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Annual Report 2015

ANNUAL REPORT 2015

PJSC UAC

UAC UNITED AIRCRAFT CORPORATION

CONTENTS

Notes:

In this annual report, the terms "PJSC UAC", "JSC UAC", "the Company", "UAC" are used to refer to Public Joint-Stock Company United Aircraft Corporation, the parent company of UAC Group.

"UAC Group" and "the Corporation" mean PJSC UAC and its subsidiaries.

On April 16, 2015, an entry was made into the Uniform State Register of Legal Entities for the purposes of state registration of amendments made to the constitutive documents of a corporate entity, in connection with the change of name as required by the provisions of Chapter 4 of the Civil Code of the Russian Federation. As of the date of amendments, the full corporate name of the Company in English is Public Joint-Stock Company United Aircraft Corporation, the short corporate name in English is PJSC UAC.

Section for investors on the corporate website
http://www.uacrussia.ru/en/investors/

UAC TODAY

1 PROFILE

The United Aircraft Corporation is among the key players in the global military and commercial aircraft market. The United Aircraft Corporation was established in 2006 to preserve and achieve further development of the scientific and production potential of Russia's aviation industry, to contribute to safeguarding national security and defence capability and ensuring concentration of intellectual, industrial and financial resources with a view to implementing prospective aircraft development programmes.

The Corporation is among integrated structures representing Russia's defence and industrial complex. Since 2007 the Corporation has been included in the list of strategic companies of the Russian Federation. In its activities UAC is guided by the objectives to ensure the social and economic development and national security of the Russian Federation.

2 KEY ACTIVITIES

The key activities of the Corporation are development, construction, testing and maintenance support, service support of military and civil aircraft, as well as aircraft equipment modernisation, overhauling and recycling, training and professional development of flying personnel, retraining of flight crews on new aircraft produced by the Corporation.

The UAC product portfolio embraces a wide range of aircraft building projects at various lifecycle stages. The Corporation comprises companies producing aircraft of such universally renowned brands as Su, MiG, Il, Tu, Yak, Beriev. The new aircraft types, SSJ and MS-21 have also become widely known.

3 RESULTS

In 2015, the Corporation supplied 156 aircraft to its customers, including 124 military aircraft, 29 civil aircraft, two transport and one special aviation aircraft. The revenue of the Corporation was circa RUB 352 bln. The Corporation employs 101,380 people* at its production facilities.
>>> p. 62

4 STRATEGY

The key strategic goal of the Corporation is to achieve the status of the third global aircraft manufacturing centre by 2025. The product strategy envisages increasing the Corporation's share in the global civil aircraft market by creating a global product range: SSJ 100, MS-21, and other perspective projects including the wide-body aircraft.
>>> p. 38

5 SHARES

The shares of the Corporation are owned by the Russian Federation represented by the Federal Agency for State Property Management (90.4% of the share capital), Vnesheconombank (5.6%), other shareholders (4.0%). The State Privatisation Programme provides for the sale of a part of the state-owned stake of PJSC UAC before 2024, with the state retaining the ownership of 50% plus 1 share in the Corporation. The shares of PJSC UAC are traded on the Moscow Exchange under ticker UNAC, they are included in the second level quotation list and Innovation and Investment Market sector of the Moscow Exchange.
>>> p. 88

156 aircraft
delivered to Russian and international customers in 2015

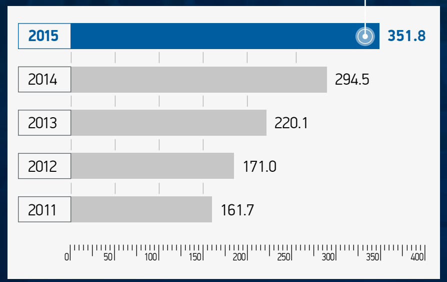
920.3 RUB bln
book value of assets

351.8 RUB bln
Corporations's revenue in 2015

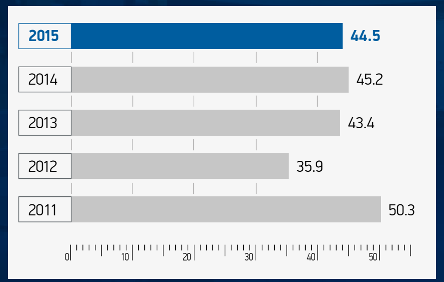
101.4
thousand employees

KEY INDICATORS

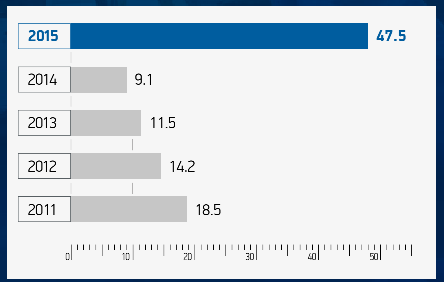
Revenue, RUB bln



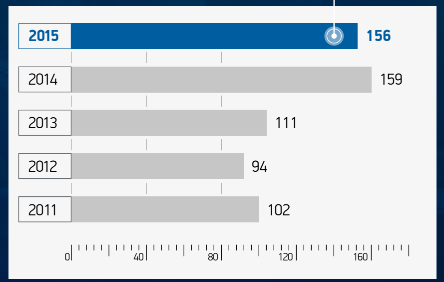
Gross profit, RUB bln



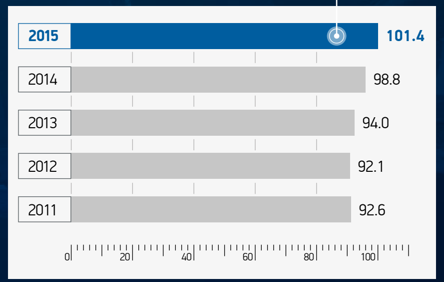
Market price per share, kop



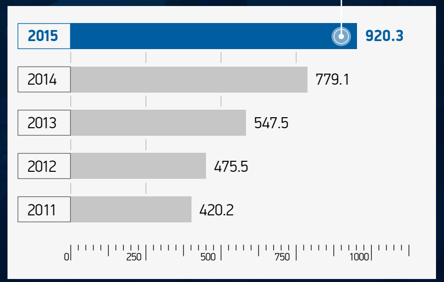
Aircraft supplies, units



Headcount, thousand persons



Book value of assets, RUB bln



* As of December 31, 2015.

ABOUT THE CORPORATION
STATEMENTS BY SENIOR MANAGEMENT
STRATEGY
SUMMARY OF OPERATIONAL RESULTS
REVIEW OF FINANCIAL PERFORMANCE
CORPORATE GOVERNANCE
SECURITIES
SUSTAINABLE DEVELOPMENT
SUPPLEMENTS

KEY INDICATORS

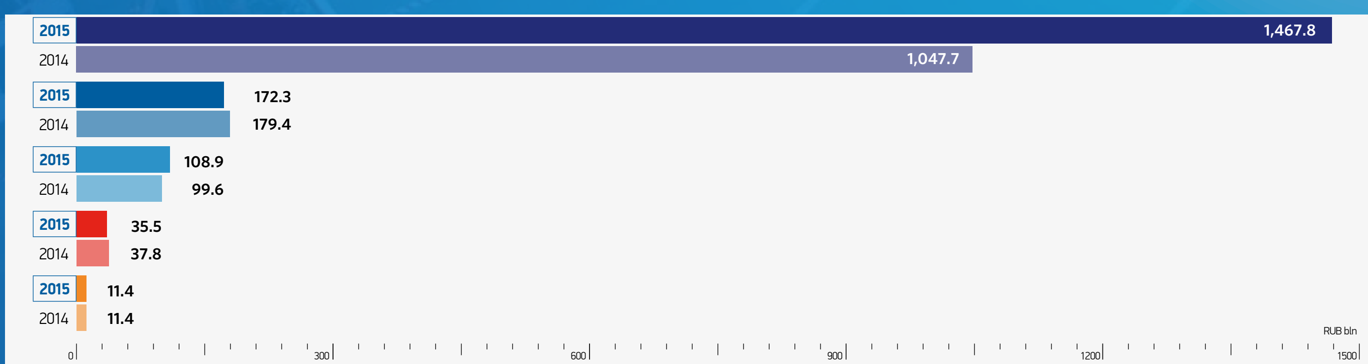
KEY INDICATORS

Indicator (IFRS)	Unit	2011	2012	2013	2014	2015
Aircraft supplies	units	102	94	111	159	156
Revenue	RUB mln	161,653	171,019	220,065	294,538	351,842
Gross profit (loss)	RUB mln	50,317	35,887	43,352	45,245	44,534
Profit (loss) from operations	RUB mln	3	602	1,135	4,212	(71,935)
Net profit (loss)	RUB mln	(13,346)	(5,650)	(13,508)	(13,654)	(108,767)
EBITDA	RUB mln	14,987	4,483	16,486	23,905	(21,756)
Net debt	RUB mln	148,983	162,746	201,682	262,346	169,315
Headcount	persons	92,600	92,100	93,950	98,800	101,380

AIRCRAFT SUPPLIES IN 2011–2015

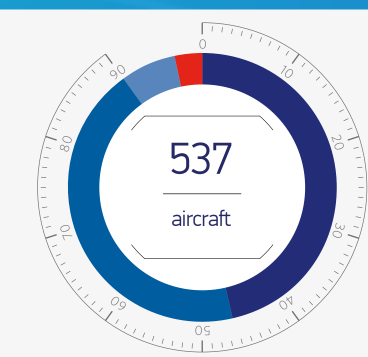
Aircraft type	2011	2012	2013	2014	2015
Military aircraft	**88**	**71**	**79**	**124**	**124**
Domestic market	19	35	54	102	90
Export	69	36	25	22	34
Civil aircraft	**7**	**18**	**29**	**33**	**29**
Domestic market	6	15	15	24	24
Export	1	3	14	9	5
Transport aircraft	**3**	**2**	**–**	**–**	**2**
Domestic market	1	2	–	–	2
Export	2	–	–	–	–
Special aircraft	**4**	**3**	**3**	**2**	**1**
Domestic market	4	3	3	2	1
Export	–	–	–	–	–
TOTAL	**102**	**94**	**111**	**159**	**156**

Firm order backlog in 2014–2015 by types of activity (exclusive of VAT), RUB bln



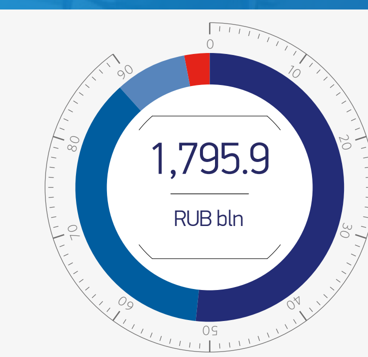
	2014 %	2014 RUB bln	2015 %	2015 RUB bln
Aircraft construction and /or sale contracts	76.2	1,047.7	81.7	1,467.8
Modernisation, maintenance and overhaul of aircraft services	13.0	179.4	9.6	172.3
Research and development	7.2	99.6	6.1	108.9
Production and/or sale of aircraft components and aggregates	2.7	37.8	2.0	35.5
Other aviation-related works and services	0.8	11.4	0.6	11.4

Firm order backlog as of December 31, 2015 by business area, units



	%	units
Military aircraft	46.6	250
Civil aircraft	43.4	233
Transport aircraft	6.9	37
Special aircraft	3.2	17

Firm order backlog as of December 31, 2015 by business area (exclusive of VAT), RUB bln



	%	RUB bln
Military aircraft	51.9	931.6
Civil aircraft	36.5	655.1
Transport aircraft	8.8	158.7
Special aircraft	2.8	50.5

MODEL RANGE

CIVIL AIRCRAFT

MS-21
Medium-range narrow-body airliner
132–211

SSJ 100
Short-range narrow-body aircraft
87–103

TU-204/214/204SM
Medium-range narrow-body airliner
210

Wide-body airliner
210–350

Il-96
Long-range wide-body airliner
257–289

AN-148
Regional Aircraft
68–80

GLOBAL PRODUCTS

LOCAL PRODUCTS

Type
Capacity
Maximum payload

Date of first delivery

Initiation · Assembly of first flight prototypes · 2011 · 1993 · 1994 · 2009

TRANSPORT AIRCRAFT

PTS
Super-heavy military transport aircraft
80 / 160 / 240 t

Il-76MD-90A
Heavy military transport aircraft
60 t

MTA
Medium military transport aircraft
20 t

Il-112V
Light military transport aircraft
5 t

SPECIAL-PURPOSE AIRCRAFT

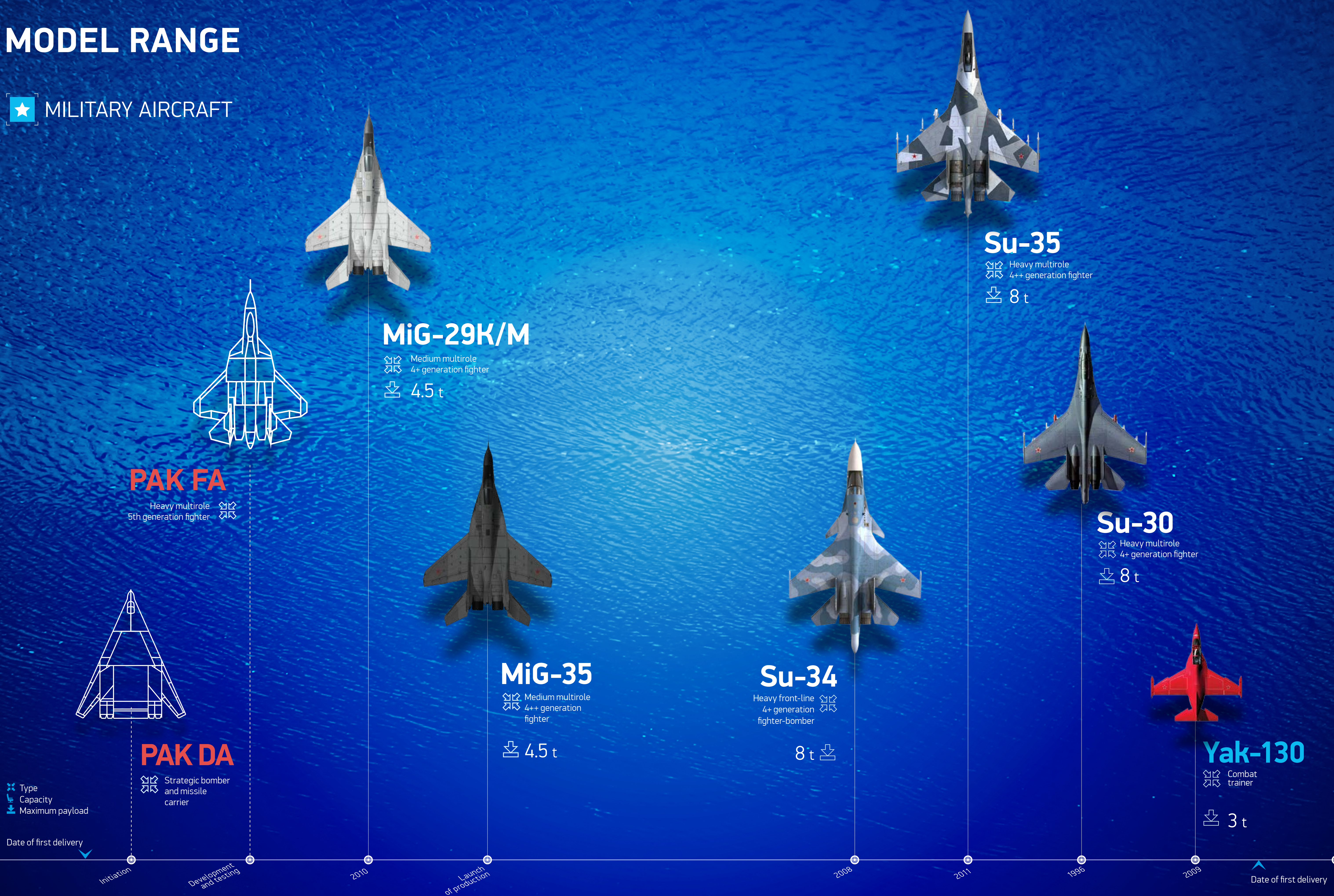
Be-200
Multipurpose amphibian aircraft
12 t

Design · Design · Initiation · 2015 · 2003

Date of first delivery

MODEL RANGE

MILITARY AIRCRAFT



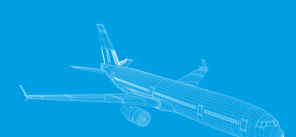
CIVIL AIRCRAFT

29
passenger aircraft delivered in 2015

25
SSJ 100 aircraft delivered in 2015

GLOBAL PRODUCTS

Wide-body airliner
Seat capacity: 210–350 passengers
Date of first delivery:
due dates are currently under approval



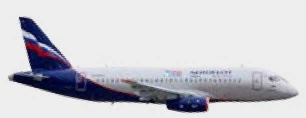
Initiation[1]

[1] Approval of the partnership format with COMAC

MS-21
Medium-range
narrow-body airliner
Seat capacity: 132–211 passengers
First delivery: 2018

Assembly of first flight prototypes

Sukhoi Superjet 100
Short-range
narrow-body airliner
Seat capacity: 87–103 passengers
First delivery: 2011



Serial production

LOCAL PRODUCTS

Il-96
Long-range
wide-body airliner
Seat capacity: 257–289 passengers
First delivery: 1993

Serial production

Tu-204/214/204SM
Medium-range
narrow-body airliner
Seat capacity: 210 passengers
First delivery: 1994

Serial production

An-148
Regional aircraft
Seat capacity: 68–80 passengers
First delivery: 2009

Serial production

TRANSPORT AND SPECIAL-PURPOSE AIRCRAFT

MODEL RANGE

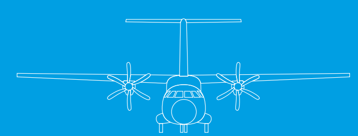
Il-76MD-90A

Heavy military transport aircraft
Maximum payload — 60 t

Serial production

Il-112V

Light military transport aircraft
Maximum payload — 5 t



Design

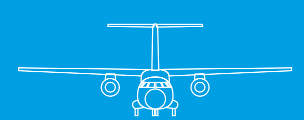
Be-200

Multipurpose amphibian aircraft
Maximum payload — 12 t

Serial production

MTA

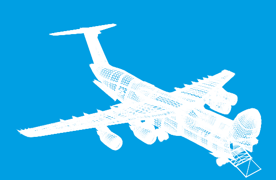
Medium military transport aircraft
Maximum payload — 20 t



Design

PTS

Super-heavy military transport aircraft
Maximum payload — 80, 160, 240 t



Initiation

2015

Delivery of first two Il-76MD-90A aircraft

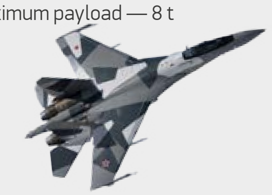
MILITARY AIRCRAFT

34 aircraft exported in 2015

90 aircraft supplied to the domestic market in 2015

MODEL RANGE

Su-35
Heavy multirole
4++ generation fighter
Maximum payload — 8 t



Serial production

Su-34
Heavy front-line
4+ generation fighter-bomber
Maximum payload — 8 t

Serial production

Su-30
Heavy multirole
4+ generation fighter
Maximum payload — 8 t

Serial production

PAK DA
Strategic bomber
and missile carrier

Initiation

MiG-35
Medium multirole
4++ generation fighter
Maximum payload — 4.5 t

Launch of production

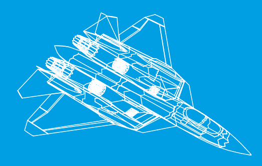
MiG-29K/M
Medium multirole
4+ generation fighter
Maximum payload — 4.5 t

Serial production

YAK-130
Combat trainer
Maximum payload — 3 t

Serial production

PAK FA
Heavy multirole
5th generation fighter



Development and testing

MAP OF ASSETS

LEGEND

OKB (design bureau) PLANT MC (management company)

KEY EVENTS

January 15

Sukhoi Civil Aircraft Company and Aeroflot signed an agreement to supply 20 advanced Russian-built Sukhoi Superjet 100 (SSJ 100) aircraft.

January 16

The Board of Directors of the United Aircraft Corporation elected Yury Slyusar President of UAC. Simultaneously Mikhail Pogosyan's powers as President of the Corporation were terminated.

February 16

Ulyanovsk-based JSC Aviastar-SP started manufacturing the first refuelling tanker Il-78M90A aircraft designed by JSC Il.

February 18–25

At airshow Aero India 2015 in Bengaluru, UAC presented for the first time Sukhoi Superjet 100 in its VIP-configuration, and also demonstrated the capabilities to continue its cooperation with India under the Make in India programme.

March 2

The Mexican airline Interjet confirmed its option for ten Sukhoi Superjet 100 aircraft, making the order firm.

March 4

JSC Aviastar-SP completed the manufacturing of a set of fuselage panels for the first MS-21 flying prototype.

March 10

At Aerocompozit, a member of UAC, a new laboratory intended for testing materials and components made of polymer composites was put into operation.

April 15

The centre wingbox and the fuselage section elements for assembling the first MS-21 flying prototype were delivered to the Irkutsk Aviation Plant.

April 17

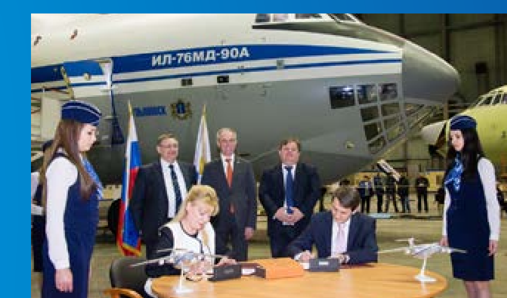
The Ministry of Defence of the Republic of Kazakhstan announced the arrival of modern Su-30SM fighter aircraft at the aviation base in the city of Taldykorgan.

April 27

At the 116th Guards airbase in Lida, the Republic of Belarus, the local airport personnel were handed over advanced Yak-130 combat trainers.

April 29

The Ministry of Defence of the Russian Federation received the first serial Il-76MD-90A aircraft, manufactured by JSC Aviastar-SP.



May 8

A framework agreement on establishing a leasing company to support sales of Sukhoi Superjet 100 (SSJ 100) aircraft in China and South-East Asia was signed in Moscow. The parties to the agreement were the Russia-China Investment Fund (RCIF), Sukhoi Civil Aircraft Company, Xixian New Area Administrative Committee (PRC) and the Chinese company New Century International Leasing.

May 20

JSC Aviastar-SP, a member of UAC, completed the installation of the nose section of the first composite fin torsion box for MS-21 aircraft.

Promotion of products on the Russian and foreign markets
Corporate changes, operation on capital markets
Aircraft development and modernisation
Aircraft deliveries, new contracts

KEY EVENTS

June 15–21

UAC took part in the Paris Air Show. Sukhoi Civil Aircraft Company and Yakutia Airlines signed a bilateral contract for the delivery of three Sukhoi Superjet 100 aircraft starting from 2017. At the Air Show, UAC for the first time presented the new version of the procedural simulator for training (retraining) of flight crews of the MS-21 family. A Sukhoi Superjet 100 in the livery of Interjet airline could be seen in the Show's static display.

June 16–19

UAC demonstrated the prototype aircraft of the advanced air complex of frontline aviation (T-50), as well as simulators and combat training complexes for combat and flight training aircraft Su-35, MiG-29SMT and Yak-130 at the Army Forum near Moscow.

July 10

Sukhoi Civil Aircraft Company completed the contract with Gazprom avia for Sukhoi Superjet 100 delivery, having delivered the tenth SSJ 100 aircraft with a tail number RA-89054.

July 16

PJSC Company Sukhoi delivered to the Ministry of Defence of the Russian Federation a batch of supermaneuverable Su-35S multirole fighters, and Su-34 front-line bombers in the framework of the Unified Military Hardware Acceptance Day.

July 27

Denis Manturov, the Minister of Trade and Industry of the Russian Federation, was elected the Chairman of the Board of Directors of the United Aircraft Corporation.

August 25–30

UAC became the largest exhibitor at MAKS-2015 International Air Show. During the Air Show the TV bridge from the Irkutsk Aviation Plant broadcast the fuselage assembly of the first MS-21 flying prototype, also a number of agreements were signed, including the memorandum of Vnesheconombank's participation in SSJ 100 deliveries to the Mexican airline Interjet, the firm contract signed by Sukhoi Civil Aircraft and State Transport Leasing Company (GTLK) for delivery of 32 Sukhoi SuperJet 100 planes for their subsequent transfer on the terms of operational leasing to the Russian regional airlines, the strategic cooperation agreement between PJSC Sberbank and LLC UAC-Capital, the agreement between Ikrut Corporation and the Ministry of Defence of the Republic of Belarus to supply a batch of Yak-130 combat trainers.

September 16–19

UAC for the first time took part in the international exhibition Aviation Expo China 2015 in Beijing. During this visit to China a meeting with COMAC was held regarding the joint project to develop a wide-body long-range aircraft.

September 30

The Russian air group based at the airport Khmeimim in Syria conducted airstrikes targeting objects of the international terrorist organization Islamic Sate (banned in the Russian Federation). The air group, in particular, included Su-34 aircraft manufactured by UAC companies.

October 5

In Komsomolsk-on-Amur the 100th Sukhoi SuperJet 100 (SSJ 100) aircraft was completely assembled.

October 22

The Central AeroHydrodynamic Institute named after Professor N.E. Zhukovsky (TsAGI) started endurance tests of the Sukhoi Superjet 100 airframe with extended flying range, which have to confirm the design service life of this aircraft model up to 70,000 flight hours and 54,000 flights.

October 23

The UAC Annual report was the best in the category Best Annual Report in the Industrial Sector at the XVIII Annual Report Competition organised by the Moscow Exchange and the media group RCB.

November 18

The Russian Emergency Ministry and JSC Aviastar-SP signed the agreement to supply six Il-76TD-90A within the period from 2018 to 2022.

November 25

Nizhny Novgorod Aircraft Building Plant Sokol delivered a batch of modernised MiG-31 fighters to the Ministry of Defence of the Russian Federation.

December 7

The Government of the Russian Federation approved the accession of PJSC NAZ Sokol to JSC RAC MiG. The reorganisation will ensure the centralised management as well as make it possible to reduce administrative and production costs.

December 9

The Board of Directors of PJSC UAC approved the new organisational structure of UAC aimed at improving the company manageability and enhancing the efficiency of corporate functions.

Promotion of products on the Russian and foreign markets
Corporate changes, operation on capital markets
Aircraft development and modernisation
Aircraft deliveries, new contracts

KEY EVENTS

EVENTS AFTER THE REPORTING DATE

JSC Aviastar-SP manufactured fuselage panels for the second MS-21 development prototype.

PJSC Aeroflot — Russian Airlines received the twenty fifth Sukhoi Superjet 100 aircraft.

Kazan Aviation Plant named after S. P. Gorbunov, a branch of PJSC Tupolev, handed over to the Russian Air and Space Forces another Tu-160 bomber named Vasily Senko, following its overhaul coupled with upgrade.

Another modernised Tu-95MS joined the Russian Air and Space Forces. The work was carried out under the government contact by specialists of PJSC Tupolev.

The first upgraded military-transport Il-76MD-M aircraft made its first flight. The modernisation included flight navigation, radio communication, light, utility and defensive equipment.

The Board of Directors of PJSC UAC elected the Management Board of the Corporation in the new composition. The newly elected Management Board included vice presidents of the Corporation for areas of business. Ten persons were included in the Management Board.

UAC President Yury Slyusar and President of the Republic of Tatarstan Rustam Minnikhanov signed a cooperation agreement and announced that Kazan Aviation Plant named after S. P. Gorbunov – Branch of PJSC Tupolev – would be modernised.

The Board of Directors made a decision to increase the share capital of PJSC UAC through placing additional ordinary registered uncertificated shares.

Virtual design bureau, which united several domestic design bureaus, became operational at UAC.

MiG Corporation and Moscow Aviation Institute unveiled their plans to create the augmented reality technology for UAC fighters.
The Ministry of Education and Science of the Russian Federation allocated a grant in the amount of RUB 37.5 mln for the development of the multipurpose helmet-mounted system of augmented reality for pilots.

The Board of Directors of UAC approved the transfer to UAC of the powers of the sole executive body of a number of the subsidiaries (JSC OAK-TS, JSC II, JSC Aviastar-SP, PJSC VASO, LLC UAC-Capital).

January 15 · January 20 · January 28 · February 11 · February 29 · March 10 · March 25 · March 30 · April 6 · April 8

Promotion of products on the Russian and foreign markets
Corporate changes, operation on capital markets
Aircraft development and modernisation
Aircraft deliveries, new contracts

STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

UAC's activities are of strategic importance for ensuring Russia's defence capability, managing the development of the civil aviation and related industries, and strengthening the national economy

DEAR COLLEAGUES,

THE UAC GROUP IS ONE OF THE GLOBAL LEADERS IN THE MARKET OF CIVIL AND MILITARY AIRCRAFT PRODUCTION. THE CORPORATION'S DEVELOPMENT STRATEGY ENVISAGES OUR PROGRESSION TO BECOME ONE OF THE TOP THREE AIRCRAFT MANUFACTURERS IN THE WORLD BY 2025.

UAC makes a significant contribution to the development of domestic industry in Russia. By consolidating the aircraft production facilities of Russia, the Corporation ensures the systemic, coordinated, and consistent development of the industry. UAC's activities are of strategic importance for ensuring Russia's defence capability, managing the development of the civil aviation and related industries, and strengthening the national economy.

In 2015, UAC was actively involved in the development of major aircraft manufacturing programmes, the implementation of the State Defence Order, and the production and sales of commercial aircraft. The results of the reporting period indicate that even in the current challenging macroeconomic conditions, the Corporation is able to successfully implement its long-term strategy aimed primarily at preserving and developing the scientific and industrial potential of the Russian aircraft manufacturing complex, ensuring the security and defence of the state, and implementing promising aircraft engineering programmes.

The following long-term objectives remain: the expansion of UAC's presence in the civil aviation market, maintaining the Corporation's leadership position in the military aviation segment and increasing its presence in the transport and special-purpose aviation segments

The Corporation is transforming its industrial model, working on the development of horizontal networks and competence centres

With regard to the significant changes in both the geopolitical and macroeconomic situation in the Russian Federation and in the world, we are currently updating and refining the comprehensive development strategy of PJSC UAC, while simultaneously increasing the planning horizon to 2035. The document will include a programme of action to overcome the negative consequences of the sector's trade and economic sanctions.

The following long-term objectives remain: the expansion of UAC's presence in the civil aviation market, maintaining the Corporation's leadership position in the military aviation segment and increasing its presence in the transport and special-purpose aviation segments. In addition, UAC will continue its development of promising aircraft and will make further improvements to its production and commercial activities.

We are continuing our work on the restructuring of our assets, including the consolidation of the major Russian aircraft building companies within our corporate structure. In December 2015, at the Board of Directors meeting, we adopted a new organisational structure for the Corporation, which aims to improve management efficiency, exploit synergies between production facilities, accelerate the establishment of centres of competence, and facilitate the implementation of our long-term strategy.

In order to improve production efficiency, the Corporation is transforming its industrial model, working on the development of horizontal networks and competence centres. Establishing a new industrial model entails the improvement of the production landscape, the streamlining of all activities, cost reductions, and possibility of outsourcing non-core assets and competencies.

PJSC UAC has an effective corporate governance system built in strict compliance with all legal requirements, as well as taking into account the best practices of Russian and international businesses. In 2015, the PJSC UAC Board of Directors and its Strategy, Audit, Budget, Nomination and Remuneration Committees continued their work. In 2016, the Corporation will continue to work towards increasing the effectiveness and transparency of the corporate management system.

Since its establishment in 2006, the Corporation has done extensive work to unify a huge range of disparate assets in a strong structure with a common strategy. On the basis of UAC, we are forming a competitive high-tech company with a broad product range, a lineup of promising projects and a serious talent pool.

Today, the Corporation is facing challenges that require great intellectual and material resources, concentrating the efforts of thousands of experts. Together we will make every effort to strengthen Russia's position in the global aircraft manufacturing market and to ensure the sustainable long-term development of Russian aircraft companies.

Chairman of the Board of Directors of PJSC UAC

Denis Manturov

STATEMENT
BY THE PRESIDENT, CHAIRMAN OF THE MANAGEMENT BOARD

352 RUB bln

UAC's consolidated revenue for 2015

156 aircraft

delivered to customers in 2015

DEAR COLLEAGUES,

IN 2015, UNITED AIRCRAFT CORPORATION SUSTAINED THE LEVEL OF AIRCRAFT OUTPUT, DELIVERING 156 AIRCRAFT TO ITS CUSTOMERS. REVENUE REACHED RUB 352 BLN — THE LARGEST FIGURE IN THE HISTORY OF UAC. SIMULTANEOUSLY, WITH THE PREPARATION OF OUR CONSOLIDATED FINANCIAL STATEMENTS, WE DECIDED TO MAKE ONE-OFF TRANSACTIONS ON NON-CURRENT ASSETS DEPRECIATION AND WRITING-OFF OF INVENTORIES, AS A RESULT OF WHICH THE CORPORATION FACED A SUBSTANTIAL NET LOSS AT THE END OF THE REPORTING PERIOD. WE EXPECT THAT THE EFFECT OF THESE MEASURES WILL FULLY CONTRIBUTE TO THE FINANCIAL STABILITY OF UAC IN THE COMING YEARS.

The bulk of the record revenue in the period was provided by the military aviation segment: our customers received 124 warplanes, the same number as in the previous year. We saw positive momentum in the air transport segment: at the Ulyanovsk JSC Aviastar-SP plant, we set up mass production of the Il-76MD-90A and customers received the first two aircraft in 2015.

The civil aircraft market was affected primarily by the traffic decline on domestic routes in Russia and the financial difficulties of some airlines, which did not allow us to fully implement the sales plans for the Sukhoi Superjet 100. However, the situation was greatly improved due to strategic support from the principal shareholder — the Russian Federation — who provided additional capitalisation of UAC, in the amount of RUB 100 bln for financial recovery of the Sukhoi Civil Aircraft programme, as well as additional capitalisation of the State Transport Leasing Company in the amount of RUB 30 bln in order to purchase at least 32 Sukhoi Superjet 100 aircraft. These and other government support measures significantly mitigated the negative effect of the 2015 recession in the civil aviation market. As a result of the measures taken, SSJ deliveries amounted to 25 aircraft.

