Irkut Corporation

Consolidated Financial Statements
for the year ended 31 December 2016

Contents

HLB VNESHAUDIT

Independent auditor's report

To the Shareholders and Board of directors
of Irkut Corporation

Qualified Opinion

We have audited the financial statements of Irkut Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes comprising the 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 the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Basis for Qualified Opinion

The Group has accounted for certain Government grants as revenue and the related costs as cost of sales which is not in compliance with International Financial Reporting Standard (IAS) 20 Accounting for Government grants and Disclosure of Government Assistance. Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have been reduced by USD 179,745 thousand for the year ended 31 December 2016 (31 December 2015: USD 321,223 thousand), cost of sales would have been reduced by USD 156,119 thousand for the year ended 31 December 2016 (31 December 2015: USD 240,457 thousand), and government grants related to income in the consolidated income statement would have been increased by 23,626 USD thousand for the year ended 31 December 2016 (31 December 2015: USD 80,766 thousand).

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HLB UNESHAUDIT

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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

We draw attention to Note 1 (b) in the consolidated financial statements, in which it is disclosed that the operations of the Group related to the construction and sale of military aircrafts 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 activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. The Group does not disclose such information in the consolidated financial statements even if such disclosure is required by IFRS. We do not express qualified opinion regarding this matter.

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 for 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. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How audit addressed the key audit matter
Compliance with covenants on loans and borrowings	
We consider this matter as a key based on the significant outstanding balance of loans and borrowings as of December 31, 2016 and their significant increase	Our audit procedures related to compliance with covenants on loans and borrowings included the following: We analyzed compliance with those covenants,

for the year then ended.

The Group is engaged in the significant amount of loans and borrowings to finance its activities and has to comply with certain financial and non-financial covenants of those loans and borrowings.

More detailed information is disclosed in note 21 "Loans and borrowings" and note 5 (iv) "Capital management" in the consolidated financial statements.

included in loans and borrowings agreements;

We requested and analyzed the waivers from creditors, which stated that the creditors would reconsider the covenant dates and would not request for early repayment of loans and borrowings;

We reviewed in the representation letter the management's statement on compliance with covenants or reconsideration of covenants under the loan agreements and accuracy of loans and borrowings classification in the consolidated financial statements;

We checked the disclosure and classification of short term and long term loans and borrowings in the consolidated financial statements.

Recognition of revenue on construction contracts

We consider this matter as a key since the Group has different types of products and applies different accounting policies for its revenue recognition. The Group applies IAS 11 "Construction contracts" to recognize revenue on construction of aircrafts that requires significant professional judgments.

ISAs include the presumption of fraud risk in revenue recognition on every audit engagement. Different accounting systems, used by the Group for calculation of revenues on construction contracts of aircrafts, may cause errors.

Our audit procedures related to revenue recognition on construction contracts included the following:

We assessed the consistency in the application of the revenue recognition accounting policy;

We considered professional judgements made for revenue recognition for a number of contracts and assessed the risk of fraud and errors for revenue recognition;

We performed analytical procedures based on information, included in the contracts with customers, and calculations to those contracts;

We checked the appropriateness of the timing of revenue recognition by testing a sample of transactions with the corresponding dates of revenue recognition;

More detailed information is disclosed in note 3 (n) "Revenue recognition" and note 7 "Revenues" in the consolidated financial statements.

We circulated confirmation letters to customers for confirmation of sales or accounts receivable balances;

We checked professional judgments applied in calculations on revenue recognition on construction contacts of aircrafts and made recalculations to check its accuracy;

We analyzed if any of the construction contracts were loss making.

Other information

Management is responsible for other information. The other information includes Irkut Corporation's Annual Report for 2016 and Issuer's Report of Irkut Corporation's for Q1 2017, but does not include the consolidated financial statements and our auditor's report thereon. Irkut Corporation's Annual Report for 2016 and Issuer's Report of Irkut Corporation's for Q1 2017 are 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 express any form of assurance thereon. In connection with our audit of the consolidated financial statements, our responsibility is to review the other information identified above, when it is made available to us, 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 we conclude based on our review that such other information appears to be materially misstated we would be obliged to report on that. As it is disclosed above in the "Qualified Opinion" and "Basis for qualified opinion" we express qualified opinion on the consolidated financial statements of the Group as of December 31, 2016 and for the year then ended. Thus, the other information could be materially misstated because of that issue.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

Those charged with governance 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 consolidated 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 regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

The certified auditor responsible for the audit resulting in the independent auditor's report is Tkacheva Yulia Alexeevna.

General Director of CJSC "HLB Vneshaudit" L.M. Mitrofanov

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "Эйч Эл Би Внешаудит" ОГРН 1027739314448 * МОСКВА * HLB ВНЕШАУДИТ

April 21, 2017

Independent Auditor:

Closed Joint-Stock Company «HLB Vneshaudit»

State Registration Number: 1027739314448 (Certificate on the recording at the Uniform State Register of Legal Entities Series 77 No. 007858681 as of 4 October 2002 issued by the Moscow Inter-Regional Inspectorate of the Federal Tax Service No. 39).
Address: 25-27/2, Bolshaya Yakimanka Str., Moscow, Russia

Member of the Self-regulatory organization of auditors Association «Sodruzhestvo»

The Principal Registration Number of the Entity in the State Register of auditors and audit organizations No. 11606046557

Audited entity:

Irkut Corporation
Entered in the Unified State Register of the Legal Entities on 15 July 2009 by the Moscow Inter-Regional Tax Inspectorate No. 46 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1023801428111, Certificate series 77 No.010296621

68 Leningradsky Prospekt, Moscow, 125315, Russia

	Note	2016 '000 USD	2015 '000 USD
Revenues	7	1,623,928	1,385,953
Cost of sales		(1,176,392)	(1,163,020)
Gross profit		**447,536**	**222,933**
Research and development costs		(7,106)	(3,117)
Distribution expenses		(172,927)	(67,325)
Administrative expenses		(120,142)	(125,635)
Taxes, other than on profit		(2,766)	(3,826)
Other expenses	9	(23,561)	(16,110)
Profit from operating activities		**121,034**	**6,920**
Finance income	10	64,276	37,966
Finance costs	10	(139,471)	(75,838)
Profit/(loss) before tax		**45,839**	**(30,952)**
Income tax expense	11	(27,620)	(6,291)
Profit/(loss) for the year		**18,219**	**(37,243)**
Attributable to:			
Owners of the parent company		17,988	(37,562)
Non-controlling interest		231	319
		18,219	**(37,243)**
Basic and diluted earnings per share (USD)	20	0.015	(0.030)

The consolidated financial statements were authorised for issuance on 21 April 2017 by management and signed on its behalf.

