Minister of Industry and Trade of the Russian Federation, was held on November 2, 2016, at Airshow China 2016 in Zhuhai, China.

### Priorities for 2017

- Passing the control stage (2) of the Programme.
- Creation of a joint venture with COMAC.

## » MILITARY AIRCRAFT

## PAK FA



FIFTH GENERATION ADVANCED FRONTLINE AIRCRAFT SYSTEM

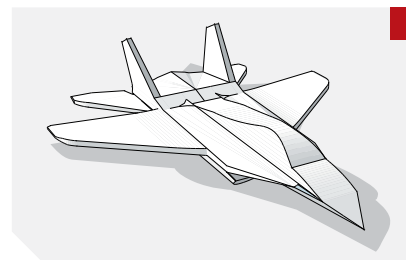
### Main activities and developments in 2016

- Preparation for obtaining preliminary approval for the production of the preproduction PAK FA batch. Preliminary approval is expected to be received in 2017.
- Preparation for entering into state contract for the supply of serial aircraft, that are scheduled to commence in 2019.

### Priorities for 2017

- Completion of prototype production.
- Obtaining the State Joint Test Certificate.

## PMI



A FIFTH GENERATION ADVANCED MULTI-PURPOSE FIGHTER

### Main activities and developments in 2016

- Completion of technical negotiations, negotiation of key issues of the terms of reference.
- R&D Contract under the programme undergoes approval by the state authorities of the Republic of India.



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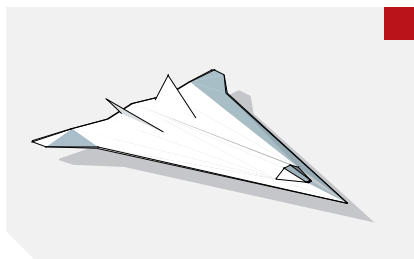
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» MILITARY AIRCRAFT

PAK DA



ADVANCED LONG-RANGE AVIATION COMPLEX

**Main activities and developments in 2016**

- Completion of schematic technical design.
- Preparation for the next phase of the programme subject to the plans of the Ministry of Defence of the Russian Federation for strategic aircraft development. The decision to commence the next phase of the programme has been made.

**Priorities for 2017**

- Entering into a state contract for development work.

» TRANSPORT AND SPECIAL AVIATION

II-76MD-90A/II-78M-90A



HEAVY MILITARY TRANSPORT AIRCRAFT

**Main activities and developments in 2016**

- Development of an advanced tanker aircraft prototype.
- Completion of II-76MD-M upgrade and preliminary testing.
- Preparations for the upgrade of II-78(M)2.

**Priorities for 2017**

- Production of aircraft in accordance with the production programme.

II-112V



LIGHT MILITARY TRANSPORT AIRCRAFT

**Main activities and developments in 2016**

- Completion of the preparation of II-112V design documentation.
- Entering into supplementary agreement to the state contract.
- Preparation for the launch of the first two aircraft into production, including the production of the main air frame assemblies for the flight and static prototypes.

**Priorities for 2017**

- Final assembly of the resource/static II-112V prototype.
- Final assembly of II-112V prototype.

## » IL-112V: THE FIRST RUSSIAN LIGHT MILITARY TRANSPORT AIRCRAFT



In 2014, a contract for R&D on the IL-112V aircraft was signed with the Ministry of Defence of the Russian Federation. In 2015, JSC "IL" reviewed the technical design and in 2016 all documentation was released and transferred to VASO.

The final assembly of the first IL-112V is scheduled for 2017.

The IL-112V light military transport aircraft is designed to transport a wide range of cargoes, including various types of weapons, military equipment and personnel. The IL-112 will replace the An-26 aircraft of the Russian Military Aerospace Forces. The IL-112V aircraft is designed to perform logistical tasks on small and poorly equipped airfields with both concrete and ground runway coatings.

The new aircraft provides the capability for automatic landing at categorised airfields complying with CAT II ICAO minimum, and manual landing at airfields poorly equipped or unequipped with radio equipment.

In wartime the IL-112 may also provide airlift delivery of light weapons, military equipment and personnel.

## » PAK FA: FIFTH GENERATION ADVANCED FRONTLINE AIRCRAFT SYSTEM



One of the key elements of the PAK FA system is its weapons systems. The key requirement for PAK FA weapons was the adaptation of new missiles for use from internal bays, which required the use of foldable planes as well as major changes in the launch algorithms. PAK FA will have three types of new short-, medium- and long-range air-to-air missiles.

The new missiles must be different from the previous generation in terms of increased range, high manoeuvrability, all-weather capability, improved homing capabilities.



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## OPERATIONAL RESULTS

### » AIRCRAFT SUPPLIES



In 2016, UAC supplied 141 aircraft to customers, delivering growth primarily in the civil aircraft segment.

In the civil aircraft segment, as in the previous year, sales were related to the flagship SSJ 100 model. In 2016 the Corporation supplied the customers with 28 SSJ 100 aircraft, out of which two aircraft were delivered to the Administrative Directorate of the President of the Russian Federation. In the domestic market, it delivered nine aircraft for Yamal Airlines, four aircraft – for Aeroflot, two aircraft – for Yakutia Airlines. As part of export contracts the Corporation supplied two SSJ 100 aircraft for the Royal Thai Air Force and one SSJ 100 aircraft for Kazakhstan Border Guard. It also delivered eight SSJ 100 aircraft to Venice for Superjet International for customisation – four SSJ 100 aircraft for the Mexican Interjet airline and four SSJ 100 aircraft for CityJet – the first European customer of SSJ 100.

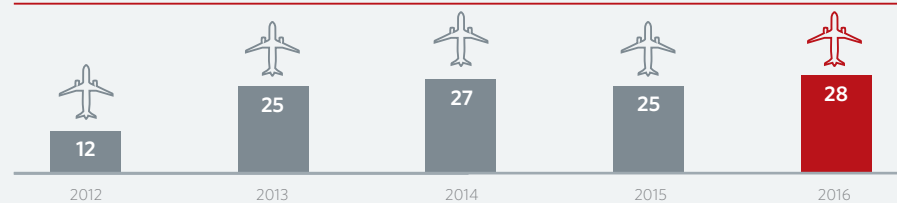
Moreover, nine aircraft based on Tu-214, Il-96 and An-148 platforms were supplied to the state special purpose air force during the year.

In the military aircraft segment 72 Su-30, Su-34, Su-35, MiG-29 and Yak-130 aircraft were supplied in the interests of the Ministry of Defence of the Russian Federation.

A total of 31 Su-30, Su-35, MiG-29 and Yak-130 aircraft were supplied in 2016 under export contracts for military equipment, including to China, India, Belarus, Kazakhstan and other countries.

In addition, the Corporation supplied one Il-76MD-90A to the Ministry of Defence of the Russian Federation.

Supply of SSJ 100 to the domestic and international markets in 2012-2016, units\*



\* Including remarketing and special-purpose state aviation.

Aircraft type	2012	2013	2014	2015	2016
<b>Military aircraft *</b>	<b>71</b>	<b>79</b>	<b>124</b>	<b>124</b>	<b>103</b>
Domestic market	35	54	102	90	72
Export	36	25	22	34	31
<b>Civil Aircraft**</b>	<b>21</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>37</b>
Domestic market	18	18	26	25	26
SSJ 100	9	11	18	20	17
An-148, Tu-204/214, Il-96	9	7	8	5	9
Export	3	14	9	5	11
<b>Transport aircraft</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>
Domestic market	2	-	-	2	1
Export	-	-	-	-	-
<b>TOTAL:</b>	<b>94</b>	<b>111</b>	<b>159</b>	<b>156</b>	<b>141</b>

\* Including prototypes.

\*\* Including prototypes, remarketing and special-purpose state aviation.



## » AFTER-SALES SERVICE



To improve the competitive attractiveness of its products in the international market PJSC "UAC" offers a modern client-oriented post-sales aircraft support system, as well as an integrated logistics support system. The work is based on the geography of sales and has the potential for achieving synergy in the overlapping target markets for different products. At the same time, the Corporation is working on strategic partnership projects with leading global providers of repairs and logistics services.

A modern logistics support system guarantees the supply of spare parts to the customer within the minimum period, the organisation and management of spare part inventories, access to the spare parts pool or financial lease of components. The system provides for the arrangement of aircraft component maintenance and repair services. Automated processing of orders, including through the Internet, provides a quick response to AOG<sup>1</sup> situations.

<sup>1</sup> AOG (airplane on the ground) is the condition of an aircraft when it cannot fly due to a defect.

### Results of 2016

In the reporting year activities relating to the development of after-sales service were carried out to improve the integrity index of the fleet, including through the development of the product life-cycle management system and the improvement of the logistics support system.

In 2016 PJSC "UAC" received a certificate for foreign trade activities in respect of military products, which entitles it to enter into export contracts for maintenance, upgrade and repair of previously supplied equipment. In addition, the certificate allows establishing foreign joint ventures for the maintenance and repair of aircraft equipment, as well as training foreign specialists performing maintenance and repair of UAC products.

The certificate will allow UAC to improve the coordination of work in this area, develop a single corporate after-sales service system based on the existing experience, and ensure the most efficient performance in the markets where several brands are present.

To perform after-sales maintenance of military equipment foreign customers will be offered an integrated service system based on Performance Based Lifecycle principles, a service support concept designed to maintain a specified integrity level of aircraft.



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» SSJ 100 AFTER-SALES SERVICE SYSTEM



JSC "Sukhoi Civil Aircraft" has an efficient after-sales service system that allows the implementation of programmes for the new SSJ 100 civil aircraft.

Specialists of the 24-hour customer support centre help airlines process requests and obtain advice, find solutions to help aircraft fly, and coordinate the supply of spare parts to any point in the world. In addition to customer support centres in Moscow and Venice, the Corporation is actively developing a network of independent maintenance and repair providers in Russia and abroad. There are at present eight organisations, including airlines and independent service providers, providing maintenance services. In addition, negotiations are being held with a number of new potential partners.

Previously, only one warehouse was used in the system of after-sales service of SSJ 100 in Russia, at the Sheremetyevo Airport, which helped to supply SSJ 100 parts and components mainly from the Aeroflot fleet. At the end of 2016, JSC "Sukhoi Civil Aircraft" opened a new support warehouse in Zhukovsky, Moscow Region, on the basis of a modern hangar complex that performs operational and regular maintenance of aircraft, maintenance of assemblies and components, as well as the development and implementation of aircraft service bulletins, including the possibility of implementation anywhere in the world.



The aircraft inventories storage system established on the basis of the Zhukovsky complex allows for the worldwide provision of spare parts to customers.

Over the past two years, it was possible to optimise the aircraft documentation system for certificated imported parts of the SSJ aircraft in Zhukovsky, bringing it into compliance with the unified Russian standards and requirements. The storage conditions of spare parts comply with international standards, and advanced aircraft inventories management software has been installed. In this way, the spare parts storage system has been optimised. In addition, a foundation has been laid for the production of parts and assemblies on a local scale to reduce waiting times for delivery of plants.

## » PRODUCT QUALITY MANAGEMENT



PJSC "UAC" is constantly working to ensure strict quality control of the products it produces. All companies of the Corporation have quality management systems (QMS). The analysis of the quality and reliability of aircraft equipment for 2016 shows the conformity of PJSC "UAC" products to the requirements of the regulatory and contractual documentation. There is a gradual decrease in the number of reclamations for each type of aircraft produced.

In December 2016, the President of PJSC "UAC" approved the new version of the Quality Control Policy, according to which the goal of PJSC "UAC" in the field of quality is to ensure a competitive level of aircraft equipment that complies with the requirements of customers and other interested parties. The priority areas of work include ongoing monitoring and analysis of customer needs, improvement of supplier

relations, continuous performance improvement, development and improvement of quality management. In 2016, a representative of the management responsible for quality was appointed, the work of the Quality Coordination Board was organised, workgroups responsible for the preparation of proposals and draft decisions were established, and the procedure for regular analysis of aircraft equipment claims was developed and implemented. Moreover, activities in the following areas were carried out as part of the quality management system development in 2016:

- Implementation of arrangements to tighten control, improve design documentation, develop technological and production processes, and improve the technological infrastructure of production.
- Improvement of incentive tools and development of personnel training programmes.
- Work within the framework of the European Aerospace Quality Group (EAQG), including participation in the development of the AS/EN 9145 APQP/PPAP (Advanced Product Quality Planning/Production Part Approval Process) standard.
- Performance of activities within the framework of the implementation of the system for the control of accreditation authorities and certification centres in the aerospace industry in the Russian Federation by the industry (ICOP scheme – Industry Controlled Other Party). In 2016, audits of the Russian Register, Bureau Veritas Certification Rus, TÜV Süd certification authorities and accreditation authorities the United Kingdom and Spain were conducted; In December 2016, Regulations for the cooperation of the Russian aircraft industry organisations-members of the European Aerospace Quality Group with the Union of Aviation Industrialists of Russia.
- Implementation of supplier efficiency programmes, including the execution of an agreement with State Corporation "Rostec", which includes a significant number of UAC suppliers, on cooperation in the field of aircraft quality assurance.



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## 2016 FINANCIAL RESULTS

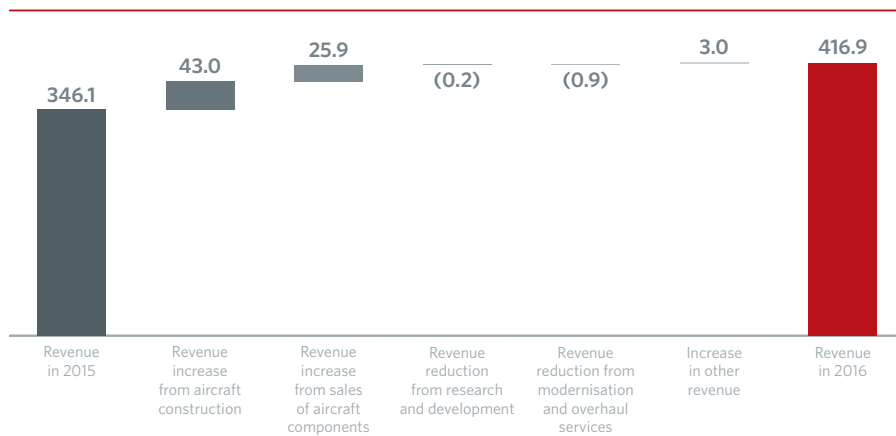
The Corporation's consolidated revenue (IFRS) rose steadily between 2012-2016 and in 2016 reached a record value of 417 RUB bln, 20.5% higher than in the previous year.

The main drivers behind the substantial revenue growth in the reporting year were primarily, an increase in the sales of aircraft components by 92.4%, from RUB 28 bln in 2015 to RUB 54 bln in 2016, and the 20.9% growth in revenue earned from aircraft construction contracts, from RUB 206 bln in 2015 to RUB 249 bln in 2016. In addition, revenue from research and development as well as revenue from modernisation and overhaul services remain significant items in the revenue structure.

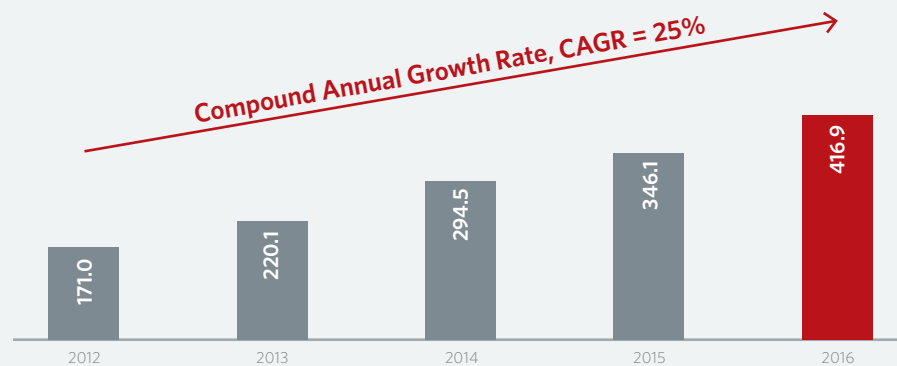
In the reporting year, the Corporation's revenue from exports increased twofold to RUB 203 bln, while revenue from the civil aviation segment exceeded RUB 68 bln.

The share of revenue from sales to the key buyer - the Ministry of Defence of the Russian Federation - declined and amounted to 43% in 2016, as compared with 47% in 2015. Changes in the revenue structure reflect an important part of the Corporation's strategy, where measures have been implemented to increase the share of the civil aviation segment and to grow exports.

### Factor Analysis of Revenue Change in 2015-2016, RUB bln



### Corporation's revenue dynamics in 2012-2016



### Revenue breakdown by product and service category in 2016



### Revenue breakdown by product and service category in 2015



## Key financial indicators (IFRS), RUB mln

Indicator	2012	2013	2014	2015	2016
Revenue	171,019	220,065	294,538	346,120	416,926
Gross profit	35,887	43,352	45,245	32,551	78,637
Gross profit margin	21.0%	19.7%	15.4%	9.4%	18.9%
EBITDA <sup>1</sup>	4,483	16,486	23,905	9,640	33,214
EBITDA margin	2.6%	7.5%	8.1%	2.8%	8.0%
Profit (loss) from operations	602	1,135	4,212	(69,412)	11,203
Operating margin	0.4%	0.5%	1.4%	(20.1)%	2.7%
Net profit (loss)	(5,650)	(13,508)	(13,654)	(109,946)	(4,481)

The higher margins secured on export contracts in the reporting year led to positive trends in the Corporation's operating profitability:

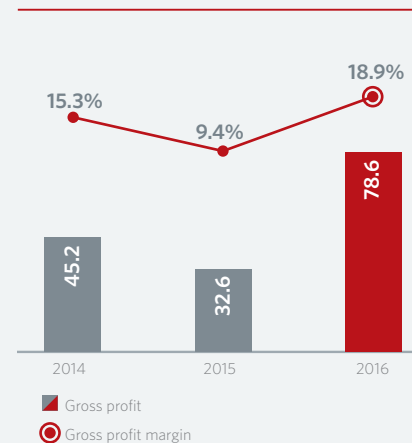
- Gross profit increased by 2.4 times to RUB 79 bln;
- EBITDA grew more than threefold - from RUB 10 bln to RUB 33 bln;
- Operating profit amounted to RUB 11 bln, as compared to an operating loss of RUB 69 bln in the previous year.

Positive results from the Corporation's operating activities enabled it to cover much of its financial expenses, due to which net loss in 2016 was reduced by nearly 25 times. This is UAC Group's best result for this indicator since 2007.

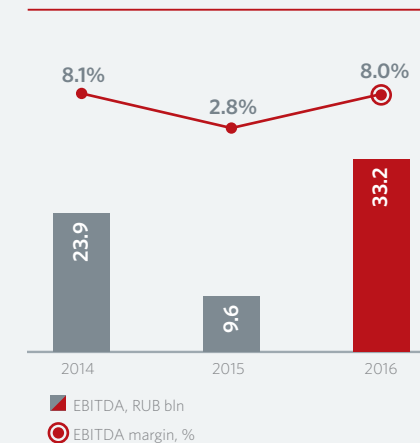
It is worth noting that as of late 2016, the Corporation's consolidated net debt was RUB 197 bln, compared to RUB 148 bln in 2015. Given the substantially increased revenue achieved in 2016, the ratio of net debt and revenue was slightly altered at 0.47, but was maintained at a comfortable level for the Corporation.

<sup>1</sup> EBITDA is calculated as loss before tax adjusted for net finance costs/(profit), depreciation of fixed and non-current assets, amortisation of intangible assets. EBITDA is not a standard IFRS measure and the methodology for its calculation may differ from that of other companies. This indicator is unaudited.

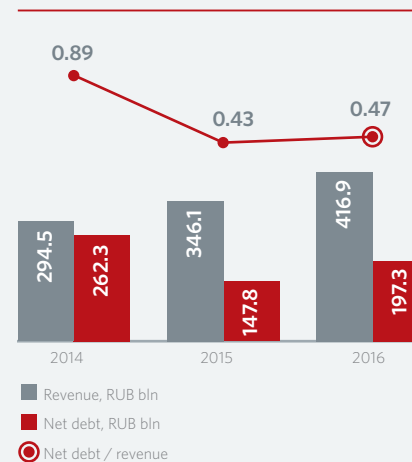
## Dynamics of gross profit (RUB bln) and gross profit margin (%) in 2014-2016



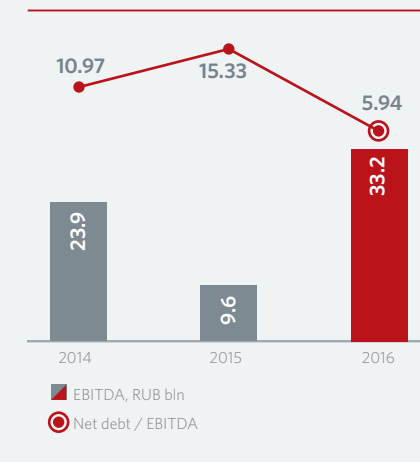
## Dynamics of EBITDA (RUB bln) and EBITDA margin (%) in 2014-2016



## Net debt / revenue in 2014-2016



## Net debt / EBITDA in 2014-2016



# SUSTAINABLE DEVELOPMENT

## SUSTAINABLE DEVELOPMENT PRIORITIES

As a key player in the global market of civil and military aircraft engineering, comprised of all the largest enterprises in Russian aircraft engineering, UAC plays a systemic role in this strategically important industry for Russia. UAC makes a substantial contribution to the development of high technology, as well as the development and production potential of the aircraft industry and the provision of the country's defensive capability. Furthermore, over 100 thousand people are engaged at Corporation enterprises.

A wide network of contacts in Russia and worldwide, high level of responsibility to all the related parties determine the key directions of the Corporation's sustainable development:

- maintenance of the Group transparency and managerial improvement;
- strengthening of the Corporation image and goodwill;
- integration of the corporate social responsibility in all aspects of the Group activities;
- equitable attitude toward all stakeholders;
- effective and rational use of natural resources;
- employees' health and welfare support;
- assistance in economic and social development of programmes for the benefit of development of society.

In order to implement sustainable development the Corporation applies the system of measures aimed at integrating the corporate social responsibility into all activities, including personnel management, risk management, relationships with employees, clients and partners, environmental compliance, community involvement in general.

## HR POLICY

The Corporation's policy in the field of personnel management aims at attracting and retaining highly skilled personnel, helping them achieve their potential for professional growth, improving the efficiency of business processes and labour productivity, and creating favourable conditions for the professional and personal development of employees.

We aim to be competitive in regional markets, strengthening our companies' appeal for potential aircraft industry professionals.

### Key objectives of the HR Policy

The key objectives of the Corporation's HR management policy include:

- ensuring implementation of the Corporation's business Strategy, through high-quality selection and efficient use of HR resources, based on the best Russian and international HR management practices;
- strengthening the Corporation's appeal as a socially responsible employer among current and prospective employees;
- establishing the necessary conditions for the attraction and retention of qualified employees;
- developing new approaches to employee recruitment, selection and adaptation;
- creating a competitive compensation system and employee incentive programme based on key performance indicators.

### Code of Corporate Ethics

Since February 2015, the Code of Corporate Ethics has been introduced to create a favourable corporate climate in the Corporation. The Code is based on the following principles:

- transparency and integrity;
- respectfulness and good faith;
- social responsibility;
- justice and fairness.

The Code governs conflict of interest issues, supports anti-corruption measures, aims at improving internal and external relationships of the Corporation's employees in compliance with principles of openness, transparency and mutual respect.

## Loyalty Enhancement Programmes

UAC actively implements programmes on the employee loyalty enhancement, including a transparent managerial system with the delineation of powers hierarchy, areas of responsibility and decision making, competitive wages, complex employment benefits, carrying out different educational and development programmes. The Corporation's Basic social programmes are aimed at providing safe and comfortable labour conditions, support and promotion of healthy lifestyles, improvement of housing conditions and quality of living for personnel and their families.

## Professional Development

Striving for continuous professional development of its employees, UAC implements a wide range of programmes for the professional development and advanced training of current personnel in certain competence priorities for the Corporation.

The priority areas for personnel training, instruction and development are as follows:

- helping new employees adapt;
- implementing programmes for raising skills and the advanced training of staff;
- providing training for students of higher and secondary specialised educational establishments;
- using mechanisms of financial support through various programmes and projects;
- developing and implementing professional and educational standards.



In 2016 UAC conducted the Open Corporate Championship II, a competition focused on professional skills in the aircraft industry, as per WorldSkills standards. The competitions were held on 5 competencies; however, the championship contenders were invited to compete in a new competence area - installation of electrical equipment of air vehicles.

The championship was held through the kind offices of the Governor of the Ulyanovsk region, JSC Aviastar-SP, DMG Mori, Ulyanovsk Aviation College, and Ulyanovsk State University. More than 600 young workers from all over the holding's factories took part in the qualifying competitions held at the enterprises.

The introduction of WorldSkills standards into the system of vocational training is one of the priorities of the UAC workforce policies. International standards set broader competencies for specialists. For young workers and engineers this implies an opportunity to increase the level of skills and competencies as compared to employees of the world's leading aircraft manufacturers. The leading team of the 2016 Corporate Championship, according to WorldSkills standards, was the Branch from PJSC "Company Sukhoi" - "KnAAZ named after Y.A. Gagarin", after winning the most competencies in the Championship.

In July, 2016 UAC took part in International Youth Industrial Forum VI "Engineers of the Future 2016", which united specialists, scientists, postgraduates and students — young engineers from Russia and across the world. Over 1,000 participants from 70 regions of the RF and about 20 foreign delegations took part in the forum. The forum participants took part in an demanding educational and business programme, with the involvement of lecturers from leading higher education institutions and corporate universities of the enterprises.



### Cooperation with Higher, Secondary and Specialised Educational Establishments

Target preparation for UAC's engineering personnel is conducted by the leading air-technical higher education institutions in the country, 13 of which support the Corporation. The main subjects include plane and helicopter engineering, aircraft engineering, design-engineering support of machinery production, radio-electronic systems and complexes.

Since 2015 the Corporation has been implementing programmes for collaboration with the Moscow Aviation Institute (MAI) in the field of personnel training and research, development and engineering, including MAI's participation in UAC projects. The students are actively engaged in carrying out scientific and technical research and development works conducted by the higher education institutions on the order of the Corporation's enterprises. In 2016, UAC and the Ministry of Education and Science of the Russian Federation agreed upon sponsorship of 12 projects for the companies "Sukhoi", "Irkut" and "Tupolev", implemented with the support of 9 higher education institutions.



To raise awareness of the Corporation's activities among pupils and students, UAC presented a specialised display of modern technologies in civil and combat aviation and conducted a series of lectures on aircraft engineering at Nauka 0+ Festival at Lomonosov Moscow State University.



UAC regularly implements a Day of the Corporation in the Region project aimed at promoting aircraft construction companies to pupils, students and specialists. Training, excursions to the plant museum and workshops are carried out for children at the event. Managers of the Corporation and educational establishments conduct round tables on topical issues for the personnel training for the aircraft industry.



For the purpose of regular labour force training, UAC implements a number of projects together with educational establishments from the secondary vocational education (SVE), profession-oriented schools in different regions of the country, and acts as an Olympiad organiser.

In 2016, UAC in cooperation with MAI conducted in the International Children's Centre "Artek" (Republic of Crimea) a large profession-oriented project "Course for takeoff!" — "aviation" shifts for pupils 12–17 years old. The participants of these shifts were the winners of the aviation Olympiads. In total in 2016 pupils from 15 regions of the country took part in the aviation shifts.