Significant progress was made in establishing the MS-21 family

We started to implement changes to improve the effectiveness of key corporate functions

10 years

since the establishment of UAC

Significant progress was made in our civil line up with the establishment of a new product class — the MS-21, a family of short and medium-range aircraft. In August 2015, the official guests of the Moscow International Aviation and Space Salon headed by the Russian President watched the process of joining the fuselage of the first flight model, aired from Irkutsk. In 2016, we will conduct a roll-out and expect to begin flight testing.

We clearly understand that in exchange for their support of the Corporation's key projects — particularly the SSJ 100 and MS-21 — our shareholders, represented first of all by the Government, expect UAC to make certain improvements, particularly in increasing efficiency and productivity, and improving production competitiveness.

During 2015, measures were developed to improve the effectiveness of our corporate governance system. Having received approval in December from the Board of Directors for the new organisational structure and initial steps for management reform, we started to implement changes to improve the effectiveness of key corporate functions. We are going to become a truly unified corporation, while for our key customers — who purchase civil, military, or special-purpose aircraft — we are planning to transfer to "a single window" operation, whereby client relationships will be built and managed by the parent company. We expect the main effect of these changes to occur in 2016 and 2017.

Corporate development was also active in other areas: we continued the integration of the aircraft repair plants transferred by the Ministry of Defence; in 2015, the merger of JSC RAC MiG and NAZ Sokol was approved, and is planned for 2016.

Realising that competitive products can only be created by highly qualified people, UAC continues to work consistently on human resources development, to improve the competencies the employees of our production sites. For example, in 2015, the proportion of workers aged 40 and below increased from 44.6% to 46.1%. This is the result of active measures to attract and retain young people. The proportion of employees with a higher education degree increased from 41% to 43% during the year. At the same time, UAC companies continue to be among the best employers in each of the regions where we operate. Moreover, UAC plants are among the few entities actively hiring people.

In 2016, we will mark ten years since the establishment of UAC. A lot has been accomplished during this period, but there is still much work to be done to achieve greater efficiency and to strengthen our corporate structure using the best global and national practices. The development of a common corporate culture, with modern communications and high standards plays an important role in these efforts. Our goal is to be a world-class Corporation for our shareholders, customers, employees and all of our stakeholders.

President, Chairman of the PJSC UAC Management Board

Yury Slyusar

STRATEGY

THE CORPORATION'S MARKET POSITION

UAC IS ONE OF THE MAJOR PLAYERS IN THE CIVIL AND MILITARY AIRCRAFT MANUFACTURING SEGMENTS OF THE GLOBAL MARKET. UAC'S RIVALS ARE LEADING INTERNATIONAL MANUFACTURERS OF AIRCRAFT, INCLUDING AIRBUS GROUP, BOEING, EMBRAER, BOMBARDIER, AND LOCKHEED MARTIN.

The UAC long-time strategy envisages our rise to the top three businesses in the world aircraft industry. It is planned that by 2025, UAC will account for 3.2 percent of the world civil aircraft market and 10.9% of the military aircraft market in monetary terms.

The UAC strategy envisages our rise to the top three businesses in the world aircraft industry

14%

The Corporation's share of the global narrow-body aircraft market in 2015

CIVIL AIRCRAFT

INTERNATIONAL MARKET

In 2015, the world air travel market continued to grow. According to IATA, in 2015, commercial passenger traffic increased by 6.7%; the percentage of passenger load rose by 0.6 percentage points; the volume of air freight transportation increased by 2.2%. Despite this, the increase in operating performance did not lead to a corresponding increase in demand for new aircraft.

In 2015, manufacturers delivered their customers 1,532 passenger aircraft with more than 20 seats, as well as 42 cargo aircraft. The global market segment with the most sales potential are narrow-body aircraft with 121–250 seats: in 2015, 919 planes were delivered to the market in this segment. The number of deliveries of narrow-body aircraft with a capacity of 20–120 seats was 271. In the wide-body segment, 342 aircraft were delivered during the reporting period, including 305 aircraft with 351–450 seats and 37 aircraft with more than 450 seats.

Boeing and Airbus remain the world leaders by the volume of deliveries of aircraft with more than 20 seats: in 2015 they delivered their customers 662 and 599 passenger aircraft, respectively.

Deliveries of passenger aircraft with more than 20 seats in 2015 (by types and manufacturers)

32 aircraft

total volume of SSJ 100 deliveries to the international customers in 2011–2015

The volume of UAC deliveries in the segment of narrow-body aircraft with 20 to 120 seats amounted to 24 SSJ 100 and An-148 aircraft. In addition, five 100 SSJ aircraft were transferred to leasing companies in the framework of remarketing agreements. According to the results of 2015, the Corporation's proportion in the world market of short-haul jet aircraft was about 14%.

UAC is seeking to expand its presence in the most capacious segments of the world civil aircraft market, giving priority to programmes for the production of the new SSJ 100 and MS-21 planes, including the launch and improvement of the after-sales service system.

SSJ 100 is an efficient and high-tech commercial aircraft that incorporates the latest technologies in the field of aerodynamics, power plant and aircraft systems. UAC has been exporting aircraft of the SSJ 100 family since 2011. During this period, UAC has delivered 32 aircraft of this type to foreign customers. In 2015, five SSJ 100 aircraft were exported, including four aircraft for Mexico's Interjet and one aircraft for Comlux.

Beginning of deliveries of the new aircraft of the MS-21 family is scheduled for 2018. Key factors in determining a strategy for entering the market are advantages of the MS-21 family aircraft compared to major competitors, which were laid in the early stages of design. This includes reduction in direct operating costs by 12–15% compared to the currently operated foreign analogues and expected supremacy by 7–9% relative to the B737MAX and A320NEO families, increased cabin comfort, reduced time for transit service at airports, advanced features in terms of stationing conditions and flight range, rational unification between the members of the family, and meeting the potential environmental standards.

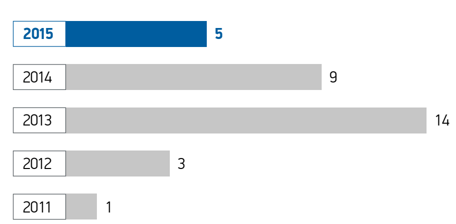
UAC also plans to bring to market a new wide-body aircraft in cooperation with the Chinese aviation industry in the period until 2025. The aircraft will be created on a new technological platform based on the principles of a risk-delimited partnership, which will contribute to shaping a substantial protected market, and help optimise the needed investment, reduce investment, technological and temporary project risks.

MS-21

The first deliveries of the new aircraft from the MS-21 family are scheduled for 2018

According to a long-term forecast by UAC, in the next twenty years, the annual growth rate in the world passenger traffic will be 4.7%, which will result in an increase in the world passenger fleet by 1.6 times. As expected, the quantitative demand for new passenger planes with 20 or more seats will make 37.4 thousand aircraft, of which 24.5 thousand will be narrow-body aircraft more than 112 seats, 6.9 thousand — wide-body aircraft and 6 thousand — regional aircraft with up to 112 seats.

Delivery of civil aircraft by UAC to the international markets in 2011–2015



RUSSIAN AIRLINE FLEET

In 2013–2015, Russia's airlines added 319 aircraft to their fleet

24 civil aircraft

UAC delivered to its domestic customers in 2015

62 aircraft

total volume of SSJ 100 deliveries to Russian customers in 2011–2015

RUSSIAN MARKET

In 2001–2014, the Russian air transportation market grew nearly twice as fast as the world market: annual growth rate was 11.4% (passenger traffic) and 5.3% (cargo volume). In 2014, the passenger traffic growth rate of domestic airlines slowed to 7.2% and in 2015, it turned negative (–6.0%). Recession in passenger traffic on domestic routes and financial difficulties faced by a number of airlines have had a negative impact on the civil aircraft market. The volume of aircraft deliveries to Russia's airlines declined nearly two-fold, to 66 aircraft.

In 2013–2015, Russia's airlines added 319 aircraft to their fleet, including new aircraft and aircraft from the secondary market with 20 or more seats. About 25% of the total aircraft volume accounted for Russian-made planes. The most popular segment of the Russian market is short-medium haul passenger aircraft with 100–210 seats: they accounted for up to 80 percent of the imports. The remainder are imported long-haul passenger aircraft with a greater capacity.

The increase in the number of aircraft produced domestically in the fleet of Russian airlines is a necessary element to shape a base reference market for Russia's aircraft industry products and ensure transport security of the country.

In 2015, UAC's market position was strengthened due to strategic support from the principal shareholder — the Russian Federation — in the form of additional capitalisation of UAC in the amount of RUB 100 bln for financial recovery of the Sukhoi Superjet programme, as well as additional capitalisation of STLC in the amount of RUB 30 bln in order to purchase at least 32 Sukhoi Superjet 100 aircraft.

To meet the demand in the most substantial segment of the Russian market, UAC is implementing programmes for producing the SSJ 100 and MS-21. In 2011–2015, UAC supplied to the Russian market 84 passenger aircraft, including 62 SSJ 100s (including 11 aircraft under remarketing agreements).

In 2015, UAC delivered 24 civil aircraft to its domestic customers, among them 15 new SSJ 100s, including 10 aircraft for Aeroflot, three aircraft for Gazprom avia, and two aircraft to the Russian EMERCOM. Under remarketing agreements, five SSJ 100 aircraft were transferred to customers. Also, four An-148 aircraft were supplied to the domestic market.

Prior to launching mass serial production of new advanced types of domestic aircraft, UAC will continue to implement programmes for the mass production of the Il-96 and Tu-204/214. Saving these programmes in the Corporation's manufacturing plans helps load the production capacity prior to the large-scale manufacture of new products, meet the needs of the Russian executive authorities, and also helps support aviation-related industries.

In accordance with the long-term outlook of PJSC UAC, the average annual growth rates of the passenger traffic in Russia in the next 20 years is expected at the level of 3.8%, which is below the projected average growth rate for the rest of the world (4.7%). Demand for new passenger aircraft from Russian airlines will be approximately 850 aircraft during this period. The share of the Russian market is estimated at 2.6% of the world market of new passenger planes in quantitative terms and 2.0% in value terms.

Delivery of civil aircraft by UAC to the domestic market in 2011–2015

Type of aircraft	2011	2012	2013	2014	2015
SSJ 100	4	9	11	18	**20**
An-148	2	4	4	6	**4**
Tu-204	–	2	–	–	**–**
Total	**6**	**15**	**15**	**24**	**24**

DEVELOPMENT OF A GLOBAL NETWORK OF SERVICES AND AN AFTER-SALES SERVICE SYSTEM

In order to improve the competitiveness of its products in the world market, the Corporation pays significant attention to the establishment of an after-sales service system.

During the reporting period, UAC continued its work to create a complex of information systems of the Single Customer Support Centre (CSC) for civil aircraft, including honing software and hardware solutions, developing a regulatory framework and methodological documentation. In particular, in 2015, based on the CSC, a plan was calculated of spare part demand for the SSJ 100 in 2016, totalling more than RUB 4 bln.

ACARS system launch

On the SSJ 100 aircraft in the Aeroflot fleet, the ACARS system was launched designed to transmit messages between aircraft and ground stations. Using ACARS, the UAC CSC information system receives information in real time on the actual flight hours from all the SSJ 100 in flight, which serves as the basis for the planning of aircraft maintenance, as well as supply of spare parts and repair.

DEVELOPMENT OF THE SALES SYSTEM

The Corporation strives to strengthen its positions in the world and Russian markets of civil aviation, giving priority to the implementation of the key product programmes. UAC companies are working to develop a lineup of globally competitive civil aircraft, shape sales and after-sales service systems.

Work is underway to expand the business portfolio of UAC in the Russian and foreign markets. In particular, in September 2015, an agreement of intent was signed with the European airline CityJet to deliver 15 SSJ 100 aircraft in 2016. Also, during the reporting period, on January 15, 2015, JSC Sukhoi Civil Aircraft (SCA) and PJSC Aeroflot – Russian Airlines entered into an agreement to supply 20 SSJ 100s in addition to the previously signed firm contract to supply 30 aircraft of this type. On March 2, 2015, Mexico's Interjet confirmed an option for ten SSJ 100s. In May, in Moscow, a framework agreement was signed to create a leasing company for sales support of the Sukhoi Superjet 100 in China and Southeast Asia.

In order to create favourable conditions for the development of the aviation industry of Russia, in 2015, the Russian government continued its support programmes, including:

- subsidies to Russian leasing companies for payment of interest on loans obtained in Russian banks to purchase aircraft with their subsequent transfer to Russia's airlines under lease (rent) contracts (according to Decree of the Government of the Russian Federation dated October 22, 2012, No. 1073);
- subsidies to Russia's airlines to reimburse part of the cost of lease payments for aircraft used for domestic regional and local air transportation (according to Decree of the Government of the Russian Federation dated December 22, 2011, No. 1212);
- subsidies in the form of property contribution to Vnesheconombank for reimbursement of part of the costs associated with the production support of high-tech products, including their exports (according to Decree of the Government of the Russian Federation dated December 13, 2012, No. 1302).

In addition, in 2015, new programmes of state support for aircraft industry were launched:

- on June 23, 2015, a subsidiary company of UAC, LLC UAC-Capital, was created, whose main task is to implement a mechanism to guarantee the residual value of civil aircraft, which provides for the obligation of the guarantor to compensate the buyer for the difference within the limits agreed upon by the parties, if the cost of an aircraft in the secondary market is lower than the residual value under the contract upon the expiry of the agreed period. In 2015, the Federal Agency for State Property Management made a contribution to the share capital of PJSC UAC in the amount of RUB 1.24 bln to make a subsequent payment to the share capital of LLC UAC-Capital to implement this mechanism;
- granting subsidies to aircraft manufacturers for the reimbursement of part of the cost to form initial spare part stocks for buyers of aircraft, providing with means of ground services, retraining personnel for a new type of aircraft (according to the Decree of the Government of the Russian Federation dated July 23, 2015, No. 745);
- in accordance with Decree of the Government of the Russian Federation dated October 14, 2015, No. 2045-r, RUB 30 bln were contributed to the share capital of PJSC STLC for purchasing 32 SSJ 100 aircraft.

In addition, in accordance with Federal Law "On the federal budget for 2016" dated December 14, 2015, No. 359-FZ, in 2016, the Government allocated funds to provide subsidies to Russian companies in order to offset part of the cost of projects to establish a network of aviation service centres providing global support 24/365.

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MILITARY AIRCRAFT

11.3%

PJSC UAC's share of the world market in the segment of military transport and special-purpose aircraft

INTERNATIONAL MARKET

UAC maintained and strengthened its position of one of the world's leading producers of military aircraft. In 2015, PJSC UAC delivered 127 military transport planes and special-purpose aircraft to customers, exceeding the performance of a number of key players. According to the results of 2015, the share of PJSC UAC in the world market in the segment of military transport and special-purpose aircraft amounted to 11.3%.

In 2015, UAC transferred 34 military aircraft to foreign customers, including the Su-30, MiG-29 and Yak-130 to Belarus, Kazakhstan, Vietnam and India.

Exports of military, transport, and special-purpose aircraft made by UAC in 2011–2015

	2011	2012	2013	2014	2015
Military aircraft	69	36	25	22	34
Transport aircraft	2	–	–	–	–
Special-purpose aircraft	–	–	–	–	–
TOTAL	71	36	25	22	34

A clear priority of UAC is maintaining defence capability of the Russian Federation and execution of the State Defence Order for the supply of military equipment. At the same time, the Corporation expands its presence in foreign markets, supplying competitive products and working on new prospective military aircraft programmes. UAC is implementing programmes to overhaul and modernise the MiG-31BM, Tu-160, Tu-95MS, Tu-22M3. Integration of 15 aircraft repair plants of Russia's Defence Ministry as part of UAC is underway.

In 2015, aircraft produced by UAC companies were incorporated into the Russian airborne formation as part of the operation in Syria.

In the future, it is expected that the largest importers of Russian military aircraft remain India, Algeria, Vietnam and Indonesia. The countries of the Middle East and Latin America are also considered as potential buyers of Russian military aircraft. In general, in the world market of military aviation, the most popular aircraft made by UAC will be the Su-30, MiG-29 and Yak-130. At the same time, the Il-76 in different modifications may be in demand in some markets.

Currently, more than 6 thousand fighters in the world fleet are over 25 years old and require replacement, however, high prices for modern multi-purpose aircraft and budgetary constraints have impeded the growth of new equipment purchases. According to forecasts by UAC and international experts, in 2015–2024, more than 2.8 thousand fighter aircraft will be produced in the world. The share of UAC, according to the forecast, will amount to about 16%.

In the segment of training and combat aircraft, production will amount to about 810 jet combat-training aircraft in the next ten years. PJSC UAC is among the leading players in this market. The Russian Yak-130 aircraft has a strong position in this segment. The market of military transport aviation is expected to produce about 780 aircraft in 2015–2024, including more than 470 heavy military transport aircraft. In this segment, UAC offers the Il-76 to its customers. According to forecasts, 613 aircraft will be made in the special-purpose aircraft segment in 2015–2024.

FIGHT AGAINST TERRORISM

aircraft produced by UAC companies have been incorporated into the Russian airborne formation as part of the operation in Syria

YAK-130

UAC is among the leading players in the market of training and combat aircraft. The Russian Yak-130 aircraft has a strong position in this segment

318 aircraft

in the segments of military, transport, and special-purpose aircraft delivered to the domestic market in 2011–2015

RUSSIAN MARKET

UAC produces military equipment for the Ministry of Defence of Russia in accordance with the Government Armaments Programme for the period until 2020 approved by the Presidential Decree and the State Defence Order, which both provide for significant increase in quantities and variety of military aircraft supplied to military forces.

The total amount of UAC supplies to the domestic market in the segments of military, transport, and special-purpose aircraft totalled 318 aircraft in 2011–2015.

In 2015, UAC delivered under orders of the Ministry of Defence of Russia 90 Su-30, Su-34, Su-35, MiG-29 and Yak-130 military aircraft. In addition, during the reporting period, three transport and special-purpose aircraft were delivered to the domestic market.

Delivery of military, transport, and special-purpose aircraft made by UAC to the Russian market in 2011–2015

Type of aircraft	2011	2012	2013	2014	2015
Military aircraft	19	35	54	102	90
Transport aircraft	1	2	–	–	2
Special-purpose aircraft	4	3	3	2	1
TOTAL	24	40	57	104	93

In 2015, positive dynamics in the air transport segment was marked. During the reporting period, UAC delivered the first two Il-76MD-90A aircraft under a contract with the Ministry of Defence of the Russian Federation. The Il-76MD-90A is a deeply modernised version of the Il-76, a well-proven aircraft. The new flight navigation system, automatic control system, communication system, and glass cockpit meet all modern requirements to aircraft avionics and significantly increase flight safety, precision of piloting and landing. Replacement of the standard engines D-30KP2 with the more advanced PS-90A-76, installing modified wings and reinforced landing gear have enhanced the operational capabilities of the aircraft.

Il-76MD-90A

UAC delivered the first two Il-76MD-90A aircraft under a contract with the Ministry of Defence of the Russian Federation

STRATEGY OVERVIEW

MISSION

Development, production and aftersales servicing of military and civil aircraft with priority to needs of state customers, reaching and maintaining long-term competitiveness of aircraft construction complex of the Russian Federation in the global aviation market.

KEY STRATEGIC OBJECTIVE

In accordance with the development strategy of PJSC UAC, adopted by the Board of Directors on October 23, 2014, the key strategic objective of the Corporation is to obtain the status of the third world centre of aircraft construction with a strong position on the global market by 2025.

STRATEGIC PLANNING

The state, as the main shareholder of PJSC UAC, defines development targets of the Corporation.

On April 1, 2012, the President of the Russian Federation adopted the "Basic Principles of State Policy of the Russian Federation in the area of aviation activity for the period of up to 2020" where high aircraft potential is regarded as an essential condition for socioeconomic and innovative development of the Russian Federation, as well as for security assurance of the country.

Key activities of the Corporation are determined by Decree of the President of the Russian Federation dated February 20, 2006, No. 140 "On Open Joint-Stock Company United Aircraft Corporation":

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

REGULATORY DOCUMENTS

Planning in UAC is carried out at the level of the state and the industry, PJSC UAC, and its subsidiaries.

The level of industry and state	**Basic Principles of State Policy of the Russian Federation in the area of aviation activity for the period until 2020**	• Forecasts of socio-economic development of the Russian Federation and individual economy sectors • The state programme: "Development of the aviation industry for 2013–2025" approved by Russian Government Decree dated April 15, 2014, No. 303 • Federal target programme "Development of the Russian Military–Industrial Complex in 2011–2020" • Government armaments programme for a period until 2020 • Drafts of federal law on the budget for the planned period • Transport strategy of the Russian Federation for the period until 2030
Company level	**Development strategy of OJSC UAC** (approved by the Board of Directors of PJSC UAC on October 23, 2014)	• Planning time-frame: 7–10 years • Reviewed every 2–3 years
	Long-term development programme of OJSC UAC for the period until 2025 (approved by the Board of Directors of OJSC UAC on December 8, 2014) **Investment programme** **Innovation development programme**	• Planning time-frame: 3–5 years • Reviewed annually • KPI of the Corporation and the Management
	Standalone budgets of subsidiaries and action plans	• Planning time-frame: 1–3 years • Tactic management tool

DEVELOPMENT STRATEGY

The development strategy for the period until 2025 was adopted by the Board of Directors on October 23, 2014. With regard to the substantial changes in external environment, the Corporation is updating and refining its integrated development strategy with an increased planning horizon until 2035. The updated strategy will implement a series of measures aimed at warding off negative effects of the sectoral trade and economic sanctions in the changed geopolitical situation. The changes will affect all major areas of the Corporation's operations, including the market and product, industrial, human resource, institutional and financial development models of PJSC UAC.

MARKET AND PRODUCT STRATEGY

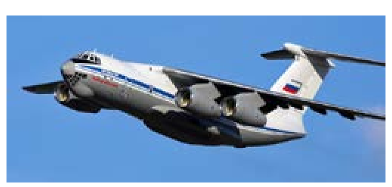
The establishment of the Corporation as the third world centre of aviation is carried out by implementing a balanced market and product strategy, whose main priorities are to preserve the market positions of military aviation, to expand and strengthen the positions in the commercial aviation market.

In line with the market and product strategy, the Corporation is working to bring to the market an effective product range of commercial aircraft and to expand the customer base. At the same time, the Corporation continues to execute the state order and seeks to maintain revenue from exports of military aircraft.

Principles of the market and product strategy of the Corporation

- maximally satisfy state needs in aircraft with a view to ensuring national security;
- optimise the product range, based on the criterion of minimising the resources required to overcome market entry barriers;
- increase presence, build a portfolio and maximise sales in the global market.

Priority markets of the Corporation

Market segment	Segment feature
Commercial passenger aircraft (aircraft with more than 50 seats) 	The world civil aircraft market is the top priority for PJSC UAC, as the most capacious one. Full launch in this segment of the world market will help have a competitive industry scale and fully utilise synergistic effects in the design and manufacture of military and civil aircraft. With the current distribution of force in the world market, the position of the third player can be provided by a share of not less than 10%. In order to increase market share and improve sales effectiveness, UAC is working to increase the competitiveness of products in the following areas: • technical characteristics of products; • the cost and efficiency of aircraft maintenance; • availability of global financial instruments of sales support; • offering the entire range of dimensions of long-haul aircraft that make up the product range without gaps.
Military aviation (tactical fighters, flight trainers and operational trainers) 	The second most important market for the Corporation are military aircraft. Today, PJSC UAC accounts for about 17% of the market (given the closed segments), or roughly 50% of the competitive market. The company's strong positions in the market are ensured by selling aircraft of the fourth generation and their derivatives (4+, 4++ and so on). Holding these positions in the future should be based on the reorientation of the key buyers to complexes of the fifth generation. Thus, the primary strategic objective of the Corporation in the segment is retaining the existing positions through the development of next-generation products.
Transport aviation (commercial transport aircraft, military transport aircraft) 	Renewal of the military transport aircraft fleet is one of the priorities of the approved State armaments programme until 2020. The Corporation faces the challenge of starting the production of ramp transport aircraft of all major classes. The product strategy of PJSC UAC in this segment is conditioned by the needs of the defence and law enforcement agencies of Russia: they accounted for more than 80% of the planned deliveries. In addition, significant deliveries to commercial customers are forecast in some classes (super heavy military transport aircraft) and for the air forces of the strategic partner countries (medium military transport aircraft).

Civil aircraft

The Corporation is working to build a range of global products. In the segment of aircraft with 75-120 seats, UAC has been supplying the SSJ 100 aircraft to the market since 2011; in the most capacious niche, the narrow-body segment of long-haul aircraft with 150-180 seats, UAC plans to deliver the new MS-21. At the same time, UAC is considering the opportunities to create a wide-body aircraft involving foreign partners.

The Corporation will also continue to implement programmes to produce the Il-96, An-148, Tu-204/204SM/214 aircraft. These programmes help load the production capacity prior to the large-scale manufacture of global products, meet the needs of the Russian executive authorities, and also support aviation-related industries.

Range of global products

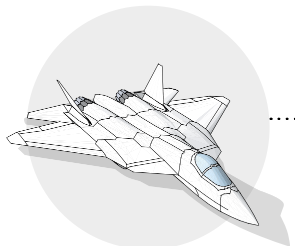
Segment	Model	Project description
Short-haul narrow-body jets	SSJ 100 Capacity: 87–103 seats 	Sukhoi Superjet 100 is a next-generation regional jet that combines and incorporates state-of-the-art aircraft production technology. The SSJ 100 offers exceptional comfort for passengers, significant economic benefits for carriers, convenience for the crew and maximum friendliness for the environment. SSJ 100 has been supplied since 2011.
Medium-haul narrow-body aircraft	MS-21 Capacity: 132–211 seats 	The MS-21 is a next-generation family of passenger airplanes geared towards the most massive segment of the global airline market. The use of advanced engineering concepts in the fields of aerodynamics and engine production, installation of the latest aircraft systems and implementation of new solutions to achieve a higher level of passenger comfort give these airplanes an edge over their rivals — both current and future. Beginning of MS-21 deliveries is planned for 2018.
Wide-body aircraft	Wide-body aircraft Capacity: 210–350 seats 	UAC is considering the opportunity to implement a project to create a wide-body aircraft on a new technology platform in the period until 2025. For the next years, it is planned to solve fundamental issues of the programme.

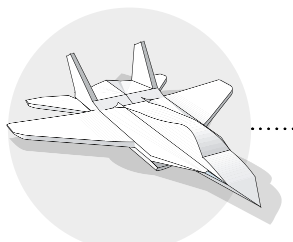
Military aircraft

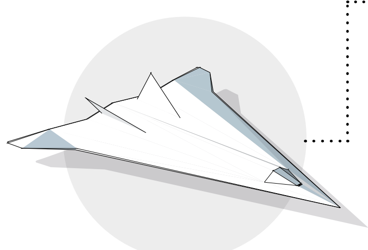
The Corporation conducts serial production of military aircraft for Russian customers within the State Defence Order and also delivers military aircraft abroad. The product strategy in this segment is based on the conjuncture of the Russian domestic market, the main customer of combat aircraft of the Corporation.

The current product range of the Corporation in the segment of military aviation includes aircraft of the generations 4+/4++: Su-30, Su-34, Su-35, MiG-29, MIG-35, along with the new generation combat training aircraft Yak-130, which provide the main load of the Corporation's production capacities for the period until 2025.

At the same time, the Corporation has paid significant attention to the development of next-generation products, including the PAK FA programme and its PMI version for export.





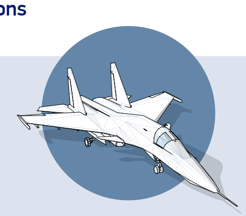


Range of prospective products

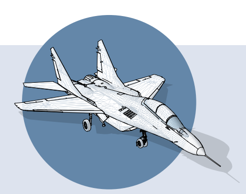
Model	Project description
Prospective Airborne Complex of Frontline Aviation (PAK FA)	The PAK FA Program involves the design, production and delivery of a fifth-generation fighter aircraft to the Russian Air Force. It will help increase the combat potential of the Russian Air Force, bring aircraft production and related industries to a new level of production and technology, lend impetus to research advancements, and provide a stable workload for defense industry enterprises involved in development and production.
Prospective Multifunctional Fighter (PMI)	PMI — a joint project of Russia and India on development of the fifth generation multirole fighter.
Prospective Long-Range Aviation Complex (PAK DA)	Work on the project is being performed in accordance with the schedule. The decision to begin the next phase of the programme will be adopted in the light of the Russian Defence Ministry's plans to develop strategic aviation.

Product range of 4+/4++ generations

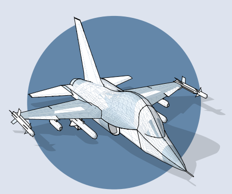
Su-30
4+ generation heavy multifunctional fighter
Max load: 8 t
First delivery: 1996
Mass production



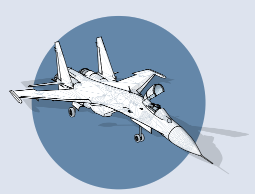
Su-34
4+ generation heavy fighter-bomber
Max load: 8 t
First delivery: 2008
Mass production



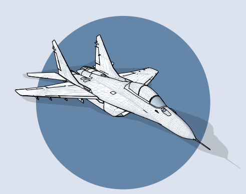
MiG-29K/M
4+ generation medium multifunctional fighter
Max load: 4.5 t
First delivery: 2010
Mass production



Yak-130
Operational and flight trainer
Max load: 3 t
First delivery: 2009
Mass production



Su-35
4++ generation heavy multifunctional fighter
Max load: 8 t
First delivery: 2011
Launch of mass production

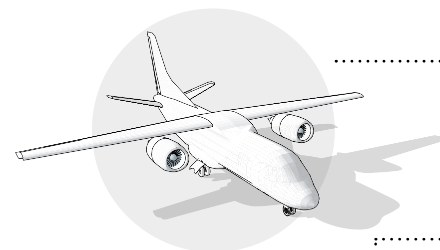


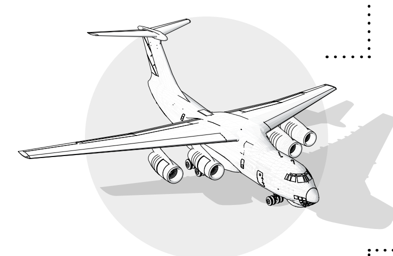
MiG-35
4++ generation medium multifunctional fighter
Max load: 4.5 t
Launch of mass production

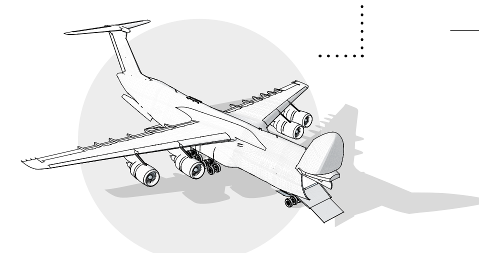
Transport aircraft

In the ramp transport aircraft segment, the Corporation delivers products to government agencies and commercial airlines. The Corporation's lineup in the ramp transport aircraft segment is defined by a range of planes purchased in accordance with the State armaments programme for the period until 2020. In the rearmament of Russian Air Force, the priority segment is the class of heavy military transport aircraft.

The Corporation continues to implement programmes in the field of transport aviation, including mass production, development work, organisation of after-sales service. Priority projects include the development of the Il-112V, MTS, Il-76MD-90A.







Range of prospective products

Model	Project description
Light military transport aircraft Il-112	Light military transport aircraft Il-112V is made for transportation and vertical maneuver of lightweight models of weapons and military equipment, cargo and people, and also for transportation of a wide range of various types of commercial cargo.
Middle-sized military transport airplane (MTA)	A strategic-tactical middle-sized military transport airplane, it is able to carry up to 80% of the weapon and military-equipment types presently in use.
Heavy military transport airplane Il-76MD-90A	The Il-76MD-90A airplane has been created on base of the serial Il-76MD to further improve airplanes of this type and broaden their transportation capabilities through the modernisation of their wings and installation of more powerful, efficient, and quiet PS-90A-76 engines instead of D-30KP-2 engines. The Il-76MD-90A is intended for paradropping and the delivery of military personnel, military equipment, goods, fuel, and containers.
Super-heavy military transport aircraft: family of prospective transport aircraft (PTA)	Project to create the plane is at the stage of initiation. It is expected that the first planes will be delivered in 2025. Maximum carrying capacity of aircraft of this type will be 80 tonnes, 160 tonnes and 240 tonnes in different modifications.

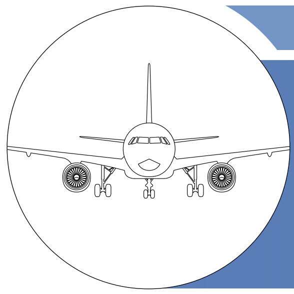
OPERATIONAL STRATEGY

At the heart of the Corporation's operational strategy is building a new industrial model and the provision of scientific and technical development. From the organisation of production on the basis of full-cycle plants, UAC moves towards the formation of the final-stage manufacturing plants, centres of competence, centres of specialisation, and technology parks. The new approach includes re-engineering of processes and minimisation of duplicative production facilities.

By 2025, the Corporation plans to transfer to the top-level integrator role while maintaining within the perimeter of the Corporation a part of the lower operations, critical to the business stability.

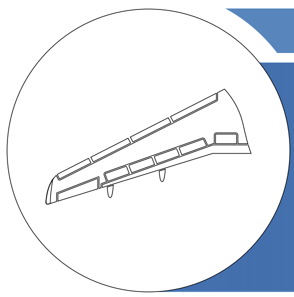
Forming a new industrial model includes the concentration of engineering, production resources, reducing costs and investment expenses, as well as the modernisation of technological platforms.