O.F.Demchenko
President

E.A.Ulanov
Vice-President for Corporate Finance

	Note	2016 ’000 USD	2015 ’000 USD
Profit (loss)/ for the year		18,219	(37,243)
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Foreign exchange differences		7,992	(10,993)
Total comprehensive loss for the year		**26,211**	**(48,236)**
Attributable to:			
Owners of the parent company		24,618	(46,133)
Non-controlling interest		1,593	(2,103)
		26,211	**(48,236)**

	Note	31 December 2016 '000 USD	31 December 2015 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	12	500,077	403,639
Intangible assets	13	441,178	378,676
Investments and non-current financial assets	14	37,719	20,726
Deferred tax assets	15	996	667
		979,970	**803,708**
Current assets			
Investments	14	351	328
Inventories	16	1,054,093	962,717
Trade and other receivables	17	892,010	563,146
Cash and cash equivalents	18	966,902	328,879
		2,913,356	**1,855,070**
Total assets		**3,893,326**	**2,658,778**
EQUITY AND LIABILITIES			
Equity	19		
Share capital		127,082	127,082
Share premium		248,134	248,134
Foreign currency translation reserve		(39,239)	(45,869)
Additional paid-in capital		222,423	171,136
Retained earnings		227,681	221,230
Total equity attributable to shareholders of the parent company		**786,081**	**721,713**
Non-controlling interest		9,295	7,702
Total equity		**795,376**	**729,415**
Non-current liabilities			
Loans and borrowings	21	1,631,260	852,651
Deferred tax liabilities	15	160,395	122,876
Employee benefits	23	14,299	10,169
		1,805,954	**985,696**
Current liabilities			
Loans and borrowings	21	603,132	188,084
Trade and other payables	22	662,087	739,089
Income tax payable		2,814	582
Employee benefits	23	3,644	5,060
Provisions	24	20,319	10,852
		1,291,996	**943,667**
Total equity and liabilities		**3,893,326**	**2,658,778**

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

	2016 '000 USD	2015 '000 USD
OPERATING ACTIVITIES		
Profit/(loss) before tax	45,839	(30,952)
Adjustments for:		
Depreciation and amortisation	68,842	67,008
Unrealised foreign exchange (gain)/loss	681	27,279
Loss on disposal of property, plant and equipment and intangible assets	6,068	-
Income from investments	(121)	(1,683)
Impairment of property, plant and equipment	3,794	-
Impairment of WIP	1,545	-
Interest expense, net of government grant	139,471	51,938
Interest income	(15,724)	(36,283)
Operating profit before changes in working capital and provisions	**250,395**	**77,307**
Change in inventories and other non-current assets	(92,921)	75,349
Change in trade and other receivables	(254,658)	(219,989)
Change in trade and other payables	(77,002)	(118,914)
Change in provisions and employee benefits	12,181	6,430
Cash flows (used in)/from operations before income taxes and interest paid	**(162,005)**	**(179,817)**
Income taxes received/(paid)	(4)	(282)
Cash flows (used in)/from operating activities	**(162,009)**	**(180,099)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1,952	826
Acquisition of property, plant and equipment	(30,749)	(32,224)
Acquisition of intangible assets	(74,407)	(50,228)
Government grant related to intangible assets	-	1,267
Loans (advanced to)/repaid related parties	(16,139)	57
Proceeds from investments	3,388	5,247
Interest received	15,724	36,283
Cash flows used in investing activities	**(100,231)**	**(38,772)**
FINANCING ACTIVITIES		
Proceeds from borrowings	1,209,589	548,184
Repayment of borrowings	(215,320)	(352,135)
Payment of lease liabilities	(14,520)	(7,940)
Interest paid, net of grant received	(143,947)	(51,048)
Proceeds from share issue	-	5,458
Dividends paid	(11,537)	(4,658)
Cash flows from financing activities	**824,265**	**137,861**
Net increase/(decrease) in cash and cash equivalents	**562,025**	**(81,010)**
Cash and cash equivalents at beginning of year	328,879	431,584
Effect of exchange rates fluctuations on cash and cash equivalents	75,998	(21,695)
Cash and cash equivalents at end of year (note 18)	**966,902**	**328,879**

	Attributable to the equity holders of the Company							
’000 USD	**Share capital**	**Share premium**	**Additional paid-in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	**126,062**	**243,696**	**171,136**	**(37,298)**	**263,450**	**767,046**	**9,805**	**776,851**
Profit for the year	-	-	-	-	(37,562)	(37,562)	319	(37,243)
Other comprehensive income								
Foreign exchange differences	-	-	-	(8,571)	-	(8,571)	(2,422)	(10,993)
Total comprehensive income for the year						(46,133)	(2,103)	(48,236)
Transactions with owners, recorded directly in equity								
Shares issued (satisfied in cash)	1,020	4,438	-	-	-	5,458	-	5,458
Dividends to shareholders	-	-	-	-	(4,658)	(4,658)	-	(4,658)
Transactions with owners, recorded directly in equity						800	-	800
Balance at 31 December 2015	**127,082**	**248,134**	**171,136**	**(45,869)**	**221,230**	**721,713**	**7,702**	**729,415**

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

	Attributable to the equity holders of the Company							
’000 USD	**Share capital**	**Share premium**	**Additional paid-in capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016	**127,082**	**248,134**	**171,136**	**(45,869)**	**221,230**	**721,713**	**7,702**	**729,415**
Profit for the year	-	-	-	-	17,988	17,988	231	18,219
Other comprehensive income								
Foreign exchange differences	-	-	-	6,630	-	6,630	1,362	7,992
Total comprehensive income for the year						24,618	1,593	26,211
Transactions with owners, recorded directly in equity								
Effect of discounting of interest free loans received from parent company, net of related income tax effect of USD 12,822 thousand	-	-	51,287	-	-	51,287	-	51,287
Dividends to shareholders	-	-	-	-	(11,537)	(11,537)	-	(11,537)
Transactions with owners, recorded directly in equity	-	-	-	-	-	39,750	-	39,750
Balance at 31 December 2016	**127,082**	**248,134**	**222,423**	**(39,239)**	**227,681**	**786,081**	**9,295**	**795,376**

1 Background

(a) Organisation and operations

Irkut Corporation (“the Company”) was formed as an open joint stock company following the President Decree and State Privatization Programme of 1992. The principal activity of the Company is the manufacturing of military and civil aircraft under contracts with Russian and foreign governments. The Company and its subsidiaries (“the Group”) are also engaged in rendering services related to research and development of military and civil aircraft. This research and development is carried out both for the Group’s own purposes and for the purposes of the government of Russian Federation.

