



# DREAMS OF FLYING



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# RUSSIAN HELICOPTERS AT A GLANCE

JSC "RUSSIAN HELICOPTERS" IS A LEADING PLAYER IN THE GLOBAL HELICOPTER INDUSTRY, THE SOLE RUSSIAN DESIGNER AND MANUFACTURER OF HELICOPTERS.



Headquartered in Moscow, "Russian Helicopters" Holding Company include five helicopter plants, two design bureaus, component production and maintenance enterprise, a helicopter service company, which ensures after-sales services in Russia and abroad and five aircraft repair enterprises.

Our helicopters are popular among the Russian ministries and state authorities (Ministry of Defense, Ministry of Internal Affairs, and EMERCOM), operators (Gazpromavia, UTair) and major Russian corporations. Over 8500 helicopters of Soviet/Russian production are operated in 100 countries worldwide. Traditionally the demand is higher in the Middle East, Africa, Asia-Pacific,

Latin America, Russia, and the CIS countries.

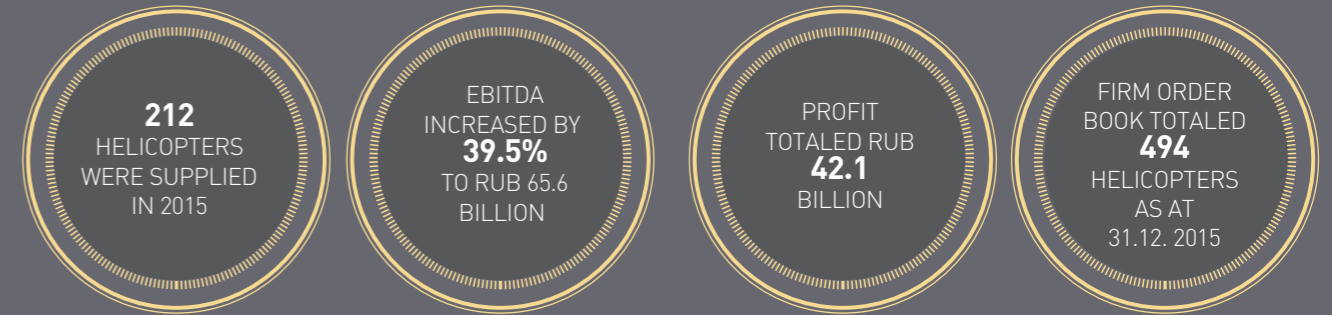
Although «Russian Helicopters» was established only in 2007, some of the Company's key entities have existed for more than 60 years. The new shape of the Holding Company combines updated production and leading intellectual potential of one of the most historically successful high-tech industries in Russia with the modern global system of service and after-sales maintenance.

JSC "UIC "OBORONPROM" is the Company's majority shareholder with the ownership of 96.02%<sup>1</sup> of shares, including nominal holders. State Corporation "Rostec" holds 3.98 % of shares.

<sup>1</sup> 94.61% – direct ownership, 1.41% – through VTB Capital Asset Management

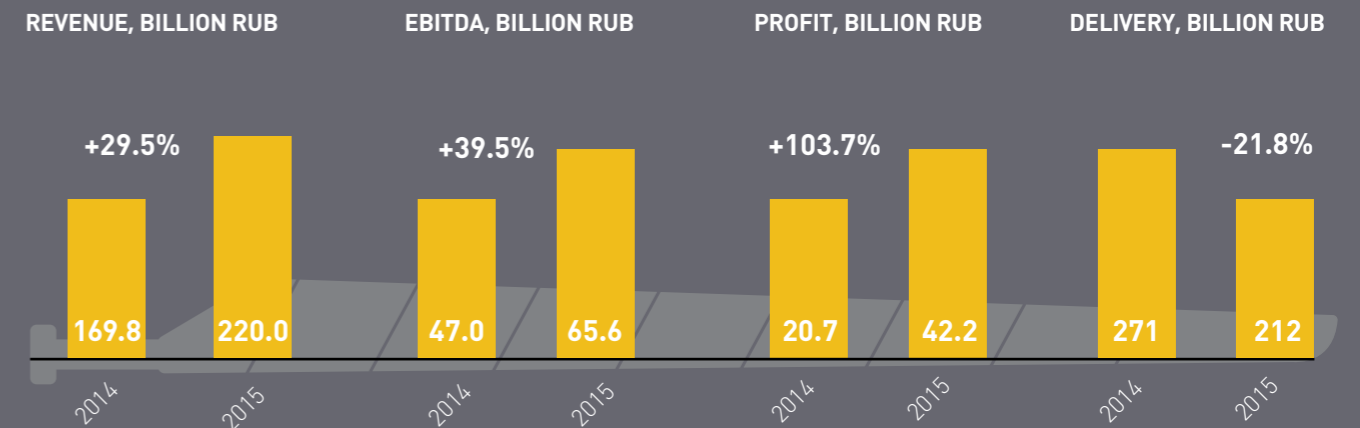
## KEY HIGHLIGHTS

# 20.15



NON-CONTROLLING INTEREST IN THE SUBSIDIARIES IS  
**~12.2%**

<sup>1</sup> The Company defines EBITDA as operating profit before depreciation and amortization, adjusted for gain /loss on disposal of property plant and equipment, impairment of property, plant and equipment with share in results of associates included. EBITDA is a non-IFRS financial measure; therefore, the Company's definition of EBITDA may differ from similar measures defined by other companies.





# DREAM OF A HELICOPTER: AERODYNAMIC VEHICLE

Amazing as it may seem, but if we appeal to history we find that the mankind had dreamed of a helicopter since the dawn of time. The designs and models of rotary-wing vehicles had appeared long before the first of them cut the air with its rotor. For example, the Chinese scholar Ge Hong, who lived 17 centuries ago, mentioned in his notes a «flying vehicle» which is lifted into the air by «revolving blades resembling sword blade». The heritage of Leonardo da Vinci, genius of the Italian Renaissance, consists of a sketch of a helicopter-like device which is believed to be the predecessor to the modern day flying machine.

In his sketch dated to 1475-1483 he wrote that: «If the screw were made with linen surfaces airtight with starch. The machine would be rotated with speed that said screw bores through the air and climbs high...»

Three centuries later the model of the helicopter was demonstrated by the Russian genius - Mikhail Lomonosov. The records of the minutes of the meeting at the Imperial Academy of Sciences and Arts (now the Russian Academy of Sciences) of 12 July 1754 contained



Lomonosov's "aerodynamic machine"

the following: «The honorable Advisor Lomonosov demonstrated his invention called «Aerodynamic» to be used for the purpose of depressing the air by means of wings rotated horizontally in the opposite directions powered by a wound-up spring device of the type used in clocks in order to lift the machine into the upper layers of the air...»

This «aerodynamic machine» invented by Lomonosov, which, in fact, was the mechanical model of the helicopter, was intended for use in lifting thermometers and other small instruments into the air. Almost two centuries were yet to pass before the first helicopters appeared in Russia...

## KEY NEWS OF 2015:

- > «Russian Helicopters» obtained a type certificate for Mi-38 helicopter
- > «Ansat» helicopter was certified in VIP configuration
- > «Russian Helicopters» successfully completed flight testing phase of Mi-171A2 helicopter laboratory
- > Ansat helicopter (light utility helicopter) received Certificate for transportation of commercial passengers

- > «Russian Helicopters» started delivering a new batch of Mi-171Sh helicopters to Peru
- > «Russian Helicopters» transferred first «arctic» helicopter to the RF Ministry of Defence
- > «Russian Helicopters» Holding Company fulfilled the contract for the repair of 19 helicopters of the Mexican Air Force

## HELICOPTER PROGRAM

**30.12.2015** / «Russian Helicopters» obtained a type certificate for Mi-38 helicopter

**30.12.2015** / «Ansat» helicopter was certified in VIP configuration

**25.11.2015** / «Russian Helicopters» transferred first «arctic» helicopter to the RF Ministry of Defence

**19.11.2015** / The flights within the framework of test flight trials of Mi-8AMTSH-VA helicopter were completed at Ulan-Ude Aviation Plant

**18.11.2015** / «Russian Helicopters» Holding Company produced and delivered Mi-8AMT helicopter in a convertible configuration

**09.11.2015** / «Russian Helicopters» Holding Company launched flight tests of the second prototype of Mi-171A2 helicopter

**12.10.2015** / «Russian Helicopters» Holding Company presented Mi-171A2 helicopter of new generation to Vice Prime Ministers of Russia and China

**07.10.2015** / «Russian Helicopters» Holding Company presented Ka-52 Alligator helicopter within the framework of «Innovation days of the East military region»

**10.09.2015** / «Russian Helicopters» produced a fuselage of first serial Mi-38

**27.08.2015** / Passenger configuration of Ansat helicopter became equipped with enhanced stability system

**27.08.2015** / «Russian Helicopters» Holding Company entered a final stage of tests and certification of Mi-38

**27.08.2015** / «Russian Helicopters» Holding Company started flight tests of arctic Mi-8AMTSH-VA

**26.08.2015** / «Russian Helicopters» Holding Company will enhance flight and functional characteristics of Ansat helicopter

**02.07.2015** / «Russian Helicopters» presents a project of Mi-14PS amphibian helicopter production resumption

**08.06.2015** / «Russian Helicopters» made presentation of Ansat helicopters with hydro-mechanical control system (HMCS)

**22.05.2015** / «Russian Helicopters» entered into the first contracts for the delivery of light Ansat helicopters

**22.05.2015** / «Russian Helicopters» Holding Company announces the start of serial production of new heavy Mi-26T2 helicopter

**21.05.2015** / Ansat and Ka-226T of «Russian Helicopters» production entered the Russian civil aviation market

**21.05.2015** / «Russian Helicopters» announces IAC AR certification of Ka-226T

**21.05.2015** / «Russian Helicopters» successfully completed flight testing phase of Mi-171A2 helicopter laboratory

## HELICOPTER SUPPLIES

**10.12.2015** / «Russian Helicopters» Holding Company delivered five Mi-171Sh helicopters to Bangladesh

**03.12.2015** / «Russian Helicopters» Holding Company will deliver Mi-8MTV-1 helicopter to the Nenets Autonomous Area

**26.10.2015** / «Russian Helicopters» Holding Company signed the agreement for the delivery of two Mi-171 helicopters and two Mi-8AMT helicopters for Rosneft Oil Company

**16.07.2015** / «Russian Helicopters» continues to deliver Mi-8MTV-5-1 helicopters to the RF Ministry of Defence

**17.04.2015** / «Russian Helicopters» transferred a batch of Ka-226 helicopters to the RF Ministry of Defence

**05.05.2015** / «Russian Helicopters» supplied a first batch of repaired Ka-31 helicopters to India

## SERVICE SUPPORT

**21.12.2015** / «Russian Helicopters» will offer a system of after-sales support of Mi-8/17 type civil helicopters to the operators in the Middle East

**02.11.2015** / «Russian Helicopters» proposes helicopter modernization and after-sales support program to the operators in Latin America and Caribbean countries

**22.05.2015** / «Helicopter service company» and Strategy Partners Group will develop «After-sales maintenance 2030» service strategy

## PROMOTION IN INTERNATIONAL MARKETS

**22.12.2015** / «Russian Helicopters» Holding Company offers Mi-171, Mi-171E, Ka-32A11BC and Ka-226T helicopters to Iran

**23.11.2015** / «Russian Helicopters» Holding Company signed the contract with the PRC for the supply of four Ka-32A11BC

**10.11.2015** / «Russian Helicopters» Holding Company fulfilled the contract for the repair of 19 helicopters of the Mexican Air Force

**10.09.2015** / «Russian Helicopters» Holding Company is planning to establish a network of service centers to maintain Russian helicopters in China.

**10.09.2015** / «Russian Helicopters» Holding Company will supply 3 Ka-32A11BC helicopters to China

**09.09.2015** / «Russian Helicopters» Holding Company proposes modernization of Mi-17, Mi-171, Ka-27, Ka-28 and Ka-31 helicopters to China

**09.09.2015** / «Russian Helicopters» Holding Company is planning to deliver 2 Mi-171E helicopters to China

**26.08.2015** / «Russian Helicopters» Holding Company will sign contracts with the Indian Air Force, Navy and MHA for the after-sales support of helicopters

**30.07.2015** / «Russian Helicopters» Holding Company supplied a batch of Mi-171Sh helicopters to Peru.

**22.05.2015** / India chooses Ka-226T of «Russian Helicopters» production

**08.05.2015** / «Russian Helicopters» and AVIC signed the agreement in the Kremlin on the cooperation in the sphere of development of advanced heavy-lift helicopter

## PRODUCTION MODERNIZATION

**30.12.2015** / «Russian Helicopters» successfully tested national telecommunication equipment for IT-infrastructure

**02.11.2015** / «Russian Helicopters» Holding Company strengthens production facilities, uniting enterprises from Kazan and Kumertau

**13.10.2015** / A policy in the sphere of lean production was approved in «Russian Helicopters» Holding Company

**05.10.2015** / «Russian Helicopters» Holding Company implements new processes of helicopter production management

**15.09.2015** / «Russian Helicopters» Holding Company invested RUB 2 billion in the construction of helicopter gearbox and transmission assembly and testing facility

**10.09.2015** / Kazan Helicopters» of «Russian Helicopters» Holding Company opened a new aggregate assembly facility for Mi-8/17, Ansat and Mi-38 helicopters

**10.06.2015** / «Russian Helicopters» is modernizing production at Ulan-Ude Aviation Plant

**02.04.2015** / «Russian Helicopters» is modernizing Ka-27 for Navy at Kumertau plant

## HOLDING COMPANY NEWS

**17.09.2015** / Dmitry Rogozin presented an award to «Russian Helicopters» for the implementation of state defense order

**15.09.2015** / «Russian Helicopters» Holding Company invested RUB 2 billion in the construction of helicopter gearbox and transmission assembly and testing facility

**08.09.2015** / «Russian Helicopters» Holding Company signed an agreement with UAC on the joint development of composite technologies

**27.08.2015** / «Russian Helicopters» Holding Company will begin development of conceptually new protective and anti-icing coatings for arctic and offshore helicopters

**27.08.2015** / The helicopters of «Russian Helicopters» will be equipped with state-of-the-art avionics of 6th generation

**26.08.2015** / «Russian Helicopters» Holding Company signed an agreement with the resident of the space cluster of Skolkovo on the development of advanced UAVs

**25.08.2015** / «Russian Helicopters» Holding Company presented new Ansat and Mi-38 in VIP configuration to Vladimir Putin

**25.08.2015** / «Russian Helicopters» Holding Company presented a project of tilt-rotor UAV

**25.08.2015** / «Russian Helicopters» Holding Company signed an agreement on cooperation with VTB bank

**09.07.2016** / «Russian Helicopters» will switch to computer-aided and robot-based production

**08.07.2016** / «Russian Helicopters» presented Ansat to Dmitry Medvedev

**03.06.2015** / «Russian Helicopters» is planning to switch to national software

**29.05.2015** / The enterprises of «Russian Helicopters» will start working on the unified information platform

**13.05.2015** / Mi-26T of «Russian Helicopters» production performed a unique transport operation

**08.05.2015** / «Russian Helicopters» provided one of the first Mi-8T helicopters for demonstration in VDNH (Exhibition of Economic Achievements)

**23.04.2015** / «Russian Helicopters» and PFC CSKA will continue cooperation in 2015

**31.03.2015** / «Russian Helicopters» trained over 1,000 Russian and foreign aviation specialists in 2015

**11.03.2015** / Ulan-Ude Aviation Plant trained the crews of Mi-8/17 helicopters for three aviation companies since the beginning of the year

# CHAIRMAN'S STATEMENT



For «Russian Helicopters» Holding Company 2015 became another year of positive growth. Despite the difficult macroeconomic situation, the Holding Company managed to keep its leadership positions in the segments of attack, medium and heavy-lift helicopters, and totally fulfilled its obligations to Russian and foreign clients with regard to supplies of helicopters. The Company increased its profitability and improved the competitiveness of its products. The new product range of helicopters was developed, the program of the company's innovative development was generated and balanced market-focused strategy of the Holding Company's development is being implemented.

The current foreign exchange market conditions (owing to arising exchange differences and, as a result, additional marginal revenue) provided additional opportunities for the penetration and strengthening of new helicopters in the competitive market in the countries of the Middle East, Africa and Latin America.

In 2015 type certificates were obtained for Mi-38 medium utility helicopter and Ansat light utility helicopter with HMCS. These helicopters are now ready to enter into the commercial markets.

The Holding Company continues implementing the Import Substitutions Programs in pursuance of the requirements of the RF Government Instructions, manufacturing and certifying new helicopters, as well as actively participates in the processes of international production cooperation to develop high-tech products with various

strategic partners, primarily, India and China.

Russian Helicopters' key strategic objectives in the mid-term perspective will be further launch of new models of helicopters in the global market, development of after-sales support services, implementation of innovative production and technologies, further implementation of the Import Substitutions Programs to eliminate technological dependence on the Western countries, as well as focus on deepening of cooperation with the key partners of the Holding Company following global trends in expanding cooperation within production networks.

The implementation of the objectives will allow the Holding Company to strengthen its positions as one of the leading manufacturers of helicopters, as well as to increase the market share in the segments of civil and dual-purpose helicopters.

Chairman of the Board of Directors  
of JSC «Russian Helicopters»  
First Deputy Director General  
of State Corporation "Rostec"

Vladimir Atyakov

# DIRECTOR GENERAL'S STATEMENT



We welcome the outcomes of 2015 for «Russian Helicopters» Holding Company. According to the IFRS financial statements, the Holding Company's revenue amounted to almost RUB 220 billion, of which the helicopter sales amounted to RUB 177,0 billion, and maintenance and after-sales support services — RUB 38,3 billion. EBITDA increased to RUB 65,6 billion. Despite a slight decrease in the number of delivered aircraft (212 units), we were able to increase the revenue to RUB 50,1 billion, and net profit - twice.

We remain leaders in the segment of military helicopters. We consider our position to be quite strong due to the supply of new military helicopters. «Russian Helicopters» Holding Company has fulfilled in full the State Defense Order in a timely manner in 2015 and will continue supplies for the Russian Ministry of Defense in the current 2016.

I would particularly like to acknowledge the work of the Holding Company in launching of new models of civil helicopters. In 2015 Mi-38 medium utility helicopter and light utility ANSAT helicopter with hydro-mechanical control system (HMCS) received type certificates and are ready for market.

The foundation was laid for increasing the volume of sales and services in the area of comprehensive service support of Russian-made helicopters abroad. Active work was carried out for registration of the Holding Company as a supplier of goods and services in the area of after-sales support in other countries. The Holding Company also prepared various commercial proposals and concluded long-term framework contracts.

The Company is actively implementing import substitution programs. At the end of last year we launched the first «arctic» Mi-8AMTSh-VA helicopter manufactured with the use of Russian components. In order to reduce the dependence on foreign suppliers all Mi-8AMTSh-VA helicopters are fit out with modern

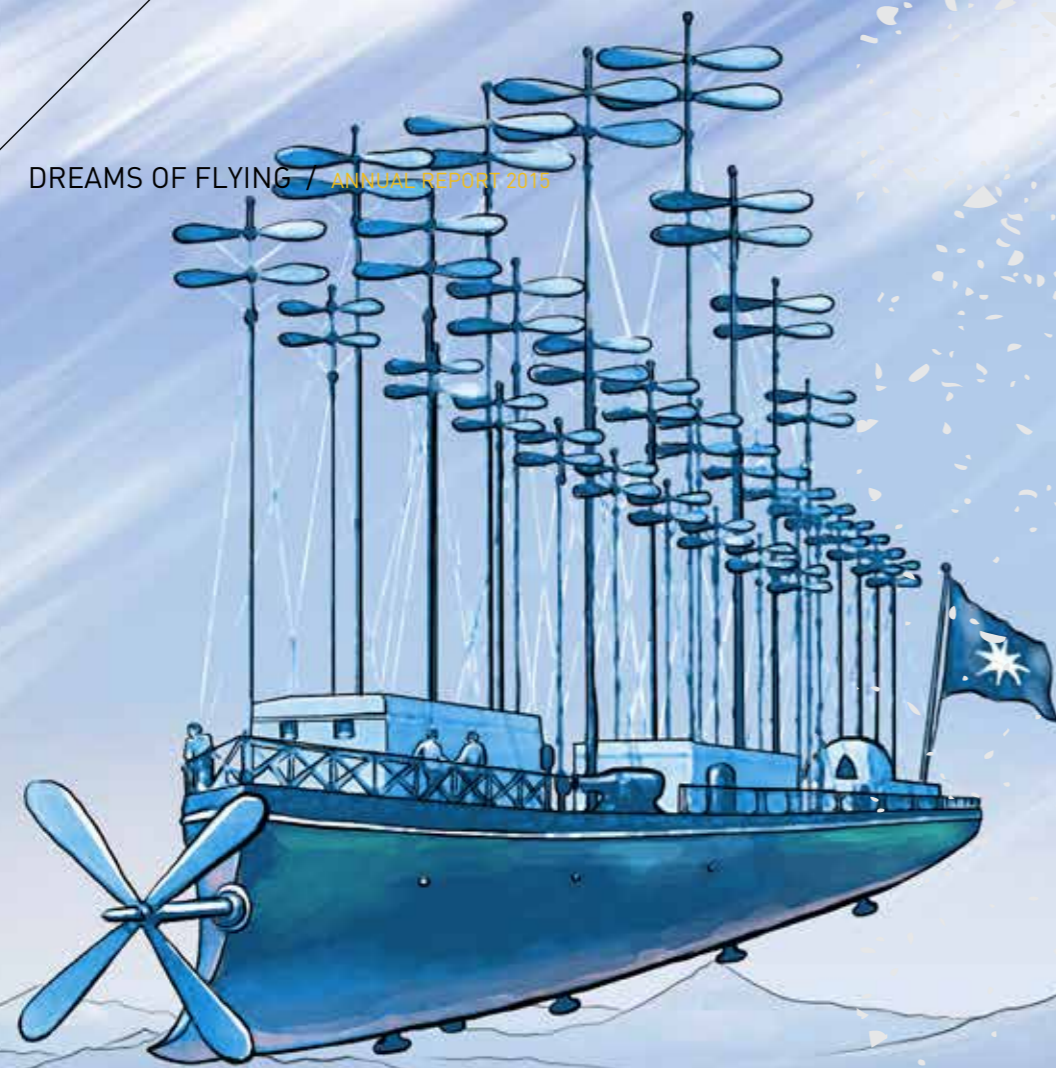
Russian equipment, including VK-2500 engines manufactured by «Klimov». Similar work is carried out for the whole line of Russian helicopters, and in the coming years the dependence of the Russian helicopter industry on foreign products will be minimized.

It should also be noted that we continue our active cooperation with foreign partners in the field of industrial cooperation, which sets the world trends and is essential for the implementation of breakthrough high-tech projects. «Russian Helicopters» Holding Company continues to successfully cooperate with the organizations from China and India, as well as with European companies such as Safran and AgustaWestland.

In 2016 we will continue to work in the above mentioned directions. The elimination of technological dependence on Western technologies, the launch of new models of helicopters, the implementation of comprehensive after-sales support service through the entire life cycle of helicopters, as well as the expansion of the global network of service centers and expansion of cooperation within international production networks will make it possible for «Russian Helicopters» Holding Company to not only keep its market share, but also to strengthen its position as one of the world's leading developer and manufacturer of helicopters.

Director General  
of JSC «Russian Helicopters»

Alexander Mikheev



# DREAM FOOTSTEP AWAY FROM REALITY:

## 74 VERTICAL SCREWS OF JULES VERNE AND ELECTRICAL HELICOPTER (ELECTROLYOT) OF LODYGIN

It was in the XIXth century that the enthusiasts of science and technology already predicted the appearance of real helicopters capable of transporting people and cargo. Thus, in 1886 Jules Verne, science fiction luminary, depicted «Albatross», a huge helicopter resembling a clipper-ship lifted by 74 vertical screws.

The description of this fantastic machine was provided with a hint of anticipation: «Round the deck a few light uprights supported a wire trellis that did duty for bulwarks. Above the deck rose thirty-seven vertical axes. The Albatross might be called a clipper with thirty-seven masts. But these masts instead of sails bore each two horizontal screws... Each of these axes had its own movement independent of the rest, and each alternate one spun round in a different direction from the others, so as to avoid any tendency to gyration. Hence the screws as they rose on the vertical column of air retained their equilibrium by their horizontal resistance.»

But 15 years prior to the works of Jules Verne the junker, Alexander Lodygin, reported at the Military Ministry of the Russian Empire on the design of the «lighter-than-air machine that could move freely at various altitudes

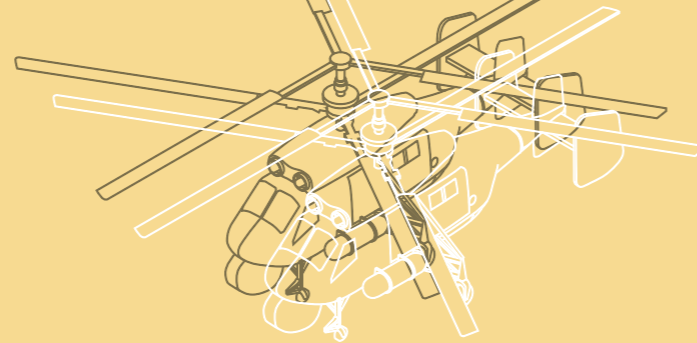


Flying machine "Albatross"

and within various directions serving as a means of transportation of people and cargo. It may at the same time meet the special military needs...»

Lodygin called its design «electrolyot» as the electric engine was to drive two screws, horizontal and vertical. Moreover, this inventor, who was well in advance of his time, even proposed the idea of an adjustable pitch of the rotor blades. But 140 years ago the generals of the Russian Empire considered that such proposal was not to be «taken seriously».

However, the time and technological advancement dotted the i's and crossed the t's: Russian-made helicopters are currently playing a valuable role in the industry



# RUSSIAN HELICOPTERS TODAY

## LEADING GLOBAL A&D PLAYER

Over 8 850 Russian helicopters are operated globally, representing ~15.0% of the world helicopter fleet.

The Company's market share reached 12.4%\*. Best positioned for international expansion, especially in the fast growing emerging markets.

Leader in Russia with over ~94.0% market share; holds leading positions in the key emerging markets.

World's leader in medium and ultra-heavy-lift utility and attack helicopter segments (Mi and Ka brands).

Fully vertically integrated structure that allows the Company to control the whole product cycle – from design, manufacturing of key components, final assembly to sales and after-sales services. Unique and world-renowned R&D base.

## HIGH OPERATING AND FINANCIAL RESULTS

Strong growth of all the key indicators during the recent years.

Healthy and sustainable margins.

Stable order book and, as a result, stable revenue forecast.

## INTEGRATED BUSINESS MODEL

JSC "UIC "OBORONPROM" is the Company's majority shareholder with the ownership of 94.6% of shares JSC «Russian Helicopters».

Vertically integrated structure includes 5 helicopter production plants; 2 design bureaus; 2 components production plants; 2 service providers, five aircraft repair plants. The ownership interest of JSC «Russian Helicopters» in its subsidiaries exceeds 92.5%.

More than 41 000 employees and experienced management team with deep knowledge of the industry and needs of the end customer.

## JSC «MIL MOSCOW HELICOPTER PLANT»

This experimental design bureau launched its activities in 1947, headed by the legendary Soviet rotorcraft designer Mikhail Mil. Under Mil's leadership, the bureau developed the world-famous Mi- helicopter series, including the most popular model in history – Mi-8/17. Today Mil Moscow Helicopter Plant is one of the world's most respected rotorcraft developers, producing helicopters that operate in over 100 countries.

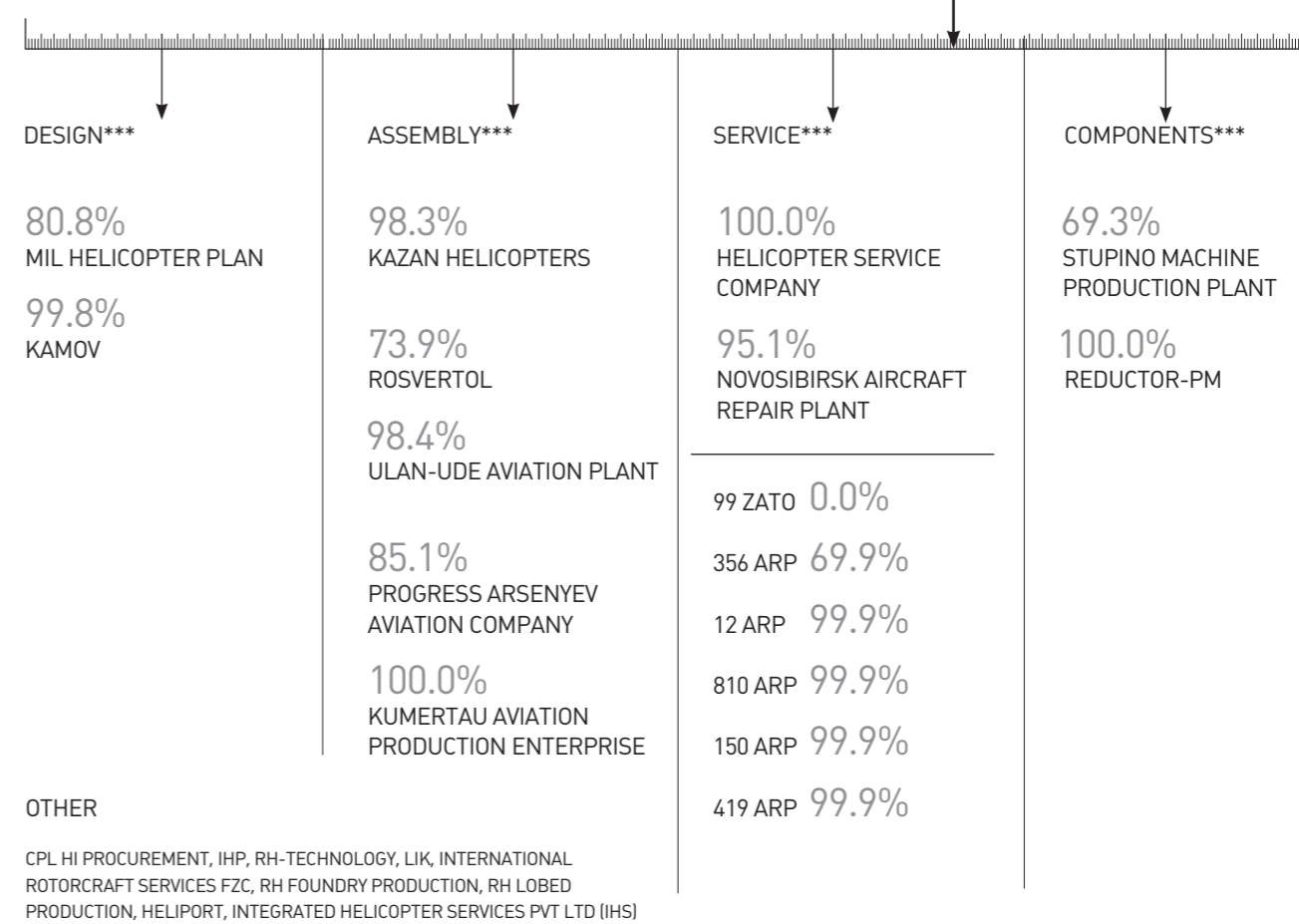
## JSC «Kamov»

JSC «Kamov» was set up in 1948 at the design bureau, which specialized in the development of helicopters for the Navy. The bureau was headed by Nikolay Kamov, talented designer and engineer and one of the founders



State-Owned Aerospace & Defence Holding Company

100.0%\*\*



\* In terms of money

\* In terms of money \*\* 94.61% – direct ownership, 1.41% – via VTB Capital Asset Management, 3.98% – SC «Rostec»

\*\*\* effective ownership as of 31.12.2015



of the Russian school of helicopter manufacturing. The distinctive coaxial rotor system of the Kamov design bureau ensures high maneuverability and good controllability in spite of smaller dimensions of helicopters.

#### **Kazan Helicopter Plant**

Kazan Helicopters dates back to 1940. The enterprise produces the latest modifications of civil and military Mi-8/17 series helicopters designed by Mil Moscow Helicopter Plant, including: Mi-8MTV-5, Mi-17V-5 and Mi-172 helicopters. JSC «Kazan helicopters» is also responsible for the development and production of the Ansat Ansat light helicopter and its military modification, the Ansat-U, designed for pilot training. Helicopters of Russian production manufactured in Kazan have logged more than 50 million flight hours all around the world. Since its founding, Kazan Helicopter Plant has produced over 12 000 helicopters.

#### **Rostvertol**

The aviation plant in Rostov-on-Don was founded in 1939 as a manufacturer of military and civil airplanes. It was subsequently restructured and became the first serial producer of helicopters in Russia. The Mi-1 light utility helicopter designed by «Mil Moscow Helicopter Plant» was put into serial production in 1956. In 1992 the company was renamed from «Plant No.168» to JSC «Rostvertol». JSC «Rostvertol» produces helicopters for both Russian and foreign state and commercial operators. Helicopters manufactured by Rostvertol operate in over 30 countries (CIS, Europe, Asia and South America).

#### **Ulan-Ude Aviation Plant**

JSC «Ulan-Ude Aviation Plant» was

established in 1939 and has produced both helicopters and airplanes in its history. Today it produces Mi-8/17 helicopters designed by «Mil Moscow Helicopter Plant»: civil models of Mi-8AMT and Mi-171 series, and military transport models of Mi-8AMTSh and Mi-171Sh series. The plant is also preparing to start production of a new upgraded Mi-171A2, one of the core models in Russian Helicopters' range of medium helicopters. Rotorcraft produced by Ulan-Ude Aviation Plant are supplied to governmental and commercial clients in Russia and around the world, and operate successfully in more than 40 countries in Europe, Asia, Africa, South America, Australia and Oceania. The plant has produced approximately 10 000 rotorcraft to date.