In November, 2016 UAC for the first time presented "Manufacture and Maintenance of aviation equipment" as a competency at competitions during the children's early professional orientation programme, JuniorSkills, which takes place during the course of the WorldSkills Hi-tech championship in Yekaterinburg.



### Remuneration System

Strengthening the company's appeal for high quality employees, the Corporation maintains competitive salaries. Employee proficiency and competencies, work experience, as well as the social and economic situation in the regions of operations, are also taken into account.

Currently the average salary of employees at most companies of the Corporation corresponds to, or exceeds, the relevant indicator in the geographical region. The Corporation uses a remuneration system for top management which includes bonuses for achieving the KPIs developed on the basis of the Group's strategic goals

Top managers, managers and supervisors are paid quarterly bonuses depending on their quarterly plans performance



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## Social Security

The companies of the Corporation undertake a wide range of measures to increase the level of employee social protection and create favourable labour conditions. UAC has a valid Corporate Agreement between PJSC "UAC", its subsidiaries and the Russian Trade Union of aircraft industry workers (PROFAVIA), containing a list of indicators on labour and social security for workers of the Corporation's companies.

Social security includes the minimum mandatory package of social benefits for employees, corresponding to the practices existing in the labour market:

- catering;
- voluntary medical insurance;
- welfare assistance in emergency situations;
- realisation of housing programmes.



In addition, in order to provide competitiveness in the regional labour market UAC companies provide social support to employees, inter alia, payment of maternity or retirement grants, participation in corporate retirement plans, health resort treatment and health improvement, recreation of employees and their children, additional vacations.

The Corporation has seven corporate recreational centres located in different regions of Russia, where annually over 5,000 employees and members of their families can relax on vacation.



## SOCIAL PROJECTS AND CHARITY

THE COMPANIES OF THE CORPORATION IMPLEMENT A NUMBER OF VARIOUS SOCIAL AND CHARITY PROGRAMMES BY INITIATING BOTH FEDERAL AND REGIONAL PROJECTS IN THE REGIONS OF OPERATIONS

In 2016 a new version of the Regulation on sponsorship and charity of PJSC "UAC" was approved. The regulation specifies the principles and areas of sponsorship and charity of PJSC "UAC", as well as the procedure for forming and using the resources of the Fund for sponsorship and charity.

### Donor days

In 2016 employees of the corporate centre and of UAC companies participated twice in the charitable actions for blood donation. Actions were conducted within the Development Programme of the Mass Voluntary Blood Donation, conducted by the Federal Medical and Biological Agency. This is an important social action aimed at helping patients in desperate need of donated blood.



The Corporation supports charity in the following areas:

- sports and culture support;
- provision of help to children;
- implementation of social and goodwill projects in health care;
- financing of the restoration of social infrastructure;
- projects supporting the field of education;
- backing of patriotic projects;
- providing help to religious organisations;
- rendering target charitable assistance to vulnerable social groups.

### Sport support

Since 2010 PJSC "UAC" has been a title sponsor of the professional basketball club CSKA. In 2016 a new agreement was concluded with the Moscow basketball club CSKA, which is intended for the 2016/17 season.



### Sukhoi Superjet is an official airplane of the Russian national Olympic team

In 2016 UAC signed a partnership agreement with the Olympic Committee of Russia. One of the strategic areas of cooperation was creating the concept SportJet by Sukhoi, the first one in the airplane market with a specially designed interior for transporting professional sports teams. Innovative medical and IT-solutions for athletes' recovery and rest will be presented on board the SportJet by Sukhoi. The cabin will be divided into four functional zones: a recovery zone; a sportsmen recreation area; a coach zone and an administrative staff zone. SportJet by Sukhoi will become the third product in the line of JSC "SCA" along with the Sukhoi Superjet 100 and the Sukhoi BusinessJet, resulting in the expansion of target markets and increasing possibilities for aircraft promotion.



### Helping children

Companies of the Corporation provide support to children and foster children in orphanages.

In 2016 on New Year's Eve, a charity hockey match took place for the second time with the support of the deputy corps and business of Ulyanovsk at the Ulyanovsk Health and Fitness Centre "Leader", for foster children of the social rehabilitation centre "Prichal nadezhdy" and for the children of needy families. An entertaining programme with games and festive gifts was organised before the match for all the participants.

In 2016 PJSC "Company Sukhoi" Branch KnAAZ, named after Y. A. Gagarin, awarded grants to the teaching staff of the Territorial State Educational Institution Orphanage No. 34 for improvement of the material and technical base of the orphanage.

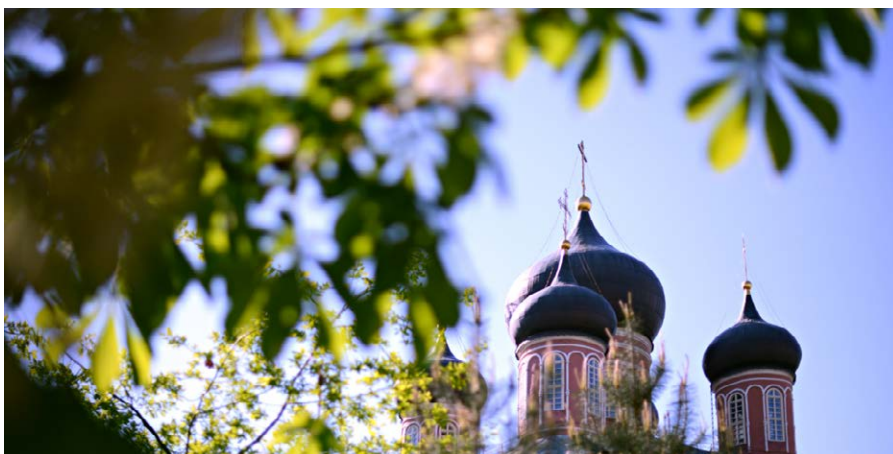
In October, 2016 in the territory of TANTK, named after G.M. Beriev, an excursion for first-grade pupils from school No. 30 took place, within which the children visited the workshop for final assembly of the amphibian airplane and saw how the airplanes are built. Talented foster children from the Moscow school "Mir znanii" visited Manufacturing Complex No.1 of the Corporation "MiG" (Lukhovitsy), where during the detailed excursion the children were told how the combat aircraft systems are built today.



### Support for social and religious organisations

Within 2016 companies of the Corporation gave charity support to social and religious organisations. In particular, in 2016 donations were made from the funds of UAC and subsidiaries for improvement of the memorial around "N.E. Zhukovsky's grave (1847-1921)" in the territory of the Donskoi stavropegial monastery.

In 2016 PJSC "Tupolev" took part in restoration of the airplane-monument Tu-104A in the city of Rybinsk, within several months a great deal of activity to restore the airplane exterior was executed and the decorative lighting system was fixed.



### Support for pensioners and veterans

Support for pensioners and veterans are an important area of our social policy. Annually, companies of the Corporation take an active part in the preparations for celebrating the Victory Day in the Great Patriotic War, with airplanes manufactured by UAC participating in the flying display.

PJSC "Company Sukhoi" provides non-working pensioners with social and financial assistance by paying them occupational pensions and granting subsidised vouchers to the Kedr sanatorium.

## LABOUR PROTECTION AND INDUSTRIAL SAFETY

CORPORATION POLICY IN THE FIELD OF OCCUPATIONAL HEALTH AND SAFETY IS AIMED AT PROVIDING INDUSTRIAL SAFETY AND HEALTH MAINTENANCE FOR THE BENEFIT OF ALL OF THE CORPORATION'S EMPLOYEES

Our employees are the most valuable assets of the Corporation. That is why we seek to provide safe working conditions, and to reduce the number of workplaces with harmful working conditions. UAC has a valid integrated system of labour protection and industrial safety. Our goal is to reduce the rate of injuries at manufacturing sites and to eliminate fatalities. Currently the process of shaping the corporate safety system is underway, which entails developing unified approaches and instructions for providing safe working conditions, and compensation for companies of the Corporation with due regard to industry specific features.

UAC participates in the workgroups of the Ministry of Labour of the Russian Federation with regard to developing regulations in the field of occupational safety, cooperates with the Russian Trade Union of Aviation Workers, and actively participates in public discussion of proposed laws in labour safety.



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In relation to the Group companies, UAC performs consulting assistance and monitoring of subsidiaries' transfer to the special assessment of working conditions. Annually corporate meetings with regard to labour safety take place with the involvement of a leading expert, as well as at the venue of the all-Russian week of labour safety.

UAC companies implement a wide range of programmes on improvement of working conditions, including:

- organising production control, mandatory tentative and periodic medical examinations;
- improving natural and artificial lighting of workplaces, heating and ventilation systems;
- installing drinking water dispensers for employees;
- installing and retrofitting of collective protective equipment, automatic control systems, work mechanisation;
- providing special clothing, footwear and other personal protective equipment;
- purchasing stands, simulators, visual materials, scientific and technical literature for HSE briefings, training in safe working practices;
- arranging employee training in providing first aid to the victims at the production facility, training of persons responsible for operation of hazardous production sites;
- setting up recreation places, renovating and furnishing sanitary and amenity facilities;
- construction and capital redesign of production buildings and structures, equipment retrofitting, improving technological processes.

In 2016, in accordance with the Federal Law of the Russian Federation as of 12/28/2013 No. 426-FZ "On special assessment of working conditions" the procedure for the special assessment of working conditions was carried out. As of the end of 2016, 72 thou. workplaces of the Corporation were assessed with regard to working conditions.

## ECOLOGY

THE CORPORATION AIMS TO ADHERE TO THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT, DEDICATING SIGNIFICANT ATTENTION TO ENVIRONMENTAL ISSUES. STRIVING TO COMPLY WITH THE HIGH STANDARDS OF THE INTERNATIONAL ORGANISATION (ICAO) AND THE LOCATION OF SOME UAC COMPANIES NEAR PROTECTED ENVIRONMENTAL ZONES IMPOSES ADDITIONAL OBLIGATIONS IN TERMS OF ENVIRONMENTAL COMPLIANCE

Playing a strategic role in the country's development, as well as expanding the geography of its activities, UAC fully realises its social obligations and performs its activities strictly in accordance with principles and with a caring attitude towards the environment.



UAC's policy in the field of environmental protection is aimed at complying with the established requirements of the applicable environmental legislation in respect of rational use of natural resources and environmental protection, increase of the ecological safety level of production activities and flights, providing the single policy in the area of environmental management of the Corporation and subsidiaries. Some companies included in the UAC structure are located near specially protected nature reserves which imposes additional obligations in terms of environmental compliance.



In its activities the Corporation is oriented at constant improvement of its nature protection activities and the rational use of natural resources. The main objective of the UAC nature protection activities is applying environmentally efficient technology when creating the aviation equipment, which have the least negative impact on environment.

### Firefighting

Today one of the most important issues of global scale is environmental protection, every year the number of natural and technogenic catastrophes increases. Carrying out large-scale ecological monitoring and rescue operations, forest protection operations, disaster clean-up operations is practically impossible without the involvement of aviation. At the present time, the Ministry for Emergency Situations uses the IL-76 with a permanent firefighting system, the multi-purpose amphibian aircraft Be-200 with different modifications, which allows air fighting of fires in a prompt and effective manner, in both localised areas and across large territories. Furthermore, the Be-200 can be used for the control of the marine economic zone and the fight against pollution on the water's surface.



All the Corporation's companies regularly undertake environmental measures aimed at solving the following tasks:

- ensuring compliance with the performed activity with the highest requirements in the field of environment, health and safety of population;
- carrying capacity growth without increase in noise level;
- reduction of the general level of aviation emission indicators (HC, Co, NOx);
- improvement of fuel efficiency (development and implementation of the alternative types of energy and fuel, enhancement of efficiency of using traditional fuel);
- reducing the quantity and toxicity of emissions, polluting substances and waste;
- applying the recommendations of the international standard ISO 14001, development of the industrial environmental monitoring systems;
- evaluation of ecological aspects of the planned activities and carrying out of ecological audit of production activities.

Within 2015-2016 UAC companies actively worked on the protection of the air environment, water and land resources; CO2 emission abatement of new-generation airplanes, monitoring of environmental conditions and effects created by production facilities, and control of industrial emissions standards. Moreover, the programmes for enhancement of ecological compatibility and energy efficiency of production were implemented and ecological training of personnel was carried out.

At the same time, the Corporation is planning to include enhancement of ecological compatibility and energy efficiency of production into the performance indicators for the implementation of the Innovative Development Programme up to the year 2020, beginning in 2017, to begin annual reduction of energy consumption by 5% of the production prime cost.

### Ecological projects of subsidiaries

Subsidiaries regularly conduct events and implement different ecological projects, which promote energy saving, rational use of natural resources.

Energy service contracts were introduced at Kazan Aviation Factory named after S.P. Gorbunov (included in Tupolev Company), which allowed the complete stoppage of purchases of thermal energy from the heating supply company and a reduction of costs for heating the blocks, saving up to RUB 200 mln per year. Irkutsk Aviation Factory – Branch of PJSC "Irkut Corporation" implements a project on ecological monitoring of the underground water at sludge collectors. The project includes an observation cycle in respect of the underground waters, entailing, among other things, the measurement of the well depth of the plant, measurement of temperature, water extraction and laboratory chemical analysis of underground and surface waters. According to the research results corrective measures will be implemented.

### Volume of energy resources consumption at the basic production sites of the UAC Group of Companies in 2016<sup>1</sup>

Indicator	UM	Volume of energy resources	Energy expense, mln
Electric energy	thou. kW•h	555,652	2,439
Thermal energy	Gcal	1,153,691	1,080
Natural gas	thou. m <sup>3</sup>	188,944	1,012
Water supply and water discharge	thou. m <sup>3</sup>	16,397	371
Other	-	-	134

<sup>1</sup> Line of the indicators consolidation: JSC RSK "MIG"; PJSC "Irkut Corporation"; PJSC "Company Sukhoi"; JSC "Aviastar-SP"; PJSC "VASO"; KAZ named after S.P. Gorbunov – Branch of PJSC "Tupolev"; PJSC "TANTK named after G.M. Beriev"; JSC "Sukhoi Civil Aircraft"; JSC "EMZ named after V.M. Myasishev".



### Enhancement of ecological performance and aircraft fuel efficiency

In addition to the implemented measures for environment protection and developing programmes for the manufacture and modernisation of airplanes, UAC places emphasis on enhancement of fuel efficiency and the improvement of ecological performance of aviation equipment, and compliance with applicable and future requirements for environmental impact. Due to technical innovations and, as a consequence, the enhancement of efficiency of the fuel consumption, the level of carbon dioxide emissions from aviation increases more slowly than the volume of carriages of the operated crafts. Taking into account the trends for tightening of the ecological requirements to the civil aviation, UAC set the tasks for the further improvement of fuel efficiency, reduction of the noise and emission indicators, reduction of energy intensity and the introduction of the ecological technology. For these purposes the Corporation develops and implements advanced technology:

- Introducing to the programmes of creation of the advanced aviation equipment:
  - developed engine components;
  - lighter materials;
  - energy-saving lighting;
  - wingtip fairing;
  - full-scale use of lighter composite materials;
  - developed engines for the current series of airplanes.
- Studies at the level of test models:
  - reduction of aerodynamic resistance (fuel saving by 10-15%);
  - changes to airplane geometry;
  - revolutionary proposals in engine building;
  - engine with open rotor (fuel saving by 25%);
  - alternative energy, use of fuel elements.

Introduction of advanced technology will allow the Corporation to maximise the ecological safety of aviation equipment and will promote effective implementation of the innovative development programme.

### Expedition study the global climate

In 2016, the M-55 airplane "Geofizika" EMZ named after V. M. Myasishev (included in UAC), carried out research of stratosphere above the Mediterranean Sea. The expedition was carried out in the interests of StratoClim Project of the European Union, in which 28 research organisations from 11 countries take part. The scientists studied the chemical composition of the Asian monsoon "tail", which stretches from the Philippines above India and Arabic region and crosses the lines of Spain. "Geofizika" carried our research in stratosphere at the heights of 17-20 km. The received data will provide the basis for creation of the climatic models of the Earth atmosphere. Earlier M-55 "Geofizika" flew above the Arctic, Antarctic, and continental parts of Brazil, Australia and Africa.

### Participation in the meeting of the ICAO Committee for Environmental Conservation

In February 2016, at the meeting of the Committee for Environmental Protection (CAEP) of the International Civil Aviation Organisation (ICAO), the issue of accepting one of the most important ecological standards for aviation was discussed. The standard is aimed at reducing CO<sub>2</sub> emissions and assumes the application of new requirements to all passenger airplanes of a new type from the 01/01/2020. UNO General Secretary Pan Gi Mun noted that the new standard is an important contribution to implementation of the Paris Climate Agreement.

Within the meeting of the Russian delegation and other CAEP countries-members, a number of acceptable variants of limiting levels for domestic aircraft producers and dates for the commencement of CO<sub>2</sub> Standards were agreed, and a number of important ecological global-scale issues were solved.

<sup>1</sup> CAEP - Committee on Aviation Environmental Protection is a technical committee of the ICAO Council. CAEP helps the Council to create the new policy and adaptation of new ecological Standards and recommended practice, first of all, in respect of the aircraft noise and emissions, and in relation to aviation impact on environment, in general.

<sup>2</sup> ICAO - International Civil Aviation Organisation is a UNO specialised institution establishing international standards of civil aviation and coordinating its development in order to enhance safety and efficiency.



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# CORPORATE GOVERNANCE AND SECURITIES

## SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

PJSC "UAC" HAS AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM BUILT ACCORDING TO THE REQUIREMENTS OF RUSSIAN LAWS AND ORIENTED TOWARDS THE BEST PRACTICES OF RUSSIAN AND INTERNATIONAL COMPANIES. THE PARTICIPANTS IN CORPORATE RELATIONS ARE MAJORITY AND MINORITY SHAREHOLDERS, SUBSIDIARIES AND ASSOCIATES, MANAGEMENT, PARTNERS

### » CORPORATE GOVERNANCE MODEL

PJSC "UAC" has the a corporate governance model that meets the requirements of the laws of the Russian Federation and, the requirements for issuers of securities included in the "Second Level" section of the list of securities listed on Moscow Exchange as well as the principles and recommendations stipulated by the Corporate Governance Code.

The model ensures effective corporate governance, compliance with shareholder interests and disclosure standards, the development and maintenance of a robust risk management and internal control system, and a clear delineation of authority and responsibility for each management body of the Corporation.

### » PRINCIPLES OF CORPORATE GOVERNANCE

The corporate governance model used by PJSC "UAC" is based on the following principles:

- equal and fair treatment of all shareholders, including minority and foreign investors, when they exercise their rights related to their participation interest in PJSC "UAC" and to the fact of share ownership;
- strategic management of the activities of PJSC "UAC" by the Board of Directors;
- monitoring by the Board of Directors of the activities of the corporate executive bodies, as well as accountability of the Management Board to shareholders
- effective control of the financial and economic activity of the Company;
- effective performance of the risk management and internal control system aimed at reaching PJSC "UAC" goals;
- creating an environment of mutual trust and respect for all those participating in corporate relations and ensuring the protection of all stakeholders' rights;

- adhering to generally accepted standards of business ethics;
- complying with corporate social responsibility principles;
- timely and accurate disclosure of information on all substantial issues relating to the activities of PJSC "UAC".

### » MANAGEMENT BODIES

**The General Meeting of Shareholders** is the supreme governance body of PJSC "UAC".

**The Board of Directors** is the management body of PJSC "UAC", which in accordance with the Federal Law On Joint-Stock Companies and the organisation's Articles of Associations, is charged with general oversight of PJSC "UAC" activities, excluding the issues attributed to the competence of the General Meeting of Shareholders.

**The Management Board** is a collective executive body of PJSC "UAC".

**The President** exercises functions of the sole executive body of PJSC "UAC".

Subject to the Articles of Association of PJSC "UAC", its management bodies are the General Meeting of Shareholders, the Board of Directors and the Management Board. The day-to-day operations of PJSC "UAC" are managed by the sole executive body – the President of PJSC "UAC" and a collective executive body – the Management Board of PJSC "UAC". The President and the Management Board are accountable to the General Meeting of Shareholders and the Board of Directors.

## » ADVISORY AND CONSULTATIVE BODIES

With a view to in-depth considering of issues that fall within the competence of the Board of Directors, it has Committees functioning in four areas:

- Strategy Committee;
- Audit Committee;
- HR and Remuneration Committee;
- Budget Committee.

## » CONTROL BODIES

**The Audit Commission** is a body that performs control over the financial and economic activity of PJSC "UAC", and is elected by the General Meeting of Shareholders in the number of 5 members for the period until the next General Meeting of Shareholders.

## » IMPROVING THE CORPORATE GOVERNANCE MODEL

In 2016 PJSC "UAC" continued to work on improving its corporate governance model and practices, and the adoption of best practices. To this end, the analysis and audits of internal documents of the Corporation were conducted to ensure that they meet the requirements of the laws of the Russian Federation, the listing rules of the Moscow Exchange and the Code of Corporate Governance.

With a view to enhancing efficiency, the Board of Directors approved the new versions of the Committee Regulations in 2016 (Minutes dated August 5, 2016. No. 162):

- Regulations on the Audit Committee Regulation;
- Regulations on the Human Resources and Remuneration Committee;
- Regulations on the Strategy Committee;
- Regulations on the Budget Committee.

In 2017, PJSC "UAC" plans to adopt new versions of the Articles of Association as well as Regulations on the General Meeting of Shareholders, the Board of Directors and the management bodies of PJSC "UAC" in accordance with the latest changes in corporate legislation and accounting for the key recommendations and principles of the Corporate Governance Code.

<sup>1</sup> The report on compliance with the principles and recommendations of the Code of Corporate Governance is attached as online supplement.

## » COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Due to the fact that PJSC "UAC" adopts the Corporate Governance Code, recommended by the Bank of Russia as the document establishing proper corporate governance standards, the Board of Directors expresses its commitment and willingness to comply with the principles set out in the Code.

Accordingly, an evaluation of compliance with the corporate governance principles recommended by the Bank of Russia was conducted in 2016 (Recommendations for compilation of a report on compliance with the principles and recommendations of the Corporate Governance Code – Appendix to the Letter of the Bank of Russia dated February 17, 2016 No. IN-06-52/8 were used).

The evaluation of the implementation of the corporate governance mechanisms proposed in the Code is an important element of corporate transparency and efficient communication with shareholders, investors and other stakeholders.

The Board of Directors recognises that most of the provisions of the Code are complied with and has a particular focus on bringing the internal documents and corporate governance practices of the Corporation into accordance with the provisions of the Code.<sup>1</sup>



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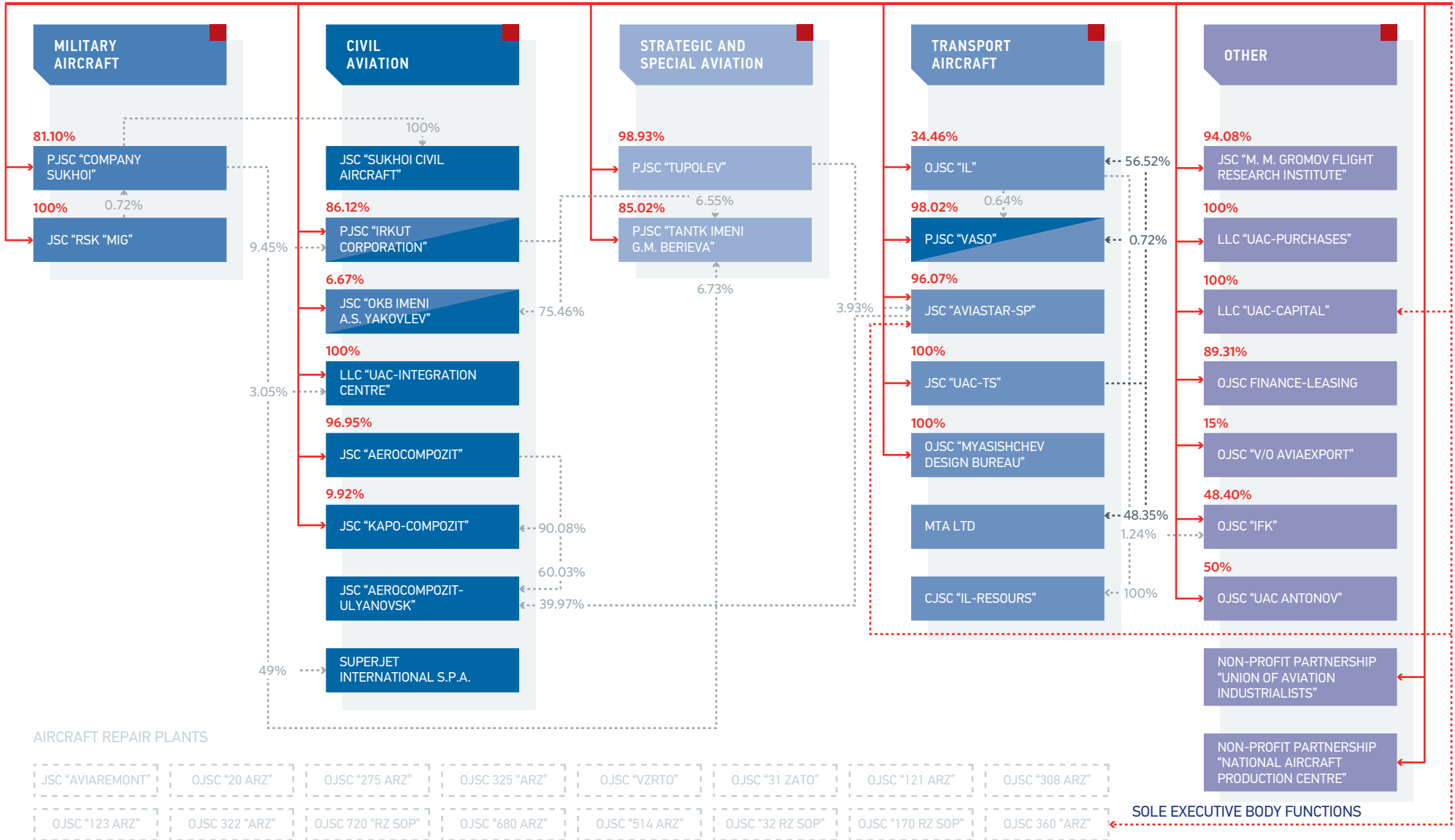


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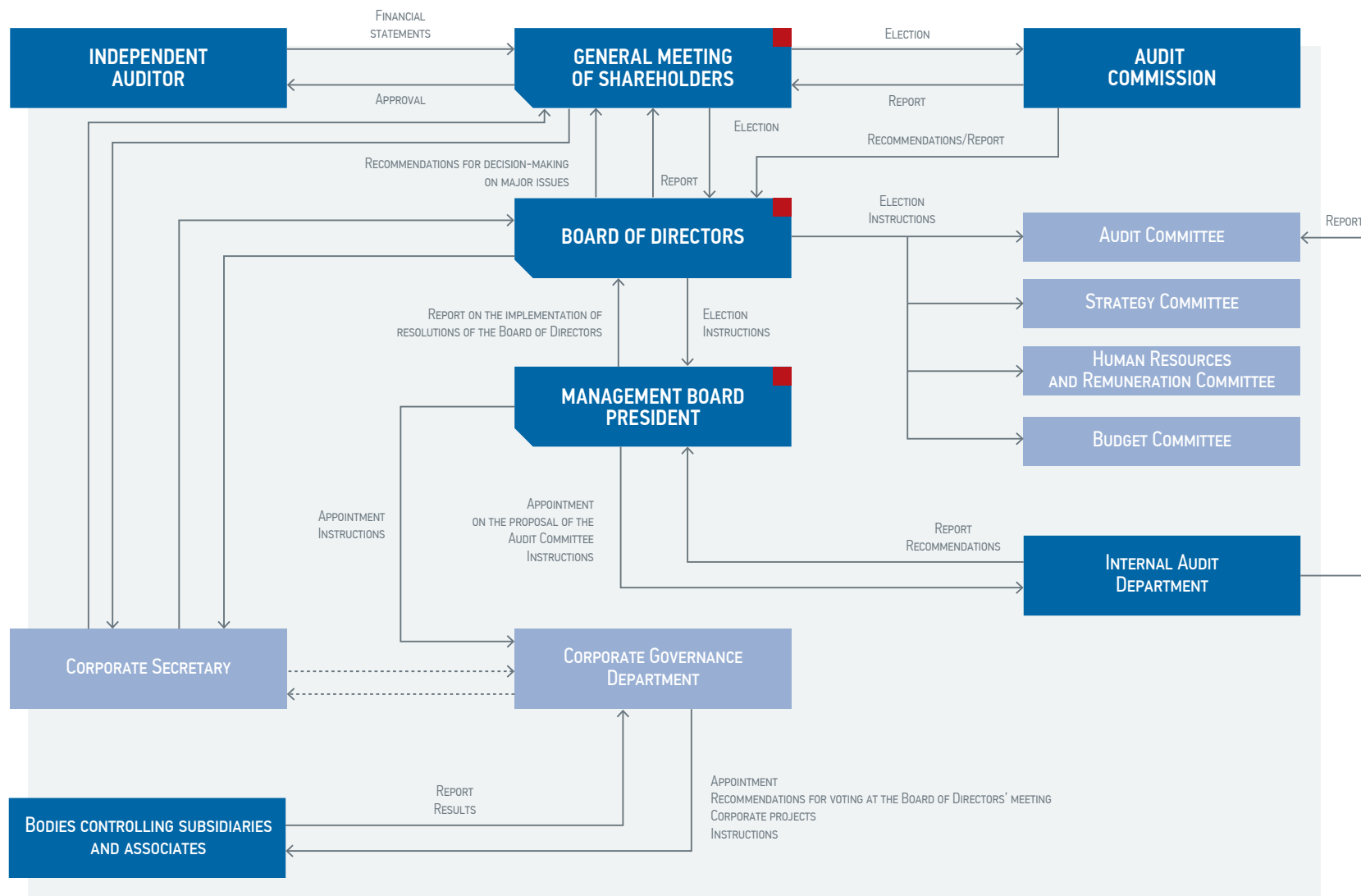
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# CORPORATE STRUCTURE OF PJSC "UAC" (AS FOR DECEMBER 31, 2016)



# STRUCTURE OF MANAGEMENT AND CONTROL BODIES

(AS FOR DECEMBER 31, 2016)



## GENERAL MEETING OF SHAREHOLDERS

THE GENERAL MEETING OF SHAREHOLDERS IS THE SUPREME MANAGEMENT BODY OF PJSC "UAC" IN ACCORDANCE WITH THE FEDERAL LAW "ON JOINT-STOCK COMPANIES" AND THE ARTICLES OF ASSOCIATION OF PJSC "UAC"

The Annual General Meeting of Shareholders is held once a year, no earlier than two months before and no later than six months after the end of the financial year. Additional meetings outside the annual meeting are extraordinary and are held by the decision of the Board of Directors, upon its own initiative, subject to the requirements of the Audit Commission and audit results.