TARGET INDUSTRIAL MODEL OF THE CORPORATION



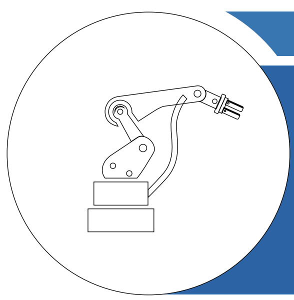
FINAL-STAGE MANUFACTURING PLANTS

Final assembly of products



INTERNAL PRODUCTION

Production organised on the basis of one of the divisions of a production site, supplying semi-finished products within a single production area



CENTRE OF SPECIALISATION

Production with high concentration of specialised equipment, ensuring the needs of all companies of the Corporation in the production of specific items

CENTRE OF COMPETENCE

The highest form of the specialised production development, which includes competence both in manufacturing and development of profile products

HR STRATEGY

The human resources strategy of the Corporation aims to develop principles and technologies of personnel management in order to ensure the successful achievement of the Corporation's business objectives. To strengthen the HR potential of aviation industry companies, it is important to ensure:

- attraction and retention of qualified personnel;
- development of a system of incentives based on key performance indicators;
- development of a social partnership, social security.

Priorities of human resources strategy

Ensuring the implementation of the Corporation's business strategy	High-quality selection and efficient use of HR resources based on the best Russian and international HR management practices
Strengthening the Corporation's image as an attractive employer	Creating conditions to attract and retain skilled staff (modern equipment of workstations, adequate remuneration and social policies, training and career development opportunities), forming new approaches to training, including through cooperation with educational institutions. Occupational guidance for secondary school pupils and students in sector-related institutes and universities
Development of the corporate social responsibility	Implementation of activities aimed at improving the work and life conditions of UAC Group employees, maximum possible jobs saving in monotowns
Labour performance management	Creating a motivational system based on key performance indicators
Rejuvenation of staff at the Corporation's companies	Attracting and retaining younger employees

BUSINESS MODEL

FORMING REQUIREMENTS TO AIRCRAFT

MARKET

CIVIL AIRCRAFT

The passenger aircraft market is dynamic and the largest in terms of capacity. Aircraft performance and operational characteristics, sales system and aftersales support, and brand and manufacturer's stability all play a key role in the successful promotion of products.

MILITARY AIRCRAFT

Military aviation market is characterised by wavelike demand, which is associated with the cyclical development of aircraft generations and the intensely political nature of orders. The main trend of the world military market in the next ten years will be gradual decrease of the volume of the fourth generation fighters production and launch of the fifth generation aircraft production. Output of aircraft in each consecutive generation is reduced, while the monetary volume of the market is constantly growing due to the sharp increase in the cost of production.

TRANSPORT AIRCRAFT

In the market of ramp transport aircraft, planes are delivered to two separate groups of customers – government agencies and commercial airlines, which transport oversized cargo.
When rearming the Russian Air Force, the main segment where deliveries must begin in the heavy military transport aircraft class. The most intensive growth in demand for heavy transport aircraft is projected in 2015–2017, for light and medium aircraft - in 2018-2020, superheavy aircraft – after 2020.
After 2020-2023, a significant growth in demand for ramp transport planes from commercial carriers is expected in connection with end of service life of aircraft built during the Soviet times.

SPECIAL-PURPOSE AIRCRAFT

In the business area of the special-purpose aviation, airplanes are primarily delivered to state customers for specific needs of some state authorities.

UAC

STEPS TO CREATE AN AIRCRAFT

0 Formulation of a business idea
1 Conceptual studies. Business opportunity confirmed
2 The concept is feasible. Readiness "to demonstrate"
3 Selection of suppliers, definition of investors and initial customers. Draft project
4 Readiness to start the programme. Initial delivery contract
5 Approval of aircraft configuration
6 Prototyping. The first flight of an aircraft
7 Putting the aircraft into operation
8 Reaching the full capacity of mass production. Operational support

RESOURCES

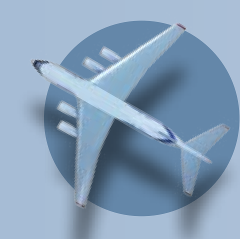
- R&D
- INDUSTRIAL COMPLEX
- STAFFING
- PROCUREMENT SYSTEM AND INTERACTION WITH SUPPLIERS
- SALES AND AFTER-SALES SERVICE SYSTEM
- FINANCIAL RESOURCES

UAC PRODUCTS

A RANGE OF GLOBAL CIVIL AVIATION PRODUCTS WITH MORE THAN 50 SEATS

MEDIUM AND HEAVY FIGHTERS OF GENERATIONS 4+, 4++, 5+, AND TRAINING AND COMBAT-TRAINING AIRCRAFT, AVIATION COMPLEXES OF LONG-RANGE AVIATION

A RANGE OF RAMP TRANSPORT AIRCRAFT



SPECIAL-PURPOSE AIRCRAFT

SALE SCHEME / OPERATOR

SALE SCHEME	OPERATOR
• FINANCIAL LEASING • OPERATIONAL LEASING • DIRECT SALE	• AIRLINES • STATE STRUCTURE • INDIVIDUALS/ FINANCIAL-INDUSTRIAL GROUPS
• STATE DEFENCE ORDER • SALE TO COUNTRIES PARTNERING IN THE FIELD OF MILITARY-TECHNICAL COOPERATION (VIA JSC ROSOBORONEXPORT)	• THE ARMED FORCES OF RUSSIA • THE ARMED FORCES OF THE COUNTRIES PARTNERING IN THE FIELD OF MILITARY-TECHNICAL COOPERATION
• STATE DEFENCE ORDER • FINANCIAL LEASING • OPERATIONAL LEASING • SALE TO COUNTRIES PARTNERING IN THE FIELD OF MILITARY-TECHNICAL COOPERATION (VIA JSC ROSOBORONEXPORT)	• THE ARMED FORCES OF RUSSIA • AIRLINES • THE ARMED FORCES OF THE COUNTRIES PARTNERING IN THE FIELD OF MILITARY-TECHNICAL COOPERATION
• STATE ORDER AND STATE DEFENCE ORDER • DIRECT SALE • SALE TO THE COUNTRIES PARTNERING IN THE FIELD OF MILITARY-TECHNICAL COOPERATION (VIA JSC ROSOBORONEXPORT)	• GOVERNMENTAL BODIES OF RUSSIA • FOREIGN OPERATORS

DETERMINATION OF MARKET VOLUMES

FORMING REQUIREMENTS TO AIRCRAFT

IMPLEMENTATION OF MAJOR AIRCRAFT MANUFACTURING PROGRAMMES

AIRCRAFT PRODUCTION PROGRAMMES IN CIVIL AVIATION

SSJ 100

Key results of 2015

In 2015, the work continued to improve the SSJ 100 aircraft in accordance with the set schedule. The programme "Improvement of the SSJ" aims to upgrade the characteristics and strengthen the competitiveness of the SSJ 100.

In 2013–2015, 35 major changes to standard design were certified, as well as a large number of minor changes, which made it possible to improve technical and operational characteristics, increase the reliability, and serviceability of the fleet.

Key performance indicators for the programme "Improvement of the SSJ" within the framework of the federal target programme "Development of Civil Aviation in 2002–2010 and for the Period until 2015" were achieved.

Also, during the reporting period, work continued to implement existing and adopt new measures of state support for sales of domestic aircraft.

Development prospects

- performance of the programme business plan approved by the Board of Directors of PJSC UAC on September 23, 2015;
- execution of the work schedule under the programme "Improvement of the SSJ 100";
- further development of the after-sales service system;
- development of the sales system and stimulating demand, launching the residual value guarantee mechanism based on the specialised company UAC-Capital, bringing to the market a new sales financing product;
- opening of representative offices in targeted geographic regions;
- ensuring the development, approval of the rules for granting state subsidies for reimbursement of interest expenses on loans obtained for forming a stock of spare parts and ground service tools;
- creating a long version of the plane, SSJ SV.

MS-21

Key results of 2015

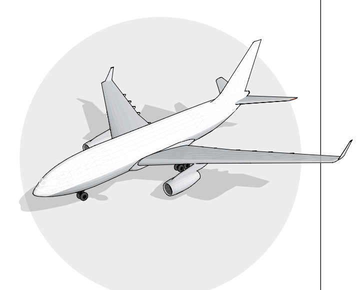
The companies of the UAC Group have continued the work to create the first flight model. At the Irkutsk Aircraft Plant (IAZ), the automated final assembly line Broetje Automation Assembly & Turnkey Systems GmbH — BA ATS was installed. At JSC Aviastar-SP, installation of stations made by ThyssenKrupp System Engineering GmbH for assembly of panels, APU compartment, and ventral bay was completed. JSC Aviastar-SP and PJSC VASO shipped a series of aircraft elements to IAZ. At IAZ, a substantial part of the work was completed on the first flight model.

A testbed base for the first flight was fully prepared. 22 testbeds were made, among them 16 strength testbeds, four integrative ones and two aircraft system testbeds.

Development prospects

- production of a static sample of the MS-21-300;
- production of the first flight model of the MS-21-300 powered by Pratt & Whitney engines, carrying out testbeds for assemblies and systems of the plane;
- maiden flight of the aircraft;
- start of flight in-plant, finishing and certification tests of the MS-21-300 powered by the PW-1400 engines.

LONG-HAUL WIDE-BODY AIRCRAFT



Key results of 2015

In 2015, Long-Haul Wide-Body Aircraft was being developed, including preparation of the avant-project materials, in particular:
- appearance options were developed and the key characteristics were identified;
- external loads were defined and airframe unit designs were developed;
- options were assessed, the appearance was formed, as well as the technical characteristics of the power plant;
- proposals on technical appearance options and aircraft avionics complex were developed;
- market research of the wide-body aircraft market was carried out.

Development prospects

- passing Gate 2 stage, defining the preliminary characteristics of the aircraft sample, the set of functional systems, devices and equipment, development of programme business plan;
- identifying the sources of programme funding, defining the format of cooperation with a partner (China);
- the choice of the head contractor — developer from UAC;
- signing an intergovernmental agreement.

AIRCRAFT PRODUCTION PROGRAMMES IN MILITARY AVIATION

PAK FA

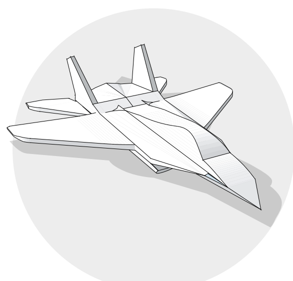
Key results of 2015

Seven prototypes of the first stage were constructed, which are involved in flight and ground tests.
Work on the second preliminary stage (PI-2) and GSM-1 were performed in the amount planned for 2015.

Development prospects

- obtaining preliminary conclusion for the production of an initial batch of PAK FA;
- preparations for the conclusion of a state contract for the supply of mass-produced aircraft in 2017–2018.

PMI



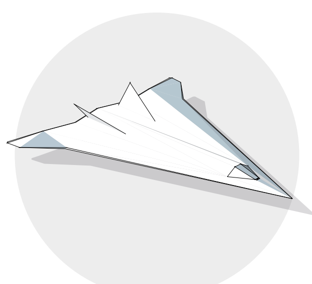
Key results of 2015

During 2015, we continued to harmonise project parameters with the Indian party.

Development prospects

- signing a contract for carrying out development design work, performing scheduled work.

PAK DA



Key results of 2015

During the reporting period, development and design work of the first stage was carried out.

Development prospects

- completion of the first phase of the research, based on the results of which a schedule for continuing the work will be specified.

AIRCRAFT PRODUCTION PROGRAMMES IN TRANSPORT AVIATION

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

Key results of 2015

In 2015, two aircraft complexes Il-76MD-90A were made.

Development prospects

- the project on creation of the first prototype of the tanker aircraft Il-78M-90A is underway. The aircraft is now at stage of final assembly. It is planned to complete production of the first aircraft by the end of 2016 and launch state tests.

Il-112V

Key results of 2015

During 2015, experimental work was conducted to create the light military transport aircraft Il-112V for the Ministry of Defence of the Russian Federation. The aircraft technical project was defended in front of the customer. To defend the technical project of Il-112V, UAC made and presented to the customer a full-size mock-up of the cockpit to evaluate ergonomics, location of controls and liquid crystal displays.

Development prospects

- completing the development of working design documentation for the Il-112V, launching the production of the first two aircraft within development work with the conclusion of a supplementary agreement to the state contract;
- signing of a contract for the supply of 48 Il-112Vs.

MTA

Key results of 2015

In accordance with Clause 7 of the Minutes of the 15th meeting of the Russian-Indian Intergovernmental Commission on military-technical cooperation dated November 2, 2015, the Russian party will continue to implement the programme for the Russian Ministry of Defence alone. Negotiating the terms and procedure for conducting development work with the Ministry of Defence of Russia started.

Development prospects

- preparation of a feasibility study for the programme and its approval by the Board of Directors of PJSC UAC;
- signing a state contract to conduct development work on the SVTS project with additional state financing.

INVESTMENT PROGRAMME

71.3 RUB bln

the aggregate volume of the Corporation's Investment programme in 2015

20.9 RUB bln

the aggregate volume of investments in technical re-equipment in 2015

THE CORPORATION HAS BUILT A UNIFIED SYSTEM OF MANAGEMENT OF THE INVESTMENT PROCESS, INCLUDING COLLECTION, ANALYSIS, EVALUATION AND HARMONISATION OF PRIORITY INVESTMENT PROJECTS.

Methodological framework for the planning and accounting of investments in the Corporation is based on the following documents:

- Investment policy of PJSC UAC;
- Regulation on the Investment Committee of PJSC UAC;
- Regulation on the review, negotiation and follow-up control of investment projects of the Corporation.

In accordance with the adopted methodology, before the beginning of the budget process at the meeting of the Investment Committee of PJSC UAC, investment limits are approved by the Corporation as a whole and by subsidiaries.

Within the approved limits, the Corporation implements a large-scale investment programme in accordance with its strategy, which is aimed at strengthening market positions in the military and civil aircraft industry. Priority is given to supporting promising aircraft manufacturing projects in military aviation such as Tu-160, PAK FA, and civil aircraft industry, first of all, MS-21. The most substantial amount of investment falls on technical re-equipment and research and development.

TECHNICAL RE-EQUIPMENT AND R&D

The largest amount of investment in 2015 fell on research and development projects (62%), while investment in the project for the creation of the civil aircraft MS-21 accounted for 40% of the total funding of research and development

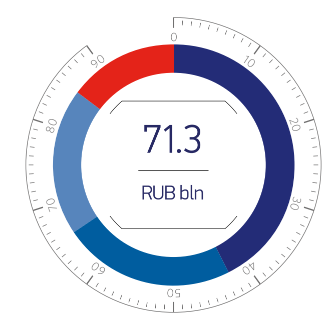
IMPLEMENTATION OF THE INVESTMENT PROGRAMME IN 2015

In 2015, the aggregate investment volume amounted to RUB 71.3 bln. The programme is financed through budgetary funds within the framework of the federal target programme "Development of the Military-Industrial Complex of the Russian Federation for 2011–2020" (15%), state contracts (43%), as well as at the expense of own funds of the Corporation.

The largest amount of investment in 2015 fell on research and development projects (62%), while investment in the project for the creation of the civil aircraft MS-21 accounted for 40% of the total funding of research and development. About 29% of the investment was directed to technical re-equipment of the companies, including a large-scale modernisation of the existing production sites and development of airfield base. About 6% of the investments was allocated for facilities construction projects. About 3% of the total investment went to the other programmes, including projects in the areas of energy efficiency, security, logistics, and corporate projects.

In 2015, within the framework of the investment programme, the Corporation carried out reconstruction and technical re-equipment of some of its subsidiaries. During the reporting period, four capital construction facilities were commissioned.

Structure of the Investment programme by funding sources in 2015, RUB bln



	%	RUB bln
Investments in R&D under state contracts	42.6	30.4
Own funds, including co-financing of FTP MIC	23.1	16.5
Investments in R&D for own funds	19.5	13.9
Budget funds of FTP MIC	14.7	10.5

FORMING A NEW INDUSTRIAL MODEL AND TECHNICAL RE-EQUIPMENT

CREATION OF TECHNOLOGY PARKS

Decisions are made on the creation of technology parks in Kazan, Voronezh and Nizhny Novgorod

15%

the proportion of domestic equipment in the total volume of purchases

AUTOMATED ASSEMBLY LINES

Work is underway to create automated assembly lines for the production of the MS-21

IN 2015, THE CORPORATION CONTINUED TO WORK ON DEVELOPING ITS PRODUCTION BASE AND FORMING A PROSCPECTIVE INDUSTRIAL MODEL. WITH THE ASSISTANCE OF PARTNERS, WE PERFORMED DIAGNOSTICS OF THE EXISTING INDUSTRIAL MODEL, CONSIDERED OPTIONS OF ITS DEVELOPMENT FOR THE LOAD PERIOD UNTIL 2025.

Transformation of the corporate industrial model envisages the transition from full-cycle plants that perform all the technological processes of aircraft production to the model of development of competitive technologies and competencies. Based on the companies of PJSC UAC, final-stage manufacturing plants, centres of competence and centres of specialisation, and technological parks are emerging.

Decisions are made on the creation of technology parks in Kazan on the basis of the Kazan Aviation Plant named after S. P. Gorbunov, a branch of PJSC Tupolev; in Voronezh on the basis of PJSC VASO; in Nizhny Novgorod at the facilities of the Nizhegorodsky aircraft building plant Sokol — branch of JSC RAC MiG. The Corporation is studying the possibility to transfer part of machining volumes to the advanced development zone in Komsomolsk-on-Amur.

Technical re-equipment programmes are being implemented pursuant to the “Plan of Actions to Ensure the Production of Domestic Aircraft in 2007–2015“. In 2015, the development of the production base of PJSC UAC subsidiaries was funded from several sources, including the FTP, R&D funding programme under the State Defence Order, as well as from own and borrowed funds.

In the framework of the federal target programme “Development of the Defence Industry Complex“ work was performed on 42 projects for 15 areas. Within the transfer of aircraft repair plants of the Ministry of Defence, projects for the development of companies’ repair base in the amount of RUB 812.9 mln were implemented.

AREAS OF WORK ON TECHNICAL RE-EQUIPMENT

Technical re-equipment programme aims to update and optimise the productive capacity of companies of PJSC UAC, to raise the technical and technological level of production on the basis of the advanced scientific achievements. In 2015, UAC continued to upgrade the production capacity, with the proportion of domestic equipment in the total volume of purchases rising to 15%.

Within the framework of the programmes of technical re-equipment and reconstruction, UAC companies are being fitted with modern equipment, including:

- multi-axis milling centres with numerical control (CNC) with a tool magazine of 40–60 units;
- CNC machines for automatic riveting of fuselage and wing panels;
- CNC pulling-over equipment;
- high-performance equipment for the manufacture of parts from polymer composite materials (including those involving vacuum infusion method, pressure impregnation method (RTM), machines for automated laying-up);
- robotic platform for aircraft assembly.

In 2015, at the companies of PJSC UAC, 762 new units of technological equipment were commissioned, including equipment for flight tests, assembly work, machining, forming-blanking work, welding, heat treatment, production of polymer composite materials, as well as other equipment.

ESTABLISHMENT OF CENTRES OF COMPETENCE

Priority is given to forming specialized production facilities and centres of competence

Within the framework of technological re-equipment, we plan to create automated assembly lines for the production of the MS-21, including aggregate and final assembly lines at the IAZ branch of PJSC Irkut Corporation, aggregate assembling lines of tail fin and fins of the MS-21, assembly line of the fuselage nose of the MS-21 for JSC Aviastar-SP.

Work is underway to develop IT-infrastructure at companies: in 2015, 959 new personal computers were put into operation, including 704 computers for computer aided design; 16,260 licences of application software were received.

INTRODUCTION OF INNOVATION TECHNOLOGIES IN PRODUCTION

In 2015, at the companies of PJSC UAC, we continued to implement programmes for the development of digital production, introduction of new advanced technologies, technologies for maintaining production. There are also projects to restore previously lost technologies at a new technological level.

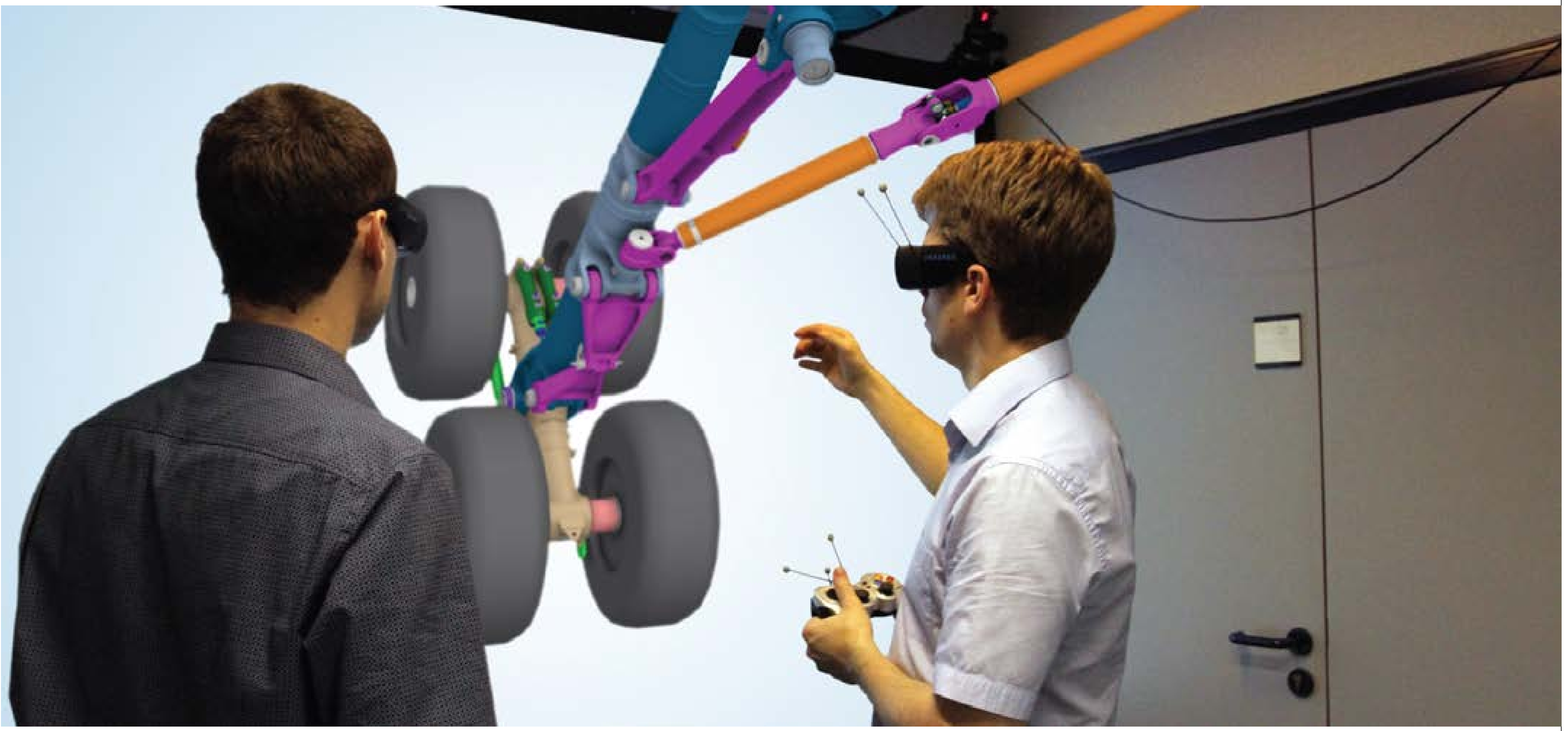
Priority is given to forming specialised production facilities and centres of competence, particularly in areas such as:

- production of transparent radomes;
- centre for aggregation of avionic equipment;
- production of power units and assemblies of modern polymer composites;
- production of fuselage panels;
- production of wings, lift devices, fins and rudders;
- production of pylons and nacelles.

At the companies of PJSC UAC, innovation technologies are being developed and applied, including:

- automated connection of airframe units based on a CNC controlled by a laser tracker;
- assembling of fuselage sections using digital positioning systems and laser trackers;
- automatic riveting of panels, superpanels and parts, using CNC;
- use of satellite-based unit assembly systems (pallet assembly);
- application of robotic drilling in unit assembly;
- automated laying-up of prepreg and dry fabric for the intricate parts from polymer composite materials;
- laying-up parts from polymer composite materials using laser projectors;
- robotic ultrasonic control of parts from polymer composite materials;
- contour processing of parts from polymer composite materials, form-built covers, roll-formed sections, using an adjustable CNC table;
- group cutting of prepregs on CNC equipment;
- automated cloth proofing with SCADA mode control;
- covering sheet panels and profiles using 3D data;
- high-speed and high-performance machining of aluminium, titanium alloys and structural steels;
- installation of assembly tools using laser trackers on the basis of digital data.

DEVELOPMENT OF TECHNOLOGY, INNOVATION AND R&D



THE DEVELOPMENT OF THE AVIATION INDUSTRY AS A HIGH-TECH SPHERE IS SUBJECT TO CONTINUOUS IMPROVEMENT OF THE SCIENTIFIC AND TECHNICAL BASE. ALONG WITH THE EXPANSION OF APPLICATIONS OF ADVANCED WORLD TECHNOLOGIES, UAC CONSISTENTLY ENHANCES ITS OWN COMPETENCE IN THE FIELD OF RESEARCH AND DEVELOPMENT. CREATION AND IMPLEMENTATION OF INNOVATIVE SOLUTIONS ARE AMONG THE PRIORITIES OF THE CORPORATION.

"A MORE ELECTRIC AIRCRAFT"

Implementation of the programme "A more electric aircraft" will improve the competitiveness of domestic airplanes and promote import substitution in the industry

DEVELOPMENT OF TECHNOLOGICAL SOLUTIONS, INNOVATIONS AND R&D

The Corporation implements a wide range of research and development programmes within the framework of aircraft manufacturing projects, such as the production of the SSJ 100, MS-21, long-haul wide-body aircraft, PAK FA, PAK DA, PMI, as well as unmanned aerial vehicles. In particular, scientific research and engineering developments is carried out in areas such as:

- de-icing coatings;
- the strength of metal composite structures;
- monitoring the internal condition of metal and composite structures;
- on-board smart information and control systems;
- active noise reduction methods for the airframe and propulsion units of the aircraft;
- new sources of energy for on-board systems of promising aircraft;
- superconductivity;
- protection against electromagnetic radiation;
- prospective extinguishing agents — flame retardants;
- new methods of high-precision autonomous aircraft navigation;
- construction materials with variable transparency in a fixed range;
- frequency-selective management of transparency.

MATERIAL AND COMPOSITE STRUCTURE TESTING LABORATORY

The laboratory increased the UAC capability for independent testing of products manufactured from composite materials

"A more electric aircraft"

The Corporation's companies continued to implement the programme of "A more electric aircraft" designed to improve flight and environmental performance and reduce the cost of operation of domestic aircraft. In particular, the objectives of the programme include:

- improving fuel economy of domestic aircraft by 15–20%;
- increasing aircraft reliability and service life;
- reducing the cost of aircraft life cycle by 5%;
- increase of mean time between failures by 5–6%;
- reduction of nitrogen oxide NOx emission by 45% and 60% relative to the 2008 ICAO standards by 2020 and 2030, respectively;
- reducing noise in the cabin and on the ground.

Implementation of the programme "A more electric aircraft" will improve the competitiveness of domestic airplanes and promote import substitution in the industry.

System engineering

The Corporation is working on the introduction of modern design technologies based on the methods of system engineering, which aims to contribute to:

- ensuring the required quality level from the first product;
- compliance with work schedule;
- decreasing time to develop and release the aircraft;
- optimisation of aircraft development costs.

Forming a unified information environment

The Corporation started work to form a unified knowledge base and information environment, to optimise the storage, search and analysis of large amounts of data on aircraft building projects.

The database will contain information on research and development, characteristics of finished and purchased products, as well as mathematical models of suppliers of assemblies, units, and systems. The system will eliminate duplication of functions, considerably increase the speed of technological development and the efficiency of work.

General-purpose aviation technology development programme

The specialists of the Corporation are working to form an integrated object-oriented programme for the development of general-purpose aviation technology with selection of common areas of technology development.

Forming a uniform scientific and educational infrastructure

Companies of PJSC UAC are working to develop scientific and educational infrastructure based on a modern logistics and bench base for training qualified personnel possessing knowledge of new technologies in the areas of design, engineering and manufacturing.

3D DESIGN

At the beginning of 2015, UAC opened a new design centre based on the Tupolev Design Bureau in Moscow, equipped with one of the most powerful computers in Russia. Dedicated communication channels enable data sharing between subsidiaries of UAC, located throughout the country, as well as work with major design companies. The latest technologies will allow UAC to fulfill design projects in 3D, and to train employees to operate complex part and assemblies in 3D. The centre's work will accelerate the implementation of large projects in aircraft building.

OPENING A COMPOSITE STRUCTURE TESTING LABORATORY

In 2015, at Aerocompozit, part of UAC, a new laboratory for testing materials and structural elements of polymer composite materials started to work. The technical competence of the laboratory and its staff were confirmed by the accreditation certificate of the aviation register of the Interstate Aviation Committee. The laboratory began to work to support the production of units and construction elements of the MS-21 and SSJ 100, test samples of satellite parts and input control of materials. The laboratory increased the UAC's capability for independent testing of products manufactured from composite materials. Earlier, in 2013–2014, the Corporation opened two new production sites: KAPO-Compozit in the capital of Tatarstan, Kazan, and Aerocompozit-Ulyanovsk.

INTERNATIONAL COOPERATION

UAC, AS ONE OF THE LEADING PLAYERS OF THE GLOBAL AIRCRAFT BUILDING MARKET, IMPLEMENTS A WIDE RANGE OF INTERNATIONAL PROJECTS INVOLVING MAJOR COMPANIES FROM EUROPE, THE UNITED STATES AND ASIA. THE CORPORATION DEVELOPS COOPERATION WITH FOREIGN PARTNERS IN MANY PROMISING AREAS, INCLUDING DELIVERY OF CIVIL AND MILITARY AIRCRAFT, INDUSTRIAL COOPERATION, DEVELOPMENT AND PRODUCTION OF NEW AIRCRAFT SYSTEMS.

30 SSJ 100 aircraft

contract on delivery for Mexico's Interjet airline

AIRCRAFT PROMOTION IN FOREIGN MARKETS

In 2015, UAC continued its work to expand the geography of sales of civil aircraft. The main achievements of the reporting period in this area are:

- Delivery of four SSJ 100 aircraft for Mexico's Interjet airline under a contract for 30 aircraft and delivery of one SSJ 100 for Comlux airline. Signing an agreement of intent with the Irish carrier CityJet to supply 15 planes in 2016.
- Signing a contract between JSC Sukhoi Civil Aircraft and the Border Service of the National Security Committee of the Republic of Kazakhstan for delivery of one Sukhoi Business Jet in 2016.
- Signing a framework agreement with the Steering Committee of the Xixian district (PRC) on promoting the SSJ 100 in the Chinese market.
- Signing an agreement between PJSC Irkut Corporation and Egypt's airline Cairo Aviation to purchase six MS-21s with an option for another four machines.
- Implementation of a series of activities to promote the SSJ 100 and MS-21 in the Indian market.
- Negotiations with potential customers from Vietnam, Egypt, Cambodia, Myanmar, Nicaragua, Cuba, Kyrgyzstan, Uzbekistan, Belarus, Indonesia, Algeria, South Africa, Ethiopia on delivery of the SSJ 100 and MS-21.

THE RUSSIAN-CHINESE PROJECT

The engineering teams of UAC and COMAC formed concepts of aircraft families. The parties started to prepare documents for establishment of the joint Russian-Chinese venture to manage the programme

DEVELOPMENT OF NEW AIRCRAFT SYSTEMS

In 2015, progress was made on a number of projects to create new aircraft systems, including:

- **Russian-Indian project to create a perspective multifunctional fighter.** PJSC Company Sukhoi and Hindustan Aeronautical Ltd (HAL) completed the sketch technical design stage and agreed on organisational, technical and financial parameters of the contract for development work.
- **The Russian-Chinese project to create a long-haul wide-body passenger aircraft.** In cooperation with the Commercial Aircraft Corporation of China (COMAC), in 2015 technical proposals and other materials were prepared necessary to pass the checkpoint of the second stage (Gate 2). The engineering teams of PJSC UAC and COMAC formed concepts of aircraft families. The parties started to prepare documents for establishment of the joint Russian-Chinese venture to manage the programme.

5.5 USD mln

revenue from front landing gear niches deliveries to Airbus

MODERNISATION OF THE INDIAN FLEET OF MIG-29

In 2015, Indian partners assisted by RAC MiG modernised four planes

INDUSTRIAL COOPERATION

The UAC Group companies have rich experience of indsutrial cooperation programmes carried out together with international partners. In 2015, the main work areas in this field included:

- **Production of components for A320 Airbus (France).** In 2015, Irkutsk Aircraft Llant delivered 114 front landing gear niches with a total value of USD 5.5 mln.
- **Production of parts for the SSJ 100 by Shenyang Aircraft Corporation (PRC).** In the framework of cooperation, the Chinese company shipped to PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin kits of parts for the SSJ 100 made on a give-and-take basis.
- **Cooperation under the MS-21 short-/middle-range aircraft project.** In 2015, Irkutsk Aircraft Plant and JSC Aviastar-SP (Ulyanovsk) worked on manufacturing the pilot aircraft MS-21 (prototypes).
- **Licensed production and serial overhaul of the Su-30MKI in India.** PJSC Irkut Corporation jointly with the Indian aircraft corporation HAL continued to work on the organisation of licensed production and overhaul of the Su-30MKI on the production capacity of HAL. In addition, negotiations were underway to incorporate Indian air force production capacity into the project.
- **Modernisation of the Indian fleet of MiG-29.** In 2015, Indian partners assisted by RAC MiG modernised four planes.