#### **JSC «Progress» Arsenyev Aviation Company**

The history of the Progress Arsenyev Aviation Company (Progress AAC) named after Nikolai Sazykin dates back to 1936, when it opened as Aircraft Repair Plant No. 116 in the town of Arsenyev in Russia's Far East. During its more than 70-year history the plant has changed its activity from repair work to production of aircraft and has become one of the leading enterprises of Primorsky Krai. The company is named in honour of Nikolai Sazykin, who served as director from 1959 to 1976 and made an enormous contribution to the development of the company and the town of Arsenyev. In 1969, Progress AAC started production of the legendary Mi-24 and continued to produce this model for almost twenty years. Today AAC «Progress» produces one of the most exceptional combat helicopters in its class – Ka-52 Alligator reconnaissance attack helicopters, which is supplied to the Russian Air Force and may be offered

for export. The company is also preparing to start production of the naval modification of this helicopter – the Ka-52K.

#### **Kumertau Aviation Production Enterprise**

JSC «KumAPE» («Kumertau Aviation Production Enterprise») was established in 1962 as the development of Kumertau repair and engineering plant. JSC «KumAPE» specializes in producing coaxial helicopters designed by Kamov Design Bureau. JSC «KumAPE» produces all types of helicopters for the Russian Navy, including the Ka-27, Ka-29 and Ka-31 modifications, which boast unique technical characteristics and are used by naval forces worldwide. In addition to military helicopters, the enterprise produces civil rotorcraft, including new utility Ka-32A11BC helicopter, further development of search and rescue Ka-27PS helicopter, as well as light Ka-226T helicopter. Ka- helicopters are operated in more than 30 countries and are employed in special operations worldwide.

#### **Helicopter Service Company**

JSC «Helicopter Service Company» (HSC) was established in 2006 to perform maintenance and after-sales service of Russian-made helicopters worldwide. JSC «HSC» is expanding its geography of service centers while promoting the products of «Russian Helicopters» in the new markets. HSC is responsible for overseeing after-sales servicing systems, supplying materials and aviation equipment to «Russian Helicopters» enterprises, and establishing service centers for Russian-made helicopters both in Russia and abroad. The company also supplies products and parts to companies operating Russian-made helicopters around the globe.

#### **JSC «Novosibirsk Aircraft Repair Plant»**

JSC «Novosibirsk Aircraft Repair Plant» (JSC «NARZ») was established in 1941 on the base of aircraft repair shops evacuated from Moscow during the World War II. In 1965 «Novosibirsk Aircraft Repair Plant» began to specialize in repair and maintenance of rotary-wing aircraft. Over the years, the plant has become the leading company in Russia for repairing helicopters designed by Mil Moscow Helicopter Plant, and has repaired over 6 500 helicopters to date. NARZ operates a global network for Mi- series helicopters maintenance and repair and offers the option of reconditioning repair at clients' premises. According to the strategy of «Russian Helicopters» associated with the modernization of its entities, NARZ is upgrading and expanding its production facilities, and works closely with other Russian Helicopters enterprises.

#### **Stupino Machine Production Plant**

JSC «SMPP» («Stupino Machine Production Plant») was founded in 1948 as Plant No.120 for the mass production of airplane propellers. Since its foundation, SMPP has mastered the production of 20 baseline items, each of which has led to numerous modifications and is employed in various aircraft models operated worldwide. Today the plant produces accessories for the majority of Russian-made helicopters, including civil, and military Mi-8/17 and Mi-26(T), as well as Mi-35M, Mi-28N Night Hunter and Ka-52 Alligator helicopters.

#### **JSC «Aviation Gearboxes and Transmissions - Perm Motors»**

JSC «Aviation Gearboxes and Transmissions - Perm Motors» (JSC «Reductor-PM») was established in

1995 at the premises of a separate gearbox facility of Perm Motors engine-building holding company. JSC «Reductor-PM» is one of the largest enterprises in Russia specializing in the production and after-sales servicing of helicopter gearboxes and transmission units. The enterprise produces, repairs and services main gearboxes and transmission units of Mi-8/17, Mi-26(T), Mi-28N Night Hunter and Ansat helicopters. In the near future it will also begin production of gearboxes and transmission units for Mi-38 helicopters.

#### **JSC «12 Aircraft Repair Plant»**

JSC «12 Aircraft Repair Plant» (12 ARP) offers overhaul services to Mi-2, Mi-8/17, and Mi-24 helicopters and TV3-117 engines.

12 ARP performs modernization of helicopters and installation of additional equipment. Moreover, the plant offers services related to helicopter painting with polyurethane enamels and development, as well as application of brand image on helicopters.

12 ARP has modern equipment and highly trained specialists are capable of repairing aircraft within the short period and at the high level of quality. Technicians of the enterprise have vast experience in the preparation of production and mastering of repair of helicopters, their engines and aggregates.

The plant has access to the airfield and its own railways that allows delivering aircraft for the repair and back to the customer by rail and air.

12 ARP was established in 1934 when 60th Stationary Aviation Workshops of the Airforce specialized in the repair of aircraft and their engines were formed. Its current name - 12 Aircraft Repair plant -

the enterprise got in 1959. Starting from the 70ies the plant has been performing repair of helicopters and as of today it has vast experience in working with Mi type helicopters.

#### **JSC «150 Aircraft Repair Plant»**

JSC «150 Aircraft Repair Plant» (150 ARP) has a complete range of production facilities to perform overhaul of aircraft - Mi-8/17, Mi-24, Ka-27/28/29, as well as Ka-32 type helicopters. It carries out overhaul and modernization of TV3-117 engines (all modifications), VR-252 main gearboxes, AI-9/9V APU, as well as technical servicing of aircraft.

The plant applies innovative repair methods and state-of-the-art technologies, which allows the enterprise to perform overhaul and maintenance of modern aircraft efficiently.

Having design and technical support of design bureaus and serial plants of «Russian Helicopters» Holding Company, 150 ARP performs repair of a wide line of helicopters, their systems and aggregates, as well as engines. The repair is also performed with regard to a complete set of armament, instrument and avionics.

150 ARP provides technical support of helicopter operation during the warranty period, as well as their upgrade and modernization and fitting additional equipment. Moreover, 150 ARP offers helicopter repair services at the Customer's base.

150 ARP history dates back to 8 December 1954. The predecessors of the enterprise were two repair bases - 11th plane repair and 308th engine repair bases. The bases were located in the territory of the former German plant «Seerappen Northwest Aircraft Repair Workshops» in Lublino settlement (former Seerappen).



#### **JSC «419 Aircraft Repair Plant»**

JSC «419 Aircraft Repair Plant» (419 ARP) specializes in the overhaul of all modifications of military and transport helicopters of Mi-8/17 type, Mi-24 combat helicopters, as well as Ka-27, Ka-28, Ka-29 military and naval helicopters. It also repairs all Mi-8/17-series and Ka-32 civil helicopters of all modifications.

419 ARP has a powerful production and technical facilities and modern equipment, highly-accurate metal processing machines and highly skilled specialists. Great importance is paid to the issues of aircraft repair quality enhancement by development and implementation of new technologies at the enterprise, development of facilities and infrastructure.

419 ARP was established in 1942. In 1977 the plant launched mastering the repair of Mi-24 type helicopters, after which it completely retargeted for the repair of helicopters. More than 1500 helicopters were repaired for the whole period of its activities.

#### **JSC «810 Aircraft Repair Plant»**

JSC «810 Aircraft Repair Plant» (810 ARP) repairs and services all Mi-8/17-series naval and civil helicopters, Mi-24 combat helicopters, as well as BP-14 and BP-14 main gearboxes.

The production facilities of 810 ARP allows repairing helicopters in three batches. The plant is equipped with all the necessary equipment for repair, monitoring, testing and maintenance of helicopters.

Specialized equipment of its own production is also used at the enterprise. Active work on the modernization, technical re-equipment, engineering and production of non-standard equipment is under way. 810 ARP performs a complete repair and maintenance

cycle - from disassembly of helicopters to flight tests. Strict compliance with the requirements of regulatory and technical documentation is provided at all the stages of work.

810 ARP was established in 1984 and is now one of the leading aircraft repair enterprises in Eastern Russia.

#### **JSC «356 Aircraft Repair Plant»**

JSC «356 Aircraft Repair Plant» (356 ARP) specializes in the repair of all Mi-8/17 helicopter modifications (including Mi-8MT, Mi-8MTV, Mi-8AMT).

356 ARP has all the necessary infrastructure, production facilities, information support and highly skilled specialists. QMS of the aircraft repair and maintenance enterprise complies with the current Russian and international standards. The quality of repair and maintenance of the plant is acknowledged by many competent and authoritative enterprises.

356 ARP, one of the oldest aircraft repair facilities in Russia, was established in 1931. 356 ARP has been specializing in the repair and maintenance of helicopters produced by JSC «Moscow Mil Helicopter Plant» since 1995. The activity on the enhancement of after-sales reliability of aircraft is constantly under way at the enterprise.



Ka-32



Ka-226



Ka-52



Mi-8/17



Mi-28H



Mi-35M



Mi-26T



Mi-171A2



Ansats



Ka-31



Ka-27/28



Ka-226T – scheduled for serial production



Mi-38 – scheduled for serial production



Mi-26T2 – scheduled for serial production



Ka-62 – scheduled for serial production

## EXTENSIVE MODEL RANGE

Russian Helicopters is the absolute global leader in the medium segment (MTOW of 8 to 15 tons) by fleet strength. Mi-8/17 is the world's most widely operated super medium heavy-lift helicopter with over 12,000 units delivered to over 100 countries.

The Company produces unique ultra-heavy-lift rotorcraft with the largest lift capacity in the market. Mi-26(T) is the technological leader in the ultra-heavy segment, capable of lifting

up to 20 tons (MTOW – 56 tons), more than any other helicopter in the world.

«Russian Helicopters» is the only manufacturer of unique co-axial rotor platforms.

Key features of our products are reliability, safety and simplicity of operation.



# THE DREAM GETS A NAME:

«SO, WE CALLED IT A HELICOPTER»



Kamov's fighting autogyro

**B**efore the first helicopter saw the light, the term itself, indicating rotorcraft, should have been born. They used to call it «helicopter» in the West - the word is derived from the Greek language, combining «rotor» and «wing».

Neither «helicopter», nor «rotorcraft» has taken root in our country and it is no wonder - the developer of the first Russian helicopters created the name for these helicopters as well. The term «vertolyot» (helicopter in Russian) was first recorded on 8 February 1929. It was that day during the meeting of engineers, who tried to build a gyroplane (hybrid of a plane and a helicopter), when Nikolay Kamov, 26 years old, pronounced the word «vertolyot», which from that moment and forever would mean such type of aircraft.

Kamov himself later recollected his work with colleagues-engineers not in the technical sphere, but in the linguistic one: «We were scratching our heads over the name for a long time, understanding that sooner or later it would take root and come into general use. Finally, we decided to call the machine «vertolyot», forming this word from two words - «vertitsya» (rotate) and «letaet» (fly). So, we called it a helicopter («vertolyot»)»

19 years later Nikolay Kamov took the lead of the first helicopter manufacturing design bureau in our country. Now it is a famous design bureau named after Kamov or just JSC «Kamov», one of the lead developers of the modern helicopters in Russia and in the world that is a part of «Russian Helicopters» Holding Company.

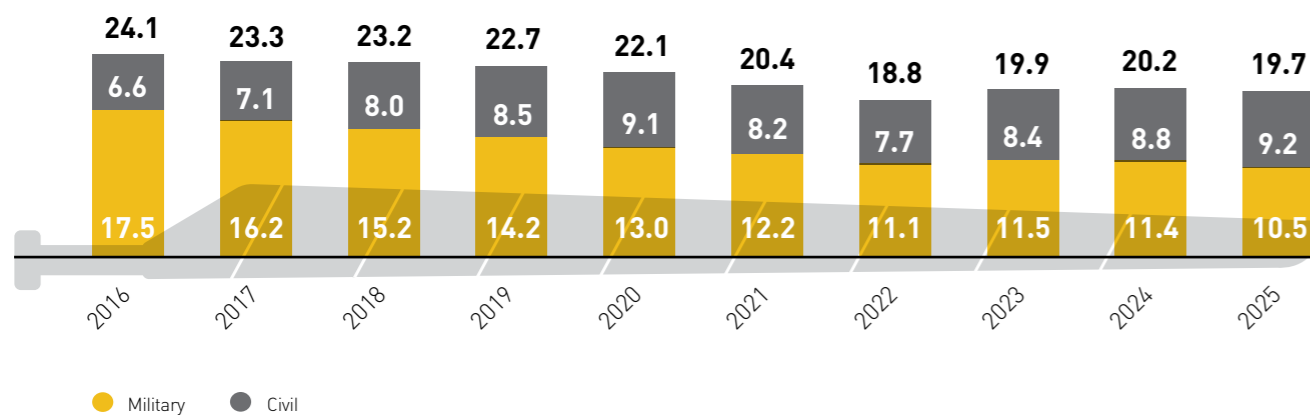
# MARKET OVERVIEW

Based on the results of 2015, the global helicopter fleet amounted to 60 761 units, out of which 38,613 are civil units and 22 148 – military units (excluding Russia). During 2014-2015 the civil helicopter fleet changed insignificantly, while the military fleet increased almost in all the regions. This is with the exception of CIS countries (the fleet decreased by 9%) and European countries (4%). The markets of China (24%) and India (21%), which are key to the Holding Company, were characterized by the

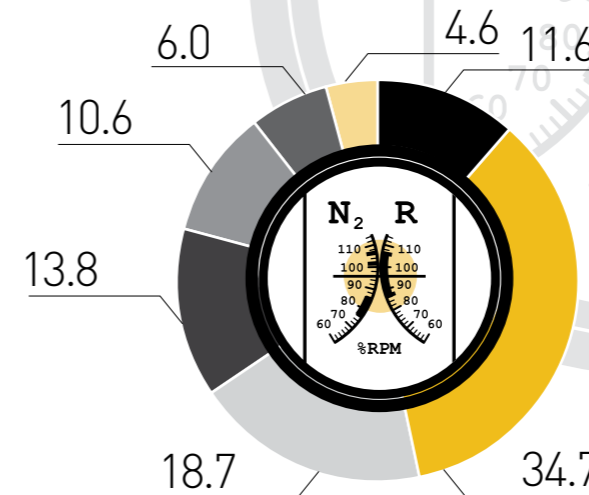
highest rates of fleet growth within the period of 2014-2015. However, industry experts are taking a “prudent approach” to forecasting military aircraft segment and are evaluating it in a less optimistic way as several years ago.

Helicopters have been actively used for military purposes, by emergency services, as well as commercial companies of the oil and gas sector. The volume of the target segment for the next 10 years is estimated at USD 214.4 billion.

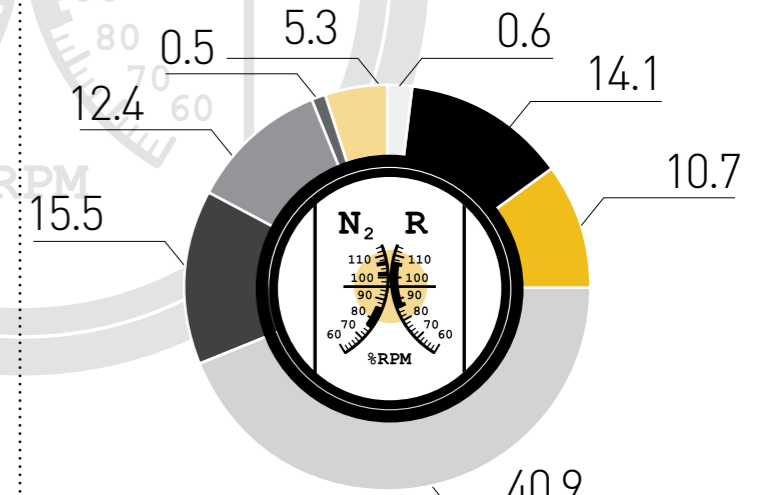
HELICOPTER MARKET CAPACITY AS OF 2016-2025 (USD BLN)



SEGMENTATION OF THE CURRENT GLOBAL HELICOPTER FLEET BY REGIONS, % AT THE END OF 2015

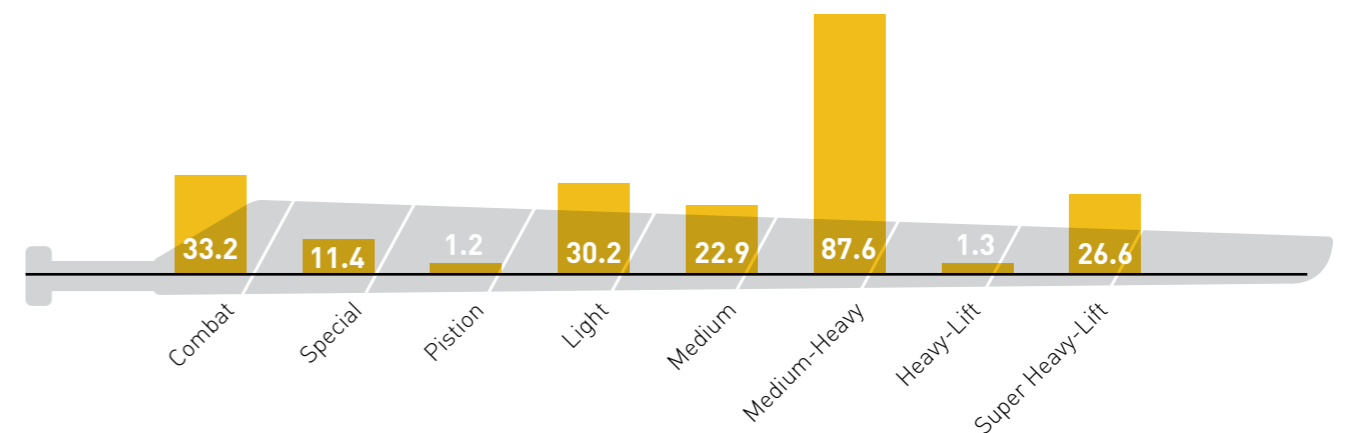


ANTICIPATED MARKET VOLUME BY SEGMENTS 2016-2025 (%)



- North America, Asia-Pacific Region, Africa, Other, Europa, CELAC, East
- Piston, Light, Medium, Medium-Heavy, Combat, Heavy-Lift, Super Heavy-Lift, Special

ANTICIPATED MARKET VOLUME BY SEGMENTS 2016-2025 (USD BLN)



## CIVIL HELICOPTERS

ACCORDING TO THE DATA PROVIDED BY THE HOLDING COMPANY, THE WORLD FLEET OF CIVIL HELICOPTERS AS AT DECEMBER 2015 AMOUNTED TO APPROXIMATELY 38 613 HELICOPTERS, THE LARGEST SHARE OF WHICH FALLS WITHIN THE MARKETS OF NORTH AMERICA, EUROPE, ASIA-PACIFIC AND LATIN AMERICA. RF CIVIL HELICOPTERS FLEET RANKS NO. 5 IN SIZE.

Civil helicopters were delivered to more than 70 countries of the world in 2015 (most of them to the USA). Other large customers are as follows: China, Australia, United Kingdom and Russia.

In 2015 the civil helicopter market was characterized by the decrease in supplies - around 964 new helicopters, which was the worst result for the last three years.

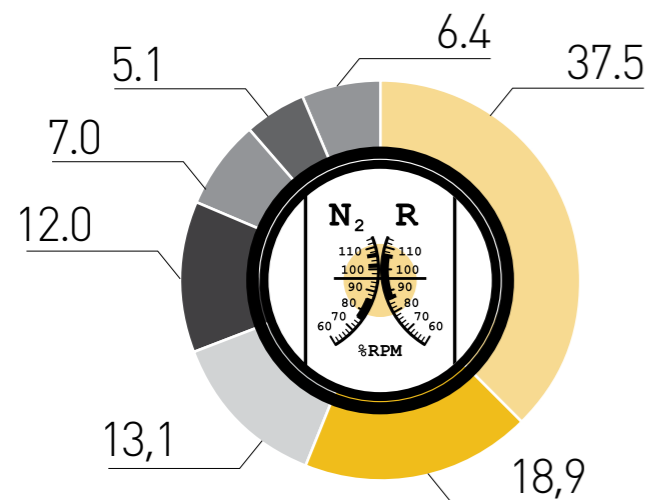
Asia-Pacific, Latin America and Caribbean countries, Russia, Eastern countries and China were marked by the downward trend. The markets of

Africa, Europe and North America were characterized by the growth dynamics.

The markets of CIS countries and India remain stable. As per takeoff weight class of helicopters, stable growth in 7-10t. class was recorded. Piston helicopters market was stable. The decline in deliveries was noted in other classes.

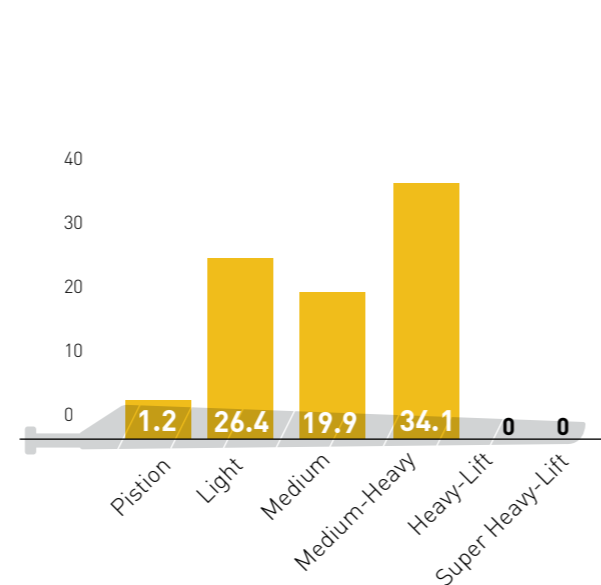
According to the data provided by Forecast International, the volume of the global civil helicopter market in 2016-2025 is estimated as USD 81.6 billion.

SEGMENTATION OF THE CURRENT GLOBAL HELICOPTER FLEET BY REGIONS, % AT THE END OF 2015



● North America    ● Europe    ● Asia-Pacific Region    ● CELAC  
● Russia    ● Africa    ● Other

ANTICIPATED VOLUME OF CIVIL HELICOPTER MARKET BY SEGMENTS (USD BLN)

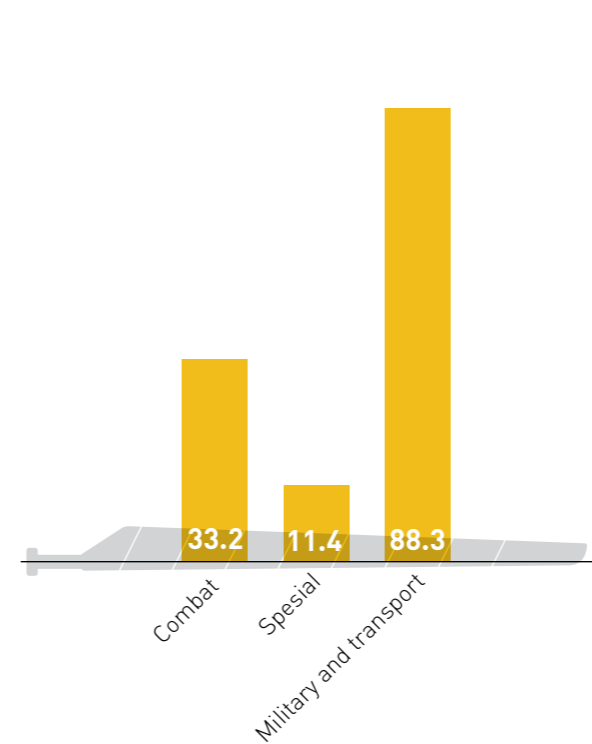


## MILITARY HELICOPTERS

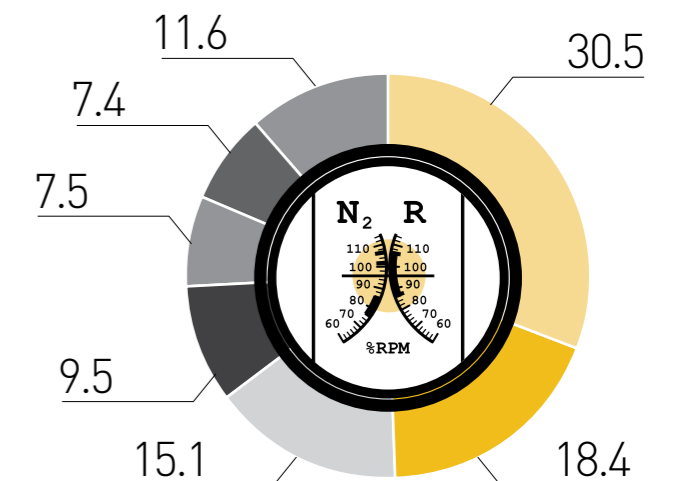
TODAY'S WORLD FLEET OF MILITARY HELICOPTERS, EXCLUDING RUSSIA, TOTALS APPROXIMATELY 22 148 HELICOPTERS. MORE THAN 74% OF WHICH IS REPRESENTED BY MILITARY TRANSPORT HELICOPTERS. ALMOST 50% OF THE MILITARY HELICOPTER FLEET IS USED BY US AND EUROPEAN ARMED FORCES.

ACCORDING TO THE DATA PROVIDED BY FORECAST INTERNATIONAL AND HOLDING, THE VALUE OF MILITARY HELICOPTERS TO BE SUPPLIED TO THE ARMED FORCES OF THE WORLD COUNTRIES DURING THE PERIOD OF 2016-2025 IS ESTIMATED AS USD 132.9 BILLION.

ANTICIPATED VOLUME OF MILITARY HELICOPTER MARKET BY SEGMENTS (USD BLN)



SEGMENTATION OF THE CURRENT MILITARY HELICOPTER FLEET BY REGIONS, % AT THE END OF 2015



● North America    ● Europe    ● Asia-Pacific Region    ● East  
● CELAC    ● Africa    ● Other



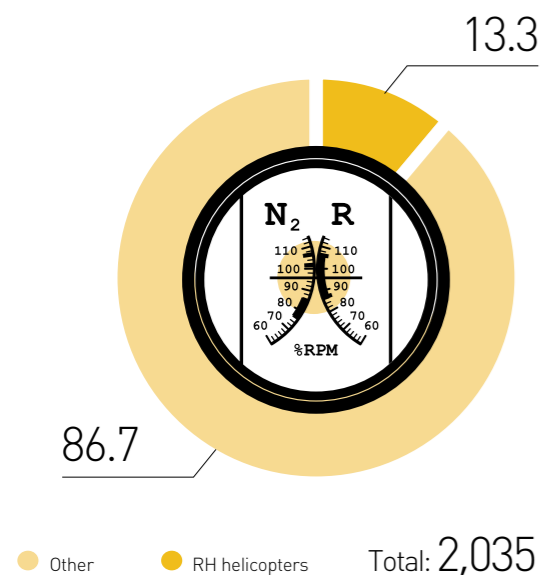
# COMPANY'S MARKET POSITIONS

- > Leading positions in the most attractive market segments;
- > Significant presence in both civil and military segments;
- > 94.0% share in the Russian market<sup>1</sup>;
- > 12.4% share in the global market<sup>1</sup>

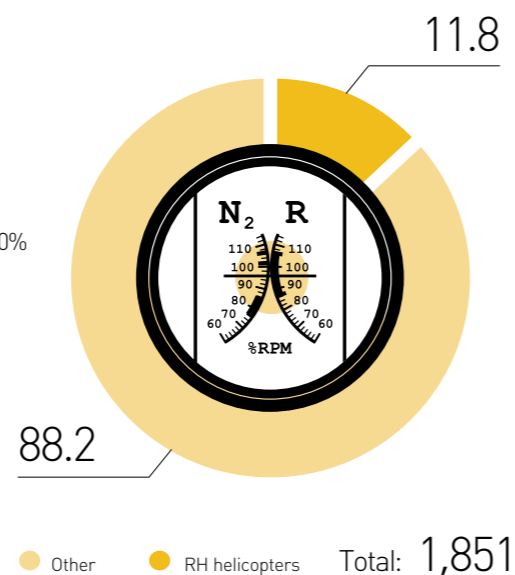
Our proactive marketing efforts allowed us to increase the Company's market share to 12.4% by the end of 2015. We are definitely going to continue to increase our presence in the global market. The active development of Russian Helicopters will be stimulated by the following:

- > Upgrade of the aging Russian civil helicopter fleet as part of the implementation of the program aimed at improving the transport accessibility in the remote regions;
- > Large-scale re-equipment program for the Russian Army (by 2020);
- > Growing demand for our helicopters in the key emerging markets of Latin America, India and China, and stable interest in the developed markets.

MARKET SHARE IN TERMS OF QUANTITY IN 2014



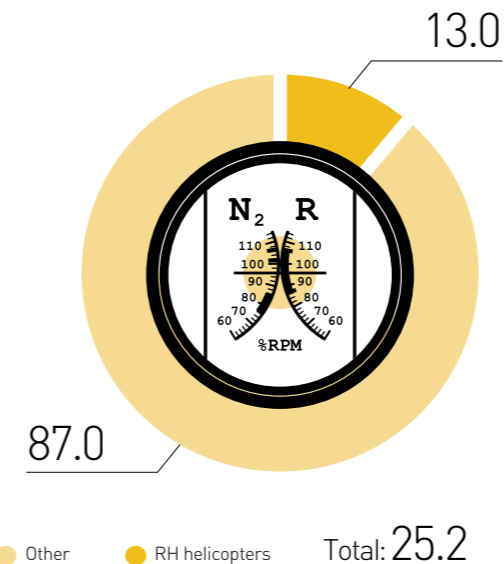
MARKET SHARE IN TERMS OF QUANTITY IN 2015



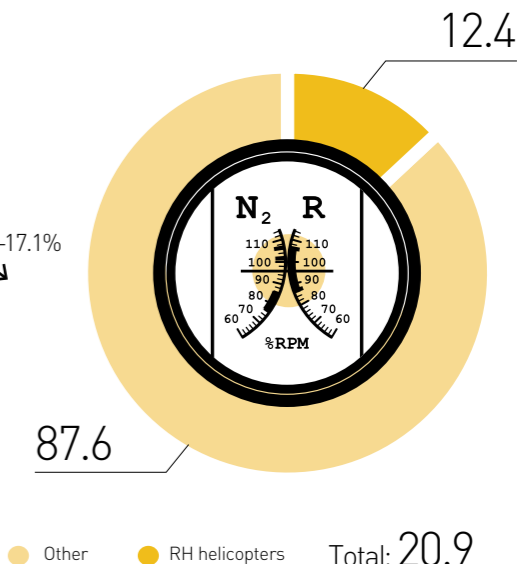
-9.0%

<sup>1</sup> Company's data

MARKET SHARE IN TERMS OF MONEY IN 2014 (USD BLN)



MARKET SHARE IN TERMS OF MONEY IN 2015 (USD BLN)



-17.1%

Market segment	Share in total number of helicopters	Russian Helicopters competitive advantage
Russia & CIS	No. 1 in Russia & CIS	The sole provider of military helicopters to the Russian Ministry of Defense; Possibility to obtain government support.
Emerging markets	No. 1 in the military market of India and China	Best cost-effectiveness ratio; Leader in reliability and simplicity of helicopter operation in adverse weather conditions (high mountains, hot climate, low temperatures) Large number of Russian helicopters are already in operation in these markets.
Medium heavy-lift	No.1 globally	Market cost-effectiveness leader; Mi-8/17 - the most high-volume helicopters of this class in the history.
Ultra heavy-lift	No.1 globally <sup>1</sup>	Mi-26 is the most powerful cargo helicopter in the world, capable of lifting up to 20 tons.
Civil	One of the leading producers	Best cost-effectiveness ratio; Leader in reliability and simplicity of helicopter operation in adverse weather conditions (high mountains, hot climate, low temperatures); Leader in the Russian and CIS markets.
Attack	One of the leaders in the world	Mi-28NE and Ka-52 rank among the most efficient attack helicopters in the world; Excellent protection capabilities; Operation in adverse conditions; Ka-52 helicopter is the only combat helicopter with unique aircrew emergency escape system
Attack	One of the leaders in the world	Mi-28NE and Ka-52 rank among the most efficient attack helicopters in the world; Excellent protection capabilities; Operation in adverse conditions; Ka-52 helicopter is the only combat helicopter with unique aircrew emergency escape system

<sup>1</sup> Company's data



# A DREAM COMES TRUE - HELICOPTERMEN FROM SIBERIA

**B**elieve it or not, but two Russian helicopter manufacturing founding fathers were born in one Siberian town. In 1902 Nikolay Kamov was born to a teacher's family in Irkutsk and seven years later Michail Mil was born to a railroadman's family in the same town. Almost at the same time in the middle of the past century Kamov and Mil would develop their helicopters - the first ones in their designer biography and the first ones in Russia.

Ka-8, Kamov's debut helicopter that he named «Irkutyainin», was the simplest design of steel pipes on two inflatable cylinders, without a cockpit and with an open pilot's seat. A motor-cycle engine that ran on alcohol rotated two co-axial rotors in the contrary direction.

This «air motorcycle», as it was called by the witnesses, was demonstrated for the first time during the flight display in Tushino in 1948 together with state-of-the-art jet fighters. Two months after this display the first Mil helicopter also took off.

At first, Mil aircraft was called the same old way - «helicopter» - MH-1 or «Mil Helicopter-1». But the foreign name was promptly superseded by the Russian term invented by Kamov



Mil's Helicopter- 1

- «vertolyot» - that was how Mi-1 helicopter appeared, the predecessor of all the famous Mi helicopters.

Mi-1 helicopter that appeared in September 1948 was a full-fledged rotorcraft with a closed cockpit and tail that was capable of lifting two pilots together with two passengers. It became one of the first serial helicopters in the world, several thousands of these helicopters have been manufactured for the next decade.

Today the helicopter manufacturing schools of Kamov and Mil - Moscow Mil Helicopter Plant and JSC «Kamov» - form a research and development base of «Russian Helicopters» Holding Company

# 20. YEAR OF EFFICIENCY GROWTH AND STRENGTHENING THE RESULTS OBTAINED

# 15. RESULTS OBTAINED

## DELIVERIES

Due to the stable demand for helicopter deliveries from our customers, the Company's consolidated financial results have demonstrated steady growth and market positions have been strengthened. Helicopter deliveries in 2015 decreased by 59 helicopters or 21.8% and amounted to 212 units, as compared to 2014.