In 2016, PJSC "UAC" held two General Meetings of Shareholders, including one annual and one extraordinary meeting. The Annual General Meeting of Shareholders was held on June 28, 2016 (Minutes dated June 30, 2016 w/o No.). The Extraordinary General Meeting of Shareholders was held on June 29, 2016 (Minutes dated June 30, 2016 No.26) to pass resolutions on the approval of interested-party transactions.

## BOARD OF DIRECTORS

THE BOARD OF DIRECTORS CARRIES OUT THE OVERALL MANAGEMENT OF THE CORPORATION, EXCEPT FOR ISSUES REFERRED TO THE COMPETENCE OF THE GENERAL MEETING OF SHAREHOLDERS

In its activities, the Board of Directors is governed by Federal Law "On Joint Stock Companies" dated December 26, 1995 No. 208-FZ, the Articles of Association, and the Regulations on the Board of Directors of PJSC "UAC".<sup>1</sup>

Board members are elected at an Annual or Extraordinary General Meeting of Shareholders, in the manner established by the Federal Law, for a period until the next Annual General Meeting of Shareholders. A meeting of the Board of Directors is convened (or the decision to hold absentee voting is made) by the Chairman of the Board of Directors upon his own initiative. The meeting shall also be convened at the request of the Management Board, the Audit Commission, the Auditor, a member of the Board of Directors or the President of the Corporation ("The Convocation Initiative").

From January 1, 2016 until June 28, 2016 the Board of Directors of PJSC "UAC" acted as elected at the Annual General Meeting of Shareholders on June 30, 2015. At the Annual General Meeting held on June 28, 2016, the Board of Directors of PJSC "UAC" was elected with a new composition: V.A. Dmitriev, P.A. Kadochnikov and A.N. Klepach retired from the Board of Directors and S.N. Gorkov, Ye.I. Elin, and Ye.V. Yurchenko were elected to the Board of Directors. The distribution of functions of the Board of Directors during 2016 has not changed.

Manturov, Vladimir Alexandrovich, Minister of Industry and Trade of the Russian Federation, was re-elected Chairman of the Board of Directors of PJSC "UAC".

<sup>1</sup> The Minutes are available in Russian at the following link: <http://www.uacrussia.ru/>

## » COMPOSITION OF THE BOARD OF DIRECTORS

(in accordance with the decision of the Annual General Meeting of Shareholders dated June 28, 2016)



**Manturov, Denis  
Valentinovich**

Non-executive director

Chairman of the Board  
of Directors

### Work experience

- 2012-present** Minister of Industry and Trade of the Russian Federation
- 2011-present** Professor of the Systems of Economic Entities Management Chair, Moscow Aviation Institute
- 2008-2012** Deputy Minister of Industry and Trade of the Russian Federation

### Education

**Higher**, Lomonosov Moscow State University, Russian Academy of Civil Service under the President of the Russian Federation, Candidate of Economic Sciences



**Alyeshin, Boris  
Sergeyevich**

Independent Director

Chairman of the Strategy  
Committee  
Member of the Audit  
Committee

### Work experience

- 2015-present** Advisor to the President of PJSC "UAC" for Science and Technologies
- 2009-2015** Federal State Unitary Enterprise "Zhukovsky Central Aerohydrodynamics Institute"

### Education

**Higher**, Higher, Moscow Institute of Physics and Technology, D. Sc. in Engineering  
Corresponding member of the Russian Academy of Sciences



**Borisov, Yury  
Ivanovich**

Non-executive director

Member of the Strategy  
Committee

### Work experience

- 2012-present** Deputy Minister of Defence of the Russian Federation
- 2011-2012** Deputy Chairman of the Military-Industrial Commission under the Government of the Russian Federation
- 2008-2011** Deputy Minister of Industry and Trade of the Russian Federation

### Education

**Higher**, Higher, Lomonosov Moscow State University, D. Sc. in Engineering



**Gorkov, Sergei  
Nikolayevich**

Non-executive director

### Work experience

- 2016-present** Chairman of Vnesheconombank
- 2010-2016** Deputy Chairman of the Management Board of PJSC "Sberbank of Russia"

### Education

**Higher**, Russian FSB Academy



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**Elin, Yevgeny Ivanovich**

Non-executive director

Member of the Budget Committee

**Work experience**

**2013-present** Deputy Minister, Acting Minister for Economic Development of the Russian Federation

**2012-2013** Vice Governor of the Leningrad Region - chairman of the Finance Committee

**Education**

**Higher**, Leningrad Polytechnic Institute



**Okulov, Valery Mikhaylovich**

Non-executive director

Member of the Human Resources and Remuneration Committee  
Member of the Strategy Committee

**Work experience**

**2009-present** Deputy Minister of Transport of the Russian Federation

**Education**

**Higher**, Civil Aviation Academy



**Ivanov, Andrey Yuryevich**

Non-executive director

Chairman of the Budget Committee

**Work experience**

**2012-present** Deputy Minister of Finance of the Russian Federation

**2008-2012** Deputy Director, Director of the Department of Fiscal Policy in the Field of Innovation, Civil Industry, Energy, Communications, and Public-Private Partnerships of the Ministry of Finance of the Russian Federation

**Education**

**Higher**, Krasnoyarsk State University, Russian Academy of Civil Service under the President of the Russian Federation,



**Slyusar, Yury Borisovich**

Executive director

Chairman of the Management Board  
Member of the Strategy Committee  
Member of the Budget Committee

**Work experience**

**2015-present** President, Chairman of the UAC Management Board

**2012-2015** Deputy Minister of Industry and Trade of the Russian Federation

**2010-2012** Director of Aircraft Industry Department

**Education**

**Higher**, Lomonosov Moscow State University, RANEPa, Candidate of Economic Sciences





**Kharchenko, Ivan  
Nikolayevich**

Non-executive director

Chairman of the Human  
Resources and Remuneration  
Committee

#### Work experience

- 2012-present** First Deputy Chairman of the Military-Industrial Commission
- 2012-present** Deputy Chairman, Member of the Military-Industrial Commission under the Government of the Russian Federation
- 2008-2011** Advisor to the Governor of the Krasnodar Territory

#### Education

**Higher**, Krasnodar Higher Military Command and Engineering School of Missile Forces  
Kuban State Agrarian University



**Chemezov, Sergey  
Viktorovich**

Non-executive director

Member of the Strategy  
Committee

#### Work experience

- 2007-present** CEO of the State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product "Rostec"

#### Education

**Higher**, Irkutsk Institute of National Economy,  
The higher academic courses at the Military Academy of the General staff of the Air Forces of the Russian Federation  
Doctor of Economic Sciences,  
member of the Academy of Military Sciences



**Yurchenko, Yevgeny  
Valeryevich<sup>1</sup>**

Independent Director

Chairman of the Audit  
Committee  
Member of the Human  
Resources and Remuneration  
Committee

#### Work experience

- 2016-present** President of the Management Company of CJSC "Financial Assets"
- 2011-2016** President of the Management Company of CJSC "Financial Assets"

#### Education

**Higher**, Voronezh State University,

<sup>1</sup> Share in the share capital of PJSC "UAC": 0.0644%.  
Share of ordinary shares - 0.0644%.  
As of December 31, 2016 E.V. Yurchenko held 232,775,300 ordinary registered uncertified shares of PJSC "UAC". According to the information available to PJSC "UAC" in November - December 2016 member of the Board of Directors E.V. Yurchenko made a series of transactions with the ordinary registered uncertified shares of the Corporation, a total of 236,810,000 shares were purchased and 4,034,700 shares were sold.



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### » INDEPENDENT MEMBERS OF THE BOARD OF DIRECTORS

In order to perform the functions of the Board of Directors efficiently and to make informed decisions, the Board of Directors includes independent directors who meet the criteria of independence in accordance with the requirements of the Moscow Exchange and the Code of Corporate Governance of the Russian Federation.

### » BOARD OF DIRECTORS – ACTIVITY REPORT FOR 2016

In 2016 the Board of Directors was active in its efforts to maintain high standards of corporate governance and maximum transparency of its activities.

29 meetings of the Board of Directors were held in 2016, where decisions were made regarding the activities of PJSC "UAC" as well the activities of its subsidiaries and associates, among others:

- making amendments to the organisational structure of PJSC "UAC";
- determining priority activity areas of PJSC "UAC";
- electing PJSC "UAC" collective executive body in a new composition;
- increasing the PJSC "UAC" authorised capital;
- approving the decision to issue (additional issue of) the securities and Securities Prospectus of PJSC "UAC";
- determining the PJSC "UAC" position in respect of forming the sole executive bodies and electing members of the Boards of Directors of subsidiaries and associates;
- submitting report on the performance of the PJSC "UAC" Long-Term Development Programme, on the implementation of the Innovative Development Programme, and achievement of the approved Key Performance Indicators;
- approving the new versions of the Regulations on the Committees of the Board of Directors of PJSC "UAC";
- developing (updating) plans (programmes) to reduce operating costs by 10%;
- bringing professional standards into the activities of PJSC "UAC";

- approving the new version of the Regulations on the Sponsorship and Charity Activities of PJSC "UAC";
- PJSC "UAC" Development Strategy for the period up to 2035;
- PJSC "UAC" incentive system and key performance indicators;
- Considering reports on the progress of implementing the programme for selling non-core assets of PJSC "UAC" and its subsidiaries and associates;
- PJSC "UAC" participation in the establishment of a joint venture under the wide-body long-range aircraft programme;
- approving related-party transactions.

Detailed information on the issues discussed at the meetings of the Board of Directors of PJSC "UAC", on the decisions made and the minutes details is available in the online appendix to this annual report.

The Corporation informed its shareholders, investors and other stakeholders on the decisions made and other events on a regular basis.

## » COMMITTEES OF THE BOARD OF DIRECTORS

THE COMMITTEES OF THE BOARD OF DIRECTORS OF PJSC "UAC" PROVIDE THE NECESSARY SUPPORT TO THE MANAGEMENT OF THE CORPORATION WITH REGARD TO PERFORMANCE IMPROVEMENT AND THE IMPLEMENTATION OF PRIORITY ACTIVITIES

The Board of Directors has four committees. Their main task is to review and discuss issues referred to the competence of the Board of Directors. Decisions of the committees do not have any legal effect, but their recommendations are taken into account when the Board of Directors makes decisions.

The committees of the Board of Directors of PJSC "UAC" traditionally comprised the Strategy Committee, Audit Committee, Human Resources and Remuneration Committee, and the Budget Committee<sup>1</sup>.

In 2016, the Committees of the Board of Directors continued to work on priority issues. During 2016, 41 meetings were held, over 120 issues were discussed at committee meetings.

### Strategy Committee

The Strategy Committee has been established to assist the Board of Directors, on issues in the field of strategic management, in the following areas:

- preparation of recommendations to the Board of Directors with regard to the identification of corporate strategic objectives and priorities;
- implementation of the Long-term development programme of the Corporation.

The existing Strategy Committee is composed of six directors. The Chairman of the Audit Committee is an independent director.

### Composition of the Committee as at 31.12.2016

### Number of meetings in 2016

#### Chairman:

B.S. Alyeshin (independent director)

#### Members:

Yu.I. Borisov, A.N. Klepach, V.M. Okulov,  
Yu.B. Slyusar, S.V. Chemezov, A.I. Boginsky

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In the reporting year the Committee considered the priority activity areas of PJSC "UAC" in 2016, UAC Group's consolidated key performance indicators for 2016 -2020, prepared recommendations to the Board of Directors of PJSC "UAC" on the problems related to the process of implementing development programmes, programme business plans, and considering the results of auditing the implementation of the PJSC "UAC" Long-Term Development Programme.

<sup>1</sup> The functions of the committees of the Board of Directors are available in Russian at the following link:  
<http://www.uacrussia.ru/>

### Audit Committee

The Audit Committee is formed on the basis of the requirements of the Moscow Exchange and provides support to the Board of Directors on the following issues:

- completeness, accuracy and reliability of the financial statements of the Corporation;
- implementation of the accounting policy;
- external and internal audit;
- monitoring of the effectiveness of the risk management and internal control system.

The Audit Committee consists of two directors. Both are independent.

Composition of the Committee as at 31.12.2016	Number of meetings in 2016
<b>Chairman:</b> Ye.V. Yurchenko (independent director)	<b>20</b>
<b>Members:</b> B.S. Alyeshin (independent director)	

In the reporting year the Committee reviewed the implementation of the programme for selling non-core assets of PJSC "UAC" and its subsidiaries and associates for the period of 2015-2017, recommendations to the Board of Directors of PJSC "UAC" on making amendments to the Regulation on Procurement Activity. Also in 2016, the Committee considered the conditions and assessment criteria for selecting an external auditor to prepare PJSC "UAC" annual financial statements under the RAS and PJSC "UAC" consolidated financial statements prepared in compliance with the IFRS for 2016.

### Budget Committee

The Budget Committee has been established to assist the Board of Directors by elaborating issues and developing recommendations in the following areas:

- strategic guidelines for the planning of financial and economic activities of subsidiaries and associates of the Corporation;
- approval of business plans, budgets of the Corporation and evaluation of performance reports;
- regulation of planning, management and accounting processes.

The existing Budget Committee is composed of five directors.

Composition of the Committee as at 31.12.2016	Number of meetings in 2016
<b>Chairman:</b> A.Yu. Ivanov	<b>3</b>
<b>Members:</b> Ye.I. Elin, A.Yu. Sapelin, Yu.B. Slyusar, A.I. Boginsky	

In the reporting year the Committee considered the report of the executive bodies on the operating results of PJSC "UAC" in 2015, among other things, on the performance of the financial and economic plan (budget) and KPIs in 2015, also the Committee gave a preliminary approval of the annual financial statements, including the report on financial results and the annual report PJSC "UAC" for 2015, scrutinised the budget of PJSC "UAC" and UAC Group's consolidated budget for 2016 -2018, considered UAC Group's consolidated KPIs for the period of 2016 -2020.

## Human Resources and Remuneration Committee

The purpose of the Human Resources and Compensation Committee is to elaborate issues referred to the competence of the Board of Directors in the field of:

- establishing selection criteria and making recommendations with regard to candidates to the management bodies of the Corporation;
- motivating, evaluating the performance of Management Board members, the President and the Corporate Secretary;
- establishing the principles, criteria for determination of the remuneration of members of the Board of Directors, executive bodies, the Audit Commission and other payments

The existing Human Resources and Compensation Committee consists of three directors. One of them is independent.

### Composition of the Committee as at 31.12.2016

### Number of meetings in 2016

#### Chairman:

I.N. Kharchenko

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#### Members:

Ye.V. Yurchenko, (independent director), V.M. Okulov

In the reporting year the Committee prepared recommendations to the Board of Directors of PJSC "UAC" on determining amounts of bonuses for PJSC "UAC" President and members of the Management Board for achieving the key performance indicators based on the 2015 results, recommendations on a proposal to the General Meeting of Shareholders in terms of paying remunerations to members of the Board of Directors and the Audit Commission of PJSC "UAC". Also in 2016, the Committee considered the incentive system and KPIs at PJSC "UAC", prepared recommendations to the Board of Directors of PJSC "UAC" on determining the position of PJSC "UAC" in respect of forming the sole executive bodies at its subsidiaries and associates, and recommendations relating to the number of members of the Management Board, review of the list candidate to be nominated for the Board of Directors and the Audit Commission of PJSC "UAC" for the 2017 -2018 corporate year.



## PRESIDENT

The President is the sole executive body of PJSC "UAC".

On January 16, 2015, the Board of Directors of PJSC "UAC" decided to appoint Yury Borisovich Slyusar as President of PJSC "UAC" for five years.

### Slyusar, Yury Borisovich

#### Work experience

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<b>2015-present</b>	President, Chairman of the UAC Management Board
<b>2012-2015</b>	Deputy Minister of Industry and Trade of the Russian Federation
<b>2010-2012</b>	Director of Aircraft Industry Department

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#### Education

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**Higher**, Lomonosov Moscow State University, Candidate of Economic Sciences

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Share in the share capital of PJSC "UAC" - 0%.

Share of ordinary shares - 0%.

According to information available to PJSC "UAC" the sole executive body did not acquire or dispose of any PJSC "UAC" shares during the reporting year.

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## MANAGEMENT BOARD

The President and the Management Board manage the day-to-day activities of PJSC "UAC" in accordance with their competences laid down in the Articles of Association of "PJSC "UAC". The Management Board is the collegial executive body of PJSC "UAC".

The composition of the Management Board changed twice in 2016. By the decision of the Board of Directors of PJSC "UAC" dated March 4, 2016 the powers of the following members of the Management Board were terminated earlier: S.V. Velmozhkin, O.F. Demchenko, D.A. Eliseev, V.Kh. Zinnurov, S.B. Kraychinsky, D.V. Matsenov, N.V. Savitskih, and the following new members were elected to the Board of Directors: A.V. Demidov, A.V. Konyukhov, V.E. Masalov and A.N. Skokov. Three additional members of the Management Board were elected by the decision of the Board of Directors of PJSC "UAC" dated June 7, 2016: O.F. Demchenko, S.V. Gerasimov and A.A. Koval.

In 2016 the attention of PJSC "UAC" executive bodies was focused on the development of solutions contributing to the effective implementation of the Corporate Strategy, establishment of a mechanism for the implementation of such resolutions and monitoring of implementation thereof, including in respect of subsidiaries and associates of PJSC "UAC" playing a key role in the activities of the entire Corporation.

In 2016, 42 meetings of the PJSC "UAC" Management Board were held, of which 27 were physical meetings. The Management Board meetings addressed issues relating to the strategic development of the Corporation as well as operational issues that required urgent decisions of the executive bodies of the Corporation.

### » REPORT ON MANAGEMENT BOARD ACTIVITIES IN 2016

Pursuant to the Articles of Association of PJSC "UAC", its executive bodies prepared materials and recommendations to the Board of Directors on key issues considered by the Board, including the following proposals:

- the programme to increase the operating efficiency and curtail the costs of the group PJSC "UAC" in 2016;
- considering the consolidated key performance indicators of the group PJSC "UAC" for 2016–2020;
- considering the priority areas of PJSC "UAC" activities for 2017;
- considering the project of the updated PJSC "UAC" Development Strategy for the period up to 2025 and further on until 2035, including the selection and concurrence of a final strategic option;

- considering the updated PJSC "UAC" Innovative Development Programme for the period 2016–2020 and further on until 2025;
- considering the updated PJSC "UAC" Product Programme;
- progress in implementing the wide-body long-range aircraft development programme;
- progress in working on the MC-21 programme;
- progress in the SSJ 100 programme, inter alia achieving key indicators of the business plan and cost reduction programme, review of the report on achieving the set values of key indicators of the funds received in terms of JSC "Sukhoi Civil Aircraft" financial obligations (debt) restructuring
- approving the internal documents of PJSC "UAC";
- reviewing the results of monitoring and control of the implementation of crucial import substitution measures;
- preparing for holding the General Meeting of Shareholders of PJSC "UAC";
- forming the management bodies of PJSC "UAC" subsidiaries and associates;
- determining a position in regard to increased authorised capital of specific subsidiaries and associates of PJSC "UAC";
- reorganising specific subsidiaries and associates of PJSC "UAC";
- considering proposals to distribute authority between the management bodies of PJSC "UAC and its subsidiaries and associates with a view to transferring to the PJSC "UAC" the sole executive body functions of its subsidiaries and associates;
- the changes in the PJSC "UAC" organisational structure;
- the programme to increase energy efficiency at the companies of PJSC "UAC";
- the concept for improving the efficiency of interaction between PJSC "UAC" and its suppliers;
- a system to form a managerial personnel pool at PJSC "UAC";
- considering a personnel incentive system aimed at reaching the key goals of UAC Group, including a management motivation system ;
- the plan of actions to use professional standards at PJSC "UAC";
- approving related-party transactions.

In the areas within its competence the Management Board of PJSC "UAC" reviewed different matters related to the activities of subsidiaries and associates, and prepared recommendations for taking applicable decisions.

The experience and professional competence of the Management Board provided necessary support for the Board of Directors in 2016.

## » COMPOSITION OF THE MANAGEMENT BOARD

(in accordance with the decision of the Board of Directors dated June 7, 2016)



**Bobryshev, Alexander Petrovich**

### Work experience

- 2015-present** Vice President for State Defence Order and Special Purpose Aviation Air Equipment Maintenance of PJSC "UAC"
- 2014-2015** CEO of Inter-State Aviation Committee
- 2009-2014** President, CEO of JSC "Tupolev"

### Education

**Higher**, Novosibirsk Electric Technical Institute, Novosibirsk State Technical University, Candidate of Technical Sciences, Professor, Academy of Military Sciences



**Demidov, Alexey Vladimirovich**

### Work experience

- 2015-present** Vice President for Economics and Finance of PJSC "UAC"
- 2015-2015** Senior Vice President for Economics and Finance of JSC "Sukhoi Civil Aircraft"
- 2009-2015** Member of the Management Board, Deputy CEO of PJSC "Rosseti"

### Education

**Higher**, Saint Petersburg Trade and Economic Institute



**Gerasimov, Sergey Vladimirovich**

### Work experience

- 2015- present** Advisor to the President on cooperation with state authorities and social organisations, Vice President for Special Purpose State Aviation of PJSC "UAC"
- 2010-2014** Deputy Head of Operations Directorate of the Federal Security Service of the Russian Federation

### Education

**Higher**, Stavropol Higher Military Aviation School of Pilots and Navigators



**Demchenko, Oleg Fyodorovich**

### Work experience

- 2012-present** President, Chairman of the Management Board of PJSC "Irkut Corporation"
- 2011-2012** Senior Vice President of PJSC "UAC"

### Education

**Higher**, Kuibyshev Aviation Institute, Academy of National Economy under the Government of the Russian Federation





**Koval, Arthur  
Albertovich**

#### Work experience

- 2016–present** Vice President for Security and Regime of PJSC "UAC"
- 2012–2015** Counsellor of the Embassy of the Russian Federation in the French Republic, official representative of the Federal Security Service of the Russian Federation in France and Belgium
- 2005–2012** Deputy Head of the Directorate of the Federal Security Service of the Russian Federation for Rostov Region

#### Education

**Higher**, Rostov Engineering and Construction Institute, Higher School of the State Security Committee of USSR



**Konyukhov, Alexander  
Vladimirovich**

#### Work experience

- 2016–present** CEO of PJSC "Tupolev"
- 2016–present** Vice President for Strategic and Special Purpose Aviation of PJSC "UAC"
- 2011–2016** First Deputy CEO for Programmes of PJSC "Company Sukhoi"

#### Education

**Higher**, Russian State University for the Humanities



**Korotkov, Sergey  
Sergeevich**

#### Work experience

- 2016–present** General Constructor, Vice President for Innovations of PJSC "UAC"
- 2009–2016** First Deputy CEO, CEO of JSC "RSK "MiG"

#### Education

**Higher**, Moscow Aviation Institute



**Masalov, Vladislav  
Yevgenevich**

#### Work experience

- 2015–present** Vice President for Civil Aviation of PJSC "UAC"
- 2012–2015** CEO of JSC "ODK"
- 2011–2015** CEO of JSC "GTERPC "SALUT"

#### Education

**Higher**, Financial University under the Government of the Russian Federation



**Ozar, Igor  
Yakovlevich**

**Work experience**

- 2016-present** Vice President for Military Aviation of PJSC "UAC"
- 2011-present** CEO of PJSC "Company Sukhoi"
- 2007-2011** Executive Director of OJSC "Sukhoi Design Bureau"

**Education**

**Higher**, Moscow Institute of Management



**Tulyakov, Alexander  
Vladimirovich**

**Work experience**

- 2008-present** First Vice President of PJSC "UAC"; Executive Vice President; Vice President for Administrative Affairs; Director of the Property Management Department

**Education**

**Higher**, High School of Privatisation and Entrepreneurship, Synergy Institute of Economics and Finance



**Skokov, Alexander  
Nikolaevich**

**Work experience**

- 2015-present** Vice President, Head of Administration of PJSC "UAC"
- 2012-2015** Head of the Secretariat of the Chairman of the Eurasian Economic Commission Panel
- 2008-2012** Head of the Secretariat of the Minister of Industry and Trade of the Russian Federation

**Education**

**Higher**, State Oil and Gas Academy



**Yurasov, Sergey  
Pavlovich**

**Work experience**

- 2015-present** Vice President for Production, Vice President for Production and Technological Development of PJSC "UAC"
- 2014-2015** CEO of PJSC "VASO"
- 2013-2014** Vice President for Production of PJSC "UAC"
- 2010-2012** CEO of OJSC "ZMZ"
- 2009-2012** Executive Director, CEO of OJSC "UAZ"

**Education**

**Higher**, Gorky Institute of Water Transport Engineers, Novgorod State Technical University, MBA

## CONTROL AND AUDIT SYSTEM

PJSC "UAC" has a multi-level control system that ensures greater coverage of objects under control, and timely and effective management solutions at all levels of management.