AFTER-SALES SERVICE

UAC in cooperation with foreign partners, customers develops the programme of after-sales service and modernisation of the delivered equipment. In particular, in 2015, UAC companies performed work in this field in the following countries:

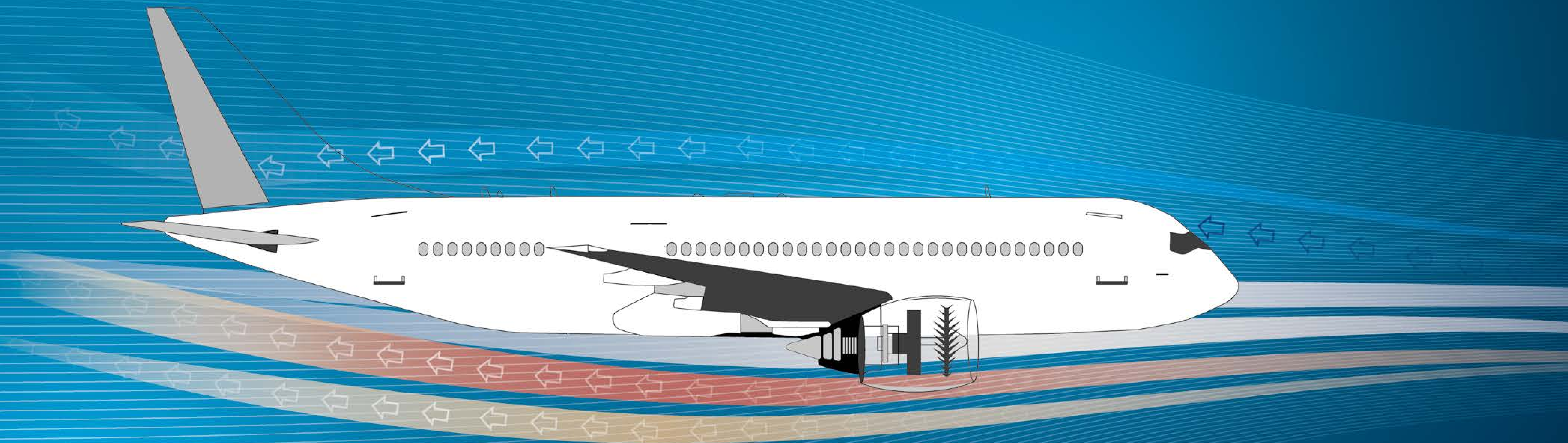
- **Algeria:** technical logistic support of Su-30MKI(A) aircraft simulators, repairing and extending the life of MiG-29, overhaul of components of Su-24 of the Algerian Air Force.
- **Venezuela:** repair of Su-30MK2 of the Venezuelan Air Force.
- **China:** deliveries of spare parts and equipment were organised for the maintenance and repair of the Su-27, Su-30, Il-76MD and Il-76TD of the Chinese Air Force.
- **India:** repair of Il-76MD of the Indian Air Force. In addition, a series of meetings was held of the trilateral Russian-Indian group for technical integrity of Russian combat aircraft operated by the Indian Air Force, measures to improve the reliability of aircraft components and assemblies were considered.

INDUSTRIAL PARTNERSHIP

Industrial partnership with foreign companies primarily developed within the framework of the SSJ 100 project and on the issues related to PJSC UAC joining the shareholders of OJSC 558 Aircraft Repair Plant (Baranovichi, Belarus).

- **Partnership with Alenia Aermacchi S.p.A. (Italy).** In 2015, PJSC UAC, PJSC Company Sukhoi and JSC Sukhoi Civil Aircraft worked to optimise the management of the SSJ 100 programme together with Italian partners. By combining the sales units of JSC Sukhoi Civil Aircraft and SuperJet International (Venice, Italy), subsidiaries of PJSC Company Sukhoi and Alenia Aermacchi, an integrated commercial service was created. Negotiations with the Italian party were held on the format of its participation in the SSJ 100 programme and marketing support for promoting the aircraft in foreign markets.

SUMMARY OF OPERATIONAL RESULTS



AIRCRAFT DELIVERIES

25 SSJ 100 aircraft

delivered to customers in 2015

124 military aircraft

delivered to customers in 2015

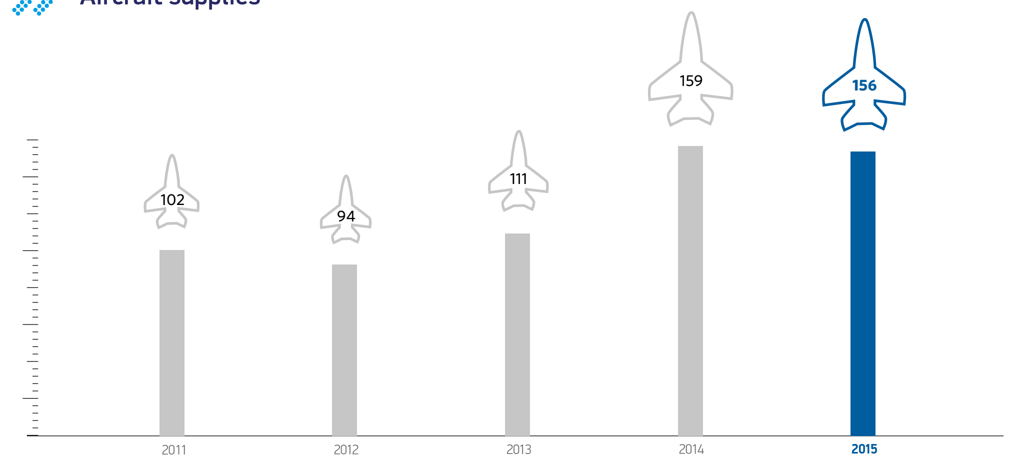
IN 2015, THE CORPORATION DELIVERED 156 AIRCRAFT TO CUSTOMERS, INCLUDING 124 MILITARY AIRCRAFT, 29 CIVIL, TWO TRANSPORT AIRCRAFT, AND ONE SPECIAL-PURPOSE AIRCRAFT.

In the segment of military aircraft, deliveries remained at the level of 2014. In the interests of the Russian Defence Ministry, the Corporation delivered 90 aircraft — Su-30, Su-34, Su-35, MiG-29 and Yak-130. Under export contracts, UAC delivered 34 aircraft — Su-30, MiG-29 and Yak-130 to Belarus, Kazakhstan, Vietnam and India.

In the civil segment, UAC delivered 29 aircraft to customers, including 24 aircraft for domestic and five for foreign customers. The largest proportion of deliveries fell on the SSJ 100 aircraft: The Corporation delivered to Russian customers 20 aircraft of this type, including ten aircraft for Aeroflot, three aircraft for Gazprom avia, two aircraft to the Russian EMERCOM. Also, within the framework of remarketing procedures, five SSJ 100s were delivered to the State Transport Leasing Company for their subsequent transfer under operational leasing terms to Russian regional airlines. In addition, during the reporting period, state customers received four An-148s. Within export delivery, four SSJ 100 aircraft were handed over to Mexico's Interjet airlines and one aircraft to Comlux.

In 2015, the first two of the newest Russian mass-made military-transport aircraft Il-76MD-90A built at JSC Aviastar-SP in Ulyanovsk were handed over to the customer. Aircraft were produced under a contract with the Defence Ministry of the Russian Federation for 39 aircraft of this type. Also, during the year, the Corporation delivered one special-purpose aircraft TU-214SR to the Russian Department of Presidential Affairs.

Aircraft supplies



	2011	2012	2013	2014	2015
Military aircraft	88	71	79	124	124
Domestic market	19	35	54	102	90
Export	69	36	25	22	34
Civil aircraft, including:	7	18	29	33	29
Domestic market, including:	6	15	15	24	24
SSJ 100*	4	9	11	18	20
An-148	2	4	4	6	4
Export, including:	1	3	14	9	5
SSJ 100	1	3	14	9	5
Transport aircraft	3	2	-	-	2
Domestic market	1	2	-	-	2
Export	2	-	-	-	-
Special-purpose	4	3	3	2	1
Domestic market	4	3	3	2	1
Export	-	-	-	-	-

** incl. remarketing*

BACKLOG EXPANSION

IN 2015, THE CORPORATION CONTINUED WORK ON EXPANDING THE BACKLOG IN THE SEGMENTS OF CIVIL AIRCRAFT, MILITARY, TRANSPORT, SPECIAL-PURPOSE AVIATION.

In 2015, an agreement was concluded between JSC Sukhoi Civil Aircraft (SCA) and Aeroflot to deliver 20 SSJ 100s in addition to the previously signed firm contract for delivery of 30 such planes. The agreement opened a new phase in the history of Aeroflot cooperation with United Aircraft Corporation, which includes SCA: long-term strategic plan correlation of both companies is provided, which will give a powerful impetus to the development of the Russian aircraft industry. Thus, the fleet of the leading Russian airline will have 50 SSJ 100s in the future. In August 2015, within the framework of the International Aviation and Space Salon MAKS, SCA and the State Transport Leasing Company signed a firm contract for the supply of 32 SSJ 100 aircraft for their subsequent transfer under operational leasing to Russian regional airlines. Deliveries of new SSJ 100s will help update and expand the fleet of domestic carriers. In accordance with the contract, the ordered planes will be delivered by SCA to the leasing company from 2015 until the end of 2017. The contract also provides an option for 28 additional SSJ 100s.

In June 2015, within the framework of the international aerospace salon Paris Air Show 2015, SCA and Yakutia Airlines signed a contract for the delivery of three Sukhoi Superjet 100s with the deliveries starting in 2017. Performance of the agreement will be a continuation of the successful cooperation between SCA and Yakutia airlines, which has been operating two SSJ 100 aircraft on domestic and international routes since the beginning of 2013.

Work is underway to expand the order portfolio in foreign markets. In March 2015, SuperJet International, a joint venture between Finmeccanica-Alenia Aermacchi and PJSC Company Sukhoi, reported that the Mexican airline Interjet confirmed the option for 10 additional Sukhoi Superjet 100s. In May 2015, in Moscow, UAC signed a framework agreement to create a leasing company for sales support of the SSJ 100 in China and Southeast Asia. Parties to the quadripartite agreement were the Russian-Chinese Investment Fund, Sukhoi Civil Aircraft, the Steering Committee of the Xi xian district (PRC), as well as the Chinese company New Century International Leasing. The agreement was concluded with the support of the Russian-Chinese Intergovernmental Commission. According to the agreements, within three years the Russian-Chinese Leasing Company will acquire from CJSC Sukhoi Civil Aircraft up to 100 SSJ 100s totalling about USD 3 bln. The headquarters of the new leasing company will be located in the Russian-Chinese Technopark in Xixian, Shaanxi Province, the capital of the aviation cluster in China.

The Corporation is also working to attract new customers and expanding business portfolio in segments of the military, transport, and special-purpose aviation. In particular, in November 2015, EMERCOM of Russia and JSC Aviastar-SP, part of UAC, signed a cooperation agreement providing for the delivery of six Il-76TD-90As between 2018 and 2022. The aircraft will be used for the delivery of humanitarian assistance, evacuation and performance of a wide range of EMERCOM tasks. In addition, the Ministry of Defence of the Republic of Belarus and PJSC Irkut Corporation signed at MAKS 2015 a contract for delivery of a batch of Yak-130s, combat-training aircraft, with deliveries starting in 2016. Work is underway to promote military aircraft produced by UAC in other international markets.

PRODUCT QUALITY MANAGEMENT

COMPANIES OF PJSC UAC ARE IMPLEMENTING A SET OF QUALITY MANAGEMENT PROGRAMMES, PROVIDING THE REQUIRED LEVEL OF RELIABILITY OF THE DEVELOPED, MASS-PRODUCED AND REPAIRED PRODUCTS.

ANALYSIS OF AIRCRAFT QUALITY INDEXES FOR 2015

The results of the analysis of the aircraft quality and reliability in 2015 attest to the conformity of the manufactured products with the requirements of regulatory and contractual documentation. Most of the failures and guarantee claims were related to failures of purchased components. As production is mastered, in manufacture and operation of each type of aircraft equipment, there are positive trends manifested in the gradual decrease in the relative amount of certificates of defect (number of complaints per one warranty product) and the number of claims on the part of operators.

REGULATION ON QUALITY MANAGEMENT SYSTEM OF PJSC UAC

In November 2015, the Board of Directors of PJSC UAC approved the Regulation on quality control system of PJSC UAC. The regulation envisages the implementation of a number of measures for further development of the quality management system, including the creation of a single regulatory, legal and methodological support of activities for quality management, creating a corporate multilevel system of data collection, establishment of a system of training and skills development of specialists in the field of technical regulation, management, quality assurance and quality control. In addition, it is planned to develop a comprehensive quality assurance plan that will include measures to implement the regulation.

ANALYSIS OF AIRCRAFT QUALITY

The results of the analysis of the aircraft quality and reliability in 2015 attest to the conformity of the manufactured products with the requirements of regulatory and contractual documentation

QUALITY MANAGEMENT SYSTEM

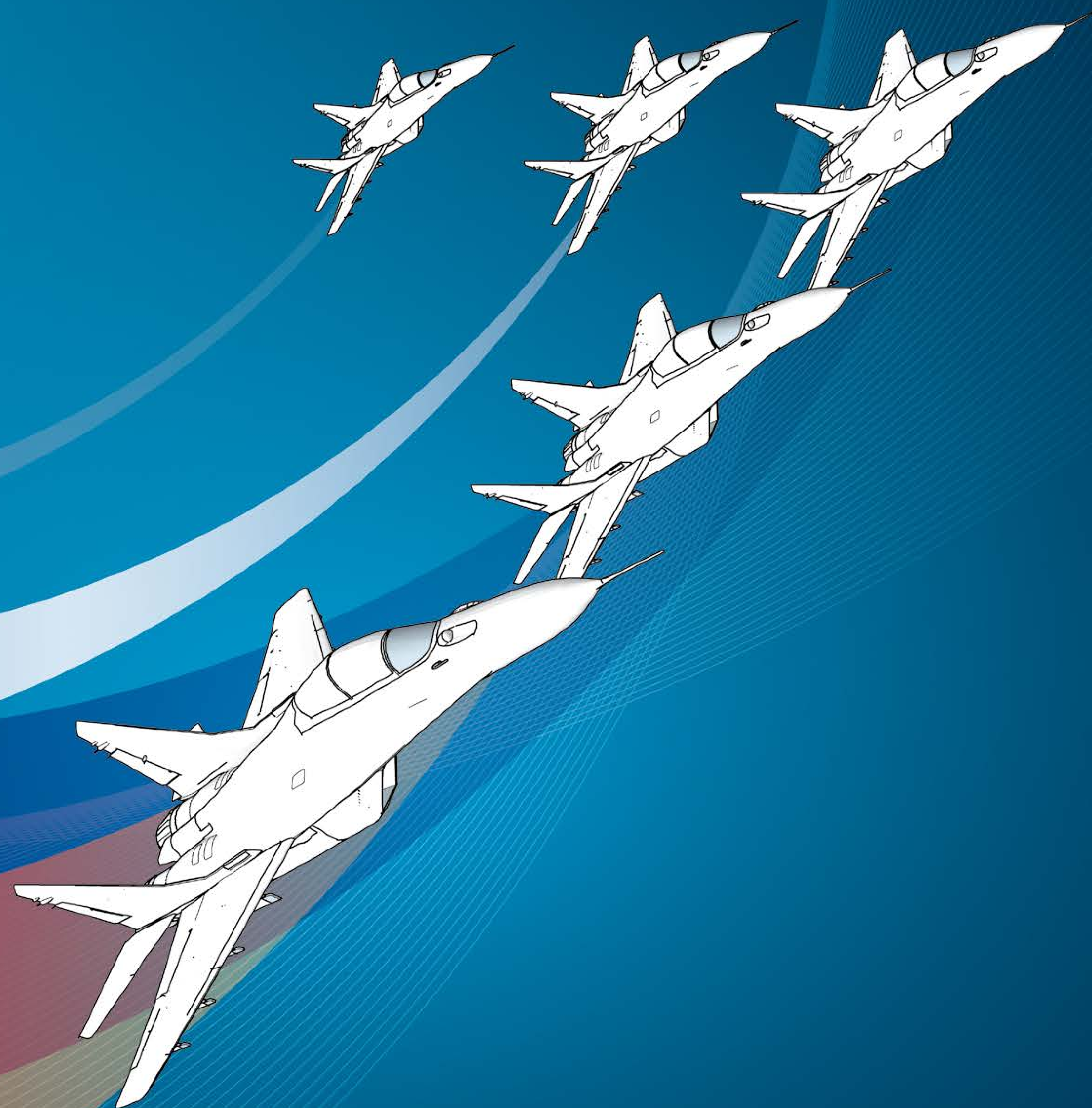
Currently, all companies of PJSC UAC have implemented the quality management system; there are certificates of QMS conformity to the requirements of the standards for domestic and international systems of certification

QUALITY MANAGEMENT AT COMPANIES OF PJSC UAC

Currently, all companies of PJSC UAC have implemented the quality management system (QMS); there are certificates of QMS conformity to the requirements of the standards for domestic systems of voluntary certification Military Register, Oboronsertifika, the international system IAQG (International Aerospace Quality Group), as well as operation licences.

To improve the quality of products, companies regularly hold quality days, quality audits, as well as meetings and technical conferences on quality, analysing the causes of failures of aircraft equipment and making the necessary arrangements. A set of PJSC UAC guidelines on selected aspects of interaction with suppliers was developed; work was organised on creating a concept for improving the effectiveness of the interactions with suppliers. Cooperation with JSC Russian Helicopters is continuing on introduction of a system for control of accreditation bodies and certification centres in the aerospace industry in the Russian Federation by industry (ICOP, Industry Controlled Other Party).

REVIEW OF FINANCIAL PERFORMANCE



FINANCIAL RESULTS OF 2015

OVER THE LAST FEW YEARS UAC GROUP HAS GROWN FROM A GROUP OF RELATIVELY SMALL COMPANIES INTO A LARGE CORPORATION CONSOLIDATING THE ASSETS OF MAJOR RUSSIAN AIRCRAFT DESIGN AND PRODUCTION SITES. THE CORPORATION IS GROWING AND DEVELOPING, HAVING INCREASED ITS TURNOVER IN 2015 UP TO RUB 352 BLN ALONGSIDE WITH THE STEADILY RISING BACKLOG.

351.8 RUB bln

revenue in 2015

19.5 %

revenue growth in 2015

Key Indicators

Indicator (IFRS)	UoM	2013	2014	2015
Aircraft delivery	units	111	159	156
Revenue	RUB mln	220,065	294,538	351,842
Gross profit (loss)	RUB mln	43,352	45,245	44,534
EBITDA	RUB mln	16,486	23,905	(21,756)
Profit (loss) from operations	RUB mln	1,135	4,212	(71,935)
Net profit (loss)	RUB mln	(13,508)	(13,654)	(108,767)
Net debt/Revenue		0.92	0.89	0.48

In 2013–2015, the operational performance of the Corporation was characterised by:

- steady growth of deliveries (average annual rate of growth – 19%);
- steady growth of sales (average annual rate of growth in revenue – 26%).

60.7 %

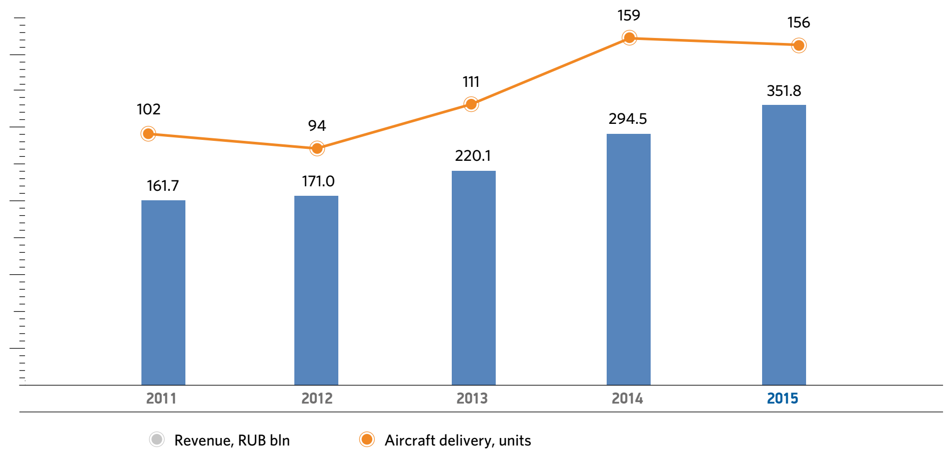
share of revenue earned on aircraft construction contracts in 2015

17.2 %

share of revenue earned on modernisation and overhaul services in 2015

As of the end of 2015, the revenue of UAC Group went up by 19% and reached RUB 352 bln – this is the highest historical performance indicator in UAC.

Dynamics of aircraft deliveries and revenue of the Corporation

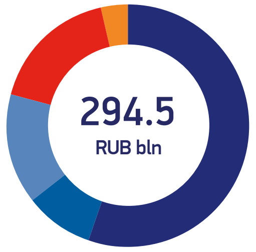


The revenue growth in 2015 was achieved mainly due to:

- performance of contracts for aircraft construction (an increase of RUB 50 bln);
- modernisation and overhaul of equipment (an increase of RUB 10 bln).

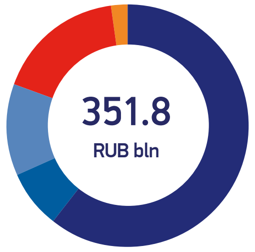
The biggest share in the revenue structure of the UAC Group was traditionally occupied by the revenue earned on aircraft construction contracts (share in 2015: 60.7%). In addition, important income items include performing modernisation and overhaul work (17.2%), R&D (12.1%), and sales of aircraft components and related products (7.9%).

Revenue structure in 2014



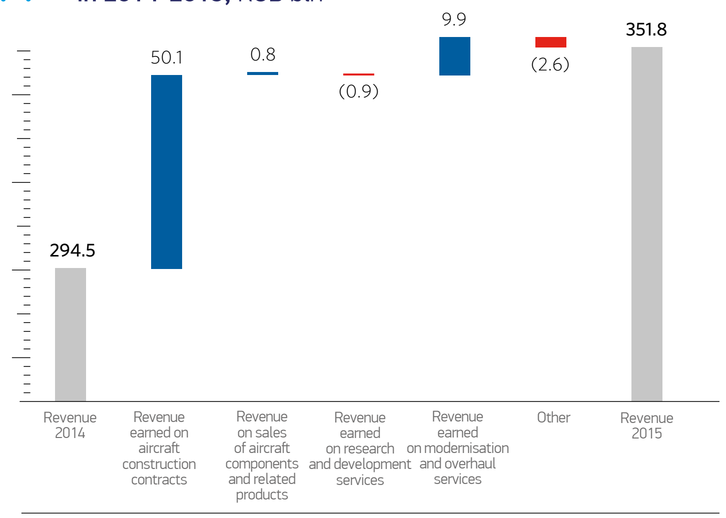
	%	RUB bln
Revenue earned on aircraft construction contracts	55.5	163.5
Revenue on sales of aircraft components and related products	9.2	27.1
Revenue earned on research and development services	14.7	43.3
Revenue earned on modernisation and overhaul services	17.2	50.6
Other	3.4	10.0

Revenue structure in 2015



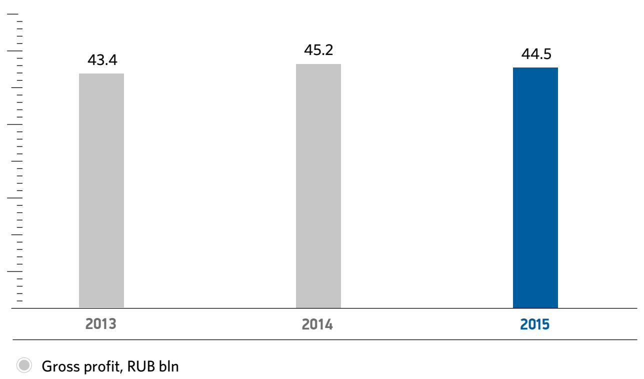
	%	RUB bln
Revenue earned on aircraft construction contracts	60.7	213.5
Revenue on sales of aircraft components and related products	7.9	27.9
Revenue earned on research and development services	12.1	42.5
Revenue earned on modernisation and overhaul services	17.2	60.5
Other	2.1	7.4

Factor Analysis of Revenue Change in 2014–2015, RUB bln



In the reporting year, the UAC Group managed to get a gross profit of RUB 45 bln, while gross profitability was 13% due to the high percentage of revenue under the State Defence Order: these contracts have restrictions for marginal revenue, established by laws and regulations.

Gross profit, RUB bln



44.5 RUB bln

UAC gross profit in 2015

When forming the consolidated financial statements, it was decided to make one-off transactions, resulting in a change of the operating result, including:

- non-current asset impairment (by RUB 30 bln);
- non-current asset write-off and impairment (by RUB 17 bln);
- creation of reserves (by RUB 12 bln).

Transactions on impairment and write-off of assets formed on the balance sheet of the UAC Group over the past few years were conducted considering the evaluation of their fair value.

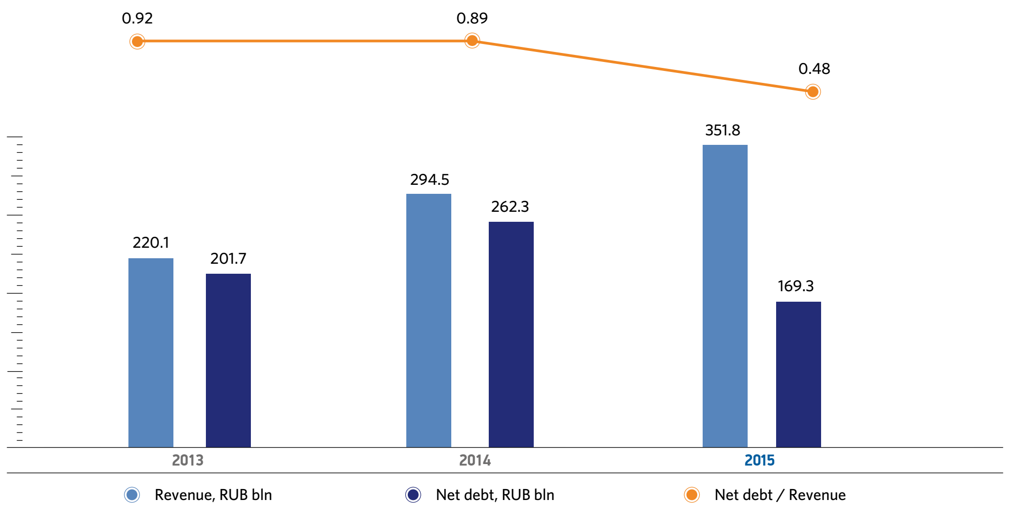
In addition, a rise in financial expenses occurred due to the changes in macroeconomic conditions had significant influence on the final financial result:

- growth of interest expenses (by RUB 11 bln);
- growth of other financial expenses (by RUB 14 bln).

The measures taken have led to PJSC UAC having a net loss of RUB 109 bln at the end of the reporting period.

In 2015, the Corporation's consolidated net debt decreased by 35%, from RUB 262.3 bln to RUB 169 bln, mainly due to an increase in the UAC's equity capital, which happened primarily through the contribution of federal loan bonds (OFZ) to the share capital for the purpose of financial restructuring of JSC Sukhoi Civil Aircraft.

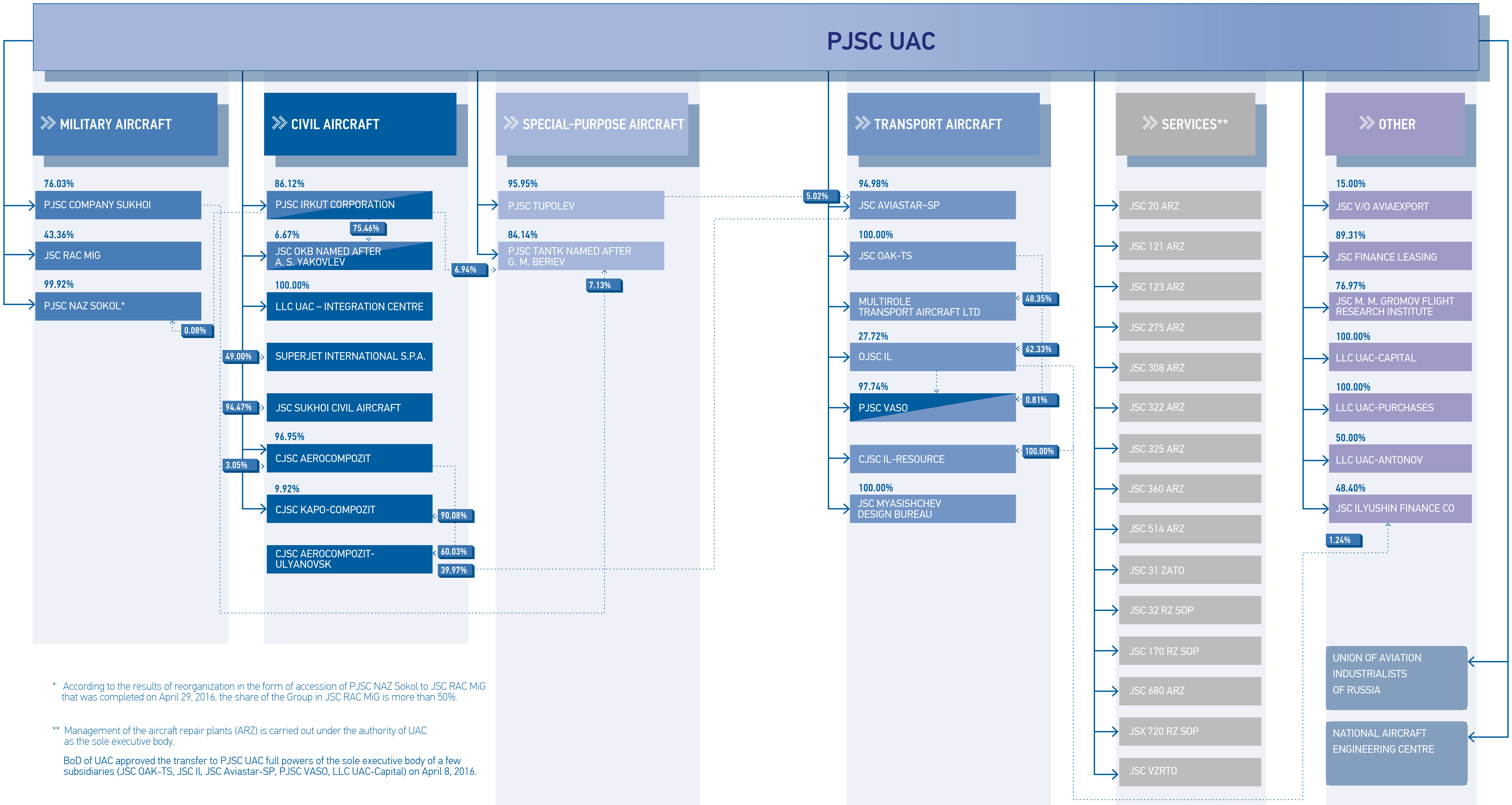
Net debt / Revenue



CORPORATE GOVERNANCE

CORPORATE STRUCTURE

AS OF DECEMBER 31, 2015



* According to the results of reorganization in the form of accession of PJSC NAZ Sokol to JSC RAC MiG that was completed on April 29, 2016, the share of the Group in JSC RAC MiG is more than 50%.

** Management of the aircraft repair plants (ARZ) is carried out under the authority of UAC as the sole executive body.

BoD of UAC approved the transfer to PJSC UAC full powers of the sole executive body of a few subsidiaries (JSC OAK-TS, JSC Il, JSC Aviastar-SP, PJSC VASO, LLC UAC-Capital) on April 8, 2016.

SYSTEM AND PRINCIPLES OF CORPORATE GOVERNANCE

PJSC UAC HAS AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM BUILT ACCORDING TO THE REQUIREMENTS OF RUSSIAN LAWS AND ORIENTED TOWARDS THE BEST PRACTICES OF RUSSIAN AND INTERNATIONAL COMPANIES. THE PARTICIPANTS IN CORPORATE RELATIONS ARE PJSC UAC, ITS SUBSIDIARIES AND ASSOCIATES, MEMBERS OF MANAGEMENT BODIES AND EMPLOYEES.

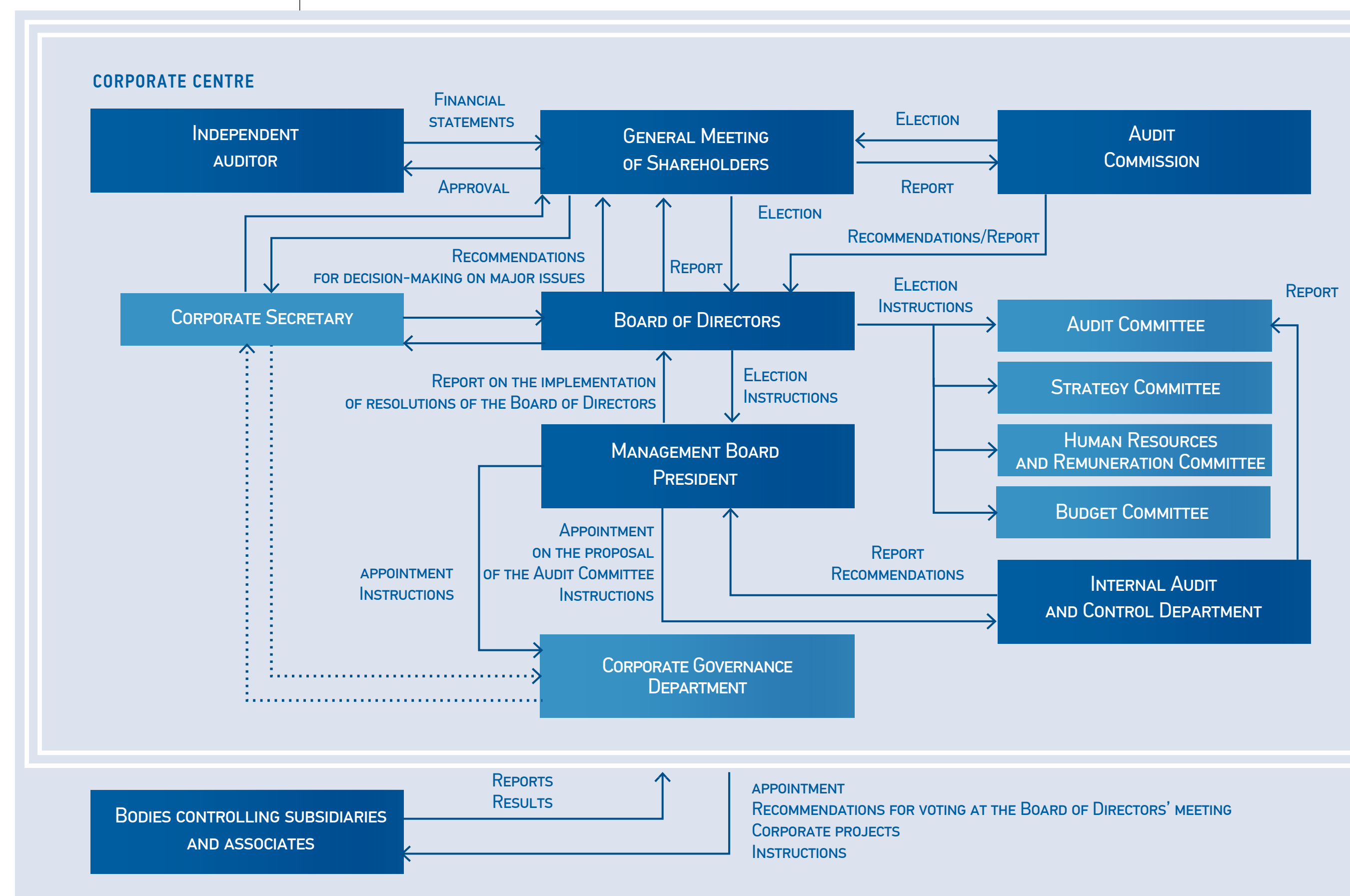
Corporate governance practices are based on the norms of current Russian laws, as well as the principles and recommendations contained in the corporate governance code (Letter of the Bank of Russia dated April 10, 2014, No. 06-52/2463 "On the Corporate Governance Code"). The corporate governance model ensures the fair and equitable treatment of all shareholders, monitoring of financial and economic activities, effective operation of the risk management and internal control system, and timely disclosure of information.