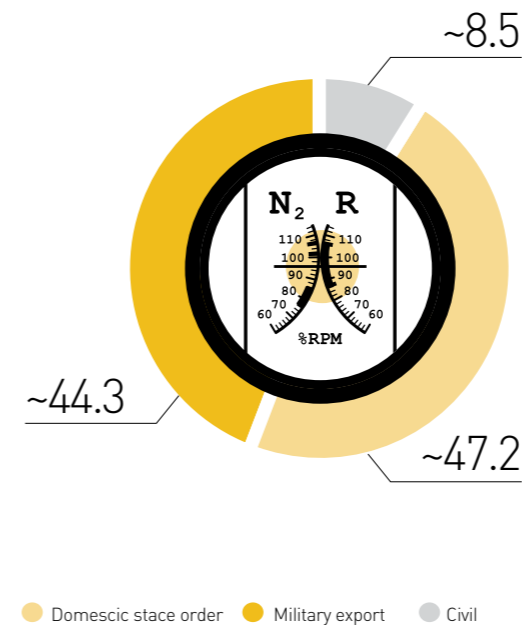
Revenue from the sales of helicopters in 2014 amounted to RUB 177.0 billion. On the whole, in 2015 the Company delivered helicopters to 17 countries of the world.

Deliveries under the Russian state orders amounted to ~ 47.2% of total deliveries, as part of military

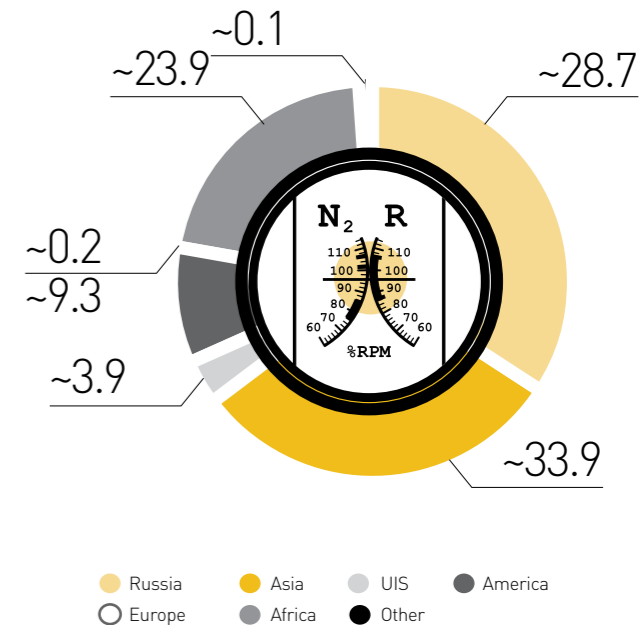
technical cooperation to foreign customers ~ 44.3%, as part of civil deliveries to commercial customers ~ 8.5%.

From 2012 to 2014 a positive dynamics related to the advanced deliveries of helicopters as per the contract with the Ministry of Defence was observed. In 2015 the deliveries stabilized with account of the current trends of the global market. As of today the strategic objective of the Holding Company is to retain the production volumes achieved recently and methodical diversification of sources of income by growing the service side of our business in the face of the sanctions and crisis.

SUPPLY SCHEME IN 2015 BY TYPES (%)

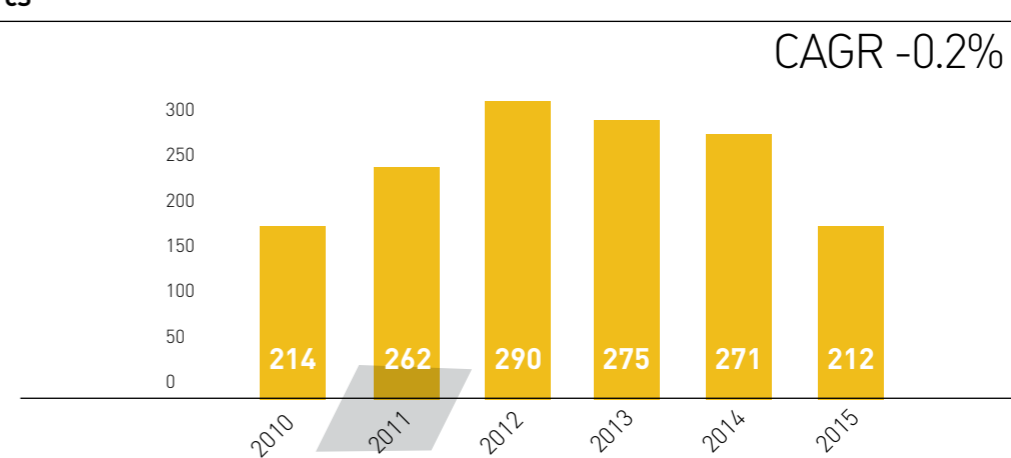


REVENUE SCHEME IN 2015 BY REGIONS (%)



<sup>1</sup> the Company's date

DELIVERITS, PCS





## SERVICE AND AFTER-SALES SUPPORT

The Company continued to develop a global system of after-sales service and logistics. As a result, revenue from the implementation of service support and after-sales support amounted to RUB 38.3 billion, representing 17.4% of the Company's total revenue in 2015.

As part of the strategy development aimed at increasing sales of the product life cycle, JSC «HSC» delivered aviation goods and provided after-sales support to 222 clients in 27 countries in 2015.

In May 2016 «Russian Helicopters» Holding Company presented a new strategy of Russian-made rotorcraft after-sales support. A comprehensive implementation of the new strategy will allow the Holding Company to achieve a fundamentally new level of after-sales services rendering in compliance with the world standards, as well as increase revenue share from this type of services and enhance competitiveness of its products in the global market. Special attention in a new strategy is paid to the formation and promotion of after-sales package proposals and services, development of the global network of services centers all around the world, improving logistics and system of spare parts delivery to meet the requirements of an operator, as well as development of helicopter

modernization programs to extend service life and improve operational performance.

At the end of May 2016 a service center of CJSC «HeliVert», which is a joint enterprise of «Russian Helicopters» Holding Company and AgustaWestland (part of Finmeccanica corporation) obtained the right to implement maintenance and repair of AW189 medium helicopters. The list of scheduled maintenance activities includes the replacement of aircraft engines, performance of laboratory checks and reconditioning of aggregates and components.

In February 2016 «Russian Helicopters» Holding Company signed a framework agreement with Chinese companies, AVIC International Holding Corporation and CITIC Offshore Helicopter Corporation (COHC), on the organization of maintenance and repair center for the Russian-made helicopters in China.

## ORDER BOOK

The main factor for the significant increase (in 2010-2011) was entering into long-term contracts with the RF Ministry of Defence for the supply of more than 600 helicopters up to 2020. The order book has currently normalized.

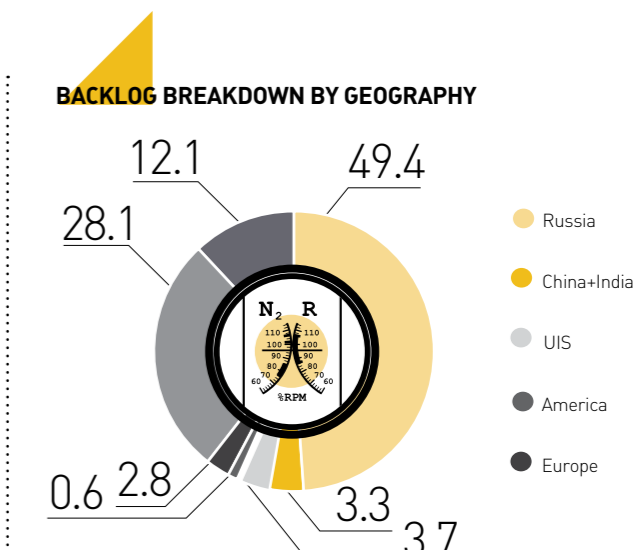
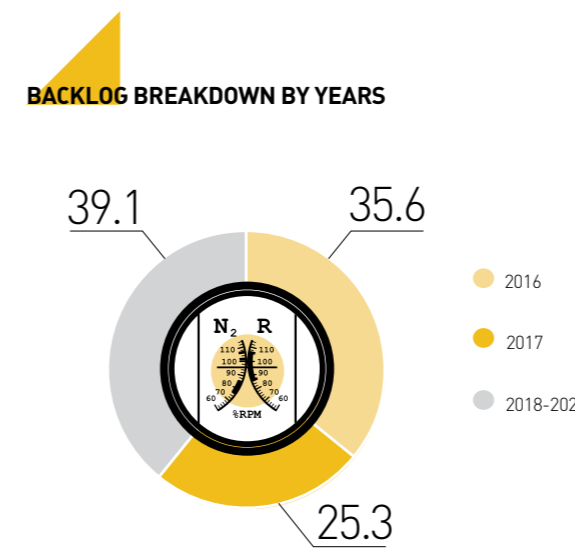
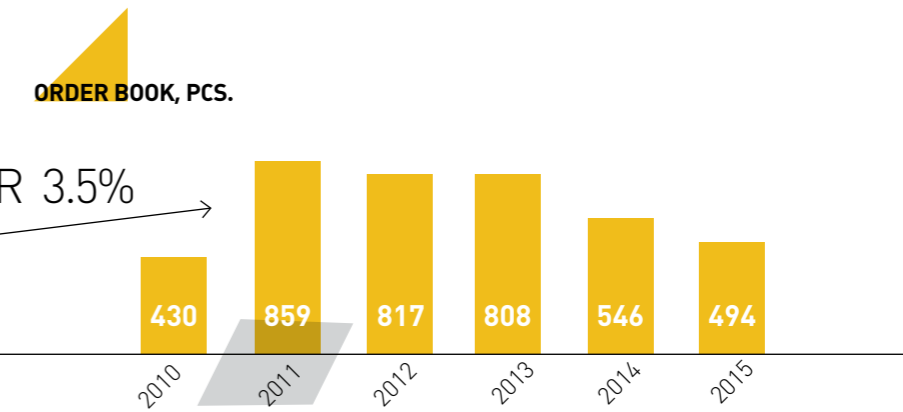
The Company's firm order book reached 494 units by the end of 2015 and its value is estimated as RUB 396.1 billion.

As far as maturity date is concerned, 35.6% of the order book

represents orders for 2016, 25.3% – orders for 2017, and 39.1% – orders for the period of 2018-2020.

Our delivery schedule for 2016 is 100% secured with firm orders.

The main customers are Russian companies (49.4%). The rest of the portfolio is allocated among our traditional markets: Africa, Middle East, Southeast Asia, China, CIS countries, India, etc.



## CAPEX

The Company's CAPEX decreased by 7.1% for the previous period and amounted to RUB 19.4 billion, out of which the investments in production facilities amounted to RUB 15.8 billion, having increased by 19.7%, as compared to 2014. As part of technical re-equipment program, JSC Russian Helicopters continued the implementation of the following key activities in 2015

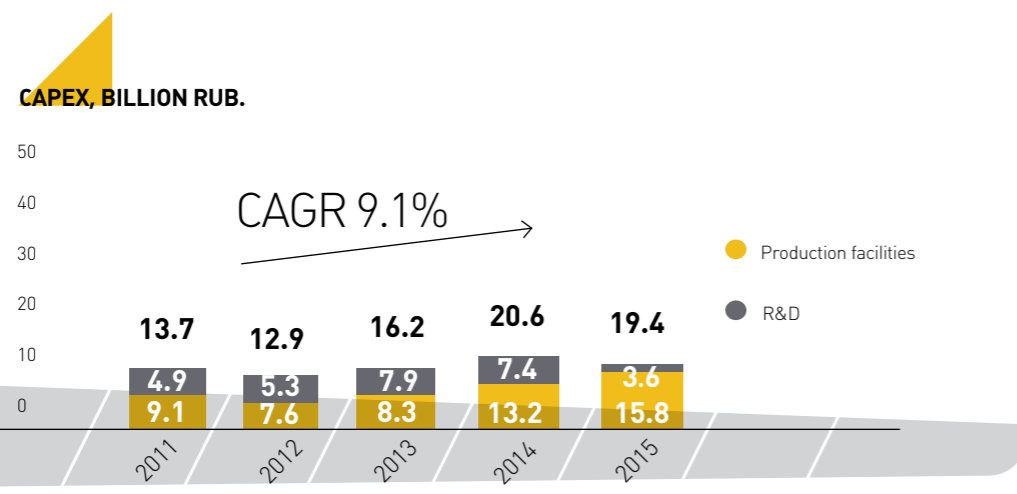
- > Production reconstruction to ensure manufacturing of helicopters of PJSC «Kazan Helicopters»;
- > Comprehensive technical re-equipment of stamping production of JSC «U-UAP»;
- > Technical production re-equipment and reconstruction, 2nd stage JSC «SMPP»;

The Company's R&D costs decreased by 51.4%, as compared to 2014, and amounted to RUB 3.6 billion

in 2015. Major R&D activities in 2015 focused on Mi-38, Ka-62, Mi-171A2 and Ansat.

The Company's activities related to the modernization of production facilities and development of new products are actively supported by the Government. In 2015, 35% of capital investments into R&D activities was funded by the Government under the Targeted Federal Program "Development of aviation industry of the Russian Federation".

The Company continues to pursue the strategy aimed at increasing innovation capacity. Overall CAPEX are expected to be 3.5 - 4.5% of the total revenue in the medium and long term.



## ORGANIZATIONAL DEVELOPMENT

Within the framework of the assigned objectives aimed at improving operational efficiency, we continued to work effectively on the organizational development of the Company in 2015.

A number of key areas, such as pricing and management of treasury operations, are characterized by secondment matrix which increased the efficiency of making strategically important decisions and provided for the use of human resources of enterprises.

We have started a transition process from geographic to product

oriented mechanism of management, which involves managing the product throughout its life cycle - from design to after-sales service and decommissioning. The management of helicopter programs has been centralized in the parent company of the Holding Company.

To improve the efficiency of industrial enterprises, the Company further localizes key manufacturing processes through the establishment of centers of excellence.

## 2015 FINANCIAL PERFORMANCE

The Company's consolidated revenue in 2015 totaled RUB 220.0 billion, an increase of 29.5%. Revenue from the sales of helicopters for the previous year amounted to RUB 177.0 billion., while revenue from services and after-sales support reached RUB 38.3 billion in 2015.

Cost of sales increased by 15.2%, as compared to 2014, and amounted to RUB 102.4 billion in 2015.

Operating expenses increased by 42.0% and totaled RUB 58.9 billion based on the results of 2015.

EBITDA<sup>1</sup> increased by 39.6% and amounted to RUB 65.6 billion for

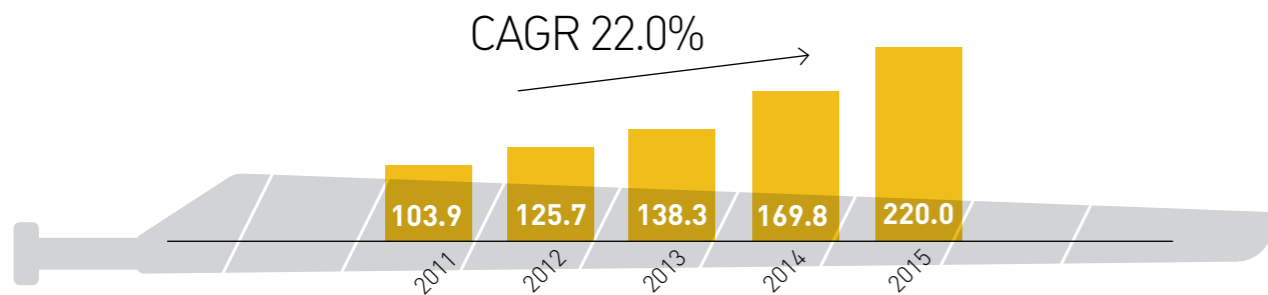
the reporting period. EBITDA for the helicopter sales segment amounted to RUB 48.1 billion, and EBITDA for services and after-sales support segment amounted to RUB 16.1 billion.

EBITDA margin for 2015 was 29.8%.

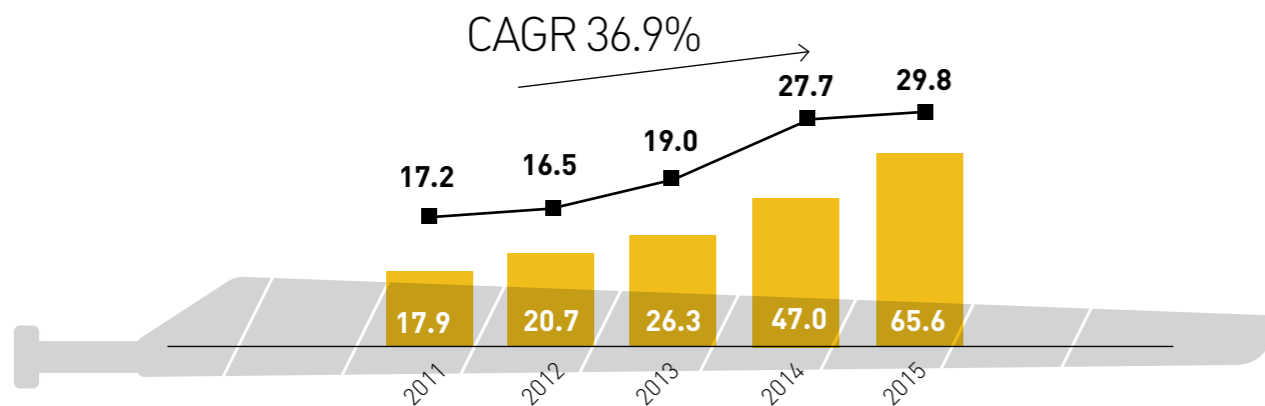
The Company's profit based on the results of 2015 reached RUB 42.2 billion and increased by 103.7%, as compared to 2014

<sup>1</sup> The Company defines EBITDA as operating profit before depreciation and amortization, adjusted for gain/loss on disposal of property plant and equipment, impairment of property, plant and equipment with share in results of associates included. EBITDA is a non-IFRS financial measure; therefore, the Company's definition of EBITDA may differ from similar measures defined by other companies.

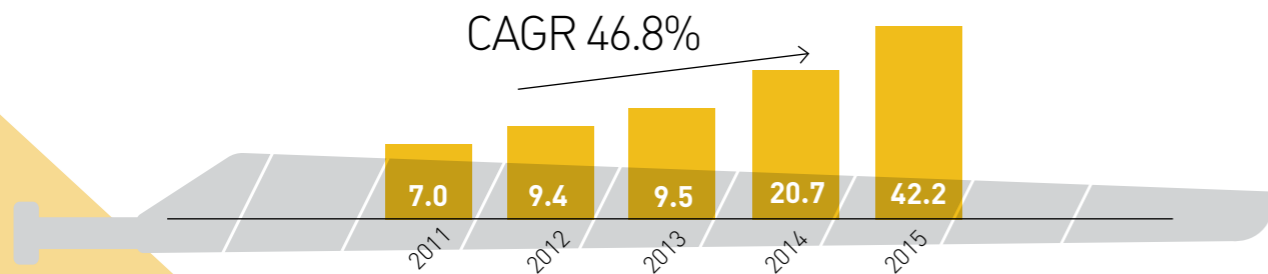
REVENUE BY YEARS, BILLION RUB.



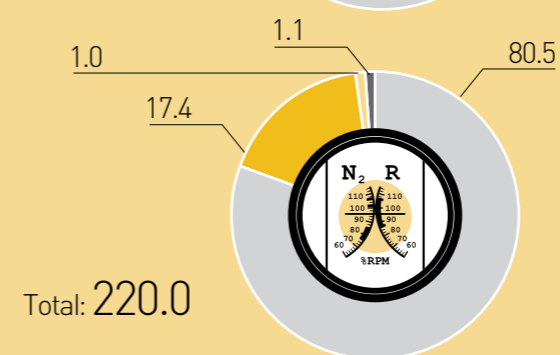
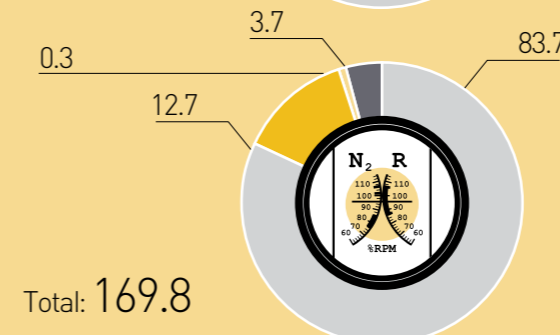
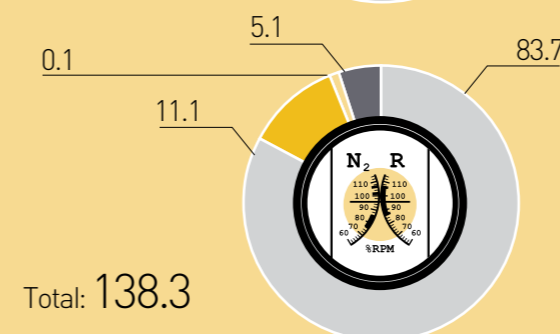
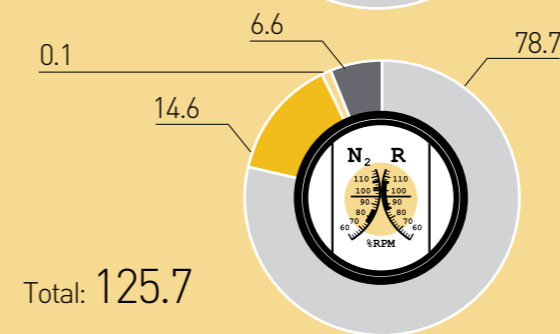
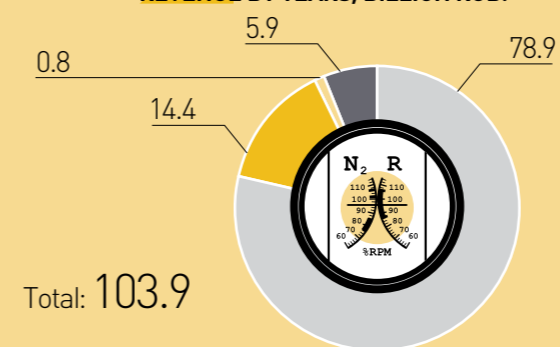
EBITDA, BILLION RUB. / EBITDA MARGIN, %



PROFIT, BILLION RUB.



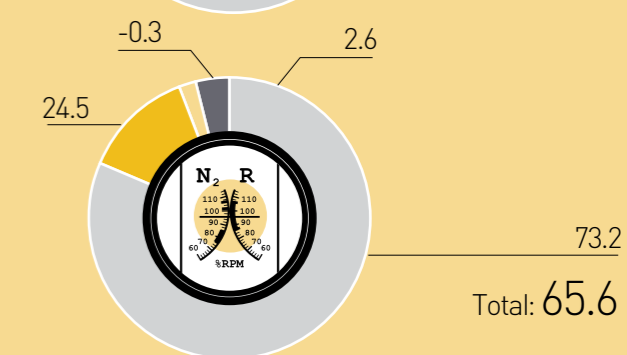
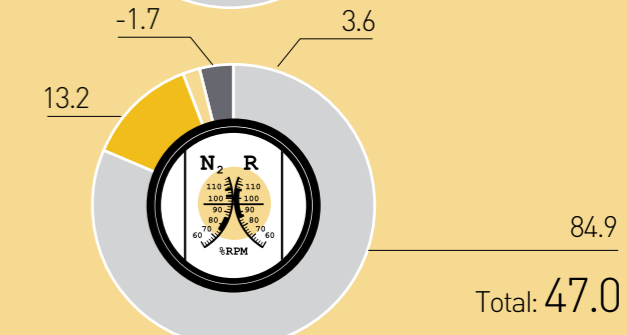
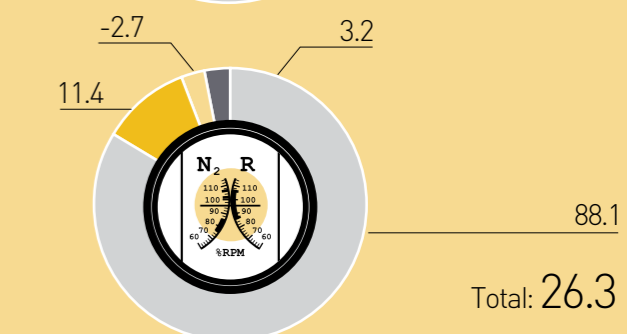
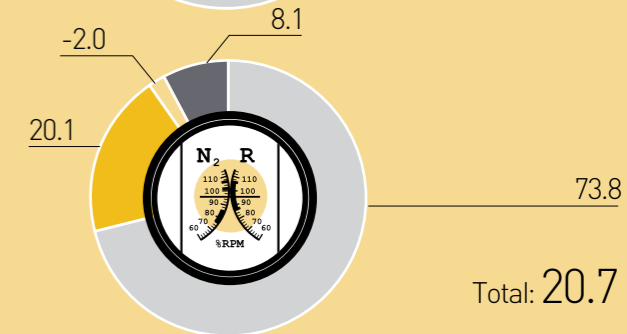
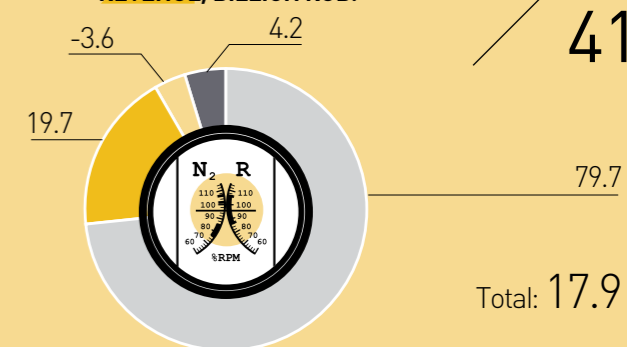
REVENUE BY YEARS, BILLION RUB.



helicopters Service and support R&D Other



REVENUE, BILLION RUB.



helicopters Service and support R&D Other



# THE DREAM AND THE REALITY OF THE LARGEST HELICOPTER – FLYING «DRAGONFLIES» AND «COWS»

It is the largest and most powerful helicopter ever constructed in the world. It was developed in the summer of 1968. The unique machine was created in the design bureau of Mikhail Mil and received the designation B-12 or Mi-12. Created at the height of the «cold war», it was intended for rapid transportation of intercontinental ballistic missiles and the establishment of their pads in remote inaccessible areas. This is why the unprecedented load capacity was necessary.

The largest helicopter, weighing almost 69 tonnes, is carried by two five-blade rotors with a 35-meter diameter each, mounted side by side on a small inverse-tapered wing that is widest near the tip. On 6 August 1969 the Mi-12 set a world record in lifting capacity that still remains unbeaten when it took off with 44 tonnes on board to a height of more than 2 km.

Only two of these giant helicopters were built, now both kept in museums as an illustration of a dream of humankind of the largest helicopter.

The story of the largest helicopters would be incomplete without mentioning the huge «dragonfly» Mi-10 with four tall landing gears - a real «flying crane». With rotor diameters of 35 meters, this «flying crane» is able to lift 15 tons of cargo. For



Mi-12 created in the hottest part of "Cold war"

example, the whole bus can be easily carried under the aircraft's fuselage, between its long «legs».

There were more than 40 of this giant «dragonflies» built. However, the largest of the serial helicopters produced in the world, has become another Mil's creation - Mi-26, nicknamed the «Flying Cow». The diameter of its rotor - «only» 32 meters, and cargo capacity - 20 tonnes or 85 passengers. In 1996 the Mi-26 set a world record which was listed in the Guinness Book of Records when it released into the air 224 sky-divers at the height of 6 km.

Nowadays "Russian Helicopters" holding is a producer of this rotary-wing vehicle that is the most capable load-lifting vehicle of the serially-produced ones.

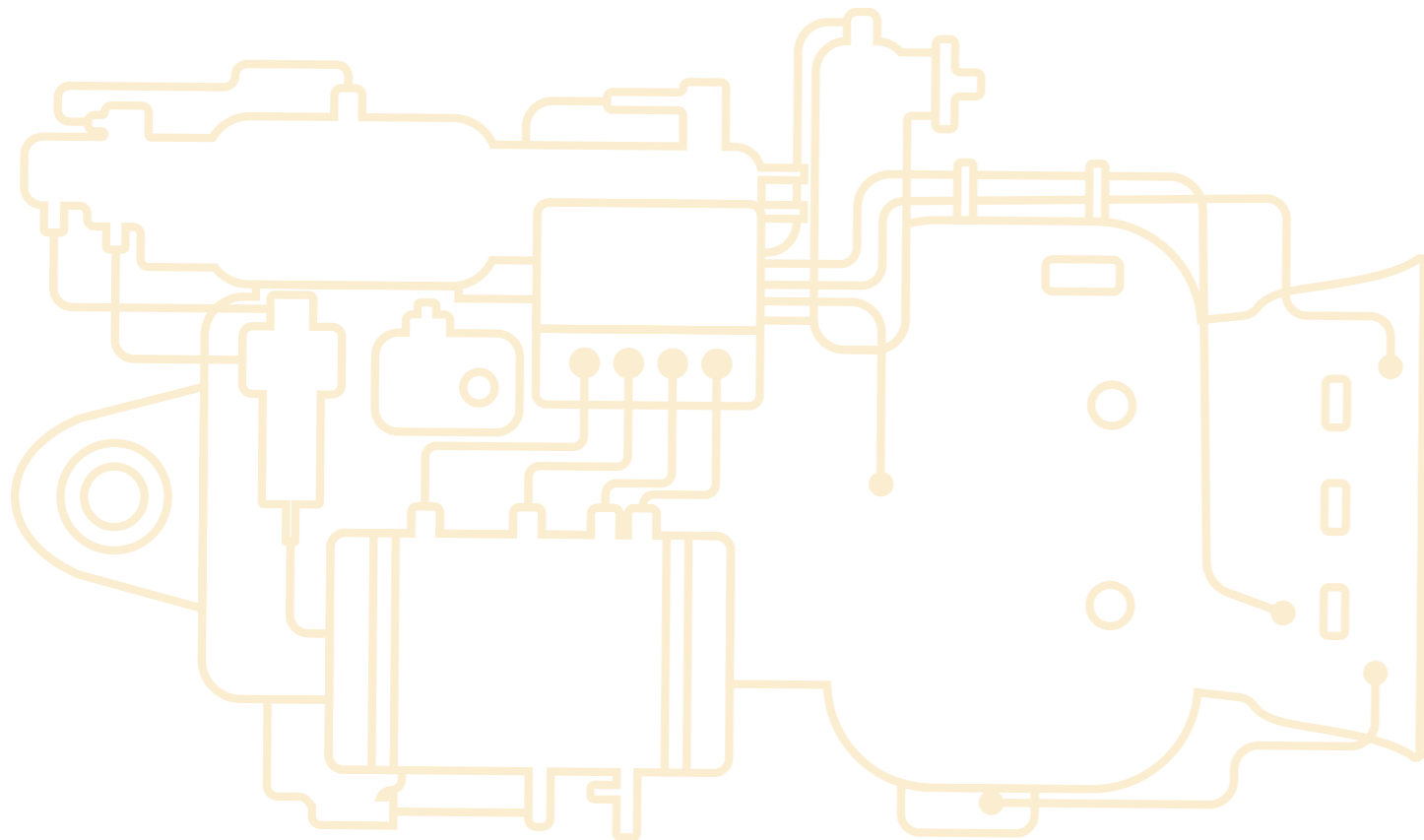
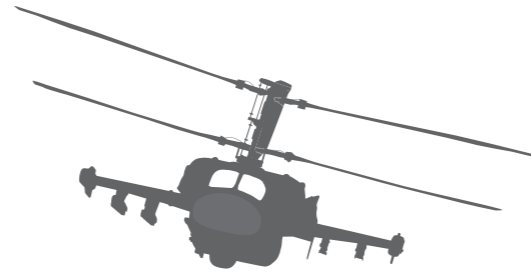
## STRATEGY

Our strategy is very transparent and focused on receiving additional profit, while ensuring stable growth, and comprises the following:

- > Receive maximum return on the domestic market, which is of top priority (both military and civil sectors), as result of an increase in the Company's market share both in Russia and globally, and to sustain and strengthen our leadership positions in the key emerging markets, including India, China and Brazil;
- > Increase the Company's competitiveness and receive additional profit from enhancing the model

range, upgrading existing models, as well as developing new and advanced models;

- > Diversify the Company's activities to establish new sources of income and, as a result, increase the share of after-sales revenue to the level of best practices;
- > Increase the efficiency of production, which will further enhance profitability and net margin.



## KEY OBJECTIVES FOR

# 2016.

AS PART OF THE STRATEGIC DEVELOPMENT, THE COMPANY SETS THE FOLLOWING OBJECTIVE FOR 2016

- > Ensure helicopters deliveries at the same level as in 2015
- > Ensure the revenue at the level of 2015;
- > Increase EBITDA margin up to more than **16%**;
- > Maintain the Net Debt/EBITDA ratio **at 3 or lower**;
- > Increase the Company's global market share.

## SOCIAL RESPONSIBILITY

Personnel policy of the Holding is aimed at expanding human resources potential of the Holding, forming a team of professionals able to implement the Holding Company's strategy – establish a competitive, highly cost-effective and self-developing helicopter manufacturer.

Recruiting young and promising professionals is one of our top priority objectives, as part of our personnel policy. The entities of the Holding Company work in close cooperation with the core professional training and higher education institutions, which allows monitoring and ensuring the proper level of young people's training for further working in the helicopter industry.

Focused interaction with the students of the key specialized technical universities, vocational schools and training colleges ensures the inflow of young qualified specialists to the enterprises.

Proven system of staff reproduction, establishment of attractive working conditions and active development of the enterprises have already resulted in the average age of employees as 42 years in 2015. This allows the Holding Company to effectively implement the assigned strategic objectives.

The Holding Company needs professional, high-skilled, promising managerial personnel experienced in areas as follows:

- > Project management;
- > Strategic and systems thinking;
- > Use of modern methods of efficient production management

> Focusing on the achievement of strategic goals of the Holding Company

To solve this task, the program of selecting and training of candidates' pool has been being implemented within the Holding for a few years already. The program enables not only meeting the challenge of timely closing of executive (top management) vacancies, but also using such personnel development tools as rotation.