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

The Company’s operations are subject to licenses for production and repair of civil and military aviation equipment awarded by Ministry of industry and trade. The current licences do not have an expiry date. The Company’s office is located at 68, Leningradsky prospect, Moscow, 125315, Russia.

(b) State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the economic activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. Access to information classified as a state secret can be granted by an appropriate authorities only to organizations and individuals holding security licences with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up the mobilization capacity of the state (refer note 12(c)) and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of these assets.

(c) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market.

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

Currently the financial markets continue to be volatile.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

These and other events may have a material impact on the Group's operations, its prospective financial position, operational results and business perspectives. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. Management believes it takes all the necessary measures to support the sustainability and development of the Group's business.

The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgements

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

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

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

- Note 2(c) – Functional and presentation currency;
- Note 3(n) and 7 – Revenues;
- Note 4(c) and 14 – Investments and non-current financial assets;
- Note 13 – Intangible assets;

- Note 23 - Employee benefits;
- Note 24 – Provisions;
- Note 27 – Contingencies;

(e) Adoption of new and revised standards and interpretations

The following new standards and interpretations became effective from 1 January 2016 but did not have any material impact on the Group's consolidated financial statements:

- Amendments Clarification of Acceptable Methods of Depreciation and Amortization - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016). Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

(f) New Standards and Interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted. These standards and interpretations have been approved for adoption in the Russian Federation unless noted otherwise.

IFRS 9, Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

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

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk anagement. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

IFRS 15, Revenue from Contracts with Customers (issued in May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019; this standard has not been approved for adoption in the Russian Federation). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - *Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual* periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealized Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Foreign Currency Transactions and Advance Consideration, IFRIC 22 (issued in December 2016 and effective for annual periods beginning on or after January1, 2018, with earlier application permitted).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(iii) Interest in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

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

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

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

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

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

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

(c) Operations for which functional currency is different from functional currency of the Company

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

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(iv) Leased assets

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

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

(e) Intangible assets

(i) Research and development

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, other than development carried out as part of construction contracts (refer accounting policy 3(n)), 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 consolidated income statement as an expense as incurred.

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

(ii) Other intangible assets

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

(f) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(ii) Derivative financial instruments

Hedge accounting

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

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

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

Cash flow hedges

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

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

(g) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of companies under common control (United Aircraft Corporation and its subsidiaries), the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(h) Construction contracts in progress

Construction contracts in progress represents the gross amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date less progress billings, 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 net of advances received from customers for construction contracts is presented as part of trade and other receivables in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings and recognised losses. If progress billings and recognised losses exceed costs incurred plus recognised profits, then the difference is presented as deferred income/revenue in the statement of financial position.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(j) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

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

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

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

(k) Dividends

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

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(m) Provisions

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

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

(n) Revenues

(i) Construction contracts

The operations of the Group substantially comprise building aircraft under fixed price contract where particular aircraft item (or items) undergoes significant modification in development and/or production to meet customer requirements under contracts. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract, measured by the ratio of total direct materials, labour and contract related design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. Marketing costs that are incurred for a specific contract may be included in contract costs, but only if these costs can be directly associated with a specific contract and if their recoverability from that contract is probable.

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

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

(ii) Goods sold

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

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Services

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

(o) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(p) Finance income and costs

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

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

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

(q) Income tax

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

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

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

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

(r) Government grants

Government grants are recognised in the 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 in the income statement on a systematic basis in the same periods in which the expenses were incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amounts of the asset.

(s) 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.

(t) Segment reporting

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

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e.derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data.

The fair values disclosed for financial instruments accounted for at amortised cost reflect Level 2 input. Otherwise, fair values are determined mostly based on Level 1 and Level 2 input and to a minor extent on Level 3 input.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(a) Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Property, plant and equipment

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

Where property, plant and equipment is specialised in nature and is rarely sold on the open market the fair value was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

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

(c) Investments in equity and debt securities

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

(d) Trade and other receivables

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

(e) Non-derivative financial liabilities

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

5 Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

Main customers of the Group are Federal Government of Russian Federation (represented by ministries and agencies) and governments of other countries and the Group's exposure to credit risk is influenced mainly by the economical and political situation in these countries. Approximately 78% of the Group's revenue is attributable to sales transactions with a group of two main customers. Therefore, geographically there is high concentration of credit risk. The Group monitors all changes which occur in the target countries.

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

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in Government related entities.

(c) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15-30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit, which were undrawn as at 31 December 2016:

- USD 2 million long-term rouble denominated credit line secured by state guarantee of Russian Government. Interest would be payable at the fixed rate of 11.0%;
- USD 167 million long-term rouble denominated unsecured credit lines. Interest would be payable at the fixed rate of 10.9-14.4%;
- USD 86 million short-term rouble denominated unsecured credit lines. Interest would be payable at the fixed rate of 10.55-12.2%;
- USD 5 million long-term euro denominated unsecured credit lines. Interest would be payable at the fixed rate of 1.95%;
- USD 73 million long-term unsecured credit lines. Interest would be payable at the fixed rate of 7.75-8.5%;
- USD 321 million long-term credit line secured by state guarantee of Russian Government. Interest would be payable at the fixed rate of 7.3%;

- USD 21 million long-term credit line secured by properties. Interest would be payable at the fixed rate of 8.0%;
- USD 405 million long-term unsecured credit lines. Interest would be payable at the fixed rate of 3.5-7%.

(d) Market risk

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

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

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily U.S. Dollars (USD), but also the Russian Roubles (RUB). The currencies in which these transactions primarily are denominated are USD, EURO and RUB. Interest on borrowings is generally denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUB and EURO. This provides an economic hedge and no derivatives are entered into.

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

(ii) Interest rate risk

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

(iii) Operational risk

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

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

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

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

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

(iv) Capital management

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

The Group's return on capital was 2.29% in 2016 (2015: (5.1)%). The weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest and excluding effect of government grants related to interest expense) was 9.13% in 2016 (2015: 9.94%).