Corporate Governance Principles

Creating an environment of mutual trust and respect for all participants in the corporate relations	Providing shareholders with a real opportunity to exercise the rights arising from the fact of ownership of shares	Strict adherence to accepted standards of business ethics; ensuring equal treatment of all shareholders of the Company, including minority and foreign investors
Ensuring the real protection of the rights and interests of shareholders	Creating an optimal structure and introducing modern methods and technologies of corporate governance	Ensuring effective control over financial and economic activity
Improving standards of corporate behaviour in the Company	Social responsibility: compliance with legal and ethical standards	

STRUCTURE OF MANAGEMENT AND CONTROL BODIES

THE STRUCTURE OF THE MANAGEMENT BODIES CONSISTS OF THE GENERAL MEETING OF SHAREHOLDERS, THE BOARD OF DIRECTORS, THE MANAGEMENT BOARD AND THE PRESIDENT. THE CONTROL BODIES ARE THE AUDIT COMMISSION AND THE INTERNAL AUDIT AND CONTROL DEPARTMENT.



GENERAL MEETING OF SHAREHOLDERS

In 2015, PJSC UAC held four General Meetings of Shareholders, including one annual and three extraordinary meetings. The Annual General Meeting of Shareholders was held on June 30, 2015 (Minutes dated July 2, 2015). Extraordinary General Meetings of Shareholders were held on April 6, 2015 (Minutes dated April 8, 2015, No. 23), May 28, 2015 (Minutes dated May 29, 2015, No. 24) and November 2, 2015 (Minutes dated November 5, 2015, No. 25).

Extraordinary General Meetings of Shareholders were convened to decide on the approval of related-party transactions, on the introduction of amendments and supplements to the Articles of Association of PJSC UAC, as well as to increase the share capital of PJSC UAC by placing additional shares through public subscription and to define the quantity, nominal value, category (type) of the authorised shares.

BOARD OF DIRECTORS

The Board of Directors carries out the overall management of PJSC UAC, except for the issues referred to the competence of the General Meeting of Shareholders. In its activities, the Board of Directors is governed by the federal law "On Joint-Stock Companies", the Company's Articles of Association, and the Regulation on the Board of Directors of PJSC UAC. From January 1, 2015, and prior to the Annual General Meeting of Shareholders following the results of 2014 fiscal year, held on June 30, 2015, the Board of Directors of PJSC UAC acted as elected at the Annual General Meeting of Shareholders on June 30, 2014. At the Annual General Meeting held on June 30, 2015, the Board of Directors of PJSC UAC was elected in the new composition: Pogosyan, Mikhail Aslanovich resigned from the Board of Directors, while Manturov, Denis Valentinovich joined the Board.

Dmitriev, Vladimir Alexandrovich was the Chairman of the Board of Directors in the composition elected on June 30, 2014. Manturov, Denis Valentinovich became the Chairman of the Board of Directors in the composition elected on June 30, 2015.

BOARD OF DIRECTORS (IN ACCORDANCE WITH DECISION OF THE GENERAL MEETING OF SHAREHOLDERS DATED JUNE 30, 2015)

Manturov,
Denis Valentinovich
Chairman of the Board of Directors

Alyeshin,
Boris Sergeyevich

Borisov,
Yury Ivanovich

Dmitriev,
Vladimir Alexandrovich

Ivanov,
Andrey Yuryevich

Kadochnikov,
Pavel Anatolyevich

Klepach,
Andrey Nikolayevich

Okulov,
Valery Mikhaylovich

Slyusar,
Yury Borisovich

Kharchenko,
Ivan Nikolayevich

Chemezov,
Sergey Viktorovich

During the reporting year, the members of the Board of Directors of PJSC UAC did not own shares in the Company.

According to the available information, the members of the Board of Directors did not acquire or dispose of PJSC UAC shares during the reporting year.

THE BOARD OF DIRECTORS' COMMITTEES

The PJSC UAC Board of Directors has the Strategy Committee, the Audit Committee, the Nomination and Remuneration Committee, and the Budget Committee. Regulation on the Committees was initially approved by the PJSC UAC Board of Directors on December 12, 2006, and updated in 2013–2014.

During 2015, 51 meetings of the Board of Directors' Committees were held.

Composition of the Board of Directors' Committees (as of December 31, 2015)

Name of the Committee	Composition of the Committee
Strategy Committee	Chairman: Alyeshin, B. S. Members: Borisov, Yu. I., Klepach, A. N., Dmitriev, V. A., Slyusar, Yu. B., Chemezov, S. V., Boginsky, A. I.
Audit Committee	Chairman: Kadochnikov, P. A. Members: Kharchenko, I. N., Lelekov A. A.
Nomination and Remuneration Committee	Chairman: Kharchenko, I. N. Members: Alyeshin, B. S., Okulov, V. M.
Budget Committee	Chairman: Ivanov A. Yu. Members: Klepach, A. N., Slyusar, Yu. B., Boginsky, A. I.

In 2015, at the meetings of the Board of Directors' Committees, a wide range of issues of PJSC UAC activities was considered, including:

- efficiency increase;
- improving corporate governance practices;
- budget performance;
- introduction of changes in the organisational structure;
- implementation of priority activities of PJSC UAC.

PRESIDENT

The President is the sole executive body of PJSC UAC.

As of January 1, 2015, Pogosyan, Mikhail Aslanovich was the President of PJSC UAC. On January 16, 2015, the PJSC UAC Board of Directors decided to appoint Slyusar, Yury Borisovich the President of PJSC UAC for five years.

Slyusar, Yury Borisovich

President, Chairman of the PJSC UAC Management Board.

Education

Lomonosov Moscow State University (1996), majoring in Law. Academy of National Economy under the Government of the Russian Federation. Candidate of Economic Sciences (2003).

Positions of primary employment in the last five years

2015 — present
PJSC UAC, President, Chairman of the Management Board;
2009–2015
Ministry of Industry and Trade of the Russian Federation, Assistant Minister; Director of the Aviation Industry Department; Deputy Minister.

Share in the share capital of PJSC UAC: 0%.
Yury Slyusar did not own shares of PJSC UAC during the reporting year.

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

MANAGEMENT BOARD

The Management Board is the collegial executive body of PJSC UAC. Until August 10, 2015, the Management Board of PJSC UAC acted in the composition formed on December 30, 2011, by decision of the Board of Directors. According to the decision of the PJSC UAC Board of Directors, the powers of President of PJSC UAC, Pogosyan, Mikhail Aslanovich, were terminated early on January 16, 2015. Slyusar, Yury Borisovich was elected President and Chairman of the Management Board of PJSC UAC.

By decisions of PJSC UAC Board of Directors dated August 10, 2015, and March 4, 2016, the composition of the Management Board was changed.

MANAGEMENT BOARD (IN ACCORDANCE WITH DECISION OF THE BOARD OF DIRECTORS DATED MARCH 4, 2016)

Slyusar,
Yury Borisovich
President, Chairman of the Management Board

Bobryshev,
Alexander Petrovich

Korotkov,
Sergey Sergeyevich

Ozar,
Igor Yakovlevich

Tulyakov,
Alexander Vladimirovich

Yurasov,
Sergey Pavlovich

Demidov,
Alexey Vladimirovich

Konyukhov,
Alexander Vladimirovich

Masalov,
Vladislav Evgenevich

Skokov,
Alexander Nikolaevich

During the reporting year, the members of the Management Board of PJSC UAC did not own shares in the Company.

According to the available information, the members of the Management Board did not acquire or dispose of PJSC UAC shares during the reporting year.

AUDIT COMMISSION

PJSC UAC has a multi-level control system in place. Information about the main elements of the PJSC UAC internal control system is presented in the Risk Management section (Supplement to this Annual report).

The Audit Commission is one of the main subjects of the internal control in PJSC UAC, which performs the functions of control over financial and economic activity. Five members of the Audit Commission are elected to serve on it until the next Annual General Meeting of Shareholders.

By resolution of the Annual General Meeting of Shareholders following the results of 2014 fiscal year dated June 30, 2015, the PJSC UAC Audit Commission was elected in the following composition:

1. **Milovanova, Oksana Yuryevna** — Deputy Head of Directorate — Head of Division of the Federal Agency for State Property Management;
2. **Voronkova, Anna Leonidovna** — Deputy Head of Directorate, the Federal Agency for State Property Management;
3. **Musina, Zemfira Ramilevna** — Deputy Head of the Strategic Development and Corporate Governance Division of the Aviation Industry Department of the Ministry of Industry and Trade of Russia;
4. **Poma, Sergey Ivanovich** — Deputy Chairman of the Management Board of Self-Regulatory (Nonprofit) Organisation National Association of Securities Market Participants (NAUFOR);
5. **Panina, Anna Grigoryevna** — Leading specialist-expert, Chief specialist-expert, Leading counselor of the Ministry of Industry and Trade of the Russian Federation.

Payment of remuneration to the members of the Audit Commission shall be made on the basis of the Regulation on the Remuneration of Members of the PJSC UAC Board of Directors and the Audit Commission in compliance with all applicable laws and regulations of the Russian Federation.

The remuneration amount for members of the Audit Commission is calculated by the Board of Directors' Nomination and Remuneration Committee for the period when such members of the Audit Commission performed their duties, in proportion to the time worked in the reporting period and upon approval by the Board of Directors.

EXTERNAL AUDIT

In 2015, the financial statements of PJSC UAC were audited according to the Russian Accounting Standards by Audit and Consulting Firm Top-Audit Limited Liability Company, a member of Audit SRO Non-Commercial Partnership Russian Collegium of Auditors.

In 2015, the audit of the PJSC UAC financial statements according to the International Financial Reporting Standards was performed by HLB Vneshaudit Closed Joint-Stock Company. On June 30, 2015, HLB Vneshaudit CJSC presented a report on the implementation of the long-term development programme of PJSC UAC in 2014 for the period until 2025.

PJSC UAC MAJOR TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

There were no major transactions involving PJSC UAC during the reporting period of 2015. Information about transactions with related parties made by PJSC UAC and approved by the management bodies of PJSC UAC (Board of Directors and General Meeting of Shareholders) during the reporting period are contained in online supplements to the Annual Report.

COMPLIANCE WITH THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

In the reporting year, the compliance with the corporate governance principles stipulated in the Corporate Governance Code was assessed. In doing this, the criteria for assessing the compliance with the corporate governance principles recommended by the Code were used.

Report on compliance with the recommendations of the Code, as well as an explanation of the causes and circumstances due to which the corporate governance principles set forth in the Code are not met or met partially are reflected in the Report on the Observance of the Principles and Recommendations of the Corporate Governance Code in the online supplements to this Annual Report.

SECURITIES

SHARE CAPITAL

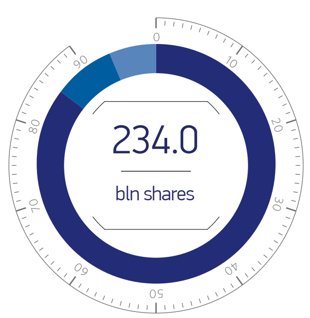
THE SHARE CAPITAL OF PJSC UAC CONSISTS OF 235,863,749,128 ORDINARY REGISTERED SHARES WITH A NOMINAL VALUE OF 86 KOPECKS EACH. THE TOTAL NUMBER OF UNCERTIFICATED SHARES OF PJSC UAC IS 360,059,133,965 (INCLUDING 124,195,384,837 ALLOCATED ADDITIONAL SHARES WITHIN THE UNFINISHED ISSUE OF SECURITIES).

SHARE CAPITAL STRUCTURE

The major shareholders of PJSC UAC are the Russian Federation represented by the Federal Agency for State Property Management (90.4%) and Vnesheconombank (5.6%), given that private shareholders hold 4.0% of the total number of allocated shares as of December 31, 2015.

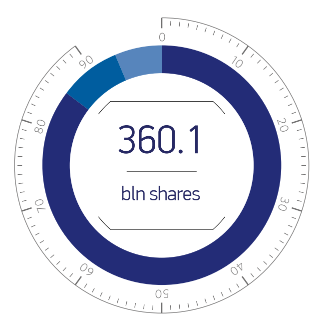
PJSC UAC has placed no privileged shares. The Russian Federation has no special rights to manage the Company (no “golden share“).

Share capital structure as of December 31, 2014



	%	shares
Russian Federation represented by the Federal Agency for State Property Management	85.3	199,557,161,902
State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)	8.5	20,000,000,000
Private shareholders	6.2	14,418,680,251

Share capital structure as of December 31, 2015



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

SHARES ON STOCK EXCHANGES

PJSC UAC shares are traded on the leading Russian stock exchange MICEX (MOEX) under the UNAC ticker (security name — iAviastCao).

On September 17, 2013, the shares of PJSC UAC were granted access to MICEX and included in the List of Non-Listed Stock of CJSC MICEX Stock Exchange.

On January 30, 2014, the ordinary shares of PJSC UAC were included in Quotation List “B“ of the Moscow Exchange. As part of the MICEX listing reform, on June 9, 2014, the ordinary shares of PJSC UAC were transferred from the Quotation List “B“ to the Second-Tier Index of the Moscow Exchange.

Listing information on the shares of PJSC UAC	
Trading venue	MOEX
Ticker	UNAC

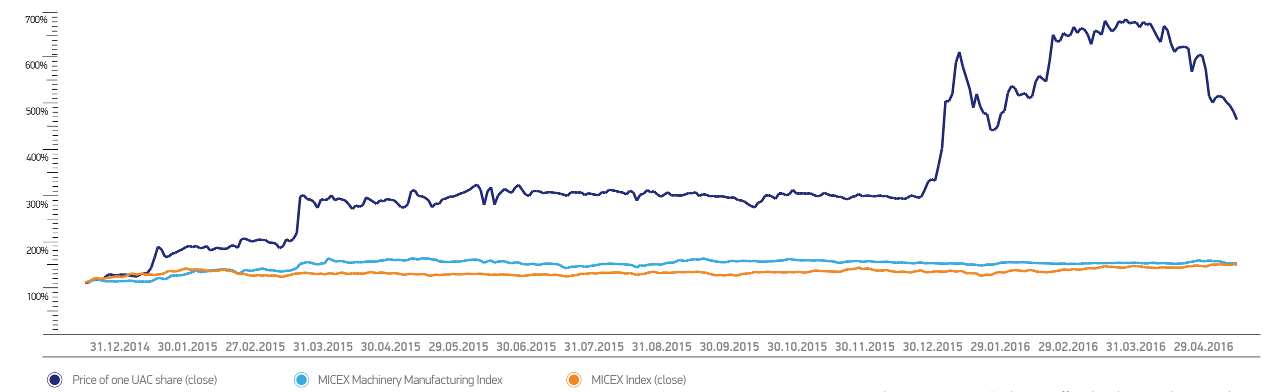
On April 17, 2014, CJSC MICEX Stock Exchange put the ordinary shares of PJSC UAC in the Innovations and Investments Market (IIM) sector, which is a stock market for attracting investments to the Russian innovation companies. Inclusion of PJSC UAC shares in the IIM sector makes it possible to obtain comprehensive marketing and information-analytical support from MICEX. On September 21, 2015, shares of PJSC UAC UAC were included in the liquidity increase programme of the IIM MICEX sector. The programme embraced Top 5 shares included in the basis for the calculation of the MICEX-innovations Index with the highest weights. The programme aims to increase the liquidity of the securities market of the IIM MICEX sector. JSC Finam was in charge of the operations for the increase of the PJSC UAC shares liquidity within the programme, at that the market maker support remained effective until December 31, 2015.

In accordance with the resolution of the Moscow Exchange, as of the end of 2015, the shares of PJSC UAC are included in the basis for the calculation of the following Indices:

Index	PJSC UAC share
MICEX-innovations Index	15%
State-Owned Companies Index	0.2%

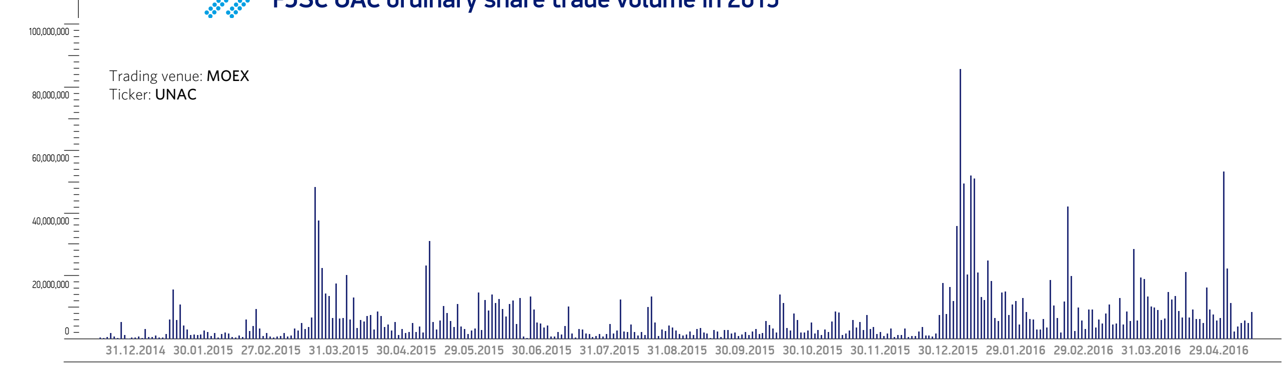
After the reporting date, in accordance with the resolutions of the Moscow Exchange for the period from March 16, 2016, to June 15, 2016, the shares of PJSC UAC are included in the basis for the calculation of the MICEX-innovations Index (the weight of PJSC UAC shares in the index — 15%). Besides, from January 4, 2016, to December 29, 2016, the shares of PJSC UAC are included in the basis for the calculation of the MOEX State-Owned Companies Index (the weight of PJSC UAC shares in the index – 0.89%).

UAC ordinary shares dynamics in 2015 compared to MICEX Index and MICEX Machinery Manufacturing Index in 2015



Source: Moscow Exchange official website and export.rbc.ru

PJSC UAC ordinary share trade volume in 2015



ANALYST COVERAGE

As of the end of the reporting year the analyst coverage of PJSC UAC was performed by the representatives of the leading investment companies and banks, such as VTB 24, IFC Metropol, Aton, Promsvyazbank, Raiffeisenbank, Arsagera MC. Information on the analysts and contact details is provided on the corporate website at http://www.uacrussia.ru/en/investors/analyst_coverage/.

DIVIDENDS

CONSISTENT AND STEADY DIVIDENDS ARE A GUARANTEE OF INVESTMENT APPEAL OF THE CORPORTAION AND SHAREHOLDER RETURN.

DIVIDEND POLICY

UAC Dividend Policy[1] is aimed at compliance with the following principles:

- creating necessary conditions for raising the investment attractiveness and capitalisation;
- creating extra value for the shareholders by paying dividends and raising capitalisation;
- balancing the interests of PJSC UAC and its shareholders when distributing net profit.

The source of dividends is net profit, calculated on the basis of the accounting statements for the corresponding reporting period, specified in accordance with the Russian Federation laws (Russian Accounting Standards, RAS).

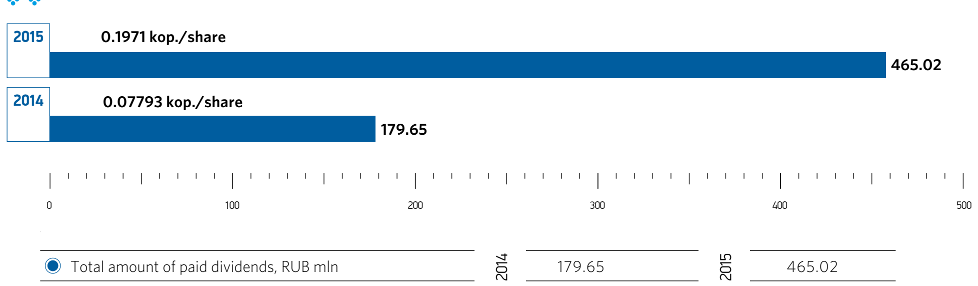
When shaping the position of the shareholder — the Russian Federation regarding the issues of dividend payment federal executive authorities are governed by Decree of the Government of the Russian Federation dated May 29, 2006, No. 774-r, according to which it is necessary to provide for the payment of dividends in the amount of at least 25% of the joint-stock company net profit (excluding the revenue received from the revaluation of the financial investments), unless otherwise established by decrees of the Government of the Russian Federation.

REPORT ON PAYMENT OF DECLARED DIVIDENDS PER PJSC UAC SHARES

On June 30, 2014, the Annual General Meeting of Shareholders adopted a resolution to pay dividends in the amount of 25% of the net profit according to RAS for 2014 without regard to currency difference, which amounted to RUB 465,015,678.84, or RUB 0.001971 per share.

Earlier in 2014, UAC for the first time in five years paid dividends. The total declared dividends for 2013 amounted to RUB 179,652,594.92, or RUB 0.0007793 per share, which was 25.6% of the net profit according to RAS for the previous reporting period.

Dividends per PJSC UAC shares for 2014–2015



[1] PJSC UAC Dividend Policy is available on the corporate website at www.uacrussia.ru

BONDS

PJSC UAC IS AN ISSUER OF CORPORATE BONDS. PJSC UAC USES PROCEEDS FROM THE PLACEMENT OF BONDS PRIMARILY FOR DEBT REFINANCING.

In 2011, PJSC UAC issued 46,280,000 interest-bearing inconvertible bonds with a nominal value of RUB 1,000 each with a maturity period of 3,290 days with a coupon of 8% per annum (state registration date — February 22, 2011, State Registration No. 4-01-55306-E).

Observance of obligations with respect to payment of the nominal value of bonds upon redemption thereof is secured by the state guarantee of the Russian Federation.

Trading PJSC UAC bonds on Stock Exchanges	
Trade organiser	CJSC MICEX Stock Exchange
Issue of shares permitted for trading	4-01-55306-E dated February 22, 2011
Security Identification Code	RU000A0JRA65
Security Name at CJSC MICEX Stock Exchange	OAK1 (UAC1)
Trading commencement date at CJSC MICEX Stock Exchange	March 15,2011
Listing level	Level 3

In 2015, PJSC UAC made regular payments against the coupons, on March 10, 2015, — against the eighth coupon (RUB 1,846,109,200) and on September 8, 2015 — against the ninth coupon (RUB 1,846,109,200).

PJSC UAC bonds are traded on the Moscow Exchange from March 18, 2011 in the Third-Tier of the UAC1 (OAK1) listing. Securities ISIN-code — RU000A0JRA65.

Bond issues	
Issuer	PJSC UAC
Security type	Interest-bearing non-convertible
Date of state registration of the issue	February 22, 2011
State registration number of the issue	4-01-55306-E
Currency of the issue	Russian Rouble
Issue amount (at par value)	46,280,000,000
Coupon percent rate	8.0% per annum
Coupon period	Coupon 1-17–182 days Coupon 18–196 days
Placement date	January 15,2011
Maturity date	March 11, 2011
ISIN code of issue	RU000A0JRA65

SUSTAINABLE DEVELOPMENT

HR POLICY

THE CORPORATION'S POLICY IN THE FIELD OF PERSONNEL MANAGEMENT AIMS AT ATTRACTING AND RETAINING HIGHLY SKILLED PERSONNEL, ACHIEVING THEIR POTENTIAL FOR PROFESSIONAL GROWTH, IMPROVING EFFICIENCY OF BUSINESS PROCESSES AND LABOUR PRODUCTIVITY, CREATING FAVOURABLE CONDITIONS FOR PROFESSIONAL AND PERSONAL DEVELOPMENT OF EMPLOYEES.

We seek competitiveness, in the regional labour markets as well, strengthening company appeal for aircraft industry professionals.

KEY OBJECTIVES OF HR POLICY

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

- ensuring implementation of the Corporation's business strategy through high-quality selection and efficient use of HR resources based on the best Russian and international HR management practices;
- strengthening the image of the Corporation as a socially responsible employer among current and prospective employees;
- establishing conditions for the attraction and retention of qualified employees;
- development of new approaches to employee selection, recruitement and adaptation;
- creating a competitive compensation system through the development of motivation system based on key performance indicators (KPI).

101.4 thousand people

headcount as of 31 December 2015

CODE OF CORPORATE ETHICS

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

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

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

FLEXIBILITY AND EFFECTIVENESS

To improve efficiency and controllability the management carried out the reorganisation of the corporate structure in terms of which a number of business areas and objectives aimed at implementation of the Corporation's strategy in the long term were revised.

OPEN CORPORATE CHAMPIONSHIP ON PROFESSIONAL SKILLS WORLDSKILLS

In June 2015, PJSC UAC held, ever first in Russia, the Open Corporate Championship on professional skills in the aircraft industry as per WorldSkills standards

REMUNERATION SYSTEM AND KEY PERFORMANCE INDICATORS

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

Currently the average salary of employees at most companies of the Corporation corresponds to the relevant indicator in the geographical region or exceeds the same. In this context, the Corporation keeps working on creating an effective remuneration system focused on operational performance enhancement.

The Corporation uses the remuneration system for top management which includes bonuses for achieving the KPI developed on the basis of the Group's strategic goals.

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

TRAINING AND DEVELOPMENT

Continuous improvement of employee qualification is one of the key objectives of the Corporation's staff development. The priority areas for personnel training, instruction and development are as follows:

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

In 2015, over 34,800 employees, including 18,600 blue collar workers, improved their qualification under the auspices of UAC companies.

The Corporation actively works on the development of managerial competencies of its employees. In October 2015, the strategic session of PJSC UAC managers "Application of Sberbank Management Experience and Technologies for Reaching UAC Strategic Objectives" was held on the premises of the corporate university of PJSC Sberbank.

Striving for the development of young specialists UAC pays special attention to the implementation of development programmes. In 2015, UAC arranged for a corporate competition of research and technological works within the framework of MAKS-2015 air show. In 2015, the Corporation hosted the International Youth Forum Engineers of the Future, which united specialists, scientists, postgraduates and students, young engineers from Russia and other countries of the world.

34.8 thousand people

improved their qualifications in 2015

COOPERATION WITH EDUCATIONAL ESTABLISHMENTS

In 2015, a number of the Corporation's subsidiaries developed roadmaps for interaction with seven sector-related secondary vocational educational establishments, which offer target training for students, personnel training on the basis of dual education

COOPERATION WITH HIGHER, SECONDARY AND SPECIALISED SECONDARY EDUCATIONAL ESTABLISHMENTS

The Corporation is actively working on the talent pool development in the long term through implementing a number of programmes for training, development and career guidance of aircraft industry specialists. Seven base departments for practical personnel training have been established at the Corporation's companies. In total 1,890 people have taken training under the Corporation's programmes.

Companies-members of the Corporation closely collaborate with higher educational institutions in the regions of its operations. Since 2015, the Corporation has been implementing programmes for collaboration with Moscow Aviation Institute (MAI) in the field of personnel training and research, development and engineering, including MAI participation in UAC projects. An agreement on cooperation in skilled personnel training was signed with the Government of the Moscow Region.

Companies-members of the Corporation in association with higher educational institutions took part in the contest arranged by the Ministry of Education and Science of the Russian Federation "New Talent for the Defence Industry Complex", the programme "Advanced Training of Engineering and Technical Personnel in 2015–2016".

Top managers from UAC and Central AeroHydrodynamic Institute (TsAGI) delivered lectures on the development prospects for the domestic aircraft building industry as part of the major science education event of the year – NAUKA0+ Festival at Moscow State University.

In 2015, a number of the Corporation's subsidiaries developed roadmaps for interaction with seven sector-related secondary vocational education establishments, which offer target training for students, personnel training on the basis of dual education.

In June 2015, the Corporation held, ever first in Russia, the Open Corporate Championship on professional skills in the aircraft industry as per WorldSkills standards. The Corporation acted as a co-organiser of the final stage of the Russia-wide Olympiad in professional excellence among the students majoring in Aircraft Engineering.

Currently the Corporation collaborates with 17 specialist schools in six regions of the country. In 2015, students of sector-related schools of the Corporation for the first time ever participated in the JuniorSkills national championship on professional skills held among secondary school students.

UAC regularly implements the Day of the Corporation in the Region project aimed at promoting aircraft construction companies to secondary school students, students and qualified specialists, holds Aircraft Production Company Management virtual championships for students of specialised education establishments.

600 people

were admitted to training programmes in sector-related specialities as part of UAC personnel training in 2015

SOCIAL SECURITY

Companies of the Corporation undertake a wide range of measures to increase the level of employee social protection and create favouravle conditions for their professional and personal growth.

The minimum mandatory package of social benefits for the Corporation's employees includes:

- catering;
- voluntary medical insurance;
- welfare assisstance in the event of death or disability of an employee, his close relatives, the loss of a place of residence as a result of natural disasters or other force majeure circumstances.

Moreover, companies of the Corporation provide additional social support to the employees, inter alia, payment of maternity or retirement grants, participation in corporate retirement plans, health resort treatment and health improvement, recreation of employees and their children, additional vacations.

Accomodation of employees constitutes an important part of the social policy of the Corporation. In 2011-2015, over 1,500 employees of the Corporation purchased accommodations on preferable terms under housing programmes.

HEALTH, SAFETY AND ENVIRONMENT

COMPREHENSIVE OCCUPATIONAL HEALTH AND SAFETY SYSTEM IS EMPLOYED AT THE CORPORATION. TRAINING IN OCCUPATIONAL SAFETY PRINCIPLES, ELECTRICAL SAFETY MAINTENANCE, FIRE SAFETY, SPECIAL ASSESSMENT OF WORKING CONDITIONS AT WORKPLACES ARE CONDUCTED ON A REGULAR BASIS.

The safety system at PJSC UAC is governed by local regulations. Currently the process of shaping the corporate safety system is underway. Such a system implies developing unified approaches to main directions for providing safe working conditions at companies of the Corporation with due regard to industry specific features. The subsidiaries of UAC are switching from workplace assessment to special assessment of working conditions with the participation of the developers of relevant laws and regulations. PJSC UAC provides consulting and monitoring of this process. 25,000 workplaces were assessed using the procedure for special assessment of working conditions in 2015. As of the end of 2015, about 67,800 workplaces were assessed with regard to working conditions in the Corporation.

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

In 2015, companies of the Corporation allocated about RUB 895 mln for actions and arrangements in labour safety, which is by 22.6% more than in the previous year. The work was continued in such areas as:

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

WELFARE AND SPONSORSHIP

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

Within 2015, companies of the Corporation gave significant charity support to higher and secondary education institutions, schools. The priority activity areas of charity programmes included sports support, help to children, financing of the restoration of social infrastructure, backing of patriotic projects, providing support for religious organisations, financing of cultural and educational projects, target charity assistance.

During the year special attention was paid to sport support with regard to sponsorships: RUB 98.9 mln were allocated for these purposes. For instance, PJSC UAC is a title sponsor of the professional basketball club CSKA (PBC CSKA), sponsor of the hockey club CSKA. Aircraft company Sukhoi acts as the general sponsor of the Khabarovsk Hockey Club Amur. At the same time the Corporation's companies provide sponsorship support to programmes for helping children, developing higher and secondary education institutions, schools, restoring social infrastructure. Moreover, UAC's companies implement projects for target sponsorship support.

SPORT SUPPORT

PJSC UAC is a title sponsor of the professional basketball club CSKA (PBC CSKA), sponsor of the hockey club CSKA

SUPPORT FOR PENSIONERS AND VETERANS

Support for pensioners and veterans are an important area of the social policy. PJSC Company Sukhoi provides non-working pensioners with social and financial assistance by paying them occupational pensions, granting subsidised vouchers to the Kedr sanatorium. In 2015 alone, veterans received 280 vouchers in the amount of RUB 8.5 mln. A free-gift subscription for pensioners to the in-house newsletter the Wings of Soviets (Krylia Sovetov) has become a good long-standing tradition.

PARTICIPATION IN THE PARADE ON THE VICTORY DAY

The Moscow parade, dedicated to the 70th anniversary of the Victory in the Great Patriotic War, saw the aircraft Su-24, Su-34, Su-25, Su-30, Tu-22, Tu-95 and Tu-160

CELEBRATION OF THE 70-TH ANNIVERSARY OF THE VICTORY IN THE GREAT PATRIOTIC WAR

Companies of the Corporation put much effort into the preparation for the celebration of the 70-th anniversary of the Victory in the Great Patriotic War. For instance, JSC Aviastar-SP implemented a programme of events, one of them — participation of the aircraft building facility in the Our Victory charitable marathon — became a milestone event.