The Holding Company has taken an active part in developing its personnel through the training programs, which are planned in full compliance with the strategic objectives of each of the Holding Company's enterprises.

2015 also witnessed the successive efforts to improve the system of incentives across the Holding Company. The main objective of such activities is to provide consistency between the achieved results and remuneration. The majority of the Holding Company's enterprises implemented the system of bonuses based on the gained key performance indicators (KPIs).

Special attention is also paid to developing the non-financial motivation. The system is operated across the Holding Company to reward and encourage the staff for excellent job performance, including for the development and implementation of new hardware/equipment, and for the improvement of industrial efficiency. Employee benefits and social support include a wide range of sporting events,

medical care, corporate parties and entertainment.

The Holding Company's social policy is defined together with employees and Russian trade union of aviation industry workers (Profavia). Approximately 92% of the Holding Company's employees were members of Profavia as at 31 December 2015.

The main priorities of Russian Helicopters have always been health and safety of our 41 thousand employees.

## CORPORATE GOVERNANCE

Although Russian Helicopters is a private company, we are moving towards implementing a system of corporate governance in line with the best international practice and

requirements of the Russian and international Codes of Corporate Conduct and Codes of Ethics as well as the requirements of the Bank of Russia and FSA.

### BOARD OF DIRECTORS

The Company's Board of Directors, which has been established as part of the new effective Corporate Governance system, consists of nine members, three of which are independent (in accordance with the interpretation established in the Code of Corporate Governance, Letter of the Bank of Russia No. 06-52/2463 of 10.04.2014).

The Board of Directors carries out its activities in accordance with the Charter of Russian Helicopters. The main responsibilities of the Board of Directors are:

- > Establishment of strategic goals and overseeing the work of management toward achieving these goals
- > Development of systems and ensuring compliance with the risk management and mitigation procedures
- > Development and analysis of investment policy, including development proposals from the management

Members of the Board of Directors of JSC «Russian Helicopters» elected at the extraordinary general meeting of the shareholders of the Company on 11.12.2015 (Minutes of the meeting No. 22 of 14.12.2015), are as follows::



**Vladimir Artyakov**  
Chairman

Mr Artyakov, First Deputy Director General of State Corporation «Rostec», became a member of the Board of Directors of Russian Helicopters in 2013.

From 1997 to 1999 Mr. Artyakov worked for the Presidential Property Management Division. From 1999 to 2000 he was the Deputy Director General of Promexport. From 2000 to 2006 he worked as the Deputy CEO of Rosoboronexport. In 2005-2006 he was the Chairman of the Board of Directors of AvtoVAZ and in 2006-2007 he was the President of AvtoVAZ Group.

From March to August 2007 Vladimir Artyakov was a Deputy in

the Samara Region Duma. From August 2007 to May 2012 he was the Governor and Chairman of the Government of the Samara Region.

In May 2012 he was appointed as deputy director general of «Rostec» State Corporation, in February 2014 – First Deputy Director General of «Rostec» State Corporation.

Since 2014 he has also been the Chairman of the Board of Directors of JSC «UEC».

Mr Artyakov was born on 30 July 1959 in Moscow. In 1986 he graduated from the All-Union Polytechnic Institute with a degree in construction engineering. In 2000 he graduated from the Russian Academy of State Service and completed a higher education at the Military Academy of the Russian Federation Military High Command.

He has been awarded the Order of Honour, the IV Degree Order of Merit for the Homeland, the Order of Friendship and a medal for Strengthening Comradeship-in-Arms.

He has a PhD in Economics and is a professor at the Academy of Military Sciences.

He does not own any shares in JSC «Russian Helicopters».



### Alexander Mikheev

Director General

Mr Mikheev was appointed as Director General of JSC «Russian Helicopters» in September 2013 and has been member of the Board of Directors of JSC «Russian Helicopters» since 2008.

Alexander Mikheev worked for Rosoboronexport since 2001, where, before joining JSC «Russian Helicopters» as Director General, he was Deputy Director General of Rosoboronexport, and before that he was responsible for export of special equipment and services to the Air Force at Federal State Unitary Enterprise «Rosoboronexport».

Born on 18 November 1961, Alexander Mikheev graduated in aeronautical engineering from Moscow Institute of Civil Aviation Engineering in 1985. In 2005 he obtained a masters' degree from the Military Academy of the General Staff of the Russian Armed Forces, and in 2006 graduated from the Russian Government Financial Academy. He holds a candidate degree in economics.

He has been awarded the Order of Honour, and Medal for Services to the Fatherland (2nd class).

He does not own any shares in JSC «Russian Helicopters».



### Aleksander Dynkin

Independent Member of the Board of Directors

Mr Dynkin was elected member of the Board of Directors of JSC «Russian Helicopters» in December 2014.

Alexander Dynkin is an expert on the global economy and international politics. His research focuses on global economic development and forecasting, the energy sector, comparative perspectives, innovation-based development and international security. He has developed long-term social and economic forecasting tools and produced a series of long- and short-term forecasts for the global economy.

Alexander Dynkin has headed the Economics and Finance Department at Moscow's International University since 2001.

From 2004 to 2008 he was a member of the Russian Government's Advisory Council on Competition and Entrepreneurship.

From 2003 to 2007 he served as a member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, and from 1998 to 1999 was an advisor on economics to the Russian Prime Minister.

In 1994-1996 he was an invited professor at Georgetown University in Washington, D.C.

Since 2006 he has been Director of the Russian Academy of Science's Institute for Global Economy and International Relations.

Since 2010 Alexander Dynkin has been academic secretary of the Russian Academy of Sciences' Department of International Relations, a member of the Academy's Presidium. He was elected to the Academy as a corresponding member in 2000, becoming a full member in 2006.

Born in 1948, Alexander Dynkin graduated from the Ordzhonikidze Aviation Institute in Moscow in 1971 with a major in aircraft engines.

He is a member of the Presidential Council on Science and Education, a member of the Presidential Committee on the Strategic Development of the Energy Sector and the Environment, a member of the Presidential Economic Council, a member of the Federation Council Chairman's Expert Scientific Committee, a member of the Russian Security Council's Scientific Advisory Board, a member of the Foreign Ministry's Scientific Council and Chairman of the Scientific Committee of the Russian Council on International Affairs.

He holds a PhD in economics and the rank of professor, and has been awarded the Badge of Honour (1986), Order of Friendship (2006) and Order of Merit (2012).

He does not own any shares in JSC «Russian Helicopters».



### Dmitry Lelikov

Non-executive Director

Mr Lelikov, Director General of UIC Oboronprom (from 2012), became a member of the Board of Directors of Russian Helicopters in 2008.

From 2004 to 2012 he was First Deputy General Director of Oboronprom. Before joining Oboronprom he was Chairman of the Management Board of International Commercial Bank (within 2001 - 2004) and

ORGRES-BANK (within 1999 - 2001). In 2001 Mr Lelikov served as advisor to the Chairman of the Management Board of Tempbank.

Mr Lelikov was born on 9 May 1968. In 1992 he graduated from the Financial University under the Government of the Russian Federation with a degree in finance, and in 1994 he completed his postgraduate studies at the Russian Academy of Public Administration under the President of the Russian Federation with a degree in economics. He has been awarded the Order of Honour, and Medal for Services to the Fatherland (2nd class).

He does not own any shares in JSC «Russian Helicopters».



### Alla Laletina

Non-Executive Director

Alla Laletina was elected a member of Russian Helicopters' Board of Directors in December 2014.

Alla Laletina – Director of Legal Affairs and Corporate Development of State Corporation «Rostec», and since November 2013 – Chairman of the Arbitration Court of State Corporation «Rostec». 2014 - 2015 – Head of Corporate and Legal Department at State Corporation «Rostec». From November 2013 to July 2014 she headed the legal department of State Corporation Rostec.

From 2009 to 2013 she was Deputy Director for Corporate and Legal Issues at Tobolsk Polymer (JSC Sibur Holding).

From 2007 to 2010 she was Director of the Corporate and Legal Department at SiburTyumenGaz (JSC Sibur Holding).

From 2005 to 2007 – Project Manager of Crude Hydrocarbons Directorate at SIBUR.

From 2003 to 2005 she was Deputy Director General for Legal Affairs at Tsentprof2000. Before that she spent four years teaching international corporate and civil law at MGIMO.

From 1997 to 2001 she worked as a legal counsel, and headed the legal department at the company Agros.

Since 2015 – Director of Legal

Affairs and Corporate Development of State Corporation «Rostec».

Alla Laletina was born on 12 May 1976 in Moscow. In 1999 she graduated from the faculty of international law at Moscow State University of International Relations (MGIMO, MFA RF) specializing in international law with foreign languages (English, French).

From 2001 to 2003 she completed a postgraduate course of studies at MGIMO, and in 2004 she defended her dissertation.

In 2010-2012, she studied for her doctorate at the Institute of State and Law at the Russian Academy of Sciences, and in 2012 she defended her doctoral dissertation.

She is a Doctor of Law and a Professor.

He does not own any shares in JSC «Russian Helicopters».





**Sergey Skvortsov**  
Non-executive Director

Mr Skvortsov, member of the Board and First Deputy Director General of State Corporation «Rostec», became a member of the Board of Directors of Russian Helicopters in February 2014.

In 1988 he became Co-founder and Director of Moscow Business Consultants (MBC). From 1998 to 2003 he held a position as managing director of the investment banking department at Troika Dialog. From 2003 to 2005 he was Executive Director at Troika Dialog (Sberbank CIB). From 2005 to 2013 he was the main partner at Troika Dialog, President of Troika Capital Partners.

On 25 March 2013 Mr Skvortsov was appointed Managing Director for Investments at State Corporation Rostec. On 16 October 2013 he was elected member of the Strategy Committee of the Board of Directors of ROSNANO representing «Rostec» State Corporation.

In January 2014 he was appointed

Deputy Director General of «Rostec» State Corporation.

Member of the Board of Directors of PJSC «KAMAZ» and OJSC «AUTOVAZ».

Mr Skvortsov was born on 1 March 1964 in Moscow. In 1986 he graduated from the Moscow State Institute of International Relations (MGIMO), specializing in international economics. He holds a candidate degree in economics. In 1992 he finished a training course on investments in the developing markets organized by Merrill Lynch Bank in the USA, and in 2005 he had training in Advanced Management Program at INSEAD (France).

He does not own any shares in JSC «Russian Helicopters».



**Andrey Boginsky**  
Non-executive Director

Mr Boginsky – Deputy Minister for Industry and Trade of the Russian Federation, and has been member of the Board of Directors of JSC «Russian Helicopters» since 30 June 2015.

Andrey Boginsky was appointed RF Deputy Minister of Industry and Trade on 5 February 2015. Since May 2012 he has served as the Director of

Aviation Industry Department of the Ministry of Industry and Trade. From 2010 to 2012 he was Deputy Director General for Economics and Finance of FSUE Central Aerohydrodynamic Institute named after N.E. Zhukovsky (TsAGI).

From 2010 to 2012 Mr Boginsky served as Vice President for Finances at AvtoVAZ. From 2004 to 2006 – Deputy Chairman of the Board of Bank Otkrytiye (former Russian Bank of Development), from 1999 to 2004 – Manager of the Branch office, Director for the Region of OJSC First Mutual Credit Society Bank. Starting from 1995 and up to 1999 Mr Boginsky worked at Serpukhov Branch office of OJSC «SBS-Agro» as a consultant on loans, expert, chief accountant, Manager of the Branch and Director. Previously, from 1994 to 1995 Andrey Boginsky worked as an economist in «National Loan» Bank.

Andrey Boginsky was born on 11 August 1974 in Bryansk. Before being admitted to the university, he had various blue-collar jobs. In 1996 he got a bachelor degree in Financial Management at the Economics and Management Department of the New Humanitarian University. In 2000 he graduated from the Russian Foreign Affairs Ministry Diplomatic Academy, specializing in Global Economics.

Andrey Boginsky holds a candidate degree in economics and is a recipient of the lifetime aircraft engineering achievement award.

He does not own any shares in JSC «Russian Helicopters».



**Anatoly Serdukov**  
Non-executive Director

Mr Serdukov, Industrial Director the Aviation Cluster of Rostec State Corporation, became a member of the Board of Directors of Russian Helicopters in 2015.

From 2000 to 2004 he was deputy chief of inspectorate, deputy and then head of Directorate of the Ministry of the Russian Federation for Taxes and Levies for Major Taxpayers in Saint-Petersburg. In 2004 – Deputy, Acting Minister of the Russian Federation for Taxes and Levies. Starting from 27 July 2004 – Head of the Federal Tax Service. From 2007 to 2012 Mr Serdukov was the Minister of Defense of the Russian Federation.

In 2014 he was appointed Advisor to First Deputy Director General of «Rostec» State Corporation.

Since 2015 he has been Industrial Director the Aviation Cluster of «Rostec» State Corporation.

Anatoly Serdukov was born on 8

January 1962. In 1984 he graduated from Saint-Petersburg Trade and Economics University, specializing in Economics. In 2001 he graduated from Saint-Petersburg State University, specializing in Law. He holds a PhD in economics.

He does not own any shares in JSC «Russian Helicopters».



**Alexey Fedorov**  
Independent Member of the Board of Directors

Mr Fedorov has been independent member of the Board of Directors of JSC «Russian Helicopters» since 2015.

From 1974 – 1997 he worked as an engineer, chief engineer, and then since 1993 headed Irkutsk Aviation Production Association (OJSC «IAPO»).

From 1997 to 1998 was Director General of Sukhoi Aviation Military Industrial Combine (Sukhoi AIMC).

From 1998 to 2004 he was President of OJSC Irkut R&D and Manufacturing Corporation (previously OJSC «IAPO»).

From 2004 to 2007 he was Director General – General Designer of FSUE «Russian Aircraft Corporation MiG».

From 2006 to 2011 Mr Fedorov served as President, Senior Vice-President of OJSC "United Engine Corporation".

From 2011 to 2012 – President of OJSC Irkut Corporation.

From 2012 to 2015 Mr Fedorov was Advisor to Director General of «Rostec» State Corporation, Managing Director for Aviation Projects, Industrial Director the Aviation Cluster.

Aleksey Fedorov was born on 14 April 1952 in Ulan-Ude. In 1974 he graduated from Irkutsk State

Technical University, specializing in Aircraft Manufacturing. In 1989 he finished Business School of the Oklahoma University (USA), majoring in Business Management.

He has the following awards: RF Government Order of Honour, Order «For Merit to the Fatherland» IV class, Peter the Great Golden Mark.

He does not own any shares in JSC «Russian Helicopters».

## COMMITTEES OF THE BOARD OF DIRECTORS

The committees of the Board of Directors provide management oversight within the scope of their competency. While decision-making authority and responsibility lies with the full Board of Directors, the separate committees allow for a more detailed control. The committees analyze information provided by the management, highlight issues to be brought to the attention of the full Board and ensure that proper attention is paid to these issues.

No	Members of the Strategy Committee from 01.01.2015 to 24.07.2015	Members of the Strategy Committee from 24.07.2015 to 18.12.2015
1.	<b>Dmitry Lelikov (chairman)</b> – member of the Company's Board of Directors, Director General of JSC "UIC "OBORONPROM";	<b>Dmitry Lelikov (chairman)</b> – member of the Board of Directors of JSC "Russian Helicopters", Director General of JSC "UIC "OBORONPROM";
2.	<b>Aleksander Dynkin</b> – member of the Company's Board of Directors, independent director, economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;	<b>Aleksander Dynkin</b> – independent member of the Board of Directors of JSC "Russian Helicopters", economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;
3.	<b>Sergey Skvortsov</b> – member of the Company's Board of Directors, Deputy Director General of the State Corporation "Russian Technologies";	<b>Sergey Skvortsov</b> – member of the Board of Directors of JSC "Russian Helicopters", Deputy Director General of State Corporation "Rostec";
4.	<b>Vassily Ponomarev</b> – Deputy Head of Planning and Industrial Policy Department of State Corporation "Rostec";	<b>Vassily Ponomarev</b> – Deputy Head of Planning and Industrial Policy Department of State Corporation "Rostec";
5.	<b>Vyacheslav Kozlov</b> – Deputy Director General for Finance and Investments of JSC "Russian Helicopters";	<b>Vyacheslav Kozlov</b> – Deputy Director General for Finance and Investments of JSC "Russian Helicopters";
6.	<b>Vladimir Makareykin</b> – Director for Innovative Development and State Programs of JSC "Russian Helicopters";	<b>Vladimir Makareykin</b> – Director for Innovative Development and State Programs of JSC "Russian Helicopters";
7.	<b>Aleksander Idrisov</b> – President of CJSC "Strategy Partners Group"	<b>Aleksander Idrisov</b> – President of CJSC "Strategy Partners Group"

## STRATEGY COMMITTEE OF THE BOARD OF DIRECTORS

Was established to ensure the efficient fulfillment of the functions of the Board of Directors in the area of strategic management and control by means of preliminary review of the issues related to:

1. Priority areas of activities of the Company and Holding Company, medium-term and long-term strategy of development of the Company and entities of the Holding Company
2. Programs (business plans) of financial and economic activities of the Company and entities of the Holding Company;
3. Investment activities of the Company and entities of the Holding Company.

## HR AND REMUNERATION COMMITTEE OF THE BOARD OF DIRECTORS

Was established to ensure the efficient fulfillment of the functions of the Board of Directors by means of preliminary review of the issues related to:

1. Operating performance of the Board of Directors and its committees, members of executive bodies of the Company, other key executive employees of the Company the list of which is approved by resolution of the Board of Directors;
2. Development of an efficient and transparent system of the Company's remuneration of the members of the Board of Directors, members of the executive bodies, other key executive employees of the Company;

3. HR policy of the Company and entities of the Holding Company, strengthening of the professional staff and system of planning of succession of members of the management bodies, members of executive bodies, and other key executive employees of the Company.

No	Members of the HR and Remuneration Committee from 01.01.2015 to 24.07.2015	Members of the HR and Remuneration Committee from 24.07.2015 to 18.12.2015
1.	<b>Vitaly Baranov (chairman)</b> – member of the Company's Board of Directors, independent director, Deputy Chairman of the Board of OJSC Gazprom Neft, Deputy Director General for Administration of OJSC Gazprom Neft;	<b>Vitaly Baranov (chairman)</b> – independent member of the Board of Directors of JSC "Russian Helicopters", Deputy Chairman of the Board of PJSC Gazprom Neft, Deputy Director General for Administration of PJSC Gazprom Neft;
2.	<b>Evgenyi Kuzmenkov</b> – Personnel and Organizational Development Director of JSC "Russian Helicopters";	<b>Dmitry Lelikov</b> – member of the Board of Directors of JSC "Russian Helicopters", Director General of JSC "UIC "OBORONPROM";
3.	<b>Dmitry Lelikov</b> – member of the Company's Board of Directors, Director General of JSC "UIC "OBORONPROM".	<b>Evgenyi Kuzmenkov</b> – Personnel and Organizational Development Director of JSC "Russian Helicopters";
4.	–	<b>Alla Laletina</b> – member of the Board of Directors of JSC "Russian Helicopters", Head of Corporate and Legal Department of State Corporation "Rostec".

## AUDIT COMMITTEE OF THE COMPANY'S BOARD OF DIRECTORS

Was established to ensure the efficient fulfillment of the functions of the Board of Directors for preliminary review of the issues related to the system of control of financial and economic activities of the Company and entities of the Holding Company.

The following issues fall within the competence of the Committee:

1. Control over the system of internal control, audit and risk management;

2. Ensuring the compliance with the legal requirements and informing the sole executive body of the Company on the violations in this regard;
3. Control over the financial statements.



No.	Members of the Audit Committee from 01.01.2015 to 06.03.2015	Members of the Audit Committee from 06.03.2015 to 24.07.2015	Members of the Audit Committee from 24.07.2015 to 18.12.2015	Members of the Audit Committee from 18.12.2015 to 31.12.2015
1.	Aleksander Dynkin (Chairman) – independent director, economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member and secretary of Department of Global Problems and International Relations (Russian Academy of Science), Chairman of the Academic Board, member of the Supervisory Board of the Russian International Affairs Council;	Nataliya Smirnova (chairperson) - Head of Entities Audit Department of State Corporation "Rostec";	Nataliya Smirnova (chairperson) - Head of Entities Audit Department of State Corporation "Rostec";	Nataliya Smirnova (chairperson) - Director of Internal Audit Department of State Corporation "Rostec";
2.	Alla Laletina – Head of Corporate and Legal Department of State Corporation "Rostec";	Aleksander Vetrovsky - Deputy Head of Entities Audit Department of State Corporation "Rostec";	Aleksander Vetrovsky - Deputy Head of Entities Audit Department of State Corporation "Rostec";	Aleksander Vetrovsky - Head of Audit, Revision and Methodology Division of State Corporation "Rostec";
3.	Pavel Osin – First Deputy Director General of JSC «UIC «OBORONPROM»	Galina Kuzmina - Head of Revision and Audit Subdivision of State Corporation "Rostec";	Galina Kuzmina - Head of Revision and Audit Subdivision of State Corporation "Rostec";	Galina Kuzmina - Head of 1 category projects, Audit, Revision and Methodology Division of State Corporation "Rostec";
4.		Aleksander Dynkin – independent director, economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member and secretary of Department of Global Problems and International Relations (Russian Academy of Science), chairman of the academic board, member of the supervisory board of Russian International Affairs Council;	Aleksander Dynkin – independent member of the Board of Directors of JSC «Russian Helicopters», economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;	Aleksander Dynkin – independent member of the Board of Directors of JSC «Russian Helicopters», economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;
5.		Alla Laletina – Head of Corporate and Legal Department of State Corporation "Rostec";	Alla Laletina – Head of Corporate and Legal Department of State Corporation "Rostec";	Alla Laletina – member of the Board of Directors of JSC "Russian Helicopters", Director of Legal Affairs and Corporate Development of State
6.		Pavel Osin – First Deputy Director General of JSC "UIC "OBORONPROM".	Pavel Osin – First Deputy Director General of JSC "UIC "OBORONPROM".	Pavel Osin – First Deputy Director General of JSC "UIC "OBORONPROM".

## BUDGET COMMITTEE OF THE COMPANY'S BOARD OF DIRECTORS

Was established to ensure the efficient fulfillment of the functions of the Board of Directors for preliminary review of the issues related to the planning of financial and economic activities of the Company and entities of the Holding Company and control over such activities. The following issues fall within the competence of the Committee:

2.1.1. financial and economic and budget management within the Company and entities of the Holding Company;  
2.1.2 budget and financial, as well as credit policy of the Company and entities of the Holding Company;  
2.1.3. corporate decisions which have a significant impact on the financial status of the Company and entities of the Holding Company.

No.	Members of the Budget Committee from 01.01.2015 to 24.07.2015	Members of the Budget Committee from 24.07.2015 to 18.12.2015	Members of the Budget Committee from 18.12.2015 to 31.12.2015
1.	Kirill Gaidash (chairman) - Head of Financial and Economic Policy Department of the State Corporation "Rostec"	Kirill Gaidash (chairman) - Head of Financial and Economic Policy Department of the State Corporation "Rostec"	Kirill Gaidash (chairman) - Director General of Unitary Enterprise "Microgen" of the Ministry of Health
2.	Pavel Osin - First Deputy Director General of JSC «UIC «OBORONPROM».	Pavel Osin - First Deputy Director General of JSC «UIC «OBORONPROM».	Pavel Osin - First Deputy Director General of JSC «UIC «OBORONPROM».
3.	Vyacheslav Kozlov - Deputy Director General for Finance and Investments of JSC "Russian Helicopters";	Vyacheslav Kozlov - Deputy Director General for Finance and Investments of JSC "Russian Helicopters";	Vyacheslav Kozlov - Deputy Director General for Finance and Investments of JSC "Russian Helicopters";
4.	Aleksander Dynkin - member of the Company's Board of Directors, independent director, economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;	Aleksander Dynkin - member of the Company's Board of Directors, independent director, economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;	Aleksander Dynkin - independent member of the Board of Directors of JSC "Russian Helicopters", economist, member of the Russian Academy of Sciences, Director of the Institute of World Economy and International Relations (IMEMO) (Russian Academy of Science), member of the Bureau of the Presidential Council of the Russian Federation for Science and Education;
5.	Svetlana Bezyzvestnykh - Senior Expert of Budgeting and Consolidated Management Reporting Subdivision of Financial and Economic Policy Department of the State Corporation "Rostec";	Svetlana Bezyzvestnykh - Senior Expert of Budgeting and Consolidated Management Reporting Subdivision of Financial and Economic Policy Department of the State Corporation "Rostec";	Svetlana Bezyzvestnykh - Senior Expert of Budgeting and Consolidated Management Reporting Subdivision of Economics and Finances Department of the State Corporation "Rostec";
6.	Sergey Zheltikov - Economy and Finance Director of JSC "Russian Helicopters".	Sergey Zheltikov - Economy and Finance Director of JSC "Russian Helicopters".	Sergey Zheltikov - Economy and Finance Director of JSC "Russian Helicopters".
7.	-	-	Iliina Migal - Head of Treasury Division at State Corporation "Rostec"

## INDEPENDENT DIRECTORS

At present, the Board of Directors has three members who fully qualify as independent directors according to international best practice. This means that they are independent of the Company's officials and affiliated parties. Apart from participation in the Board of Directors, they have no relation to the company or its affiliates that could affect their

objectivity. The independent directors are obliged to inform the Corporate Secretary should their status change, including informing about events that could impact their independent status and about any conflicts of interest that could arise during the process of their participation in the work of the Board of Directors.

## MANAGEMENT



**Alexander Mikheev**  
Director General

Mr Mikheev was appointed as Director General of JSC «Russian Helicopters» in September 2013 and has been member of the Board of Directors of JSC «Russian Helicopters» since 2008.

Alexander Mikheev worked for Rosoboronexport since 2001, where, before joining JSC «Russian Helicopters» as Director General, he was Deputy Director General of Rosoboronexport, and before that he was responsible for export of special equipment and services to the Air Force at Federal State Unitary Enterprise «Rosoboronexport».

Born on 18 November 1961, Alexander Mikheev graduated in aeronautical engineering from Moscow Institute of Civil Aviation Engineering in 1985. In 2005 he obtained a masters' degree from the Military Academy of the General Staff of the Russian Armed Forces, and in 2006 graduated from the Russian

Government Financial Academy. He holds a candidate degree in economics.

He has been awarded the Order of Honour, and Medal for Services to the Fatherland (2nd class).

Member of the Board of Directors of JSC «Russian Helicopters», JSC "Mil Moscow Helicopter Plant", JSC «Kamov», JSC «U-UAP», PJSC "Kazan Helicopters", PJSC «AAC «Progress», JSC «HSC», JSC «Reductor-PM», JSC «SMPP», JSC «KumAPE», PJSC «Rostvertol», JSC «NARZ», JSC «356 ARP», and JSC «99 ZATO».



### Yuriy Kaptelkin

Head of Director General Administration

Was born on 21 March 1983 in Moscow.

**Education:**

Graduated from the Moscow University of the Ministry of Internal Affairs of Russia, international law faculty, with a degree in international law with a knowledge of foreign languages (English, Spanish).

**Work experience:**

2000 – 2005 – served with Interior Ministry bodies;  
2006 – 2008 – Rosoboronexport, Assistant to First Deputy Director General;  
2008-2009 – Chief of Staff, United Shipbuilding Corporation;  
2010 – 2013 – Rosoboronexport, Assistant to Deputy Director General;  
Since 2013 – Head of Director General Administration of JSC «Russian Helicopters»;  
Member of the Board of Directors of JSC «Mil Moscow Helicopter Plant», JSC «Kamov», PJSC «Kazan Helicopters» and JSC «HSC».



### Andrey Shibitov

Deputy Director General for Production and Innovations

Mr. Shibitov has held the position of Deputy Director General for Production at JSC «Russian Helicopters» since July 2012.

Prior to this appointment, Mr. Shibitov was the Deputy Director General for Marketing and Export Sales at JSC «Rostvertol» in 2000-2004. From 2004 to 2008 he served as Director General of JSC «Mil Moscow Helicopter Plant», and from 2007 to 2010 Mr Shibitov was Director General of JSC «Russian Helicopters». He was a member of the Board of Directors of Russian Helicopters from 2007 to 2011.

Mr. Shibitov graduated from the Kharkiv Aviation Institute with a degree in aircraft construction in 1988. He was born in 1961.

Member of the Board of Directors of JSC «Mil Moscow Helicopter Plant», PJSC «AAC «Progress», JSC «Reductor-PM», JSC «SMPP» and PJSC «Rostvertol».



### Grigory Kozlov

Deputy Director General for Sales

Kozlov was appointed deputy general director for sales and marketing at Russian Helicopters on 24 March 2014.

Kozlov has extensive experience in Russian helicopter sales. From 2010-2014 he was head of the helicopter export department at Rosoboronexport, and from 2001-2007 he served as deputy head of department for Air Force special property and services at Rosoboronexport. Kozlov also served as deputy director general for external economic affairs at Oboronprom from 2007-2010 and has held a range of management positions within Promexport.

Kozlov was born on 15 October 1945 in Moscow. He graduated from the Zhukovsky Military Aviation Engineering Academy in 1972, specializing in electrical and mechanical engineering, and holds the rank of Colonel (Rtd.). Before 1995, Kozlov served with the USSR Armed Forces and the Russian Armed Forces.

He has the following awards: order of excellence by the Federal Military-Technical Cooperation Service For Services to Military-Technical Cooperation, the jubilee medal from the Defence Ministry celebrating 100 years of the Russian Air Force, the medal For Strengthening Military Cooperation, and Medal for Services to the Fatherland (2nd class).

Member of the Board of Directors of PJSC «Rostvertol» and JSC «U-UAP».



### Alexander Scherbinin

Deputy Director General for Marketing and Business Development

Mr Scherbinin was appointed Deputy Director General for Marketing and Business Development of JSC «Russian Helicopters» on 16 October 2015.

Mr. Shcherbinin has an extensive management experience in the area of international economic activities. From 2010 to 2014, he occupied management posts at Norilsk Nickel Group. From 2012 to 2014, Shcherbinin was Director General of the main sales division at CJSC Normetimpex, the company's main revenue-generating arm, with an annual turnover of in excess of 10 billion USD. He was responsible for sales within Russia, and to countries across Europe, Asia and America. From 2004 to 2010, Shcherbinin occupied several different positions within Rosoboronexport.

Shcherbinin was born on 27 April 1978 in Leningrad (now St. Petersburg). In 2000, he graduated from St Petersburg State University of Economics, specializing in finance and lending, and in 2007 graduated from the Russian Foreign Affairs Ministry Diplomatic Academy, specializing in Global Economics. He has a PhD in Economics.



### Roman Chernyshev

Deputy Director General for Program Management

Mr Chernyshev was appointed Deputy Director General for Program Management at JSC «Russian Helicopters» on 1 December 2011.

From 1996 to 1998 he held various management positions at Norilsk Nickel. In 2003-2004, Roman Chernyshev served as deputy CEO of Energomash-Project. From 2004 to 2008 he worked as director of finance and economics and First Deputy Director General at JSC «Progress» Arsenyev Aviation Company (AAC «Progress»), one of Russia's largest aerospace companies and owner of unique aviation and missile technologies.

Roman Chernyshev was born on 21 September 1976 in the town of Penza-19 and graduated from the Moscow Physics and Technical Institute in 1999.

Member of the Board of Directors of JSC «Kamov», PJSC AAC «Progress», and PJSC «Rostvertol».



### Vladimir Kudashkin

Deputy Director General for Legal Affairs and Corporate Development

Mr Kudashkin was appointed Deputy Director General for Legal Affairs and Corporate Development of JSC «Russian Helicopters» on 12 November 2013.

From July 2013 he served as chief of staff at Rostec State Corporation, and before that for six years headed up Rostec's legal department and was a member of the Board of the State Corporation. From 1998 to 2007 he worked at Rosvooruzhenie and Rosoboronexport, where he was an adviser to the CEO and head of the legislative support group.

Vladimir Kudashkin was born in 1964 in Mordovia, and graduated from the Nakhimov Naval Academy in Leningrad in 1981. In 1985 he graduated from the Kiev Higher Navy Political Academy, and in 1997 from the Russian Presidential Academy of State Service, where he also obtained a master's degree (jointly with the Russian Foreign Trade Academy) in 1999. He holds a doctorate in legal studies,

and has been awarded the Order for Military Merit and an official citation from the President of Russia for services to the country.

Member of the Board of Directors of JSC «Kamov», PJSC AAC «Progress», PJSC «Rostvertol», JSC «356 ARP», and JSC «99 ZATO».



### Vyacheslav Kozlov

Deputy Director General for Finance and Investments

Mr Kozlov was appointed Deputy Director General of JSC «Russian Helicopters» on 12 November 2013.

From 2006 to 2013 he served as first deputy managing director of Ulan-Ude Aviation Plant, part of Russian Helicopters Holding Company.

Since 2009 he has been a member of the Board of Directors of JSC «Helicopter Innovation Industrial Company».

Before joining the helicopter industry, Vyacheslav Kozlov worked at the Ministry for Economic Development and Trade (2004-2006).

Vyacheslav Kozlov was born in 1981, and in 2002 graduated from Novosibirsk State University in mathematics and economics. In 2004 he obtained a master's degree in economics from the Higher School of Economics in Moscow. He holds an Executive MBA

and has been awarded the Certificate of Merit of the Republic of Buryatia.

Member of the Board of Directors of JSC «U-UAP», PJSC «Kazan Helicopters», JSC «HSC» and JSC «KumAPE»



### Igor Chechikov

Deputy Director General for After-Sales Support Services

Graduated from the Military University, Russian Presidential Academy of State Service, Russian Government Financial Academy, Kutafin Moscow State Law University.

2000-2004 – Lead Specialist, Chief Specialist, Russian Munitions Agency;

2004-2005 – Chief Specialist, CJSC New Regional Airplanes (NORS);

2005 – Deputy Head of Section, the Federal Service for Ecological, Technological and Nuclear Supervision;

2006-2009 – Head of Section, Deputy Director General, Executive Director, CJSC Astrasystems;

2009-2011 – Deputy Head of Marketing and Sales Department, OJSC Managing Company "United Engine Corporation";

2011-2012 – Deputy Director General for Cooperation with India, OJSC "OPK Oboronprom";

2012-2013 – Deputy Director General for Marketing and Control Over International Business Activities, OJSC "OPK Oboronprom";

Since October 2013: – deputy director general for international business activities, OJSC "OPK Oboronprom";

Since December 2014 – Director for International Business Development and After-Sales Support Programs in the area of Military and Technical Cooperation.