The internal control system is based on the interaction and delimitation of competences of its member entities engaged in the development, approval, implementation and evaluation of internal control procedures effectiveness. Subjects of the internal control system of PJSC "UAC":

- Shareholders;
- Board of Directors;
- President and Management Board;
- Audit Commission;
- Board of Directors' Audit Committee;
- Internal Audit Department;
- Vice Presidents, chief accountant, deputy chief accountants, managers of units and other employees.

The main purpose of the internal control system is to protect the interests of shareholders and the security of PJSC "UAC" assets. Each of the participants in the internal control system monitors the areas referred to his competence set out in the local regulatory documents.

Internal control is implemented through a series of procedures. The key procedures are: distribution and delegation of key powers and responsibilities, ensuring efficient cooperation of units and employees of PJSC "UAC", organisation of data collection, processing and information transmission systems, including formation of reports and messages containing operational, financial and other information about the activity of PJSC "UAC", as well as the establishment of effective channels and means of communication providing vertical and horizontal communication within PJSC "UAC", notification of all employees of their duties in the field of internal control.

### » AUDIT COMMISSION

The Audit Commission is elected by the General Meeting of Shareholders on an annual basis and is responsible for systematic control of the Corporation's business activities, it informs the Board of Directors and the President of PJSC "UAC" about results of audits and makes proposals to address the causes and conditions conducive to violations of financial and economic discipline, as well as proposals to improve the internal control system and the effectiveness of PJSC "UAC". If major violations are detected: The Audit Commission is entitled to request the convocation of an Extraordinary General Meeting of Shareholders. According to the decision of the Annual General Meeting of Shareholders following the results of 2015 fiscal year dated June 28, 2016, the Audit Commission of PJSC "UAC" was elected and functioned in the following composition:

- **Milovanova, Oxana Yuryevna** – Deputy Head of the Corporate Technologies Division of the Federal Agency for State Property Management.
- **Musina, Zemfira Ramilevna** – Deputy Head of the Strategic Development and Corporate Governance Division of the Aviation Industry Department of the Ministry of Industry and Trade of Russia.
- **Panina, Anna Grigoryevna** – Head of the Department of the Ministry of Industry and Trade of the Russian Federation.
- **Poma, Sergey Ivanovich** – Deputy Chairman of the Management Board of Self-Regulating (Non-profit) Organisation National Association of Securities Market Participants (NAUFOR), Council Member of the Federal Public-State Foundation for the Protection of Investors and Shareholders Rights.
- **Safonov, Alexander Dmitrievich** – Deputy Head of the Department of the Ministry of Economic Development of the Russian Federation.

Remuneration to members of the Audit Commission is paid in accordance with the Regulations of PJSC "UAC" on the procedure of payment of remuneration to members of the Board of Directors and the Audit Commission of PJSC "UAC" dated July 16, 2014<sup>1</sup> subject to all provisions and requirements of the laws of the Russian Federation. The remuneration amount for members of the Audit Commission is calculated by the Human Resources and Remuneration Committee of the Board of Directors for the period when such members of the Audit Commission performed their duties in proportion to the time worked and shall be approved by the Board of Directors.

<sup>1</sup> The document is available in Russian at the following link:  
<http://www.uacrussia.ru/>

## » INTERNAL AUDIT

The Internal Audit Department of PJSC "UAC" is the subdivision responsible for internal audit. It is subordinate to the President of PJSC "UAC" and accountable to the Board of Directors through the Audit Committee of the Board of Directors.

The objectives of the Internal Audit Department are:

- Providing the Board of Directors/the Audit Commission of the board of Directors and the executive bodies of PJSC "UAC" with independent and objective assurance that PJSC "UAC" and its subsidiaries and associates have adequate internal control, risk management and corporate governance systems;
- Assisting the management of PJSC "UAC", its subsidiaries and associates in the establishment of efficient internal control, risk management and corporate governance systems by providing consultations, recommendations, opinions and other practical aid of advisory nature.

To achieve the goals of internal audit the Internal Audit Department performs the following tasks and functions:

- evaluation of reliability and efficiency of internal control, risk management and corporate governance systems;
- performance of internal audits of audit subjects, participation in the activities of the Audit Commission of PJSC "UAC" as invited experts and control over the elimination of identified violations and shortcomings;
- verification of compliance by members of the executive bodies of PJSC "UAC", its subsidiaries and associates, as well as their employees, with the provisions of laws and internal documents relating to insider information<sup>1</sup> and countering corruption, compliance with the requirements of the Business Ethics Code;
- identification of improvement areas and recommendations for the improvement of operational efficiency and performance, reliability and efficiency of internal control, risk management and the corporate governance systems of PJSC "UAC", its subsidiaries and associates;
- cooperation with the Boards of Directors, Audit Committees, Audit Commissions, executive bodies, external auditors and consultants/experts of PJSC "UAC", its subsidiaries and associates on matters relating to internal audit, internal control, risk management and corporate governance.

## » EXTERNAL AUDIT

For the purposes of unbiased assessment of the reliability of accounting statements and reports, PJSC "UAC" conducts independent audits of financial statements on an annual basis.

In 2016, the financial statements of PJSC "UAC" were audited according to the Russian Accounting Standards by Audit and Consulting Firm Top-Audit Limited Liability Company, a member of the self-regulated organisation of auditors, the Russian Union of Auditors (SRO RUA).

In 2016, the financial statements of PJSC "UAC" were audited according to the International Financial Reporting Standards by Joint-Stock Company BDO Unicon, a member of the self-regulating organisation of auditors, the Russian Union of Auditors (SRO RUA).

## PJSC "UAC" MAJOR TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

There were no major transactions involving PJSC "UAC" in 2016. Information about transactions with related parties made by PJSC "UAC" and approved by the management bodies of PJSC "UAC" (Board of Directors and General Meeting of Shareholders) during the reporting period are contained in online appendices to this Annual Report.

<sup>1</sup> PJSC "UAC" has an approved internal document establishing the rules for the prevention of unsanctioned use of confidential and insider information - "Regulations on the procedure of access to insider information of PJSC "UAC", rules of confidentiality protection and control of compliance with the regulations" approved by the decision of the Board of Directors of PJSC "UAC" (Minutes dated October 25, 2011 No. 57).

## SHARE CAPITAL

THE AUTHORISED CAPITAL OF PJSC "UAC" IS DIVIDED INTO 361,500,994,430 ORDINARY REGISTERED SHARES WITH THE PAR VALUE OF 86 KOPECKS. THE TOTAL NUMBER OF UNCERTIFIED SHARES OF PJSC "UAC" IS 391,592,181,940 (INCLUDING 30,091,187,510 ADDITIONAL SHARES ALLOTTED IN THE COURSE OF UNFINISHED ISSUE OF SECURITIES)

### » SHARE CAPITAL STRUCTURE

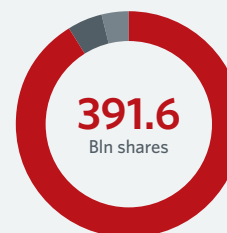
The largest part of the share capital is held by the Russian Federation represented by the Federal Agency for State Property Management - 91.21%, 5.11% - held by Vnesheconombank, 3.68% - by private investors.

There are no preferred shares. The Russian Federation has no special rights to participate in the management of PJSC "UAC" ("the golden share").

In 2016, the allotment of additional issue of shares was finished - state registration number 1-02-55306-E-002D of June 16, 2015, ISIN RU000A0JVJ52. The Bank of Russia registered the report on the results of allotment on March 17, 2016. The total number of additional shares allotted, amounted to 125,637,245,302 shares. As the result of the allotment, the amount of authorised capital of the Corporation increased to RUB 310,890,855,209.80 (361,500,994,430 ordinary shares with the par value of RUB 0.86). State registration of the relevant amendments to the Authorised Capital of the Corporation following the results of allotment was effected on March 25, 2016.

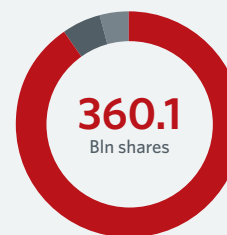
On May 26, 2016, the Bank of Russia registered the additional issue of ordinary shares of PJSC "UAC" - state registration number 1-02-55306-E-003D, ISIN RU000A0JWLC2 in the amount of 89,619,400,000 shares with the par value of RUB 0.86.

#### Share Capital Structure as of December 31, 2016



	Share,%*	Number of shares
■ The Russian Federation represented by the Federal Agency for State Property Management	91.2	357,173,463,360
■ State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)	5.1	20,000,000,000
■ Private shareholders	3.7	14,418,718,580

#### Share Capital Structure as of December 31, 2015



	Share,%*	Number of shares
■ The Russian Federation represented by the Federal Agency for State Property Management	90.4	325,640,415,385
■ State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)	5.6	20,000,000,000
■ Private shareholders	4.0	14,418,718,580

\* with account for additional outstanding shares.

» TRADING ON A STOCK MARKET

The shares of PJSC "UAC" have been traded on the leading Russian stock exchange - Moscow Exchange (MOEX) since 2013, ticker: UNAC.

# MOEX

Name of the Trading Platform

On January 30, 2014, the ordinary shares of PJSC "UAC" were transferred to Quotation List "B" of the Moscow Exchange. As part of the listing reform of the Moscow Exchange dated June 9, 2014, the shares of PJSC "UAC" were transferred from Quotation List "B" to the "Second Level" quotation list of the Moscow Exchange.

On April 17, 2014 the Moscow Exchange included the ordinary shares of PJSC "UAC" in the Innovation and Investment Market (IIM), a stock market for attraction of investments to the innovation sector of the economy. The inclusion of corporate securities in the IIM provides comprehensive marketing, information and analytical support from the Moscow Exchange.

The price of ordinary shares of PJSC "UAC" (kopek) and trading volume (RUB mln) in 2016



# UNAC

## Security Code

On October 3, 2016, the shares of PJSC "UAC" were included in the market maker programme for a group of prospective shares in the innovations and investments sector (IIM). The programme covered the top 10 stocks in the MICEX Innovation Index calculation base.

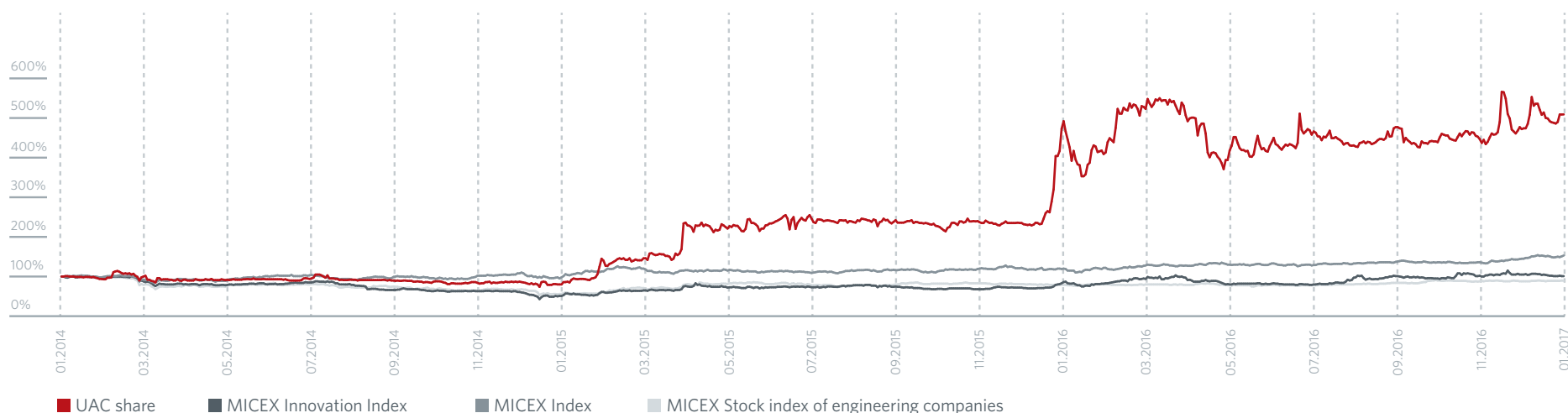
The goal of the programme is to increase the liquidity of the IIM stock market sector and to stimulate active IIM listing agents. Operations to increase the liquidity of shares were supported by JSC FINAM, at that the market maker's support lasted until December 31, 2016.

According to a decision of the Moscow Exchange, as at the end of 2016 the shares of PJSC "UAC" were included in the calculation base of the following indices:

Index	Weight
MICEX Innovation Index (MICEXINNOV)	15.00%
MOEX State-Owned Companies Index (SCI)	1.19%

From February 1, 2017, the ordinary shares of PJSC "UAC" included in the "Second Level" of the list of securities of the Moscow Exchange were transferred from the Innovations and Investments Market to the IIM-Prime segment.

UAC ordinary shares dynamics compared to stock indices in 2014-2016



## » ANALYST COVERAGE

As at the end of the reporting year, analytical coverage of PJSC "UAC" was provided by analysts from a number of leading investment companies and banks, including VTB 24, IFC Metropal, Aton, Promsvyazbank, Raiffeisenbank, MC Arsagera, IC LMS, IC RUSS-INVEST, UFS Investment Company. The information is available on the following website:  
<http://www.uacrussia.ru/en/investors/>, [http://www.uacrussia.ru/en/investors/analyst\\_coverage/](http://www.uacrussia.ru/en/investors/analyst_coverage/).

## » DIVIDENDS

### Dividend Policy

The dividend policy of PJSC "UAC" is aimed at:

- Creating the necessary conditions for increased investment attractiveness and capitalisation growth;
- Creating extra value for the shareholders by paying dividends and improving capitalisation;
- Balancing the interests of shareholders and the Corporation in the course of net profit distribution.

The source of dividend payments is the Corporation's net profit calculated on the basis of the Russian Accounting Standards (RAS).

In accordance with the laws, the dividend policy of the Corporation PJSC "UAC" is entitled to make decisions (announce) on the payment of dividends following the results of the financial year as well as the results of the first quarter, half, nine months of the year (interim dividends).

Payment of dividends is made in accordance with Executive Order of the Government of the Russian Federation dated May 29, 2006 No. 774-r under which dividends account for at least 25% of the net profit of the joint-stock company (excluding the proceeds from revaluation of financial investments).

### Report on the Payment of Announced Dividends on the Shares of PJSC "UAC"

In 2014 PJSC "UAC" decided to pay dividends for the first time in five years. The total amount of dividends announced for 2013 was RUB 179,652,594.92, or RUB 0.0007793 per share, which amounted to 25.6% of the net profit according to RAS for the preceding reporting period.

On June 30, 2015 the Extraordinary General Meeting of PJSC "UAC" Shareholders decided to pay 25% of the net profit according to RAS for 2014 as dividends, excluding foreign exchange rate differences, which amounted to RUB 465,015,678.84, or RUB 0.001971 per share.

In accordance with the decision of the Annual General Meeting of PJSC "UAC" following the results of 2015 held on June 28, 2016 no dividends on PJSC "UAC" shares were paid due to lack of net profit in the reporting period.



## » BONDS

In 2011 PJSC "UAC" allotted interest-bearing non-convertible bonds with the par value of RUB 1 thousand in the amount of 46,280,000 bonds mature in 3,290 days with a coupon rate of 8% per annum (state registration date: February 22, 2011, state registration number: 4-01-55306-E).

The performance of obligations is ensured by the state guarantee of the Russian Federation for the payment of the par value of bonds upon their redemption.

### Bond issues

Issuer	PJSC "UAC"
Security type	Interest-bearing, non-convertible
Date of state registration of the issue	February 22, 2011
State registration number of the issue	4-01-55306-E
Currency	RUB
Issue amount (at par value)	46,280,000,000
Coupon interest rate	8.0% per annum
Coupon period	Coupons 1-17 - 182 days, coupon 18-196 days
Listing date	January 15, 2011
Redemption date	March 18, 2020
ISIN	RU000A0JRA65

In 2016 PJSC "UAC" made regular coupon payments: On March 9, 2016 on the tenth coupon (RUB 1,846,109,200) and on September 6, 2016 on the eleventh coupon (RUB 1,846,109,200).

### Trading PJSC "UAC" bonds on Stock Exchanges

Exchange	Moscow Exchange
State registration number	4-01-55306-E dated February 22, 2011
Security code	RU000A0JRA65
Name of security at MICEX Stock Exchange	OAK1 (UAC1)
Trading commencement date at MICEX Stock Exchange	March 15, 2011
Listing level	Level 3

## » ADDITIONAL INFORMATION

Addresses of Internet pages used by the Issuer for information disclosure: <http://www.uacrussia.ru/en/>, <http://www.e-disclosure.ru/portal/company.aspx?id=11433>

The investor calendar and calendar of planned activities with the participation of PJSC "UAC" are posted on the PJSC "UAC" website at the following link: <http://www.uacrussia.ru/en/press-center/events/?type=invest>

Investor Relations Service: [ir@uacrussia.ru](mailto:ir@uacrussia.ru)



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



CORPORATE GOVERNANCE



SUPPLEMENTS

# SUPPLEMENT NO. 1

# CONSOLIDATED FINANCIAL STATEMENTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Public Joint Stock Company "United Aircraft Corporation"

### Qualified Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "United Aircraft Corporation" (PJSC "UAC") (OGRN 1067759884598, 1/22, Ulansky Lane, Moscow, 101000) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2016, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Qualified Opinion

The Group accounts for certain Government grants as revenue and recognises the related costs as cost of sales, while such treatment is not in compliance with International Accounting Standard (IAS) 20 "Accounting for Government Grants and Disclosure of Government Assistance". Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have decreased by RUB 11,989 million for the year ended 31 December 2016 (2015: RUB 19,581 million), the cost of sales would have decreased by RUB 10,413 million for the year ended 31 December 2016 (2015: RUB 15,738 million), and the government grants allocated to income in the consolidated statement of profit or loss would have increased by RUB 1,576 million for the year ended 31 December 2016 (2015: RUB 3,843 million).

We were unable to obtain sufficient appropriate audit evidence about the recoverable amount of property, plant and equipment related to certain subsidiaries of the Group. There are indications that the recoverable amount of property, plant and equipment related to certain subsidiaries of the Group may be significantly lower than their carrying amount. International Accounting Standard (IAS) 36 "Impairment of Assets" requires that, where such signs of impairment exist, management should estimate the recoverable amount. No such estimate has been made for all entities of the Group. The impact of this departure from the requirements of International Financial Reporting Standards on the consolidated financial statements has not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### The Key Audit Matter

#### *The adoption of the new development Strategy and transition to a single share*

#### *Refer to Notes 1 and 4.*

The long-term development strategy was approved by the Board of Directors at the end of the reporting period.

Its main objectives are: to meet the requirements of the state in the area of national security, to maximise sales in the global civil aircraft market, to retain the market share on the military aircraft market and to expand presence in the segments of transport and special aviation.

Approval of the new development Strategy led in the reporting period to a change in the composition of the operating segments, by which the results of financial and economic activities are reviewed regularly by the chief operating decision maker, taking decisions on allocation of resources to the segment.

We focused on this issue due to the fact that the implementation of the Strategy leads to significant changes in the Group's structure, segment reporting and business strategies which will impact the consolidated financial statements.

#### The Key Audit Matter

#### *Actuarial calculations*

#### *Refer to Note 25.*

In the reporting period, the Group engaged an independent actuary to make more precise calculations of the actuarial liabilities to the Group's employees. We focused on this issue due to difficulties with providing professional judgments and estimates required to calculate the actuarial liabilities, and in view of the significance of the personnel and social policy for the Group.

#### Audit procedures performed to address the key audit matter

We have evaluated and performed a critical overview of the changes caused by the adopted Strategy.

We checked the disclosures on segment reporting included into Note 4 to the consolidated financial statements for completeness and compliance with the requirements of IFRS 8 "Operating Segments".

Disclosure of information for the core segment of the Group, military aviation, is regulated by the Law of the Russian Federation on State Secrets, according to which information on foreign trade activities of the Russian Federation and the cost of production of military equipment is a state secret. Access to information constituting a state secret can be granted by special state authorities only to organizations and individuals who have special licenses for access to classified information. Therefore, the Group does not disclose information about the cost of the reporting segments and revenues by the country of buyers.

#### Audit procedures performed to address the key audit matter

The management provided us with a report of an independent actuary.

We have analyzed and verified the mathematical accuracy and reasonableness of the assumptions used in the calculations.

Our internal actuarial experts assessed the key techniques, formulas and sources of information used by the actuary for compliance with the IFRS requirements.

We checked the disclosures included in Note 25 to the consolidated financial statements for completeness and compliance with the requirements of IAS 19 "Employee Benefits".

## Other Matter

We were appointed as independent auditor of the Group's consolidated financial statements prepared in accordance with IFRS for the first time. Our audit included standard procedures relating to the change of auditor as required by ISA.

The consolidated financial statements of JSC "UAC" for the year ended 31 December 2015 were audited by another auditor, who expressed a modified opinion on those statements on 15 April 2016 due to incorrect accounting for government grants and possible impairment of property, plant and equipment.

In the course of the audit we analyzed the areas on which the management provided subjective judgements, for example, in respect of significant accounting estimates and judgments, which included the use of assumptions and consideration of future events which, by their nature, involve uncertainty.

We used professional judgment with respect to our involvement in the audit of financial information of subsidiaries of PJSC "UAC". We have sent instructions to the auditors of certain subsidiaries. These instructions included our risk assessment, prescribed levels of materiality and audit requirements, as well as reporting, ethical and other requirements. We received information from the component auditors, evaluated it and conducted other procedures to gain positive assurance that we have gathered sufficient audit evidence in respect of the subsidiaries of PJSC "UAC". In our work we were guided by the provisions of ISA 600 "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)".

## Other Information

Management is responsible for the other information. In particular, the annual report includes consolidated financial statements and our auditor's report on it. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on our familiarization with the annual report, we conclude that there is a material misstatement in it, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Members of the Board of Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Members of the Board of Directors are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence relevant to financial information of the entities or operations within the Group to express an opinion on the consolidated financial statements

## INDEPENDENT AUDITOR'S REPORT (continuation)

We are responsible for the management, control and conduct of the audit of the Group. We remain fully responsible for our audit opinion.

We communicate with members of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide members of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with members of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Signed by:

The Engagement Partner on the audit resulting  
in this independent auditor's report is



Vladislav Yu. Poguliaev

Audit company:

BDO Unicon Aktsionernoe Obshchestvo

Main State Registration Number: 1037739271701

11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russia

Member of the Self-regulated Organization of Auditors  
"Russian Union of Auditors" (Association)

Principal Registration Number of the Entry in the State Register  
of Auditors and Audit Organizations: 11603059593

30 March 2017

# Consolidated Statement of Profit or Loss 31 December 2016

## (In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
<b>Revenues</b>	5	<b>416 926</b>	346 120
Cost of sales		<b>(338 289)</b>	(313 569)
<b>Gross profit</b>		<b>78 637</b>	32 551
Government grants related to income	24	<b>4 002</b>	242
Selling expenses		<b>(27 168)</b>	(15 395)
Administrative expenses		<b>(35 488)</b>	(33 584)
Research and development costs		<b>(958)</b>	(542)
Impairment of non-current assets		<b>(1 086)</b>	(30 533)
Share in loss from equity accounted investees	13	<b>(1 084)</b>	(936)
Other income	7	<b>8 847</b>	9 585
Other expenses	7	<b>(14 499)</b>	(30 800)
<b>Profit (loss) from operations</b>		<b>11 203</b>	(69 412)
Interest income	8	<b>6 008</b>	8 588
Interest expense	8	<b>(30 628)</b>	(26 395)
Other financial results	9	<b>8 339</b>	(17 228)
<b>Loss before taxation</b>		<b>(5 078)</b>	(104 447)
Income tax	10	<b>597</b>	(5 499)
<b>Loss for the period</b>		<b>(4 481)</b>	(109 946)
Attributable to:			
Equity owners of the Company		<b>(2 497)</b>	(82 362)
Non-controlling interest		<b>(1 984)</b>	(27 584)
<b>Loss for the period</b>		<b>(4 481)</b>	(109 946)
Basic and diluted loss per share attributable to the Company's shareholders (in Russian Rubles)	20	(0,0068)	(0,2888)

The consolidated financial statements were authorised for issue on 30 March 2017:

Yury Slyusarskiy  
President



Alexey Demidov,  
Vice-president for Economics and Finance



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

# Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

(In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
<b>Loss for the period</b>		<b>(4 481)</b>	(109 946)
<b>Other comprehensive (loss) income</b>			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		<b>(33 583)</b>	40 516
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit plan less income tax	25	<b>(2)</b>	(182)
<b>Other comprehensive (loss) income</b>		<b>(33 585)</b>	40 334
<b>Comprehensive loss for the period</b>		<b>(38 066)</b>	(69 612)
Comprehensive loss for the period attributable to:			
Equity owners of the Company		<b>(33 460)</b>	(49 984)
Non-controlling interest		<b>(4 606)</b>	(19 628)
<b>Comprehensive loss for the period</b>		<b>(38 066)</b>	(69 612)

# Consolidated Statement of Financial Position 31 December 2016

## (In millions of Russian Rubles)

	Note	31 December 2016	31 December 2015 restated, note 3	1 January 2015 restated, note
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	11	175 433	172 427	144 205
Intangible assets	12	84 353	88 363	93 752
Investments in associates and joint ventures	13	5 956	5 817	6 403
Other long-term investments	14	2 228	5 312	3 560
Trade and other receivables	16	6 189	5 397	2 828
Finance lease receivables		1 833	2 377	1 916
Deferred tax assets	10	16 113	13 245	12 573
Other non-current assets		125	415	653
<b>TOTAL NON-CURRENT ASSETS</b>		<b>292 230</b>	<b>293 353</b>	<b>265 890</b>
Current assets				
Short-term investments	14	2 880	247	623
Inventories	15	179 956	157 468	133 021
Trade and other receivables	16	318 154	278 887	254 808
Income tax receivable		333	343	379
Finance lease receivables		261	192	107
Other current assets		16 088	12 012	4 150
Cash and cash equivalents	17	172 733	155 245	92 667
<b>TOTAL CURRENT ASSETS</b>		<b>690 405</b>	<b>604 394</b>	<b>485 755</b>
Non-current assets held for sale	18	1 294	1 158	1 094
<b>TOTAL ASSETS</b>		<b>983 929</b>	<b>898 905</b>	<b>752 739</b>