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

	2016 **'000 USD**	**2015** **'000 USD**
Total debt	2,234,392	1,040,735
Less: cash and cash equivalents	(966,902)	(328,879)
Net debt	**1,267,490**	**711,856**
Total equity	795,376	729,415
Debt to capital ratio at 31 December	**1,59**	**0,98**

Under certain loan agreements the Company has to comply with financial covenants which require maintaining minimum levels of Net Debt to adjusted EBITDA ratios determined on the basis of consolidated IFRS amounts.

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

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

6 Operating segments

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

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

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

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

- *Military Program*. Includes development, manufacturing and distributing Yak-130 aircrafts and manufacturing and distributing Su-30 aircrafts, components and service equipment.
- *Civil Program*. Includes development of a new civil aircraft with silicon wing MC-21 and products which are manufactured in cooperation with Airbus.

  The project MC-21 is included in the Federal Target Program “Development of the civil aircraft for 2013-2025” approved by the Decision of the Federal Government of the Russian Federation No. 303 dated 15 April 2014. In accordance with this program, the Company receives financing from the Federal Government. Funds are received under the government contract with Ministry of Industry and Trade (Minpromtorg) which is structured as a contract for provision of the development services and the proceed derived therefrom are included in revenue from provision of services on research and development.

Other operations include repair and modernization of aircraft sold in the past but not currently produced, supply of utilities, design and development work under contract with client and other. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2016 or 2015.

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

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

All the Group’s objects of property, plant and equipment are located in Russian Federation.

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

Information about reportable segments

'000 USD	**Military Program**		**Civil Program**		**Other**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External revenue	1,316,728	994,648	207,613	279,340	69,313	41,904	1,593,654	1,315,892
Segment direct costs	(712,767)	(643,724)	(168,984)	(217,923)	(44,638)	(28,483)	(926,389)	(890,130)
Direct distribution expenses	(212,446)	(71,707)	(146)	(30)	(8,634)	(2,810)	(221,226)	(74,547)
Design and development	(8,132)	(24,791)	-	-	-	-	(8,132)	(24,791)
Reportable segment gross profit/(loss)	**383,383**	**254,426**	**38,483**	**61,387**	**16,041**	**10,611**	**437,907**	**326,424**

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

	2016 '000 USD	2015 '000 USD
Total revenue for reportable segments	1,593,654	1,315,892
Difference in timing of revenue recognition	30,274	70,061
Consolidated revenue	**1,623,928**	**1,385,953**
Reportable segments total gross profit	437,907	326,424
Direct distribution expenses	221,226	74,547
Difference in timing of recognition and presentation of expenses	(211,597)	(178,038)
Gross profit	**447,536**	**222,933**
Research and development costs	(7,106)	(3,117)
Distribution expenses	(172,927)	(67,325)
Administrative expenses	(120,142)	(125,635)
Taxes, other than on profit	(2,766)	(3,826)
Other expenses	(23,561)	(16,110)
Profit from operating activities	**121,034**	**6,920**
Finance income	64,276	37,966
Finance costs	(139,471)	(75,838)
Consolidated profit/ (loss) before income tax	**45,839**	**(30,952)**

7 Revenues

	2016 '000 USD	2015 '000 USD
Revenue earned on military aircraft construction contracts	954,592	467,488
Revenue on sales of military aircraft components and related products	455,019	567,585
Revenue from services on development of MC-21 project	179,746	321,223
Revenue on sales of civil aircraft components and related products	13,082	8,720
Other revenues	21,489	20,937
	1,623,928	**1,385,953**

8 Personnel expenses

	2016 '000 USD	2015 '000 USD
Wages and salaries	196,659	188,110
Compulsory social security contributions	55,932	53,427
	252,591	**241,537**

9 Other expenses

	2016 '000 USD	2015 '000 USD
Loss on disposal of property, plant and equipment	(6,063)	-
Social costs	(5,461)	(6,236)
Current service cost of employee benefit plan	-	(5,689)
Impairment of property, plant and equipment	(3,794)	-
Impairment of WIP	(1,545)	-
Other	(6,698)	(4,185)
	(23,561)	**(16,110)**

10 Finance income and costs

	2016 '000 USD	2015 '000 USD
Finance income		
Interest income	15,724	36,283
Income from investments	121	1,683
Foreign exchange income	48,431	-
	64,276	**37,966**
Finance costs		
Interest expense	(157,395)	(69,598)
Government grant related to compensation of interest expense	17,924	17,660
Interest expense, net	(139,471)	(51,938)
Foreign exchange loss	-	(23,900)
	(139,471)	**(75,838)**

11 Income tax expense

	2016 '000 USD	2015 '000 USD
Current tax expense		
Current income tax	3,086	439
Tax of prior periods	-	495
	3,086	**934**
Deferred tax expense		
Origination and reversal of temporary differences	5,186	4,862
Change in recognised deferred tax assets	19,348	495
	24,534	5,357
Income tax expense	**27,620**	**6,291**

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

Reconciliation of effective tax rate:

	2016 '000 USD	%	2015 '000 USD	%
Profit/(loss) before income tax	45,839	100	(30,952)	100
Income tax expense/(income) at applicable tax rate	9,168	20	(6,190)	20
Non-deductible/non-taxable items, net	643	1	3,160	(10)
Foreign exchange differences	(1,539)	(3)	8,331	(27)
Tax on prior periods	-	-	495	(2)
Change in recognised deferred tax assets	19,348	42	495	(2)
	27,620	**60**	**6,291**	**(21)**