Member of the Board of Directors of JSC «Reductor-PM»

He has the following awards: order of excellence by the Federal Military-Technical Cooperation Service For Services to Military-Technical Cooperation, medal of the RF MoD for Strengthening Military Cooperation, as well as medal of the FSMTC «For Distinction»



### Nikolay Gryaznov

Deputy Director General for Security

Mr Gryaznov was appointed Deputy Director General for Security of JSC «Russian Helicopters» on 5 November 2014.

Nikolay Gryaznov was born in 1955 in the Buryat Autonomous Soviet Socialist Republic. In 1977 he graduated from National Research Irkutsk State Technical University majoring in aircraft mechanical engineering. Nikolay worked at Irkutsk Aviation Plant for five years and occupied various management positions.

Nikolay Gryaznov is a lieutenant general of the Federal Security Service of the Russian Federation. Since 1982 he has been serving with the state security bodies. He has the following awards: Order of Courage, Order «For Military Merit», Order «For Merit to the Fatherland» IV class with swords, Order of Alexander Nevsky, Order of Saint Righteous Grand Duke Dmitry Donskoy II class, more than 20 medals and badges. The honorary citizen of the Republic of Kalmykia and city of Makhachkala (Republic of Dagestan).

## INTERNAL AUDIT

Internal Audit Department was established in 2011, as part of the activities aimed at improving the efficiency of the Holding Company's corporate governance system. The main activities the Department carries out are as follows:

1. Performance of internal audits aimed at improving the Holdings operations.
2. Establishment and continuous improvement of risk management and internal controls.
3. Establishment and continuous improvement of the processes aimed at timely fraud detection and prevention.

Internal Audit is an inherent part of public business company. Its main goal, in accordance with international corporate governance and stock exchange standards and recommendations, is to contribute to the improvement of governance, risk management, and control processes by bringing a systematic, disciplined approach to assess the effectiveness of these systems and provide recommendations on their improvement.

Internal Audit Department is an independent unit within the organization that functionally reports to the Audit Committee of The Board of Directors. The Department is organized and performs its activities in compliance with International Practice Professional Standards of the Institute of Internal Auditors,

recommendations of UK Corporate Governance Code and Enterprise Risk Management and Internal control Framework of Committee of Sponsoring Organizations (COSO).

The existence and the above-described functioning of Internal Audit allows the Holding to obtain reasonable assurance that the goals set up by the shareholders, Board of Directors and Executive Management will be achieved, as well as that the resources used are effectively employed and financial reporting is reliable and transparent.

## CAPITAL MARKETS AND INVESTOR RELATIONS

Russian Helicopters is actively working on the implementation of the highest standards of information disclosure in order to build a strong relationship with the global financial markets and the media.

The main principles of our Information Disclosure Policy are:

- > to provide all the stakeholders with a constant and actual news flow, which fully and clearly covers all the aspects of the Company's activities;
- > to provide all the stakeholders with a timely response to any information requests

We have Investor Center on our corporate website [www.russianhelicoptres.aero](http://www.russianhelicoptres.aero), accessible at [www.russianhelicoptres.aero/ru/investors/](http://www.russianhelicoptres.aero/ru/investors/). It contains information for analysts and investors interested in Russian Helicopters, including financial statements, information on corporate governance, Company's structure etc. If information is not accessible on the website, the IR team can be contacted at any time. Improvements continued to be made to our Investor Center in 2015 to make it the most convenient source of information about the Company.

In 2012 Russian Helicopters began to cooperate closely with rating agencies. As result of that Fitch Ratings and Moody's Investors Service have assigned our first rating. At the moment,

Fitch Ratings estimates our Long-Term Issuer Default Ratings at BB, Outlook Stable. In turn, Moody's Investors Service evaluates Russian Helicopters probability of default rating of Russian Helicopters at Ba3, Outlook Stab.

## RISK MANAGEMENT

Risk is an integral part of business. The Holding Company, as any other company, is constantly dealing with risks and opportunities that can either negatively or positively influence its business. To minimize the negative impact of risks and to capitalize opportunities, we have introduced an integrated risk management system aimed at ensuring transparency of decision-making process and effective risk management.

Though we are not yet a public company, the risk management system of the Company is in compliance with the international standards, such as an integrated risk management model developed by the Committee of Sponsoring Organizations (COSO) and its Enterprise Risk Management Framework, as well as international aerospace engineering standards AS/EN 9100C.

Risk management system ensures that risks are fully understood and managed through the system of their identification, assessment

and control. We maintain the Risk Register that covers the key strategic risks, including their description, key risk owners, as well as control and procedures to be implemented for mitigating those risks on a corporate level. The content of the Register is determined by senior management and approved by Director General. At the operational level, risk management is performed through internal controls documented in our internal policies & procedures. Monitoring activities of risk management effectiveness are performed by the Risk Manager of the Company, and assessed by Internal Audit Department. The results of such evaluation are delivered to the Audit Committee, as well as to the attention of the Board of Directors.

## KEY RISK FACTORS

Below are the main risks the Holding Company currently faces that can have a significant impact on the achievement of strategic goals and objectives. The Holding Company may be exposed to additional risks, including those that are not yet known to us and/or considered insignificant.

Risks related to changes in the political and economic environment

globally and in the Russian Federation. Adverse changes arising from systemic risks in global financial system, including decline in the oil and gas prices, could slow or disrupt the RF economy, adversely affect the Company's access to capital and cost of capital for the Holding Company and, more generally, its business, results of operations, financial stability and prospects.

Moreover, the US and EU sector-specific sanctions imposed in 2014 targeting the key elements of the Russian economy. No direct sanctions were officially imposed on the entities of "Russian Helicopters" Holding Company. However, the imposed sanctions, including those against Russian banks, may indirectly have a negative impact on the activities of the entities of the Holding Company. In particular, the following circumstances may arise:

- > Limitations on the supply of imported equipment and components.
- > More expensive borrowings due to limited access to foreign capital markets for state banks, and, as a result reduced volume of the RF debt market.
- > Difficulties with the processing of payments in foreign currency (USD, EUR) through correspondent banks of the US and European Union.
- > Potential ban to use SWIFT paralyzes all settlements with the use of foreign currency when carrying out activities with foreign counterparties on a temporary basis, which may negatively impact the Holding Company's inflows, which, in turn, may lead to inability to pay current debt liabilities (primarily contract financing).

The Company makes various arrangements aimed at organizing early supplies of the required items in sufficient quantity (provisions), as well as arrangements as part of the Import Substitutions Program (see also risks of interactions with suppliers) to minimize the influence of limitations to supplies of imported components and equipment on the activities of the entities of the Holding Company.

Also, the Holding Company optimizes current and investment expenses to minimize the volume of external borrowings.

In general, the Holding Company is unable to have a material impact on the business environment in the RF. However, in case of negative changes in the business environment globally and in the Russian Federation, the Holding Company will take all the necessary actions to reduce the negative impact on the possibility to meet obligations with regard to securities, including diversification of production.

### RISKS OF HELICOPTER INDUSTRY

Demand for helicopters largely depends on long-term budget priorities of consumer countries which the Holding Company is unable to have influence on. Besides, helicopter industry, especially its civil sector, is highly dependent on the risk of technological breakthrough, including adjacent industries that may lead to a decrease in demand for existing helicopter models and/or will require substantial financial investments aimed at developing new models in line with the new competitive environment. Market positions of the Holding, therefore, are dependent on the following key factors:

- > Economic and political stability of main customer countries, including the stability of their long-term national defense policies.
- > The ability to keep our leadership position on internal market including efficiency and quality of performance of obligations under the State Defense Order of Ministry of Defense, our main customer.
- > The success of current design and development projects aimed at modernization and upgrade of existing models, as well as at development of new and advanced models to be competitive in the domestic and foreign markets.

Our activities aimed at the mitigation of the above mentioned risks are described in «Market position», «Model range» and «Strategy» sections of this Annual report.

#### **RISKS OF RELATIONSHIPS WITH SUPPLIERS**

The major part of materials and key parts used for helicopter production are purchased from the third parties. In addition, key parts are purchased from suppliers that hold a monopoly in their industry. Therefore, the Holding is highly dependent on the effectiveness of our key suppliers, i.e. on the following factors::

- > Financial stability of suppliers that directly influence their capacity to timely and effectively fulfill contractual agreements to provide the Holding with necessary materials and key parts necessary for helicopter production.
- > The ability of our suppliers to keep the price level on a competitive basis by the efficient monitoring of prices on parts and materials that they use for production.

Moreover, due to the current unstable geopolitical and macroeconomic environment, there is a risk of short deliveries of Ukrainian vendor items and materials, as well as vendor items and materials produced in the US, countries of the European Union and those countries that joined the EU in imposing sanctions.

To minimize the negative impact of this risk on the activities, the Holding Company considered the possibility to work with the suppliers of similar equipment and components and is actively involved in the implementation of activities stipulated by the import substitution programs.

Thus, procurement of engines manufactured by JSC "Klimov" may be significantly increased with

simultaneous decrease in the orders of Ukrainian engines of JSC Motor Sich to ensure the fulfillment of obligations of the Holding Company to its customers.

As a result, the impact of this risk on the Company's activities will be minimized to the acceptable level.

Apart from that, the Holding Company imposes certain strict requirements on potential suppliers during the contract negotiation process. Quality monitoring activities and supplier effectiveness evaluation are performed as part of the implemented quality management system.

#### **OPERATIONAL RISKS**

Our customers are our main focus. We constantly analyze and improve key operational processes to increase their effectiveness and to provide our clients with the best quality product at a reasonable price. The key risk factors in this area are as follows:

- > Effective personnel management, including recruitment, training, development and retaining of unique competencies, as well as ensuring an optimal number of employees and establishment of a balanced organizational structure that enables and motivates them to achieve the objectives of the Holding Company.
- > The success of our marketing and sales of helicopters, pricing and contract management as well as production cost control mechanisms in order to provide substantial growth in the total number of helicopter orders and deliveries and ensure sustainable profitable growth.
- > Effective production platform infrastructure and reliable management and IT systems to ensure efficient allocation of resources across the entire supply chain
- > Effectiveness of after-sales support system to provide our customers

with reliable guarantee and post-guarantee services and necessary spare parts

Sections "Deliveries", "After-sales support", "CAPEX", "organizational development", "key objectives for 2014", "HR policy" of this Annual Report include the description of actions that we perform to mitigate the above mentioned risks.

#### **FINANCIAL RISKS**

The main financial risks faced by the Holding relate to the availability of funds to meet business needs (liquidity, credit and capital risks) and fluctuations in interest and foreign exchange rates.

We are currently operating the information system using Oracle Hyperion Planning, which allows us to monitor and take efficient management decisions to minimize financial risks, including current monetary assets and cash position, funding requirements, interest rates, and currency positions.

Note 36 "Capital management" and note 38 "Risk management activities" to the consolidated financial statements in this Annual Report contain a detailed description of financial risks and risk management tools used by the Holding Company to mitigate these risks.

#### **REGULATORY ENVIRONMENT AND COMPLIANCE**

The activities of the Holding Company are regulated by various laws and regulations related to, among other areas, federal anti-monopoly rules, intellectual property protection, transfer pricing, currency and customs rules, export regulations as well as international financial statements standards.

Due to the fact that the legal and regulatory framework of the Russian Federation is still exposed

to fast changes and ambiguous interpretation, there is a risk of negative impact of these changes on the activities of the Holding Company, in particular, changes to the regulation of the State Defence Order, state subsidies, etc.

Therefore, the Holding Company monitors regulatory development and enforces a strong compliance regime. Moreover, our layers are performing expertise of all potential contracts and obligations on protection of Holding rights and compliance with applicable laws and regulations.

Note 39 "Commitments and Contingencies" to the consolidated financial statements in this Annual Report contains risk description and mitigation measures in these areas.

See the respective Financial Statements attached.



# KEEP DREAMING

## THE MOST UNCONVENTIONAL ROTARY-WING PROJECTS



The world's largest helicopter Mi-12 can be challenged by the project of the design bureau of Alexander Sergeevich Yakovlev. The famous constructor of a renowned WWII jet fighter also took a crack in the field of helicopter building. Prototype of Yak-60 helicopter was created by Yakovlev's engineers in the late 60-s of the 20th century, and the designers' intentions were to make its take-off weight 100 tons and to transport a tank at the external sling.

They gave Yak-60 project a name "Huge flying carriage", and the helicopter would have been able to carry up to 228 paratroopers in full gear in the cargo compartment or three IFVs with crews. They proposed Yak-60 would be of use in the national economy as well, for example, it would carry by air drill rigs for oil production, transmission tower and other oversize loads.

But the "huge flying carriage" was far from being the most original project of the Yakovlev design bureau. Following the Yak-60 they envisioned the so called Yak VVP-6 or "Vertically taking-off platform", an exotic machine that strikes imagination. As many as 6 rotors would carry this platform, they would be installed on six short wings on each side of the fuselage. Three missile

launchers with six rockets of S-75 air-defense system ("Dvina") would be between the rotors on the 49-meter platform (12 meters longer than the largest helicopter (V-12) in the world).

They proposed the "vertically taking-off platform" would become a transportable air-defense missile system that could be rapidly moved hundreds of kilometers away. Theoretically, the missiles were to be launched right from the fuselage of this "impossible" helicopter, just as it is done on missile carrying submarines.

Neither Yak-60 nor "flying platform" (VVP-6) projects were ever realized. But another planned and quite unconventional giant helicopter was almost gotten to the production stage.

Mil Design Bureau was not going to terminate work even after creating the world largest Mi-12 helicopter. By early 80-s of the last century one of the most unconventional rotary-wing aircrafts (triangular Mi-32 helicopter with three rotors) was produced there.

In fact, this machine represented three 36-meter fuselages connected by a triangle, with the rotor in each corner. They believed such arrangement of rotors is more efficient, it reduces the chance of air resonance without requiring the synchronization.

"Flying triangular" was intended

as a helicopter for development of the depths of the Siberian and Far Northern regions. It was to carry large-tonnage equipment over great distances for extracting gas, oil and other mineral resources. To this end the design load capacity of the "triangular" (Mi-32) should have exceeded 55 tons, and flight range with such load should have grown to one thousand or more kilometers. Particularly heavy loads had to be carried on adjustable cables, their length up to 60 meters, hanging down from each end of the "flying triangle".

As we can see, the dream of a helicopter still stirs the humankind's imagination even after coming true, now it has just become the dream of a more perfect and capable rotorcraft. And now that we have come into the XXI century, the time of new technologies and innovations, making this dream come true is up to "Russian Helicopters" Holding Company.

# CONSOLIDATED FINANCIAL STATEMENTS OF



JOINT STOCK COMPANY RUSSIAN HELICOPTERS  
AND ITS SUBSIDIARIES  
FOR THE YEAR ENDED  
31 DECEMBER 2015

APRIL 2016



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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

The following statement, which should be read in conjunction with the independent auditor's report, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Russian Helicopters and its subsidiaries (the «Group»).

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2015, 2014 and 2013, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards («IFRS»), accepted in the Russian Federation.

**In preparing the consolidated financial statements, management is responsible for:**

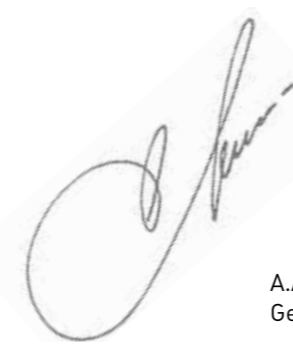
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

**Management is also responsible for:**

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- taking reasonably available steps to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

These consolidated financial statements were approved by management on 19 April 2016



A.A. Mikheev  
General Director



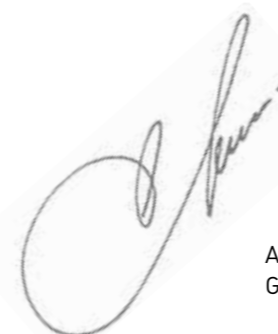
S.S. Zheltikov  
Director on Finance  
and Economy

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IN MILLIONS OF RUSSIAN ROUBLES, EXCEPT NUMBER OF SHARES)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	5.7	219,972	169,842	138,263
Cost of sales	8	(102,432)	(88,917)	(88,036)
<b>Gross profit</b>		<b>117,540</b>	<b>80,925</b>	<b>50,227</b>
Government grants		378	1,985	2,737
Selling, general and administrative expenses	9	(55,416)	(37,915)	(28,537)
Impairment of property, plant and equipment, goodwill and intangible assets	13,14,16	(1,407)	(2,396)	(787)
Research and development costs		(228)	(1,492)	(1,609)
Other operating income	10	569	300	327
Other operating expenses	10	(2,842)	(2,003)	(1,744)
<b>OPERATING PROFIT</b>		<b>58,594</b>	<b>39,404</b>	<b>20,614</b>
Finance income	11	2,933	852	637
Finance costs	11	(7,340)	(5,436)	(5,184)
Loss from associates and joint ventures	17	–	(251)	(338)
Foreign exchange (losses)/gains		(222)	(4,987)	(1,181)
<b>PROFIT BEFORE INCOME TAX</b>		<b>53,965</b>	<b>29,582</b>	<b>14,548</b>
Income tax expense	12	(11,767)	(8,870)	(5,075)
<b>PROFIT FOR THE YEAR</b>		<b>42,198</b>	<b>20,712</b>	<b>9,473</b>
Attributable to:				
The shareholders of the Company		37,951	19,802	9,077
Non-controlling interests		4,247	910	396
Other comprehensive income/(loss)				
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Revaluation of available-for-sale securities		16	11	(49)
Income tax effect		(3)	(2)	10

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>NET OTHER COMPREHENSIVE INCOME/(LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>		<b>13</b>	<b>9</b>	<b>(39)</b>
Items not to be reclassified to profit or loss in subsequent periods:				
Actuarial incomes/(losses) on defined benefit plans		(308)	481	(55)
Income tax effect		62	(94)	11
<b>NET OTHER COMPREHENSIVE INCOME/(LOSS) NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>		<b>(246)</b>	<b>387</b>	<b>(44)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX</b>		<b>(233)</b>	<b>396</b>	<b>(83)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX</b>		<b>41,965</b>	<b>21,108</b>	<b>9,390</b>
Attributable to				
The shareholders of the Company		37,746	20,163	9,002
Non-controlling interests		4,219	945	388
Weighted average number of ordinary shares		96,768,778	95,273,116	95,273,116
Basic and diluted earnings per share		0.00039	0.00021	0.00010



A.A. Mikheev  
General Director

These consolidated financial statements were approved  
by management on 19 April 2016



S.S. Zheltikov  
Director on Finance  
and Economy

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	64,520	53,247	45,812
Goodwill	14	854	780	943
Intangible assets	15	11,861	12,658	12,608
Investments in associates and joint ventures	17	–	–	251
Trade receivables	18	3,437	741	318
Prepayments	19	2,230	653	2,366
Other financial assets	20	254	185	208
Available-for-sale securities	21	811	806	808
Deferred tax assets	22	2,610	793	898
		<b>86,577</b>	<b>69,863</b>	<b>64,212</b>
<b>CURRENT ASSETS</b>				
Inventories	23	62,798	47,065	36,431
Amounts due from customers under construction contracts	24	35,210	22,864	15,876
Trade receivables	18	22,789	18,091	19,383
Prepayments	19	43,465	28,847	24,054
Income tax receivable		130	446	601
Other taxes receivable	25	10,988	6,608	5,822
Other receivables	19	6,261	5,532	2,810
Other financial assets	20	517	842	563
Cash and cash equivalents	26	65,746	31,764	16,024
		<b>247,904</b>	<b>162,059</b>	<b>121,564</b>
Assets held for sale	27	827	–	–
<b>TOTAL ASSETS</b>		<b>335,308</b>	<b>231,922</b>	<b>185,776</b>

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>EQUITY AND LIABILITIES</b>				
<b>CAPITAL AND RESERVES</b>				
Share capital	28	101	95	95
Additional paid-in capital		13,185	8,567	8,567
Retained earnings and other reserves		81,210	49,970	30,966
<b>ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>		<b>94,496</b>	<b>58,632</b>	<b>39,628</b>
Non-controlling interests		11,583	4,538	2,867
		<b>106,079</b>	<b>63,170</b>	<b>42,495</b>
<b>NON-CURRENT LIABILITIES</b>				
Loans and borrowings	29	57,681	55,333	47,681
Obligations under finance leases, net of current portion	30	129	87	129
Retirement benefits obligations	31	1,786	1,418	1,033
Provisions	32	515	458	378
Deferred tax liabilities	22	4,406	1,688	1,402
Advances received	33	19,597	–	–
		<b>84,114</b>	<b>58,984</b>	<b>50,623</b>
<b>CURRENT LIABILITIES</b>				
Loans and borrowings	29	62,865	40,882	34,437
Obligations under finance leases, current portion	30	104	63	71
Trade payables	38	7,421	5,294	4,358
Advances received	33	28,528	26,252	13,661
Other payables	34	21,590	13,162	10,447
Amounts due to customers under construction contracts	24	17,123	16,749	25,546
Income tax payable		1,555	3,294	930
Other taxes payable	25	3,329	2,988	2,681
Provisions	32	2,600	1,084	527
		<b>145,115</b>	<b>109,768</b>	<b>92,658</b>
<b>TOTAL LIABILITIES</b>		<b>229,229</b>	<b>168,752</b>	<b>143,281</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>335,308</b>	<b>231,922</b>	<b>185,776</b>

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A.A. Mikheev  
General Director



S.S. Zheltikov  
Director on Finance  
and Economy

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN MILLIONS OF RUSSIAN ROUBLES)

	Share	Additional paid-in capital	Retained earnings	Revaluation of available-for-sale securities	Actuarial losses on defined benefit plans	Total equity attributable to the shareholders	Non-controlling interests	Total
<b>BALANCE AT 1 JANUARY 2013</b>	95	8,567	22,563	(66)	(47)	31,112	2,273	33,385
Profit for the year	-	-	9,077	-	-	9,077	396	9,473
Other comprehensive income (loss) for the year	-	-	-	(31)	(44)	(75)	(8)	(83)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	-	9,077	(31)	(44)	9,002	388	9,390
Dividends	28	-	(916)	-	-	(916)	(138)	(1,054)
<b>INCREASE IN OWNERSHIP IN SUBSIDIARIES:</b>								
AO Reductor PM	-	-	234	-	-	234	(331)	(97)
<b>DECREASE IN OWNERSHIP IN SUBSIDIARIES:</b>								
AO Kamov	-	-	236	-	-	236	(100)	136
AO Kumertau Aviation Production Enterprise	-	-	284	-	-	284	(131)	153
AO Rostvertol	-	-	(324)	-	-	(324)	906	582
<b>BALANCE AT 31 DECEMBER 2013</b>	95	8,567	31,154	(97)	(91)	39,628	2,867	42,495

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(IN MILLIONS OF RUSSIAN ROUBLES)

	Share capital	Additional paid-in capital	Retained earnings	Revaluation of available-for-sale securities	Actuarial losses on defined benefit plans	Total equity attributable to the shareholders	Non-controlling interests	Total
<b>BALANCE AT 1 JANUARY 2014</b>	95	8,567	31,154	(97)	(91)	39,628	2,867	42,495
Profit for the year	-	-	19,802	-	-	19,802	910	20,712
Other comprehensive income (loss) for the year	-	-	-	9	352	361	35	396
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	-	19,802	9	352	20,163	945	21,108
Dividends	28	-	(975)	-	-	(975)	(453)	(1,428)
<b>ADDITIONAL SHARES ISSUE:</b>								
AO Arsenyev Aviation Company PROGRESS	-	-	(95)	-	-	(95)	626	531
AO Ulad-udensky aviaional plant	-	-	57	-	-	57	203	260
AO Rostvertol	-	-	(138)	-	-	(138)	374	236
<b>INCREASE IN OWNERSHIP IN SUBSIDIARIES:</b>								
AO MIL Moscow Helicopter Plant	-	-	(13)	-	-	(13)	(9)	(22)
AO Rostvertol	-	-	5	-	-	5	(15)	(10)
<b>BALANCE AT 31 DECEMBER 2014</b>	95	8,567	49,797	(88)	261	58,632	4,538	63,170

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A.A. Mikheev  
General Director



S.S. Zheltikov  
Director on Finance  
and Economy

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	Share capital	Additional paid-in capita	Retained earnings	Revaluation of available-for-sale securities	Actuarial losses on defined benefit plans	Total equity attributable to the shareholders	Non-controlling interests	Total
<b>BALANCE AT 1 JANUARY 2015</b>		95	8,567	49,797	(88)	261	58,632	4,538	63,170
Profit for the year		–	–	37,951	–	–	37,951	4,247	42,198
Other comprehensive income (loss) for the year		–	–	–	13	(218)	(205)	(28)	(233)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		–	–	37,951	13	(218)	37,746	4,219	41,965
Increase due to the exchange of our own shares with AO «OPK Oboronprom»		2	1,505	–	–	–	1,507	–	1,507
Increase due to the exchange of our own shares with GC «Rostec» and acquisitions of subsidi		4	3,113	–	–	–	3,117	277	3,394
Dividends	28	–	–	(4,372)	–	–	(4,372)	(520)	(4,892)
<b>ADDITIONAL SHARES ISSUE:</b>									
AO Ulad-udensky aviaional plant		–	–	315	–	–	315	180	495
AO Arsenyev Aviation Company PROGRESS		–	–	749	–	–	749	(97)	652
AO Stupino Machine Production Plant		–	–	230	–	–	230	809	1,039
PAO Rostvertol		–	–	(428)	–	–	(428)	1,545	1,117
PAO Kazan Helicopter Plant		–	–	1,191	–	–	1,191	465	1,656
AO MIL Moscow Helicopter Plant		–	–	258	–	–	258	(72)	186
<b>INCREASE IN OWNERSHIP IN SUBSIDIARIES:</b>									
AO Ulad-udensky aviaional plant		–	–	(285)	–	–	(285)	2	(284)
AO Arsenyev Aviation Company PROGRESS		–	–	(827)	–	–	(827)	–	(827)
AO Kamov		–	–	(516)	–	–	(516)	243	(273)
AO Stupino Machine Production Plant (Stupino)		–	–	(354)	–	–	(354)	(655)	(1,009)
PAO Kazan Helicopter Plant		–	–	(1,336)	–	–	(1,336)	–	(1,336)
AO Kumertau Aviation Production Enterprise		–	–	(804)	–	–	(804)	649	(155)
AO MIL Moscow Helicopter Plant		–	–	(327)	–	–	(327)	–	(327)
<b>BALANCE AT 31 DECEMBER 2015</b>		101	13,185	81,242	(75)	43	94,496	11,583	106,079

## CONSOLIDATED STATEMENT OF CASH FLOWS

(IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>OPERATING ACTIVITIES</b>				
<b>PROFIT FOR THE YEAR</b>		42,198	20,712	9,473
<b>ADJUSTMENTS TO RECONCILE PROFIT FOR THE YEAR TO NET CASH FLOWS:</b>				
Income tax expense		11,767	8,870	5,075
Finance income and costs, net	11	4,407	4,584	4,547
Depreciation and amortisation		5,765	5,160	4,863
Impairment of property, plant and equipment, goodwill and intangible assets	13,14, 16	1,407	2,396	787
Foreign exchange losses/(gains), net		222	4,987	1,181
Change in allowance for doubtful receivables		825	2,923	517
Write-down of inventories to net realisable value		2,184	621	539
Change in provisions and retirement obligations		198	115	448
Loss on disposal of property, plant and equipment		(160)	305	378
Gain on disposal of a subsidiary		–	–	(179)
Loss from associates and joint ventures	17	–	251	338
Other		90	–	–
		68,903	50,924	27,967
<b>MOVEMENTS IN WORKING CAPITAL:</b>				
Increase in inventories		(14,278)	(11,255)	(6,853)
(Increase)/decrease in amounts due from customers under construction contracts		(9,978)	(9,511)	994
(Increase)/decrease in trade and other receivables		(6,257)	964	(11,176)
(Increase)/decrease in prepayments		(16,893)	(3,101)	(3,086)
(Increase)/decrease in other taxes receivable		(4,380)	(786)	54
Increase in trade and other payables		8,397	6,355	1,758
Increase/(decrease) in advances received		19,735	12,926	4,819
Increase/(decrease) in amounts due to customers under construction contracts		374	(8,797)	12,623

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)


(IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Increase/(decrease) in provisions and other employee benefit obligations		1,437	1,157	137
Increase in other taxes payable		181	347	184
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>47,241</b>	<b>39,223</b>	<b>27,421</b>
Interest paid		(9,426)	(4,600)	(5,798)
Government grants - compensation of finance costs		1,176	598	453
Income tax paid		(12,289)	(5,960)	(5,494)
<b>NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES</b>		<b>26,702</b>	<b>29,261</b>	<b>16,582</b>
Purchases of property, plant and equipment		(15,779)	(13,162)	(8,260)
Proceeds from disposal of property, plant and equipment		1,649	748	474
Purchases and costs to develop intangible assets		(3,579)	(7,420)	(7,927)
Government grants – compensation of capitalised development costs	15	1,951	4,470	1,935
Loans provided		(371)	(544)	(386)
Loans repaid		486	239	96
Purchases of other financial assets		(25)	(4)	(70)
Proceeds from sale of other financial assets		167	53	249
Contribution to share capital of associate		–	–	(570)
Disposal of subsidiaries, net of cash on the balance sheets of subsidiaries		–	–	(294)
Interest received	11	1,183	852	637
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(14,318)</b>	<b>(14,768)</b>	<b>(14,116)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from loans and borrowings		81,690	51,669	75,019
Repayments of loans and borrowings		(66,790)	(52,262)	(71,940)
Principal repayments of obligations under finance leases		(146)	(90)	(276)
Acquisitions of non-controlling interests in subsidiaries		(653)	(34)	(96)
Proceeds from sale of non-controlling interests in subsidiaries		–	–	–
Advances received from AO OPK Oboronprom as contribution to share capitals of the Group's subsidiaries		112	652	953

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Contribution to share capitals of the Group's subsidiaries by AO OPK Oboronprom		1,289	–	547
Dividends paid by the Company to the shareholders		(723)	(975)	(1,384)
Dividends paid to non-controlling shareholders		(528)	(448)	(136)
<b>NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES</b>		<b>14,251</b>	<b>(1,488)</b>	<b>2,687</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>26,635</b>	<b>13,007</b>	<b>5,153</b>
Effect of foreign exchange rate changes on cash and cash equivalents		7,347	2,733	161
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>31,764</b>	<b>16,024</b>	<b>10,710</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>65,746</b>	<b>31,764</b>	<b>16,024</b>


A.A. Mikheev  
General Director

These consolidated financial statements were approved  
by management on 19 April 2016


S.S. Zheltikov  
Director on Finance  
and Economy

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Joint Stock Company Russian Helicopters (the «Company») was established on 9 January 2007 as a wholly-owned subsidiary of AO OPK Oboronprom («Oboronprom»),

a Russian state-controlled aerospace holding company. The share of «Oboronprom» on 31 December 2015 is 94.6% based with nominal holders.

### THE ENTITIES INCLUDED IN THE GROUP ARE AS FOLLOWS:

Entity and its location	Nature of business	31 December 2015		31 December 2014		31 December 2013	
		(1)	(2)	(1)	(2)	(1)	(2)
<b>ASSOCIATED COMPANY</b>							
JSC Russian Helicopters	Management company	–	–	–	–	–	–
<b>GROUP SUBSIDIARIES</b>							
PAO Kazan Helicopter Plant (Kazan)	Producer of helicopters: Mi-8, Mi-17, Ansat	98.3	98.3	99.6	100	99.6	100
PAO Rostvertol (Rostov-on-Don)	Producer of helicopters: Mi-24, Mi-26, Mi-28, Mi-35	73.9	73.9	81.5	81.5	84.2	84.2
AO Ulan-Ude Aviation Plant (Ulan-Ude)	Producer of helicopters: Mi-8, Mi-17	98.4	98.4	99.1	99.1	100	100
AO Kumertau Aviation Production Enterprise (Kumertau)	Producer of helicopters: Ka-28, Ka-31, Ka-32, Ka-226	100	100	90.8	90.8	90.8	90.8
PAO Arsenyev Aviation Company PROGRESS (Arsenyev)	Producer of helicopters: Ka-50, Ka-52, producer of military missile systems	85.1	85.1	79.2	79.2	93.4	93.4
AO MIL Moscow Helicopter Plant (Moscow)	Engineering centre (for helicopters brand Mi)	79	80.8	73.1	75.3	74.6	80.7
OAO KAMOV (Moscow)	Engineering centre (for helicopters brand Ka)	99.8	99.8	90.4	90.4	90.4	90.4

Entity and its location	Nature of business	31 December 2015		31 December 2014		31 December 2013	
		(1)	(2)	(1)	(2)	(1)	(2)
AO Stupino Machine Production Plant (Stupino)	Producer of helicopter allied products (for helicopter brands Mi and Ka)	68.3	69.3	60	61.1	61.1	80.5
AO Reductor-PM (Perm)	Producer of helicopter allied products (for helicopter brands Mi and Ansat)	100	100	100	100	100	100
ZAO Ulan-Ude Blade Plant (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	98.4	98.4	99.1	99.1	100	100
AO Helicopter Innovation industrial Company (Ulan-Ude)	Producer of helicopter allied products (for helicopter brand Mi)	98.4	98.4	99.1	99.1	100	100
AO Novosibirsk Aircraft Repair Plant (Novosibirsk)	Helicopter repair and maintenance services (for helicopter brand Mi)	95.1	95.1	95.1	95.1	95.1	95.1
AO Helicopter Service Company (Moscow)	Supplier of materials and spare parts	100	100	100	100	100	100
ZAO Company Rostvertol-Avia (Rostov-on-Don)	Helicopter services supplier	73.9	73.9	81.5	81.5	84.2	84.2
OOO Purchase and Logistic Center of the Helicopter Industry (Moscow)	Supplier of materials and spare parts	100	100	100	100	100	100
OOO Mezhdunarodnie Vertoletnie Programmy (Moscow)	Holding company	100	100	100	100	100	100
AO 12 Aircraft Repair Plant	Helicopter repair and maintenance services	99.9	99.9	–	–	–	–
AO 150 Aircraft Repair Plant	Helicopter repair and maintenance services	99.9	99.9	–	–	–	–
AO 419 Aircraft Repair Plant	Helicopter repair and maintenance services	99.9	99.9	–	–	–	–
AO 810 Aircraft Repair Plant	Helicopter repair and maintenance services	99.9	99.9	–	–	–	–
AO 356 Aircraft Repair Plant	Helicopter repair and maintenance services	69.85	69.85	–	–	–	–
<b>JOINT VENTURES</b>							
ZAO HeliVert (Moscow)	Producer of helicopters AW	50	50	50	50	50	50

(1) Legal ownership interest  
(2) Effective ownership interest

## 1. GENERAL INFORMATION (continued)

The Company and its subsidiaries (hereinafter - the Group) is the producer of civil and military helicopters and includes engineering centres and production plants which produce the full spectrum of helicopters under the Mi, Ka and Ansat brands. The Group products are sold in the Russian Federation

and internationally. The most significant production, engineering and service operations of the Group are incorporated within the Russian Federation.