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

# Consolidated Statement of Financial Position 31 December 2016

## (In millions of Russian Rubles)

### (Continuation)

	Note	31 December 2016	31 December 2015 restated, note 3	1 January 2015 restated, note
<b>EQUITY AND LIABILITIES</b>				
Equity				
Share capital	19	310 891	202 843	188 903
Share premium	19	4 566	4 566	4 566
Prepaid shares reserve	19	42 608	114 220	12 343
Treasury shares	19	(267)	(267)	(267)
Foreign currency translation reserve	19	20 343	51 304	17 975
Accumulated loss		(246 240)	(195 369)	(118 216)
<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>		<b>131 901</b>	<b>177 297</b>	<b>105 304</b>
Non-controlling interest	19	22 888	(329)	7 325
<b>TOTAL EQUITY</b>		<b>154 789</b>	<b>176 968</b>	<b>112 629</b>
Non-current liabilities				
Loans and borrowings	21	223 127	194 944	185 643
Finance lease payable	22	9 813	4 952	1 857
Deferred tax liabilities		16 487	13 677	9 733
Employee benefits		4 484	3 280	3 156
Trade and other payables	23	51 758	44 326	58 262
Derivative financial instruments		-	9 166	1 081
Provisions	26	10 969	15 376	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>316 638</b>	<b>285 721</b>	<b>259 732</b>
Current liabilities				
Loans and borrowings	21	146 876	108 077	149 786
Finance lease payable	22	1 797	983	1 054
Income tax payable		502	1 047	118
Employee benefits	25	416	576	492
Trade and other payables	23	333 482	304 548	226 027
Derivative financial instruments		-	2 210	-
Provisions	28	29 429	18 775	2 901
<b>TOTAL CURRENT LIABILITIES</b>		<b>512 502</b>	<b>436 216</b>	<b>380 378</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>983 929</b>	<b>898 905</b>	<b>752 739</b>

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



# Consolidated Statement of Cash Flow for the year ended 31 December 2016 (In millions of Russian Rubles)

	Note	2016	2015 restated, note 3
<b>OPERATING ACTIVITIES</b>			
Loss before income tax		(5 078)	(104 447)
Adjustments for:			
Depreciation and amortisation		20 143	18 598
Unrealized exchange (gains) losses		(18 399)	24 428
Share in losses of equity accounted investees		1 084	936
Impairment of non-current assets		752	27 101
Change in provision for write-down of inventories to net realizable value		472	84
Change in bad debt provision		1 008	3 242
Loss on disposal of property, plant and equipment and other assets		87	1 444
Interest expense		38 578	33 885
Government grant related to compensation of interest expense		(7 950)	(7 490)
Interest income		(6 008)	(8 588)
Cash flows from operating activities before changes in working capital and provisions		24 689	(10 807)
Change in inventories		(21 493)	(18 879)
Change in trade and other receivables		(30 931)	(32 020)
Change in trade and other payables		42 426	79 180
Change in finance lease receivable		474	(546)
Change in employee benefits		1 070	38
Change in other current and non-current assets		(5 266)	(6 902)
Change in provisions		6 356	24 595
Cash flows from operating activities before income tax and interest payments		17 325	34 659
Income tax paid		(1 707)	(343)
Interest paid, net of the government grant received		(30 869)	(37 476)
Net cash flow used in operating activities		(15 251)	(3 160)

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

# Consolidated Statement of Cash Flow for the year ended 31 December 2016

## (In millions of Russian Rubles)

### (Continuation)

	Note	2016	2015 restated, note 3
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(29 705)	(18 474)
Proceeds from disposal of property, plant and equipment		-	443
Acquisition of intangible assets		(16 159)	(11 954)
Change in investments		1 787	(1 983)
Change in loans granted and placed deposits		(2 587)	356
Government grant received related to assets		381	493
Interest received		4 280	5 915
Dividends received		120	46
Net cash flow used in investing activities		(41 883)	(25 158)
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings		78 837	74 431
Repayment of borrowings		(13 865)	(115 255)
Payments on finance lease		(973)	(484)
Paid in capital		17 847	115 817
Contributions to equity of subsidiaries by non-controlling shareholders		-	10 985
Dividends paid		(431)	(654)
Net cash flow provided by financing activities		81 415	84 840
Net increase in cash and cash equivalents		24 281	56 522
Cash and cash equivalents at the beginning of the year		155 245	92 666
Effect of exchange rate changes on cash and cash equivalents		(6 793)	6 057
Cash and cash equivalents at the end of the year	17	172 733	155 245

# Consolidated Statement of Changes in Equity for the year ended 31 December 2016 (In millions of Russian Rubles)

	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Foreign currency translation reserve	Accumulated losses	Total equity attributable to shareholders of the Company	Non-controlling interest	Total equity
<b>Balance at 1 January 2015 (restated, note 3)</b>	188 903	4 566	12 343	(267)	17 975	(118 216)	105 304	7 325	112 629
Loss for the period (restated)	-	-	-	-	-	(82 362)	(82 362)	(27 584)	(109 946)
Other comprehensive income/(loss) (restated)	-	-	-	-	33 329	(951)	32 378	7 956	40 334
<b>Total comprehensive income/(loss) for the period (restated)</b>	-	-	-	-	33 329	(83 313)	(49 984)	(19 628)	(69 612)
Shareholders' contributions	13 940	-	101 877	-	-	-	115 817	-	115 817
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	6 631	6 631	12 157	18 788
Dividends	-	-	-	-	-	(471)	(471)	(183)	(654)
<b>Balance at 31 December 2015 (restated, note 3)</b>	202 843	4 566	114 220	(267)	51 304	(195 369)	177 297	(329)	176 968
Loss for the period	-	-	-	-	-	(2 497)	(2 497)	(1 984)	(4 481)
Other comprehensive loss	-	-	-	-	(30 961)	(2)	(30 963)	(2 622)	(33 585)
Total comprehensive loss for the period	-	-	-	-	(30 961)	(2 499)	(33 460)	(4 606)	(38 066)
Shareholders' contributions	108 048	-	(71 612)	-	-	-	36 436	-	36 436
Repurchase of shares from non-controlling shareholders	-	-	-	-	-	(48 762)	(48 762)	28 644	(20 118)
Contributions to equity of subsidiaries by non-controlling shareholders	-	-	-	-	-	390	390	(390)	-
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	(431)	(431)
<b>Balance at 31 December 2016</b>	310 891	4 566	42 608	(267)	20 343	(246 240)	131 901	22 888	154 789

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. GENERAL

These consolidated financial statements of Joint Stock Company United Aircraft Corporation (the "Company") and its subsidiaries (collectively, the "Group") have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016.

The Company was incorporated on 20 November 2006, following the Decree of the President of the Russian Federation and ultimately controlled by the Government of the Russian Federation through the Federal Agency for State Property Management, which on 31 December 2016 owned 91.21% of the voting shares (31 December 2015: 90.44%). Since November 2009 the Company's shares have been traded on the Moscow Exchange with the UNAC ticker. Current registered office is at: Bld.1, Ulansky lane 22, Moscow, 101000, Russia.

The key activities of the Group are development, construction, testing, as well as maintenance and service support of military, civil, transport and special-purpose aircraft. The Group's business scope expands to include aircraft equipment modernization, overhauling and recycling. Manufacturing and sales of military aircraft, both for the Ministry of Defence of Russia and foreign governments, account for the largest proportion of the Group revenue.

The list of major subsidiaries included in these consolidated financial statements is disclosed in Note 33. The average number of employees of the Group for 2016 was 96 787 (2015: 96 545).

### 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 any damage to the security of the country, is considered to constitute a state secret. Access to information classified as a state secret can be granted by the appropriate state authorities only to organizations and individuals holding appropriate licenses granting access to classified information.

Part of the property, plant and equipment of the Group relates to state military sites making up the mobilization capacity of the Russian Federation and is also subject to the Law on State Secrets. The law also limits the authority of the Group to dispose of these assets.

### The operating environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the impact of economic and financial markets of the Russian Federation.

The Russian economy demonstrated unstable dynamics during 2016. The change in a number of economic indicators over this period indicates subsiding influence of the main negative factors of economic development. At the same time, the factors reducing investment and household consumption continue to have a significant negative impact on the growth of the Russian economy. In addition to these factors, the long duration and the depth of the recession were caused by unfavourable commodity market conditions, in particular, low oil prices, as well as by international sectoral sanctions imposed on Russia.

According to the Federal Statistics Service, the GDP decline in 2016 amounted to 0.2% on an annual basis, while at the end of 2015, the GDP contraction was 3.7%. The dynamics of GDP, net of seasonal factors, showed an upward trend. According to the Bank of Russia, in the fourth quarter of 2016, GDP growth was recorded at 0.6%, net of seasonal factors. Industrial production for 2016, according to the Federal State Statistics Service, grew by 1.1% compared to 2015, when it declined by 3.4%. At the same time, the situation on the financial markets improved significantly during 2016. The RTS index for 2016 grew by 52.2%, and the MICEX index - by 26.8%.

In September 2016, the international rating agency Standard & Poor's upgraded its outlook on Russia's sovereign credit rating from "negative" to "stable". In October 2016, the international rating agency Fitch Ratings also changed the outlook on the long-term issuer default ratings of the Russian Federation from "negative" to "stable".

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

The international trade and economic sanctions imposed on the Company in 2014 did not have a significant impact on the business and financial condition of the Group. In planning its operations, the Company constantly assesses the possible consequences of the imposed sanctions and continues to believe that they will not have a significant impact on the consolidated financial statements.

### Reorganization

The Group began a large-scale transformation of its production facilities, the creation of centres of specialization and competencies within the framework of transition to a new industrial model. The transition provides for a more efficient use of investment, production capacity and the transfer of part of low value added production to outsourcing. The main goal of the reorganization is to create a profitable business that is attractive to investors, and to reduce dependence on state financing in terms of investments. A new long-term development strategy was approved, under which the organizational structure of the Group was changed. The allocation of military, civil, transport and special aviation segments is disclosed in Note 4.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Federal law No. 208-FZ "Consolidated Financial Statements", and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments stated at fair value and defined benefit plan liability is recognised as the net total of the plan assets less the present value of the defined benefit obligation.



## Functional and presentation currency

The functional currency of each of the Group's consolidated companies is the currency of the primary economic environment in which the company operates. The management has analyzed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency, except for PJSC "Irkut Corporation" and JSC "Sukhoi Civil Aircraft", which functional currency is the US dollar, since this reflects the economic substance of events and circumstances related to the activities of these companies.

The presentation currency of the Group is the Russian Ruble. All financial information presented in RUB has been rounded to the nearest million, unless otherwise indicated.

Assets and liabilities of the Group companies whose functional currency is different from the presentation currency are translated using the period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

## Going concern

These consolidated financial statements have been prepared on a going concern basis and on the assumption that the Group will continue to operate in the foreseeable future and will be able to exercise its assets and settle obligations in the normal course of business.

## Basis of consolidation

**Subsidiaries.** Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

Acquisition of non-controlling interests of major shareholders is accounted for as transactions with shareholders. Non-controlling interest is measured at its proportionate interest in the identifiable net assets of an acquirer.

**Investments in associates and jointly controlled entities.** Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets relating to this arrangement, rather than rights to assets of joint ventures or obligations for their liabilities.

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

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

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

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

## Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income or other expenses in profit or loss for the period.

The cost of replacing part of an item of property, plant and equipment increases 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.

**Depreciation of property, plant and equipment.** Depreciation is determined using the straight-line method based on the estimated useful lives of property, plant and equipment items. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	4 to 85 years;
Machinery and equipment	2 to 28 years;
Other	2 to 35 years.

Useful lives of property, plant and equipment are reviewed at each financial year end and adjusted, if appropriate.

**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 consolidated statement of financial position.

### Investment property

Real estate held for the purpose of obtaining rental payments or for the purpose of capital appreciation is classified in the category of investment property. This property is not used in the production or supply of goods or services, or for administrative purposes, or for sale in the ordinary course of business.

Investment property is stated at cost. Subsequent expenditures relating to investment property are capitalized, only when it is probable that additional future economic benefits will flow to the Group and their cost can be measured reliably. All other costs for repairs and maintenance are expensed as incurred.

### Intangible assets

**Goodwill.** Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently, goodwill is measured at cost less accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

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

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

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised development costs is charged to the consolidated statement of profit or loss based on the unit-of-production method. The value of capitalised development costs is reviewed for impairment annually when the asset is not yet in use and thereafter whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

**Other intangible assets.** Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment loss. Intangible assets that have limited useful lives are amortized on a straight-line basis over their useful lives.

### Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognized based on the cost of acquisition which approximates fair value.

### Financial instruments

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

Financial assets are designated at fair value through profit or loss, if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs are recognized in profit or loss as incurred.

Financial assets that the Group has the intention and ability to hold to maturity are initially recognized at fair value increased by the amount of costs directly attributable to the transaction. Subsequently, these assets are measured at amortized cost calculated using the effective interest method, less any impairment losses.

Available-for-sale financial assets include assets that are not classified in any of the above categories, as well as financial assets that are specifically acquired for sale. At initial recognition, such assets are measured at fair value increased by the amount of costs directly attributable to the transaction.

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

**Non-derivative financial liabilities.** The Group classifies non-derivative financial liabilities into the financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

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

**Derivative financial instruments.** Derivative instruments are recorded at fair value in the consolidated statement of financial position in either financial assets or liabilities. Realized and unrealized gains and losses are presented in profit or loss on a net basis, except for those derivatives, where hedge accounting is applied.

The fair values of derivative financial instruments are estimated with reference to available market information or using other valuation methodologies, as considered appropriate. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize in a current market situation.

## Treasury shares

Common shares of the Company owned by the Group as at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital, whereas losses reduce additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

## Inventories

Construction work in progress is stated at cost 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 for inventory items that are not interchangeable or that have been segregated for specific contracts to be determined on an individual-item basis. An entity shall use the weighted average cost formula for all inventories having a similar nature and use. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## Construction contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost incurred plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Construction contracts in progress are presented as part of inventories in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. In cases where payments received for work performed exceed incurred expenses considering recognized profits and losses, the difference is presented in the consolidated statement of financial position as accounts payable under construction contracts.

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.

## Employee benefits

**Defined contribution plans.** A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees under employment contracts.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due in more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**Defined benefit plans.** A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted.



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

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

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

## Provisions

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

**Warranties provision.** 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.

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

**Claims provision.** Claims include claims for legal and tax claims. A provision for claims is recognized when the Group acts as a defendant in a court of law and, in the opinion of lawyers of the Company, the probability of payment to the plaintiff is high, except for cases when the amount of such payments can't be reliably estimated. A provision for legal claims is estimated as the amount of probable payments and is recognized as an expense of the reporting period. The same approach is used to assess and reflect claims of tax authorities.

## Revenues

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

**Revenues from construction contracts.** The operations of the Group include manufacturing aircraft under fixed price contracts where particular aircraft item (or its part) undergoes significant modification in development and (or) production to meet customer requirements, thus such contracts are accounted for under IAS 11 as construction contracts. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in proportion to the stage of completion of the contract, measured by incurred costs to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. The method places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

**Goods sold.** Revenue from the sale of goods, primarily related to production of serial civil aircraft not requiring substantial customer-related modification and separate military and civil aircraft components, is recognised in the consolidated statement of profit or loss, when significant risks and rewards of ownership have been transferred to the buyer.

Revenue is recognised, when significant risks and rewards of ownership have been transferred to the customer, there is no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Services.** Revenue from services rendered, which primarily relate to customer-specified aircraft-related development activities, aircraft modernisation, overhaul and repair, is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.





## Income taxes

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

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period

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

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

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

## Government grants

Government grants are recognised in the consolidated statement of financial position 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 as income in the consolidated statement of profit or loss 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.

## 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 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.

## 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 segments. All operating segments' operating results are reviewed regularly by the Company's President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## Adoption of New or Revised Standards and Interpretations

The following revised standards and interpretations entered into force effective 1 January 2016: an amendment to IFRS 11 "Joint Arrangements", amendments to IAS "16 Property, Plant and Equipment" and IAS 38 "Intangible Assets", amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates", amendments to IAS 1 "Presentation of Financial Statements", amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS (I AS) 28 "Investments in Associates and Joint Ventures" and Annual Improvements to IFRS for the period 2012 - 2014.

Reviewed standards and interpretations effective from the 1 January 2016 didn't have significant influence on the Group's accounting policies, financial position and results. The Group doesn't apply the standards before the term.

## New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these standards and interpretations when they become effective.

**IFRS 9 Financial instruments**, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers** establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

**IFRS 16 Leases** replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

**Sale or contribution of assets to an associate or joint venture by an investor – Amendments to IFRS 10 and IAS 28**, the commencement date has not been determined. The amendments resolve a known discrepancy between the requirement of IFRS 10 and IAS 28 for the loss of control of a subsidiary that is transferred to an associate or joint venture. The amendments clarify that the investor recognizes the full income or loss from the sale or transfer of assets that constitute a business in the determination of IFRS 3 between him and his associate or joint venture. The gain or loss on revaluation at fair value of an investment in a former subsidiary is recognized only to the extent that it relates to the share of the independent investor in the former subsidiary.

**"Disclosure Initiative" – Amendments to IAS 7**, effective for annual periods beginning on or after 1 January 2017. Amendments to IAS 7 require disclosure of reconciliation of changes in liabilities arising from financial activities.

**"Recognition of deferred tax assets for unrealized losses" – Amendments to IAS 12** are effective for annual periods beginning on or after 1 January 2017. The amendment clarifies the recognition of deferred tax assets for unrealized losses on debt instruments. The organization will have to recognize the tax asset for unrealized losses arising from the discounting of cash flows on debt instruments using market interest rates, even if it implies holding the instrument to maturity, and after receiving the principal amount, payment of taxes is not expected.

**Amendments to IFRS 15 "Revenue from contracts with customers"** are effective for annual periods beginning on or after 1 January 2018. The amendments do not change the fundamental principles of the standard, but explain how these principles should be applied. The amendments clarify how to identify in the contract the obligation to perform (the promise of the transfer of goods or services to the buyer); How to determine whether the company is a principal (supplier of a product or service) or an agent (responsible for the organization of the delivery of goods or services), and how to determine whether to recognize revenue from the granting of a license at a certain point in time or for a period. In addition, the amendments include two additional exemption requirements, which will allow the company first applying the new standard to reduce costs and complexity of accounting.

**Amendments to IFRS 2 "Share-based Payment"** are effective for annual periods beginning on or after 1 January 2018. In accordance with these amendments, empowerment linked to non-market performance conditions will have an impact on the valuation of share-based payment transactions with cash settlements in the same way as for the evaluation of rewards that are settled in equity instruments. The amendments also clarify the classification of transactions that have the characteristics of calculation on a net basis and in which the organization holds a certain part of the equity instruments that would otherwise have been issued in favour of the counterparty when exercising (or granting rights) in exchange for repayment of the tax liability Counterparty, which is associated with payment based on shares. Such agreements will be classified as agreements that are fully settled in equity instruments.

Finally, the amendments also clarify the accounting for share-based payments with cash settlements when they have been modified into payments with equity instruments, namely: (a) the share-based payment is measured based on the fair value The equity instruments granted as a result of the modification, as of the modification date; (B) in the event of modification, the recognition of the liability is terminated, (C) the share-based payment is recognized for equity instruments in respect of services that have already been rendered prior to the modification date, and (d) the difference between the carrying amount of the liability at the modification date and the amount, Recognized in equity at the same date, is immediately recognized in profit or loss.

**Amendments to IFRS 4 "Insurance Contracts"**, are effective for annual periods beginning on or after 1 January 2018. The amendments introduce two new approaches: (i) the overlapping approach and (ii) the deferral approach. Insurers will have a choice: until the new standard is issued under insurance contracts, they will be able to recognize the volatility that may arise when applying IFRS 9, not in profit or loss, but in other comprehensive income. In addition, organizations whose activities are primarily related to insurance will be able to take advantage of the temporary exemption from the application of IFRS 9 until 2021.

**Annual improvements to IFRS, 2014-2016 cycle**, effective for the purpose of applying amendments to IFRS 12 for annual periods beginning on or after 1 January 2017, as regards the application of amendments to IFRS 1, and IAS 28 for annual periods, beginning on or after 1 January 2018. The amendments affect three standards.

The amendments clarify that the requirements of IFRS 12 for disclosure, except for those relating to the disclosure of consolidated financial information on subsidiaries, joint ventures and are classified as investments held for sale or as discontinued operations in accordance with IFRS 5.

IFRS 1 has been amended and some of the short-term exemptions from IFRSs relating to disclosures about financial instruments, employee benefits and investment companies have been removed after they have been applied for the intended purpose.

Amendments to IAS 28 clarify that an investor organization has the option, in relation to each investment object, to apply an estimate of an investee at fair value in accordance with IAS 28 if the investor is an entity specializing in venture capital investment or a unit investment Fund, trust fund or similar organization, including investment funds related to investment. In addition, an organization that is not an investment company may be an associated organization or a joint venture that is an investment company. IAS 28 permits an entity to apply the fair value estimate when applying the equity method that was used by such an associate or a joint venture that is an investment company. The amendments clarify that such a choice is also possible with respect to each investment object.

**IFRIC 22 - Foreign Currency Transactions and Advance Consideration** are effective for annual periods beginning on or after 1 January 2018. The clarification resolves the issue of determining the date of the transaction to determine the exchange rate used at the initial recognition of the relevant asset, expense or income (or part thereof) upon the termination of the recognition of a non-monetary asset or a non-monetary obligation arising from a prepayment in foreign currency. In accordance with IAS 21, the date of the transaction for the purpose of determining the exchange rate used at the initial recognition of the relevant asset, expense or income (or part thereof) is the date on which the entity initially takes into account a non-monetary asset or a non-monetary obligation, arising as a result of prepayment of compensation in foreign currency. In the case of several payments or receipts made on a prepayment basis, the organization must determine the date of each payment or receipt made on a prepayment basis. IFRIC 22 applies only in cases where an entity recognizes a non-cash asset or a non-monetary liability arising from a prepayment. IFRIC 22 does not provide practical guidance for determining the accounting entity as monetary or non-monetary. In the general case, payment or reimbursement made on a prepayment basis results in the recognition of a non-monetary asset or a non-monetary obligation, but they can also lead to the occurrence of a cash asset or liability. Organizations may need to use professional judgment in determining whether a particular entity is monetary or non-monetary.

**Transfers to or from investment property** - Amendments to IAS 40 are effective for annual periods beginning on or after 1 January 2018. Amendments clarify the requirements for transfer to / from the investment property in the part of the objects of unfinished construction. Prior to the issuance of the amendments, IAS 40 did not have separate guidance on transferring / investment property to / from the construction in progress. The amendment clarifies that there was no intention to prohibit the transfer of investment property in the investment real estate under construction or development and classified as inventories in case of an obvious change in the nature of use. IAS 40 has been amended to support the application of the principles of transfer to / from the investment property in accordance with IAS 40, clarifying that the transfer to / from the investment property can only be made if the nature of the use of the property changes; and such a change in the nature of use will require an assessment of the possibility of classifying real estate as an investment. Such a change in the nature of use must be supported by facts.

The Group is currently reviewing the provisions of these standards, their impact on the Group and the timing of their application.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions, which affect the application of provisions of the accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Actual results may differ from the judgements, estimates made by the management if different assumptions or circumstances apply.

Some estimates, assumptions and judgments are disclosed in the relevant notes. Judgments about the choice of the functional currency are disclosed in Note 2.

Information about critical estimates and judgments formed in the process of applying accounting policies, which have the most significant effect on the values reflected in these consolidated financial statements are set out below:

**Inclusion of organizations in consolidation.** The Group includes an organization in the consolidation, if it controls it. The Group controls the organization when the Group is exposed to risks related to variable income from participation in the investment object or has the rights to receive such income, has the authority, and is able to use its authority with respect to this organization in order to influence the amount of that income. The conclusion about the presence of control is reviewed when facts and circumstances indicate that changes in any of the control elements are possible.

**Impairment of non-current assets.** The following are examples of impairment indicators, which are reviewed by the management: changes in the Group's business plans, low plant utilization, evidence of physical damage or considerable increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exists, the Group makes an assessment of the recoverable amount. The long-term business plans and models, which are approved by the management, are the primary source of information for the determination of value in use. They contain forecasts for production, sales volumes, revenues, costs and capital expenditure. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or cash generating unit (CGU) and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

**Useful lives of property, plant and equipment.** Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

**Impairment allowance for accounts receivable.** The impairment allowance for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates.

**Deferred income tax asset recognition.** The recognized deferred tax asset represents amount of income tax which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.



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**The put option for the sold aircraft and the guarantee of the residual value.** A number of contracts for the supply of aircraft contain a put option for the aircraft sold and a guarantee of residual value. In accordance with these contracts, the Group at the time of sale commits after 10-12 years from the date of sale of the aircraft (the period usually equal to half of the economic life of the aircraft) to pay the difference between the guaranteed residual value (usually 40 - 45% of the price) and market value at the date when the owner of the aircraft decided to sell aircraft at the market, or to buy back the aircraft at a guaranteed cost. The Group's management, at the time of sale of the aircraft and at each reporting date, makes an assessment of the occurrence of the liability and accrues a provision for the difference between the future market value of the sold aircraft and the guaranteed residual value. Management estimates that all put options for sold aircraft and guarantees of residual value were not encumbrance at 31 December 2015. As at 31 December 2016 a provision of RUB 633 million was recognized.

**Contingencies.** Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the probability of unfavourable outcome for the Group, as well as the most probable value of the outflow of economic benefits.

### Changes in presentation and reclassifications

In connection with the reorganization and the adoption of the new Development Strategy (Notes 1 and 4), the Group has improved the disclosure in its consolidated financial statements. In this regard, the comparative information has been adjusted to correspond to the disclosures of the current period. Relevant reclassifications related to the information disclosed in the Group's consolidated financial statements for the year ended 31 December 2015 are presented below.

Finance income and expense for the year 2015 were reclassified to interest income and expense and a separate line "other financial results" was introduced:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Finance income	8 743	(8 743)	-
Finance expense	(43 778)	43 778	-
Interest income	-	8 588	<b>8 588</b>
Interest expense	-	(26 395)	<b>(26 395)</b>
Other financial results	-	(17 228)	<b>(17 228)</b>

Advances for inventories issued to suppliers and accrued debts for construction contracts at 31 December 2015 were transferred from inventory to trade and other receivables:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Inventories	109 827	(109 827)	-
Trade and other receivables	-	109 827	<b>109 827</b>

Finance lease liabilities were removed from loans and borrowings and are shown separately as at 31 December 2015:

	Amounts reflected earlier	Reclassification effect	Adjusted data
Long-term loans and borrowings and finance lease	194 883	(194 883)	-
Short-term loans and borrowings and finance lease	107 648	(107 648)	-
Long-term loans and borrowings	-	189 931	<b>189 931</b>
Short-term loans and borrowings	-	106 665	<b>106 665</b>
Long-term finance lease payables	-	4 952	<b>4 952</b>
Short-term finance lease payables	-	983	<b>983</b>

## Adjustments for previous periods

During the reporting period, the accounting policy was changed, and errors were detected for the previous periods related to determining the degree of completion of work and clarifying the procedure for translation of property, plant and equipment values from the functional currency to the presentation currency. The following is the amount of adjustments for each item of the consolidated financial statements.