12 Property, plant and equipment

'000 USD	Land and Buildings	Plant and equipment	Construction in progress	Total
Cost				
At 1 January 2015	190,906	555,270	105,863	852,039
Additions	-	54,133	26,308	80,441
Transfers	8,792	10,783	(19,575)	-
Disposals	(481)	(3,512)	-	(3,993)
Foreign exchange differences	(1,201)	(2,337)	(4,908)	(8,446)
At 31 December 2015	**198,016**	**614,337**	**107,688**	**920,041**
Additions	-	141,887	17,015	158,902
Transfers	20,640	15,065	(35,705)	-
Disposals	(10,219)	(16,217)	(2,258)	(28,694)
Foreign exchange differences	2,020	2,032	168	4,220
At 31 December 2016	**210,457**	**757,104**	**86,908**	**1,054,469**
Depreciation and impairment				
At 1 January 2015	(101,988)	(371,985)	-	(473,973)
Depreciation charge	(5,154)	(42,186)	-	(47,340)
Disposals	352	2,815	-	3,167
Foreign exchange differences	71	1,673	-	1,744
At 31 December 2015	**(106,719)**	**(409,683)**	**-**	**(516,402)**
Depreciation charge	(5,672)	(47,923)	-	(53,595)
Impairment	-	(1,774)	(2,020)	(3,794)
Disposals	5,010	15,669	-	20,679
Foreign exchange differences	(59)	(1,221)	-	(1,280)
At 31 December 2016	**(107,440)**	**(444,932)**	(2,020)	**(554,392)**
Net book value				
At 1 January 2015	**88,918**	**183,285**	**105,863**	**378,066**
At 31 December 2015	**91,297**	**204,654**	**107,688**	**403,639**
At 31 December 2016	**103,017**	**312,172**	**84,888**	**500,077**

Additions to property, plant and equipment for the year ended 31 December 2016 include USD 2,616 thousand capitalised borrowing costs at the rate of 7.7% (2015: USD 2,616 thousand at the rate of 7.7%).

(a) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see Note 21). At 31 December 2016 the net carrying amount of leased plant and machinery was USD 191,355 thousand (31 December 2015: USD 82,617 thousand).

(b) Security

At 31 December 2016 properties with a carrying amount of USD 25,144 thousand (31 December 2015: USD 30,835 thousand) are pledged as a collateral for secured bank loans (see Note 21).

(c) Other restrictions

At 31 December 2016 the net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to USD 66,110 thousand (31 December 2015: USD 70,722 thousand).

13 Intangible assets

’000 USD	Development costs	Other intangibles	Advances related to development costs	Total
Cost				
At 1 January 2015	440,826	15,131	-	455,957
Additions	35,437	1,685	13,106	50,228
Government grant related to development	(1,267)	-	-	(1,267)
Disposals	-	(3,642)	-	(3,642)
Foreign exchange differences	(7,328)	(160)	-	(7,488)
At 31 December 2015	**467,668**	**13,014**	**13,106**	**493,788**
Additions	71,116	3,291	-	74,407
Transfer	13,106	-	(13,106)	-
Disposals	-	(7,345)	-	(7,345)
Foreign exchange differences	4,996	196	-	5,192
At 31 December 2016	**556,886**	**9,156**	**-**	**566,042**
Amortisation and impairment				
At 1 January 2015	(91,189)	(10,144)	-	(101,333)
Amortisation charge	(15,709)	(3,959)	-	(19,668)
Disposals	-	3,642		3,642
Foreign exchange differences	2,161	86	-	2,247
At 31 December 2015	**(104,737)**	**(10,375)**	**-**	**(115,112)**
Amortisation charge	(12,748)	(2,499)	-	(15,247)
Disposals	-	7,340		7,340
Foreign exchange differences	(1,773)	(72)	-	(1,845)
At 31 December 2016	**(119,258)**	**(5,606)**	**-**	**(124,864)**
Net book value				
At 1 January 2015	**349,637**	**4,987**	**-**	**354,624**
At 31 December 2015	**362,931**	**2,639**	**13,106**	**378,676**
At 31 December 2016	**437,628**	**3,550**	**-**	**441,178**

Additions to capitalised development costs for the year ended 31 December 2016 include USD 8,964 thousand of capitalised borrowing costs at the rate of 8.5% (2015: USD 8,599 thousand at the rate of 8.5%).

Capitalised development costs, including related advances, comprise the following items:

	2016	**2015**
	’000 USD	**’000 USD**
Intellectual property rights related to the development of:		
Military program	137,874	138,601
Civil program	299,150	223,726
Others	604	604
	437,628	**362,931**

Management monitors the MC-21 development program against the capitalization criteria required by IAS 38 *Intangible Assets* on an ongoing basis and tests it for impairment. Commercial sales are expected to commence in 2018 and therefore the related intangible asset is not amortised. As a result of the impairment test the carrying amount of related capitalised development costs did not exceed its recoverable amount as at 31 December 2016. A discount pre-tax rate of 19% was applied in determining the recoverable amount.

14 Investments and non-current financial assets

	2016	**2015**
	’000 USD	**’000 USD**
Non-current		
Available-for-sale investments, stated at cost	7,184	7,231
Loans to related parties	30,446	10,495
Loans to third parties	89	3,000
	37,719	**20,726**
Current		
Other current financial assets	351	328
	351	**328**

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

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

'000 USD	**Assets**		**Liabilities**		**Net**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	-	-	(76,030)	(79,175)	(76,030)	(79,175)
Intangible assets	14,938	11,995	(102,890)	(85,833)	(87,952)	(73,838)
Investments	3,885	8,748	(7)	(8)	3,878	8,740
Inventories and other current assets	40,256	1,780	(4)	(9,264)	40,252	(7,484)
Trade and other receivables	172	2	(84,050)	(48,321)	(83,878)	(48,319)
Cash and cash equivalents	220	-	-	-	220	-
Loans and borrowings	15,632	6,226	-	-	15,632	6,226
Trade and other payables	19,552	40,476	(34)	(79)	19,518	40,397
Provisions	5,181	668	-	(8)	5,181	660
Employee benefits	3,589	3,046	-	-	3,589	3,046
Tax credit for research and development expenses	-	14,709	-	-	-	14,709
Tax loss carry-forwards	191	12,829	-	-	191	12,829
Total tax assets/(liabilities)	**103,616**	**100,479**	**(263,015)**	**(222,688)**	**(159,399)**	**(122,209)**
Offset of tax	(102,620)	(99,812)	102,620	99,812	-	-
Net tax assets/(liabilities)	**996**	**667**	**(160,395)**	**(122,876)**	**(159,399)**	**(122,209)**

Tax credit related to research and development expenses can be carried forward and utilised in a future period of up to three years.