The head office of the Company is located at: 12 Krasnopresnenskaya naberezhnaya, Moscow, 123610, Russian Federation.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared on the basis of the requirements of the Federal Law of 27 July, 2010 № 208-FZ «On consolidated financial statements» in accordance with International Financial Reporting Standards («IFRS»), recognized in the Russian Federation.

These consolidated financial statements are presented in Russian Roubles («RUB»), unless otherwise indicated.

The entities of the Group maintain their accounting records in Russian Rouble in accordance with the laws, accounting and reporting regulations of the Russian Federation, where the majority of the Group's entities are incorporated.

### BASIS OF PRESENTATION

The consolidated financial statements have been prepared on the historical cost basis except as disclosed in the accounting policy below.

### BASIS OF CONSOLIDATION

The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the Group controls

an investee if and only if the investor has all the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income or loss of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, when necessary; adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### BUSINESS COMBINATIONS WITH THIRD PARTIES

Acquisitions of subsidiaries and businesses from third parties are accounted for using the acquisition method.

The consideration transferred in each business combination is measured at aggregate acquisition-date fair value of the assets given, liabilities incurred or assumed and equity instruments issued by the Group, if any, in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes any assets or liabilities resulting from a contingent consideration arrangement, they are measured at the acquisition-date fair value and included in the consideration transferred in a business combination. Subsequent changes in the fair value of the contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments arising from additional information obtained during the measurement period, which cannot exceed twelve months from the acquisition date, about facts and circumstances that existed at the acquisition date. Contingent consideration classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is measured at subsequent reporting dates in accordance with the relevant IFRSs.

When business combination is achieved in stages, the Group's previously held equity interest in the acquiree is measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and

the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from the interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interests were disposed of.

At the acquisition date, the acquiree's identifiable assets acquired and the liabilities, meeting the recognition criteria of IFRS 3, are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit obligations are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment transactions of the Group entered into to replace share-based payment transactions of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal group) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5. Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amount of identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree. Then the Company reassess whether it has correctly identified and measured all the assets acquired and all liabilities assumed, if after such reassessment excess is confirmed it is recognised in profit or loss as bargain purchase gain after additional analysis.

### BUSINESS COMBINATIONS WITH THIRD PARTIES (CONTINUED)

Non-controlling interests, identified separately from the Group's equity, may be initially measured either: (i) at fair value; or (ii) at the non-controlling interests' share of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Subsequent to acquisition, the non-controlling interests carrying amount is the amount at initial recognition, plus the non-controlling interests' share of changes in equity. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### THE ACQUISITION OF COMPANIES UNDER COMMON CONTROL OF THE GROUP

Assets and liabilities of businesses acquired from companies under common control of the Group are recorded at the carrying amounts recognized in the financial statements of the transmitting side. The difference, if any, between the carrying value of net assets acquired and the consideration paid is recorded as an adjustment to equity. The net assets from the subsidiaries, and the results of their activities are taken into account from the time when the

transmission side has been obtained control of the subsidiary.

### CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholder of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### GOODWILL

Goodwill arising on an acquisition of a business as described in paragraphs Business combinations with third parties above is carried at cost as established at the acquisition date less accumulated impairment loss, if any.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets, and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale and accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (or disposal group) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### FOREIGN CURRENCY TRANSACTIONS

The functional currency of the Company and its subsidiaries registered and operating on the territory of the Russian Federation is the Russian Rouble («RUB»). Transactions in currencies other than the functional currency («foreign currencies») are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at that date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the statement of comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange rates for the currencies in which the Group transacts were as follows:

	31 December 2015	31 December 2014	31 December 2013
<b>CLOSING EXCHANGE RATES AT THE END OF THE YEAR – RUB</b>			
1 U.S. Dollar ("USD")	72.88	56.26	32.73
1 Euro	79.70	68.34	44.97
<b>AVERAGE EXCHANGE RATES FOR THE YEAR ENDED – RUB</b>			
1 U.S. Dollar	61,32	38.60	31.91
1 Euro	67.99	50.99	42.40

**REVENUE RECOGNITION**

The Group derives revenue from the sale of manufactured helicopters, helicopter repair and maintenance services, research and development works and manufacturing of other products, such as helicopter spare parts. Revenue is recognised to the extent that it is probable that the economic benefit arising from the ordinary activities of the Group will flow to the Group, it can be measured reliably, and that the recognition criteria as stated below have been met. Revenue is measured at the fair value of the consideration received or receivable after deducting any discounts, rebates and value added tax.

**Revenue from helicopter manufacturing**

The Group accounts its helicopter manufacturing business as construction contracts with customers.

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included

to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a construction contract cannot be estimated reliably (for example during the early stages of a construction contract), contract revenue is recognised to the extent of contract costs incurred when it is deemed probable they will be recoverable and contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised as an expense immediately.

The Group presents the amount due from customers under the construction contracts as an asset and the amount due to customers under the construction contracts as a liability in the statement of

financial position. The amount due from customers is the amount of construction costs incurred plus recognised profits less the sum of recognised losses and progress billings for all construction contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The amount due to customers is the amount of construction costs incurred plus recognised profits less the sum of recognised losses and progress billings for all construction contracts

in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

The Group is required to export its military helicopters through OAO Rosoboronexport («Rosoboronexport»). Rosoboronexport charges a commission for this service. The Group recognises the commission expense upon revenue recognition and records the commission fee within Selling, general and administrative expenses.

**Revenue from helicopter repair and maintenance services, and research and development works**

Revenue from long-term contracts to provide these services is recognised by reference to the stage of completion of the contract at the end of the reporting period, determined based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

**Revenue from manufacturing of other products**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
  - the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
  - the amount of revenue can be measured reliably;
  - it is probable that the economic benefits associated with the transaction will flow to the Group; and
  - the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- The transfer of risks to the buyer is

based on the shipping conditions, and is generally at the time of shipment.

**Dividend and interest income**

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**LEASES**

Leases are classified as finance leases whenever the contract terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Operating lease – the Group as lessor**

Rental and sub-rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging lease are added to the carrying amount of the leased asset and recognised in profit or loss on a straight-line basis over the lease term.

**Operating lease – the Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised in profit or loss in the period in which they are incurred.

**Finance lease – the Group as lessee**

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception date of the lease or, if lower, at present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss.

**BORROWING COSTS**

Net borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until they are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in the year in which they are incurred.

**INCOME TAX**

Income tax represents the sum of the income tax currently payable (recoverable) and deferred tax expense (income).

**Current income tax**

Current income tax has been computed in accordance with the Russian Federation tax law. Income tax currently payable is based on taxable

profit for the year, which differs from profit as reported in the statement of comprehensive income/(loss) as it excludes items of income or expense that are taxable or deductible in other years or excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using enacted tax rates by the end of the reporting period.

**Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and calculated on an entity basis. Deferred tax assets arising from tax losses are recognised as an asset only where there was assurance beyond any reasonable doubt that future taxable income would be sufficient to allow the benefit of the loss to be realised. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such tax assets and liabilities are not recognised if the related temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition to that, deferred tax liabilities are not recognised if the related tax difference arises from recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group

is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised. The measurement of deferred tax liabilities and assets reflects tax consequences that would follow from the manner in which the Group expected, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Financial result from disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the asset, and is recognised within Other operating expenses in the consolidated statement of comprehensive income/(loss).

**Depreciation**

Depreciation is recognised in profit or loss (unless it is included in the carrying amount of another asset) on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the entities of the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives of major classes of property, plant and equipment are as follows:

Buildings	10–60 years
Machinery and equipment	7–35 years
Transport	2–40 years
Other assets	2–25 years

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

**INTANGIBLE ASSETS****Intangible assets acquired separately**

Separately acquired intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses. These intangible assets primarily represent various purchased software.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Purchased software	2–10 years
Other	2–5 years

The estimated useful lives and amortisation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

**Internally-generated intangible assets**

Costs for self-initiated research and development activities are assessed as to whether they qualify for recognition as internally-generated intangible assets.

Apart from complying with the general requirements for and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably.

It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocable to a specific product. Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalised. Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only.

Capitalised development costs are generally amortised over the estimated number of units produced. In case the number of units produced cannot be estimated reliably,

capitalised development costs are amortised over the estimated useful life. Amortisation of capitalised development costs is recognised in Cost of sales. Internally-generated intangible assets are reviewed for impairment annually when the asset is not yet in use and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment loss, on the same basis as intangible assets that are acquired separately.

**IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the assets do not generate cash flows

that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (group of units) to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell or value

in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

**INVENTORIES**

Inventories are stated at the lower of cost or net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, the impairment charged to reduce the carrying amount of inventories to their net realisable value and included in the consolidated statement of comprehensive income as Cost of sales.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents is comprised of cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**FINANCIAL ASSETS**

Financial assets are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specific categories: (i) available-for-sale («AFS»), (ii) held-to-maturity, and (iii) loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

**AFS financial assets**

AFS financial assets are stated at fair value. The fair value for AFS financial assets with standard terms and conditions that are traded in active market is determined based on quoted market prices.

If the market for AFS financial assets is not active, the fair value is determined by using a valuation technique.

Gain and losses arising from changes in fair value are recognised in the consolidated statement of comprehensive income in other comprehensive income and accumulated in the investments revaluation reserve. Where the investment is disposed of or determined to be impaired, the cumulative gain or loss on revaluation previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Held-to-maturity investments

Promissory notes with fixed or determinable payments and fixed maturity dates for which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less accumulated impairment losses, if any. Interest income is recognised using the effective interest method.

### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flows of the investment have been affected as a result of one or more loss events that occurring after initial recognition of the financial asset.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on

that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

For other financial assets objective evidence of impairment could include:

- significant financial difficulty of the counterparty;
- default or delinquency in interest or principle payments; or
- it becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When trade and other receivables are uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised

cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### FINANCIAL LIABILITIES

Financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### PROVISIONS AND CONTINGENCIES

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under such contract.

#### Warranty provisions

The Group provides warranties in connection with the sale of helicopters.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group generally warrants its new helicopters to be free from defects in materials and workmanship appearing within one to three and a half years from the date of delivery or during the first three hundred to one thousand hours of operation, whichever event occurs first. The warranty provision is recorded at the time when helicopters are shipped to customer based on the best estimate of the expected future costs. The warranty expense is included within Selling, general and administrative expenses in the statement of comprehensive income.

### Contingencies

Contingent liabilities are not recognised in these consolidated financial statements unless they arise as a result of a business combination. Contingencies attributable to specific events are disclosed unless the possibility of an outflow or resources embodying economic benefit is remote.

Contingent assets are not recognised in these consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

### GOVERNMENT GRANTS

Deferred income attributable to the grants obtained from the Government is not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be receivable.

The Group receives Government grants for partial compensation of development costs capitalised within intangible assets and recognises the amounts of government grants received as a deduction from the full amount of development costs incurred.

As part of such supporting programs the Government also compensates for a portion of

overhead expenses associated with the execution and monitoring of such projects, which are presented within selling, general and administrative expenses. Government grants that are receivable as compensation for overhead expenses already incurred are recognised in profit or loss in the period in which they become receivable, and are recorded within Government grants.

The Group receives Government grants for compensation of finance costs on borrowings used by the Group for helicopter manufacturing and research and development expenses. Government grants that are receivable as compensation for finance costs already incurred are recognised in profit or loss in the period in which they become receivable, and are recorded as an offset of the Finance costs.

### EMPLOYEE BENEFIT OBLIGATIONS

Employee benefits provided by the Group include salaries, bonuses, anniversary payments, monthly payments and other compensation and benefits (i.e. transport, welfare, etc.), a one-time payment upon death, a one-time payment on retirement of the employee as well as contributions to the state and non-state pension funds.

Remuneration to employees in respect of services rendered during the reporting period, including accruals for vacation and bonuses and the related social security taxes, as well as other short-term benefits are recognised as an expense in the period when they are incurred.

### Defined contribution plans

The Group's entities are legally obliged to make defined contributions to the Russian Federation State Pension Fund, a defined contribution plan. The Group's contributions to the Russian Federation State Pension Fund are

recorded as an expense over the reporting period based on the related employee service rendered.

### Defined benefit plans

The Group's entities operate a number of unfunded defined benefit plans for its employees. Under these plans employees are entitled to the following payments:

- an one-time payment upon death that equals actual funeral expenses but is limited to twice monthly employee's monthly salary;
- an one-time payment on retirement, which is generally in line with the employee's base salary at the date of retirement.

For defined benefit plans, the cost of providing benefits is determined using the Project Unit Credit Method, with actuarial valuations being carried out as at 31 December 2015, 2014 and 2013. Actuarial gains and losses are recognised in other comprehensive income and are not reclassified subsequently to profit or loss. Expected returns on plan assets are no longer recognised in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss calculated using the discount rate applied to measure the defined benefit obligation. Unvested past service costs are recognised in profit or loss at the earlier of when the defined benefit plan is changed or when the related restructuring costs or termination benefits are recognised.

### DIVIDENDS

Dividends and the related taxes are recognised as a liability in the period in which they have been declared and become legally payable. Dividends may only be paid out of legally distributable accumulated profits, which are based on the amounts available for

distribution in accordance with the applicable legislation and as reflected in the standalone statutory financial statements of the Group entities. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

When the Group accounts granted put options to non-controlling interest shareholders of a subsidiary as liability, any dividends paid to the other shareholders are recognised as Finance cost of the Group, unless they represent a repayment of the liability.

### CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### New and amended standards and interpretations

New standards and interpretations, as well as amendments to the existing standards and interpretations, adopted by the Group for the first time

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for adoption of new standards and amendments to standards and interpretations effective for annual periods beginning on 1 January 2015.

Application of following new standards and amendments to standards and interpretations does not have impact on the Group's consolidated financial statements:

- Amendment to IFRS (IAS) 19, «Employee Benefits» - contributions of employees
- Annual improvements 2010-2012
- Annual improvements 2011-2013.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### REVENUE RECOGNITION ON CONSTRUCTION CONTRACTS

As described in the revenue recognition policy, the Group accounts for construction projects using the percentage of completion method. Critical to the correct application of this method are the accuracy of estimates of the financial outcome at completion, as well as the determination of the extent of progress towards completion.

In estimating the percentage of completion, the Group compares the estimated total cost of the project to the costs incurred to date. The total estimated cost is based on historical experience for similar projects, the remaining effort to complete the contract, and various other assumptions.

The Group has not historically had significant changes in its estimates of total costs during a project. To

the extent there is such a change, the amount of revenue and costs recognised in future periods may vary and if the total estimated costs exceed the total revenue a loss would be recorded at the time such loss is revealed.

#### VALUATION OF TRADE AND OTHER RECEIVABLES

Trade receivables and other receivables are stated at their net realisable value after deducting the Group's best estimate of probable credit losses related to these assets.

In estimating the level of probable credit losses, management considers a number of factors, including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required. This may have a negative impact on the financial results if additional losses occur that were not anticipated in prior periods.

#### INVENTORY VALUATION

Inventory consists of finished goods, work-in-progress and raw materials which are stated at lower of cost or net realisable value. In assessing the net realisable value of its inventory, management estimates the net realisable value of finished goods and work-in-progress based on various assumptions including current market prices.

At each reporting date, the Group evaluates its inventory balance for excess quantities and obsolescence

and, if necessary, records an impairment to reduce inventory for obsolete and slow-moving raw materials and spare parts. This allowance requires assumptions related to future inventory use. These assumptions are based on inventory ageing, forecasted consumer demands, and technological obsolescence. Any changes in the estimates may impact the amount of the impairment for inventory that may be required.

#### USEFUL ECONOMIC LIFE AND RESIDUAL VALUE OF PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates.

The factors that could affect the estimation of the useful economic life of property, plant and equipment and its residual value include the following:

- changes in asset utilisation rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management annually reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in estimated useful life or residual value is recorded on a prospective basis from the date of the change.

#### DEVELOPMENT COSTS

Development costs are capitalised in

accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

#### IMPAIRMENT OF NON-FINANCIAL ASSETS

Management reviews the carrying amounts of assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit (group of units).

The assessment of whether there are indicators of a potential impairment are based on various assumptions including market conditions, asset utilisation and the ability to utilise the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater.

The value in use is based on estimated future cash flows that are discounted to their present value using a pre-tax discount rate. The estimated future cash flows require management to make a number of assumptions including customer demand and industry capacity, future growth rates and the appropriate discount rate. Any change in these estimates may result in impairment in future periods.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The recoverable amounts of the CGUs, including allocated goodwill and intangible assets not in use, have been determined on a basis of value in use calculations for which the most significant estimates and assumptions are as follows:

- Cash flows were projected based on the budgeted amounts approved by senior management;
- Growth rate estimates – Growth rates in terminal period are based on published industry research and analysis of the specific environment of CGUs;
- A pre-tax discount rate was determined by adjusting the Weighted Average Cost of Capital for the risks specific to the respective CGUs;
- Raw materials price inflation – Estimates are obtained from published indices. Forecast figures are used if data is publicly available otherwise past actual raw material price movements are used as an indicator of future price movements;

- Production volumes/capacity – Estimated production volumes are based on detailed development plans agreed by management as part of the long-term planning process including forecasts on production of new types of the models which, inter alia, depends on outcome of certain tendering procedures.

#### EMPLOYEE BENEFIT OBLIGATIONS

The Group's recognition of the unfunded retirement benefit obligations for defined benefit plans depends on a number of significant actuarial assumptions relating to:

- discount rate;
- inflation;
- projected salary and pension increase;
- mortality rates; and
- participants turnover rate.

These assumptions are determined based on the current market conditions, historical information and through consultation with the Group's actuaries. Changes in the key assumptions can have a significant impact of on the projected benefit obligations, funding requirements and periodic pension costs incurred.

#### WARRANTY PROVISION

The Group provide warranties related to its manufacture and repair of helicopters and aviation equipment and record a warranty provision at the time of sale. Estimated warranty costs represent the contractual warranty, which provides against any defects in materials and workmanship appearing within one to three and a half years from the date of delivery, or during the first three hundred to one thousand hours of operation (whichever event occurs first).

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Warranty provisions are estimated based on historical claims statistics, the warranty period, the average time-lag between faults occurring and claims to the Group and anticipated changes in quality indexes, future expectations. Differences between actual warranty claims and the estimated claims will impact the recognised expense and provisions in future periods. Refunds from suppliers, that decrease the Group's warranty costs, are recognised to the extent these are considered to be certain.

If actual results are not consistent with the assumptions and estimates used, the Group may be exposed to additional adjustments that could materially, either positively or negatively, impact the Group's profit. Adjustments to the Group's profit have historically not been material.

#### CONTINGENCIES

##### Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims

and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future results of the Group.

##### Tax contingencies

The Group is subject to income tax and other taxes in accordance with the legislation of the Russian Federation. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation in the Russian Federation. There are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on management's estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

##### Recognition of deferred tax assets

Deferred tax assets are assessed each period for recoverability and adjusted, as necessary, based on whether it is probable the Group will generate sufficient profits in future periods to utilise the assets. Various factors are considered in assessing the probability of future utilisation including past operating results, operational plans, expiration of tax losses carry-forwards and tax planning strategies. If the actual results differ from these estimates or if these estimates are adjusted in future periods, the result of operations may be impacted in those periods.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The Company is currently assessing the impact of the new standards and amendments on the consolidated financial statements.

### **IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. September 11, 2015, the International Accounting Standards Board (IASB) issued an official confirmation of transfer of the effective date of IFRS (IFRS) 15 «Revenue from Contracts with Customers» on January 1, 2018.

### **IFRS 11 JOINT ARRANGEMENTS (AMENDMENT)**

The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 Business Combinations, for such acquisitions. The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

### **IAS 16 PROPERTY, PLANT AND EQUIPMENT, AND IAS 38 INTANGIBLE ASSETS (AMENDMENTS)**

The amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets, entitled Clarification of Acceptable Methods of Depreciation and Amortization. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

### **IFRS 9 FINANCIAL INSTRUMENTS**

The final version of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

### **AMENDMENTS TO IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS AND IAS 28 INVESTMENTS IN ASSOCIATES (AMENDMENTS)**

The issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These narrow scope amendments clarify, that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

### **AMENDMENTS TO IAS 19 EMPLOYEE CONTRIBUTIONS**

The amendments to IAS 19 Employee Benefits, entitled «Improvement». This amendment clarifies that the obligation to determine the discount rate must be based on high quality corporate bonds, denominated in the same currency as the liabilities of the plan.

In the absence of sufficiently developed market of high quality corporate bonds in a particular currency, a market yields (at the end of the reporting period) of government bonds denominated in this currency. This amendment is effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

## 5. SEGMENT INFORMATION

The reporting segments are as follows:

- Helicopters segment includes manufacturing of helicopters;
- Services and support segment includes manufacturing of spare parts for helicopters and providing of helicopter repair and maintenance services;
- Research and development segment includes the provision of research and development works mostly related to helicopter engineering and design.

In addition, the Group has various other operations that are not reported

separately and has certain corporate costs that are not included in the reportable segments.

These are included as reconciling item between the total reportable segments and the consolidated results.

### SEGMENT REVENUES

The following is the analysis of the Group's revenue for the years ended 31 December 2015, 2014 and 2013:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Helicopters	177,021	141,507	115,767
Services and maintenance	38,336	21,641	15,387
Research and development	2,183	397	85
Other	2,432	6,297	7,024
<b>TOTAL</b>	<b>219,972</b>	<b>169,842</b>	<b>138,263</b>

we segment revenue reported above represents revenue generated from external customers only. Inter-segment revenue primarily consists of sales of semi-products and research and development services for helicopters production.

### SEGMENT OPERATING RESULTS

The measure of segment profitability separately reported to the Chief Operating Decision Maker for purposes of allocating resources and assessing segment performance is measured based on segment adjusted EBITDA, which the Group defines as segment operating profit adjusted to exclude depreciation and amortization,

loss on disposal of property, plant and equipment and impairment on property, plant and equipment, goodwill and intangibles assets and to include the Group's share of financial results of associates and joint ventures. Since adjusted EBITDA is not a standard measure under IFRS, the Group's definition of adjusted EBITDA may differ from that of other companies.

The following represents the analysis of operating results measures by adjusted EBITDA and its reconciliation to the pre-tax operating profit/(loss) and profit/(loss) for the years ended 31 December 2015, 2014 and 2013:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>ADJUSTED EBITDA</b>			
Helicopters	48,053	39,894	23,169
Services and maintenance	16,114	6,208	2,999
Research and development	(306)	(812)	(716)
Other	1,745	1,724	852
<b>TOTAL ADJUSTED EBITDA</b>	<b>65,606</b>	<b>47,014</b>	<b>26,304</b>
Amortisation of property, plant and equipment and intangible assets	(5,765)	(5,160)	(4,863)
Loss on disposal of property, plant and equipment	160	(305)	(378)
Impairment allowance for property, plant and equipment, goodwill and intangible assets	(1,407)	(2,396)	(787)
Loss from associates and joint ventures	–	251	338
<b>OPERATING PROFIT PER IFRS FINANCIAL STATEMENTS</b>	<b>58,594</b>	<b>39,404</b>	<b>20,614</b>
Finance income	2,933	852	637
Finance costs	(7,340)	(5,436)	(5,184)
Share in results of associates and joint ventures	–	(251)	(338)
Foreign exchange (losses)/gains, net	(222)	(4,987)	(1,181)
<b>PROFIT BEFORE INCOME TAX PER IFRS FINANCIAL STATEMENTS</b>	<b>53,965</b>	<b>29,582</b>	<b>14,548</b>

### MAJOR CUSTOMERS

During the years ended 31 December 2015, 2014 and 2013, the Group's most significant customers are state-controlled bodies, such as the Ministry of Industry and Trade, the Ministry of Defence, the Ministry of Emergency Situations of the Russian Federation, the Ministry of Internal Affairs of Russian Federation and other (below – State customers). The Russian Federation state-controlled entities represent significantly more than 10% of the Group's consolidated revenue for each of the years presented.

### OTHER SEGMENT INFORMATION

Substantially all assets and production, management and administrative facilities of the Group are located in the Russian Federation.

Revenue by the geographical regions is disclosed in Note 7

## 6. BUSINESS COMBINATIONS AND CHANGES IN OWNERSHIP

### ACQUISITION OF SUBSIDIARIES DURING THE YEARS ENDED 31 DECEMBER 2015 AND 2014

26 August 2015 Group acquired 99.9% interest in share capital of the companies: JSC «810 Aircraft Repair Plant», JSC «419 Aircraft Repair Plant», JSC «150 Aircraft Repair Plant», JSC «12 Aircraft Repair Plant» and 69.85% of the company JSC «356 Aircraft Repair Plant» for

the total amount of remuneration under the contract of RUB 3,118 million. In these consolidated financial statements transactions reflected on the «purchase method» in accordance with IFRS 3 «Business Combinations», similar to the previous acquisitions of shares in other companies of the Group.

The fair value of aircraft repair plants at the acquisition date are as follows:

ASSETS	
Fixed assets	2,242
Cash and cash equivalents	644
Financial assets	186
Inventories	3,750
Accounts receivable	2,293
<b>TOTAL ASSETS</b>	<b>9,115</b>
LIABILITIES	
TRADE AND OTHER PAYABLES	
Advances received	(793)
Loans and borrowings	(4,082)
Provisions	(372)
Deferred tax liabilities	(272)
Total liabilities	(329)
<b>TOTAL NET ASSETS AT FAIR VALUE</b>	<b>(5,848)</b>
<b>TOTAL NET ASSETS AT FAIR VALUE</b>	<b>3,267</b>
Non-controlling interest at fair value	(277)
Goodwill arising on acquisition	128
Consideration transferred on acquisition	3,118

The assessment of the net assets at the acquisition date have been positive goodwill on JSC «356 ARP» in the amount of RUB 74 million (See Note 14.) At JSC «810 ARP» and JSC «419 ARP» is negative in the amount of RUB 443 million, which is recognized in the income period, JSC «150 ARP», JSC «12 ARZ» - written off in the amount of RUB 497 million.

15 July 2014 Group acquired 100% interest in share capital of OOO Information-consulting group «Infintrast» for cash consideration of RUB 2,271 million.

### DISPOSAL OF SUBSIDIARIES DURING THE YEARS ENDED 31 DECEMBER 2015, 2014 AND 2013

#### ZAO HELIVERT

On 27 May 2013, LLC International Helicopter Programs, Group's subsidiary, sold 50% interest in share capital of ZAO HeliVert, enterprise assembling AW139 helicopters, for cash consideration of RUB 10 thousand to AgustaWestland S.p.A.. The Group recognised RUB 179 million from disposal of ZAO HeliVert in Other operating expense. Since 27 May 2013, ZAO HeliVert has been a joint venture with AgustaWestland S.p.A. and is recognised under the equity method.

## 7. REVENUE

BY CUSTOMER DESTINATION	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Russian Federation	63,064	63,464	63,314
Asia	74,509	72,998	45,424
Other CIS countries	8,684	1,435	11,585
America	20,470	25,310	13,715
Europe	398	104	2,754
Africa	52,682	6,497	695
Other	165	34	776
<b>TOTAL</b>	<b>219,972</b>	<b>169,842</b>	<b>138,263</b>

## 8. COST OF SALES

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>COST OF PRODUCTION, INCLUDING:</b>			
Raw materials and manufacturing supplies	61,650	63,941	60,217
Payroll and related social taxes	20,789	19,447	16,323
Depreciation and amortisation	5,090	4,351	4,136
Production services	12,927	4,845	3,981
Energy and utilities	2,239	1,347	1,504
Other	5,730	1,877	3,184
<b>TOTAL COST OF PRODUCTION</b>	<b>108,425</b>	<b>95,808</b>	<b>89,345</b>
Increase in work in progress and finished good	(5,993)	(6,891)	(1,309)
<b>TOTAL COST OF SALES</b>	<b>102,432</b>	<b>88,917</b>	<b>88,036</b>

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Commission fees	27,316	15,776	11,365
Payroll and related social taxes	9,077	8,494	6,842
Professional services	7,076	2,195	1,793
Depreciation and amortisation	675	809	727
Transport expenses	3,080	1,579	1,051
Repair and maintenance expenses	914	997	965
Advertising expenses	609	347	815
Insurance expenses	1,030	533	655
Taxes other than income tax	1,166	904	995
Warranty expenses	649	615	502
Bank charges	897	491	318
Impairment of accounts receivable	(1 366)	2,622	517
<b>OTHER</b>	<b>4,293</b>	<b>2,553</b>	<b>1,992</b>
<b>TOTAL</b>	<b>55,416</b>	<b>37,915</b>	<b>28,537</b>

## 10. OTHER OPERATING INCOME AND EXPENSES

### OTHER OPERATING INCOME

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Gain on disposal of inventory	218	174	241
Gain on disposal of property, plant and equipment	–	–	86
Income from operating leases	160	–	–
Reversal of provision for litigations	108	126	–
Other income from operating activities	83	–	–
<b>TOTAL</b>	<b>569</b>	<b>300</b>	<b>327</b>

### OTHER OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Loss on disposal of property, plant and equipment	–	305	378
Charity	666	465	141
Maintenance of the local infrastructure facilities	481	423	290
Other	1,695	810	935
<b>TOTAL</b>	<b>2,842</b>	<b>2,003</b>	<b>1,744</b>

## 11. FINANCE INCOME AND FINANCE COSTS

### FINANCE INCOME

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Interest income on financing provided	1,183	842	620
Dividends	14	10	16
Discounting effect	1,462	–	–
Other income	274	–	1
<b>TOTAL</b>	<b>2,933</b>	<b>852</b>	<b>637</b>

### FINANCE COSTS

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense on loans and borrowings	8,519	5,984	6,022
Interest expense on obligations under finance leases	38	26	73
Dividend related to the shares subject to the mandatory offers	–	–	–
Interest expense on pension liabilities	162	138	46
<b>TOTAL INTEREST EXPENSE</b>	<b>8,719</b>	<b>6,148</b>	<b>6,141</b>
Less: amounts included in the cost of qualifying assets	(203)	(114)	(504)
Less: government grants – compensation of finance costs	(1,176)	(598)	(453)
<b>TOTAL FINANCE COSTS</b>	<b>7,340</b>	<b>5,436</b>	<b>5,184</b>

## 12. INCOME TAX EXPENSE

### INCOME TAX EXPENSE

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax expense	11,051	8,564	6,173
Adjustments in respect of current income tax of previous years	25	11	47
<b>TOTAL CURRENT INCOME TAX EXPENSE</b>	<b>11,076</b>	<b>8,575</b>	<b>6,220</b>
<b>DEFERRED TAX:</b>			
Relating to obligation and reversal of temporary differences	691	295	(1,145)
<b>TOTAL INCOME TAX EXPENSES</b>	<b>11,767</b>	<b>8,870</b>	<b>5,075</b>

The corporate income tax rate in the Russian Federation, the primary location of the Group's production entities, for the years ended 31 December 2015, 2014 and 2013 was 20% (15.5% in the Perm region where Reductor-PM is located).