Impact on the items of the consolidated statement of comprehensive income

	2015
Revenues	(5 722)
Cost of sales	(6 261)
Other income	7 650
Selling, administrative and other expenses	7 151
Financial results	1 737
<b>Income tax expense</b>	<b>(5 734)</b>
Loss for the period	(1 179)
Foreign currency translation differences	7 799
<b>Actuarial losses on defined benefit plans, net of income tax</b>	<b>(392)</b>
Comprehensive income for the period	6 228
Loss for the period attributable to:	
Equity owners of the Company	797
<b>Non-controlling interest</b>	<b>(1 976)</b>
<b>Loss for the period</b>	<b>(1 179)</b>
Comprehensive income for the period attributable to:	
Equity owners of the Company	8 303
<b>Non-controlling interest</b>	<b>(2 075)</b>
Comprehensive profit for the period	6 228
Basic loss per shares attributable to the Company's shareholders (in Russian Rubles)	0,0746

Impact on the items of the consolidated statement of financial position:

	31 December 2015	1 January 2015
<b>ASSETS</b>		
Property, plant and equipment	2 647	(7 750)
Intangible assets	(5 026)	235
Investments in associates and joint ventures	(2 438)	(1 802)
Other long-term investments	1 819	80
Trade and other receivables	(9 366)	641
Deferred tax assets	(806)	2 965
Other non-current assets	288	(2)
Short-term investments	(130)	(129)
Inventories	508	(11 330)
Trade and other receivables	(17 529)	(10 401)
Other current assets	7 438	-
Non-current assets held for sale	1 158	1 094
<b>TOTAL IMPACT ON ASSETS</b>	<b>(21 437)</b>	<b>(26 399)</b>
<b>LIABILITIES</b>		
Loans and borrowings	(14 193)	(16 728)
Deferred tax liabilities	195	(287)
Employee benefits	(427)	(442)
Trade and other payables	(13 067)	13 322
Loans and borrowings	(1 411)	55
Employee benefits	(311)	(381)
Trade and other payables	18 606	3 634
Provisions for future expenses and payments	8 515	-
<b>TOTAL IMPACT ON LIABILITIES</b>	<b>(2 093)</b>	<b>(827)</b>

	31 December 2015	1 January 2015
<b>Equity</b>		
Treasury shares	143	143
Foreign currency translation reserve	11 947	4 105
Accumulated loss	(21 063)	(27 474)
Non-controlling interest	(10 371)	(2 346)
<b>TOTAL IMPACT ON EQUITY</b>	<b>(19 344)</b>	<b>(25 572)</b>

Impact on the items of the consolidated statement of cash flows:

	2015
<b>OPERATING ACTIVITIES</b>	
Loss before income tax	4 555
Adjustments for:	
Depreciation and amortisation	(1 800)
Unrealised exchange gains	34 251
Share of losses in equity accounted investees	641
Impairment of non-current assets	(3 006)
Impairment of inventories	84
Change in bad debt provision	1 023
Loss on disposal of property, plant and equipment and other assets	2 922
Interest expense	12
Government grant related to compensation of interest expense	214
Interest income	(69)

	2015
Cash flows from operating activities before changes in working capital and provisions	38 827
Change in inventories	1 325
Change in receivables and payables	(2 905)
Change in provisions and employee benefits	211
Change in other current and non-current assets	(7 892)
Change in provisions	1 860
Cash flows from operating activities before income tax and interest payments	31 426
Income tax paid	(1 132)
Interest paid, net of government grants received	(213)
Net cash flow from operating activities	30 081
<b>INVESTING ACTIVITIES</b>	
Acquisition of property, plant and equipment	3 425
Acquisition of intangible assets	5 660
Proceeds from investments	(1 933)
Change in loans granted and placed deposits	659
Government grant received related to assets	251
Net cash flow from investing activities	8 062
<b>FINANCING ACTIVITIES</b>	
Proceeds from borrowings	(111 432)
Payments on finance lease	(484)
Repayment of borrowings	132 040
Contributions to equity of subsidiaries by non-controlling shareholders	(7 807)
Net cash flow provided by financing activities	12 317
Net increase/(decrease) in cash and cash equivalents	50 460
Effect of exchange rate changes on cash and cash equivalents	(50 460)



## 4. OPERATING SEGMENTS

The change in the organizational structure and approval of the new development strategy led to a change in the composition of the operating segments for which the results of financial and economic activities are regularly analyzed by management making operational decisions about the allocation of resources to the segment. Operational segments are formed by types of aviation, which represent separate business areas in which the functions for managing the whole life cycle of the relevant aircraft are concentrated:

- **Military aviation** – mainly, the development, testing, production and after-sales service of military combat aircraft, mainly fighters of "MiG", "Su" and combat training mark "Yak". Currently, the Group is in the process of development and testing of a heavy multi-purpose fighter of the fifth generation and the initiation of a strategic bomber missile carrier.
- **Civil aviation** – mainly, the development, testing, production and after-sales service of civil aviation of the brands "Il", "Tu" and Sukhoi Super Jet ("SSJ"). Currently, the Group is in the process of assembly and testing of the first flight models of the perspective medium-haul narrow-bodied airplane "MC-21" and the initiation of a wide-body aircraft.
- **Transport aviation** – mainly, the development, testing, production and after-sales service of transport aircraft of the brands "IL" and "AN". Currently, the Group is in the process of designing the advanced light and medium military transport aircraft and the initiation of a super heavy military transport aircraft.
- **Special aviation** – mainly development, testing, production and after-sales service of strategic and special aviation brands "A", "Tu", "Il" and "Be".

Other segments include the conduct of integrated research and testing of aviation equipment and trade in other production and technical products.

Operating segments of transport and special aviation generate less than 10% of the segment revenue. Economic characteristics, the nature of production processes and products between all segments are similar. For presentation in the consolidated financial statements, management has consolidated the operating segments into two reporting segments: **the military segment and the civil segment**.

Data on the total amount of assets and liabilities for each reportable segment are not presented to management on a regular basis. All companies of the Group operate in the Russian Federation. The distribution of resources and the evaluation of performance are analyzed by management on the basis of revenues and gross profit of the segments.

Management has not restated segment information for earlier periods for new segments and information for 2016 for the old segments, as this information is not available and the costs of obtaining it are excessively high.

Revenue and gross profit of the reportable segments for 2016:

	Military segment	Civil segment	Other segments	Total
Revenue of reportable segments	338 075	69 437	1 083	408 595
Inter-segment revenue	(12 788)	(1 179)	-	(13 967)
<b>Revenue</b>	<b>325 287</b>	<b>68 258</b>	<b>1 083</b>	<b>394 628</b>
<b>Gross profit</b>	<b>69 777</b>	<b>8 850</b>	<b>715</b>	<b>79 342</b>

Reconciliation between the revenue of the reportable segments and IFRS revenues:

	2016
Revenue of reportable segments	408 595
Adjusted:	
Elimination of inter-company operations	(13 967)
Difference in time and principles of revenue recognition	22 298
<b>IFRS revenue</b>	<b>416 926</b>

Reconciliation between the gross profit of the reportable segments and IFRS gross profit:

	2016
Gross profit of reportable segments	79 342
Adjusted for:	
Temporary differences in recognition of revenue and cost of sales	9 041
Recognition of inventories at market value and losses under onerous contracts	(10 261)
Difference in recognition of administrative expenses	11 929
Adjustments relating to recognition of property, equipment and intangible assets at fair value	1 358
Provisions accrued	(2 937)
Other	(9 835)
<b>IFRS gross profit</b>	<b>78 637</b>

In 2016 revenue from sales to the main buyer, represented by the Ministry of Defence of the Russian Federation, was 43% (2015: 47%).

The activities of the Group are governed by the Law of the Russian Federation on State Secrets, according to which information on the foreign economic activities of the Russian Federation and the cost of production of military equipment is a state secret. Access to information that is a state secret can only be provided by special state authorities to organizations and individuals with special licenses for access to classified information, and, therefore, the Group does not disclose information on revenue by the countries of origin of buyers.

## 5. REVENUE

Revenue by type of products and services:

	2016	2015
Revenue earned on aircraft construction contracts	<b>249 458</b>	206 411
Revenue on sales of aircraft components	<b>54 008</b>	28 067
Revenue earned on research and development	<b>40 655</b>	40 881
Revenue earned on modernisation and overhaul	<b>62 163</b>	63 083
Other	<b>10 642</b>	7 678
<b>TOTAL REVENUE</b>	<b>416 926</b>	346 120

The share of export revenue for 2016 by all types of products and services amounted to RUB 203 285 million (2015: RUB 98 748 million).

## 6. STAFF COSTS

Staff costs, including remuneration at the end of employment, are as follows:

	2016	2015
Wages and salaries	<b>(60 033)</b>	(52 039)
Payroll taxes	<b>(17 036)</b>	(14 643)
Expenses related to pension plans	<b>(1 127)</b>	(752)
<b>TOTAL</b>	<b>(78 196)</b>	(67 434)

## 7. OTHER INCOME AND EXPENSES

Other income of the Group:

	2016	2015
Recovery of provisions	4 435	998
Dividends received	120	46
Income on lease	240	215
Income from sale of other assets	1 675	386
Write-off of accounts payable	87	120
Compensation under insured event	38	1 770
Other income	2 252	6 050
<b>TOTAL</b>	<b>8 847</b>	<b>9 585</b>

Other expenses of the Group:

	2016	2015
Provisions accrued	(3 850)	(13 372)
Write-off and impairment of work in progress	(235)	(2 498)
Write-off and change in provision for doubtful accounts receivable	(1 008)	(3 242)
Property and other tax expense	(959)	(944)
Charity and social expenses	(1 089)	(1 155)
Loss on disposal of property, plant and equipment and intangible assets	(1 297)	(1 844)
Fines and penalties	(1 061)	(1 002)
Bank commissions	(699)	(384)
Other expenses	(4 301)	(6 359)
<b>TOTAL</b>	<b>(14 499)</b>	<b>(30 800)</b>

## 8. INTEREST INCOME AND EXPENSES

	2016	2015
Interest expense	(38 578)	(33 885)
Government grant related to compensation of interest expense	7 950	7 490
	(30 628)	(26 395)
Interest income	6 008	8 588
<b>Net interest expense</b>	<b>(24 620)</b>	<b>(17 807)</b>

Description of government grants received by the Group is disclosed in Note 24.

## 9. OTHER FINANCIAL RESULTS

	2016	2015
Net foreign exchange gain (loss)	5 289	(2 962)
Net profit on finance lease	117	155
Profit (loss) on derivative financial instruments	1 483	(14 320)
Other finance income and expense	1 450	(101)
<b>TOTAL</b>	<b>8 339</b>	<b>(17 228)</b>

Profit / (loss) on derivative financial instruments is the financial result on the currency swap for the US dollar exchange rate, which was purchased by JSC "RSK" MiG" in 2014.

Other finance income and expense include profit from the exchange of shares of JSC "Oboronprom" in the amount of RUB 923 million, as described in Note 14.

## 10. INCOME TAX

	2016	2015
Current income tax expense		
Current income tax	(675)	(4 485)
Adjustments of prior years	(60)	118
<b>TOTAL</b>	<b>(735)</b>	<b>(4 367)</b>
Deferred income tax benefit (expense)		
Origination and reversal of temporary differences	2 890	(3 018)
Change in recognized deferred tax assets	(1 558)	1 886
<b>TOTAL</b>	<b>1 332</b>	<b>(1 132)</b>
<b>TOTAL INCOME TAX BENEFIT (EXPENSE)</b>	<b>597</b>	<b>(5 499)</b>

Reconciliation between income tax expense and the result of multiplying the profit (loss) before tax by the current rate, which for companies of the Group for 2016 was 20% (2015: 20%):

	2016	2015
Loss before income tax	(5 078)	(104 447)
Income tax at the applicable tax rate	1 016	20 889
Non-deductible/ non-taxable items	1 298	(28 432)
Change in recognized deferred taxes	(107)	262
Income taxed at other rates	14	3
Unrecognised deferred tax assets	(1 556)	2 168
Foreign currency translation	(68)	(389)
<b>TOTAL INCOME TAX BENEFIT/(EXPENSE)</b>	<b>597</b>	<b>(5 499)</b>

Movement of deferred tax assets (DTA) and liabilities (DTL) during 2016:

	31 December 2015		Recognized in profit or loss	Recognized in other comprehensive income	Foreign currency translation	31 December 2016	
	DTA	DTL				DTA	DTL
Property, plant and equipment	1 682	(15 671)	(1 169)	-	2 507	119	(12 770)
Intangible assets	2 310	(9 772)	(585)	-	762	4 352	(11 637)
Investments	662	(996)	(1 810)	-	5	235	(2 374)
Inventories	13 385	(6 770)	6 967	-	(568)	14 801	(1 787)
Trade and other receivables	922	(9 100)	(1 058)	-	1 075	2 460	(10 621)
Trade and other payables	7 611	(7 018)	(3 594)	-	(483)	3 605	(7 089)
Loans and borrowings	7 383	(1 599)	(2 162)	-	(1 700)	5 613	(3 691)
Provisions	2 311	(26)	2 146	(25)	(88)	4 321	(3)
Tax loss carry-forwards	14 254	-	2 597	-	(2 759)	14 092	-
<b>TOTAL TAX ASSETS (LIABILITIES)</b>	<b>50 520</b>	<b>(50 952)</b>	<b>1 332</b>	<b>(25)</b>	<b>(1 249)</b>	<b>49 598</b>	<b>(49 972)</b>
Offset	(37 275)	37 275	-	-	-	(33 485)	33 485
Net tax assets (liabilities)	13 245	(13 677)	1 332	(25)	(1 249)	16 113	(16 487)

Movement of deferred tax assets and liabilities during 2015:

	1 January 2015		Recognized in profit or loss	Recognized in other comprehensive income	Foreign currency translation	31 December 2015	
	DTA	DTL				DTA	DTL
Property, plant and equipment	3 559	(14 803)	1 976	-	(4 721)	1 682	(15 671)
Intangible assets	4 437	(11 873)	2 435	-	(2 461)	2 310	(9 772)
Investments	529	(925)	2	-	60	662	(996)
Inventories	23 114	(14 601)	(2 004)	-	106	13 385	(6 770)
Trade and other receivables	1 694	(7 857)	(824)	-	(1 191)	922	(9 100)
Trade and other payables	10 045	(12 241)	1 821	-	968	7 611	(7 018)
Loans and borrowings	2 612	1 563	29	-	1 580	7 383	(1 599)

		1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income	Foreign currency translation	31 December 2015	
Provisions	1 548	(414)	1 134	(33)	50	2 311	(26)
Tax loss carry-forwards	16 453	-	(5 701)	-	3 502	14 254	-
<b>TOTAL TAX ASSETS (LIABILITIES)</b>	<b>63 991</b>	<b>(61 151)</b>	<b>(1 132)</b>	<b>(33)</b>	<b>(2 107)</b>	<b>50 520</b>	<b>(50 952)</b>
Offset	(51 418)	51 418	-	-	-	(37 275)	37 275
Net tax assets (liabilities)	12 573	(9 733)	(1 132)	(33)	(2 107)	13 245	(13 677)

Unrecognized deferred tax assets presented in the table below:

	2016	2015
Unrecognized deferred tax assets for temporary differences	(2 495)	(4 758)
Tax loss carry-forwards	(8 585)	(9 107)
<b>TOTAL</b>	<b>(11 080)</b>	<b>(13 865)</b>

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

A temporary difference as at 31 December 2016 of RUB 96 277 million (2015: RUB 69 096 million) relating to investments in subsidiaries has not been recognised because the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
<b>Cost</b>					
At 1 January 2015	78 856	104 561	12 892	31 484	227 793
Additions and transfers	15 017	10 756	1 233	2 206	29 212
Reclassification to PPE	-	605	736	-	1 341
Disposals	(2 207)	(5 070)	(283)	-	(7 560)
Foreign currency translation	7 582	16 928	462	1 503	26 475
<b>At 31 December 2015</b>	<b>99 248</b>	<b>127 780</b>	<b>15 040</b>	<b>35 193</b>	<b>277 261</b>
Additions and transfers	<b>2 925</b>	<b>17 743</b>	<b>806</b>	<b>5 154</b>	<b>26 628</b>
Reclassification to PPE	<b>621</b>	<b>-</b>	<b>-</b>	<b>1 327</b>	<b>1 948</b>
Disposals	<b>(809)</b>	<b>(3 466)</b>	<b>(370)</b>	<b>-</b>	<b>(4 645)</b>
Foreign currency translation	<b>(5 898)</b>	<b>(12 609)</b>	<b>(551)</b>	<b>(1 173)</b>	<b>(20 231)</b>
<b>At 31 December 2016</b>	<b>96 087</b>	<b>129 448</b>	<b>14 925</b>	<b>40 501</b>	<b>280 961</b>
<b>Depreciation</b>					
At 1 January 2015	(15 058)	(61 060)	(7 470)	-	(83 588)
Depreciation charge	(2 190)	(9 517)	(2 003)	-	(13 710)
Disposals	234	5 082	171	-	5 487
Foreign currency translation	(2 032)	(10 654)	(337)	-	(13 023)
<b>At 31 December 2015</b>	<b>(19 046)</b>	<b>(76 149)</b>	<b>(9 639)</b>	<b>-</b>	<b>(104 834)</b>
Depreciation charge	<b>(2 709)</b>	<b>(8 644)</b>	<b>(1 870)</b>	<b>-</b>	<b>(13 223)</b>
Impairment	<b>-</b>	<b>(482)</b>	<b>-</b>	<b>-</b>	<b>(482)</b>
Disposal	<b>303</b>	<b>3 301</b>	<b>135</b>	<b>-</b>	<b>3 739</b>
Foreign currency translation	<b>1 519</b>	<b>7 346</b>	<b>407</b>	<b>-</b>	<b>9 272</b>
<b>At 31 December 2016</b>	<b>(19 933)</b>	<b>(74 628)</b>	<b>(10 967)</b>	<b>-</b>	<b>(105 528)</b>
<b>Net book value</b>					
At 1 January 2015	63 798	43 501	5 422	31 484	144 205
At 31 December 2015	80 202	51 631	5 401	35 193	172 427
<b>At 31 December 2016</b>	<b>76 154</b>	<b>54 820</b>	<b>3 958</b>	<b>40 501</b>	<b>175 433</b>



**Assets in operating lease**

Plant and equipment include aircraft provided to customers under operating lease agreements. As at 31 December 2016, the net book value of these aircraft amounted to RUB 1 470 million (31 December 2015: RUB 2 467 million).

**Leased plant and equipment**

The Group leases in part of production equipment under finance lease agreements. At 31 December 2016, the net book value of equipment obtained under finance lease was RUB 12 092 million (31 December 2015: RUB 9 978 million). Finance lease liabilities are disclosed in Note 22.

**Collateral**

As at 31 December 2016, property, plant and equipment items with the carrying amount of RUB 6 615 million (31 December 2015: RUB 6 184 million) are pledged as collateral to secure loans and borrowings.

**Capitalised borrowing costs**

Additions to property, plant and equipment for 2016 include RUB 826 millions of capitalised borrowing costs (2015: RUB 929 million).

**12. INTANGIBLE ASSETS**

	Development costs	Software	Advances given for development costs	Total
<b>Cost</b>				
At 1 January 2015	114 789	5 459	932	121 180
Addition	9 488	1 207	1 445	12 140
Government grants	(493)	-	-	(493)
Disposal	(2 188)	(1 127)	(199)	(3 514)
Foreign currency translation differences	30 820	623	411	31 854
At 31 December 2015	152 416	6 162	2 589	161 167
Addition	<b>12 601</b>	<b>2 222</b>	<b>1 442</b>	<b>16 265</b>
Government grants	<b>(381)</b>	-	-	<b>(381)</b>
Disposal	<b>(1 408)</b>	<b>(794)</b>	-	<b>(2 202)</b>
Foreign currency translation differences	<b>(23 803)</b>	<b>(420)</b>	<b>(244)</b>	<b>(24 467)</b>

	Development costs	Software	Advances given for development costs	Total
At 31 December 2016	<b>139 425</b>	<b>7 170</b>	<b>3 787</b>	<b>150 382</b>
<b>Amortization and impairment</b>				
At 1 January 2015	(24 798)	(2 630)	-	(27 428)
Amortization charge	(4 061)	(1 058)	-	(5 119)
Impairment	(28 833)	-	-	(28 833)
Disposal	762	594	-	1 356
Foreign currency translation differences	(12 514)	(266)	-	(12 780)
At 31 December 2015	(69 444)	(3 360)	-	(72 804)
Amortization charge	<b>(3 911)</b>	<b>(1 267)</b>	-	<b>(5 178)</b>
Impairment	-	-	<b>(221)</b>	<b>(221)</b>
Disposal	-	<b>789</b>	-	<b>789</b>
Foreign currency translation differences	<b>11 217</b>	<b>168</b>	-	<b>11 385</b>
At 31 December 2016	(62 138)	(3 670)	(221)	(66 029)
<b>Carrying amount</b>				
At 1 January 2015	89 991	2 829	932	93 752
At 31 December 2015	82 972	2 802	2 589	88 363
At 31 December 2016	<b>77 287</b>	<b>3 500</b>	<b>3 566</b>	<b>84 353</b>

## Research and development costs

Capitalized research and development costs comprise the following programs:

	31 December 2016	31 December 2015
SSJ 100	<b>35 222</b>	39 399
MC-21	<b>18 146</b>	13 952
Yak-130	<b>9 280</b>	12 035
Other	<b>14 640</b>	17 587
<b>TOTAL</b>	<b>77 288</b>	82 973

The development of the Sukhoi Super Jet 100 and MC-21 aircraft is included in the State Program of the Russian Federation "Development of the aircraft industry for 2013-2025". Following this program, the Group receives financing from the Federal Government. Appropriate funds are received under the contract with the Ministry of Industry and Trade which is structured as a contract for development services and as direct subsidies from the budget to cover certain types of expenses.

**SSJ 100.** The Group obtained the Type Certificate for serial aircraft production and subsequently deliveries commenced to the first customers. Management concluded that development costs capitalised up to the date of the Type Certificate met the requirement of IAS 38 Intangible assets as 'available for use' which triggered commencement of amortisation of these costs based on the unit-of-production method. Management expects that certain development activities are still required to complete the development of the aircraft to ensure its operating capabilities and required aviation standards in the target markets.

**MC-21.** Production of MC-21 aircraft and provision of services to customers under certain military programs will commence in 2017, respectively. Consequently, the related intangible assets are not amortised.

**Yak-130 and other.** Research and development for Yak-130 and other projects are largely completed, and assets are considered as available for use. Amortization is charged by the write-off method in proportion to the volume of production. Management reviews these assets for signs of impairment and, if necessary, conducts impairment tests.

### Capitalised borrowing costs

Additions to development costs for the year ended 31 December 2016 include RUB 742 million of capitalised borrowing costs (2015: RUB 1 583 million).

## 13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 December 2016, the Group owned significant influence interests in JSC "Ilyushin Finance Co" ("IFC"), "SuperJet International" S.p.A ("SJI") and Multirole Transport Aircraft Ltd ("MTAL").

IFC purchases, sells and leases out civil aircraft, and organizes after-sales support, modernization and construction of aircrafts. During the periods ended 31 December 2015 and 31 December 2016 no cash contributions were made to equity of IFC.

SJI is established by the Group together with Alenia Aeronautica S.P.A (since 1 January 2016 as a result of restructuring the group "Finmeccanica"). The main activity of the company is the marketing and sales of SSJ 100 aircraft in Europe, Africa, North and South America, the development and installation of interiors for aircraft, after-sales service, training of pilots and technical services.

During 2016, the Group's contribution to SJI capital amounted to RUB 1 698 million (2015: RUB 1 934 million), without a change in ownership. The Group's share in the total aggregate income of SJI for 2016 was RUB 100 million (2015: loss of RUB 454 million). The loss from impairment of investments in the company for 2016 amounted to RUB 866 million (2015: -). At 31 December 2016 the provided loans include a loan issued by SJI in the amount of RUB 993 million (31 December 2015: -). The loan is denominated in EUR, the interest rate is 3.9% per annum, the maturity date is 25 June 2021. For more information on loans and borrowings, see Note 21.

At 31 December 2016, the Group provided a guarantee for the repayment of SJI's debt in the amount of RUB 9 029 million (31 December 2015: -). The currency of the debt is EUR. Debt should be repaid in semi-annual equal instalments by December 6, 2020. Management of the Group believes that SJI will timely repay its obligations.

The Group provided guarantees for repayment of debts on loans issued to the buyer of SSJ 100 aircraft. Guarantees come into force only if it is recognized that the reason for non-repayment of loans was the inadequate performance by SJI of obligations under the contract of sale of aircraft or corruption. At 31 December 2016, the amount of guarantees was RUB 8 310 million. The guarantee obligation is denominated in US dollars.

In 2012 the Group contributed RUB 618 million to the share capital of the newly established joint venture Multirole Transport Aircraft Ltd. (MTAL). MTS Program is being executed by MTAL under the Agreement on cooperation in the development and production of multirole transport aircraft between the Government of the Russian Federation and the Republic of India. During the periods ended 31 December 2015 and 31 December 2016, no cash contributions were made to equity of MTA Ltd.

The following is summarized financial information relating to the Group's associates for 2016:

	IFC	SJI	MTAL	Total
Ownership interest	49.53%	49.00%	48.35%	
Current assets	19 094	25 701	1 017	45 812
Non-current assets	4 870	3 622	1 496	9 988
<b>TOTAL ASSETS</b>	<b>23 964</b>	<b>29 323</b>	<b>2 513</b>	<b>55 800</b>
Current liabilities	9 290	18 343	27	27 660
Non-current liabilities	5 954	9 031	-	14 985
<b>TOTAL LIABILITIES</b>	<b>15 244</b>	<b>27 374</b>	<b>27</b>	<b>42 645</b>
Revenue	10 311	17 749	139	28 199
Expenses	(8 639)	(18 390)	(18)	(27 047)
Other comprehensive (loss)/income	(3 799)	845	-	(2 954)
Comprehensive (loss)/income for the year	(2 127)	204	121	(1 802)
Group share of (loss)/ profit	(828)	(314)	58	(1 084)

The following is summarized financial information relating to the Group's associates for 2015:

	IFC	SJI	MTAL	Total
Ownership interest	49.52%	49.00%	48.35%	
Current assets	19 094	19 516	937	39 547
Non-current assets	5 824	5 113	1 420	12 357
<b>TOTAL ASSETS</b>	<b>24 918</b>	<b>24 629</b>	<b>2 357</b>	<b>51 904</b>
Current liabilities	12 247	22 175	9	34 431
Non-current liabilities	6 546	2 360	-	8 906
<b>TOTAL LIABILITIES</b>	<b>18 793</b>	<b>24 535</b>	<b>9</b>	<b>43 337</b>
Revenue	12 027	12 461	123	24 611
Expenses	(10 886)	(13 081)	(54)	(24 021)
Other comprehensive loss	(2 468)	(306)	-	(2 774)
Comprehensive (loss)/income for the year	(1 327)	(926)	69	(2 184)
Group share of (loss)/ profit	(666)	(304)	34	(936)

Below is a summary of movements in the investments in associates and joint ventures:

	IFC	SJI	MTAL	Total
At 1 January 2015	5 786	-	617	6 403
Group's share of (loss)/ profit	(666)	(304)	34	(936)
Group's share in comprehensive expense	-	(150)	-	(150)
Liabilities to an associate	-	(1 345)	-	(1 345)
Investments in equity	-	1 934	-	1 934
Foreign currency translation differences	-	(89)	-	(89)
At 31 December 2015	5 120	46	651	5 817
Group's share of (loss)/ profit	<b>(828)</b>	<b>(314)</b>	<b>58</b>	<b>(1 084)</b>
Group's share in comprehensive income	<b>25</b>	<b>414</b>		<b>439</b>
Investments in equity	-	<b>1 698</b>	-	<b>1 698</b>
Impairment	-	<b>(866)</b>	-	<b>(866)</b>
Foreign currency translation differences	-	<b>(23)</b>	<b>(25)</b>	<b>(48)</b>
At 31 December 2016	<b>4 317</b>	<b>955</b>	<b>684</b>	<b>5 956</b>

## 14. OTHER INVESTMENTS

	31 December 2016	31 December 2015
Non-current		
Available-for-sale investments	<b>913</b>	5 003
Loans given	<b>1 290</b>	309
Other non-current financial assets	<b>25</b>	-
<b>TOTAL</b>	<b>2 228</b>	5 312
Current		
Available-for-sale investments	<b>1 043</b>	11
Deposits	<b>147</b>	91
Loans given	<b>1 690</b>	145
<b>TOTAL</b>	<b>2 880</b>	247

In 2016, the Group exchanged its shareholding in JSC "OPK "Oboronprom" recognised in investments available for sale in the amount of RUB 5 354 million for the shareholding in PJSC "Sukhoi" valued at RUB 1 540 million and the right to receive a fixed number of shares of JSC "United Engine Corporation" for the issue in the process of registration valued at RUB 3 814 million. The package of shares of JSC "United Engine Corporation" in the amount of RUB 3 814 million was received on 28 March 2017. The income from this exchange of RUB 923 million is reflected in other finance income and costs disclosed in Note 9.