(b) Movement in temporary differences during the year

’000 USD	1 January 2016	Recognised in profit or loss	Foreign currency translation	Recognised in equity	31 December 2016
Property, plant and equipment	(79,175)	3,168	(23)	-	(76,030)
Intangible assets	(73,838)	(13,031)	(1,083)	-	(87,952)
Investments	8,740	(4,862)	-	-	3,878
Inventories and other current assets	(7,484)	47,482	254	-	40,252
Trade and other receivables	(48,319)	(35,325)	(234)	-	(83,878)
Cash and cash equivalents	-	220	-	-	220
Loans and borrowings	6,226	22,229	(1)	(12,822)	15,632
Trade and other payables	40,397	(20,863)	(16)	-	19,518
Provisions	660	4,521	-	-	5,181
Employee benefits	3,046	543	-	-	3,589
Tax credit for R&D expenses	14,709	(14,709)	-	-	-
Tax loss carry-forwards	12,829	(13,907)	1,269	-	191
	(122,209)	**(24,534)**	**166**	**(12,822)**	**(159,399)**

’000 USD	1 January 2015	Recognised in profit or loss	Foreign currency translation	Recognised in equity	31 December 2015
Property, plant and equipment	(61,582)	(17,629)	36	-	(79,175)
Intangible assets	(70,156)	(5,382)	1,700	-	(73,838)
Investments	8,807	(67)	-	-	8,740
Inventories and other current assets	(20,872)	13,866	(478)	-	(7,484)
Trade and other receivables	(42,306)	(6,466)	453	-	(48,319)
Loans and borrowings	(7,021)	13,251	(4)	-	6,226
Trade and other payables	30,145	10,203	49	-	40,397
Provisions	(1,753)	2,413	-	-	660
Employee benefits	3,036	10	-	-	3,046
Tax credit for R&D expenses	14,709	-	-	-	14,709
Tax loss carry-forwards	28,746	(15,556)	(361)	-	12,829
	(118,247)	**(5,357)**	**1,395**	**-**	**(122,209)**

16 Inventories

	2016 '000 USD	2015 '000 USD
Raw materials and other supplies, gross	261,715	97,751
Aircraft components	196,104	119,915
Provision for obsolescence of inventories	(6,155)	(4,801)
	451,664	212,865
Advance payments to suppliers	435,999	588,796
Goods for sale	42,312	42,968
Work in progress	124,118	118,088
	1,054,093	**962,717**

17 Trade and other receivables

	2016 '000 USD	2015 '000 USD
Accounts receivable – trade	723,378	428,795
Allowance for doubtful accounts	(2,518)	(1,984)
	720,860	426,811
Construction contracts in progress	-	15,689
Prepaid expenses	70,323	69,418
VAT recoverable	80,617	42,237
Income tax receivable	630	588
Other prepaid taxes	609	663
Other receivables	18,971	7,740
	892,010	**563,146**

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date on construction contracts in progress is USD 2,653,954 thousand in 2016 (2015: USD 2,394,845 thousand).

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 25.

18 Cash and cash equivalents

	2016 '000 USD	2015 '000 USD
Bank balances, US Dollars	317,016	88,445
Bank balances, Euro	18,656	3,447
Bank balances, Russian roubles	621,750	210,683
Call deposits, US Dollars	-	20,006
Call deposits, Russian roubles	9,480	6,298
	966,902	**328,879**

The Group's exposure to currency risk, interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 25.

19 Equity

(a) Share capital

As at 31 December 2016 fully paid capital stock consisted of 1,229,818,557 ordinary shares (1,229,818,557 ordinary shares at 31 December 2015). All ordinary shares have a nominal value of RUB 3 each.

In October 2016 the Board of Directors approved issuance of additional 1,623,200,000 ordinary shares.

(b) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian roubles. At 31 December 2016 the Company had cumulative retained earnings, including the profit for the current year, of RUB 11,259,933 thousand (USD 185,633 thousand translated at the closing RUB/USD exchange rate of 60.6569).

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

	27 June 2016	**29 June 2015**
Amount per share, RUB	0.60	0.21
Amount per share, USD	0.0091	0.0038
Total amount, '000 USD	11,537	4,658

20 Earnings per share

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

Number of shares	**2016**	**2015**
Issued ordinary shares at 1 January	1,229,818,557	1,209,991,286
Effect of ordinary shares issued	-	15,155,629
Weighted average number of ordinary shares at 31 December	**1,229,818,557**	**1,225,146,915**

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 25.

	2016	**2015**
	'000 USD	**'000 USD**
Non-current		
Secured bank loans	147,594	93,002
Unsecured bank loans	861,079	497,952
Unsecured bond issue	83,291	69,306
Finance lease liabilities	160,930	65,355
Loans from parent company (see below)	378,366	127,036
	1,631,260	**852,651**
Current		
Unsecured bank loans	77,823	28,209
Current portion of non-current secured bank loans	-	39,708
Current portion of non-current unsecured bank loans	496,107	109,023
Current portion of finance lease liabilities	29,202	11,144
	603,132	**188,084**

The loans from the parent company represents a number of zero-interest loans received from UAC. The loans were provided as a part of the program of financial support provided to companies in the aircraft industry by the Government of the Russian Federation.

In December 2016 the Company received new zero-interest loans to finance the development of the project MC-21. Those loans were considered as the amount payable in 3 years and discounted at 9.13% to reflect their fair value at the moment of recognition and were classified as the loans from parent company as non-current borrowings. Effect of discounting, net of related income tax effect, amounted to USD 51,287 thousand, was recognized directly in equity.

(a) Security

On 31 December 2016 the loans are secured over property, plant and equipment with a carrying amount of USD 25,144 thousand (31 December 2015: USD 30,835 thousand) and the right to receive future revenues under an agreement with a foreign government.