Under the Rosaviation (the Federal Air Transport Agency) plan for celebration of the 70th anniversary of the Victory in the Great Patriotic War, the VIII Spartakiad of students and cadets of civil aviation educational institutions was held in the period between May 25 and 30, 2015, at the sports centre of Egorievsk Civil Aviation Technical College named after V. P. Chkalov — Branch of Federal State-Funded Educational Institution of Higher Vocational Education Moscow State Technical University of Civil Aviation.

The Moscow parade, dedicated to the 70th anniversary of the Victory in the Great Patriotic War, saw the aircraft Su-24 and Su-34 frontline bombers, Su-25 strike fighters, Su-30 multirole fighter, strategic aircraft — Tu-22, Tu-95 and Tu-160 aircraft.

HELPING CHILDREN

Companies of the Corporation provide support to children and foster children in orphanages. In particular, in 2015, MiG aircraft company provided support to refugees' children, giving funds for their accomodation at hostels.

PJSC Company Sukhoi also supports children in orphanages. PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin established a grant to raise interest of the Orphanage No. 34's teachers to developing creative potential and improve the eductiation quality. This grant is awarded for participation in joint events dedicated to occupational guidance of children in orphanages held as part of works to prepare skilled staff for the aircraft plant. Children from the Orphanage No. 34 in Komsomolsk-on-Amur who were especially successful in their studies were awarded scholarships.

In 2015, over 400 children went for recreation to the Chaika children's holiday camp, which belongs to the social facilities and amenities of the Russian aircraft corporation MiG — the largest company in the aviation industry of the Russian Federation.

>400 students

took internships at the PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin in 2015

SUPPORT FOR YOUNG SPECIALISTS

Much attention is paid to supporting young specialists. JSC Il for the third year participates in the state programme for training specialists for organisations of the defence industry complex. In 2015, over 400 students of higher educational establishments and technical schools took internships at the PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin.

Moreover, PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin assigned scholarships to students of the Tomsk State University of Control Systems and Radioelectronics (TUSUR) and Kazan National Research Technical University named after A. N. Tupolev — Kazan Aviation Institute (KNRTU— KAI).

25 third-year and fourth-year students, majoring in Aircraft Engineering and Engineering Technology at Komsomolsk-on-Amur Aviation Technical College, received scholarships of PJSC Company Sukhoi Branch KNAAZ named after Y. A. Gagarin.

At present, under the agreement for cooperation in training skilled staff signed with Komsomolsk-on-Amur State Technical University (KnASTU), Komsomolsk-on-Amur Aviation Technical College and Komsomolsk-on-Amur Marine Engineering College, 18 students work in workshops and business units of the plant.

PJSC Tupolev allocated free-will donations of NP MAI Alimni Club for the programme Young People and the Future of Aviation and Space Technology, as well as NP MAI Alimni Club target funds for the programme to develop the department MAI Aircraft Engineering.

ECOLOGY

RIDING YOUR BIKE TO WORK

In May 2015, employees of JSC IL took part in the city action "Riding your bike to work", which was arranged by the Moscow Department for Transport and Road Infrastructure Development and the team of the project for bicycle traffic development in Russia. The participants of the promotional event demonstrated that despite the existing stereotypes the bicycle can be an effective and environmentally sound transport alternative.

ECONOMICAL GLOSS

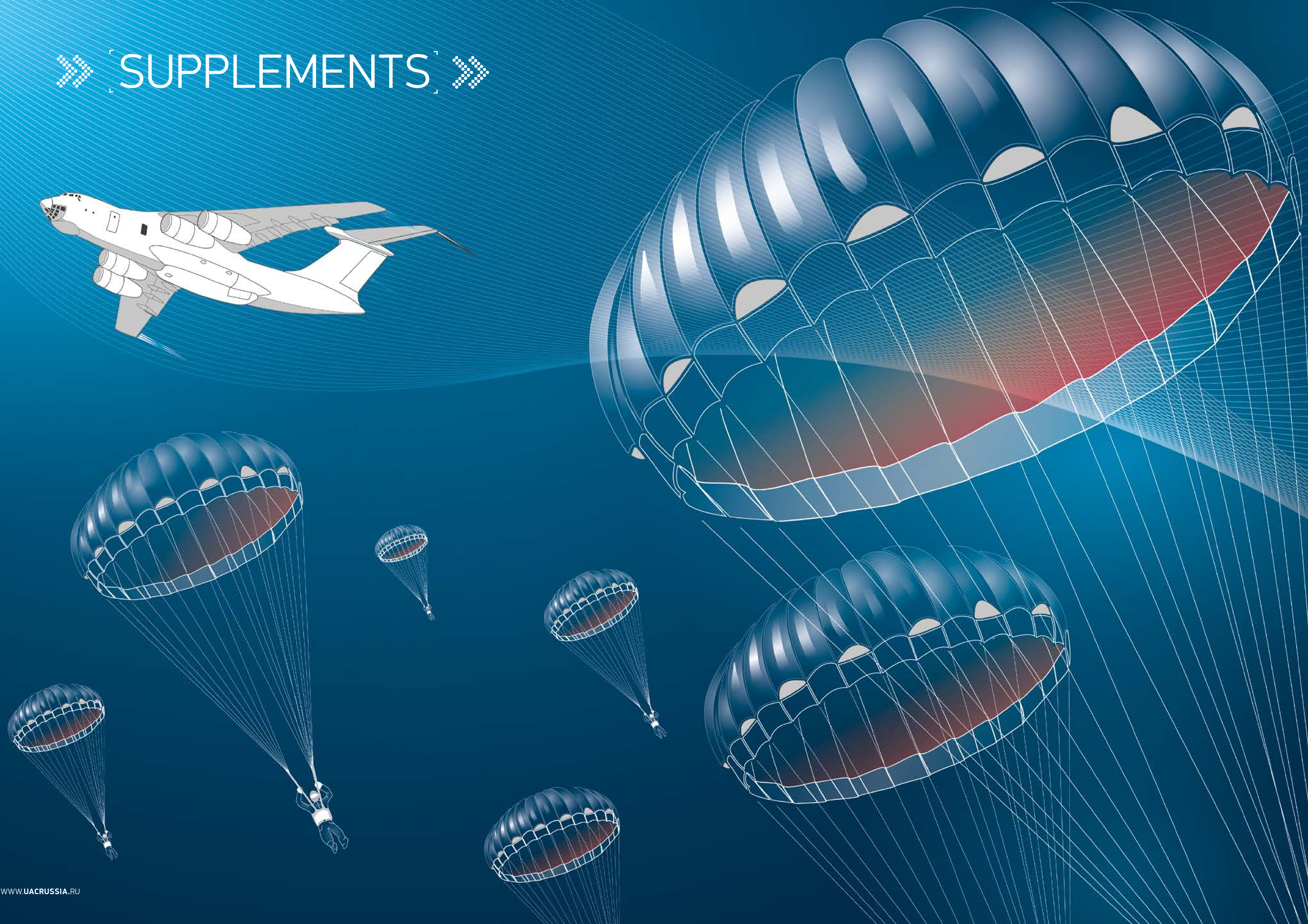
In summer 2015, at the Spektr-Avia painting facility in Ulyanovsk a new technology to paint SSJ 100 aircraft was introduced. Application of special lacquer coating will make it possible not only to reduce time for changing into the airline livery, but also to save fuel by 2–3 %, which will have a positive impact on aircraft environmental performance.
The new method of painting SSJ 100 aircraft provides for applying a special lacquer layer on the aircraft. Using polyurethane enamels will halve the time spent to wash the aircraft.

THE CORPORATION AIMS TO ADHERE TO THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT, GIVING MUCH ATTENTION TO ENVIRONMENTAL ISSUES. SOME OF THE SUBSIDIARIES OF UAC ARE LOCATED NEAR SPECIALLY PROTECTED NATURE RESERVES, WHICH IMPOSE ADDITIONAL OBLIGATIONS IN TERMS OF ENVIRONMENTAL COMPLIANCE.

In 2015, the Corporation implemented measures to improve energy-efficiency and increase energy performance at manufacturing facilities as part of the innovation development programme. It is planned to include improving energy-efficiency and increasing energy performance at manufacturing facilities in the performance indicators related to the implementation of the Innovation Development Program for 2016–2020.

UAC priorities in developing programmes for aircraft manufacturing and modernisation include provision of environmental performance of machinery and equipment, compliance with current and future requirements regarding environmental impact. All commercial aircraft designed and manufactured by subsidiary dependent organisations of PJSC UAC, are certified with regard to compliance and adherence to the Russian Aviation Rules establishing, inter alia, environmental requirements.

SUPPLEMENTS



SUPPLEMENT NO. 1
CONSOLIDATED FINANCIAL STATEMENTS

HLB ВНЕШАУДИТ

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "United Aircraft Corporation" and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2015, 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 2015, and notes comprising the summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Basis for qualified opinion

1. The Group has accounted for certain Government grants as revenue and the related costs as cost of sales which is not in compliance with International Financial Reporting Standard IAS 20 Accounting for Government grants and Disclosure of Government Assistance. Had the grants received been accounted for in accordance with International Financial Reporting Standards, revenues would have been reduced by RUB 19,581 million for the year ended 31 December 2015 (31 December 2014: RUB 16,304 million), cost of sales would have been reduced by RUB 15,738 million for the year ended 31 December 2015 (31 December 2014: RUB 13,108 million), and government grants related to income in the consolidated income statement would have been increased by RUB 3,843 million for the year ended 31 December 2015 (31 December 2014: RUB 3,196 million).

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

HLB ВНЕШАУДИТ

2. Property, plant and equipment is stated in the amount of RUB 169,780 million in the statement of financial position as at December 31, 2015. We were unable to obtain sufficient appropriate audit evidence about the recoverable amount of property, plant and equipment related to certain Group subsidiaries which might be lower than their carrying amount stated at RUB 63,273 million as at 31 December 2015 (31 December 2014: RUB 55,433 million). International Financial Reporting Standard IAS 36 Impairment of Assets requires that where such indicators exist, management makes a formal estimate of the recoverable amount. No such estimate has been made. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified opinion

In our opinion, except for the effects of the matter described in the paragraph 1 of the basis for qualified opinion and except for the possible effects of the matter described in the paragraph 2 of the basis for qualified opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

April 15, 2016

Audited Entity:
Public Joint Stock Company "United Aircraft Corporation"

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

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

Independent Auditor:
Closed Joint-Stock Company «HLB Vneshaudit»

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

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

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

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

Mln RUB	Note	2015	2014 Restated*
Revenue	**7**	**351,842**	**294,538**
Cost of sales		(307,308)	(249,293)
Gross profit		**44,534**	**45,245**
Government grants related to income	25	242	332
Research and development costs		(285)	(651)
Distribution expenses		(15,394)	(7,785)
Administrative expenses		(34,282)	(26,636)
Impairment of non-current assets		(30,107)	–
Other operating income	10	1,935	3,261
Other operating expenses	9	(38,578)	(9,554)
Profit/(loss) from operations		**(71,935)**	**4,212**
Finance income	11	8,632	6,026
Finance costs	11	(45,404)	(20,045)
Share of loss of equity accounted investees	15	(295)	(2,093)
Loss before income tax		**(109,002)**	**(11,900)**
Income tax benefit/(expense)	12	235	(1,754)
Loss for the year		**(108,767)**	**(13,654)**
Loss attributable to:			
Shareholders of the Company		(83,159)	(7,891)
Non-controlling interest		(25,608)	(5,763)
Loss for the year		**(108,767)**	**(13,654)**
Basic and diluted loss per share (RUB)	22	(0.36338)	(0.0359)

The consolidated financial statements were authorised for issue on 15 April 2016:

Yury Slyusar,
President

Alexey Demidov,
Vice President for Economics and Finance

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

Mln RUB	2015	2014
Loss for the year	**(108,767)**	**(13,654)**
Items that are or may be reclassified to profit or loss:		
Foreign currency translation differences	32,717	9,379
Items that will never be reclassified to profit or loss:		
Remeasurement of defined benefit plan liability	210	(43)
Total comprehensive loss for the year	**(75,840)**	**(4,318)**
Total comprehensive loss attributable to:		
Shareholders of the Company	(58,287)	1,517
Non-controlling interest	(17,553)	(5,835)
	(75,840)	**(4,318)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

Mln RUB	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	169,780	151,955
Intangible assets	14	93,389	93,517
Investments in associates and joint ventures	15	8,255	8,205
Investments and non-current financial assets	16	3,493	3,480
Finance lease receivables		2,377	1,916
Deferred tax assets	17	14,051	9,608
Other non-current assets		127	655
Other receivables, non-current	19	14,763	2,187
Total non-current assets		**306,235**	**271,523**
Current assets			
Investments	16	377	752
Inventories	18	266,787	250,895
Trade and other receivables	19	186,587	158,665
Finance lease receivables		192	107
Current income tax receivables		345	379
Cash and cash equivalents	20	155,245	92,667
Other current assets		4,574	4,150
Total current assets		**614,107**	**507,615**
Total assets		**920,342**	**779,138**
EQUITY AND LIABILITIES			
Equity	**21**		
Share capital		202,843	188,903
Share premium		4,566	4,566
Revaluation reserve		207	207
Prepaid shares reserve		114,220	12,343
Treasury shares		(410)	(410)
Foreign currency translation reserve		39,357	13,870
Accumulated loss		(174,513)	(90,949)
Total equity attributable to shareholders of the Company		**186,270**	**128,530**
Non-controlling interest		10,042	9,671
Total equity		**196,312**	**138,201**
Non-current liabilities			
Loans and borrowings	23	215,072	204,228
Deferred tax liabilities	17	13,482	10,020
Employee benefits	26	3,707	3,598
Trade and other payables	24	57,393	44,940
SWOP liability		9,166	1,081
Provisions	27	15,376	–
Total non-current liabilities		**314,196**	**263,867**
Current liabilities			
Loans and borrowings	23	109,488	150,785
Income tax payable		1,068	118
Trade and other payables	24	285,921	222,393
Derivative liabilities		2,210	–
Employee benefits	26	887	873
Provisions	27	10,260	2,901
Total current liabilities		**409,834**	**377,070**
Total equity and liabilities		**920,342**	**779,138**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

Mln RUB	2015	2014
OPERATING ACTIVITIES		
Loss before income tax	**(109,002)**	**(11,900)**
Adjustments for:		
Depreciation and amortisation	20,398	21,786
Impairment of non-current assets	30,107	–
Foreign exchange differences not related to operating activities	(9,823)	12,070
Share of losses in equity accounted investees	295	2,093
Change in bad debt provision	2,219	1,282
Profit/(Loss) on disposal of property, plant and equipment and intangible assets	(1,478)	1,420
Interest expense	33,873	22,633
Government grant related to compensation of interest expense	(7,704)	(6,377)
Interest income	(8,519)	(5,917)
Operating profit before changes in working capital and provisions	**(49,634)**	**37,090**
Change in inventories	(20,204)	(80,946)
Change in trade and other receivables	(30,130)	(46,551)
Change in trade and other payables	80,200	97,132
Change in lease receivable	(551)	1,645
Change in employee benefits	(173)	294
Change in other current and non-current assets	990	(4,100)
Change in provisions	22,735	(217)
Cash flows utilized by operations before income taxes and interest paid	**3,232**	**4,347**
Income taxes (paid)/received	789	(314)
Interest paid, net of grant received	(37,263)	(17,140)
Cash flows utilized by operating activities	**(33,243)**	**(13,107)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	443	438
Acquisition of property, plant and equipment	(21,899)	(30,020)
Acquisition of investments	(50)	250
Contribution to equity of associates		–
Acquisition of intangible assets	(17,614)	(8,979)
Change in loans granted and cash deposits	(303)	778
Government grant received related to assets	242	332
Interest received	5,915	5,917
Dividends received	46	72
Cash flows utilized by investing activities	**(33,221)**	**(31,212)**
FINANCING ACTIVITIES		
Proceeds from borrowings	185,863	236,826
Repayment of borrowings	(247,294)	(208,763)
Paid in capital	115,817	8,145
Contributions to equity of subsidiaries by non-controlling shareholders	18,792	30,147
Acquisition of non-controlling interest	–	191
Dividends paid	(655)	(329)
Cash flows from financing activities	**72,522**	**66,217**
Net increase in cash and cash equivalents	**6,059**	**21,898**
Cash and cash equivalents at beginning of year	92,667	52,453
Effect of exchange rates fluctuations on cash and cash equivalents	56,519	11,671
Cash and cash equivalents at end of year (note 20)	**155,245**	**92,667**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

Mln RUB			Attributable to equity holder of the Company			Attributable to equity holder of the Company				Non-controlling interest	Total equity
	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Revaluation reserve	Hedge reserve	Foreign currency translation reserve	Accumulated losses	Total		
Balance at 1 January 2014	**188,903**	**4,566**	**4,198**	**(410)**	**207**	**–**	**4,420**	**(93,056)**	**108,828**	**(4,272)**	**104,556**
Total comprehensive loss for the year											
Loss for the year	–	–	–	–	–	–		(7,891)	(7,891)	(5,763)	(13,654)
Defined benefit plan actuarial loss, net of tax								(43)	(43)	–	(43)
Foreign exchange differences	–	–	–	–	–	–	9,450	–	9,450	(71)	9,379
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**9,450**	**(7,934)**	**1,516**	**(5,834)**	**(4,318)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
Prepayment of share issue	–	–	8,145	–	–	–	–		8,145	–	8,145
	–	–	8,145	–	–	–	–		8,145	–	8,145
Other transactions with owners:											
Contributions to equity of subsidiaries by non-controlling shareholders	–	–	–	–	–	–	–	10,232	10,232	19,915	30,147
Acquisition of non-controlling interest	–	–	–	–	–	–	–	(191)	(191)	191	–
Dividends	–	–	–	–	–	–	–	–,	–	(329)	(329)
Balance at 31 December 2014	**188,903**	**4,566**	**12,343**	**(410)**	**207**	**–**	**13,870**	**(90,949)**	**128,530**	**9,671**	**138,201**

Mln RUB			Attributable to equity holder of the Company			Attributable to equity holder of the Company				Non-controlling interest	Total equity
	Share capital	Share premium	Prepaid shares reserve	Treasury shares	Revaluation reserve	Hedge reserve	Foreign currency translation reserve	Accumulated losses	Total		
Balance at 1 January 2015	**188,903**	**4,566**	**12,343**	**(410)**	**207**	**–**	**13,870**	**(90,949)**	**128,530**	**9,671**	**138,201**
Total comprehensive loss for the year											
Loss for the year	–	–	–	–	–	–	–	(83,159)	(83,159)	(25,608)	(108,767)
Defined benefit plan actuarial loss, net of tax	–	–	–	–	–	–	–	148	148	62	210
Foreign exchange differences	–	–	–	–	–	–	25,487	–	25,487	7,230	32,717
Discounting effect	–	–	–	–	–	–	–	(763)	(763)	763	–
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**25,487**	**(83,774)**	**(58,287)**	**(17,553)**	**(75,840)**
Transactions with owners recognised directly in equity											
Share issues of the Company:											
Prepayment of share issue	13,940	–	1,877	–	–	–	–	–	15,817	–	15,817
Contribution of bonds			100,000						100,000		100,000
	13,940	–	101,877	–	–	–	–	–	115,817	–	115,817
Other transactions with owners:											
Contributions to equity of subsidiaries by non-controlling shareholders	–	–	–	–	–	–	–	681	681	18,107	18,788
Dividends	–	–	–	–	–	–	–	(472)	(472)	(182)	(654)
Balance at 31 December 2015	**202,843**	**4,566**	**114,220**	**(410)**	**207**	**–**	**39,357**	**(174,513)**	**186,270,**	**10,042**	**196,312**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1 BACKGROUND

(a) Organisation and operations

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

The change in a Company's Charter regarding its legal form was registered as at 16th of April 2015. The full legal name of a Company is the following:
- In Russian: «Публичное акционерное общество «Объединенная авиастроительная корпора-ция» (ПАО «ОАК»;
- In English: Public Joint Stock Company «United Aircraft Corporation»

The short legal name is:
- In Russian: ПАО «ОАК»;
- In English: JSC «UAC».

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

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

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

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

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

The shareholding structure of the Company as at 31 December 2015 and as at 31 December 2014 was the following:

Shareholders	2015	2014
Russian Federation (Federal Agency for State property management)	90.44%	85.29%
Vneshekonombank (VEB)	5.55%	8.55%
Private shareholders	4.01%	6.16%

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

Since November 2009 the Company's shares are traded on the Russian stock exchanges MICEX with UNAC tickers.

(b) State Secrets

The operations of the Group related to the construction and sale of military aircraft are subject to the Law of the Russian Federation on State Secrets signed by the President of the Russian Federation on 21 July 1993. This Law provides that the information on the foreign policy, military activities and economic activities of the Russian Federation, disclosure of which can cause damage to the security of the country, is considered a state secret. Access to information classified as a state secret can be granted by the appropriate authorities only to organizations and individuals holding security licenses with the appropriate form of clearance. In addition, part of the property, plant and equipment of the Company makes up the mobilization capacity of the state (refer note 13(d)) and is also subject to the Law on State Secrets. The law also limits the authority of the Company to dispose of these assets.

(c) Russian business environment

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

Decline in oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Rouble and making it harder to raise international funding. During 2015 year:

- exchange rate set by the Central Bank of the Russian Federation fluctuated between RR 56.2376 and RR 72.8827 per USD and between RR 68.3681 and RR 79.6972 per Euro;
- key interest rate set by the Central Bank of the Russian Federation decreased from 17 percent p.a.
- to 11.0 percent p.a

Currently the financial markets continue to be volatile. Subsequent to 31 December 2015:

- exchange rate set the Central Bank of the Russian Federation fluctuated between RR 67.1410 per USD and RR 83.5913 per USD and between RR 75.6902 and RR 91.1814 per Euro;
- Russia's credit rating set by Fitch Ratings was unchanged at BBB- level, neither Standard & Poor's changed investment level from BB+ putting it below investment grade for the first time in a decade.

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

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Group entities, except for PJSC "Irkut Corporation" and JSC "Sukhoi Civil Aircraft", whose functional currency is the United States Dollar ("USD") because it reflects the economic substance of the underlying events and circumstances of these subsidiaries. RUB is the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgements

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

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

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

- Notes 3(m) and 7 – Revenue;
- Note 14 – Impairment of intangible assets;
- Notes 3(e)(ii) and 14 – Research and development
- Note 17 Deferred tax assets;
- Note 27 – Provisions;
- Note 30 – Contingencies;
- Note 2(c) Functional currency.

(e) Changes in presentation of assets and liabilities and corrections related to previous reporting periods

(i) Presentation of items in the Consolidated Statement of Income

While preparing financial statements for the year ended 31 December 2015 management realized that expenses related to impairment of work in progress in prior period were incorrectly classified. In Other operating As the result, presentation of items was restated.

RUB million	2014	2 (e)(i)	Restated 2014
Revenue	**294,538**		**294,538**
Cost of sales	(246,786)	(2,506)	(249,293)
Gross profit	**47,752**	**(2,506)**	**45,245**
Government grants related to income	332		332
Other operating expenses	(12,061)	2,506	(9,554)
Profit from operations	**4,212**	**–**	**4,212**

(f) Adoption of new and revised standards and interpretations

The following new standards and interpretations became effective from 1 January 2015 but did not have any material impact on the Group's consolidated financial statements:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

New accounting pronouncements

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.

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.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:
- 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).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved for adoption in the Russian Federation).
- Annual Improvements to IFRSs 2014 (issued in 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).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017; these amendments have not been approved for adoption in the Russian Federation).
- Disclosure Initiative – Amendments to IAS 7 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017; these amendments have not been approved for adoption in the Russian Federation).

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

(g) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective. The Group anticipates the likely impact of these new Standards and Interpretations will not be significant.

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result. Non-controlling interest is measured at its proportionate interest in the identifiable net assets of the acquiree.

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

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

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

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

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

(iii) Transactions eliminated on consolidation

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

(iv) Acquisitions from entities under common control

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

(b) Foreign currency transactions

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

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

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

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

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

- Buildings 20–39 years;
- Machinery and equipment 6–28 years.

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

(iv) Leased assets

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

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

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

The Group measures goodwill at the acquisition date as:

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

When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

(ii) Research and development

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

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

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

Management uses judgement in determination whether proceeds related to externally financed research and development contracts with government related entities should be accounted as government grants (Note 3(q)). In making this judgment, management considers a number of factors, including: the significance of external financing in total estimated costs of the contract, stage of research and development project at which the government related entity commences participation, whether all substantial risks and rewards attributable to the result of research and development activities are transferred to the counterparty.

(iii) Other intangible assets

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

(f) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 19, cash and cash equivalents as presented in note 20 and loans and deposits as presented in note 16.

Available-for-sale financial assets

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

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

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

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

(iii) Derivative financial instruments

Derivative financial instruments, including hedge accounting

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

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on 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; related transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

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

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

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(g) Inventories

Construction work in progress is stated at cost plus profit recognised to date less foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

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

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

(h) Construction contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date (see note 3 (m)(i)). It is measured at cost incurred plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Construction contracts in progress are presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as trade and other payables as liability in the statement of financial position.

(i) Impairment

(i) Non-derivative financial assets

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

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

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

(ii) Non-financial assets

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

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

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

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

(j) Dividends

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

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(iii) Short-term benefits

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

(l) Provisions

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

(i) Warranties

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

(ii) Onerous contracts

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

(m) Revenues

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

(i) Construction contracts

The operations of the Group include manufacturing aircraft under fixed price contracts where particular aircraft item (or items) undergoes significant modification in development and/or production to meet customer requirements, thus such contracts are accounted for under IAS 11 as construction contracts. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract, measured by the ratio of total direct materials, labour and contract related design and development costs incurred to date relative to the total estimated respective costs on the contract. This method is used as the management of the Group considers this to be the best available measure of progress on the contracts. The method places considerable importance on accurate estimates at completion as well as on the extent of progress towards completion. For the determination of the progress of the construction contract significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgements. Marketing costs that are incurred to secure a specific contract may be included in contract costs, but only if these costs can be directly associated with a specific contract and if their recoverability from that contract is probable.

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

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

(ii) Goods sold

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

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

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

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

(iii) Services

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

(n) Other expenses

(i) Operating leases

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

(ii) Social expenditure

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

(o) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on investments. All borrowing costs are recognised in profit or loss using the effective interest method.

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

(p) Income tax

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

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

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

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

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

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

(q) Government grants

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

(r) Earnings per share

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

(s) Segment reporting

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

4 DETERMINATION OF FAIR VALUES

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

(a) Property, plant and equipment

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

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

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

(b) Intangible assets

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

(c) Investments in equity and debt securities

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

(d) Trade and other receivables

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

(e) Non-derivative financial liabilities

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

5 FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

Main customers of the Group are Federal Government of Russian Federation and governments of other countries. The Group's exposure to credit risk is influenced mainly by the economic and political situation in Russian Federation and these countries. Approximately 73% of the Group's revenue is attributable to sales transactions with a group of five main customers. Therefore, geographically there is high concentration of credit risk. The Group monitors all changes which occur in the target countries.

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

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

(ii) Investments

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

(iii) Guarantees

As at 31 December 2015 and 31 December 2014 the Group did not have any contractual commitments to extend financial guarantees, credit and other assistance.

(c) Liquidity risk

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

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

(d) Market risk

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

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

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated primarily in US Dollars (USD) and Euro (EUR), currencies other than the respective functional currency of Group entities.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD, but also RUB and EUR. This provides an economic hedge.

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

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

(ii) Interest rate risk

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

(iii) Operational risk

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

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

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

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

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

(iv) Capital management

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

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

The Group's return on capital was negative in 2015 (2014: negative). The weighted average interest expense on interest-bearing loans and borrowings (excluding liabilities with imputed interest and excluding effect of government grants related to interest expense) was 13.10 % (2014: 8.01 %).

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

Mln RUB	2015	2014
Total debt	324,560	355,013
Less: cash and cash equivalents	(155,245)	(92,667)
Net debt	**169,315**	**262,346**
Total equity	196,312	138,201
Debt to capital ratio at 31 December	0.86	,1.90

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

Under certain loan agreements the Group subsidiaries have to comply with financial covenants which require maintaining a minimum level of Net Debt to EBITDA and a certain level of net assets which are considered in managing capital of those entities.

As at 31 December 2015 Group complied with all financial covenants to loan agreements.

As at 31 December 2014 the Group's subsidiary (CJSC „Sukhoi Civil Aircraft") violated a number of financial and non-financial loan covenants with the following banks: EBRD, JSC „VTB" VTB Bank (Austria), VTB (France) OJSC „Sberbank", JSC „Eurasian Development Bank" Accordingly, the Group recorded these loans under current liabilities as at 31 December 2014. The Group is currently in the process of obtaining a permanent waiver from creditor banks from fulfilment of conditions of financial and non-financial covenants. (Note 24 (d)).

6 OPERATING SEGMENTS

The Group has three reportable segments, as described below. The segments represent the sub-holdings which develop and produce different products, and are managed separately because they require different technology and marketing strategies. For each of the segments, the Group's President reviews internal management reports on annual basis. The following summary describes the operations in each of the Group's reportable segments:

- *Sukhoi holding.* Primarily includes development and production of military combat aircraft as well as development of the civil aircraft programme SSJ-100.
- *Irkut Corporation.* Primarily includes production of military combat aircraft as well as development of the training military aircraft Yak-130 and civil aircraft programme MC-21.
- *Other units.* Includes designing and manufacturing of various types of aircraft as well as repair and maintenance of existing civil and military aircraft produced in Russia and the former Soviet Union.

The underlying principles on which the reportable segments information are generally derived from the statutory accounting records adjusted for intergroup transactions.

The major reconciling differences between the information provided to President and the related IFRS-based amounts relate to:

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

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

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

(i) Information about reportable segments

Mln RUB	Sukhoi Group		Irkut Corporation		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014 Restated
External revenue for reportable segments	124,576	103,093	83,527	59,260	134,897	121,635	343,000	283,988
Inter-segment revenue for reportable segments	4,482	6,678	579	502	6,363	7,234	11,424	14,414
Reportable segment gross profit	9,929	14,414	17,653	10,141	10,427	7,801	38,009	32,356

(ii) Reconciliation of reportable segments' revenues and reportable segments' measure of profit

Mln RUB	2015	2014 Restated
Total revenue for reportable segments	354,424	298,402
Elimination of inter-segment revenue	(11,424)	(14,414)
Difference in timing and principles of revenue recognition	8,842	10,550
Consolidated revenue	**351,842**	**294,538**

Mln RUB	2015	2014 Restated
Reportable segment gross profit	38,009	32,356
Adjustments for:		
Net realizable value of inventories	1,992	1,453
Fair value of assets related to SSJ-100 programme	–	1,759
Reclassification of certain types of administrative expenses	15,253	12,993
Adjustments to fair value of intangible assets and property, plant and equipment	1,157	241
Difference in timing of recognition of revenue and cost of sales	(7,221)	6,487
Other	(4,656)	(10,044)
Gross profit	**44,534**	**45,245**

(iii) Major customer

In 2015 and 2014, revenue from one customer, the Ministry of Defence of the Russian Federation, represented approximately 47% and 49%, respectively, of the Group's total revenue.

7 REVENUE

Mln RUB	2015	2014 Restated*
Revenue earned on aircraft construction contracts	213,536	163,455
Revenue on sales of aircraft components and related products	27,902	27,130
Revenue earned on research and development services	42,459	43,330
Revenue earned on modernisation and overhaul services	60,507	50,618
Other	7,438	10,005
Total	**351,842**	**294,538**

8 PERSONNEL COSTS

Mln RUB	2015	2014
Wages and salaries	45,342	38,572
Compulsory social security contributions	11,386	9,885
Expenses related to defined benefit plans	382	288
Total	**57,110**	**48,745**

9 OTHER OPERATING EXPENSES

Mln RUB	2015	2014 Restated*
Write-off and impairment of other assets	16,609	2,289
Other reserves	12,109	–
Write-off and change in allowance for doubtful receivables	3,242	2,762
Property and other tax expense	1,456	721
Charity and social expenses	1,155	1,340
Loss on disposal of property, plant and equipment and intangible assets	1,035	1,184
Fines and penalties	1,002	208
Other expenses	1,970	1050
Total	**38,578**	**9,554**

10 OTHER OPERATING INCOME

Mln RUB	2015	2014 Restated*
Rental income	–	339
Other reserves reversal	–	2,576
Dividends received from associated companies	46	72
Reversal of accounts payable overdue	120	255
Reimbursement of insurance	1,770	2
Other income	–	17
Total	**1,935**	**3,261**

11 FINANCE INCOME AND FINANCE COSTS

Mln RUB	2015	2014
Finance income		
Interest income	8,519	5,917
Net income on finance leases	113	109
Total	**8,632**	**6,026**
Finance costs		
Interest expense	(33,873)	(22,633)
Government grant related to compensation of interest expense	7,704	6,377
	(26,169)	(16,256)
Foreign exchange loss	(3,267)	(3,284)
Other finance costs	(15,968)	(505)
Total finance costs	**(45,404)**	**(20,045)**

12 INCOME TAX BENEFIT/(EXPENSE)

Mln RUB	2015	2014
Current tax benefit	**(2,470)**	**(527)**
Current income tax	213	354
Adjustments of prior years	(2,257)	(173)
Deferred tax benefit/(expense)	**2,396**	**(1,627)**
Origination and reversal of temporary differences	96	46
Change in recognised deferred tax assets	2,492	(1,581)
Total tax benefit/(expense)	**235**	**(1,754)**

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

Reconciliation of effective tax rate:

Mln RUB	2015	%	2014	%
Loss before income tax	(109,002)	100	(11,900)	100
Income tax at applicable tax rate	21,800	(20)	2,380	(20)
Non-deductible/ non-taxable items, net	(27,355)	26	(1,204)	(10)
Adjustments of prior years	213	0	354	3
Foreign exchange gain/(loss)	2,780	(3)	195	2
Unused tax credit relating to R&D expenses of the reporting period	–	–	99	1
Utilization of previously unrecognised tax losses carried forward	–	–	270	2
Change in recognised deferred tax assets	96	0	46	0
Unrecognised deferred tax assets	2,701	(3)	(3,894)	(33)
Total tax benefit/(expense)	**235**	**0**	**(1,754)**	**(15)**

13 PROPERTY, PLANT AND EQUIPMENT

Mln RUB	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2014	65,091	75,658	10,724	29,760	181,233
Additions and transfers	6,452	2,569	7,703	13,280	
Reclassifications*	(106)	201	1	(80)	16
Disposals	(792)	(1,248)	(1,986)	(8,635)	(12,661)
Foreign exchange differences	11,210	21,326	2,993	1,693	37,222
At 31 December 2014	**81,855**	**98,506**	**19,435**	**36,018**	**235,814**
Additions and transfers	15,199	20,308	(6,042)	12,614	42,079
Reclassifications*	(1,617)	30	736	1,187	336
Disposals	(2,257)	(8,172)	(289)	(10,003)	(20,721)
Foreign exchange differences	1,561	9,974	868	1,503	13,906
At 31 December 2015	**94,741**	**120,646**	**14,708**	**41,319**	**271,414**

Mln RUB	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation					
At 1 January 2014	(11,284)	(42,331)	(5,659)	–	(59,274)
Depreciation charge	(3,087)	(9,674)	(5,155)	–	(17,916)
Disposals	28	2,672	367	–	3,067
Foreign exchange differences	(898)	(6,283)	(2,597)	–	(9,778)
At 31 December 2014	**(15,175)**	**(55,640)**	**(13,044)**	**–**	**(83,859)**
Depreciation charge	(2,302)	(17,451)	4,450	–	(14,848)
Disposals	200	4,208	269	–	4,677
Reclassifications*	69	65	(420)	–	(286)
Foreign exchange differences	(742)	(5,383)	(738)	–	(6,863)
At 31 December 2015	**(17,950)**	**(74,201)**	**(9,483)**	**–**	**(101,634)**
Carrying amounts					
At 1 January 2014	**53,807**	**33,327**	**5,065**	**29,760**	**121,959**
At 31 December 2014	**66,680**	**42,866**	**6,391**	**36,018**	**151,955**
At 31 December 2015	**76,791**	**46,445**	**5,225**	**41,319**	**169,780**

(a) Aircraft in operating lease

The aircraft in operating leases as at 31 December 2015 include aircraft provided to customers under operating lease agreements. Such planes are recorded as operating leases and are included in fixed assets in the amount of RUB 2 467 (31 December 2014: RUB 4 783 million).