The remaining investments available for sale are represented by unlisted securities of the aviation and military industries. For these securities there is no active market, as well as there were no transactions in the recent past, so their fair value can't be reliably estimated. In the opinion of management, at the balance sheet date, the likelihood of a material difference between their fair value and the carrying amount is not significant.

## 15. INVENTORIES

The Group's inventories are mainly represented by work in progress, raw materials and supplies, and finished products and goods for sale

	31 December 2016	31 December 2015
Raw materials and supplies	42 043	30 882
Aircraft components	73 051	59 645
Finished products and goods for sale	5 036	6 251
Provision for write-off to net realizable value	(4 769)	(3 597)
	115 361	93 181
Work in progress	71 586	72 197
Provision for write-off of work in progress	(6 991)	(7 910)
<b>TOTAL</b>	<b>179 956</b>	<b>157 468</b>

## 16. TRADE AND OTHER RECEIVABLES

Non-current receivables of the Group are as follows:

	31 December 2016	31 December 2015
Non-current		
Advances to suppliers	4 606	4 025
Other receivables	1 583	1 472
Impairment of other receivables	-	(100)
<b>TOTAL NON-CURRENT RECEIVABLES</b>	<b>6 189</b>	<b>5 397</b>

Current receivables of the Group are as follows:

	31 December 2016	31 December 2015
Current		
Accrued debt on construction contracts	18 230	19 346
Trade receivables	131 220	96 074
Impairment of trade receivables	(5 900)	(7 242)
<b>TOTAL TRADE RECEIVABLES</b>	<b>143 550</b>	<b>108 178</b>
VAT recoverable	37 645	27 048
Advances to suppliers	90 501	90 481
Other advances	45 702	31 301
Amounts due from tax authorities	457	2 195
Other receivables	4 982	25 201
Impairment of other receivables	(4 683)	(5 517)
<b>TOTAL CURRENT RECEIVABLES</b>	<b>318 154</b>	<b>278 887</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in Note 26.

As part of the Russian Federation's implementation of the state armaments development program for 2011-2020, the companies of the Group concluded long-term contracts with the Ministry of Defence providing for the production and supply of military equipment. Under the terms of these treaties, a significant part of the Defence Ministry's liabilities are paid with a deferral, which is why contracts are concluded with state-controlled banks to provide credit lines secured by the guarantees of the Ministry of Finance.

Settlements on such lines of credit are automatically made, as the funds are transferred by the Ministry of Defence under construction contracts, and not at the discretion of the Group. Therefore, these loans are not financial liabilities; they are offset with the receivables of the Ministry of Defence. The amount of the offsetting at 31 December 2016 was RUB 49 526 million (31 December 2015: RUB 65 323 million).

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Bank balances, RUB	<b>135 310</b>	71 947
Bank balances in foreign currency	<b>23 158</b>	66 138
Deposits	<b>10 166</b>	16 698
Letters of credit	<b>4 000</b>	102
Other cash and cash equivalents	<b>99</b>	360
<b>TOTAL</b>	<b>172 733</b>	155 245

As at 31 December 2016, part of cash and cash equivalents in the amount RUB 79 944 million (31 December 2015: RUB 42 185 million) has a restriction on use within the framework of the Government defence order. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

## 18. NON-CURRENT ASSETS HELD FOR SALE

Management of the Group annually approves the register of the program for the sale of non-core assets with a list of non-core assets of the Group companies subject for sale. Management reviews these assets for signs of impairment and, if necessary, conducts impairment tests. At 31 December 2016, assets held for sale amounted to RUB 1 294 million (31 December 2015: RUB 1 158 million), which mainly consist of buildings and land.

## 19. EQUITY

### Share capital and additional paid in capital

	Ordinary shares	
	31 December 2016	31 December 2015
Shares authorized for issue at the beginning of the reporting period	<b>455 863 749 128</b>	319 654 789 158
Par value at 1 January, RUB	<b>0.86</b>	0.86
In circulation at the beginning of the reporting period	<b>360 059 133 965</b>	233 975 842 153
Issued shares	<b>31 533 047 975</b>	126 083 291 812
Total issued shares in circulation at the end of the reporting period	<b>391 592 181 940</b>	360 059 133 965

As at 31 December 2016, share capital amounted to RUB 310 891 (31 December 2015: RUB 202 843 million) and additional paid in capital amounted to RUB 4 566 million (31 December 2015: RUB 4 566 million).

As at 31 December 2016, the authorized and paid-in share capital comprised 391 592 181 940 shares with a par value of RUB 0.86. There were 59 528 212 490 shares authorized for issue with a par value of RUB 0.86.



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SUPPLEMENTS

### Prepaid shares reserve

Prepaid shares represent cash and property contributions related to additional share issue not yet registered at the end of the reporting period. As at 31 December 2016, prepaid shares amounted to RUB 42 608 million (31 December 2015: RUB 114 220 million).

The Group classifies loans in the amount of RUB 8 990 million attracted for the purpose of fulfilment of the federal target program as prepaid shares due to the fact that these loans will be repaid through transfer into ownership of the Russian Federation of the parent company share package.

### Treasury shares

Treasury shares comprise the cost of the Company's shares held by the Group companies. As at 31 December 2016 and 31 December 2015, the Group held 309 940 889 treasury shares equal to RUB 267 million.

### Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group companies with a functional currency other than the Russian Ruble. As at 31 December 2016, translation reserve equals RUB 20 343 million (31 December 2015: RUB 51 304 million).

### Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the financial statements of the Company prepared in accordance with the laws of the Russian Federation and Russian Accounting Principles. At 31 December 2016, the Company had an accumulated loss amounting to RUB 7 231 million (31 December 2015: accumulated loss of RUB 4 070 million).

Before these consolidated financial statements were authorised for issue, no decision had been made with regard to dividend payment for 2016.

### Shareholders' contributions to equity of the Company

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the financial statements of the Company prepared in accordance with the laws of the Russian Federation and Russian Accounting Principles. At 31 December 2016, the Company had an accumulated loss amounting to RUB 7 231 million (31 December 2015: accumulated loss of RUB 4 070 million).

Before these consolidated financial statements were authorised for issue, no decision had been made with regard to dividend payment for 2016.

Shareholders' contributions to equity of the Company

In September 2016, the Russian Federation transferred a state-owned block of 58 944 307 shares of JSC "RSK "MiG" or 50.28% of the share capital as payment for the additional issue of the Company in the amount of RUB 6 787 000 000.

In September 2016, the Russian Federation transferred a state-owned block of 836 853 263 shares of PJSC "Tupolev" or 2.85% of the share capital as payment for the additional issue of the Company in the amount of RUB 428 000 000.

In September 2016, the Russian Federation transferred a state-owned block of 786 520 shares of JSC "LII. Gromov Flight Research Institute " or 4.74% of the share capital as a payment for the additional issue of the Company in the amount of RUB 187 120 973.

In October 2016, the Russian Federation transferred a state-owned block of 3 979 045 shares of PJSC "Company Sukhoi" or 5.04% of the share capital as payment for the additional issue of the Company in the amount of RUB 10 698 000 000.

In November 2016, the Russian Federation transferred a state-owned block of 2 054 880 shares of JSC "LII. Gromov Flight Research Institute " or 12.38% of the share capital as payment for the additional issue of the Company in the amount of RUB 488 879 027.

These contributions significantly influenced the change in non-controlling interests. The difference between the amount of adjustment of non-controlling interests and the fair value of compensation was recognized directly in equity and attributed to the owners of the Company.

### Material non-controlling interest

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest (NCI):

			2016	2015
PJSC "Company Sukhoi"	("Sukhoi")	Russia	<b>17.97%</b>	23.97%
JSC "Sukhoi Civil Aircraft"	("SCA")	Russia	<b>17.97%</b>	28.17%
PJSC "Corporation Irkut"	("Irkut")	Russia	<b>6.13%</b>	6.69%

Presented financial information is the amount before exclusion of operations between the Group companies.

Summarized statement of financial position as at 31 December 2016:

	"Sukhoi"	"SCA"	"Irkut"
Non-current assets	<b>52 745</b>	<b>64 344</b>	<b>83 253</b>
Current assets	<b>162 943</b>	<b>72 858</b>	<b>176 715</b>
Long-term liabilities	<b>(72 622)</b>	<b>(16 366)</b>	<b>(118 595)</b>
Short-term liabilities	<b>(118 682)</b>	<b>(49 973)</b>	<b>(78 369)</b>



Net assets	<b>24 384</b>	<b>70 863</b>	<b>63 004</b>
Attributable to:			
owners of the Company	<b>20 002</b>	<b>58 130</b>	<b>59 143</b>
non-controlling interest	<b>4 382</b>	<b>12 733</b>	<b>3 861</b>

Net assets attributable to non-controlling interests in the total amount of RUB 1 912 million belong to other companies of the Group with an insignificant share of non-controlling shareholders.

Summarized statement of financial position as at 31 December 2015:

	"Sukhoi"	"SCA"	"Irkut"
Non-current assets	136 143	72 451	90 226
Current assets	132 347	90 402	135 416
Long-term liabilities	(52 699)	(106 236)	(84 012)
Short-term liabilities	(102 968)	(53 589)	(68 777)
Net assets	112 823	3 028	72 853
Attributable to:			
owners of the Company	85 782	2 205	67 976
non-controlling interest	27 041	823	4 877

Summarized comprehensive income for 2016:

	"Sukhoi"	"SCA"	"Irkut"
Revenue	<b>108 977</b>	<b>48 724</b>	<b>107 643</b>
Profit (loss) for the period	<b>7 932</b>	<b>(31 842)</b>	<b>1 350</b>
Other comprehensive income (expense)	<b>489</b>	<b>(3 217)</b>	<b>(8 878)</b>
Comprehensive income (expense)	<b>8 421</b>	<b>(35 059)</b>	<b>(7 528)</b>

Attributable to:			
owners of the Company	<b>6 555</b>	<b>(25 905)</b>	<b>(7 036)</b>
non-controlling interest	<b>1 866</b>	<b>(9 154)</b>	<b>(492)</b>
Dividends paid to non-controlling interests	<b>324</b>	<b>-</b>	<b>38</b>

The comprehensive income attributable to non-controlling interests in the total amount of RUB 3 174 million belongs to other companies of the Group with an insignificant participation of non-controlling shareholders, including JSC "RSK "MiG", in which the Company owners' share was 43.36% up to September 2016.

Summarized comprehensive income for 2015:

	"Sukhoi"	"SCA"	"Irkut"
Revenue	<b>104 311</b>	<b>34 482</b>	<b>84 484</b>
Loss for the period	<b>(6 551)</b>	<b>(23 362)</b>	<b>(2 383)</b>
Other comprehensive (expense)/income	<b>(108)</b>	<b>13 787</b>	<b>11 982</b>
Comprehensive (expense)/income	<b>(6 659)</b>	<b>(9 575)</b>	<b>9 559</b>
Attributable to:			
owners of the Company	<b>(4 320)</b>	<b>(5 866)</b>	<b>8 812</b>
non-controlling interest	<b>(2 339)</b>	<b>(3 709)</b>	<b>747</b>
Dividends paid to non-controlling interests	<b>-</b>	<b>-</b>	<b>-</b>

Summarized cash flows for 2016:

	"Sukhoi"	"SCA"	"Irkut"
Operating activities	<b>(19 625)</b>	<b>(19 329)</b>	<b>(17 175)</b>
Investing activities	<b>(9 125)</b>	<b>(3 514)</b>	<b>(6 706)</b>
Financing activities	<b>16 557</b>	<b>16 459</b>	<b>61 556</b>

Summarized cash flows for 2015:

	"Sukhoi"	"SCA"	"Irkut"
Operating activities	(2 713)	(13 216)	(9 942)
Investing activities	(14 303)	(2 614)	(2 363)
Financing activities	42 213	27 150	7 367

## 20. LOSS PER SHARE

The calculation of basic loss per share for 2016 is based on the loss attributable to ordinary shareholders of RUB 2 497 million (2015: RUB 82 362 million), and the weighted average number of 366 818 417 110 outstanding ordinary shares (2015: 285 213 363 367 shares).

Thousands of shares	31 December 2016	31 December 2015
Issued shares at 1 January	360 059 133 965	233 975 842 153
Effect of treasury shares	(309 940 889)	(309 940 889)
Effect of issued shares	7 069 224 034	51 547 462 103
Weighted average number of shares for the period	366 818 417 110	285 213 363 367

## 21. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortized cost.

Long-term loans and borrowings

	31 December 2016	31 December 2015
Non-current liabilities		
Secured bank loans	64 101	65 556
Unsecured bank loans	107 694	74 657
Secured bonds issued	46 280	46 634
Unsecured bonds issued	5 052	8 097

<b>TOTAL</b>	<b>223 127</b>	194 944
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Short-term loans and borrowings

	31 December 2016	31 December 2015
Current liabilities		
Secured bank loans	35 040	21 580
Unsecured bank loans	105 200	80 368
Unsecured borrowings	2 024	2 705
Secured bonds issued	1 187	3 407
Unsecured bonds issued	3 425	17
<b>TOTAL</b>	<b>146 876</b>	108 077

Detailed information on the Group's exposure to interest rate and currency risks, as well as liquidity risk, is disclosed in Note 26.

Analysis of loans and borrowings by currencies and interest rates:

	Interest rate	31 December 2016	31 December 2015
RUB	10% - 17%	275 134	205 655
USD	4% - 12%	72 218	76 490
EUR	7% - 12%	22 651	19 898
GBP	9% - 11%	-	978
<b>TOTAL</b>		<b>370 003</b>	303 021

Analysis of long-term loans and borrowings by maturity:

	31 December 2016	31 December 2015
From one year to two years	77 545	46 657
From two to five years	58 216	68 359
Over five years	87 366	79 928
<b>TOTAL</b>	<b>223 127</b>	194 944

### Security

As at 31 December 2016, the Group loans are secured with property, plant and equipment with a carrying amount of RUB 6 615 million (31 December 2015: RUB 6 184 million).

Also, loans are collateralized by rights to receive future revenues from export sales of the Group companies.

### Non-convertible interest-bearing bonds

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

### Covenants compliance

Secured bank loans have a number of restrictions (covenants), some of which are not complied with as at 31 December 2016 and 31 December 2015. Management of the Group does not expect the outflow of assets due to non-fulfilment of the terms of contracts, but recognizes the outstanding amount of RUB 4 000 million for long-term loans as at 31 December 2016 and 31 December 2015 as a short-term loan.

## 22. FINANCE LEASE LIABILITIES

Finance lease liabilities as at 31 December 2016 are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	3 375	1 578	1 797
Between one and five years	14 865	5 052	9 813
<b>TOTAL</b>	<b>18 240</b>	<b>6 630</b>	<b>11 610</b>

Finance lease liabilities as at 31 December 2015 are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2 638	1 655	983
Between one and five years	12 631	7 679	4 952
<b>TOTAL</b>	<b>15 269</b>	<b>9 334</b>	<b>5 935</b>

Finance lease liabilities are secured by leased assets.

## 23. TRADE AND OTHER PAYABLES

Non-current liabilities of the Group:

	31 December 2016	31 December 2015
Advances from customers related to construction contracts	25 681	40 688
Other advances from customers	23 742	2 378
Trade payables	1 996	302
Other payables	339	958
<b>TOTAL</b>	<b>51 758</b>	<b>44 326</b>

Current liabilities of the Group:

	31 December 2016	31 December 2015
Advances from customers, related to construction contracts	70 021	30 777
Other advances from customers	138 702	157 804
Trade payables	84 466	68 484
Other payables	21 123	30 321
Settlements with employees	8 106	7 817
VAT payable	6 813	4 728
Other taxes payable	4 251	4 617
<b>Total</b>	<b>333 482</b>	<b>304 548</b>

The Group's exposure to currency risk and liquidity risk associated with trade and other payables is disclosed in Note 26.

## 24. GOVERNMENT GRANTS

The Government support of the Group companies is provided within the framework of the state programs of the Russian Federation "Development of the aviation industry for 2013-2025" and "Development of the military-industrial complex". The Government pays for research and development work for the creation of aircraft "MC-21", SSJ 100 and wide-body long-range aircraft.

The government also subsidizes interest on loans received for technical retooling, the implementation of innovative and investment projects on release of hi-tech products, implementation of projects within the framework of the Government defence order and Federal Target Program "Development of the military-industrial complex for 2011 - 2020", export of industrial products for military purposes to leasing companies for purchase of aircraft, as well as lease payments for technological equipment.

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

	2016	2015
Government grants related to assets	499	485
Government grants related to compensation of interest expense	7 950	7 490
Other government grants related to income	4 002	242
<b>TOTAL</b>	<b>12 451</b>	<b>8 217</b>

## 25. EMPLOYEE BENEFITS

	2016	2015
Fair value of plan assets	1 332	1 083
Present value of obligations	(6 232)	(4 934)
Deficit in the plan	(4 900)	(3 851)
<b>TOTAL EMPLOYEE BENEFIT LIABILITIES</b>	<b>(4 900)</b>	<b>(3 851)</b>

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

Movements in the present value of the defined benefit obligations:

	2016	2015
Defined benefit obligations at 1 January	(4 934)	(4 463)
Current service cost	(1 086)	(330)
Cost of past services	(144)	-
Benefits paid	207	389
Actuarial gain (loss)	112	(77)
Interest cost	(404)	(396)
Foreign currency translation	17	(57)
Defined benefit obligations at 31 December	(6 232)	(4 934)

Short-term employee benefit obligations amount to RUB 417 million (31 December 2015: RUB 571 million).

Movements in the present value of the defined benefit plan assets:

	2016	2015
Fair value of plan assets at 1 January	1 083	790
Expected return on the plan's assets	114	88
Benefits paid by the plan	(131)	(139)
Contributions paid into the plan	342	433
Actuarial loss	(76)	(89)
Fair value of plan assets at 31 December	1 332	1 083

Plan assets comprise low-risk income-earning financial instruments.

The following expenses are recognized in the consolidated statement of profit or loss:

	2016	2015
Current service cost	<b>(1 085)</b>	(331)
Expected return on plan's assets	<b>113</b>	89
Interest expense	<b>(404)</b>	(396)
Total recognised in profit or loss	<b>(1 376)</b>	(638)
Actuarial gains and losses recognised in the statement of comprehensive income	<b>(2)</b>	(182)
<b>TOTAL</b>	<b>(1 378)</b>	(820)

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

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

	2016	2015
Discount rate	8.5%	9.6%
Expected rate of return on plan assets	8.2%	8.2%
Future pension and salary increases	4.7%	5.6%
Average life expectancy of members from the date of retirement:		
Male	15 years	15 years
Female	21 years	21 years

## 26. FINANCIAL RISKS MANAGEMENT

The Group is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

The Group's Board of Directors is responsible for approving the risk management policies and oversees their implementation. The Executive Board, a Group operational management body, and the Group President are responsible for developing and monitoring the Group's risk management policies. The Executive Board and President report regularly to the Board of Directors on its activities.

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

### 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.

The main customers of the Group are the Government of the Russian Federation and governments of other countries. The Group's exposure to credit risk is influenced mainly by the economic and political situation in the Russian Federation and these countries. The Group monitors closely 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 credits. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Credit evaluations are performed on all customers requiring credit over a certain amount.

As at 31 December 2016 and 31 December 2015, the Group did not have any contractual commitments to extend financial guarantees, credit and other assistance.

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

	31 December 2016	31 December 2015
Finance lease receivables	2 094	2 569
Loans given	2 980	454
Deposits	147	91
Trade receivables	125 320	88 832
Accrued debt on construction contracts	18 230	19 346
Other receivables	1 882	21 056
Cash and cash equivalents	172 733	155 245
<b>Total</b>	<b>323 386</b>	<b>287 593</b>

The ageing of trade receivables at the reporting date was as follows:

	2016		2015	
	Carrying amount	Impairment	Carrying amount	Impairment
Not past due	125 637	(411)	89 317	(482)
Less than one year past due	132	(36)	604	(603)
Past due more than one year	5 451	(5 451)	6 153	(6 150)
<b>TOTAL</b>	<b>131 220</b>	<b>(5 898)</b>	<b>96 074</b>	<b>(7 235)</b>

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

	2016	2015
Balance as at 1 January	(7 235)	(6 011)
Recovery (write-off) of provision for impairment	143	(175)
Foreign currency translation	1 194	(1 049)
Balance as at 31 December	(5 898)	(7 235)

The provision of impairment of receivables and held-to-maturity investments is made when the Group is certain that no recovery of the amount owed is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2016 and at 31 December 2015, the Group does not have any collective impairment provision on its receivables or its held-to-maturity investments.

## 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting at 31 December 2016:

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Loans and borrowings	370 003	446 932	173 467	229 343	44 122
Finance lease liabilities	11 610	18 340	3 351	10 958	4 031
Other payables	27	146	119	10	17
Trade and other payables	107 924	107 565	105 589	1 976	-
<b>TOTAL</b>	<b>489 564</b>	<b>572 983</b>	<b>282 526</b>	<b>242 287</b>	<b>48 170</b>

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting at 31 December 2015:

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Loans and borrowings	303 020	411 704	145 201	229 886	36 617
Finance lease liabilities	5 935	17 270	3 040	10 118	4 112
Other payables	490	490	429	40	21
Trade and other payables	106 230	105 987	103 367	2 620	-
<b>TOTAL</b>	<b>415 675</b>	<b>535 451</b>	<b>252 037</b>	<b>242 664</b>	<b>40 750</b>

## 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 control market risk exposures and hold them within acceptable parameters.

The Group assumes financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

**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, and those risks that arise 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 in order to prevent financial losses and damage to the Group's reputation, exercising cost-effective approach and avoiding 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 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.

**Currency risk.** The Group is exposed to currency risk on sales, purchases and borrowings that are denominated primarily in US Dollars (USD) and Euro (EUR), currencies other than the respective functional currency of Group entities.

Interest on borrowings is denominated in currencies of the respective loan, that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUB and EUR. This provides an economic hedge.

In 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.

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, primarily the Rubles (RUB), but also

U.S. Dollars (USD), which is the functional currency of the Group's subsidiary PJSC "Irkut Corporation" and JSC "Sukhoi Civil Aircraft". The currencies in which these transactions primarily are dominated are USD, EUR and RUB.

Balances in a currency other than the functional currency of the Group at 31 December 2016:

	USD	EUR	RUB
Cash and cash equivalents	21 273	2 414	44 242
Trade receivables	71 910	5 827	13 613
Loans and borrowings	(70 333)	(23 645)	(68 555)
Finance lease liabilities	(287)	(4)	(11 251)
Trade and other payables	(30 148)	(3 418)	(17 525)
<b>Gross exposure</b>	<b>(7 585)</b>	<b>(18 826)</b>	<b>(39 476)</b>

Balances in a currency other than the functional currency of the Group at 31 December 2015:

	USD	EUR	RUB
Cash and cash equivalents	31 526	1 833	28 375
Trade receivables	64 647	1 658	26 285
Loans and borrowings	(72 498)	(19 897)	(31 477)
Finance lease liabilities	(5 565)	(35)	(62)
Trade and other payables	(28 975)	(3 136)	(13 019)
<b>Gross exposure</b>	<b>(10 865)</b>	<b>(19 577)</b>	<b>10 102</b>

The following significant exchange rates were applied during the year:

	Average rate		Rate at year-end	
	2016	2015	2016	2015
USD	<b>67.0349</b>	60.9574	<b>60.6669</b>	72.8827
EUR	<b>74.2310</b>	67.7725	<b>63.8111</b>	79.6972

#### Sensitivity analysis

A 10% strengthening (weakening) of RUB against the USD at the reporting date would have increased (decreased) net profit for the year by RUB 606 million (2015: RUB 869 million).

A 10% strengthening (weakening) of RUB against the EUR at the reporting date would have increased (decreased) net profit for the year by RUB 1 506 million (2015: RUB 1 566 million).

**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.

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

	2016	2015
<b>Fixed rate instruments</b>		
Financial assets	<b>15 846</b>	22 156
Financial liabilities	<b>(372 065)</b>	(295 238)
	<b>(356 219)</b>	(273 082)
<b>Variable rate instruments</b>		
Financial liabilities	<b>(7 013)</b>	(14 206)

#### Cash flow sensitivity analysis for variable rate instruments

An increase in interest rates by one percentage point at the reporting date for 2016 would have increased loss for the year by RUB 6 million (2015: RUB 11 million). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 27. CAPITAL MANAGEMENT

The Group's objectives in equity management are to ensure the principle of business continuity, ensure an acceptable level of profitability for shareholders, respect the interests of other interested parties, and maintain an optimal capital structure that reduces capital costs. To maintain or adjust the equity structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The management policy is to maintain a strong initial equity in order to keep investors, creditors, stay on the market and support the development of business in the future. Management controls the return on equity. Management seeks to maintain a balance between higher returns, which are possible with a higher level of borrowing, and those benefits and security that give a stable position of capital.

For the Group, the net debt to equity ratio as at the end of the reporting year was as follows:

	2016	2015
Debt obligations	<b>370 003</b>	303 021
Less: cash and cash equivalents	<b>(172 733)</b>	(155 245)
<b>Net debt</b>	<b>197 270</b>	147 776
Equity	<b>154 789</b>	176 968
Net debt to equity ratio	<b>1.27</b>	0.84

During 2016, the Group's approach to the issue of capital management has not changed.