(b) Terms and debt repayment schedule

'000 USD	Nominal interest rate	Year of maturity	Face value 2016	Carrying amount 2016	Face value 2015	Carrying amount 2015
Secured bank loans:						
RUB	9.65%	2018	-	-	16,084	16,279
RUB	11.6-11.7%	2016	-	-	39,516	39,643
USD	7.3%	2023	79,238	78,848	3,908	3,689
USD	8%	2022-2023	69,029	68,746	73,370	73,098
Unsecured bank loans:						
RUB	10.5-10.6%	2017	28,803	28,895	-	-
RUB	12.5-12.65%	2017	64,993	65,103	-	-
RUB	10.9-12.5%	2018	181,702	182,236	58,903	59,024
RUB	12-13.8%	2016-2017	281,997	283,043	174,576	175,103
RUB	13.2-14.4%	2018-2019	98,898	98,957	18,721	18,790
RUB	15.5%	2016	-	-	6,860	6,861
RUB	10.75%	2019	48,547	48,701	-	-
RUB	11.9%	2023	7,283	7,308	-	-
USD	7.2-8.5%	2016-2017	24,600	24,652	94,600	95,197
USD	7.0%	2018	3,328	3,349	3,328	3,356
USD	4.5-4.8%	2017	55,000	55,075	-	-
USD	2.5-3.5%	2017-2018	189,645	189,811	-	-
USD	5.3%	2020	780	780	-	-
USD	4.95-5.8%	2018	6,714	6,758	6,714	6,783
USD	5.4-6.5%	2017	95,000	95,176	95,000	95,164
USD	7.04%-9%	2022-2023	248,279	244,465	159,874	159,936
EURO	5.9%	2017	46,804	46,889	14,945	14,971
EURO	2-3.5%	2018	53,801	53,811	-	-
Unsecured bond issue:						
RUB	9%	2023	82,431	83,291	68,603	69,306
Finance lease liabilities	10.2%-14%	2015-2020	190,132	190,132	76,499	76,499
Other loans RUB	0%	2019-2020	207,775	163,985	172,922	127,036
Other loans USD	0%	2019	278,284	214,381	-	-
Total interest-bearing liabilities			**2,343,063**	**2,234,392**	**1,084,423**	**1,040,735**

(c) Finance lease liabilities are payable as follows:

’000 USD	Future minimum lease payments 2016	Interest 2016	Present value of minimum lease payments 2016	Future minimum lease payments 2015	Interest 2015	Present value of minimum lease payments 2015
Less than one year	55,204	26,002	29,202	33,748	22,604	11,144
Between one and five years	244,191	83,261	160,930	170,712	105,357	65,355
	299,395	**109,263**	**190,132**	**204,460**	**127,961**	**76,499**

22 Trade and other payables

	2016 ’000 USD	2015 ’000 USD
Accounts payable	336,262	166,900
Accrued expenses	18,841	27,195
Advances from customers, unrelated to construction contracts	256,749	508,542
Other taxes payable	37,174	31,222
Other payables	13,061	5,230
	662,087	**739,089**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

23 Employee benefits

The Group has a pension plan for long term employment services. The plan entitles a retired employee to receive a payment at the moment of retirement and a quarterly payment with the sum dependent on the length of service.

(a) Movements in the present value of the defined benefit obligations

	2016	2015
	'000 USD	**'000 USD**
Defined benefit obligations at 1 January	15,229	15,181
Benefits paid by the plan	(1,177)	(1,431)
Current service costs	113	5,411
Interest	965	871
Foreign exchange gain	2,813	(4,803)
Defined benefit obligations at 31 December	**17,943**	**15,229**

(b) Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2016	2015
Discount rate at 31 December	8.25%	8.25%
Future salary increases	7.4%	7.4%
Future pension increases	7.4%	7.4%

Assumptions regarding future mortality are based on published statistics and mortality tables. The retirement age in Russia is currently 60 for men and 55 for women. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

	2016	2015
Average life expectancy of members from the date of retirement:		
Males	7	7
Females	22	22

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

24 Provisions

	Warranties	
	2016	**2015**
	’000 USD	**’000 USD**
Balance at 1 January	10,852	4,460
Provisions made during the year	14,127	12,039
Provisions used during the year	(4,660)	(5,647)
Balance at 31 December	**20,319**	**10,852**

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

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

25 Financial instruments

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

(a) Credit risk

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

’000 USD	**Carrying Amount 2016**	**Carrying Amount 2015**
Available-for-sale financial assets	7,184	7,231
Other financial assets	89	3,000
Trade receivables	720,860	426,811
Construction contracts in progress	-	15,689
Loans to related parties	30,446	10,495
Loans to third parties	351	328
Other receivables	18,971	7,740
Cash and cash equivalents	966,902	328,879
	1,744,803	**800,173**

The Group monitors and assesses the credit quality of trade receivables, including amounts due from customers under construction contracts in progress. As at 31 December 2016, approximately 51% of the total trade receivable balance was represented by one individually significant foreign customer and 18% by a related party under common control with the Group of the total trade receivable balance (2015: approximately 39% of the total receivable balance was represented by one individually significant foreign customer and 27% by a related party under common control with the Group).

(b) Impairment losses

The aging of trade receivables at the reporting date was:

’000 USD	**Gross 2016**	**Impairment 2016**	**Gross 2015**	**Impairment 2015**
Not past due	720,860	-	426,811	-
Past due 0-360 days	-	-	-	-
More than one year	2,518	(2,518)	1,984	(1,984)
	723,378	**(2,518)**	**428,795**	**(1,984)**

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

’000 USD	**2016 ’000 USD**	**2015 ’000 USD**
Balance at 1 January	1,984	772
Impairment loss recognised	534	1,212
Balance at 31 December	**2,518**	**1,984**

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

The allowance accounts in respect of trade receivables and held-to-maturity investments are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2016 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments (2015: nil).

(c) Liquidity risk

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

31 December 2016

’000 USD	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	Later
Secured bank loans	147,594	204,827	11,307	22,613	22,644	148,263
Unsecured bank loans	1,435,009	1,637,370	663,970	678,966	47,615	246,819
Unsecured bond issue	83,291	120,287	7,398	14,797	14,797	83,295
Finance lease liabilities	190,132	299,395	55,204	101,837	77,789	64,565
Other loans	378,366	486,059	-	486,059	-	-
Trade and other payables	408,152	408,152	408,152	-	-	-
	2,642,544	**3,156,090**	**1,146,031**	**1,304,272**	**162,845**	**542,942**

31 December 2015

’000 USD	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	Later
Secured bank loans	132,710	169,529	48,970	31,042	12.336	77,181
Unsecured bank loans	635,184	767,707	192,815	386,833	28,092	159,967
Unsecured bond issue	69,306	100,112	6,157	12,315	12,315	69,325
Finance lease liabilities	76,499	204,461	33,748	70,475	51,037	49,201
Other loans	127,036	172,922	-	-	172,922	-
Trade and other payables	230,547	230,547	230,547	-	-	-
	1,271,282	**1,645,278**	**512,237**	**500,665**	**276,702**	**355,674**

(d) Currency risk

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

	31 December 2016			31 December 2015		
’000 USD	**USD***	**RUB**	**EURO**	**USD***	**RUB**	**EURO**
Cash and cash equivalents	317,016	631,230	18,656	108,451	216,981	3,447
Trade receivables	453,817	209,538	57,505	84,288	341,968	555
Other receivables	-	18,971	-	-	7,740	-
Construction contracts in progress	-	-	-	5,025	10,664	-
Secured bank loans	(147,594)	-	-	(76,788)	(55,922)	-
Unsecured bank loans	(620,066)	(714,243)	(100,700)	(360,435)	(259,778)	(14,971)
Unsecured bond issue	-	(83,291)	-	-	(69,306)	-
Finance lease liabilities	(185,330)	(4,738)	(64)	(75,655)	(844)	-
Other loans	(214,381)	(163,985)	-	-	(127,036)	-
Trade and other payables	(136,698)	(264,918)	(6,536)	(61,853)	(166,482)	(2,212)
Net exposure	**(533,236)**	**(371,436)**	**(31,139)**	**(376,967)**	**(102,015)**	**(13,181)**

*The USD balances are presented for information purposes and primarily relate to Company where USD is functional currency. The USD exposure of subsidiaries whose functional currency is Russian Rouble is not material for the Group.