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures the lease obligations (see note 23(e)). At 31 December 2015 the net carrying amount of leased plant and machinery was RUB 9 978 million (2014: RUB 4 765 million).

(c) Security

As at 31 December 2015 property, plant and equipment with a carrying amount of RUB 11 330 million (31 December 2014: RUB 5 527 million) is pledged as collateral for secured loans and borrowings (see note 23(b)).

(d) Other restrictions

The net book value of property, plant and equipment restricted for sale by the Russian government in accordance with the state military programme amounted to RUB 13 612 million (2014: RUB 13 169 million).

(e) Capitalised borrowing costs

Additions to property, plant and equipment for the year ended 31 December 2015 include RUB 929 million of capitalised borrowing costs (2014: RUB 883 million).

14 INTANGIBLE ASSETS

Mln RUB	Goodwill	Development costs	Software	Advances given for development costs	Total
Cost					
At 1 January 2014	2,095	67,750	3,906	2,420	76,171
Additions and transfers	–	7,478	1,300	506	9,284
Disposals/Reclassification from inventories	–	(203)	(486)	(11)	(700)
Government grants	–	(305)	–	–	(305)
Foreign exchange differences	1,505	36,064	739	–	38,308
At 31 December 2014	**3,600**	**110,784**	**5,459**	**2,915**	**122,758**
Additions and transfers	–	10,801	985	6,087	17,873
Disposals/Reclassification from inventories	–	(3,151)	(849)	(272)	(4,272)
Government grants	–	(416)	–	–	(416)
Foreign exchange differences	1,064	25,641	(341)	411,	26,775
At 31 December 2015	**4,664**	**143,659**	**5,254**	**9,141**	**162,718**
Amortisation and impairment losses					
At 1 January 2014	–	(14,439)	(1,714)	–	(16,153)
Amortisation charge	–	(2,886)	(984)	–	(3,870)
Disposals/reclassification	–	(9,585)	(224)	–	(9,809)
Foreign exchange differences	–	300	291	–	591
At 31 December 2014	–	(26,610)	(2,631)	–	(29,241)
Amortisation charge	–	(4,651)	(870)	–	(5,521)
Impairment	–	(28,833)	–	(2)	(28,835)
Disposals/reclassification	–	762	376	–	1,138

Mln RUB	Goodwill	Development costs	Software	Advances given for development costs	Total
Foreign exchange differences	–	(6,771)	(99)	–	(6,870)
At 31 December 2015	**–**	**(66,103)**	**(3,224)**	**(2)**	**(69,329)**
Carrying amounts					
At 1 January 2014	**2,095**	**53,311**	**2,192**	**2,420**	**60,018**
At 31 December 2014	**3,600**	**84,174**	**2,828**	**2,915**	**93,517**
At 31 December 2015	**4,664**	**77,556**	**2,030**	**9,139**	**93,389**

(a) Goodwill

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

As at 31 December 2015 management tested the acquired goodwill for impairment. The recoverable amount of Irkut group's CGU was determined with reference to its fair value. Applying discounted cash flow approach cash flow projections were based on financial budgets and forecast approved by management covering a period until 2023 as the projected cash flows are primarily based on the lifecycle of MC-21 programme which is expected to reach maturity in 2021-2023. As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as at 31 December 2014 and 31 December 2013.

Terminal value, representing the cash flows was calculated apllying a growth rate of 3,5%. The cash flows were discounted using a post-tax discount rate of 15% in each forecast year.

As a result, the recoverable amount of assets of Irkut Group, including related goodwill, exceeded its carrying amount as at 31 December 2015 and 31 December 2014. The impairment was not recognized in any of the previous periods.

(b) Development costs

Capitalised development costs comprise of the following programmes:

Mln RUB	2015	2014
Sukhoi Super Jet – 100 aircraft ("SSJ-100")	39,399	55,457
Yak-130 aircraft	8,311	7,415
MC-21 aircraft	13,952	10,644
Other	15,894	10,658
Total	**77,556**	**84,174**

The development of the "Sukhoi Super Jet – 100" ("SSJ-100") and MC-21aircrafts is included in both Federal Target Program "Development of the civil aircraft for 2002-2011 and for the period until 2015" approved by the Decision of the Federal Government of the Russian Federation No. 728 dated 15 October 2001 and in a State program of the Russian Federation "Development of the aircraft industry for 2013-2025". Following these programs, the Group is the subject to financing from the Federal Government. Appropriate funds are being received under the contract with the Ministry of Industry and Trade (Minpromtorg) which is structured asa contract for development services and as direct subsidies from the budget to cover certain types of expenses.

MC-21

Production of MC-21 aircraft and provision of services to customers under certain military programmes will commence in 2017, respectively. Consequently, the related intangible assets are not amortised. Instead, management tested this asset for impairment as at the reporting date. A discount rate of 15% was applied in determining the recoverable amount.

SSJ-100

On 28 January 2011 the Group obtained the Type Certificate for serial aircraft production and subsequently deliveries commenced to the first customers.

Management concluded that development costs capitalised up to the date of the Type Certificate met the requirement of IAS 38 Intangible assets as 'available for use' which triggered commencement of amortisation of these costs based on the unit-of-production method. Management expects that certain development activities are still required to complete the development of the aircraft to ensure its operating capabilities and required aviation standards in the target markets.

Management plans to analyze future development costs for compliance with the capitalization criteria of

IAS 38. If these costs meet the criteria for capitalization, an accumulated value of the intangible asset would be increased. The increase in development costs in the amount of RUB 3 497 million due to the expansion of the Type Certificate.

Management of the Group constantly monitors the SSJ-100 program for signs of impairment. There were significant downturn of passenger air traffic and related airlines' demand for civil aircraft in 2015. Management of the Group decreased projected volume of aircraft to be sold in the bounds of the whole SSJ-100 program by 28% and performed an impairment test taking into account the decrease as an indication of potential impairment.

Management reviewed the cash-flow projections for the full period of SSJ-100 program till 2051 and prepared updated forecast which assumes decrease of sales volume forecasts, as compared to the model used in prior periods.

As at 31 December 2015 the recoverable amount of the Intangible assets and property, plant and equipment related to SSJ-100 program was RUB 54 719 millions.The recoverable amount has been determined based on value in use calculations using the updated cash-flow projection. The pre-tax discount rate applied to cash-flow projections is 15%. Based on the updated cash-flow, impairment losses were recognised in the amount of RUB 28 833 million against Intangible assets with a carrying amount of RUB 76 324 million as at 31 December 2015.

- Sale volumes. In 2016, 2017 and 2018 the Group forecasted sales amounted to 27, 34 and 38 aircraft respectively. A decrease of annual aircraft sale volumes by 10% would result an additional impairment loss of RUB 10 160 million.
- EBITDA (calculated as operating income or loss less depreciation and amortisation). Average EBITDA margin from aircraft sales assumed in the test equals to 17%. A decrease of forecasted EBITDA by 1% would result in additional impairment loss of RUB 958 million.
- Discount rate. An increase of discount rate by 1% would result in additional impairment loss of RUB 4 475 million.

Other projects

By the end of the year 2012 the assets were substantially completed and became available for use, which triggered commencement of amortisation of these costs based on the unit-of-production method. Management continues to monitor the assets for signs of impairment and tests them for impairment, as necessary. As at 31 December 2015 there were no signs of impairment.

(c) Capitalised borrowing costs

Additions to development costs for the year ended 31 December 2015 include RUB 1 583 million of capitalised borrowing costs (2014: RUB 683 million).

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 December 2015 the Group owned significant influence interests in JSC "Ilyushin Finance Co" ("IFC"), "SuperJet International" S.p.A ("SJI") and Multirole Transport Aircraft Ltd ("MTAL").

IFC

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

In late 2013 the Group took a firm decision to sell its share in IFC, whereby the investment was reclassified to assets held for sale (see note 21). However, at the end of 2014 this decision was revised and this asset was accounted as investments in associates and joint ventures as at 31 December 2014 and as at 31 December 2015.

SJI

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

During the year ended 31 December 2015 and year ended 31 December 2014 cash contribution was not made to the capital of "SuperJet International" S.p.A. In 2015, the Group's share of loss in "SuperJet International" S.p.A. amounted to RUB 345 million (2014: RUB 653 million).

MTAL

In 2012 the Group contributed RUB 618 million to the share capital of the newly established joint venture Multirole Transport Aircraft Ltd. (MTAL). MTS Program is being executed by MTAL under the Agreement on cooperation in the development and production of multirole transport aircraft between the Government of the Russian Federation and the Republic of India. Following the Regulation of the President of the Russian Federation dated 10 March, 2010 the Group's subsidiary JSC „UAC-TS" is authorized to trade military products to foreign governments.

The following is summarised financial information for equity accounted investees:

2015				
Mln RUB	IFC	SJI	MTAL	Total
Ownership interest, %	49.48	37.26	48.35	
Current assets	22,367	17,759	937	41,063
Non-current assets	11,932	5,779	1,420	19,131
Total assets	**34,299**	**23,538**	**2,357**	**60,194**
Current liabilities	6,578	20,479	9	27,065
Non-current liabilities	8,917	2,475	–	11,392
Total liabilities	**15,495**	**22,954**	**9**	**38,457**
Revenue and gross finance income from lease	22,591	12,461	70	35,122
Expenses	(22,540)	(13,081)	(19)	(35,640)
Other comprehensive income/(loss)	–	(306)	–	(306)
Loss for the year	**51**	**(926)**	**51**	**(824)**
Group share of profit/(loss)	**25**	**(345)**	**25**	**(295)**

2014				
Mln RUB	IFC	SJI	MTAL	Total
Ownership interest, %	49.48	27.96	48.35	
Current assets	27,819	15,597	770	44,186
Non-current assets	19,430	5,118	1,150	25,698
Total assets	**47,249**	**20,715**	**1,920**	**69,884**
Current liabilities	15,977	21,621	7	37,605
Non-current liabilities	11,382	1,841	–	13,223
Total liabilities	**27,359**	**23,462**	**7**	**50,828**
Revenue and gross finance income from lease	10,311	9,297	30	19,638
Expenses	(13,239)	(10,951)	(13)	(24,203)
Other comprehensive income/(loss)	–	(677)	–	(677)
Loss for the year	**(2,928)**	**(2,331)**	**17**	**(5,242)**
Group share of profit/(loss)	**(1,449)**	**(653)**	**8**	**(2,093)**

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

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

2014				
Mln RUB	IFC	SJI	MTAL	Total
Investments in associates as at 1 January 2014	–	104	618	722
Group's share of profit/(loss)	(1,449)	(652)	8	(2,093)
Reclassification to assets held for sale	9,028	–	–	9,028
Recognition of liabilities associated with the share of losses	–	1,346	–	1,346
Foreign exchange differences	–	(798)	–	(798)
Investments in associates as at 31 December 2014	**7,579**	**–**	**626**	**8,205**
Group's share of profit/(loss)	25	(345)	25	(295)
Foreign exchange differences	–	(89)	–	(89)
Recognition of liabilities associated with the share of losses	–	434	–	434
Investments in associates as at 31 December 2015	**7,604**	**–**	**651**	**8,255**

16 INVESTMENTS AND NON-CURRENT FINANCIAL ASSETS

Mln RUB	2015	2014
Non-current		
Available-for-sale investments measured at cost	3,270	3,325
Loans given	223	146
Promissory notes	–	9
Total	**3,493**	**3,480**
Current		
Deposits	91	564
Loans given	275	176
Promissory notes	–	7
Other current financial assets	11	5
Total	**377**	**752**

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

Investments available for sale both as at 31 December 2015 and 31 December 2014 are mostly attributable to equity securities in JSC "Oboronprom" held by the Group`s subsidiary JSC "RSK "MIG" in the amount of RUB 2 698 million. The ownership interest of RSK MIG in JSC "Oboronprom" is 5,01% (2014: 5,01%).

17 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Mln RUB	Assets		Assets		Net	
	2015	2014	2015	2014	2015	2014
Property plant and equipment	113	384	(17,862)	(14,278)	(17,749)	(13,894)
Intangible assets	3,183	3,684	(4,340)	(9,470)	(1,157)	(5,786)
Investments	352	1,279	(865)	(1,523)	(513)	(244)
Inventories	15,728	17,631	(8,273)	(11,286)	7,455	6,345
Trade and other receivables	2,471	3,042	(6,039)	(9,222)	(3,568)	(6,180)
Trade and other payables	2,369	3,322	(8,022)	(7,367)	(5,653)	(4,045)
Loans and borrowings	6,787	5,809	(2,384)	(1,208)	4,403	4,601
Provisions and employee benefits	3,669	1,522	(944)	(141)	2,725	1,381
Tax credit for R&D expenses	–	99	–	–	–	99
Tax loss carry-forwards	14,626	17,311	–	–	14,626	17,311
Total tax assets/(liabilities)	**49,298**	**54,083**	**(48,729)**	**(54,495)**	**569**	**(412)**
Offset of tax	(35,247)	(44,475)	35,247	44,475	–	–
Net tax assets/(liabilities)	**14,051**	**9,608**	**(13,482)**	**(10,020)**	**569**	**(412)**

Movement,in,temporary,differences,during,the,year,after,tax,set-off:

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

Mln RUB	1 January 2015	Recognised in other compre-hensive income	Recognised in profit or loss	Foreign currency translation	31 December 2015
Property, plant and equipment	(13,894)	–	1,837	(5,692)	(17,749)
Intangible assets	(5,786)	–	5,824	(1,195)	(1,157)
Investments	(244)	–	(308)	39	(513)
Inventories	6,345	–	726	384	7,455
Trade and other receivables	(6,180)	–	3,275	(663)	(3,568)
Trade and other payables	(4,045)	–	(1,941)	333	(5,653)
Loans and borrowings	4,601	–	(2,145)	1,947	4,403
Provisions and employee benefits	1,381	31	1,307	6	2,725
Tax credit for R&D expenses	99	–	(99)	–	–
Tax loss carry-forwards	17,311	–	(5,890)	3,205	14,626
Total	**(412)**	**31**	**2,586**	**(1,636)**	**569**

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

Mln RUB	2015	2014
2015-2020	6,905	8,063
2021-2022	4,680	2,853
2023-2025	3,041	6,394
	14,626	**17,310**

The sufficient part of tax losses carried forward expires in 2016-2025. Deferred tax assets including unused tax losses carried forward are recognized as the Management of the Group expects sufficient taxable profit to set off the tax in a foreseeable future before it expires.

(b) Unrecognized deferred tax assets

Mln RUB	2015	2014
Deductible temporary differences	8,902	3,956
Tax loss carry-forwards	15,514	20,204
Total	**24,417**	**24,160**

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Unrecognised tax losses expire in the future as follows.

Mln RUB	2015	2014
2019-2024	13,190	13,150
2016-2018	2,324	6,079
2014-2015	-	975
Total	**15,514**	**20,204**

(c) Unrecognised deferred tax liability

A temporary difference as at 31 December 2015 of RUB 1 651 million (2014: RUB 1 681 million) relating to investments in subsidiaries has not been recognised because the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

18 INVENTORIES

Mln RUB	2015	2014
Advance payments to suppliers	90,536	78,608
Raw materials and other supplies	31,687	34,569
Aircraft components	59,910	50,184
Goods for sale	7,355	5,031
Impairment of inventories	(3,597)	(3,556)
	185,891	**164,836**
Other work in progress	70,816	66,894
Impairment of work in progress	(8,439)	(8,771)
	248,268	**222,959**
Costs incurred and recognised profits on construction contracts less progress billings	18,519	27,936
Total	**266,787**	**250,895**

(a) Security

Inventory with a carrying amount as at 31 December 2015 of RUB 39 959 million (31 December 2014 of RUB 84 million) is pledged as collateral for secured loans (see note 23(b)).

19 TRADE AND OTHER RECEIVABLES

Mln RUB	2015	2014
Current		
Trade receivables	111,067	84,661
Impairment	(7,235)	(6,011)
	103,832	**78,650**
VAT recoverable	28,295	27,877
Prepayments	25,181	43,367
Due from tax authorities	2,477	2,245
Other receivables and originated loans	32,319	11,441
Impairment of other receivables	(5,517)	(4,915)
Total	**186,587**	**158,665**
Non-current		
Trade receivables	8,911	–
Other advances	4,382	1,979
VAT receivable	–	136
Other receivables and originated loans, non-current	1,571	72
Impairment of other receivables, non-current	(100)	
Total	**14,763**	**2,187**

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 28.

20 CASH AND CASH EQUIVALENTS

Mln RUB	2015	2014
Bank balances, RUB	72,075	39,851
Bank balances, Foreign currency	66,138	46,251
Deposits	14,871	5,652
Other cash and cash equivalents	2,161	913
Total	**155,245**	**92,667**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

21 EQUITY

(a) Share capital and share premium

		Ordinary shares
Thousands of shares	2015	2014
Issued shares	219,654,789	219,654,789
Par value, RUB	0.86	0.86
Issued shares as at 1 January	219,654,789	219,654,789
Issued in May	16,208,960	
Issued shares as at 31 December, fully paid	**235,863,749**	**219,654,789**

		The nominal value of shares
RUB	2015	2014
At the beginning of the year	0.86	0.86
Reduction of the nominal share price	–	–
At the end of the year	**0.86**	**0.86**

As at 31 December 2015 issued capital amounted to RUB 202 843 million (as at 31 December 2014: RUB 188 903 million)

At the date these consolidated financial statements were authorised for issue share capital of the Company consisted of 361 500 994 thousand shares, offered shares amounted to 94 362 755 thousand shares (31 December 2014: 235 863 749 thousand shares)

(b) Prepaid shares reserve

The decision to increase the authorized capital by issuing additional shares was taken by the Board of Directors of PJSC "UAC" in 2015 (Minutes № 132 dated 29 May 2015 based on the Decision taken by Extraordinary General Meeting of Shareholders dated 28 May 2015, Minute№ 24 dated 29 May 2015 to increase the share capital of PJSC «UAC» by issuing additional shares). Total quantity of shares issued according to Decision of the Board of Directors of PJSC «UAC» is 150 000 000 thousands shares.

As at 31 December 2015 prepaid shares reserve consisted of 9 358 175 thousand shares worth RUB

8 048 million (31 December 2014: 14 352 332 thousand shares worth RUB 12 343 million), and of 116 279 070 thousand shares in a form of property paid into capital amounting to RUB 99 999 million (31 december 2014: nil).

Moreover, the Group classified loans received for the aim of advanced performance of investment projects in frame of Federal Target program amounting RUB 6 172 million as prepaid shares. Loans would be repaid by the means of Parent company shares issue for the benefit of Russian Federation.

(c) Revaluation reserve

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

(d) Translation reserver

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

(e) Treasury shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At the reporting date the Group held 309 894 thousand (2014: 309 894 thousand) of its own shares.

(f) Dividends and dividend limitations

Profits available for distribution to ordinary shareholders in respect of any reporting period are determined by reference to the financial statements of the Company prepared in accordance with the laws of the Russian Federation and Russian Accounting Principles and denominated in Russian roubles. At 31 December 2015 the Company had accumulated losses amounting to RUB 4 070 million, including the loss for the current year of RUB 9 412 million (31 December 2014: accumulated loss of RUB 6 654 million).

Before these consolidated financial statements were authorised for issue, no recommendation had been made by the Board of Directors with regard to dividend distribution for 2015.

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

JSC "Company Sukhoi"

In June 2015 Group's subsidiary |CJSC "Company Sukhoi" initiated public offering of 85 000 000 ordinary shares with a par value of RUB 1 000 each for the benefit of the JSC «Vnesheconombank». In July 2015 JSC «Vnesheconombank» received 2 684 514 ordinary shares amounting to RUB 7 300 million.

The consideration in amount of RUB 107 300 million received by CJSC "Company Sukhoi" from its Parent company was contributed to its subsidiary JSC "Sukhoi Civil Aircraft" in form of interest free loan.

Minority shareholders paid in cash RUB 2 million for 635 ordinary shares.

As a result of additional shares issue the Group's share increased to 76,03% as at 31 December 2015.

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

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

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

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

JSC "RSK MIG"

During 2015 Federal Agency for State Property Management (Rosimushestvo) fully paid 43 944 307 outstanding shares by means of land plots earlier being the property of Russian Federation. Total value of the land composed RUB 8 789 million.

CJSC "M. M. Gromov Flight Research Institute"

2 428 840 shares with a par value of 1 000 roubles were issued in favor of Rosimushestvo during 2015. As a result, the Group's share composed 76.97% as at 31 December 2015 (952 780 shares with a par value of 1 000 roubles were issued in favor of Rosimushestvo during 2014. As a result, the Group's share composed 86,85% as at 31 December 2014).

JSC "Tupolev"

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

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

Group's share increased to 94.37% as at 31 December 2014. Group's share increased to 95.95% as at 31 December 2015 after redemption of 245 000 shares to minority shareholders.

(h) NCI

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

31 December 2015						
Mln RUB	CJSC "Sukhoi Civil Aircraft"	JSC "Irkut Corporation"	JSC "Company Sukhoy"	JSC "RSK MIG"	Other individually immaterial subsidiaries	**Total**
NCI percentage	**28.17%**		**6.69%**	**23.97%**	**56.64%**	
Non-current assets	62,535	58,576	169,662	38,882		
Current assets	90,965	135,203	132,262	89,213		
Non-current liabilities	(96,322)	(71,840)	(49,160)	(80,590)		
Current liabilities	(54,148)	(68,735)	(106,578)	(90,963)		
Net assets	**3,030**	**53,204**	**146,186**	**(43,458)**		
Carrying amount of NCI	853	3,541	27,026	(24,512)	3,134	**10,042**
Revenue	34,482	84,484	100,769	50,006		
Gross profit/(loss)	2,390	13,589	19,086	8,397		
Profit/(loss)	(23,362)	(2,328)	(5,765)	(31,192)		
OCL	36,437	10,993	(22,758)	6		**32,927**
Total comprehensive profit/(loss)	**13,075**	**8,665**	**(28,523)**	**(31,186)**		
Profit allocated to NCI	(9,050)	(181)	(2,024)	(13,304)	(1,049)	**(25,608)**
OCL allocated to NCI	16,873	948	(9,772)	2	3	**8,054**
Cash flows from operating activities	(13,216)	(9,942)	5,519	9,949		
Cash flows from investment activities	(2,614)	(2,363)	(7,466)	(2,623)		
Cash flows from financing activities	27,150	7,367	15,001	3,953		
Net increase (decrease) in cash and cash equivalents	**11,665**	**(4,938)**	**13,054**	**11,279**		

31 December 2014						
Mln RUB	CJSC "Sukhoi Civil Aircraft"	JSC "Corporation Irkut"	JSC "Company Sukhoy"	JSC "RSK MIG"	Other individually immaterial subsidiaries	**Total**
NCI percentage	**46.31%**		**8.63%**	**42.94%**	**33.14%**	
Non-current assets	81,682	42,463	38,861	33,339		
Current assets	64,325	107,735	82,036	81,763		
Non-current liabilities	(35,234)	(43,230)	(21,606)	(66,235)		
Current liabilities	(109,056)	(63,263)	(64,606)	(72,720)		
Net assets	**1,717**	**43,705**	**34,685**	**(23,853)**		
Carrying amount of NCI	(11,973)	4,065	23,940	(7,904)	1,543	**9,671**
Revenue	24,036	65,585	82,998	36,108		
Gross profit/(loss)	(3,367)	17,875	19,376	13,001		
Profit/(loss)	(8,592)	72	549	(13,956)		
OCL	(627)	–	(569)	–		
Total comprehensive profit/(loss)	**(9,219)**	**72**	**(20)**	**(13,956)**		
Profit allocated to NCI	(3,978)	6	236	(4,625)	2,598	**(5,763)**
OCL allocated to NCI	(290)	–	491	–	–	**201**
Cash flows from operating activities	(13,484)	1,381	4,557	290		
Cash flows from investment activities	(2,421)	(3,108)	(5,458)	(230)		
Cash flows from financing activities	15,747	9,104	328	2,822		
Net increase (decrease) in cash and cash equivalents	**296**	**7,377**	**(573)**	**2,882**		

22 LOSS PER SHARE

The calculation of basic loss per share at 31 December 2015 is based on the loss attributable to ordinary shareholders of RUB 80 627 million (2014: RUB 7 891 million), and a weighted average number of ordinary shares outstanding of 228 848 229 thousand shares (2014: 219 344 894 thousand shares), calculated as shown below. The Company has no dilutive potential ordinary shares.

Thousands of shares	2015	2014
Issued shares at 1 January	219,654,789	219,654,789
Treasury shares at 1 January	(309,895)	(309,895)
Issued in May	9,503,335	
Weighted average number of shares for the year ended 31 December	**228,848,229**	**219,344,894**

23 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 28.

Mln RUB	2015	2014
Non-current liabilities		
Secured bank loans	69,614	83,175
Unsecured bank loans	85,938	67,829
Unsecured bonds issued	46,634	46,280
Secured bonds issued	8,096	5,051
Finance lease liabilities	4,729	1,857
Other loans	61	36
Total	**215,072**	**204,228**

Mln RUB	2015	2014
Current liabilities		
Secured bank loans	21,580	67,241
Unsecured bank loans	80,368	72,753
Unsecured borrowings	4,944	2,476
Secured bonds issued	1,167	6,025
Unsecured bonds issued	17	1,031
Finance lease liabilities	983	1,054
Other loans	429	205
Total	**109,488**	**150,785**

(a) Terms and debt repayment schedule

Mln RUB	Currency	Nominal interest rate	Year of maturity	Face value 2015	Carrying amount 2015	Face value 2014	Carrying amount 2014
Secured bank loans:	GBP	9% – 11%	2019–2020	1,079	714	1,074	964
	GBP	9% – 11%	2015	–	198	–	–
	GBP	Libor+4.64	2020	–	68	–	–
	USD	7% – 9%	2022–2027	5,632	9,340	28,796	28,894
	USD	3% – 11%	2015–2019	17,327	9,645	–	–
	USD	3% – 10%	2015–2016	–	–	41,737	41,947
	USD	LIBOR + 3% – 6.5%	2015–2017	–	–	6,099	6,114
	EUR	Euribor + 6.5% – 7%	2015	–	–	3,013	2,954
	EUR	6% – 8%	2015–2018	17,346	16,142	13,865	13,850
	RUB	6% – 16%	2015–2017	16,969	15,774	30,563	30,578
	RUB	10% – 12%	2018–2022	39,299	39,313	25,114	25,115
Unsecured bank loans:	GBP	9% – 11%	2019–2020	–	–	–	–
	USD	4% – 12%	2015–2018	43,983	42,500	49,137	49,144
	USD	7% – 9%	2022–2024	11,652	11,657	8,142	8,153
	USD	LIBOR + 3% – 6.5%	2015–2016	–	–	1,361	1,287
	EUR	Euribor + 0.9%	2015–2017	2,710	2,601	3,828	3,748
	EUR	Euribor + 6.5% – 7%	2015–2017	–	–	113	111
	EUR	4% – 8%	2015–2016	1,153	1,155	327	327
	RUB	10% – 15%	2018–2020	35,175	35,189	11,103	11,104
	RUB	8% – 25%	2015–2017	67,381	73,204	66,708	66,708
Unsecured borrowings:	USD	6%	2015	2,294	2,573	1,830	1,830
	RUB	0% – 4%	2016	–	906		
	RUB	10% –17%	2017	2,074	1,465	646	646
Unsecured bonds issued:	RUB	8% – 9%	2020–2023	5,000	5,051	5,000	5,051
	RUB	8% – 27%	2015	3,064	3,062	1,031	1,031
Secured bonds issued:	RUB	8% – 14%	2015	–	1,167	6,097	6,025
	RUB	14%	2017	380	354		
	RUB	8%	2020–2023	46,280	46,280	46,280	46,280
Finance lease liabilities:	USD	0%	2015–2017	83	83	284	284
	USD	0%	2021–2024	5,326	5,326	1,738	1,738
	USD	0%	2018–2020	103	103	–	–
	USD	10% – 17%	2015–2017	53	53	118	118
	EUR	7% – 12%	2015–2016	36	36	375	375
	RUB	0% – 12%	2015–2020	111	111	396	396
Other liabilities:	EUR	0%	2015	–	–		
	RUB	0%	2015–2020	490	490	241	241
Total				**325,000**	**324,560**	**355,016**	**355,013**

(b) Security

Group loans are secured over property, plant and equipment with a carrying amount of RUB 11 330 million (31 December 2014: RUB 6 432 million), inventory with a carrying amount of RUB 39 959 million (31 December 2014: RUB 84 million), titles to rent of land plots with an area of 304 008 square metres (2014: 612 sq.m).

Also there are pledged rights to receive future revenues from export sales of Sukhoi, Irkut, JSC "RSK MIG", CJSC "NAZ Sokol" in amount of RUB 30 606 million (2014: RUB 33 977 million).

(c) Bonds issued

As at 22 February 2011 the Federal Agency on Financial Markets of Russia registered the issue of unconvertible coupon bonds of the Company in a quantity of 46 280 000 thousands with a par value of RUB 1 000. Bonds have 18 coupon periods. Duration of 1-17 coupon periods is established equal to 182 days with a coupon rate of 8 % per annum. The duration of the 18th coupon period is established equal to 196 days. Bonds are secured with the state guarantee of the Russian Federation. The funds raised from placement of the bonds were used for repayment and restructuring of bank loans for the purpose of financing the development and production activities of the Group.

(d) Covenants compliance

As at 31 December 2015 the Group complied with all the covenants to loan agreements.

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

(e) Finance lease liabilities as at 31 December 2015 are payable as follows:

31 December 2015 Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2,799	1,655	1,144
Between one and five years	12,391	7,679	4,712
Total	**15,190**	**9,334**	**5,856**

31 December 2014 Mln RUB	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1,957	907	1,049
Between one and five years	5,324	3,465	1,859
Total	**7,281**	**4,372**	**2,908**

For more information about the Group's exposure to interest rate and foreign currency risk, see note 28.

24 TRADE AND OTHER PAYABLES

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

Mln RUB	2015	2014
Current liabilities		
Advances from customers, unrelated to construction contracts	162,476	116,095
Advances related to construction contracts	6,983	12,666
Trade payables	67,478	66,089
Other payables	31,696	14,738
Settlements with employees	7,817	5,919
VAT payable	4,854	3,587
Other tax payable	4,617	3,299
Total	**285,921**	**222,393**
Non-current liabilities		
Advances from customers, unrelated to construction contracts	54,341	41,973
Advances from customers, related to construction contracts	1,851	–
Trade payables	302	1,386
Other payables	899	1,581
Total	**57,393**	**44,940**
Total current and non-current liabilities	**343,314**	**267,333**

25 GOVERNMENT GRANTS

The development of the "MC-21" and "Sukhoi Super Jet – 100" aircraft is included in the Federal Target Program "Development of the civil aircraft for 2002-2010 and for the period until 2015 approved by the Decision of the Federal Government of the Russian Federation No. 728 dated 15 October 2001. In accordance with this program, the Company receives financing from the Federal Government. Relevant funds are received under contracts with the Ministry of Industry and Trade (Minpromtorg) which are structured as contracts for development services, as well as in the form of direct subsidies from the budget to cover certain types of expenses.

As described in note 3(e)(ii), management applies judgement in determination of whether proceeds related to externally financed research and development contracts with government related entities should be accounted as government grants.