## 28. PROVISIONS

Movement of provisions for 2016:

	Warranty	Onerous and loss-making contracts	Claims	Provision for development and service	Other	Total
Long-term provisions at 1 January	-	<b>8 127</b>	<b>7 249</b>	-	-	<b>15 376</b>
Short-term provisions at 1 January	<b>3 049</b>	<b>4 579</b>	<b>5 468</b>	<b>2 070</b>	<b>3 609</b>	<b>18 775</b>



	Warranty	Onerous and loss-making contracts	Claims	Provision for development and service	Other	Total
Provisions made during the period	5 172	1 941	3 812	344	3 591	14 860
Provisions used during the period	(2 141)	(838)	(87)	(363)	(3 639)	(7 068)
Provisions reversed during the period	(280)	(352)	(405)	(74)	-	(1 111)
Foreign currency translation differences	(434)	-	-	-	-	(434)
Long-term provisions at 31 January	1 153	5 669	3 514	-	633	10 969
Short-term provisions at 31 January	4 213	7 788	12 523	1 977	2 928	29 429

Movement in provisions for 2015:

	Warranty	Onerous and loss-making contracts	Claims	Provision for development and service	Other	Total
Short-term provisions at 1 January	1 897	579	425	1 744	3 679	8 324
Provisions made during the period	5 803	12 706	12 923	2 326	214	33 972
Provisions used during the period	(4 714)	-	(380)	(1 101)	(284)	(6 479)
Provisions reversed during the period	(87)	(627)	(251)	(899)	-	(1 864)
Foreign currency translation differences	150	48	-	-	-	198

	Warranty	Onerous and loss-making contracts	Claims	Provision for development and service	Other	Total
Long-term provisions at 31 January	-	8 127	7 249	-	-	15 376
Short-term provisions at 31 January	3 049	4 579	5 468	2 070	3 609	18 775

#### Warranty

The Group provides product warranties on certain products it manufactures. Generally, aircraft sales are accompanied by a twelve to twenty four 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 multiplied by the expected monthly warranty payments, as well as additional amounts, if necessary, for certain major warranty issues that exceed a normal claims level.

#### Onerous contracts

The provision for onerous and loss-making contracts is recognized when the Group's expected revenues under the contract are lower than the inevitable costs to be incurred in order to fulfil obligations under the contract. The provision is measured as the present value of the lower of the amounts: the expected costs of termination of the contract (the claim by the contractor in the form of fines and penalties), and the expected net cost of continuing with the obligations of the contract.

The provision for loss-making contracts is recognized if it is probable that the aggregate costs will exceed the total revenues under long-term contracts. The expected loss is recognized by the Group as an expense in the period when such a probability appeared.

#### Claims

Claims include provisions for legal and tax claims. A provision for legal claims is recognized when the Group acts as a defendant in a court of law and, in the opinion of the lawyers, the probability of payments to the plaintiff is high, except for cases when the amount of such payments can't be reliably estimated. A provision for legal claims is estimated as the amount of probable payments and is recognized as an expense of the reporting period. The same approach is used to assess and reflect claims of tax authorities.

In case of violation of the established deadline for all work or the timing of completion of the stages, the customers, in accordance with the terms of the contracts, have the right to demand payment of a penalty. As the practice shows, customers usually enjoy this right, therefore, the Group makes provisions for fines and penalties for late fulfilment of contracts, disclosing them as part of claims provisions.

#### Other

The other provisions include provisions for supply of flight crews, training, and guarantees of the net book value of aircraft.



ABOUT THE CORPORATION



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SUPPLEMENTS

## 29. FAIR VALUES

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 inputs: quoted (unadjusted) prices in active markets for identical assets or liabilities available to the entity;
- Level 2 inputs: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs: unobservable inputs for the asset or liability.

In accordance with the Company estimates the fair value of financial assets and liabilities does not materially differ from their carrying amounts. For receivables and payables with a remaining useful life of less than one year their notional amount is deemed to reflect their fair value. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows.

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

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

Financial instruments not measured at fair value with a different carrying amount and fair value at 31 December 2016:

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Other investments	1 042	1 042	-	-	1 042
Loans and borrowings	(370 003)	(55 944)	(314 059)	-	(370 003)

Financial instruments not measured at fair value with a different carrying amount and fair value at 31 December 2016:

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Loans and borrowings	(303 021)	(58 155)	(244 866)	-	(303 021)

## 30. OPERATING LEASE

The Group companies lease-in property, plant and equipment for their operations on the terms of operating leases. Below is the analysis of the amounts due by the terms of future lease payments:

	2016	2015
Less than one year	808	529
Between one and five years	1 627	2 166
More than five years	26 325	32 646
<b>TOTAL</b>	<b>28 760</b>	<b>35 341</b>

## 31. CONTINGENCIES

### Insurance

The insurance industry in the Russian Federation is in a development stage and many forms of insurance protection common for developed countries 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 its 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.

### Litigation

Except for the information disclosed in the consolidated financial statements, the Group does not have significant claims relating to its primary business. Management believes that none of these claims, individually or collectively, will have a material adverse effect on the Group's operations.



### Taxation

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, seeking to identify cases of unjustified tax benefits.

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.

### Environmental contingencies

Governmental authorities are continually considering environmental regulations and their enforcement and the Group regularly evaluates its obligations related thereto. As obligations are determined, they are recognized in accounting. 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 material effect on the financial position or the operating results of the Group.

### Net book value guarantee

Certain contracts for aircraft delivery include the obligation of the residual value guarantee, whereby the Group is obliged to repurchase the aircraft at a specific date after its delivery for a predetermined value at the customer's request. According to the management assessment, the guarantees provided do not bear significant financial risks at the reporting date.

The following factors contribute to this assessment:

- the estimated cost of the aircraft at the guarantee exercise date significantly exceeds the guaranteed residual value (GRV);
- the exercise dates of the outstanding asset value guarantees fall on the 10th anniversary after aircraft delivery which represents at least half of average aircraft useful life;
- the substantial portion of maintenance costs required to keep the aircraft in the adequate airworthiness condition is borne by the customers.

### Capital-related commitments

As at 31 December 2016, the Group is committed to capital expenditure involving purchase and construction of PPE in the amount of RUB 25 733 million (2015: RUB 41 923 million).

## 32. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one of them has the ability to control the other, is under common control, or may exercise significant influence in making other financial or operational decisions by the other party.

The Government of the Russian Federation in the person of the Federal Agency for State Property Management is the ultimate controlling party of the Group. Related parties also include key management and their close relatives, as well as subsidiaries and associates of the Group.

Transactions with associates are disclosed in Note 13.

### Transactions with government related entities

The Group operates in an industry controlled by organizations directly or indirectly controlled by the Russian Federation through government, agencies, affiliated and other organizations (hereinafter referred to as "state-owned companies"). The Group conducts transactions with such organizations, including the sale and purchase of goods, materials, the provision and consumption of services, the lease of assets, deposit placement and borrowing.

The Group established a unified policy of procurement and approval of transactions for the purchase of products and services, regardless of whether the counterparty has a share of state participation or not. The main activity of the Group is the construction of military and civil aircraft and research and development works under contracts with the Ministry of Defence of the Russian Federation and foreign governments. The specifics and conditions of contractual agreements with state-owned companies may depend on various factors, such as the complexity of work performance and the volume of output, the possibility of state budget financing and the availability of other government tasks. The Group's management controls the size, timing and other factors of the contractual arrangements in order to determine whether this will lead to a specific transaction that can be qualified as significant in aggregate.

By the end of 2016, the Group's management estimated that the Group's aggregate volume of significant transactions with state-owned companies was 66% (2015: 93%) of total revenues, 43% (2015: 29%) of purchased materials, equipment and services, and 77% of the total number of loans (2015: 64%).

Cash balances with banks with a controlling interest of government at 31 December 2016 amounted to RUB 159 359 million (31 December 2015: RUB 148 818 million), of which RUB 78 115 million (31 December 2015: RUB 40 460 million) has a restriction on the use under state defence orders and federal target programs. The balance of accounts receivable and payable regarding settlements with organizations under state control at 31 December 2016 amounted to RUB 35 736 million and RUB 203 179 million, accordingly.

During 2016 the Group received government guarantees from the Russian Federation in accordance with the current resolutions of the Government of the Russian Federation in the amount of RUB 2 055 million (2015: RUB 10 219 million).

### Key management personnel compensation

The Company refers its president, vice-presidents and members of the Management Board to the key management personnel. Compensations to key management personnel, including social contributions to the extra-budgetary funds, amounted to RUB 217 million in 2016 (2015: RUB 124 million) and are included in staff costs disclosed in Note 6. The increase is related to payments, when the employment contract is terminated upon the change of key management personnel associated with the introduction of a new organizational structure that occurred in 2016 (Note 1).

### 33. SIGNIFICANT SUBSIDIARIES

The list of significant subsidiaries as at 31 December 2016 and 31 December 2015 is presented below:

	Effective ownership	
	31 December 2016	31 December 2015
PJSC "Company Sukhoi"	<b>82.03%</b>	76.03%
JSC "RSK "MiG"	<b>100.00%</b>	43.36%
PJSC "Irkut Corporation"	<b>93.87%</b>	93.31%
JSC "Sukhoi Civil Aircraft"	<b>82.03%</b>	71.83%
JSC "Aerocomposit"	<b>99.45%</b>	99.27%
LLC "UAC- Integration Center"	<b>100.00%</b>	100.00%
OJSC "IL"	<b>90.98%</b>	90.05%
JSC "Aviastar-SP"	<b>99.96%</b>	99.80%
PJSC "VASO"	<b>99.64%</b>	99.58%
OJSC "Myasishchev Design Bureau"	<b>100.00%</b>	100.00%
JSC "UAC-TS"	<b>100.00%</b>	100.00%
PJSC "Tupolev"	<b>98.93%</b>	95.95%
PJSC "TANTK Imeni G.M. Berieva"	<b>96.69%</b>	96.03%
OJSC "M. M. Gromov Flight Research Institute"	<b>94.08%</b>	76.97%
LLC "UAC-Purchases"	<b>100.00%</b>	100.00%
LLC "UAC-Capital"	<b>100.00%</b>	100.00%

On 21 January 2016, the general meetings of shareholders of PJSC "NAZ" Sokol" and JSC "RSK "MiG" made a decision on the reorganization of PJSC "NAZ "Sokol" in the form of merger to JSC "RSK" MiG". Starting from 29 April 2016, PJSC "NAZ "Sokol" is part of JSC "RSK "MiG".

Subsidiaries of the Group - PJSC "Company Sukhoi", JSC "RSK "MiG", PJSC "Tupolev", PJSC "TANTK Imeni G.M. Berieva", OJSC "IL", PJSC "VASO" and JSC "Aviastar-SP" held additional share issues in favour of the Company during 2016, as a result of which the ownership interest in these subsidiaries increased.

### 34. SUBSEQUENT EVENTS

In March 2017, the Company together with the limited liability company "China Civil Aircraft Corporation" (hereinafter "COMAC"), registered in the Shanghai Free Trade Zone a joint venture, a limited liability company "China-Russia International Commercial Aircraft Company" (hereinafter "CRCAIC") for the development, production, sales and after-sales service of a long-haul wide-body aircraft. Ownership interests in the CRCAIC are 50% for PJSC "UAC" and 50% for COMAC.

## SUPPLEMENT NO. 2 RISK MANAGEMENT

UAC has created an effective risk management system aimed at ensuring the sustainable development and income maximisation of the Corporation during periods of uncertainty. UAC undertakes systemic measures for the assessment of existing risks and their level of probability, for risk management and the mitigation of possible negative effects from their implementation.

The Corporation applies different techniques to identify and assess risks, based on information analysis. Tools such as insurance, hedging, and the establishment of covenants and limits are used for risk minimisation. Risk minimisation is also achieved by conducting activities to improve the level of personnel expertise, by applying advanced techniques and technologies to the processes of engineering and manufacturing aviation equipment, by undertaking financial risk management, and by improving the quality management system.

The Risk Management Policy of PJSC "UAC" is the main regulatory document specifying the procedures of the Corporation's risk management system, approved by the resolution of the Board

of Directors (Minutes dated 11/16/2015 No. 141). This establishes the general principles for building the risk management system, its objectives and tasks, the allocation of responsibility between the participants in the system and the procedure for their cooperation.

### Principles for risk management

- system approach;
- periodicity;
- continuity;
- involvement of personnel;
- cross-functional cooperation;
- separation of decision limits;
- reference to objectives;
- movement of risk information from bottom to top and from top to bottom;
- economic efficiency.

### Overview of risks and mitigation arrangements

Risk	Overview	Mitigation
<b>1. Financial risks</b>		
Currency risks	<ul style="list-style-type: none"> <li>• Cash flow pattern exposure to influence of the foreign-exchange fluctuations</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of an insignificant volume of transactions in foreign currency</li> </ul>
Interest rate risks	<ul style="list-style-type: none"> <li>• The risk of adverse moves in interest rates</li> </ul>	<ul style="list-style-type: none"> <li>• Revision of the distribution pattern of funds raised, taking into account the priority funding streams</li> <li>• Optimisation of the debt portfolio, taking into account changes to market indicators</li> <li>• Monitoring of the credit resource market, optimisation of the partner banks circle</li> </ul>
Inflation risks	<ul style="list-style-type: none"> <li>• Inflation adverse impact on financial and economic activities</li> </ul>	<ul style="list-style-type: none"> <li>• Corrective actions aimed at receiving advance payment from consumers for products to be delivered and reducing mutual settlement terms</li> </ul>
Liquidity risks	<ul style="list-style-type: none"> <li>• Liquidity risks upon the lack of funds for performance of current liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Budgeting, cash flow forecasting and the development of financial and production plans</li> <li>• Use of unsecured revolving credit lines opened in partner banks</li> <li>• Application of buyers' advance payment procedures</li> </ul>

Risk	Overview	Mitigation
<b>2. Industry risks</b>		
Risks of demand changes	<ul style="list-style-type: none"> <li>Risks associated with changes in global market conditions</li> </ul>	<ul style="list-style-type: none"> <li>Acceptance and updates to the market and product Strategy of PJSC "UAC"</li> <li>Development, implementation and monitoring of the group's corporate actions when executing the market and product Strategy</li> <li>Enhancement of the efficiency of the managerial, manufacturing and marketing processes</li> <li>Development and implementation of the group of actions on government support of domestic aircraft engineering</li> </ul>
Risks relating to market competition	<ul style="list-style-type: none"> <li>Reduction of PJSC "UAC" options for the provision of funding, structuring and insurance for civil aircraft transactions in a number of regional markets</li> </ul>	<ul style="list-style-type: none"> <li>In-depth legal analysis and legal support of possible transactions</li> <li>Public control, consulting and legal assistance</li> <li>Development of alternative forms of funding, structuring and insurance of transactions involving civil aircraft delivery</li> </ul>
Risks relating to supplier activities	<ul style="list-style-type: none"> <li>Restricting the supplies of high-tech production (processing) equipment, as well as components and products from foreign suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Participation in the Import Substitution Programme</li> <li>Development and implementation of the required basic organisational and technical and engineering and manufacturing solutions</li> <li>Scheduled mastering the manufacture of components previously performed in Ukraine</li> </ul>
Risks associated with the failure to perform the State Defence Order (SDO)	<ul style="list-style-type: none"> <li>Risks of failure to comply with the terms of execution of works and to execute the scope of works</li> </ul>	<ul style="list-style-type: none"> <li>Permanent monitoring of the works performed by co-contractors of contracts</li> </ul>
Risks associated with the plant capacity depreciation of civil aircraft industry	<ul style="list-style-type: none"> <li>Risk of machinery breakdown due to depreciation</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of technical upgrade programmes, equipment modernisation, investment programmes within the Federal Targeted Programme (FTP)</li> <li>Control over the condition of equipment, carrying out scheduled preventive maintenance of equipment, plant capacity and cooperation ties management</li> </ul>
Risks relating to changes in prices for raw materials and services used by the Corporation in its activities	<ul style="list-style-type: none"> <li>Risks related to possible change in prices for raw materials, services used by PJSC "UAC" in its activities</li> </ul>	<ul style="list-style-type: none"> <li>Support of long-term partnerships with suppliers of major components and materials, cooperation and import substitution</li> </ul>
Risk of change in prices for products and services	<ul style="list-style-type: none"> <li>Risk of change in prices for the products due to correction of laws on the state adjustment of prices for the SDO</li> </ul>	<ul style="list-style-type: none"> <li>Optimisation of prices for products and services provided within the execution of the SDO</li> </ul>
Risks associated with human resources	<ul style="list-style-type: none"> <li>Risk of the personnel loyalty reduction</li> <li>Risk of the highly-skilled employees' dismissal</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of the employee engagement, implementation of the employee engagement improvement programme</li> <li>Implementation of the events on enhancement of the incentive system efficiency</li> <li>Introduction of competitive standards of labour conditions</li> </ul>

Risk	Overview	Mitigation
<b>3. Country and regional risks</b>		
Politic and economic risks	<ul style="list-style-type: none"> <li>Sanctions on the part of the European Union</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of system decisions on levelling impact of potential damage</li> </ul>
Risks associated with military conflicts, introduction of state emergency, threats of terrorist acts	<ul style="list-style-type: none"> <li>Due to the relatively stable political situation in Russia there are unlikely forecasts of change in the situation.</li> </ul>	<ul style="list-style-type: none"> <li>In case of any of the mentioned events the Company will take actions in accordance with applicable law</li> </ul>
Risks relating to geographical specifics of the regions of presence	<ul style="list-style-type: none"> <li>Risks relating to geographical specifics of the regions of presence</li> </ul>	
<b>4. Legal risks</b>		
Risks of changes in laws and regulations	<ul style="list-style-type: none"> <li>Risks of losses occurred upon failure to comply with legislation, untimely prescription of the RF legislation changes in the internal policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>Permanent monitoring of changes in legislation</li> </ul>
Risks associated with the change in judicial practice	<ul style="list-style-type: none"> <li>Risks of adverse impact on Company performance and on the results of the current judicial processes</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring of decisions made by the supreme courts, assessment of trends of law enforcement practice</li> </ul>
<b>5. Risks associated with the Corporation's activities</b>		
Risks related to the Company's possible liability for debts of the third persons, including subsidiaries and affiliates.	<ul style="list-style-type: none"> <li>Risk of incurrence of liability to the creditor</li> </ul>	<ul style="list-style-type: none"> <li>Carrying out a set of measures to optimise foreign fund raising volumes of subsidiaries and affiliates, achieving the consolidated debt balance on currencies and terms of fundraising, reducing the weighted average cost of debt.</li> </ul>
Risks associated with the current judicial processes	<ul style="list-style-type: none"> <li>Risks associated with current judicial processes, which may have a negative impact on the Company's activities</li> </ul>	<ul style="list-style-type: none"> <li>No risk</li> </ul>
Risks of termination of licenses	<ul style="list-style-type: none"> <li>Risks of demands with which compliance will be impossible or connected with excessive costs</li> </ul>	<ul style="list-style-type: none"> <li>Risk probability is insignificant</li> </ul>
Risk of heavy consumers' loss	<ul style="list-style-type: none"> <li>Risk of loss of consumers for which turnover no less than 10% of total revenue falls</li> </ul>	<ul style="list-style-type: none"> <li>Risk probability is insignificant</li> </ul>
Risks of information security	<ul style="list-style-type: none"> <li>Information security incident</li> </ul>	<ul style="list-style-type: none"> <li>Provision of information security, implementation of hardware and software tools</li> </ul>
<b>6. Reputational risk</b>		
	<ul style="list-style-type: none"> <li>Risk of loss occurring as a result of reduction of customers' quantity by virtue of negative notion of financial situation and stability, product quality, compliance with delivery terms, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Public information on the financial and economic activities results and development strategies</li> <li>Regular mass media monitoring and positioning</li> </ul>
<b>7. Strategy risk</b>		
	<ul style="list-style-type: none"> <li>Failure to achieve the objectives specified by the Development Strategy of PJSC "UAC"</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring and control over the strategy implementation</li> </ul>



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



CORPORATE GOVERNANCE



SUPPLEMENTS

## SUPPLEMENT NO. 3

### » GLOSSARY

**AOG (airplane on the ground)** — is the condition of an aircraft when it cannot fly due to a defect

**ARZ** — aircraft repair plant

**CAEP** — Committee on Aviation Environmental Protection is a technical committee of the ICAO Council

**CNC** — computer numerical control

**EAQG** — the European Aerospace Quality Group

**EASA** — European Aviation Safety Agency

**FTP MIC** — the Federal Target Programme "Development of the Military-Industrial Complex of the Russian Federation for 2011-2020"

**IAQG** — International Aerospace Quality Group

**IATA** — International Air Transport Association

**ICAO** — International Civil Aviation Organisation

**ICOP (Industry Controlled Other Party)** — is an industry-controlled system that accredits and certifies quality management systems (QMS) across the aviation industry. It was developed and is overseen by the International Aerospace Quality Group (IAQG) to harmonise certification schemes.

**KPI** — key performance indicators

**NAEC** — National Aircraft Engineering Centre

**PAK DA** — prospective airborne complex of long-range aviation

**PAK FA** — fifth-generation prospective airborne complex of frontline aviation (T-50)

**PMI** — fifth-generation prospective multi-purpose fighter (Russian-Indian project)

**QMS** — quality management systems

**RAS** — the Russian Academy of Sciences

**SDO** — the State Defence Order

**SVE** — secondary vocational education

**MTA** — medium military transport aircraft (Russian-Indian project)

## SUPPLEMENT NO. 4

### » DISCLAIMER

This Annual Report of PJSC "UAC" (hereinafter the „Annual Report“) is not an offer or invitation to make an offer (advertisement) in relation to purchase of, or subscription to securities of PJSC "UAC" (hereinafter — Corporation). Neither the Annual Report, nor any of its part, nor the fact of its presentation or distribution serves as a basis for entering into any contract or taking an investment decision, so the Annual Report should not be relied on in this respect.

PJSC "UAC" does not bear responsibility for the consequences of use of the opinions contained herein or in statement, or incompleteness of the information.

### Forward-looking statements

This Annual Report includes statements that are, or may be deemed to be, „forward-looking statements“. These forward-looking statements can be identified by the fact that they do not only relate to historical or current events.

Forward-looking statements often use words such as „intend“, „anticipate“, „target“, „expect“, „estimate“, „expected“, „plan“, „goal“, „believe“, or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond Corporate's control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements. Any forwardlooking statements made by or on behalf of PJSC "UAC" speak only as at the date of this announcement. Save as required by any applicable laws or regulations, PJSC "UAC" undertakes no obligation publicly to release the results of any revisions to any forwardlooking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

### Information obtained from third parties

Besides the official information on the activity of PJSC "UAC", this Annual Report contains information obtained from third parties. This information has been received from sources which, in the opinion of PJSC "UAC", are reliable.

Nevertheless, we do not guarantee accuracy of this information which can be shortened or incomplete.

### Using management accounting and reporting

The information contained in this Annual Report is based also on the Corporation's management accounting and reporting, so it may deviate from the rules and principles that apply under IFRS. The Corporation believes that these management accounting and reporting indicators may provide investors with additional information about the current business of the Corporation. The indicators of management accounting and reporting should not be considered without or as replacement of relevant norms and principles of IFRS. In addition, other companies in the industry may keep a record of these indicators in other ways. The Corporation encourages investors to review all financial statements of PJSC "UAC" in their entirety and not to rely on any single financial figure in this Annual Report.



## SUPPLEMENT NO. 5

### » ONLINE SUPPLEMENTS TO THE ANNUAL REPORT

Online supplements to the Annual Report are available on the Corporation's website in Russian <http://www.uacrussia.ru/ru/investors/open-information/godovye-otchety/>, including:

- List of related party transactions performed by PJSC "UAC" in 2016 (Supplement No. 1 to the Report);
- Information on PJSC "UAC" compliance with the Corporate Governance Code (Supplement No. 2 to the Report);
- Brief information on the Group's main assets (Supplement No. 3 to the Report);
- PJSC "UAC" Board of Directors meetings in 2015 (Supplement No. 4 to the Report);
- Meetings of specialised Committees to the PJSC "UAC" Board of Directors held in 2016 (Supplement No. 5 to the Report);
- Information on the form and financial parameters of participation in the subsidiaries and affiliates (as of 31.12.2016) (Supplement No. 6 to the Report);
- Information on the signed agreements for sale and purchase of participation interests, shares, units of business partnerships and companies, including data on the parties, subject, price and others terms and conditions of these agreements (Supplement No. 7 to the Report);
- Data on actual results of performing the directives and instructions from the President of the Russian Federation and instructions from the Government of the Russian Federation (Supplement No. 8 to the Report);
- Annual financial accounting statements for 2015 (Supplement No. 9 to the Report);
- Annual financial accounting statements for 2016 (Supplement No. 10 to the Report).



ABOUT THE CORPORATION



STRATEGIC REPORT



SUSTAINABLE DEVELOPMENT



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SUPPLEMENTS

# CONTACTS

## » FULL CORPORATE NAME

In the English language — Public Joint Stock Company "United Aircraft Corporation".

## » SHORT CORPORATE NAME

In the English language — PJSC "UAC".

## » STATE REGISTRATION

Certificate of State Registration: 77 008502150;  
issued by the Interdistrict Inspectorate of the Federal Tax Service No. 46  
for the city of Moscow on November 20, 2006;  
Primary State Registration Number (OGRN): 1067759884598;  
date of OGRN issue: November 20, 2006;  
Taxpayer Identification Number (INN) / Tax Registration Reason Code  
(KPP): 7708619320 / 997850001.

## » CONTACT DETAILS

101000, Moscow, Ulansky side-street, 22, bldg 1;  
telephone: +7 (495) 926-14-20;  
fax: +7 (495) 926-14-21;  
e-mail: office@uacrussia.ru;  
website: www.uacrussia.ru.

## » INFORMATION ABOUT THE REGISTRAR

Joint Stock Company R.O.S.T. Registrar  
principal place of business: Moscow, Stromynka st., 18, bldg 13;  
postal address: 107996, Moscow, Stromynka st., 18, POB 9;  
telephone: +7 (495) 771-73-36;  
fax: +7 (495) 771-73-34;  
e-mail: rost@rrost.ru

## » INFORMATION ABOUT THE AUDITOR

The auditor carrying out the audit of the financial statements of PJSC "UAC" according to the Russian accounting standards:

full corporate name: Limited Liability Company "Auditing and consulting firm "Top-Audit";  
short corporate name: LLC "Top-Audit";  
Primary State Registration Number (OGRN): 1027739441553;  
Taxpayer Identification Number (INN) / Tax Registration Reason Code (KPP): 7733059640 / 773301001;  
legal address: 123424, Moscow, Volokolamskoe shosse, 73;  
postal and de facto address: 119285, Moscow, Pudovkina St., 4;  
telephone: +7 (495) 363-28-48;  
website: www.top-audit.ru;  
e-mail: mail@top-audit.ru;  
the name of the self-regulating organisation of auditors, the member of which is LLC "Top-Audit": Non-commercial partnership "Russian Collegium of Auditors";  
Principal Number of Registration Entry in the State Registry of Auditors and Auditing Organisations: 11603072766.

The auditor carrying out the audit of the financial statements of PJSC "UAC" according to international financial reporting standards:

full corporate name: Joint-Stock Company "BDO Unicon"  
short corporate name: JSC "BDO Unicon"  
Primary State Registration Number (OGRN): 1037739271701  
Taxpayer Identification Number (INN) / Tax Registration Reason Code (KPP): 7716021332/ 772601001  
legal address: Business center "Preo-8", Preobrazhenskaya Sq. 8, Moscow, Russia, 107061  
postal and de facto address: Business center "Preo-8", Preobrazhenskaya Sq. 8, Moscow, Russia, 107061  
telephone: +7 (495) 797-5665, fax: +7 (495) 797-5660.  
website: https://www.bdo.ru  
e-mail: reception@bdo.ru  
the name of the self-regulating organisation of auditors, the member of which is JSC "BDO Unicon": Self-regulated organisation of auditors "Russian Union of auditors"  
Principal Number of Registration Entry in the State Registry of Auditors and Auditing Organisations: 11603059593.

## » IR CONTACTS

E-mail: ir@uacrussia.ru

## » PR CONTACTS

Twitter: @UAC\_Russia  
Facebook: UAC.RUSSIA  
E-mail: press@uacrussia.ru