The following significant exchange rates applied during the year:

USD	**Average rate**		**Reporting date spot rate**	
	2016	**2015**	**2016**	**2015**
RUB 1,000	14.92	16.40	16.49	13.72
EURO	1.11	1.11	1.05	1.09

(e) Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December 2016 would have increased (decreased) equity and profit or loss (after income tax effect) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

’000 USD	**Equity/Profit or (loss)**
31 December 2016	
RUB	27,013
EURO	2,265
31 December 2015	
RUB	7,419
EURO	959

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(f) Interest rate risk

(i) Profile

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

	Carrying amount	
’000 USD	**2016**	**2015**
Fixed rate instruments		
Financial assets	40,358	40,121
Financial liabilities	(2,234,392)	(1,025,764)
	(2,194,034)	**(985,643)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

(iii) Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates based on the Group's exposure at the reporting date would not have increased loss for 2016 year (2015: nil). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values and accounting classification

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

31 December 2016	**Carrying amount**	**Fair value**			
'000 USD		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities not measured at fair value					
Unsecured bond issue	(83,291)	(81,178)	-	-	(81,178)
	(83,291)	**(81,178)**	**-**	**-**	**(81,178)**

31 December 2015	**Carrying amount**	**Fair value**			
'000 USD		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities not measured at fair value					
Unsecured bond issue	(69,306)	(63,540)	-	-	(63,540)
	(69,306)	**(63,540)**	**-**	**-**	**(63,540)**

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

26 Commitments

(a) Capital commitments

At 31 December 2016 the Group is committed to capital expenditure of approximately USD 135,809 thousand (2015: USD 279,394 thousand), including USD 8,338 thousand for R&D (2015: USD 44,736 thousand).

27 Contingencies

(a) Insurance

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

(b) Taxation contingencies

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

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

(c) Financial guarantees

As at 31 December 2016 the Group hasn’t provided financial guarantees for rendering services and supplying goods (2015: USD 48,000 thousand).

(d) Environmental contingencies

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

28 Related party transactions

(a) Control relationship

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

UAC (Parent Company) is controlled by the Federal Government of Russian Federation. Therefore, from 31 December 2006 the Federal Government of Russian Federation is the ultimate controlling party of the Group. Related parties disclosures (refer 28(c)) as at 31 December 2016 include balances with other government related entities.

(b) Transactions with management

(i) Key management personnel compensation

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

	2016 '000 USD	2015 '000 USD
Wages and salaries	5,904	7,022
Compulsory social security contributions	959	1,082
	6,863	**8,104**

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of Russian Federation (95.6%). The Group operates in an industry dominated by entities directly or indirectly controlled by the Federal Government of Russian Federation through its government authorities, agencies, affiliation and other organizations (collectively referred to as “government related entities”). The Group has transactions with other government related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, lease of assets, depositing and borrowing money, and use of public utilities.

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

For the year ended 31 December 2016, management estimates that the aggregate amount of the Group’s collectively significant transactions with government related entities is at least 40% (2015: at least 54%) of its revenues, at least 64% (2015: at least 30%) of its purchases of materials, equipment and services, and up to 85% of its borrowings (2015: up to 80%).

The Group also benefited from compensation of borrowing costs related to financing of export military goods from the government of Russian Federation. This government grant was provided following the Regulation of the Government of Russian Federation #961 dated 25 October 2013 for partial compensation of borrowing costs incurred by Russian entities engaged in export of industrial products and with financing obtained from Russian banks. Majority of balance of other receivables and originated loans comprises of receivable related to the program. Management expects that the compensation program will be continued in 2017 and the Group will qualify for further compensation in relation to loans already secured or to be secured in future.

29 Significant subsidiaries

	Country of incorporation	Ownership/voting 2016	2015
OAO "OKB Imeni A.S. Yakovleva"	Russia	75,46%	75%
ZAO "Beta Air"	Russia	72%	72%

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

30 Non controlling interest

31 December 2016 **'000 USD**	**OKB imeni Yakovleva**	**Other individually immaterial subsidiaries**	**Total**
NCI percentage	24.54%		
Non-current assets	53,193		
Current assets	23,425		
Non-current liabilities	(26,355)		
Current liabilities	(11,069)		
Net assets	39,194		
Carrying amount of NCI	9,618	(323)	9,295
Revenue	17,659		
Profit	894		
OCI	6,407		
Total comprehensive income	7,301		
Profit allocated to NCI	222	9	231
OCI allocated to NCI	1,569	(207)	1,362
Cash flows from operating activities	2,448		
Cash flows from investment activities	(2,305)		
Cash flows from financing activities	(824)		
Net increase in cash and cash equivalents	**(681)**		

31 December 2015 **'000 USD**	**OKB imeni Yakovleva**	**Other individually immaterial subsidiaries**	**Total**
NCI percentage	24.54%		
Non-current assets	44,567		
Current assets	17,148		
Non-current liabilities	(22,319)		
Current liabilities	(7,503)		
Net assets	31,893		
Carrying amount of NCI	7,827	(125)	7,702
Revenue	19,743		
Profit	1,931		
OCI	(9,159)		
Total comprehensive income	(7,228)		

Profit allocated to NCI	484	(165)	319
OCI allocated to NCI	(2,257)	(165)	(2,422)
Cash flows from operating activities	6,287		
Cash flows from investment activities	(4,107)		
Cash flows from financing activities	3,641		
Net decrease in cash and cash equivalents	**5,821**		

31 Events subsequent to the reporting date

There were no significant events subsequent to the reporting date.