### A RECONCILIATION BETWEEN THE STATUTORY INCOME TAX RATE AND THE EFFECTIVE RATE WAS AS FOLLOWS:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
<b>PROFIT BEFORE INCOME TAX</b>	<b>53,965</b>	<b>29,582</b>	<b>14,548</b>
Income tax expense computed at statutory income tax rate of 20%	10,793	5,916	2,910
<b>Adjustments due to:</b>			
Adjustments in respect of current income tax of previous years	–	–	383
Effect of income tax preferences in the Republic Kazan, the Republic of Buryatia and the Perm region	(78)	(50)	(37)
Net change in unrecognised and unutilised tax losses	(159)	1,085	924
Expenses not deductible for tax purposes	1,327	2,105	945
Income not taxable for tax purposes	(116)	(186)	(50)
<b>TOTAL INCOME TAX EXPENSE</b>	<b>11,767</b>	<b>8,870</b>	<b>5,075</b>

## 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Motor vehicles	Other	Construction-in-progress	Total
<b>COST</b>						
<b>AT 1 JANUARY 2013</b>	23,565	19,402	2,980	4,404	6,012	56,363
Additions	545	1,305	892	957	4,927	8,626
Transfers	398	2,467	89	392	(3,346)	–
Disposal of subsidiaries	–	(123)	(3)	(95)	–	(221)
Disposals	(131)	(235)	(26)	(305)	(632)	(1,329)
<b>AT 31 DECEMBER 2013</b>	<b>24,377</b>	<b>22,816</b>	<b>3,932</b>	<b>5,353</b>	<b>6,961</b>	<b>63,439</b>
Additions	94	982	2,308	1,195	8,401	12,980
Transfers	318	3,765	99	179	(4,361)	–
Disposals	(168)	(251)	(832)	(480)	(81)	(1,812)
<b>AT 31 DECEMBER 2014</b>	<b>24,621</b>	<b>27,312</b>	<b>5,507</b>	<b>6,247</b>	<b>10,920</b>	<b>74,607</b>
Additions	281	2,136	1,313	1,080	12,008	16,818
Assets held for sale	(1,016)	(3)	–	–	–	(1,019)
Transfers	1,857	1,289	272	254	(3,672)	–
Acquisition of subsidiaries	5,339	614	121	61	62	6,197
Disposals	(90)	(436)	(526)	(1,376)	(635)	(3,063)
<b>AT 31 DECEMBER 2015</b>	<b>30,992</b>	<b>30,912</b>	<b>6,687</b>	<b>6,266</b>	<b>18,683</b>	<b>93,540</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
<b>AT 1 JANUARY 2013</b>	(6,116)	(4,476)	(894)	(2,167)	–	(13,653)
Depreciation charge	(867)	(1,954)	(234)	(1,081)	–	(4,136)
Disposal of subsidiaries	–	24	–	16	–	40
Disposals	41	125	17	294	–	477
Reversal of impairment	(130)	(88)	(14)	(63)	(60)	(355)
<b>AT 31 DECEMBER 2013</b>	<b>(7,072)</b>	<b>(6,369)</b>	<b>(1,125)</b>	<b>(3,001)</b>	<b>(60)</b>	<b>(17,627)</b>
Depreciation charge	(880)	(2,151)	(292)	(1,107)	–	(4,430)
Disposals	–	–	–	(28)	(35)	(63)
Impairment	(880)	(2,151)	(292)	(1,107)	–	(4,430)

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Machinery and equipment	Motor vehicles	Other	Construction-in-progress	Total
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
<b>AT 31 DECEMBER 2014</b>	(7,920)	(8,392)	(1,282)	(3,671)	(95)	(21,360)
Depreciation charge	(990)	(2,580)	(512)	(967)	–	(5,049)
Assets held for sale	189	3	–	0	–	192
Acquisition of subsidiaries	(3,245)	(551)	(106)	(53)	–	(3,955)
Disposals	34	197	96	523	–	850
Impairment	–	–	–	–	(13)	(13)
Reversal of impairment	131	88	14	82	–	315
<b>AT 31 DECEMBER 2015</b>	<b>(11,801)</b>	<b>(11,235)</b>	<b>(1,790)</b>	<b>(4,086)</b>	<b>(108)</b>	<b>(29,020)</b>
<b>CARRYING VALUE</b>						
<b>AT 31 DECEMBER 2013</b>	17,305	16,447	2,807	2,352	6,901	45,812
<b>AT 31 DECEMBER 2014</b>	16,701	18,920	4,225	2,576	10,825	53,247
<b>AT 31 DECEMBER 2015</b>	19,191	19,677	4,897	2,180	18,575	64,520

As at 31 December 2015, 2014 and 2013, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 8,987 million, RUB 3,116 million and RUB 2,611 million, respectively. Certain property, plant and equipment have been pledged to secure bank loans and borrowings granted to the Group:

	31 December 2015	31 December 2014	31 December 2013
Carrying value of property, plant and equipment	3,563	3,446	3,020

The Group leases machinery and equipment and transport under a number of finance lease agreements. At the end of the term of the lease the Group obtains ownership of the assets or has an option to purchase leased assets at a beneficial price. Finance leases obligations are secured by the lessors' title to the leased assets.

	31 December 2015	31 December 2014	31 December 2013
Carrying value of leased property, plant and equipment	867	971	1.100

## 14. GOODWILL

	31 December 2015	31 December 2014	31 December 2013
BALANCE AT THE BEGINNING OF THE YEAR	780	943	1,076
Acquisition of subsidiaries	74	436	–
Impairment	–	(599)	(133)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>854</b>	<b>780</b>	<b>943</b>

The carrying value of goodwill was allocated to the following separate cash generating units:

### ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

	31 December 2015	31 December 2014	31 December 2013
AO Ulan-Ude Aviation Plant	755	755	755
ZAO Avia Company Rostvertol-Avia	–	–	163
AO Novosibirsk Aircraft Repair Plant	–	–	–
AO Reduktor-PM	5	5	5
AO 356 Aircraft Repair Plant	74	–	–
<b>TOTAL</b>	<b>854</b>	<b>780</b>	<b>943</b>

As at 31 December 2015, 2014 and 2013 the Group conducted an assessment of the recoverable amount of goodwill (Note 16)

## 15. INTANGIBLE ASSETS

	Capitalised development costs	Purchased software and other	Total
<b>COST</b>			
AT 1 JANUARY 2013	8,673	955	9,628
Additions	8,137	270	8,407
Government grants received	(1,935)	–	(1,935)
Disposals	(34)	(130)	(164)
Disposal of subsidiaries	–	(91)	(91)
<b>AT 31 DECEMBER 2013</b>	<b>14,841</b>	<b>1,004</b>	<b>15,845</b>
Additions	11,419	217	11,636
Government grants received	(4,470)	–	(4,470)
Disposals	(5,011)	(42)	(5,053)

## 15. INTANGIBLE ASSETS (continued)

	Capitalised development costs	Purchased software and other	Total
AT 31 DECEMBER 2014	16,779	1,179	17,958
Additions	10,120	122	10,242
Government grants received	(1,951)	–	(1,951)
Disposals	(6,655)	(94)	(6,749)
<b>AT 31 DECEMBER 2015</b>	<b>18,293</b>	<b>1,207</b>	<b>19,500</b>
<b>ACCUMULATED AMORTISATION</b>			
AT 1 JANUARY 2013	(1,869)	(388)	(2,257)
Amortisation charge	(558)	(169)	(727)
Disposals	–	46	46
Impairment	(299)	–	(299)
<b>AT 31 DECEMBER 2013</b>	<b>(2,726)</b>	<b>(511)</b>	<b>(3,237)</b>
Amortisation charge	(501)	(229)	(730)
Disposals	388	13	401
Impairment	(1,734)	–	(1,734)
<b>AT 31 DECEMBER 2014</b>	<b>(4,573)</b>	<b>(727)</b>	<b>(5,300)</b>
Amortisation charge	(596)	(120)	(716)
Disposals	35	51	86
Impairment (Note 16)	(1,709)	–	(1,709)
<b>AT 31 DECEMBER 2015</b>	<b>(6,843)</b>	<b>(796)</b>	<b>(7,639)</b>
<b>CARRYING VALUE</b>			
AT 31 DECEMBER 2013	12,115	493	12,608
AT 31 DECEMBER 2014	12,206	452	12,658
AT 31 DECEMBER 2015	11,450	411	11,861

Capitalised development costs comprise the internally-generated intangible assets (including those which were not in use as at 31 December 2015) which are primarily consisted of Mi-38, Mi-171, Ka-62, Ka-226T and other helicopter development projects.

The development of helicopters Ka-62, Mi-38 is included in the State program of the Russian Federation «Development of the aviation industry

in the 2013-2025 years.» In accordance with these programs, the Group receives funding for research and development in accordance with the contract with the Russian Ministry of Industry and Trade (Ministry of Industry).

The Group has performed an impairment test for intangible assets including not yet in use as at 31 December 2015 (Note 16).

## 16. IMPAIRMENT TESTING

The Group performed impairment testing for goodwill and intangible assets including not in use (capitalised R&D costs) as at 31 December 2015 on Cash Generating Unit (CGU) level. As at 31 December 2015, the carrying value of goodwill and development costs including not yet in use was allocated to CGUs as presented in the table below:

Cash generating unit	Goodwill	Intangible assets, incl. not yet in use
AO Ulan-Ude Aviation Plant ("Ulan-Ude")	775	916
AO Kumertau Aviation Production Enterprise ("KUMAP")	–	3,059
PAO Arsenyev Aviation Company PROGRESS ("Progress")	–	752
PAO Kazan Helicopter Plant ("KHP")	–	3,109
AO «356 ARZ»	74	–
Others	5	2,611
Individual assets not allocated to CGU	–	4,710
Impairment	–	(3,707)
<b>TOTAL</b>	<b>854</b>	<b>11,450</b>

### RESULTS OF IMPAIRMENT TESTING

#### ULAN-UDE, KHP, PROGRESS, 356 ARZ AND THE OTHERS

The group did not reveal impairment of non-current assets as a result of the audit as of 31 December 2015. Management believes that regardless of the reasonably possible change in the key assumptions on which was calculated the recoverable amount of units generating cash flows, the carrying value of units generating cash flows (including development costs) «Ulan-Ude», «KHP» «Progress», «356 ARZ» and the others does not exceed their recoverable value.

#### KUMAPP

In the analysis of the presence of impairment indicators of the Group considers the probability of a favourable

outcome of the ongoing tenders. As at 31 December 2014 the Group confirmed the impairment of cash-generating unit for JSC «Kumertau Aviation Production Enterprise» («KumAPP»), recognized as of 31 December 2013. An impairment loss CGU «KumAPP» relating to intangible assets in the amount of RUB 299 million, and fixed assets in the amount of RUB 280 million, was reflected in the statement of comprehensive income for the year ended 31 December 2013.

As a result of the impairment test at 31 December 2015 impairment of the cash generating unit «KumAPP» not confirmed due to changes in the cash flows associated with the improvement of the targets in the years 2016-2018 due to the signing of new contracts. In connection with this impairment loss recognized on 31 December 2014 was restored in full.

### INDIVIDUAL ASSETS RETAINED ON THE UNIT GENERATING CASH FLOWS

Assets are helicopter development projects «Ka» and «Mi» models. In the current unstable macroeconomic environment of the financial indicators of the project can be purely indicative. Projects are subject to revision after

updating of the Group's long-term development strategy. As a result, impairment loss in the amount of RUB 1 734 million was reflected in the statement of comprehensive income for 2014 and RUB 233 million - for 2015 in the «Ka» and models for 2015 in the amount of RUB 1 740 million by «Mi» model.

## 17. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	ZAO HeliVert (joint venture)	ZAO Aktivnye Operatsyi (associate)	Total
AT 1 JANUARY 2013	–	19	19
Loss	(319)	(19)	(338)
Additional share issue	570	–	570
AT 31 DECEMBER 2013	251	–	251
Loss	(251)	–	(251)
AT 31 DECEMBER 2014	–	–	–
Loss	–	–	–
AT 31 DECEMBER 2015	–	–	–

## 18. TRADE RECEIVABLES

	31 December 2015	31 December 2014	31 December 2013
Trade receivables	26,621	19,144	19,948
Less: Allowance for doubtful receivables	(395)	(312)	(247)
<b>TOTAL TRADE RECEIVABLES, INCLUDING</b>	<b>26,226</b>	<b>18,832</b>	<b>19,701</b>
Long-term trade receivables	3,437	741	318
Short-term trade receivables	22,789	18,091	19,383

## 18. TRADE RECEIVABLES (continued)

THE GROUP'S AGEING OF TRADE RECEIVABLES IS PRESENTED AS FOLLOWS

	31 December 2015	31 December 2014	31 December 2013
Past due, but not impaired:			
1 month	245	123	16
1-3 months	18	71	32
3 months to 1 year	61	22	98
More than 1 year	184	13	–
<b>TOTAL PAST DUE BUT NOT IMPAIRED</b>	<b>509</b>	<b>229</b>	<b>146</b>
Due in:			
1 month	12,440	7,291	8,199
1-3 months	3,641	9,258	4,172
3 months to 1 year	6,384	1,326	6,866
More than 1 year	3,253	728	318
<b>TOTAL</b>	<b>26,226</b>	<b>18,832</b>	<b>19,701</b>

Included in the trade receivables as at 31 December 2015, 2014 and 2013 were receivables with amounts of RUB 509 million, RUB 229 million and RUB 146 million, respectively, that were past due but not included in allowance for doubtful trade receivables.

The Group does not hold any collateral over these balances. Management of the Group believes that these amounts are recoverable in full.

THE FOLLOWING IS MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL TRADE ACCOUNTS RECEIVABLES

	31 December 2015	31 December 2014	31 December 2013
<b>BALANCE AT BEGINNING OF THE YEAR</b>	<b>312</b>	<b>247</b>	<b>339</b>
Allowance for doubtful debt recognised	122	66	46
Amounts written-off as uncollectible	(39)	(1)	(138)
<b>BALANCE AT END OF THE YEAR</b>	<b>395</b>	<b>312</b>	<b>247</b>

At 31 December 2015, 2014 and 2013, other long-term trade receivables were measured at amortised cost using the weighted average discount rate of 11%, 12% and 8%, respectively. The Group does not hold any collateral over these balances.

## 19. PREPAYMENTS AND OTHER RECEIVABLES

## ADVANCES PAID TO SUPPLIERS OF INVENTORIES AND SERVICES

	31 December 2015	31 December 2014	31 December 2013
<b>NON-FINANCIAL ASSETS</b>			
Advances paid to suppliers of inventories and services	41,514	26,432	24,548
Prepaid commission fee	4,181	3,068	1,872
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>45,695</b>	<b>29,500</b>	<b>26,420</b>
Long-term advances issued	2,230	653	2,366
Short-term advances issued	43,465	28,847	24,054

## ИЗМЕНЕНИЕ РЕЗЕРВА ПО АВАНСАМ ВЫДАННЫМ

	31 December 2015	31 December 2014	31 December 2013
<b>BALANCE AT THE BEGINNING OF THE YEAR</b>	<b>214</b>	<b>193</b>	<b>129</b>
Allowance for doubtful debt recognised	775	100	122
Amounts written-off as uncollectible	(77)	(79)	(58)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>912</b>	<b>214</b>	<b>193</b>

As at 31 December 2015, 2014 and 2013, the Group largest balances in advances paid to suppliers of inventories and services represented 44%, 37% and 28% of the total balance, respectively, and were presented as follows:

Name of counterparty	31 December 2015	31 December 2014	31 December 2013
AO Klimov	2,622	3,272	1,857
Agent	4,181	2,891	1,872
AO Motor Sich	1,779	2,314	1,214
AO Ramenskoe priborostroitelnoe konstruktorskoe buro	5,405	1,245	1,240
AO Korporatsiya Fazotron NIIR	969	1,147	1,206
AO «NII Ekran»	5,375	–	–
<b>TOTAL</b>	<b>20,331</b>	<b>10,869</b>	<b>7,389</b>

## 19. PREPAYMENTS AND OTHER RECEIVABLES (continued)

## OTHER RECEIVABLES

	31 December 2015	31 December 2014	31 December 2013
Financial assets			
Other receivables	6,696	5,924	3,189
Less: Allowance for doubtful receivables	(435)	(392)	(379)
<b>TOTAL FINANCIAL ASSETS</b>	<b>6,261</b>	<b>5,532</b>	<b>2,810</b>

## THE FOLLOWING IS MOVEMENT IN ALLOWANCE FOR OTHER RECEIVABLES

	31 December 2015	31 December 2014	31 December 2013
<b>BALANCE AT BEGINNING OF THE YEAR</b>	<b>392</b>	<b>379</b>	<b>298</b>
Allowance for doubtful other receivables recognised	263	37	106
Amounts recovery of impairment losses	(4)	(24)	(25)
Amounts written-off as uncollectible	(216)	–	–
<b>BALANCE AT END OF THE YEAR</b>	<b>435</b>	<b>392</b>	<b>379</b>

## 20. OTHER FINANCIAL ASSETS

	31 December 2015	31 December 2014	31 December 2013
Bank deposits	26	167	166
Loans issued	653	856	552
Other	92	4	53
<b>TOTAL</b>	<b>771</b>	<b>1,027</b>	<b>771</b>
<b>TOTAL OTHER NON-CURRENT FINANCIAL ASSETS</b>	<b>254</b>	<b>185</b>	<b>208</b>
<b>TOTAL OTHER CURRENT FINANCIAL ASSETS</b>	<b>517</b>	<b>842</b>	<b>563</b>

## 21. AVAILABLE-FOR-SALE SECURITIES

	Ownership, %	31 December 2015	31 December 2014	31 December 2013
AO TVTz Rostvertol	*25.0	359	359	359
AO OPK Oboronprom	0.45	160	160	160
AO AKB Zarechye	15.5	139	139	139
AO AKB Doncombank	15.0	88	71	60
AO AKB MMB Bank of Moscow	0.03	12	18	18
Other	Various	53	59	72
<b>TOTAL</b>		<b>811</b>	<b>806</b>	<b>808</b>

\* Preferred non-voting shares

In 2015, the Group recognised income on revaluation of available for sales securities in amount of RUB 16 million and related deferred tax effect in amount of RUB 3 million in the statement of comprehensive income (2014: loss in amount of RUB 11 million and RUB 2 million, respectively; 2013: loss in amount of RUB 49 million and RUB 10 million, respectively).

Due to the fact that for the rest of the securities market does not exist and there were no transactions in the recent past, the fair value can not be estimated. On the reporting date, the likelihood of a significant difference between the fair value and the carrying amount is insignificant.

## 22. DEFERRED TAX ASSETS AND LIABILITIES

	At 31 December 2015	Recognised in profit or loss	Acquisition of subsidiaries	Recognised in equity	At 31 December 2014	Recognised in profit or loss	Recognised in equity	At 31 December 2013	Recognised in profit or loss	Disposal of subsidiary	Recognised in equity	At 01 December 2013
Inventories	8,059	3,159	-	-	4,900	(299)	-	5,199	(103)	240	-	5,062
Tax losses carried forward	237	237	-	-	-	(58)	-	58	58	-	-	-
Accounts receivable	-	-	-	-	-	(252)	-	252	239	(252)	-	265
Prepayments and other receivables	471	263	-	-	208	208	-	-	-	-	-	-
Accounts payable	-	(169)	-	-	169	169	-	-	-	-	-	-
Loans and leases payable	-	-	-	-	-	(9)	-	9	(55)	-	-	64
Other financial assets	-	(1)	-	-	1	(98)	(2)	101	-	-	10	91
<b>DEFERRED TAX ASSETS</b>	<b>8,767</b>	<b>3,489</b>	<b>-</b>	<b>-</b>	<b>5,278</b>	<b>(339)</b>	<b>(2)</b>	<b>5,619</b>	<b>139</b>	<b>(12)</b>	<b>10</b>	<b>5,482</b>
Property, plant and equipment and intangible assets	(3,360)	173	(269)	-	(3,264)	(91)	-	(3,173)	(33)	(18)	-	(3,122)
Accounts receivable	(3,829)	(1,504)	-	-	(2,325)	(2,325)	-	-	-	-	-	-
Accounts payable	(1,975)	(2,037)	-	62	-	1,531	(94)	(1,437)	244	51	11	(1,743)
Prepayments and other receivables	-	-	-	-	-	1,513	-	(1,513)	795	-	-	(2,308)
Loans and leases payable	(1,089)	(505)	-	-	(584)	(584)	-	-	-	-	-	-
Other financial assets	(310)	(307)	-	(3)	-	-	-	-	-	-	-	-
<b>DEFERRED TAX LIABILITIES</b>	<b>(10,563)</b>	<b>(4,180)</b>	<b>(269)</b>	<b>59</b>	<b>(6,173)</b>	<b>44</b>	<b>(94)</b>	<b>(6,123)</b>	<b>1,006</b>	<b>33</b>	<b>11</b>	<b>(7,173)</b>
<b>NET DEFERRED TAX LIABILITIES</b>	<b>(1,796)</b>	<b>(691)</b>	<b>(269)</b>	<b>59</b>	<b>(895)</b>	<b>(295)</b>	<b>(96)</b>	<b>(504)</b>	<b>1 145</b>	<b>21</b>	<b>21</b>	<b>(1,691)</b>

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are presented in the consolidated statement of financial position:

	31 December 2015	31 December 2014	31 December 2013
Deferred tax assets	2,610	793	898
Deferred tax liabilities	(4,406)	(1,688)	(1,402)
<b>NET DEFERRED TAX LIABILITIES</b>	<b>(1,796)</b>	<b>(895)</b>	<b>(504)</b>

## 22. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The accumulated unused tax losses carried forward of the certain Group's subsidiaries which were available for offset against future taxable income and for which no deferred tax assets were recognised are presented as follows:

	31 December 2015	31 December 2014	31 December 2013
AO Russian Helicopters	2,020	1,655	1,046
AO KAMOV	219	262	377
AO Kumertau Aviation Production Enterprise	604	1,085	494
<b>TOTAL</b>	<b>2,843</b>	<b>3,002</b>	<b>1,917</b>

Deferred tax assets in regard of unused tax losses carried forward were not recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised. The unused tax losses will expire during the period up to 2023.

## 23. INVENTORIES

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Materials (at cost or net realisable value)	41,620	31,880	28,137
Work-in-progress (at cost or net realisable value)	16,387	13,846	7,582
Finished goods (at cost or net realisable value)	4,791	1,339	712
<b>TOTAL INVENTORIES AT THE LOWER OF COST AND NET REALISABLE VALUE</b>	<b>62,798</b>	<b>47,065</b>	<b>36,431</b>

In 2015, RUB 3,267 million (2014: RUB 1,238 million; 2013: RUB 825 million) were expensed to write down inventions to net realisable value.

In 2015, RUB 1,083 million (2014: RUB 617 million; 2013: RUB 286 million) inventory write offs were reversed to reflect the net realisable value of those inventories.

## CERTAIN INVENTORIES HAVE BEEN PLEDGED TO SECURE BANK LOANS AND BORROWINGS GRANTED TO THE GROUP

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Carrying amount of inventories	114	206	609

## 24. CONSTRUCTION CONTRACTS

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Construction costs incurred plus recognised profits less recognised losses to date	69,526	44,708	35,966
Less: progress billings	(51,439)	(38,593)	(45,636)
	<b>18,087</b>	<b>6,115</b>	<b>(9,670)</b>
<b>RECOGNISED AND INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS:</b>			
Amounts due from customers under construction contracts	35,210	22,864	15,876
Amounts due to customers under construction contracts	(17,123)	(16,749)	(25,546)
	<b>18,087</b>	<b>6,115</b>	<b>(9,670)</b>

In 2011, in connection with the 2011-2020 State Program of the Russian Federation («FCP #1») the Group's subsidiaries entered into long-term contracts with the State customer of the Russian Federation to produce and deliver military helicopters over the period of 2011-2020. Under these contracts, the substantial portion of amounts due from the State customer is deferred and paid on or after the 4-year period following the delivery dates. Under the Program the Group's subsidiaries entered into credit facility agreements linked to the aforementioned long-term contracts with certain state-owned banks. Cash receipts from the State customer under the long-term agreements will only be used to reduce the outstanding balances of the credit line facilities. Obligations under these credit line facilities are fully secured by the guaranties provided by the Ministry of Finance of the Russian Federation (the «Ministry of Finance»). The Group will be relieved from any obligations to pay the outstanding balances of the credit line facilities if the State customer defaults or delays payments beyond the credit

line facilities tenors and the amounts due under the credit line facilities, as secured by the guarantees, will be paid by the Ministry of Finance. As the credit line facilities are linked to the helicopters construction contracts and payments are made automatically and not at discretion of the Group, settled when funds are transferred from the State customer under construction contracts, the proceeds from such credit lines represent, in substance, advances received. Interest expenses incurred on these credit line facilities are fully reimbursed by the State customer.

## AMOUNTS DUE TO UNDER THE STATE PROGRAM ARE COMPRISED OF THE FOLLOWING

	At 31 December 2015	At 31 December 2014	At 31 December 2013
<b>AMOUNTS DRAWN DOWN UNDER CREDIT LINE FACILITIES UNDER THE STATE PROGRAM</b>	<b>88,769</b>	<b>120,892</b>	<b>92,616</b>
Amounts billed under the State Program	(87,256)	(90,534)	(90,534)
Amounts due from customers under the State Program construction contracts	(1,513)	(29,093)	(1,624)
<b>AMOUNTS DUE TO CUSTOMERS UNDER THE STATE PROGRAM CONSTRUCTION CONTRACT (ADVANCES RECEIVED)</b>	<b>–</b>	<b>1,265</b>	<b>6,820</b>

As at 31 December 2015, 2014 and 2013 the amounts drawn down under the credit line facilities under the State Program are as follows:

Bank	Currency	At 31 December 2015		At 31 December 2014		At 31 December 2013	
		Rate, %	Balance	Rate, %	Balance	Rate, %	Balance
PAO Bank VTB	RUB	9.70–10.05	52,868	8–9.75	69,926	8.2–10.5	40,627
PAO Sberbank of Russia	RUB	9.10–9.75	33,706	8.2–9.75	48,052	8.0–10.5	49,621
Vnesheconombank	RUB	7	2,195	7	2,914	7	2,368
<b>TOTAL</b>			<b>88,769</b>		<b>120,892</b>		<b>92,616</b>

## 25. OTHER TAXES

	At 31 December 2015	At 31 December 2014	At 31 December 2013
<b>OTHER TAXES RECEIVABLE</b>			
VAT receivable	10,916	6,545	5,761
Other	72	63	61
<b>TOTAL</b>	<b>10,988</b>	<b>6,608</b>	<b>5,822</b>
<b>OTHER TAXES PAYABLE</b>			
VAT payable	1,241	1,454	1,857
Personal income tax and social taxes	1,499	1,159	619
Property tax	132	118	105
Other	457	257	100
<b>TOTAL</b>	<b>3,329</b>	<b>2,988</b>	<b>2,681</b>

## 26. CASH AND CASH EQUIVALENTS

	At 31 December 2015	At 31 December 2014	At 31 December 2013
<b>CURRENT BANK ACCOUNTS, INCLUDING:</b>			
RUB-denominated	22,382	11,433	7,113
USD-denominated	19,981	9,776	3,206
Euro-denominated	2,645	2,806	173
<b>BANK DEPOSITS, INCLUDING:</b>			
RUB-denominated	2,645	3,672	5,522
Euro-denominated	–	376	–
USD-denominated	18,078	3 663	–
Other cash and cash equivalents	15	38	10
	<b>65,746</b>	<b>31,764</b>	<b>16 024</b>

### BANK DEPOSITS

Bank	Currency	At 31 December 2015		At 31 December 2014		At 31 December 2013	
		Rate, %	Balance	Rate, %	Balance	Rate, %	Balance
PAO Bank VTB	RUB	10.50–1.8	2,016	2.85	62	–	–
PAO Sberbank of Russia	RUB	7.55–0.35	629	10.4–26.97	1,844	6.35–6.42	597
PAO Sberbank of Russia	USD	0.78	6,419	3.72–4.1	3,368	–	–
PAO Sberbank of Russia	Euro	–	–	3.3	376	–	–
AO AKB Zarechye	RUB	–	–	–	–	3	500
AO AKB Rosbank	RUB	–	–	15	11	–	–
AO AKB Rosbank	USD	–	–	3	281	–	–
AO Promstroybank	Euro	–	–	–	–	–	–
ZAO AKB Novikombank	RUB	–	–	16	221	6.9	1,125
AO Gazprombank	RUB	–	–	17	284	–	–
PAO Bank VTB	USD	0.01	11,659	2	14	–	–
AO Rosselkhozbank	RUB	–	–	22.07–28.91	1,250	–	–
AO AK BaikalBank	RUB	–	–	–	–	8	2,000
AO NK Bank	RUB	–	–	–	–	7.3	1,000
AO Nomos-Bank	RUB	–	–	–	–	6.85	300
Other	RUB	–	–	–	–	–	–
<b>TOTAL</b>			<b>20,723</b>		<b>7,711</b>		<b>5,522</b>

All bank deposits classified as cash and cash equivalents have an original maturity of less than three months.

## 27. ASSETS HELD FOR SALE

The Group has decided to relocate «Kamov» on the territory of the NTC JSC «Helicopters of Russia» in the village of Tomilino, Lyubertsy district, Moscow region, and as a consequence - for sale real estate complex administrative and production facilities - storage destination total area of 62 371.06 sq.m, located on a

plot of land at Lyubertsy, st. March 8, 8a (the former office building and production facilities, «Kamov» JSC). The first half of 2016 is expected date of sale. The cost has been estimated at the lower of the expected sales price and the carrying amount of an asset in the amount of RUB 827 million and reclassified to assets held for sale.

## 28. EQUITY

### ORDINARY SHARES

	At 31 December 2015		At 31 December 2014		At 31 December 2013	
	Number of shares	Share capital (RUB'000)	Number of shares	Share capital (RUB'000)	Number of shares	Share capital (RUB'000)
<b>BALANCE AT THE BEGINNING OF THE YEAR</b>	95,273,116	95,273	95,273,116	95,273	95,273,116	95,273
Additional shares issued (see below)	5,982,647	5,983	–	–	–	–
<b>BALANCE AT THE END OF THE YEAR</b>	<b>101,255,763</b>	<b>101,256</b>	<b>95,273,116</b>	<b>95,273</b>	<b>95,273,116</b>	<b>95,273</b>

The share capital of the Company as at 31 December 2015 consists of 101,255,763 (2014: 95,273,116, 2013: 95,273,116) authorised, issued and outstanding common shares with par value of RUB 1.

During the years ended 31 December 2015, 2014 and 2013, the Group's entities declared the following dividends attributable to non-controlling interests:

Entity name	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
PAO Kazan Helicopter Plant	141	9	6
AO Ulan-Ude Aviation Plant	64	28	–
AO Stupino Machine Production Plant	50	149	30
AO AAK Progress	17	13	–
AO Reductor-PM	–	–	1
AO MIL Moscow Helicopter Plant	22	28	10
PAO Rostvertol	226	226	91
<b>TOTAL</b>	<b>1,520</b>	<b>453</b>	<b>138</b>

## 28. EQUITY (continued)

**DIVIDENDS AND RETAINED EARNINGS**

The Group declared dividends attributable to the shareholder of the Company for 9 months of 2015 in the amount of RUB 3 650 million, the dividend per share is RUB 36.05. The Group declared dividends attributable to the shareholder of the Company for the year 2014 in the amount of RUB 722 million (2013: RUB

975 million), the dividend per share is RUB 7.56 per share.

**EARNINGS PER SHARE**

Earnings per share for the years ended 31 December 2015, 2014 and 2013 were calculated based on the weighted average number of the Company's ordinary shares outstanding during the respective periods.

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of the Company's ordinary shares	96,768,778	95,273,116	95,273,116

The amounts of net profit used for calculation of basic and diluted earnings per share for the years ended 31 December 2015, 2014 and 2013 are the same as the amount of profit attributable to the Company's shareholders recognised in the consolidated statement of comprehensive income for respective periods.