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

Mln RUB	2015	2014 Restated*
Grants related to development costs	57	520
Purchase of equipment	–	248
Total	**57**	**768**
Government grants related to income	4,084	332
Government grants related to compensation of interest expense	7,704	6,377
Total	**11,788**	**520**

26 EMPLOYEE BENEFITS

Mln RUB	2015	2014 Restated*
Fair value of plan assets	1,198	911
Present value of obligations	(5,791)	(5,382)
Deficit in the plan	**(4,593)**	**(4,471)**
Total employee benefit liabilities	**(4,593)**	**(4,471)**

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

Movements in the present value of the defined benefit obligations:

Mln RUB	2015	2014
Defined benefit obligations at 1 January	(5,382)	(5,027)
Current service cost	(561)	(286)
Benefits paid	382	288
Actuarial gain/(loss)	160	36
Interest cost	(430)	(389)
Forex differences	40	(4)
Defined benefit obligations at 31 December	**(5,791)**	**(5,382)**

Movements in the present value of plan assets:

Mln RUB	2015	2014
Fair value of plan assets at 1 January	911	850
Expected return on plan's assets	99	72
Benefits paid by the plan	(217)	(207)
Contributions paid into the plan	482	281
Actuarial gain/(loss)	(77)	(85)
Fair value of plan assets at 31 December	**1, 198**	**911**

Plan assets comprise low–risk fixed income instruments.

Expense recognised in the statement of income:

Mln RUB	2015	2014
Current service cost	(561)	(286)
Expected return on plan's assets	100	72
Interest expenses	(430)	(389)
Total recognised in profit or loss	**(891)**	**(603)**
Actuarial gains and losses recognised in other comprehensive income	83	(49)
Total	**(808)**	**(652)**

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

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

Mln RUB	2015	2014
Discount rate	8.2%	8.2%
Expected rate of return on plans assets	8.2%	8.2%
Future pension and salary increases	6%	6%
Average life expectancy of members from the date of retirement:		
Male	12 years	12 years
Female	20 years	20 years

27 PROVISIONS

Mln RUB				2015				2014
	Warranty	Onerous contracts	Other	Total	Warranty	Onerous contracts	Other	Total
Balance at 1 January	1,896	580	425	2,901	1,408	835	876	3119
Provisions made during the year	5,010	10,879	12,708	28,596	1,329	78	627	2,343
Provisions used during the year	(4,714)		(380)	(5,094)	(863)	(517)	(543)	(1,923)
Provisions reversed during the year	(87)	(627)	(252)	(966)	(103)	–	(535)	(638)
Foreign exchange	150	48		199	125	184	–	–
Balance at 31 December	2,256	10,879	12,501	25,636	1,896	580	425	2,901

(a) Warranty

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

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

28 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Mln RUB	2015	2014
Finance lease receivables	2,569	2,023
Loans given	498	322
Deposits	91	564
Trade receivables	112,743	78,650
Costs incurred and recognized profits on construction contracts	22,520	27,936
Other receivables	37,184	13,757
Cash and cash equivalents	155,245	92,667
Total	**330,850**	**215,919**

(b) Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
Mln RUB	2015	2015	2014	2014
Not past due (with a start date up to 50 days)	113,577	(482)	77,575	(4)
Past due 0-360 days	248	(326)	568	(255)
Past due more than one year	6,153	(6,427)	6,518	(5,752)
Total	**119,978**	**(7,235)**	**84,661**	**(6,011)**

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

Mln RUB	2015	2014
Balance as at 1 January	6,012	3,757
Impairment loss recognised	1,223	2,255
Balance as at 31 December	7,235	6,012

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

The provision in respect of trade receivables and held-to-maturity investments is used to record impairment losses unless the Group is satisfied that no recovery of the amount owed is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly. At 31 December 2015 and at 31 December 2014 the Group does not have any collective impairment on its trade receivables or its held-to-maturity investments.

(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 2015 Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	91,194	135,789	37,057	75,145	9,472	14,115
Unsecured bank loans	166,306	208,009	92,087	82,060	18,015	15,848
Unsecured borrowings	4,944	5,293	5,293	–	–	–
Secured bonds issued	47,801	64,584	6,416	7,405	50,763	–
Unsecured bonds issued	8,113	13,366	4,348	1,182	1,182	6,654
Finance lease liabilities	5,712	17,048	2,944	5,818	4,174	4,112
Other loans	490	490	429	35	5	21
Trade and other payables	97,120	97,093	95,912	1,180	–	–
Total	**421,680**	**541,672**	**244,486**	**172,825**	**83,611**	**40,750**

31 December 2014 Mln RUB	Carrying amount	Contractual cash flows	12 month or less	2-3 years	4-5 years	More than 5 years
Secured bank loans	150,416	312,281	107,454	100,862	81,709	22,257
Unsecured bank loans	140,581	164,155	82,242	56,007	12,695	13,211
Unsecured borrowings	2,476	2,118	1,986	132	–	–
Secured bonds issued	52,305	71,679	9,809	7,405	7,405	47,061
Unsecured bonds issued	6,082	8,454	1,607	898	898	5,052
Finance lease liabilities	2,911	7,131	1,868	2,169	1,433	1,660
Other loans	241	1,686	1,217	439	5	25
Trade and other payables	87,094	87,094	84,127	2,967	–	–
Total	**442,106**	**654,598**	**290,310**	**170,879**	**104,145**	**89,266**

(d) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, primarily the Rubles (RUB), but also U.S. Dollars (USD) which is the functional currency of the Group's subsidiary PJSC "Irkut Corporation" and JSC "Sukhoi Civil Aircraft". The currencies in which these transactions primarily are dominated are USD, EUR and RUB:

31 December 2015				
Mln RUB	USD	EUR	GBP	RUB
Cash and cash equivalents	23,563	1,767	–	8,161
Trade and other receivables	23,701	1,080	–	25,508

31 December 2015				
Mln RUB	USD	EUR	GBP	RUB
Costs incurred and recognised profits on construction contracts	366			777
Secured bank loans	(9,398)	(16,142)	(979)	(4,076)
Unsecured bank loans	(27,888)	(2,665)	–	(18,933)
Unsecured borrowings	(2,573)	–	–	–
Secured bonds issued	–	–	–	(354)
Unsecured bonds issued	–	–	–	(8,113)
Promissory notes	–	–	–	–
Finance lease liabilities	(53)	(36)	–	(61)
Trade and other payables	(22,188)	(2,149)		(13,019)
Gross exposure	**(14,470)**	**(18,145)**	**(979)**	**10,110**

31 December 2014				
Mln RUB	USD	EUR	GBP	RUB
Cash and cash equivalents	21,267	3,205	–	21,458
Trade and other receivables	31,524	1,127	2	12,165
Costs incurred and recognised profits on construction contracts	801	–	–	9,529
Secured bank loans	(4,713)	(16,804)	(963)	(8,214)
Unsecured bank loans	(33,890)	(4,185)	–	(10,944)
Unsecured borrowings	(1,830)	–	–	–
Secured bonds issued	–	–	–	(4,869)
Unsecured bonds issued	–	–	–	(6,082)
Finance lease liabilities	(115)	(375)	–	(16)
Other loans	–	–	–	–
Trade and other payables	(13,428)	(3,510)	(39)	(16,077)
Gross exposure	**(384)**	**(20,542)**	**(1,000)**	**(3,050)**

The following significant exchange rates applied during the year:

RUB	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
USD	60.9574	38.4217	72.8827	56.2584
EUR	67.7725	50.8187	79.6972	68.3427
GBP	93.2634	63.3648	107.9830	87.4199

(e) Sensitivity analysis

A 10% strengthening (weakening) of RUB against the USD and EUR based on the Group's exposure at the reporting date would have increased (decreased) net profit for the year by RUB 3 437 million (2014: RUB 2 193million).

(f) Interest rate risk

(i) Profile

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

Mln RUB	2015	2014
Fixed rate instruments		
Financial assets	20,466	12,951
Financial liabilities	(310,754)	(332,742)
	(290,288)	**(319,791)**
Variable rate instruments		
Financial liabilities	(13,806)	(22,271)
	(13,806)	**(22,271)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

(iii) Cash flow sensitivity analysis for variable rate instruments

An increase of one percentage point in interest rates based on the Group's exposure at the reporting date for 2015 would have increased loss for the year by RUB 2 982 million (31 December 2014: RUB 143 million). The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(g) Fair values

The Company estimates the fair value of its financial assets and liabilities not to be materially different from their current values. For receivables and payables with a remaining useful life of less than one year their notional amount is deemed to reflect their fair value. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows.

The interest rates used to discount estimated cash flows, where applicable, are based on the market rates of instruments with similar market risk exposure and are disclosed in Note 23.

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

31 December 2015	Carrying amount	Fair value		
Mln RUB		Level 1	Level 2	Total
Financial liabilities not measured at fair value				
Loans and borrowings	(324,560)	(313,075)	–	(313,075)
	(324,560)	(313,075)	–	(313,075)

31 December 2014	Carrying amount	Fair value		
Mln RUB		Level 1	Level 2	Total
Financial liabilities not measured at fair value				
Loans and borrowings	(355,013)	–	(354,700)	(354,700)
	(355,013)	–	(354,700)	(354,700)

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

29 OPERATING LEASE

Mln RUB	2015	2014
Less than one year	529	421
Between one and five years	2,166	1,505
More than five years	32,646	7,352
Total	**35,341**	**9,278**

30 CONTINGENCIES

(a) Insurance

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

(b) Taxation contingencies

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

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20–percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 bln in 2012, RUB 2 bln in 2013, and RUB 1 bln in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

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

(c) Environmental contingencies

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

(d) Assets value guarantee

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

The following factors contribute to this assessment:

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

(e) Capital commitments

As at 31 December 2015 the Group is committed to capital expenditure of approximately RUB 41 923 million (2014: RUB 49 037 million).

31 RELATED PARTY TRANSACTIONS

(a) Control relationship

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

The Federal Government of Russian Federation is the ultimate controlling party of the Group. Related parties disclosures (Note 31 (c)) as at 31 December 2015 include balances with other government related entities.

(b) Transactions with management

Key management personnel compensation

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

Mln RUB	2015	2014
Wages and salaries	1 402	1 305
Compulsory social security contributions	211	147
Total	**1 614**	**1 452**

(c) Transactions with government related entities

The Group is indirectly owned by the Federal Government of the Russian Federation (2015: 90,44%,

2014: 85.29%). The Group operates in an industry dominated by entities directly or indirectly controlled by the Federal Government of the Russian Federation through its government authorities, agencies, affiliation and other organisations (collectively referred to as "government related entities"). The Group has transactions with other government related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, lease of assets, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary 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 services related to principal activity under contracts with Russian and foreign governments, where substantial part such contracts is attributed to Russian government. The nature and amount of related contractual arrangements with government related entities may depend on various factors, such as complexity and quantity of product, availability of State budget financing and presence of other government objectives. The Group management monitors the size, terms and other relevant factors of related arrangements in order to determine whether those would collectively lead to a particular transaction to qualify as individually significant.

For the year ended 31 December 2015 management estimated that the aggregate amount of the Group's collectively significant transactions with government related entities is up to 93% (2014: up to 47%) of its revenues, at least 16% (2014: at least 28%) of its purchases of materials, equipment and services, and up to 64% of its borrowings (2014: up to 40%).

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

32 SIGNIFICANT SUBSIDIARIES

The list of significant subsidiaries as at 31 December 2015 and 31 December 2014 is presented below:

Entity of the Group	Entity of the Group	
	2015	2014
Sukhoi Group		
JSC "Company Sukhoi"	76.03%	57.06%
CJSC "Sukhoi Civil Aircraft"	71.83%	53.69%
CJSC "Sukhoi new civil technologies"	–	57.06%
Irkut Group		
JSC "Irkut Corporation"	93.31%	91.37%
JSC "OKB Imeni A.S. Yakovlev"	6.66%	78.73%
CJSC "Beta-Ir"	82.32%	83.99%
Other		
JSC "Tupolev"	95.95%	94.37%
JSC "TANTK Imeni G.M. Berieva"	97.55%	94.21%
CJSC "Aviastar-SP"	99.80%	99.74%
JSC "UAC-TS"	100.00%	100.00%
JSC "Il"	93.49%	89.50%
JSC "VASO"	98.78%	98.73%
LLC "UAC-Antonov"	–	50.00%
JSC "Nizhniy Novgorod Aircraft Plant Sokol"	99.99%	100.00%
CJSC "Aerocompozit"	99.27%	98.69%
LLC "UAC- Integration Center"	100.00%	100.00%
JSC "RSK MiG"**	43.36%	66.86%
JSC "KAPO"*	–	–
JSC "Myasishchev Design Bureau"	100.00%	100.00%
CJSC "Il-Resours"	93.49%	89.50%
CJSC "KAPO-Compozit"	99.34%	100.00%
CJSC "Aerocompozit-Ulyanovsk"	99.48%	100.00%
CJSC "M. M. Gromov Flight Research Institute"	76.97%	86.85%
LLC "UAC-Capital"	100.00%	–
LLC "UAC-Purchases"	100.00%	100.00%

* In 2014 JSC "KAPO" was merged with JSC "Tupolev".
** As the result of reorganization of JCS "RSK MIG" by merging with JSC "NAZ Sokol" in 2016 the Group share will be more than 50%.

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

33 EBITDA

Management assesses financial results of Group's activity according to EBITDA, which is calculated as profit (loss) before tax adjusted for net finance costs/(income), depreciation of property, plant and equipment (PPE), amortization of Intangible assets (IA), charge for impairment of PPE and IA, and extraordinary items. Since this term is not a standard IFRS measure, the Group's definition of EBITDA may differ from that of other companies.

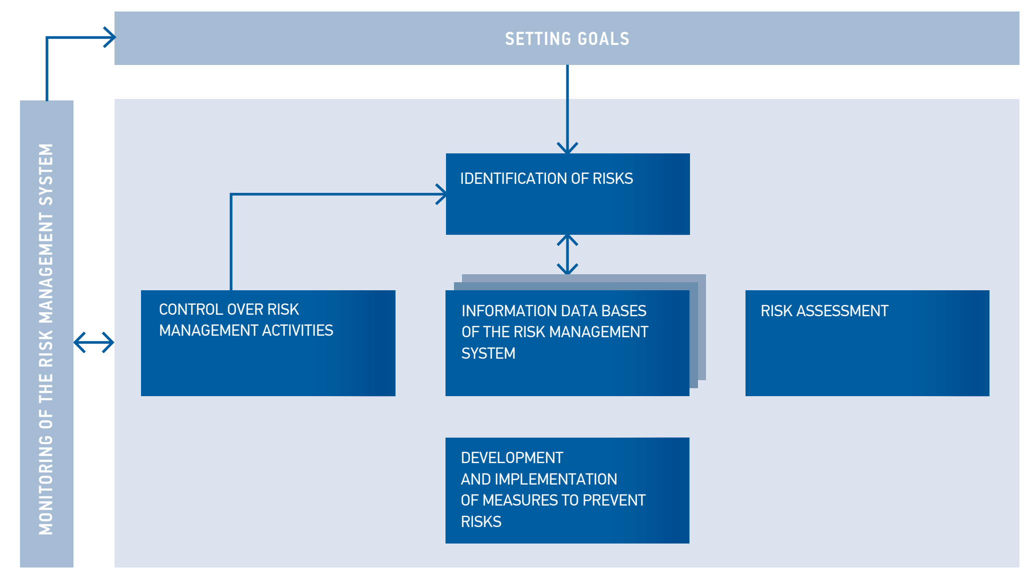
Mln RUB	2015	2014
Loss before income tax	(109,002)	(11,900)
Adjustments for		
Net finance costs	36,770	14,019
EBIT	**(72,232)**	**2,119**
Adjustments for		
Depreciation of property, plant and equipment	14,848	17,916
Amortization of intangible assets	5,521	3,870
Impairment of non-current assets	30,107	–
EBITDA	**(21,756)**	**23,905**

34 EVENTS SUBSEQUENT TO THE REPORTING DATE

As at 21 January 2016 the decision on reorganization by merging was taken by General Meeting of Shareholders of Group's subsidiaries JSC "RSK MIG" and JSC "NAZ Sokol".

As at 24 March 2016 the decision on increase in share capital by public offering of shares in amount of RUB 89 619 million was taken by the Board of Directors of PJSC "UAC".

SUPPLEMENT NO. 2
THE RISK MANAGEMENT SYSTEM



OVERVIEW OF RISKS AND MITIGATION ARRANGEMENTS

Risks	Overview	Mitigation
Industry risks		
Risks relating to demand changes and risks relating to market competition	International economic sanctions imposed on Russia could lead to the increased activity of some EU countries, aimed at reducing the supply of Russian-made components and aircraft, which in turn would lead to a decreased UAC share in the world market.	**To reduce the risks, the Corporation optimises its pricing policy, as well as geographical diversification.**
Risks relating to supplier activities	Due to the worsening of international relations, scenarios when international cooperation of Russian and foreign industry will be limited become likely. The most likely and actually existing scenario is restricting the supply of high-tech production equipment and modern technologies for aviation industry facilities and cutting supply of components and products from Ukraine.	**It is possible that it will be necessary to localise in Russia the production of all types of components and production services required to create the finished final product.**
Risks associated with the failure to perform the state order	UAC enters into long-term contracts with the Ministry of Defence of the Russian Federation, relating to military aircraft equipment delivery under state orders. With the high cost of work carried out under the state order, in case of non-compliance, direct damages can reach a considerable size.	**An important task for reducing such risks is organizing insurance risks in carrying out the State Defence Order.**
Risks relating to fluctuation of prices on raw materials and services used by the Corporation in its activities	Risks related to possible changes in the prices of raw materials, services used by UAC in their activities, and their influence on the activities and performance of obligations on securities: • a number of suppliers of raw materials of UAC and its subsidiaries and associates are monopolists; • possibility of a significant increase in the price of foreign spare parts for current and prospective civil aircraft; • the possibility of higher prices for transportation of materials and components.	**In order to minimise risk, the Corporation supports long-term partnerships with suppliers of major components and materials, considering the possibilities of cooperation and import substitution. In the domestic market, growth dynamics of the prices for basic materials and components used in the manufacture matches the growth of prices and has no significant impact on the results of the Corporation.**
Risks relating to changes in prices on the Corporation's products and services	According to UAC estimates, risks relating to possible changes in prices for the Corporation's products are insignificant.	**UAC supports the promotion of its products, extends its product line, implements new aircraft equipment sales funding mechanisms, develops after-sale servicing to widen the cooperation with the customers, implements large-scale technical upgrade programme, special production development programme.**

Risks	Overview	Mitigation
Country and regional risks		
Politic and economic risks	Risks associated with tightening the sanctions regime by the European Union, the United States and some other countries. Namely: On September 8, 2014, the EU Council approved Council Regulation No. 960/2014 (Regulation No. 960), which amended Regulation No. 833 and imposed a ban on the supply of dual-use goods and technologies to nine Russian companies of military and defence sectors; this list includes UAC. Regulation No. 960 also introduced a ban on the purchase, sale, provision of investment services and assisting in the release of or making other transactions with securities and money market instruments.	The sanctions have had a negligible impact on the business and financial condition of UAC. Currently, the Corporation continues to assess the impact of the sanctions, but does not believe that they will have a significant impact on the consolidated financial statements.
The risks associated with possible military conflicts, the introduction of state of emergency, strikes	There are no forecasts of changes in the mid-term situation.	In a relatively stable political situation in Russia and the positive trends in overcoming the financial and economic crisis, the Corporation regards these risks, as well as risks associated with different social manifestations as unlikely.
Risks relating to geographical specifics of the regions of presence	UAC considers the possibility of positive or negative regional level changes unlikely in the foreseeable future.	Regions where the Corporation carries out core activities are not characterised by the increased risk of natural disasters, are not remote or difficult to reach.
Financial risks		
Exchange rate risks	UAC is a participant of foreign economic relations; it has a portion of its assets and liabilities in foreign currency, so, the Corporation is subject to the risks associated with fluctuating exchange rates of the rouble to the foreign currencies in which part of income, expenditures and liabilities is nominated.	These risks in terms of the cash flow can be partially mitigated by increasing the rouble revenue equivalent from export contracts denominated in a foreign currency.
Credit risks	The Company is a large borrower, and is exposed to risks associated with changes in interest rates. To reduce this risk, the trend related to the predominance in debt portfolio of loans with a fixed interest rate remains.	Target financing of UAC expenses by the state allows UAC to increase its reliability as a borrower and reduce interest rates for credit resources attracted. Furthermore, UAC is granted additional support through its inclusion in the list of strategic companies of the Russian Federation.
Inflation risks	Uncertainty over the situation development in the capital markets may require revision of the Corporation's forecasts in respect of future cash flows and reserves for impairment of financial and non-financial assets.	In the current conditions, UAC is taking the necessary measures to ensure the sustainable development of activities. The financial strategy of UAC envisages gradual escalation of prices for products sold, inflation component is provided for upon contract execution.
Liquidity risks	Liquidity risks are possible with the lack of funds for performance of current liabilities. Current financial condition allows us not to be afraid of such risks.	To mitigate liquidity risks in the Corporation, budgeting, cash flow forecasting procedures and development of financial and production plans are used to identify liquidity deficiency and attract or reassign the required financial resources in due time. The risk of non-payment by the customers which may in turn lead to liquidity problems is mitigated by using advance payment procedure.
Legal risks		
Risks of changes in laws and regulations	UAC is one of the largest taxpayers in the Russian Federation, paying federal, regional, and local taxes. UAC pays special attention to the impact of a "tax manoeuvre" on the performance of the Corporation.	The specialists of the Corporation are engaged in continuous monitoring of changes in tax laws, changes in the practice of interpretation and application of the norms of current tax laws. Corporation serves as an expert in the process of improving the legal framework and development of new legal acts of tax law. Risks arising from the "tax manoeuvre" are promptly evaluated and taken into account in the preparation of the budget.

SUPPLEMENT NO. 3 INFORMATION ON OBSERVANCE OF GRI STANDARDS

In preparing its annual reports, PJSC UAC strives to meet not only legal requirements, but also best practices in the areas of information disclosure and communication with external audiences.

For the third consecutive year, the Company includes in its annual report for investors, the standard reporting elements from the GRI guidelines, required for the principal version of the report. Below is the index of standard reporting elements disclosed in this report, and information on their location (compiled in accordance with the guidelines for reporting in the area of G4 sustainable development).

GRI Standard	Compliance	Information on location in the report
GENERAL STANDARD REPORTING ELEMENTS		
G4–1 Statement by the Senior Manager	Disclosed	p. 24–27
G4–2 Description of key exposures, risks and opportunities	Disclosed	p. 28–61, Supplement No. 2
Organisation profile		
G4–3 Name of the organisation	Disclosed	Cover, p. 1
G4–4 Major brands, products and services	Disclosed	p. 1–15
G4–5 Location of organisation's headquarters	Disclosed	p. 16–17, 146
G4–6 Number of countries where the organisation operates	Disclosed	p. 16–17
G4–7 Nature of ownership and legal form	Disclosed	p. 1, 90–91
G4–8 Markets where the organisation operates	Disclosed	p. 30–37
G4–9 Scale of organisation	Disclosed	p. 1–17
G4–10 Total number of employees by categories	Partially disclosed	p. 97
G4–12 Organisation's supply chain	Partially disclosed	p. 46–47, 62–69
G4–13 Significant changes in scope, structure, or ownership of the Organisation during the reporting period	Partially disclosed	p. 1, 78–79, 90–91
Identified significant aspects and boundaries		
G4–17 All legal entities, whose reports were included in the consolidated financial statements	Disclosed	Supplement No. 1
G4–22 Results of reformulation of all indicators mentioned in previous reports, and the reasons for such reformulation	Partially disclosed	Supplement No. 1
Interaction with interested parties		
G4–24 List of groups of interested parties	Disclosed	p. 46–47, 94–105
G4–25 Principles for the identification and selection of interested parties to interact with	Disclosed	p. 46–47, 94–105
G4–26 Organisation's approach to interaction with interested parties	Disclosed	p. 46–47, 94–105
G4–27 Key topics and concerns raised by interested parties in the framework of cooperation with the organisation, as well as the organisation's response to such concerns, including through preparation of its own reporting	Partially disclosed	Supplement No. 2
General information about the report		
G4–28 The reporting period for which the information is submitted	Disclosed	Cover, p. 4–5
G4–30 Reporting cycle	Disclosed	Cover, p. 4–5
G4–31 Contact details	Disclosed	p. 146
G4–32 Version of the report "in accordance" with GRI guidelines, selected by the organisation	Disclosed	p. 143

GRI Standard	Compliance	Information on location in the report
Corporate Governance		
G4–34 Organisation's corporate governance structure	Disclosed	p. 80–87
G4–35 The order of delegation of authority from the supreme body of corporate governance to Senior Executive managers and other employees	Disclosed	p. 80–87
G4–36 Availability of executive positions within the organisation involving responsibility for resolving of economic, environmental and social issues	Disclosed	p. 80–87
G4–37 Procedures for consultations on economic, environmental and social issues between interested parties and the supreme body of corporate governance	Partially disclosed	p. 80–87
G4–38 Structure of the supreme body of corporate governance and its committees	Disclosed	p. 80–87
G4–39 An indication of whether the Chairman of the supreme body of corporate governance is also the Executive Director and reasons for such overlapping	Partially disclosed	p. 80–87
G4–42 The role of the supreme body of corporate governance and senior executives in the development, approval and updating the wording of the objectives of the Organisation, its policies, mission, strategies	Disclosed	p. 80–87
G4–43 Measures taken to develop and enhance the collective knowledge of members of the supreme body of corporate governance in relation to economic, environmental and social issues	Disclosed	p. 80–87
G4–47 Periodicity of conducting by the supreme body of corporate governance of analysis of economic, environmental and social exposures, risks, opportunities.	Disclosed	p. 80–87
G4–49 The procedure for informing the supreme body of corporate governance on critical issues	Partially disclosed	p. 80–87
G4–50 Nature, total number and mechanisms of solving important issues brought to the attention of the supreme body of corporate governance	Disclosed	p. 80–87
Ethics and integrity		
G4–56 Values, principles, standards and norms of conduct of the organisation (codes of conduct and codes of ethics)	Disclosed	p. 94–105
SPECIFIC STANDARD REPORTING ELEMENTS		
Indicators per aspects – „economic" category		
G4–EC1 Created and distributed direct economic value (CaDDEV), including revenues, operating costs, salary and other payments and benefits for employees, payments to equity suppliers and the State (per country), investments in local communities	Partially disclosed	p. 90–93, Supplement No. 1
G4–EC4 Financial aid received from the State	Partially disclosed	p. 26–27, 33
G4–EC5 The ratio of standard entry–level salary of employees of both sexes to the statutory minimum salary in the regions of the Organisation's activities	Partially disclosed	p. 98
G4–EC7 Development and impact of infrastructure investments and gratuitous services	Partially disclosed	p. 52–53, 102–104
G4–EC8 Significant indirect economic exposures, including the area of exposure	Partially disclosed	p. 24–27, 28–61
Indicators per aspects – „social" category		
G4–LA2 Benefits provided to employees	Disclosed	p. 100
G4–LA8 Representation of health and safety issues in formal agreements with labour unions	Disclosed	p. 100–101
G4–LA10 Existing programmes for development of skills and education of employees serving to maintain occupation capacity of employees, as well as to support them at the end of their career	Partially disclosed	p. 98
G4–LA12 Composition of the governing bodies and basic categories of organisation's employees with diversity breakdown	Partially disclosed	p. 82, 84–85, 96–97

SUPPLEMENT NO. 4

GLOSSARY

ARZ — aircraft repair plant

KPI — key performance indicators

MTA — medium military transport aircraft (Russian-Indian project)

NAEC — National Aircraft Engineering Centre

PAK FA — fifth-generation prospective airborne complex of frontline aviation (T-50)

PAK DA — prospective airborne complex of long-range aviation

PMI — fifth-generation prospective multi-purpose fighter (Russian-Indian project)

QMS — quality management systems

CNC — numerically controlled

EASA — European Aviation Safety Agency

IATA — International Air Transport Association

IAQG — International Aerospace Quality Group

ICAO — International Civil Aviation Organisation

ICOP (Industry Controlled Other Party) — is an industry-controlled system that accredits and certifies quality management systems (QMS) across the aviation industry. It was developed and is overseen by the International Aerospace Quality Group (IAQG) to harmonize certification schemes.

SUPPLEMENT NO. 5

DISCLAIMER

This Annual Report of PJSC UAC (hereinafter the „Annual Report") is not an offer or invitation to make an offer (advertisement) in relation to purchase of, or subscription to securities of PJSC UAC (hereinafter — Corporation).

Neither the Annual Report, nor any of its part, nor the fact of its presentation or distribution serves as a basis for entering into any contract or taking an investment decision, so the Annual Report should not be relied on in this respect. PJSC UAC does not bear responsibility for the consequences of use of the opinions contained herein or in statement, or incompleteness of the information.

Forward-looking statements

This Annual Report includes statements that are, or may be deemed to be, „forward-looking statements". These forward-looking statements can be identified by the fact that they do not only relate to historical or current events.

Forward-looking statements often use words such as „intend", „anticipate", „target", „expect", „estimate", „expected", „plan", „goal", „believe", or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond Corporate's control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements. Any forwardlooking statements made by or on behalf of PJSC UAC speak only as at the date of this announcement. Save as required by any applicable laws or regulations, PJSC UAC undertakes no obligation publicly to release the results of any revisions to any forwardlooking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

Information obtained from third parties

Besides the official information on the activity of PJSC UAC, this Annual Report contains information obtained from third parties. This information has been received from sources which, in the opinion of PJSC UAC, are reliable.

Nevertheless, we do not guarantee accuracy of this information which can be shortened or incomplete.

Using management accounting and reporting

The information contained in this Annual Report is based also on the Corporation's management accounting and reporting, so it may deviate from the rules and principles that apply under IFRS. The Corporation believes that these management accounting and reporting indicators may provide investors with additional information about the current business of the Corporation. The indicators of management accounting and reporting should not be considered without or as replacement of relevant norms and principles of IFRS. In addition, other companies in the industry may keep a record of these indicators in other ways. The Corporation encourages investors to review all financial statements of PJSC UAC in their entirety and not to rely on any single financial figure in this Annual Report.

SUPPLEMENT NO. 6

ONLINE SUPPLEMENTS TO THE ANNUAL REPORT

Online supplements to the Annual Report are available on the Corporation's website in Russian http://www.uacrussia.ru/ru/investors/open-information/otchety (Report), including:

- List of related party transactions performed by PJSC UAC in 2015 (Supplement No. 1 to the Report);
- Information on PJSC UAC compliance with the Corporate Governance Code (Supplement No. 2 to the Report);
- Brief information on the Group's main assets (Supplement No. 3 to the Report);
- Meetings of specialised Committees to the PJSC UAC Board of Directors held in 2015 (Supplement No. 4 to the Report);
- PJSC UAC Board of Directors meetings in 2015 (Supplement No. 5 to the Report);
- Information on the form and financial parameters of participation in the subsidiaries and affiliates (as of 31.12.2015) (Supplement No. 6 to the Report);
- Data on actual results of performing the directives and instructions from the President of the Russian Federation and instructions from the Government of the Russian Federation (Supplement No. 7 to the Report);
- The auditor's opinion on the implementation of the l ong-term development programme in 2014 (section 3.5 of the Report);
- Annual financial accounting statements for 2015, according to RAS (section 4.2 of the Report).

CONTACTS

FULL CORPORATE NAME

In the English language — Public Joint Stock Company United Aircraft Corporation.

SHORT CORPORATE NAME

In the English language — PJSC UAC.

STATE REGISTRATION

Certificate of State Registration: 77 008502150;
issued by the Interdistrict Inspectorate of the Federal Tax Service No. 46 for the city of Moscow on November 20, 2006;
Primary State Registration Number (OGRN): 1067759884598;
date of OGRN issue: November 20, 2006;
Taxpayer Identification Number (INN) / Tax Registration Reason Code (KPP): 7708619320 / 997850001.

CONTACT DETAILS

101000, Moscow, Ulansky side-street, 22, bldg 1;
telephone: +7 (495) 926-14-20;
fax: +7 (495) 926-14-21;
e-mail: office@uacrussia.ru;
website: www.uacrussia.ru.

INFORMATION ABOUT THE REGISTRAR

Joint Stock Company R.O.S.T. Registrar
principal place of business: Moscow, Stromynka st., 18, bldg 13;
postal address: 107996, Moscow, Stromynka st., 18, POB 9;
telephone: +7 (495) 771-73-36;
fax: +7 (495) 771-73-34;
e-mail: rost@rrost.ru

INFORMATION ABOUT THE AUDITOR

The auditor carrying out the audit of the financial statements of PJSC UAC according to the Russian accounting standards:
full corporate name: Limited Liability Company "Auditing and consulting firm "Top-Audit";
short corporate name: LLC "Top-Audit";
Primary State Registration Number (OGRN): 1027739441553;
Taxpayer Identification Number (INN) / Tax Registration Reason Code (KPP): 7733059640 / 773301001;
legal address: 123424, Moscow, Volokolamskoe shosse, 73;
postal and de facto address: 119285, Moscow, Pudovkina St., 4;
telephone: +7 (495) 363-28-48;
website: www.top-audit.ru;
e-mail: mail@top-audit.ru;
the name of the self-regulating organization of auditors, the member of which is LLC "Top-Audit": Non-commercial partnership "Russian Collegium of Auditors";
Principal Number of Registration Entry in the State Registry of Auditors and Auditing Organizations 10205026301.

The auditor carrying out the audit of the financial statements of PJSC UAC according to international financial reporting standards:
full corporate name: HLB Vneshaudit Closed Joint Stock Company;
short corporate name: CJSC HLB Vneshaudit;
Primary State Registration Number (OGRN): 1027739314448;
Taxpayer Identification Number (INN) / Tax Registration Reason Code (KPP): 7706118254 / 770601001;
legal address: 109180, Moscow, Bolshaya Yakimanka, 25-27/2;
postal and de facto address: 123610, Moscow, Krasnopresnenskaya embankment, 12, Entrance No3, Office 701;
telephone: +7 (495) 967-04-95, fax: +7 (495) 967-04-97;
website: www.vneshaudit.ru;
e-mail: info@vneshaudit.ru;
the name of the self-regulating organization of auditors, member of which is CJSC HLB Vneshaudit: Non-commercial partnership "Institute of Professional Auditors";
Principal Number of Registration Entry in the State Registry of Auditors and Auditing Organizations: 10202000095.

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