## 29. LOANS AND BORROWINGS

	Interest rate	At 31 December 2015		At 31 December 2014		At 31 December 2013	
		Rate, %	Balance	Rate, %	Balance	Rate, %	Balance
<b>SECURED BANK LOANS, INCLUDING</b>							
<b>RUB-DENOMINATED</b>							
PAO Sberbank of Russia	Fixed	9.75–14.75	5,910	8–12	12,187	8–11	16,246
PAO Sberbank of Russia	Various	10.5–13.30	1,182	–	–	–	–
Vnesheconombank	Fixed	12.10	680	–	–	–	–
Vnesheconombank	Various	10.5	2,064	11–12	4,009	11–12	4,895
AO Alfa Bank	Fixed	9.70	357	9–13	4,227	9–11	3,452
AO Gazprombank	Various	13.25	105	9–11	250	9–10	1,891
PAO Bank VTB	Fixed	12.79	1,120	10–12	619	9–10	3,991
ZAO AKB Novikombank	Fixed	14.50	995	10–12	1,435	10–12	1,873
AO AKB Rossia	Fixed	12.5–12.8	524	–	–	–	–
PAO AKB Rosbank	Fixed	–	–	–	–	9	150
PAO AKB Ural FD	Fixed	11	200	10	200	10	200
AO AKB Perm	Fixed	11.4	35	–	–	–	–
Others	Various	–	–	10–11	56	10–11	149
<b>USD-DENOMINATED</b>							
PAO AKB Rosbank	Fixed	–	–	3	4,765	–	–
PAO Bank VTB	Fixed	4.25	1,564	5	13,633	5	5,853
PAO Sberbank of Russia	Fixed	4.50–5	22,911	2–6	12,609	5–6	10,741
Vnesheconombank	Various	4.08–7.50	18,552	–	–	–	–
AO Gazprombank	Fixed	–	–	6	733	3–6	836
AO Alfa Bank	Fixed	–	–	–	–	3–4	147
PAO Promsvyazbank	Fixed	4.90	6,221	–	–	–	–
<b>EURO -DENOMINATED</b>							
PAO Sberbank of Russia	Various	5	5	2–5	278	1–7	297
PAO Sberbank of Russia	Fixed	1.47–7.50	160	–	–	–	–
AO Gazprombank	Fixed	7.25	976	7	1,133	7	940
Others	Fixed	–	–	–	–	7	18

## 29. LOANS AND BORROWINGS (continued)

	Interest rate	At 31 December 2015		At 31 December 2014		At 31 December 2013	
		Rate, %	Balance	Rate, %	Balance	Rate, %	Balance
<b>UNSECURED BANK LOANS AND BORROWINGS, INCLUDING</b>							
<b>RUB-DENOMINATED</b>							
PAO Sberbank of Russia	Fixed	9,75–15,5	16,551	8–15	16,049	8–9	5,075
PAO Bank VTB	Various	11,5–14	11,095	8–11	1,230	8–10	3,724
AO AK BaikalBank	Fixed	–	–	10	350	–	–
AO Alfa Bank	Fixed	10,7–11,5	174	11	174	11	139
AO Gazprombank	Various	11,80	2,376	–	–	9	500
Bank VBRR (AO)	Various	12,29	927	–	–	–	–
AO OPK Oboronprom	Fixed	–	–	12	899	–	–
<b>USD-DENOMINATED</b>							
AO Alfa Bank	Fixed	–	–	4	748	–	–
PAO Bank VTB	Fixed	7,50–7,80	1,445	–	–	–	–
PAO Sberbank of Russia	Fixed	4,40–5,60	2,551	–	–	–	–
AO Rosoborexport	Fixed	–	–	–	–	6	358
<b>EURO –DENOMINATED</b>							
OAO VO Stankoimport	Various	1–1,75	100	1–1,75	199	1–1,75	192
PAO Bank VTB	Fixed	4,05	707	–	–	–	–
PAO Sberbank of Russia	Fixed	2,80	558	–	–	–	–
Accrued interest	N/A	–	632	–	563	–	582
Long-term bonds	Fixed	8,25–8,75	4,869	8,25–8,75	19,869	8,25–8,75	19,869
Short-term bonds	Fixed	8,25–8,75	15,000	–	–	–	–
<b>TOTAL</b>			<b>120,546</b>		<b>96,215</b>		<b>82,118</b>
<b>NON-CURRENT PORTION OF LOANS AND BORROWINGS</b>			<b>57,681</b>		<b>55,333</b>		<b>47,681</b>
<b>CURRENT PORTION REPAYABLE IN ONE YEAR AND SHOWN UNDER CURRENT LIABILITIES</b>			<b>62,865</b>		<b>40,882</b>		<b>34,437</b>

## 29. LOANS AND BORROWINGS (continued)

The Group receives loans from government-related banks at lower interest rates. In financial statements the outstanding balances of these loans are stated at amortized cost on the basis of the effective interest rate. A corresponding effect on the operations reflected in the consolidated statement of comprehensive income is stated below:

Bank name	Effective interest rate	Book value at 31 December 2015	Discount	Amortized cost at 31 December 2015
AO Gazprombank	13,04%	2,500	124	2,376
Bank VBRR (AO)	13,77%	965	38	927
PAO Bank VTB	14,03%	2,500	42	2,458
PAO Bank VTB»	13,77%	2,400	94	2,306
PAO Sberbank of Russia	13,04%	2,727	58	2,669
PAO Sberbank of Russia	7,62%	6,825	463	6,362
PAO Bank VTB»	6,07%	1,711	78	1,633
PAO Promsvyazbank	6,07%	6,399	178	6,221
PAO Sberbank of Russia	14,55%	3,000	129	2,871
PAO Sberbank of Russia	14,30%	3,317	331	2,986
		<b>32,344</b>	<b>1,535</b>	<b>30,809</b>

The bank loans are subject to certain covenants. These covenants impose restrictions in respect of certain transactions and financial ratios. The Group is in compliance with all covenants stipulated in loan agreements. The maturity profile of loans and borrowings is as follows:

	31 December 2015	31 December 2014	31 December 2013
Due in one month	3,084	613	600
Due from one to three months	8,374	10,152	833
Due from three to twelve months	51,407	30,117	33,004
<b>TOTAL CURRENT PORTION REPAYABLE IN ONE YEAR</b>	<b>62,865</b>	<b>40,882</b>	<b>34,437</b>
Due in the second year	48,241	22,794	16,432
Due in the third year	3,697	9,044	8,652
Due in the fourth year	2,279	17,550	1,434
Due in the fifth year and further	3,464	5,945	21,163
<b>TOTAL NON-CURRENT PORTION OF LOANS AND BORROWINGS</b>	<b>57,681</b>	<b>55,333</b>	<b>47,681</b>
<b>TOTAL</b>	<b>120,546</b>	<b>96,215</b>	<b>82,118</b>

## 29. LOANS AND BORROWINGS (continued)

Certain numbers of shares of the Group's subsidiaries have been pledged to secure bank loans and borrowings granted to the Group:

	31 December 2015	31 December 2014	31 December 2013
AO KAMOV	1,360,447,119	1,360,447,119	1,360,447,119
PAO Kazan Helicopter Plant	–	69,870,671	69,870,671
AO Ulan-Ude Aviation Plant	–	31,666,919	31,666,919

## 30. OBLIGATION UNDER FINANCE LEASES

	Minimum lease payments			Present value of minimum lease payments		
	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013
Due within one year	148	95	115	104	63	71
Due in the second year	67	84	84	45	70	57
Due in the third year	45	15	72	30	14	61
Due in the fourth year	40	4	11	32	3	10
Due in the fifth year and further	24	–	2	22	–	1
	<b>324</b>	<b>198</b>	<b>284</b>	<b>233</b>	<b>150</b>	<b>200</b>
Less: future finance charges	(91)	(48)	(84)	N/A	N/A	N/A
<b>PRESENT VALUE OF LEASE OBLIGATIONS</b>	<b>233</b>	<b>150</b>	<b>200</b>	<b>233</b>	<b>150</b>	<b>200</b>
<b>TOTAL CURRENT PORTION OF OBLIGATIONS UNDER FINANCIAL LEASES</b>				<b>104</b>	<b>63</b>	<b>71</b>
<b>TOTAL NON-CURRENT PORTION OF OBLIGATIONS UNDER FINANCIAL LEASES</b>				<b>129</b>	<b>87</b>	<b>129</b>

The Group leases property, plant and equipment under a number of finance lease agreements. The average lease term is 50 months. All leases are on a fixed repayment basis.

## 31. RETIREMENT BENEFIT LIABILITIES

**DEFINED CONTRIBUTION PLAN**

During the years ended 31 December 2015, 2014 and 2013, the entities of the

Group made the following contributions to the Russian Federation State Pension Fund:

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Contributions to the Russian Federation State Pension Fund	5,913	4,760	4,050

**DEFINED BENEFIT PLANS**

All of the Group's entities operate unfunded defined benefit plans for qualifying employees, in particular:

- lump-sum retirement or disability benefits;
- periodic (quarterly) or other lifelong benefits to retired employees;
- non-state pension benefits to the retired employees;
- anniversary benefits for employees;
- payments upon death of employees and pensioners (retired employees);
- payments upon death of relatives of employees and pensioners (retired employees);

Defined benefit plans expose the Group to such actuarial risks as interest rate risk, longevity risk and payroll risk.

The actuarial valuation of the Group's defined benefit obligations as at 31 December 2015, 2014 and 2013 was performed by an independent actuary.

Revaluation of defined benefit obligation (asset) is recognised in other comprehensive income but not in profit or loss.

## 31. RETIREMENT BENEFIT LIABILITIES (continued)

Amounts recognised in profit or loss in respect of defined benefit plan are presented as follows:

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
Net interest expense on defined benefit plan									
Current service cost	38	29	67	94	22	116	35	20	55
Net interest under net obligation (asset) under defined benefit plan	146	16	162	128	10	138	46	2	48
Revaluation of net obligation (asset) under defined benefit plan	-	3	3	-	(5)	(5)	-	101	101
Recognised past service costs	-	-	-	751	-	751	107	-	107
Other actuarial adjustments	-	-	-	-	-	-	76	-	76
<b>NET INTEREST EXPENSE ON DEFINED BENEFIT PLAN</b>	<b>184</b>	<b>48</b>	<b>232</b>	<b>973</b>	<b>27</b>	<b>1,000</b>	<b>264</b>	<b>123</b>	<b>387</b>

Changes in the present value of the defined benefit plan obligations are presented below

	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>AT 1 JANUARY</b>	<b>1,275</b>	<b>141</b>	<b>1,416</b>	<b>897</b>	<b>136</b>	<b>1,033</b>	<b>621</b>	<b>48</b>	<b>669</b>
Current service cost	38	29	67	94	22	116	35	20	55
Interest cost	146	16	162	128	10	138	46	2	48
Past service cost	-	3	3	751	3	754	107	-	107
Actuarial (gains)/losses arising from changes in demographic assumptions	(76)	-	(76)	(5)	(5)	(10)	83	(4)	79
Actuarial (gains)/losses arising from changes in finance assumptions	326	15	341	(454)	(27)	(481)	(138)	(14)	(152)
Experience adjustments	58	(15)	43	(22)	24	2	110	119	229
Other actuarial adjustments	-	-	-	-	-	-	76	-	76
Payments made	(158)	(12)	(170)	(112)	(22)	(134)	(43)	(35)	(78)
<b>AT 31 DECEMBER</b>	<b>1,609</b>	<b>177</b>	<b>1,786</b>	<b>1,277</b>	<b>141</b>	<b>1,418</b>	<b>897</b>	<b>136</b>	<b>1,033</b>

## 31. RETIREMENT BENEFIT LIABILITIES (continued)

Changes in the fair value of the defined benefit plan assets are presented below:

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
<b>AT 1 JANUARY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest income	-	-	-	-	-	-	-	-	-
Employer contributions	158	12	170	112	22	134	43	35	78
Payments made	(158)	(12)	(170)	(112)	(22)	(134)	(43)	(35)	(78)
Revaluation of net obligation (asset) under defined benefit plan	-	-	-	-	-	-	-	-	-
<b>AT 31 DECEMBER</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The effect of IAS 19 on the consolidated statement of financial position is presented below:

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net obligations at 1 January	(1,275)	(141)	(1,416)	(897)	(136)	(1,033)	(621)	(48)	(669)
Net expense through profit or loss	(184)	(48)	(232)	(973)	(27)	(1,000)	(264)	(123)	(387)
Revaluation of net obligation (asset) under defined benefit plan	(308)	-	(308)	481	-	481	(55)	-	(55)
Employer contributions	158	12	170	112	22	134	43	35	78
<b>NET OBLIGATIONS AT 31 DECEMBER</b>	<b>(1,609)</b>	<b>(177)</b>	<b>(1,786)</b>	<b>(1,277)</b>	<b>(141)</b>	<b>(1,418)</b>	<b>(897)</b>	<b>(136)</b>	<b>(1,033)</b>

## 31. RETIREMENT BENEFIT LIABILITIES (continued)

Key actuarial assumptions used to measure the obligations are presented below:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Discount rate	9.60%	12.00%	8.00%
Wage growth rate	6.00%	7.00%	7.00%
Inflation / Expected post-retirement benefits increase	7.50%	8.50%	5.50%
Mortality	2013 RF mortality table adjusted for 80%	2011 RF mortality table adjusted for 80%	2011 RF mortality table adjusted for 80%

**SENSITIVITY ANALYSIS**

Calculation of defined benefit plan obligations is sensitive to significant actuarial assumptions.

The table below presents the effect of changes in respective actuarial assumptions on the defined benefit plan obligations as at the specified date:

	-1%	+1%
Discount rate	82	(76)
Wage growth rate	(27)	29
Inflation / expected post-retirement benefits increase	(52)	57
Employee turnover rate	37	(34)

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
<b>FUNDING</b>									
Group entities operate unfunded defined benefit plans for qualifying employees									
Group intends to make a contribution to the defined benefit	266	29	295	100	25	125	61	18	79
Average weighted term of defined benefit plan obligations at the reporting date was the following:	10	8	17	8	7	15	11	8	19

## 32. PROVISION

	Warranty provision and claims	Litigations Other	Прочие Total	Итого
AT 1 JANUARY 2013				969
Increase in provision	913	–	–	913
Provision utilised	(860)	(117)	–	(977)
AT 31 DECEMBER 2013	905	–	–	905
Increase in provision	896	433	2	1,331
Provision utilised	(694)	–	–	(694)
AT 31 DECEMBER 2014	1,107	433	2	1,542
Increase in provision	279	13	2,027	2,319
Provision utilised	(649)	(97)	–	(746)
AT 31 DECEMBER 2015	737	349	2,029	3,115

The amounts of short-term and long-term provisions, as presented in the consolidated statement of financial position, are as follows:

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Long-term provisions	515	458	378
Short-term provisions	2,600	1,084	527
	3,115	1,542	905

## 33. ADVANCES RECEIVED

	At 31 December 2015	At 31 December 2014	At 31 December 2013
<b>NON-FINANCIAL LIABILITIES</b>			
Advances received	48,013	25,292	12,330
<b>TOTAL LONG-TERM AND SHORT-TERM NON-FINANCIAL LIABILITIES</b>	48,013	25,292	12,330
<b>FINANCIAL LIABILITIES</b>			
Advances received from Oboronprom in relation to future contribution to share capital of the Group's subsidiaries	112	960	1,331
<b>TOTAL FINANCIAL LIABILITIES</b>	112	960	1,331
<b>TOTAL LONG-TERM AND SHORT-TERM ADVANCES RECEIVED</b>	48,125	26,252	13,661

## 34. OTHER PAYABLES

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Payroll payable	2,409	2,274	1,921
Unused vacation accrual	1,814	1,610	1,488
Dividends payable	3,690	48	43
Other payables	13,677	9,230	6,995
<b>TOTAL OTHER PAYABLES</b>	<b>21,590</b>	<b>13,162</b>	<b>10,447</b>

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using valuation technique based on available market information or other valuation methodologies that require considerable judgement in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market conditions. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

The estimated fair values of short-term financial assets and liabilities, which include cash and cash equivalents, trade receivables, loans receivable, bank deposits, short-term borrowings, trade payables, approximated their carrying

values due to the short-term nature of these instruments. The fair values of long-term financial assets, which include loans receivable and bank deposits, are estimated in the context of the significance of outstanding balances at the reporting date.

The carrying and fair values of the Group's financial assets and liabilities are stated below:

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	At 31 December 2015		At 31 December 2014		At 31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	65,746	65,746	31,764	31,764	16,024	16,024
Short-term trade receivables	22,789	22,789	18,091	18,091	19,383	19,383
Long-term trade receivables	3,437	3,437	741	741	318	318
Other receivables	6,261	6,261	5,532	5,532	2,810	2,810
Bank deposits	26	26	167	167	166	166
Available-for-sale securities	811	811	806	806	808	808
Loans issued	653	653	856	856	552	552
Other financial assets	92	92	4	4	53	53
	<b>99,815</b>	<b>99,815</b>	<b>57,961</b>	<b>57,961</b>	<b>40,114</b>	<b>40,114</b>

The carrying and fair values of the Group's financial assets and liabilities are stated below (continued):

	At 31 December 2015		At 31 December 2014		At 31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>FINANCIAL LIABILITIES</b>						
Loans and borrowings	120,546	118,782	96,215	92,355	82,118	79,536
Obligations under finance leases	233	233	150	150	200	200
Trade payables	7,421	7,421	5,294	5,294	4,358	4,358
Other payables	13,677	13,677	9,230	9,230	6,995	6,995
	<b>141,877</b>	<b>140,113</b>	<b>110,889</b>	<b>107,029</b>	<b>93,671</b>	<b>91,089</b>

## 36. CAPITAL MANAGEMENT

The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issuances and share buy-backs as well the issuance of new debt or the redemption of existing debt.

The management of the Group is monitoring capital on the basis of the gearing ratio, and to ensure that the ratio is not more than 3.0. This ratio is calculated as net debt divided by equity attributable to the shareholders.

Net debt is determined as total loans and borrowings (Note 29) and obligations under finance leases (Note 30) less cash and cash equivalents (Note 26), as shown in the consolidated statement of financial position.

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Loans and borrowings	120,546	96,215	82,118
Obligations under finance leases	233	150	200
Less: cash and cash equivalents	(65,746)	(31,764)	(16,024)
<b>NET DEBT</b>	<b>55,033</b>	<b>64,601</b>	<b>66,294</b>
Equity attributable to the shareholder of the Company	94,496	58,592	39,628
<b>GEARING RATIO</b>	<b>0.58</b>	<b>1.10</b>	<b>1.67</b>

The adjusted EBITDA is calculated as defined in Note 5 Segment information.

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Adjusted EBITDA	65,606	47,014	26,304
Net debt	55,033	64,601	66,294
<b>NET DEBT / ADJUSTED EBITDA</b>	<b>0.84</b>	<b>1.37</b>	<b>2.52</b>

## 37. RELATED PARTIES

Related parties include parent of the Company and key management personnel, entities over which Group's key management personnel exercises significant influence and entities under common ownership and control of the Government of the Russian Federation.

In the ordinary course of their business, the Group's entities enter into various sale, purchase and service transactions with related parties. These transactions are primarily with state bodies of the Russian Federation or other Government controlled entities. These transactions are effected on terms that are not always applicable to third party transactions. The Group has received loans from and made deposits with related parties, the terms of which are disclosed in the related notes to these consolidated financial statements.

### FINANCIAL GUARANTEES AND SECURED LOANS

As at 31 December 2015, 2014 and 2013, the related parties [«Oboronprom», Ministry of Finance and certain banks] provided guarantees in the amount of RUB 63,295 million, RUB 65,595 million and RUB 57,847 million, respectively, for certain bank loans of the Group's entities.

The Group had the following significant transactions and balances with the Government of the Russian Federation, parties under control of the Government of the Russian Federation and other related parties (as defined below).

	Accounts receivable			Advances paid			Cash and deposits			Other investments		
	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013
Group 1	19,324	13,143	18,204	22,314	18,128	17,690	59,741	23,487	6,944	363	572	591
Group 2	351	344	467	48	100	161	2,860	4,441	2,618	29	414	125
<b>TOTAL</b>	<b>19,675</b>	<b>13,487</b>	<b>18,671</b>	<b>22,362</b>	<b>18,228</b>	<b>17,851</b>	<b>62,601</b>	<b>27,928</b>	<b>9,562</b>	<b>392</b>	<b>986</b>	<b>716</b>

Group 1 consists of the Government of the Russian Federation and other entities under common control of the Government of the Russian Federation. Group 2 consists of other associates entities over which the Group's management exercises significant influence.

## 37. RELATED PARTIES (continued)

	Accounts payable			Advances received, including State Armament Program			Loans and borrowings, financial liabilities and obligations under finance lease		
	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2015	At 31 December 2014	At 31 December 2013
Group 1	18,379	9,329	8,699	20,206	17,663	14,491	89,451	64,460	62,661
Group 2	29	46	92	2	508	4	–	–	18
<b>TOTAL</b>	<b>18,408</b>	<b>9,375</b>	<b>8,791</b>	<b>20,208</b>	<b>18,171</b>	<b>14,495</b>	<b>89,451</b>	<b>64,460</b>	<b>62,679</b>

As at 31 December 2015, 2014 and 2013, the Group recognised an impairment allowance on accounts receivable from related parties in the amounts of RUB 1 125 million, RUB 273 million and 175 million, respectively. The expense/(gain)

recognised during the reporting period for bad debt or doubtful debts due from related parties equals to RUB 852 million [2014: RUB 98 million; 2013: RUB 29 million].

	Sales of goods and services			Purchases of goods and services			Finance costs			Interest income		
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Group 1	56,427	58,661	57,176	43,981	34,572	31,054	5,595	5,029	3,280	998	488	465
Group 2	146	192	80	386	635	327	4	–	2	4	35	22
<b>TOTAL</b>	<b>56,573</b>	<b>58,853</b>	<b>57,256</b>	<b>44,367</b>	<b>35,207</b>	<b>31,381</b>	<b>5,599</b>	<b>5,029</b>	<b>3,282</b>	<b>1,002</b>	<b>523</b>	<b>487</b>

Group 1 consists of the Government of the Russian Federation and other entities under common control of the Government of the Russian Federation. Group 2 consists of other associates entities over which the Group's management exercises significant influence.

#### REMUNERATION OF THE GROUP'S KEY MANAGEMENT PERSONNEL

During the years ended 31 December 2015, 2014 and 2013, key management personnel of the Group (who are considered to be the General Director, Deputy General Directors, Directors of

key departments and Members of the Board of Directors of the Company) received compensation of RUB 292 million, RUB 367 million and RUB 176 million, respectively. Key management personnel received only short-term employee benefits.

## 38. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, currency risk and interest rate risk. A description of the Group's risks and management policies in relation to these risks follows.

#### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group prepares a twelve months financial plan to determine whether the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities as they arise.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares and finance leases. 48% of the Group's debt will mature in

less than one year at 31 December 2015 (2014: 42%; 2013: 38%) based on the carrying value of borrowings reflected in the financial statements.

Presented below is the maturity profile of the Group's loans and borrowings (maturity profiles for obligations under finance leases are presented in Note 30) based on contractual undiscounted cash flows, including interest, based on the earliest date on which the Group may be required to pay. To the extent that interest is based on a floating rate, the undiscounted amount is derived from interest rate at the reporting date.

The maturity profiles of loans and borrowings, as well as Group's trade payables are presented as follows:

	Due in						
	Total	Past due	One month	One to three months	Three to twelve months	Second to fifth years	Thereafter
<b>AT 31 DECEMBER 2015</b>							
Principal	119,914	–	2,452	8,374	51,407	54,217	3,464
Interest	21,596	–	847	1,566	1,374	12,586	5,223
Trade payables	7,421	–	1,007	1,818	4,392	204	–
	<b>149,563</b>	<b>–</b>	<b>4,938</b>	<b>11,758</b>	<b>57,173</b>	<b>67,007</b>	<b>8,687</b>

## 38. RISK MANAGEMENT ACTIVITIES (continued)

	Due in						Thereafter
	Total	Past due	One month	One to three months	Three to twelve months	Second to fifth years	
AT 31 DECEMBER 2014							
Principal	95,652	–	50	10,152	30,117	50,368	4,965
Interest	15,793	–	607	1,146	4,301	8,029	1,710
Trade payables	5,294	307	1,030	1,549	2,408	–	–
	116,739	307	1,687	12,847	36,826	58,397	6,675
AT 31 DECEMBER 2013							
Principal	81,536	–	18	833	30,262	45,070	5,353
Interest	18,802	–	562	1,062	4,586	10,323	2 269
Trade payables	4,358	260	826	1,225	1,820	227	–
	104,696	260	1,406	3,120	36,668	55,620	7,622

At 31 December 2015, 2014 and 2013, the Group did not have any issued financial guarantees.

**CREDIT RISK**

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses of the Group. A majority of the Group's relationships with counterparties have been ongoing for many years and in many cases the counterparties are Government controlled entities of the Russian Federation or other countries. As such, the Group has not historically performed a formal credit rating analysis.

Additionally, a majority of the Group's export sales are overseen through the Group's related party, Rosoboronexport (Agent), a monopoly agent, controlled by the Government of Russian Federation specifically for the oversight of export sales of military and related products. The Group does not typically establish credit limits as majority of the contracts

are entered into by the Group's companies on a prepayment basis, except for certain of its agreements with the Ministry of Defence of the Russian Federation.

No interest is charged on trade receivables. An allowance for trade receivables is established based on the estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience, but generally the Group has fully provided for all trade receivables over 365 days, unless they relate to a contract whereby the agreement allows payment later than this point.

## 38. RISK MANAGEMENT ACTIVITIES (continued)

As at 31 December 2015, 2014 and 2013, the Group five largest customers represented 84%, 84% and 85% of the total balance of trade receivables, respectively, and is presented as follows:

Name of counterparty	At 31 December 2015	At 31 December 2014	At 31 December 2013
State customers	13,521	10,613	9,795
Foreign customer (through an Agent)	3,357	2,421	5,509
AO OPK Oboronprom	1,711	1,859	305
DP Aero-Kamov LLC	400	578	867
AVIC International Holding Coproration	120	648	357
	19,109	16,119	16,833

The maximum exposure to credit risk arising from the Group's financial assets is presented as follows:

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Cash	65,746	31,764	16,024
Trade and other receivables	32,487	24,364	22,511
Deposits	26	167	166
Loans issued	653	856	552
Other financial assets	92	4	53
Total	99,004	57,155	39,306

**FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. The Group does not have formal arrangements to mitigate foreign currency risk. Purchases in foreign currency account for less than 10% of total purchases. The management of the Group believes that the foreign currency risk is partly

mitigated for the Group by the situation where approximately 71% of total sales of the Group are denominated in foreign currencies that reduce negative impact of changes in exchange rates for the Group foreign currencies borrowings and purchases, denominated mostly in USD. The Group does not currently use derivative instruments to manage exchange rate exposures.

## 38. RISK MANAGEMENT ACTIVITIES (continued)

The carrying amounts of the Group's monetary assets and liabilities denominated in currencies other than its functional currency were as follows:

	At 31 December 2015		At 31 December 2014		At 31 December 2013	
	USD	Euro	USD	Euro	USD	Euro
<b>ASSETS</b>						
Cash and cash equivalents	38,059	2,645	13,439	3,182	3,206	173
Other financial assets	–	–	–	–	–	–
Trade and other receivables	19,616	898	12,063	2,062	17,814	717
<b>TOTAL ASSETS</b>	<b>57,675</b>	<b>3,543</b>	<b>25,502</b>	<b>5,244</b>	<b>21,020</b>	<b>890</b>
<b>LIABILITIES</b>						
Trade and other payables	(13,130)	(627)	(7,114)	(600)	(5,243)	(623)
Obligations under finance leases	–	–	–	–	–	(67)
Loans and borrowings	(53,243)	(2,507)	(32,489)	(1,609)	(17,935)	(1,446)
<b>TOTAL LIABILITIES</b>	<b>(66,373)</b>	<b>(3,134)</b>	<b>(39,603)</b>	<b>(2,209)</b>	<b>(23,178)</b>	<b>(2,136)</b>
<b>TOTAL NET (LIABILITY)/ ASSET POSITION</b>	<b>(8,698)</b>	<b>409</b>	<b>(14,101)</b>	<b>3,035</b>	<b>(2,158)</b>	<b>(1,246)</b>

The table below details the Group's sensitivity to a devaluation of the RUB against USD and Euro by 10%, which management believes is an appropriate

measure in the current market conditions and which would impact its operations

	USD-impact			Euro-impact		
	31 December 2015	31 December 2014	31 December 2013	31 December 2015	31 December 2014	31 December 2013
(Loss)/profit, net of tax	(870)	(1 410)	(216)	41	304	(125)

In case of an appreciation of RUB against USD and Euro, results of the sensitivity analysis will be opposite to those presented above.

**INTEREST RATE RISK**

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group.

The Group manages this risk through analysis of current interest rates, performed by the Group's treasury function. If there are significant changes in market interest rates management may consider refinancing of a particular financial instrument on more favourable terms.

## 39. COMMITMENT AND CONTINGENCIES

**CONTRACTUAL COMMITMENT**

In the course of carrying out its operations and other activities, the Group enters into various agreements which require the Group to invest in or provide financing to specific projects. In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses for the Group.

**CAPITAL COMMITMENTS**

The Group's capital commitments including both contractual commitments and future capital expenditures provided in the annual budget for the year ending 31 December 2016 amount to RUB 14,150 million for property, plant and equipment and RUB 3,698 million for development costs.

**SOCIAL COMMITMENTS**

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees. This includes making contributions to the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which the Group operates.

**LITIGATION**

The Group has a number of claims and litigations relating to sale and purchases of goods and services. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

**OPERATING ENVIRONMENT**

Russia continues economic reforms and development of its legal, tax and

regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

**OPERATING ENVIRONMENT (CONTINUED)**

In 2014, economic sanctions foreign states and reciprocal steps taken by the Russian side led to the fact that the import substitution strategy has become a priority for the Russian government. The Group is actively cooperating with the Government Commission on import substitution, formed by RF Government Decree from 4 August 2015 number 785. In April 2014 in the framework announced by the government policy of import substitution Cabinet approved a new version of Russian state program «The development of industry and increasing its competitiveness». One of the main tasks of the state program, which runs until 2020, announced decline in the share of import products, including those used by domestic producers in our country.

## 39. COMMITMENT AND CONTINGENCIES (continued)

These consolidated financial statements reflect management's assessment of the Group on the impact the business environment in the Russian Federation on the operations and the financial position of the Group. The future business environment may differ from management's assessment at this time.

**TAX CONTINGENCIES IN THE RUSSIAN FEDERATION**

Major part of the Group's business activity is carried out in the Russian Federation. Russian tax legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Fiscal periods remain open and subject to review for a period of three calendar

years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, the tax authorities may review earlier accounting periods. All group entities apply similar tax accounting principles.

Management believes that its interpretation of the tax laws and the principles of industry practice and the Group's tax positions will be preserved. All Group companies consistently use uniform tax accounting.

**INSURANCE EXPENSES**

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Losses from business interruption and third party liabilities could have a material adverse effect on the Group's operations and financial position.

## 40. PARTIALLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST

Consolidated financial information for each of the Group's subsidiaries that have non-controlling interests that are material to the Group (before elimination of intra-group transactions) is stated below:

	AO MIL Moscow Helicopter Plant		AO Stupino Machine Production Plant		PAO Rostvertol		AO Kumertau Aviation Production Enterprise	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Non-current assets	16,756	15,127	1,747	766	13,947	13,575	1,761	1,961
Current assets	8,964	5,771	2,619	1,953	85,892	45,008	13,413	10,824
	25,720	20,898	4,366	2,719	99,839	58,583	15,174	12,785
Non-current liabilities	1,745	2,178	34	63	30,100	22,414	1,645	12,857
Current liabilities	21,496	16,919	851	751	38,022	19,626	18,575	6,955
	23,241	19,097	885	814	68,122	42,040	20,220	19,812
<b>TOTAL EQUITY</b>	<b>2,479</b>	<b>1,801</b>	<b>3,481</b>	<b>1,905</b>	<b>31,717</b>	<b>16,543</b>	<b>(5,046)</b>	<b>(7,027)</b>

## 40. PARTIALLY OWNED SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST (continued)

	AO MIL Moscow Helicopter Plant		AO Stupino Machine Production Plant		PAO Rostvertol		AO Kumertau Aviation Production Enterprise	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
ATTRIBUTABLE TO:								
The shareholders of the Group	2,018	1,336	2,411	1,162	23,447	13,353	(5,046)	(6,380)
Non-controlling interests	461	465	1,070	743	8,270	3,190	–	(647)
Revenue	7,592	7,973	3,790	3,483	78,313	50,819	7,160	4,875
Profit for the period	427	474	688	519	15,268	5,605	1,985	(4,208)
Other comprehensive income	(79)	77	(5)	6	(25)	36	8	22
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>348</b>	<b>551</b>	<b>683</b>	<b>525</b>	<b>15,243</b>	<b>5,641</b>	<b>1,993</b>	<b>(4,186)</b>
Attributable to non-controlling interests	109	117	209	202	3,987	1,035	–	(389)
Net cash flows from / (used in):								
- operating activities	1,049	652	653	521	3,558	(9,182)	4,248	296
- investing activities	(678)	(217)	(1,204)	(69)	(4,306)	(3,587)	(94)	–
- financing activities	1,029	391	845	(416)	5,582	15,460	(4,371)	410
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,400</b>	<b>826</b>	<b>294</b>	<b>36</b>	<b>4,834</b>	<b>2,691</b>	<b>(217)</b>	<b>706</b>

The above subsidiaries are registered in the Russian Federation, which is the principal place of their business. They disclose information about the

financial position, capital structure, administration and so on to the official website of «Center for Corporate Information Disclosure Interfax».

## 41. EVENTS SUBSEQUENT TO THE REPORTING DATE

**STATE PROGRAM CONSTRUCTION CONTRACTS**

After the end of the reporting period the Group repaid the debt of RUB 27,689 million under the credit line facilities secured by the Ministry of Finance of the Russian Federation.

**BORROWINGS**

Up to the date of approval of these consolidated financial statements, the Group obtained bank loans in the total amount of RUB 18,438 million and repaid RUB 25,309 million.

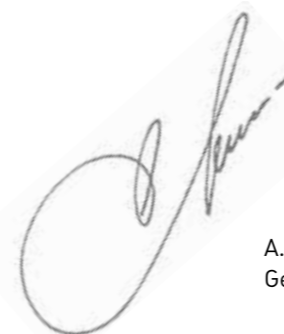
## 41. EVENTS SUBSEQUENT TO THE REPORTING DATE (continued)

Interest rate	31 December 2015		31 December 2015 until issuance date			
	Rate, %	Balance	Received	Paid	Balance	
<b>SECURED BANK LOANS, INCLUDING:</b>						
<b>RUB-DENOMINATED</b>						
PAO Sberbank of Russia	Fixed	9.75-14.75	5,910	707	387	6,230
PAO Sberbank of Russia	Various	10.5-13.3	1,182	-	-	1,182
Vnesheconombank	Fixed	12.10	680	-	680	-
Vnesheconombank	Various	10.50	2,064	-	2,064	-
AO Alfa Bank	Fixed	9.70	357	-	-	357
AO Gazprombank	Fixed	13.25	105	145	-	250
PAO Bank VTB	Fixed	12.79	1,120	91	3	1,208
AO AKB Novikombank	Fixed	14.50	995	-	-	995
AO AKB Ural FD	Fixed	11	200	-	-	200
AO AB Rossia	Fixed	12.5-12.8	524	255	181	598
AO AKB Perm	Fixed	11.40	35	-	-	35
<b>SECURED BANK LOANS, INCLUDING:</b>						
<b>USD-DENOMINATED</b>						
PAO Rosbank	Fixed	4.25	1,564	-	1,564	-
PAO Bank VTB	Fixed	4.50-5.0	22,911	2,878	6,368	19,421
PAO Sberbank of Russia	Fixed	4.08-7.50	18,552	1,439	7,727	12,264
PAO Promsvayzbank	Fixed	4.9	6,221	22	-	6,243
<b>Euro-denominated</b>						
<b>PAO SBERBANK OF RUSSIA</b>						
PAO Sberbank of Russia	Fixed	5	5	-	5	-
AO Gazprombank	Fixed	1.47-7.50	160	13	32	141
AO «Газпромбанк»	Фиксир.	7.25	976	40	-	1,016

## 41. EVENTS SUBSEQUENT TO THE REPORTING DATE (continued)

Interest rate	31 December 2015		31 December 2015 until issuance date			
	Rate, %	Balance	Received	Paid	Balance	
<b>UNSECURED LOANS AND BORROWINGS, INCLUDING:</b>						
<b>RUB-DENOMINATED</b>						
PAO Sberbank of Russia	Fixed	9.75-15.5	16,551	1,767	3,270	15,048
PAO Bank VTB	Fixed	11.5-14	11,095	396	150	11,341
AO Alfa Bank	Fixed	10.7-11.5	174	-	-	174
AO Gazprombank	Fixed	11.80	2,376	-	-	2,376
AO Bank VBRR	Various	12.29	927	685	-	1,612
<b>Long-term bonds</b>						
Long-term bonds	Fixed	8.25-8.75	4,869	10,000	-	14,869
<b>Short-term bonds</b>						
Short-term bonds	Fixed	8.25-8.75	15,000	-	-	15,000
<b>USD-DENOMINATED</b>						
PAO Bank VTB	Fixed	7.50-7.80	1,445	-	1,445	-
PAO Sberbank of Russia	Fixed	4.40-5.60	2,551	-	751	1,800
<b>EURO-DENOMINATED</b>						
OOO VO Stankoimport	Various	1-1.75	100	-	99	1
PAO Bank VTB	Fixed	4.05	707	-	561	146
PAO Sberbank of Russia	Fixed	2.8	558	-	22	536
<b>TOTAL</b>			<b>119,914</b>	<b>18,438</b>	<b>25,309</b>	<b>113,043</b>

These consolidated financial statements were approved  
by management on 19 April 2016



A.A. Mikheev  
General Director



S.S. Zheltikov  
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